EXECUTIVE SUMMARY

With the uncertainties of the economy and the passage of revenue limiting ballot measures that have affected local government finances in Oregon, the County faces a number of future financial challenges that involve the County's General Fund and Special Projects Fund. This long term financial plan focuses on these two funds and issues that affect them. The focus of the plan involves the following key issues:

- The fundamental financial and budgetary policies set to preserve, if not strengthen, the County's fiscal health and guide the future financial management of its operations,

- Opportunities to enhance existing and available revenue streams that equitably target cost recovery on individual beneficiaries in order to preserve general resources for greater public benefit,

- Guidelines for sustaining administrative expenditure levels in relative proportion to the direct, public services provided,

- The purpose, condition, and future role of the County's General Fund reserves and Special Projects funding in sustaining and stabilizing adopted levels of service to the public, and

- Comparisons with other Oregon counties and best practices to ensure that Clatsop County is fully utilizing governmental resources within a range comparable to their neighbors elsewhere in the state.

There are several overall themes and strategies that the County can use to address the opportunities and challenges it will face.

- Broaden the County's budget policy framework and budget information,
- Improve the County's Indirect Cost Allocation Plan and recover additional revenues,
- Take action to set and increase fees,
- Consider other revenue sources,
- Reduce the amount of recurring Special Projects Fund expenditures,
- Increase reserves, and
- Maintain a separate unreserved fund balance in addition to the contingency budget in either the General Fund or the Special Projects Fund or establish a separate General Fund Stabilization Fund.

Financial and Budget Policies

For the past seven years, Clatsop County has developed financial policies as part of its budget process, and these financial policies have provided the foundation for the County's budget decisions and related financial practices. Compared to policies and practices recommended by the Government Finance Officers Association (GFOA) and the National Advisory Council on State and Local Budgeting, the County has established a good policy framework that has helped guide the County through some difficult economic times. The future challenge for the County is to address its capital needs in a comprehensive manner and to develop the information needed to refine its operating budget decisions. By using timber revenues to pay for the County's debt service for its PERS liability, the County has committed over $2.7 million that could have been used for capital and one-time expenditures by the Special Projects Fund. With less available timber revenues for capital projects and improvements and possible impacts from Measure 34, capital planning and debt management are even more critical in the future when the County may have fewer resources. With limited funding, the efficient use of resources and the effectiveness of County programs should also become more important in allocating resources. To complete its policy framework, we recommend the following:

- Establish debt issuance and management policies as well as policies concerning debt level and capacity,
- Adopt policies and plans for capital asset acquisition, maintenance, replacement, and retirement, and
- Develop a capital improvement plan that identifies priorities and time frames for undertaking capital projects and provides a financing plan for those projects. The plan, including both capital and related operating costs, should project at least five years into the future and should be fully integrated into the overall financial plan.
- Consider policies that encourage departments to develop and use performance measures in managing functions, programs, and activities,
- Periodically evaluate the performance of programs and services,
- Identify cost effective opportunities where performance, efficiency, and effectiveness measures can be developed and included as part of the basic budget materials and budget document, and
- Monitor, measure, and evaluate capital program implementation, especially for projects funded by the Special Projects Fund.

General Fund Trends

As a result of a slow economy and Ballot Measures 47 and 50, Clatsop County has experienced limited revenue growth, and consequently, the Board of Commissioners has adopted "hold-the-line" budget policies over the past several years as reflected in the adopted budget policies and Resource Reduction Strategy. There has been a particular concern about the General Fund, and a review of the past five years shows how the County's General Fund revenues and expenditures have been affected. The changes and trends in the County's General Fund revenues and expenditures generally reflect the budget policies and priorities adopted by the Board of Commissioners. Over the past five years, the County's General Fund has experienced an increase in the percentage of funding from intergovernmental revenues (primarily increases in timber revenues), an increase in the percentage of expenditures devoted to public safety, a decline in the minimum amount of fund balance for the General Fund, and little growth in FTEs.

Indirect Cost Allocation

The County has an Indirect Cost Allocation Plan, and the County's budget policies emphasize the recovery of its indirect costs from non-General Fund sources and as part of fees. The County has several challenges and opportunities to improve its plan and revenues. The opportunities include increasing cost recovery for expenditures now paid for by the Special Projects Fund, and the challenges are explaining these increased costs to departments who will have to find ways to pay for these additional costs. We recommend that the County do the following:

- Include as part of an indirect function's costs any on-going expenditures currently paid for by the Special Projects Fund. The largest impact will be for information systems and technology expenditures, and if there are capital expenditures (i.e., items costing more than $5,000) the annual allocated cost of these items should be amortized over the life of the equipment. The County should also consider whether these types of expenditures should be part of the General Fund rather than the Special Projects Fund,

- Improve and develop management summaries to help explain how indirect costs are allocated to the various departments and funds. Before implementing the changes, the Finance Department should meet with the affected departments to explain the proposed changes, the allocation methodologies, and the potential impacts on their budgets. Because of the potential impacts, especially for the information systems and technology costs, the County may want to consider a phased implementation approach if the impact is too significant on their departmental budgets, and

- Evaluate the level of detail used in the existing Indirect Cost Allocation Plan and review the number of indirect functions that are allocated to determine if the functions are consistent with budgeting and actual service delivery and if those functions with the same allocation factor can or should be combined.

Fee Setting

The County last conducted a comprehensive fee study in 1999, and the recommendations were not implemented at that time. Since the study was completed, departments have been initiating various fee increases over the past several years using a variety of different methods for setting the fees. The fee setting methodology used in the study, however, did identify the full cost of service including the County's overhead costs. The challenge in fee setting is to determine what services should have fees, what services should be self supporting, and what should be the cost recovery policy for services that have both public and private benefit. The opportunity in fee setting is to increase revenues to support services that should recover more of their costs through fees rather than through subsidies from other County resources. To meet these challenges and opportunities, the County should do the following:

- Update its fees, and if necessary conduct targeted cost of service studies for specific types of fees where the programs should be more self sufficient, such as the one recently done for Planning and Development,

- Identify the programs and services that should be self-sufficient,

- Establish and adopt cost recovery policies for all other services with fees and charges not established by state statute, and

- Identify opportunities for new fees, and determine whether to eliminate fees that the County does not actually charge.

Revenue Diversification

The County has opportunities to increase its revenue base by using different revenue sources besides fees. These other revenue options include a hotel/transient occupancy tax, a local gas tax, a real estate excise tax, system development charges, and special districts. If the County wants to use these other revenue sources, the challenge for the County is to identify services that require additional resources and to satisfy the public and specific stakeholder groups that such financing is needed to either enhance services or achieve equity in funding. Given the County's financial status, the County should do the following:

- Identify any services that require additional resources to implement operating and capital plans, and determine if any of the additional revenue options or increases in existing revenues are appropriate for providing funding for these plans, and

- If the County determines that a new funding source is appropriate, it should develop a plan to involve any affected groups and should have adequate justification to support the use of a new funding source.

The Special Projects Fund

Over the past ten years as timber revenue has grown, the amount remaining in the General Fund has remained somewhat fixed due to the County's allocation policies. As a result, the Special Projects Fund has grown and has had large fund balances relative to its annual expenditures. Compared to the General Fund's declining fund balance, the Special Projects Fund has been increasing its fund balance significantly. In eight of the last ten years, the ending fund balance has been greater than the expenditures for the year. At the end of FY 2002-2003, the fund balance was over $4.8 million compared to the General Fund's fund balance of $1.3 million. The Special Projects Fund was originally established to support capital expenditures for General Fund departments, but now it also supports one-time expenditures and the PERS liability. In addition, the County has been using the Special Projects Fund to support one-time expenditures that occur annually, such as computer purchases and software licenses. As a result, there are recurring expenditures each year that reduce the funding available for capital projects. The County's challenge is to address its operating needs that are supported by timber revenues and to either reduce the recurring expenditures, reduce the amount of timber revenues allocated for recurring expenditures, or find capital funds to support projects that would have been previously funded by the Special Projects Fund. A number of changes are needed in managing the timber revenues and the Special Projects Fund.

- Revise the policy on the amount of timber revenues retained by the General Fund and used for operating costs to reflect the County's past practices,

- Set a limit on the amount of recurring operating costs supported by timber revenues. The County might be able to reduce its risk if it limited the amount of ongoing operating costs to at least 50% of the average timber revenues over the last 10 years. Over the past 10 years timber revenues have averaged about $2.9 million, which would result in a limit of $1.45 million for operating costs,

- Continue to budget a Special Projects Fund contingency amount and/or maintain unreserved fund balances to help offset significant declines in timber revenues. If there is a decrease in timber revenue, the target reserve amount should be based on the amount of the budgeted year's timber revenue. At a minimum, the County might want to reserve $1.45 million, which is 50% of the annual timber revenue average for the past ten years,

- Determine the length of time reserves will be needed and budget accordingly based on the annual reserve amount needed as discussed above. At least one year is recommended because it will allow the County time to revaluate its capital needs and make adjustments for the next year if revenues do not increase, and

- Include in the Indirect Cost Allocation Plan the recurring expenditure items associated with indirect cost functions, such as information systems and technology. Some of these costs should be recovered from other funding sources to help offset the cost to the General Fund for these functions and to provide additional revenue to the General Fund.

Reserve Funding

The reserve policy for the General Fund is to place at least 10% or a minimum of $1.2 million in the fund's operating contingency. Over the last five years, the amount of fund balance has been declining from a high of 15%, and in FY 2004-2005 the $1,345,900 for the contingency reserve represents about 8.5% of the General Fund appropriations. The GFOA recommends that the unreserved fund balance should be no less than five to fifteen percent of the regular General Fund operating revenues or no less than one to two months of regular General Fund operating expenditures. Because of the uncertainty of the timber revenues, as well as other intergovernmental revenues from the state, the County's challenge is to strive for a higher fund balance and to assure that a minimum $1.2 million reserve can be maintained even if contingency reserves are needed.

The County's other major reserve is its General Fund Stabilization account in the Special Projects Fund. In FY 2003-2004, $1 million was placed in the contingency reserve to be used as the General Fund Stabilization account. In our discussions about the Special Projects Fund, it was noted that reserves could remain part of the fund as a contingency or as unreserved fund balance. The County's challenge will be to not use its contingency reserve in the Special Projects Fund to support Special Project Fund needs and to establish enough reserves to offset significant declines in the timber revenues. To improve its reserve policies, the County can do the following:

- Increase the General Fund unreserved fund balance to 10% of the General Fund appropriations,

- Identify reserve requirements for other funds besides the General Fund and Special Projects Fund,

- Continue to maintain a General Fund Stabilization account within the Special Projects Fund as a separate contingency amount and/or as part of the fund's unreserved fund balance. The initial purpose of the account was to help offset significant declines in timber revenues, but the reserves could have a broader purpose than just to stabilize timber revenues for the General Fund. The County should also consider whether a broader policy about revenue stabilization beyond timber revenues is needed. In addition, creating a separate Revenue Stabilization Fund is an alternative to annually budgeting contingency amounts and controlling the use of unreserved fund balance in the Special Projects Fund, and

- Initially fund the General Fund Stabilization account from the $1 million contingency reserve in the Special Projects Fund budget. To meet the General Fund's and the Special Projects Fund's reserve needs, additional funding will be needed if the initial Special Projects Fund target is at least $1.45 million. If the Special Projects Fund has more fund balance than estimated because the Special Projects Fund projects spend less than what was budgeted (a very likely occurrence), some of the additional fund balance should be used to increase the funding for the General Fund Stabilization account. The County may also want to establish a policy where, for example, at least 10% of the ending fund balance for the Special Projects Fund is transferred to the General Fund Stabilization account each year until the reserve targets are met.

General Fund Profiles of Other Counties

As part of the County's effort in developing the long term financial plan and assessing its financial practices, the County wanted to compare itself to other similar Oregon counties. Based on input from the County administration, FCS Group contacted Columbia, Hood River, Lincoln, Tillamook, and Washington Counties to obtain information on various financial practices previously addressed in this plan. Although Washington County is not comparable in size to Clatsop County, the County administration wanted to include it because of its size and its reputation for financial management. The following summarizes key comparisons among the counties:

- Clatsop County has the highest proportion of intergovernmental revenues at 47.5%.

- Clatsop County's proportion of revenue from taxes is 36.7%, which is closer to its neighboring counties of Tillamook and Columbia Counties with 40% and 30.5% in taxes.

- Clatsop County has the lowest proportion of revenue from licenses and permits at 1.8%.

- All the counties spend the highest proportion of their General Fund on public safety related services.

- Clatsop, Lincoln, and Washington counties spend much less on land use and transportation services (3.6%, 5.1%, and 1.5%) compared to Tillamook, Columbia, and Hood River counties (10.9%, 19%, and 12.1%).

- Clatsop County has one of the lower expenditure rates for health and human services and is in the middle of the counties for its proportion of expenditures for general government direct and indirect services.

General Fund and Special Projects Fund Forecasts

Under the current timber revenue policy and if timber revenues remain the same as in FY 2004-2005, the General Fund appears to be able to maintain a higher fund balance at $1.8 million in FY 2009-2010 compared to the minimum of $1.2 million. This also assumes that timber revenues associated with recurring Special Projects Fund expenditures are transferred to the General Fund along with the expenditures. The forecast, however, for the Special Projects Fund is quite different. With recurring expenditures, the PERS liability, and a Courthouse restoration, the Special Projects Fund will probably not have sufficient timber revenues available from the General Fund to support all the projects that it has funded in the past. Under a Status Quo scenario, the Special Projects Fund could have fund balance deficits as soon as FY 2006-2007.

If the County adopts the recommended change in calculating the amount of timber revenues that should be allocated to the General Fund and does not adjust General Fund timber revenues for the recurring Special Projects Fund expenditures, the General Fund will still continue to have a positive fund balance at $32,361 in FY 2009-2010, but will not meet its minimum fund balance target of $1.2 million. Although the General Fund fund balance declines, the fund balance deficit for the Special Projects Fund is reduced by almost $1.8 million compared to the "Status Quo" scenario. If the General Fund receives an amount of timber revenue equal to the transferred recurring Special Projects Fund expenditures minus $500,000, the General Fund will be able to generate a fund balance of $1.5 million by FY 2009-2010. The Special Projects Fund, however, will then have a higher deficit fund balance at $2.5 million.

In either scenario, the County will not be able to maintain its General Fund Stabilization account in the Special Projects Fund unless new revenues are found for projects, a major increase occurs in timber revenues, and/or significant expenditure reductions take place.

I. INTRODUCTION

With the uncertainties of the economy and the passage of revenue limiting ballot measures that have affected local government finances in Oregon, the County faces a number of future financial challenges that involve the County's General Fund and Special Projects Fund. This long term financial plan focuses on these two funds and issues that affect them. The goals of the long term financial plan are to communicate these challenges to elected officials, leadership staff, and County citizens and to improve the County's financial management. The focus of the plan involves the following key issues:

- The fundamental financial and budgetary policies set to preserve, if not strengthen, the County's fiscal health and to guide the future financial management of its operations,
- Opportunities to enhance existing and available revenue streams that equitably target cost recovery on individual beneficiaries in order to preserve general resources for greater public benefit,
- Guidelines for sustaining administrative expenditure levels in relative proportion to the direct, public services provided,
- The purpose, condition, and future role of the County's General Fund reserves and Special Projects funding in sustaining and stabilizing adopted levels of service to the public, and
- Comparisons with other Oregon counties and best practices to ensure that Clatsop County is fully utilizing governmental resources within a range comparable to their neighbors elsewhere in the state.

FCS Group's approach to developing the long term financial plan involved working closely with the County Administrator, the Assistant County Administrator, and the County's Finance Director; interviewing all County department directors or their representatives; reviewing budgets, financial reports, and policy documents; and identifying and reviewing other related documents and data. We especially want to acknowledge Andrea Trenner as well as Scott Derickson, Debra Kraske, and Mike Robison for their support and assistance in helping develop this plan.

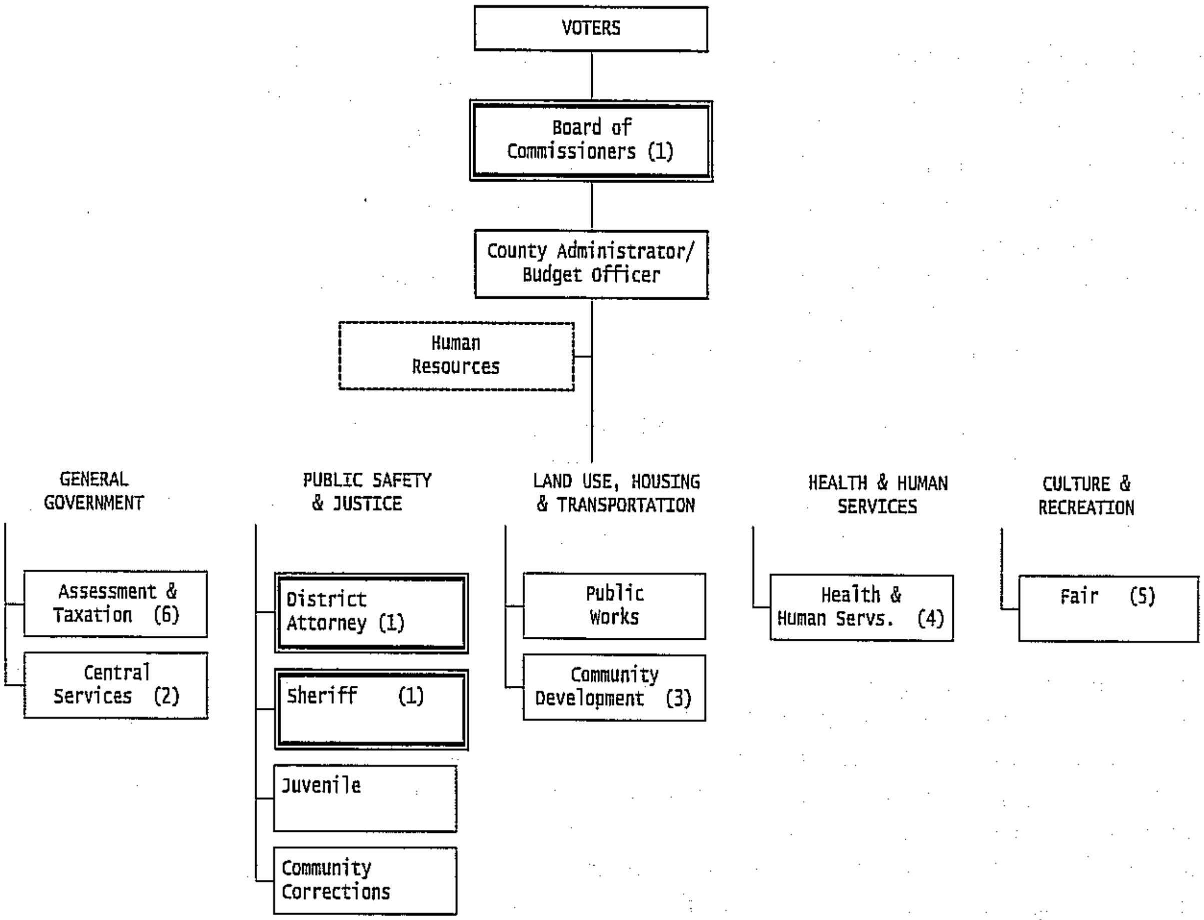
Clatsop County Background

With a population of about 36,300, Clatsop County is located in the northwest corner of Oregon, bounded on the north by the Columbia River and on the west by the Pacific Ocean. The county seat is located in Astoria, and the County's other cities include Seaside, Gearhart, Cannon Beach, and Warrenton. The area is one of the principal marine fisheries regions in Oregon, and the primary industries in Clatsop County are forestry, fisheries, and tourism/recreation.

Clatsop County has a home rule charter form of government and is overseen by an elected five member County Commission. Other elected officials include the District Attorney and Sheriff.

To manage the County's operations and finances, the County Commissioners appoint a County Administrator, who acts as the County's chief administrative officer. The County Administrator selects the Department Directors who are responsible for managing and providing a broad spectrum of County services. Exhibit 1 provides a County organizational chart that organizes departments by functional service category.

Exhibit 1
County Organizational Chart*



[1] Double lines denote elected positions.
[2] Consists of Finance, Information Systems, Facilities and Parks Management.
[3] Includes Land Use & Planning, Building Codes, Economic Development and Fisheries Project.
[4] Consists of Public Health, Mental Health, Developmental Disabilities, Children & Families Services and Animal Control.
[5] Fair Board members are appointed by the Board of Commissioners.
[6] Includes Clerk & Elections.

*Unless otherwise indicated, department heads are appointed by and are responsible to the County Administrator.

II. FINANCIAL AND BUDGET POLICIES

One of the initial steps in a long term financial plan is to adopt financial policies that establish the framework for the County's overall approach to its financial practices and management. For the past seven years, Clatsop County has developed financial policies as part of its budget process, and these financial policies have provided the foundation for the County's budget decisions and related financial practices. The County believes that despite recent financial challenges it is in better financial condition than most public bodies in the state because of its budget policies and Resource Reduction Strategy.

As part of the financial plan, best practices for local government budgeting were identified to find opportunities for enhancing and adding to the County's policy framework. The Government Finance Officers Association (GFOA) and the National Advisory Council on State and Local Budgeting are the primary organizations that have identified best practices for improving governmental finance and budgeting. The GFOA's mission is to enhance and promote the professional management of governments for the public benefit by identifying and developing financial policies and practices and by promoting them through education, training, and leadership. The National Advisory Council has recommended budget practices that provide a framework for improving local government budgeting.

As resources become more limited and demands for continuing quality County services remain constant and perhaps increasing, the County can and may need to take steps to improve its budget policy framework, process, and the information needed to make budget and financial decisions for the long term, especially for the General Fund.

Current County Financial Policies

As part of the annual budget process, the County's Board of Commissioners adopts budget policies as well as an annual Strategic Plan/Resource Reduction Strategy in the January prior to the start of the next fiscal year beginning July 1. The budget policies and the Resource Reduction Strategy provide the County staff with direction and guidance on preparing the budget for the upcoming fiscal year. Using the policies and priorities established by the Board, the County Administrator and the various County department directors prepare their budgets. Once the budget is prepared by the end of April, the budget is then submitted to the County's Budget Committee for review, modification, and recommendation. The Budget Committee consists of ten members with an equal number of County Commissioners and citizens.

The County's FY 2004-2005 budget policies provided guidance on the following:

- Estimating General Fund expenditures and revenues,
- Non-General Fund budgets,
- Reserves and contingencies,
- Matching funds,
- Lobbying and grant applications,
- New positions and programs,
- Mid year budget reductions,

- Mid year requests,
- General Fund contingency,
- Employee salary adjustments,
- Budget controls,
- Contribution to outside agencies,
- Discretionary resources, and
- Unappropriated ending fund balances.

The Strategic Plan/Resource Reduction Strategy provides a framework for determining priorities among the different types of services and funding sources. The guiding policies and principles divide services into those that are funded from discretionary funding sources (e.g. General Fund) and those that are funded primarily from dedicated resources (e.g. fees, grants, state shared revenues). In addition, the policies and principles for the Resource Reduction Strategy establish priorities by functional area and other expenditure reduction strategies such as reducing County contributions to outside organizations. The FY 2004-2005 policies are in Appendix A.

During our survey of comparable Oregon counties, all of them indicated that they had some financial policies, even though they might not be formally adopted or documented. Washington County does have documented financial policies, and because of a prior Clatsop County Administrator who previously worked for Washington County and who initiated Clatsop's policies, the County's budget policies and Resource Reduction Strategy categories and format are similar to those used by Washington County.

GFOA Financial Policies

From an overall policy framework, the County's policies address most of the 2002 recommended policies from the Government Finance Officers Association. In 2002 GFOA recommended developing financial policies that include financial planning, revenue, and expenditure policies. For financial planning policies, GFOA recommended that at a minimum such policies should address defining balanced operating budgets and disclosing when a balanced budget is not planned or will not occur. Another key element is having long range planning policies that support a financial planning process that assesses the long term financial implications of current and proposed operating and capital budgets, budget policies, cash management and investment policies, programs, and assumptions. The third financial planning policy area is an asset inventory that inventories and assesses the condition of all major capital assets.

For revenue policies, GFOA policy recommendations seek to provide stability and to avoid potential service disruptions caused by revenue shortfalls. At a minimum GFOA recommends that jurisdictions should (1) encourage revenue diversification to handle fluctuations in individual revenue sources, (2) identify the manner in which fees and charges are set and the extent to which they cover the cost of service provided, (3) discourage the use of one-time revenues for ongoing expenditures, and (4) address the collection and use of major revenue sources that a jurisdiction considers unpredictable.

For expenditure policies, GFOA recommended that jurisdictions adopt policies that (1) specify the appropriate uses for debt and identifies the maximum amount of debt and debt service that should be outstanding at any time, (2) establish a prudent level of financial resources to protect against the need to reduce service levels or raise taxes and fees due to temporary revenue shortfalls or unpredicted one-time expenditures, (3) compare actual expenditures to budget periodically and take action to bring the budget into balance, when necessary.

As part of this financial plan, several specific existing County policies will be reviewed and analyzed to determine if changes and enhancements are necessary. The analysis will involve policies on revenues, reserves and contingencies, and use of the Special Projects Fund. Use of one-time revenues, fee and charge setting, unpredictable revenue sources, and reserve levels will also be discussed and analyzed in subsequent chapters.

Best Practices from the National Advisory Council on State and Local Budgeting

The Government Finance Officers Association and seven other state and local government associations created the National Advisory Council on State and Local Budgeting (NACSLB) in 1995. The Council's charge was to develop a set of recommended practices in the area of state and local budgeting. The NACSLB developed a comprehensive set of processes and procedures in 1997 that define an acceptable budget process. The recommended practices advocate a goal-driven approach to budgeting that spans the planning, development, adoption, and execution phases of the budget. According to the NACSLB, a good overall budget process does the following:

- Incorporates a long term perspective,
- Establishes linkages to broad organizational goals,
- Focuses budget decisions on results and outcomes,
- Involves and promotes effective communication with stakeholders, and
- Provides incentives to government management and employees.

The NACSLB's overall framework consists of four principles and twelve budgetary elements. Within each element, specific budget practices are identified and recommended, and overall there are more than 50 budget practices identified. The following shows just the principles and budgetary elements.

Principle A. Establish broad goals to guide government decision making.
Element 1 - Assess community needs, priorities, challenges and opportunities,
Element 2 - Identify opportunities and challenges for government services, capital assets, and management, and
Element 3 - Develop and disseminate broad goals.

Principle B. Develop approaches to achieve goals.
Element 4 - Adopt financial policies,
Element 5 - Develop programmatic, operating, and capital policies and plans,
Element 6 - Develop programs and services that are consistent with policies and plans, and
Element 7 - Develop management strategies.

Principle C. Develop a budget consistent with approaches to achieve goals.

Element 8 - Develop a process for preparing and adopting a budget,
Element 9 - Develop and evaluate financial options, and
Element 10 - Make choices necessary to adopt a budget.

Principle D. Evaluate performance and make adjustments.
Element 11 - Monitor, measure, and evaluate performance, and
Element 12 - Make adjustments as needed.

Based on a review of all the practices, the County could make improvements to its budget policies, process, and document by refining some of its current practices and by instituting new practices. With the County facing limited resources in the future, there are several practices and elements that the County should emphasize as part of this financial plan. There are three areas that may be important to the County in the near future:

- Adopting financial policies,
- Capital planning, and
- Monitoring, measuring and evaluating performance.

Financial Policies

The County has recognized the importance of adopting financial policies and has for the most part developed financial policies recommended as part of the NACSLB's budget practices. Under the "adopt financial policies" element there are several types of policies recommended. Such policies include the following:

- stabilization funds,
- fees and charges,
- debt issuance and management,
- debt level and capacity,
- use of one-time revenues,
- use of unpredictable revenues,
- balancing the operating budget,
- revenue diversification, and
- contingency planning.

Of the above types of policies, the County has not developed any debt related policies. There are two recommended practices for establishing debt policies. The first practice is to adopt policies that guide the issuance and management of debt. The types of policies should include the purposes for which debt may be issued, the matching of the useful life of an asset with the maturity of the debt, limitations on the amount of outstanding debt, types of permissible debt, structural features, including payment of debt service and any limitations resulting from legal provisions or financial constraints, refunding of debt, and investment of bond proceeds.

The second practice is to adopt a policy on the maximum amount of debt and debt service that should be outstanding at any one-time. These policies should provide for different policies for general obligation debt, debt supported by government enterprises, and other types of debt such as special assessment bonds, short-term debt, variable rate debt, and leases.

Examples of the NACSLB's practices are provided on the GFOA's website, and the City of Portland's debt management policies are used as an example. For example, Portland established limits on the amounts of unlimited tax general obligation debt and limited tax general obligation debt. The City's policy is to have no more than .75% of the City's taxable assessed valuation as unlimited tax general obligation debt. For the City's limited tax general obligation debt, the total limit is 1% of the City's taxable assessed valuation, and annual debt service cannot be greater than 10% of the annual General Fund revenues.

Capital Planning

Capital planning is closely related to the financial policies concerning debt management, and except for the capital items in the Special Projects Fund, there is no overall capital budget and multi-year capital plan. For the capital budget, the County's budget only shows the capital projects for the fiscal year, even though the Departments can submit requests for capital projects for an additional two years. The NACSLB's best practices for capital planning include the following.

- Adopt policies and plans for capital asset acquisition, maintenance, replacement, and retirement,
- Develop a capital improvement plan that identifies its priorities and time frame for undertaking capital projects and provides a financing plan for those projects. The plan, including both capital and operating costs should project at least five years into the future and should be fully integrated into the overall financial plan, and
- Monitor, measure, and evaluate capital program implementation.

Although there is no multi-year capital budget, County officials are, however, aware of major capital projects that the County might address in the near future, such as a new jail and a courthouse remodel. Of the five counties contacted, three counties (Columbia, Hood River, and Tillamook) did not have an overall capital improvement plan. Lincoln County's facilities manager maintains a three year plan, but the budget only shows one year of the plan. Washington County has a 7-8 year capital plan originally based on a serial levy funding transportation improvements.

Performance Measures

GFOA recommended in 2002 that program and service performance measures be developed and used as an important component of the long term strategic planning and decision making. GFOA encourages all governments to use performance measures as an integral part of the budget process. GFOA believes that when used in the long term planning and goal setting process and when linked to an organization's mission, goals, and objectives, meaningful performance measures assist government officials and citizens identify financial and program results, evaluate past resource decisions, and facilitate qualitative improvements in future decisions regarding resource allocation and service delivery. The NACSLB's budget practices for performance measures are:

- Develop and utilize performance measures for functions, programs, and/or activities,
- Periodically evaluate the performance of the programs and services it provides, and
- Performance measures, including efficiency and effectiveness measures, should be presented in basic budget materials, including the operating budget document.

The current budget does not include performance and workload measures, and as a result, it is difficult to determine the level of service provided, the effectiveness of the County's use of resources, and the demand for services. The County has a cost efficiency policy that states that fiscally conservative budgets will be prepared and staff will seek savings wherever a balance between cost efficiency and the quality of public service can be achieved. To understand this balance, performance and workload measures are necessary to identify and determine the cost and level of service. Compared to the budgets from the comparable counties, only Lincoln County's budget generally identified workload and effectiveness measures. Although Clackamas County was not included as a comparable county, Clackamas County's budget document does incorporate specific performance and workload measures in its budget document. Appendix B includes examples of performance and workload measures as well as a different format for the budget document.

Best Practices for Budget Documents

Besides the NACSLB's best practices for budgeting, the Government Finance Officers Association established a Budget Awards program to recognize governmental agencies that utilize their budget documents as an effective communication tool to meet the needs of their constituents, media, and policymakers. The program defines 26 evaluation criteria that measure the information in and presentation of the document according to four key areas: policy document, financial plan, operations guide, and communications device. The goal of these criteria is to define standards for a budget that presents comprehensive financial information to the public in simple, non-technical language.

The GFOA criteria present a multi-year, quantifiable, and goal-oriented budget structure. According to the criteria, information should not be limited to the upcoming budget period, but should also reflect on past and current performance to provide adequate context to the reader. Descriptions of objectives, issues, initiatives, and program alterations should, when possible, be quantified to identify impacts to the budget presented. Goals for departments, divisions, programs, and activities should be expressed as both quantified short-term plans and long-term objectives, and they should be linked to overall County goals. Performance measures illustrating both workload demands and goal achievement should be included where possible and applicable.

As a policy document, the budget should describe the priorities and issues that drive the direction for the coming year. Overall goals for the County should be referenced throughout departmental plans to demonstrate consistent execution of stated objectives in all departments, divisions, programs, and activities provided. Goals should be both short and long-term plans, with short-term goals that have quantifiable objectives.

To fulfill GFOA's criteria as a financial plan, the budget must describe key financial data in understandable, summary level formats, covering all funds. Comparing budget projections to past and current periods is mandated in nearly all criteria. The document must strike a balance between maintaining a "budget in brief" format and providing enough information to be complete without dwelling on technical detail.

The operations guide aspect of budgeting is focused on intently by this study and requires the County to clearly describe and quantify performance for departments, divisions, programs, and activities. Budget figures, objectives, budget issues and changes, and performance measures should be provided for the major services of each department and/or division. Information at the program or activity levels should relate not only to department goals but also to County-wide objectives defined within the budget document.

Finally, the budget, as a communications device, should be presented in a manner designed to speak to a public audience interested in the management of the County. The document should strive for a clean, simple layout and professional look. Information should be readily available and easy to find. Most importantly, it should focus on the needs of the intended audience and speak to their requirements, excluding technical detail but providing complete, consistent information.

The format and the narrative found in Clatsop County's budget could be improved by adding more narrative information about each organizational unit's goals and objectives, new initiatives, programs and activities, and performance and workload measures. Both Washington County and Lincoln County also describe the departmental budgets with more or less information than Clatsop County, while Tillamook County's budget document has no narrative at all describing any of the departmental budgets. In the state of Oregon, Clackamas, Jackson, and Washington Counties are the only counties that have been awarded the GFOA Budget Award.

Conclusions and Recommendations

Compared to policies and practices recommended by the Government Finance Officers Association and the National Advisory Council on State and Local Budgeting, the County has established a good policy framework that has helped guide the County through some difficult economic times. The future challenge for the County is to address its capital needs in a comprehensive manner and to develop the information needed to refine its operating budget decisions. By using timber revenues to pay for the County's debt service for its PERS liability, the County has committed over $2.7 million that could have been used for capital and one-time expenditures by the Special Projects Fund. With less available timber revenues for capital projects and improvements, capital planning and debt management are even more critical in the future when the County may have fewer resources. To complete its policy framework, we recommend the following:

- Establish debt issuance and management policies as well as policies concerning debt level and capacity,

- Adopt policies and plans for capital asset acquisition, maintenance, replacement, and retirement, and

- Develop a capital improvement plan that identifies priorities and time frames for implementing capital projects and provides a financing plan for those projects. The plan, including both capital and related operating costs, should project at least five years into the future and should be fully integrated into the overall financial plan.

With limited funding, the efficient use of resources and the effectiveness of County programs should become more important in allocating resources. As a complement to the County's cost efficiency and quality of service policies, we recommend that the County do the following:

- Consider policies that encourage departments to develop and use performance measures for functions, programs, and activities,

- Periodically evaluate the performance of programs and services,

- Identify cost effective opportunities where performance, efficiency, and effectiveness measures can be developed and included as part of the basic budget materials and budget document, and

- Monitor, measure, and evaluate capital program implementation, especially for projects funded by the Special Projects Fund.

III. CURRENT GENERAL FUND TRENDS

As a result of a slow economy and Ballot Measures 47 and 50, Clatsop County has experienced limited revenue growth, and consequently, the Board of Commissioners has adopted "hold-the-line" budget policies over the past several years as reflected in the adopted budget policies and Resource Reduction Strategy. There has been a particular concern about the General Fund, and a review of the past five years shows how the County's General Fund revenues and expenditures have been affected. The changes and trends in the County's General Fund revenues and expenditures generally reflect the budget policies and priorities adopted by the Board of Commissioners.

The total FY 2003-2004 County budget is about $45.7 million, and the County's General Fund is about $15.7 million or about 34% of the total budget. For FY 2004-2005, the proposed County budget will increase by 7.3% to $49 million, while the General Fund will increase slightly to $15.8 million.

Over the past five years, the County's General Fund has experienced an increase in the percentage of funding from intergovernmental revenues, an increase in the percentage of expenditures devoted to public safety, a decline in the minimum amount of fund balance for the General Fund, and little growth in FTEs.

- Intergovernmental revenues, primarily timber sales, have become an increasing larger proportion of total revenues (38.9% to 44.4%), while taxes are decreasing as a proportion of the General Fund (45.3% to 39%). Charges for services have also slightly increased their proportion of revenues from 4.5% to 7%. (Exhibit 2)

- The major expenditure changes have increased the proportion of expenditures for public safety agencies (38.4% to 41.1%) and non-operating expenses (23.3% to 30.7%), while major decreases have occurred in the proportion of general government expenditures for the Board, Assessment and Taxation, and the County Clerk (18.4% to 11.3%). (Exhibit 3)

- Based on the FY 2002-2003 budget, the departments with the largest budget increases compared to the FY 1998-1999 budget were Corrections ($400,900), District Attorney ($399,900), the Sheriff's Criminal Division ($274,850), and Building and Grounds ($226,600). The departments with the largest decreases were the Juvenile Department, ($417,900), Elections ($299,000), and contingency ($964,262). The Juvenile Department budget decreased because the Special Projects Fund is supporting the costs for the juvenile detention facility. The Elections costs decreased because the County reorganized and budgeted Records separately. (Exhibit 4)

- The major expenditure changes have primarily increased the proportion of expenditures for transfers out (23.3% to 30.7%), while major decreases have occurred in the proportion of expenditures for other charges (7.6% to .5%). The percentage of General Fund expenditures for personnel services has remained about the same at 55%. (Exhibit 5)

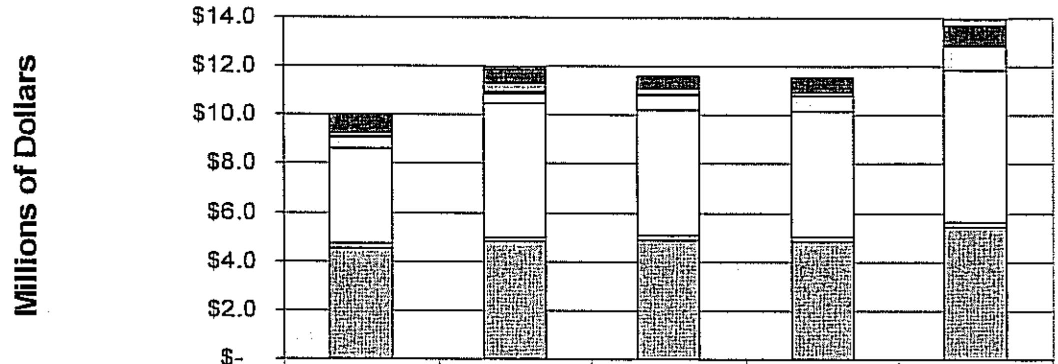
- Prior to FY 2001-2002, the County's General Fund revenues exceeded the General Fund expenditures, but in FY 2001-2002, the General Fund expenditures have exceeded General Fund revenues. (Exhibit 6)

- The fund balance for the General Fund was increasing from FY 1998-1999 to FY 2000-2001 when the fund balance peaked at $2.36 million. As a result of the changing revenue environment, the fund balance has declined to a planned $1.2 million by FY 2002-2003. For FY 2004-2005, the proposed fund balance is slight more than $1.3 million. (Exhibit 6)

- In FY 1998-1999 the County's General Fund supported 119.69 full time equivalent (FTE) positions, but since FY 1999-2000, the number of full time equivalent positions supported by the General Fund has remained at about 125 FTEs. (Exhibit 7)

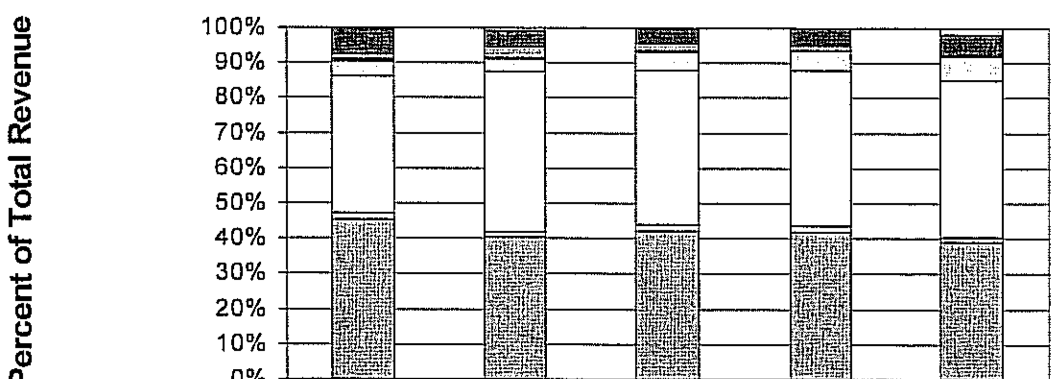
Exhibit 2

General Fund Revenues by Category



	1999	2000	2001	2002	2003
Transfers In	$-	$0.08	$-	$-	$0.24
Miscellaneous	$0.74	$0.53	$0.49	$0.58	$0.83
Interest	$0.16	$0.38	$0.24	$0.14	$0.03
Fines and Forfeitures	$0.05	$0.06	$0.04	$0.03	$0.03
Charges for Services	$0.45	$0.42	$0.64	$0.64	$0.97
Intergovernmental	$3.90	$5.46	$5.09	$5.10	$6.21
Licenses and Permits	$0.19	$0.18	$0.21	$0.21	$0.21
Taxes	$4.54	$4.82	$4.89	$4.84	$5.44

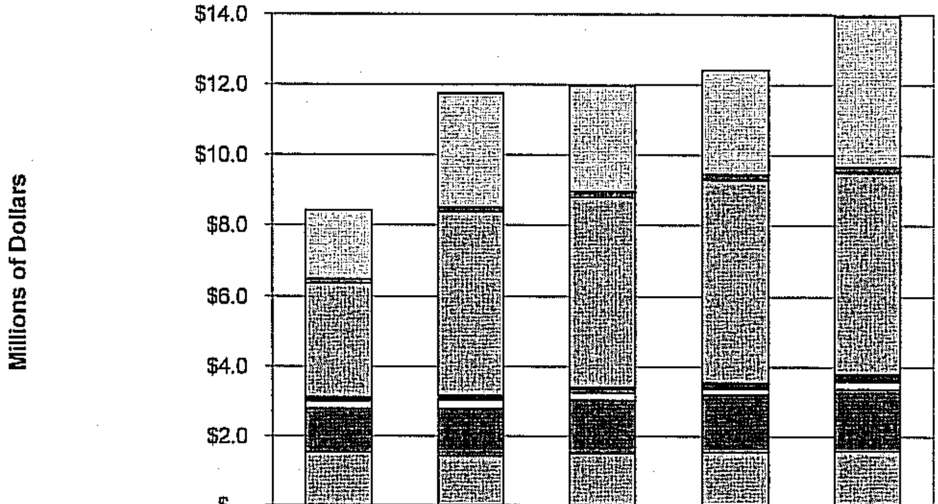
% Of General Fund Revenues by Category



	1999	2000	2001	2002	2003
Transfers In	0.0%	0.7%	0.0%	0.0%	1.7%
Miscellaneous	7.4%	4.5%	4.2%	5.0%	5.9%
Interest	1.6%	3.2%	2.0%	1.2%	0.2%
Fines and Forfeitures	0.5%	0.5%	0.3%	0.3%	0.2%
Charges for Services	4.5%	3.5%	5.6%	5.5%	7.0%
Intergovernmental	38.9%	45.7%	43.9%	44.2%	44.4%
Licenses and Permits	1.9%	1.5%	1.8%	1.8%	1.5%
Taxes	45.3%	40.4%	42.2%	42.0%	39.0%

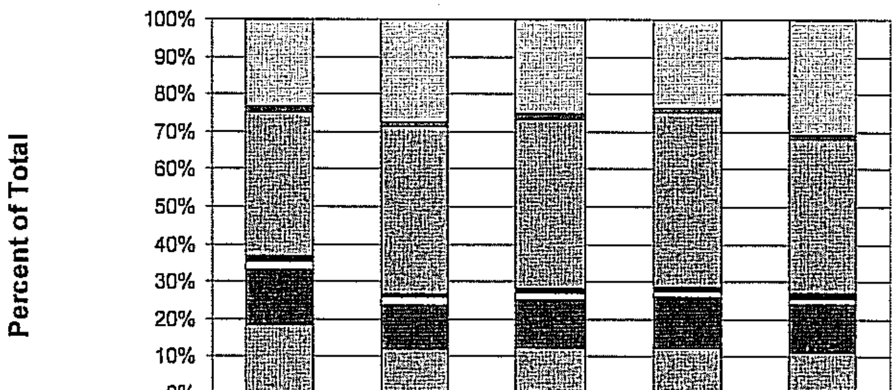
Exhibit 3

General Fund Expenditures by Function



	1999	2000	2001	2002	2003
Non-Operating Expenses (Transf., Conting., Ins.)	$2.0	$3.2	$3.0	$2.9	$4.3
Health & Human Services	$0.1	$0.1	$0.2	$0.2	$0.2
Public Safety	$3.2	$5.2	$5.4	$5.8	$5.7
Land Use & Transportation	$0.1	$0.1	$0.2	$0.1	$0.1
Culture & Recreation	$-	$-	$-	$-	$0.1
General Government - (Misc.)	$0.2	$0.3	$0.2	$0.2	$0.2
General Government - (Admin., HR, B&G, CS, etc.)	$12	$14	$16	$17	$18
General Government - (BOC, A&T, Clerk, etc.)	$16	$14	$15	$15	$18

General Fund Expenditures by Function



	1999	2000	2001	2002	2003
Non-Operating Expenses (Transf., Conting., Ins.)	23.3%	27.6%	25.2%	23.5%	30.7%
Health & Human Services	14%	1.1%	14%	1.5%	12%
Public Safety	38.4%	44.5%	45.0%	46.6%	41.1%
Land Use & Transportation	14%	0.9%	14%	12%	10%
Culture & Recreation	0.0%	0.0%	0.0%	0.0%	0.5%
General Government - (Misc.)	2.3%	2.3%	17%	1.5%	14%
General Government - (Admin., HR, B&G, CS, etc.)	14.7%	11.7%	13.0%	13.4%	12.7%
General Government - (BOC, A&T, Clerk, etc.)	18.4%	11.9%	12.3%	12.4%	11.3%

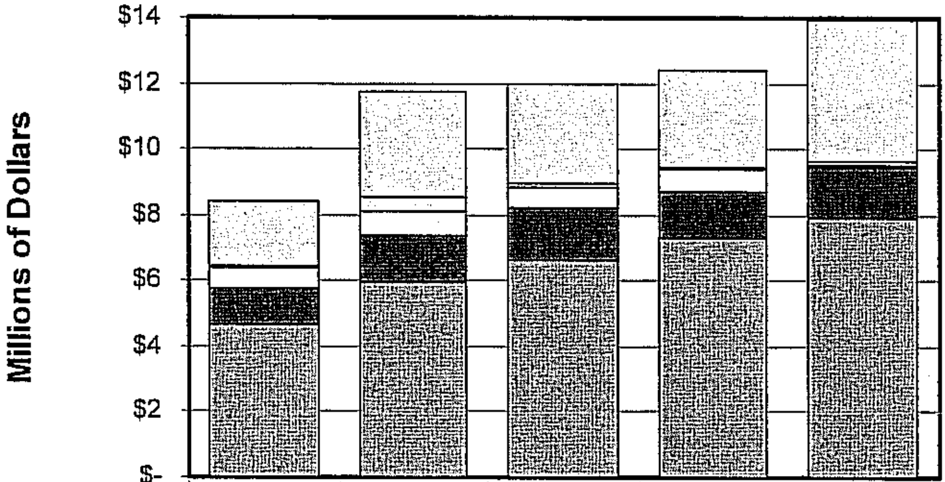
Exhibit 4
Final Budgets by Department/Division*

Department/Division	1999 Budget	2000 Budget	2001 Budget	2002 Budget	2003 Budget	1999-2003 Change	1999-2003 % Change
Board Of Commissioners	$ 28,400	$ 36,900	$ 37,500	$ 37,900	$ 37,800	$ 9,400	33%
Board Of Equalization	32,700	25,100	25,600	30,900	32,500	(200)	-1%
County Manager	230,700	254,900	330,200	292,700	287,100	56,400	24%
Assessment And Taxation	1,102,100	1,131,600	1,204,800	1,289,900	1,134,300	32,200	3%
County Counsel	96,700	130,900	111,000	91,000	127,100	30,400	31%
County Clerk And Election	558,700	522,550	321,900	291,000	259,700	(299,000)	-54%
County Clerk Records	-	-	149,200	154,300	152,000	2,800	2%
Central Services	567,800	600,300	680,200	747,700	700,200	132,400	23%
Building And Grounds	318,700	310,800	350,000	353,600	545,300	226,600	71%
Parks Maintenance	-	-	-	-	87,100	87,100	N/A
Surveyor	122,000	121,200	169,000	167,700	141,600	19,600	16%
Miscellaneous	196,700	273,400	211,700	221,900	229,300	32,600	17%
District Attorney	473,500	526,374	651,500	672,400	873,400	399,900	84%
Sheriff Support Division	197,700	203,400	217,400	238,700	249,900	52,200	26%
Sheriff Criminal Division	1,840,550	1,944,500	1,838,300	1,920,300	2,115,400	274,850	15%
Corrections	1,439,700	1,535,400	1,602,600	1,731,200	1,840,600	400,900	28%
Juvenile Department	799,500	930,500	922,000	973,100	381,600	(417,900)	-52%
Planning Department	335,100	334,350	335,800	365,100	468,800	133,700	40%
Emergency Services	30,600	39,185	35,800	43,600	40,300	9,700	32%
Animal Control	138,600	135,600	172,600	181,300	176,800	38,200	28%
Public Info & Intergov.	-	-	-	84,100	66,250	(17,850)	-21%
Property Management	67,000	86,850	74,200	94,500	100,200	33,200	50%
Employee Relations	102,300	108,200	129,800	127,000	136,600	34,300	34%
Operating Contingency	1,803,846	1,204,831	1,373,800	1,084,300	839,584	(964,262)	-53%
Total Expenditures	**$10,482,896**	**$10,456,840**	**$10,944,900**	**$ 11,194,200**	**$11,023,434**	**$ 540,538**	**5%**
Net Transfers	620,354	644,245	719,700	771,200	445,716	(174,638)	-28%
Special Projects Fund Transfers	1,650,000	2,640,000	2,855,200	2,800,000	3,792,600	2,142,600	130%
Grand Total	**$12,753,250**	**$13,741,085**	**$14,519,800**	**$ 14,765,400**	**$15,261,750**	**$ 2,508,500**	**20%**

* Represents the final budget as identified in the County's annual financial report.

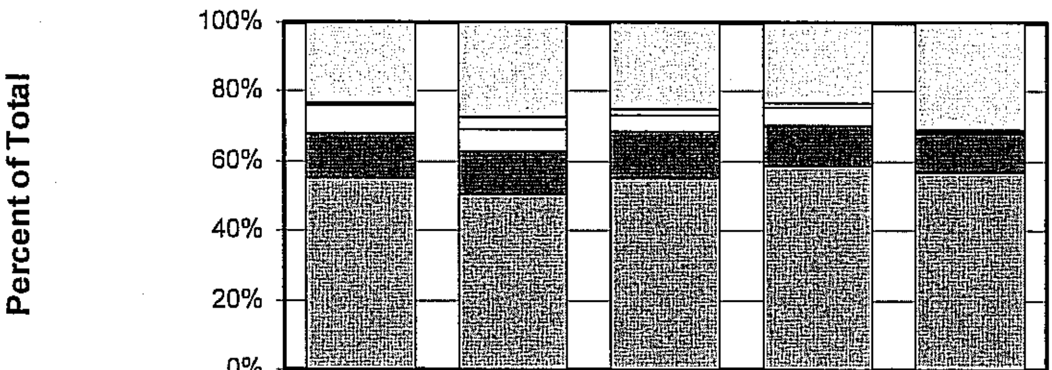
Exhibit 5

General Fund Expenditures by Class (Including Transfers)



	1999	2000	2001	2002	2003
Transfers	$1.96	$3.24	$3.03	$2.92	$4.29
Captial Outlay	$0.07	$0.39	$0.14	$0.11	$0.13
Other Charges	$0.64	$0.73	$0.61	$0.62	$0.07
Materials and Supplies	$1.10	$1.41	$1.56	$1.44	$1.54
Personnel Services	$4.66	$5.98	$6.64	$7.31	$7.94

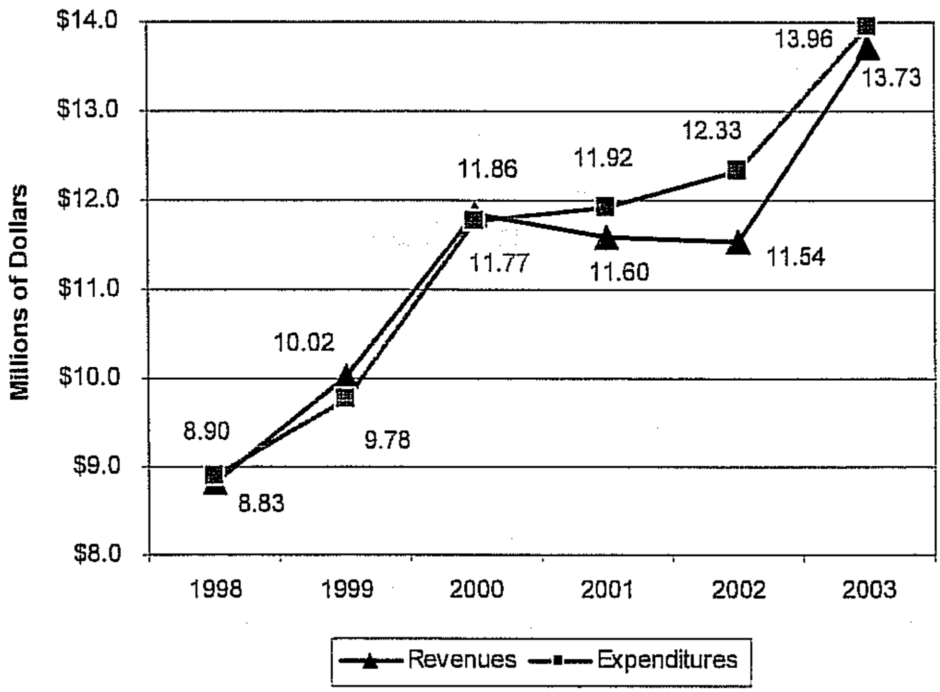
General Fund Expenditures (%) by Class (Including Transfers)



	1999	2000	2001	2002	2003
Transfers	23.3%	27.6%	25.2%	23.5%	30.7%
Captial Outlay	0.8%	3.3%	1.2%	0.9%	0.9%
Other Charges	7.6%	6.2%	5.1%	5.0%	0.5%
Materials and Supplies	13.1%	12.0%	13.0%	11.6%	11.0%
Personnel Services	55.2%	50.8%	55.4%	58.9%	56.9%

Exhibit 6

General Fund Revenues vs. Expenditures



General Fund Ending Balance

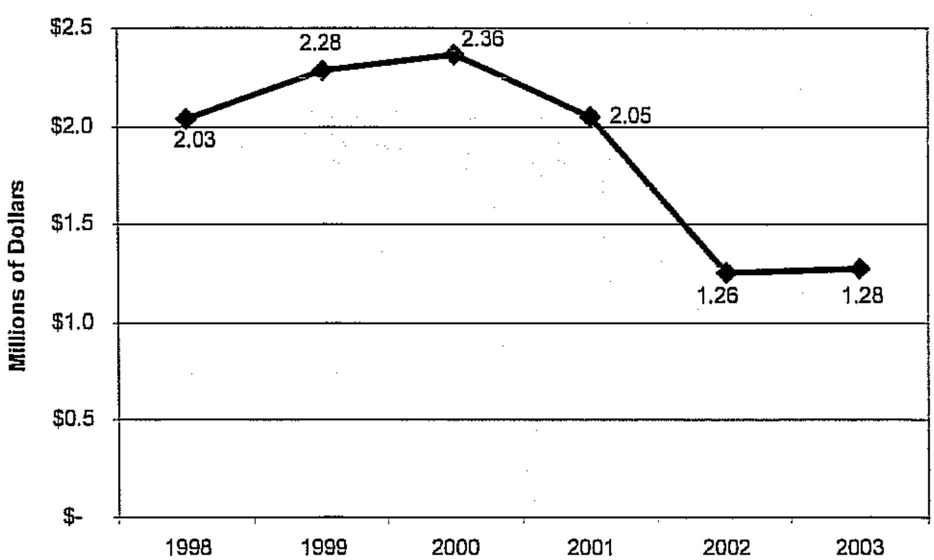
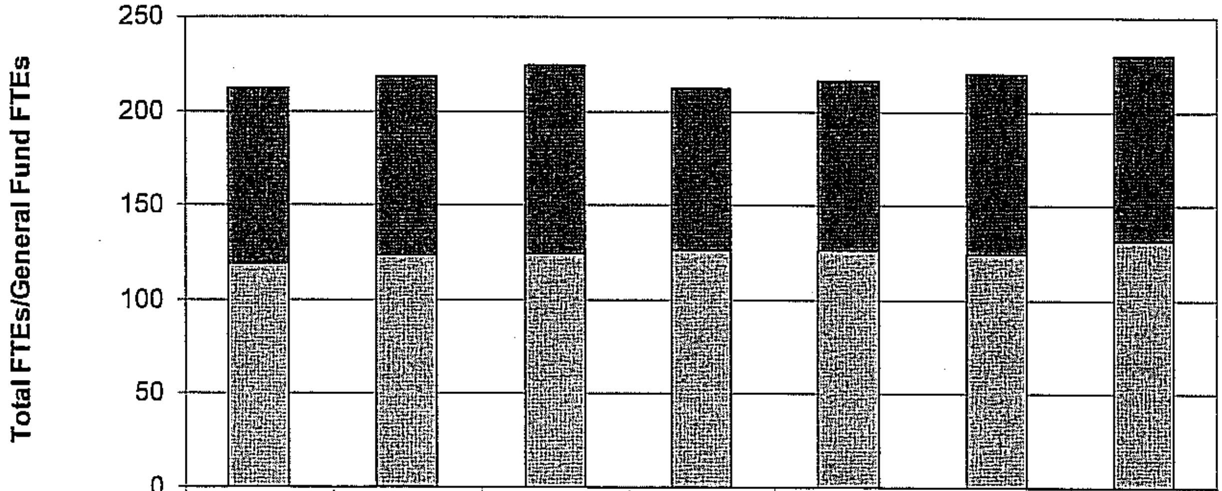


Exhibit 7

Historical FTE Levels



	1999	2000	2001	2002	2003	2003-2004	2004-2005
Other Funds Total	91.98	94.51	99.74	85.65	89.73	95.43	98.70
General Fund Total	119.69	124.09	124.93	125.93	126.43	124.63	131.33

IV. REVENUES

With the passage of Measures 47 and 50 and the potential for reductions in federal and state revenues, the County is faced with real reductions in revenues, but a constant and perhaps, increasing demand for all County services regardless of funding sources. As mentioned in the previous chapter, over the past five years property taxes represented a smaller proportion of the County's General Fund, while intergovernmental revenue and revenue from charges for services were becoming a larger proportion of the General Fund revenues. For the FY 2003-2004 budget intergovernmental revenues from the federal and state governments, including timber revenues, represented 33% of estimated General Fund revenues and represented 22% of the estimated revenues in the Health and Human Services Fund.

Because it has little control over property tax limitations and state and federal budgets, the County has developed policies that emphasize its ability to recover its costs of service through indirect cost allocation charges and through fees and charges for services. The following are County policies:

- <u>Full Cost Recovery</u> - Make every effort to assign costs where they occur through the use of interdepartmental/interfund charges and indirect cost percentage assignments. The intent is to clearly define the true cost of each direct service the County provides internally or externally. Recognizing the scale of this effort, the first priority is the recovery of overhead costs from all funds and grant programs and from County Service Districts, through the use of the County's Indirect Cost Allocation Plan.

- <u>Pursuit of New Departmental Revenues</u> - Pursue revenue source to the fullest extent possible for all services as well as total cost identification (including indirect costs) for fee-setting purposes. Fee schedules will be reviewed annually to ensure true costs are appropriately recovered.

- <u>Overhead Cost Allocation Charges</u> - All non-general fund departments should budget the amount allocated to that department in the County's Indirect Cost Allocation Plan.

- Generally, whenever possible, the County's goal is to make fee-supported programs self sufficient. This includes recovering those programs' appropriate share of the County's overhead costs.

Based on these policies, the County wants to assure that its Indirect Cost Allocation Plan, fee setting methodology, fees and charges, and revenue sources do the following:

- Include all appropriate indirect costs,
- Cover the full cost of service or the cost recovery level desired by the Commissioners,
- Establishes fees for services that provide private benefits versus those that have public benefits, and
- Provide a diverse revenue base.

Indirect Cost Allocation

The County currently maintains an indirect cost allocation plan that assigns a share of County management and administrative services to public service functions, such as Sheriff, Roads, and Health and Human Services. If the functions have dedicated non-General Fund revenue streams, these funds can be used to pay for their fair share of the indirect costs. In fact, the County projects that the General Fund should recover over $577,000 in indirect costs in FY 2003-2004 through this process.

With the exception of Hood River County, all of the other surveyed counties had an indirect cost allocation plan. Hood River does not have a plan, and allocation of indirect costs is discretionary. Lincoln County has a modified federal plan, but the County does not use it to redistribute overhead costs internally.

Indirect Cost Allocation Principles

At its most basic level, the purpose of an indirect cost allocation plan is to identify the costs of running the business of government and to allocate those costs to the direct services provided by County departments. This type of plan serves many uses that range from a tool to provide management information on the level and distribution of administrative support provided to operating programs to the increasingly more common need to enhance cost recovery by determining the full cost of services. Many government entities use indirect cost allocation plans to do the following:

- Understand the full cost of providing services,
- Reimburse the General Fund from other funds, such as special revenue funds and utilities,
- Calculate cost-based user fees for public services, such as development review, community services, administrative functions, and
- Recover sufficient overhead costs through reimbursements from federal programs, consistent with OMB Circular A-87 guidelines.

There are many methods used in the industry to assign overhead costs to operating programs, ranging from the simple to the complex. On the simple side of the spectrum, agencies select an amount that operating departments, such as utilities, must pay to the General Fund for support services provided. On the complex side, agencies assign an allocation factor for every expense line item in a support services department. Both extremes can cause problems, ranging from inequity in cost distribution to cumbersome ongoing updates. Indirect cost allocation plans should be developed to strike a balance between fairness and practicality.

An indirect cost allocation plan is just that: an allocation. An allocation is an estimate and can be debated. If it was feasible to directly charge departments for their use of support services as they used them, the County would set up internal service funds to do so. However, for many overhead functions, that type of structure is cumbersome and would not be cost-effective to implement. Although there is no "one size fits all" approach to indirect cost allocation that can sufficiently and effectively serve every agency, each individual, sustainable plan should:

- Ensure that costs and allocation measures are both real and current,
- Utilize allocation measures that reasonably relate to the level of service and/or benefit received, or at a minimum, represent an acceptable means for apportioning cost recovery,
- Ensure that results are explainable to internal County stakeholders, policymakers, and their constituents, and
- Establish a longer term process that is feasible to complete thoroughly on a regular basis and acceptable to the planning needs of those most impacted by its results.

To ensure that a cost allocation plan is reasonably reflective of the costs incurred to provide support services, the underlying data, costs, and allocation factors, should be sound. The costs of support services allocated in the plan always should be consistent with current budget or actual expenditures. The allocation factors used to distribute those costs should also be current, should be related to the level of service, and be based on data already collected by the County or based on credible management judgment

Finally, a cost allocation plan should make sense to those involved in its results. The methodology, data needs, and the objectives of the plan should be understood by those responsible for its upkeep and those responsible for incorporating the resultant reimbursements into their budgets. The results should also be explainable to internal and external stakeholders. Using a collaborative update process, with sufficient time to incorporate feedback, is often the key to success in creating an effective plan that meets needs for and that is understandable to both sides.

The County's Current Indirect Cost Allocation Plan

The County uses proprietary computer software to create and update its indirect cost allocation plan for each fiscal year. For this study, we have reviewed paper print-outs of the program's schedules. Exhibit 8 on the following page summarizes the cost centers allocated and the factors used to distribute their costs.

Exhibit 8
Summary of Allocated Functions and Allocation Bases

DEPARTMENT	FUNCTION	ALLOCATION BASIS
Equipment Use	Total	Total cost of equipment assets from the Fixed Asset Report
Board of Commissioners	A	Number of agenda items
	B	Number of FTEs
County Administrator	Budget Review	Total operating expenses
	Agenda Preparation	Number of agenda items
	FTE Per	Number of FTEs
	Reception	Number of communication lines
Employee Relations	Total	Number of FTEs
County Counsel	Legal Services	Breakdown of contractual services billings
Central Services	Voucher Count	Number of vouchers processed
	Prop & Tot Dist	Total operating expenses in the General Fund
	Invest Fund 001	Total operating expenses in the General Fund
	Invest Fund 007	Total operating expenses per general grants
	Invest Oth Fds	Ratio of interest income allocated
	Fixed Assets	Number of equipment pieces (all fixed assets)
	Payroll	Number of payroll checks processed
	Purchase Orders	Number of purchase orders processed
	Budget & General	Total operating expenses
	Facility Maintenance	Allocated directly per prior year
	Network Support	Number of equipment pieces (PCs, printers, servers)
	Client/Ser	Percent of data processing
Buildings and Grounds	Miscellaneous Expense	Square footage of space maintained
	800 Building	Square footage of space maintained
	Criminal Justice	Square footage of space maintained
	Animal Control	Square footage of space maintained
	Courthouse	Square footage of space maintained
	820 Building	Square footage of space maintained
	Old Jail	Square footage of space maintained
	Old HHS	Square footage of space maintained
	820 Vacant Floor	Square footage of space maintained
Miscellaneous	Insurance A	Total operating expenses
	Insurance B	Number of FTEs
	Memberships/Fees/Dues	Number of FTEs
	Audit & Accounting	Total operating expenses

The County's current indirect cost allocation methodology and plan have both positive as well as negative characteristics. On the positive side, the Plan first follows a two-step allocation method. Through this method, indirect services ("overhead") are allocated to all County-wide functions, including overhead services themselves. For example, in the first step, Central Services receives a share of its own costs, recognizing that it is benefited by its own services. In the second step, Central Services' allocated share of County-wide overhead is then distributed down to direct, operating departments only. Through this two-step process, a more equitable allocation result is achieved by capturing any disproportionate uses of overhead services by other overhead departments. For example, if the County Administrator uses an exceptional amount of Central Services, then operating departments who use a large share of the County Administrator's time also received that larger share of Central Services.

The second positive aspect of the plan is that it allocates costs programmatically. Many software-based cost allocation plans are designed to allocate each line item of a department's budget. The level of detail involved in such a type of allocation model yields very little benefit given the large amount of labor required to maintain it. As shown in Exhibit 8, the County's existing plan has identified a total of 34 major functions provided within eight departments or major accounting divisions. So long as these program areas are representative of current budget distinctions or are easily developed in the annual updates of the plan, this level of detail seems reasonable.

Finally, the plan uses a diverse array of allocation factors; an allocation factor is assigned to each of these 34 individual cost pools. The allocation factors used for each function seem reasonable, assuming they are current data sets and are easily obtained during each budget or year.

While there are several positive aspects of the existing plan, there are also several areas where improvements can be made. A drawback to the current process is that the printed outputs of the software program do not clearly explain or demonstrate how allocation results were calculated. As a result, Commissioners and impacted departments have a difficult time understanding the indirect cost allocation process. While a two-step method enhances the equity achieved through the plan, it can be difficult to explain to policymakers and departments most impacted by the results of the plan. While there was no formulaic or logic error in the allocations, this problem is understandable given the large number of schedules and the lack of useful management summaries. Improvement of allocation summaries might help to alleviate confusion caused by the approach.

It is important to ensure that the Plan includes a full evaluation of overhead costs. While not apparent from the printed outputs of the program, not all the indirect costs are being included for allocation. The documentation of the allocation model should always include the full costs of each overhead department, and if certain costs are excluded, the reasons for doing so should be clearly stated. To exclude overhead costs is to achieve less than the "full cost of service," as the title of the plan would suggest, leaving an area in which the County is not optimizing cost recovery opportunities. For example, the County's Public Information Officer is not included in the indirect costs that are currently allocated. In addition, significant costs for information systems are also not being allocated because they are funded through the Special Projects Fund. In FY 2002-2003, almost $650,000 was spent for GIS, computer software, and personal computer equipment. If these expenditures benefit non-General Fund departments and functions, these costs could be included as part of the Indirect Cost Allocation Plan and could be included, especially if the software and equipment are not being capitalized and are considered materials and supplies because they are less than County's $5,000 criteria for capital expenditures. GIS is a good example where there may be opportunities to recover a much greater share of the General Fund cost because usually large users of GIS maps and information are from road, transportation, and utility departments. Other Special Projects Fund costs that could be incorporated as part of the indirect cost allocation plan include office supplies, contractual services, rents and leases, in house training, education and training, and employee recognition. If any of these expenditures are controlled by an indirect service function, they could be included in the Indirect Cost Allocation Plan.

Secondly, the County should develop management summaries that clearly describe allocations and results. The summary schedules in the existing program do not provide an adequate "snapshot" of information for policy maker review. In contrast, the reviewer must scan dozens of dense schedules in order to begin to track figures. Such an approach obscures the cost basis and makes it difficult to link costs with the workload measures used to distribute them. Furthermore, it does not provide management and policy makers with valuable information with which to assess trends or evaluate statistics, such as comparable levels of overhead. If this information is currently generated for management, County staff would have to prepare it manually, which is an increased burden on the update and maintenance process. The County has recently upgraded its software, and the County believes that there is improved management and summary reporting in the newer software version.

Thirdly, County staff may want to evaluate the level of detail used in the plan. While the use of programmatic costs is a positive attribute, there is still quite a bit of detail in the plan (over 150 printed pages). While much of this bulk may be caused by the structure of the program and printed schedules, the number of indirect programs that are allocated should be evaluated for relevancy to existing budgeting and service practices. Also, the number and array of direct programs to which overhead is allocated should be reviewed.

Adjusting Overhead Services

The County's Strategic Plan/Resource Reduction Strategy establishes priorities for the direct services funded by the County's discretionary resources, but the County's overhead programs and services are not included in the priorities. Instead, the County policy is to size its overhead services to the need and size of the County's overall organization. In FY2004-2005 the County added two positions for information technology, but the County currently has no further plans to increase overhead staffing and resources.

To determine if the level of staff and other resources need to be changed to support overhead activities, the County needs to have some performance measures or workload benchmarks that will allow the County to determine if the resources are appropriate for the workload and for the level of service required by the service departments. For each of the different overhead services, such as accounting, information services, purchasing, and others, the County should establish workload and service goals that would provide benchmarks to determine if changes need to be made to the overhead resources. For example, in accounting there may be workload measures relating to accounting and payroll transactions per accounting employee, processing times for paying accounts payable, and timeliness for preparing accounting and financial reports. For information services, performance measures and benchmarks might include technical or repair order requests per employee, response time for meeting such requests, and system and network usage and maintenance requirements. By using such benchmarks, the County will be able to determine for most functions whether it has capacity to meet additional or decreased workload and service levels as the County's organizational and support needs change.

It also should be noted that the actual General Fund costs or savings caused by changes in overhead resources are shared between the General Fund and the non-General Fund departments and funds if such costs are part of the County's Indirect Cost Allocation Plan. If the overall workload increases and additional overhead resources are needed, the additional costs would be included as part of the County's Indirect Cost Allocation Plan. When these costs are included as part of the Plan, the increase in the actual General Fund costs are reduced because some of the added costs are allocated to non-General Fund departments and funds. The same situation exists if there is a reduction in overhead resources that are included in the Plan. The actual General Fund savings would be slightly less than the full General Fund reduction because non-General Fund departments and funds would pay less to the General Fund for their share of the services.

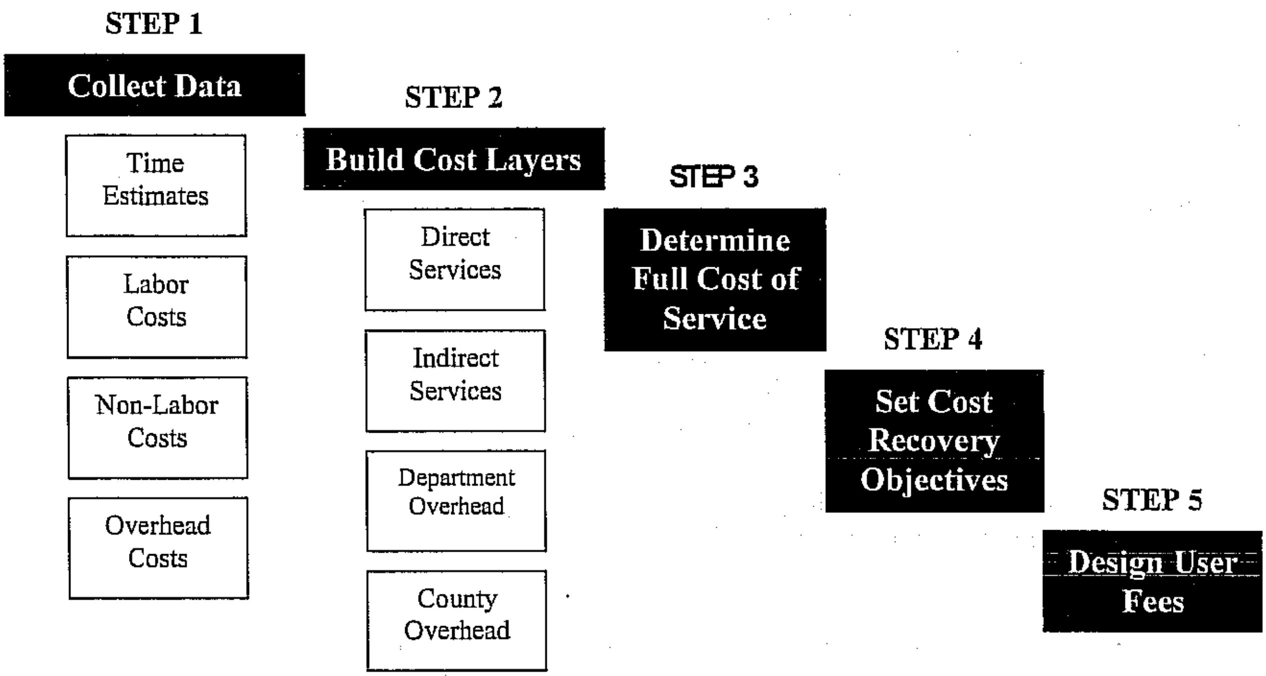
If overhead resources are needed because of a federal or state grant, the County should determine whether the resources need to be part of a centralized function that is included in the Indirect Cost Allocation Plan or whether the resources can be funded separately by the grant, especially if it is a dedicated resource only for that grant and department. Some grants allow certain types of administrative costs to be direct expenses for the grant program, or they allow such administrative expenses, including the City's indirect costs, to be paid within a certain percentage of the grant. Such a specific resource might be a department employee rather than an employee of an overhead department, such as Central Services.

Fee Setting Methodology

One the NACSLB's recommended practices is to adopt policies on fees and charges that identify the manner in which fees and charges are set and the extent to which they recover the costs of the services provided. The County charges numerous fees for a number of services that it provides. There are two types of fees: those authorized and constrained by state statute and those authorized and established by the County. For the types of fees where the County has discretionary control over the amount of the fee, the County has adopted general policies regarding fees. Although the objectives of the County's policies are to identify the total costs of services, to review fees annually, and to make fee supported programs self-sufficient, the County has used a variety of methods to establish and set fees without always establishing what the appropriate cost recovery level should be relative to the cost of the service.

Any fee setting methodology should include the following steps shown in Exhibit 9. A narrative description of the process is in Appendix C.

Exhibit 9
Fee Setting Process and Methodology



In 1999, the County commissioned a comprehensive study on user fees imposed County-wide. The study calculated fees that represented the "full cost of service" for services provided in the following departments:

- Parks Division
- Sheriff Support Services
- County Clerk & Elections
- Public Works – General Fund, Road Fund, and Public Land Corner Preservation
- Planning Department
- Health & Human Services

The user fee study developed schedules of recommended fees following an analytical methodology similar to that in the above exhibit and Appendix C. For most departments, the full cost of service was computed, including the costs of labor, services and supplies, department administration, and County-wide overhead. Fees were then determined from this information. Cost recovery objectives were not based on a specific policy or assessment of public and private benefits. In some cases cost recovery targets were set based on what the recommended fee could generate in revenue.

The recommendations of the 1999 study were not implemented across-the-board by the County. Instead, the Board of Commissioners has made fee decisions based on subsequent work by individual departments that was based partially on the study's findings or based on other criteria developed independently. For example, the Parks Department adopted fees based on the 1999 study, including an annual escalation factor tied to the Consumer Price Index. While this annual escalator ensured some periodic adjustment to reflect natural increases in costs, the County suspended the practice due to odd price results. While the recommended Planning fees from the 1999 study were not adopted, the Board later adopted a schedule based on a subset of the study's findings – including the costs of direct services only (i.e., no indirect costs).

In some cases, fees are set on other bases. For example Animal Control imposes fees that are based on a level consistent with comparable fees in other Oregon counties and not based on cost. In other Health & Human Services functions, fees that the County controls are held to a level that must consider affordability to its customer and constituency base (e.g., low-income access to basic service).

Many County fees have a maximum amount defined by state statute, but the County does not always charge the maximum amount. In our experience, statutory fee amounts may not be commensurate with the actual costs incurred to provide service. Departments with a large number of statutory-based fees include the County Clerk, the County Assessor, and Health & Human Services. The County's Building fees are regulated by the State, may not exceed 130% of the State's fee schedule, and must be tied to the cost of providing service. The County's Building function last adopted the State's schedule in April 2003.

While the County has approached fee setting on a department-by-department basis, there are some positive aspects about the manner in which those individual functions have examined their fees. First, as described earlier, several departments have implemented fee increases since the 1999 fee study was conducted. Those fee increases were initially based on the full cost of service findings of the original fee study, but with added review and analysis from department heads. This implies that those fees were set with consideration of the full cost of service.

Secondly, with the 1999 fee study, the County approached fee setting from a comprehensive perspective. It examined fees and revenue opportunities in most departments and functions. This approach ensures consistent cost bases and cost recovery objectives that consider actions being taken concurrently by other departments.

There are areas in which the County could build upon its past work and improve not only the defensibility of its fees but also reveal potential revenue enhancement opportunities. First, the County should implement updated fees periodically. By conducting a comprehensive study without implementing the results, the County has subsequently created a situation in which the basis and vintage of its current fees are inconsistent from department to department. Furthermore, it cannot be confirmed that existing fees are commensurate with the costs of providing service today. The study is five years old, and in many cases the results are clearly out of date, both in terms of costs and labor effort assumed by service. As a result, the County's fees are set based on a variety of different approaches and data, and their effective dates differ to a wide degree. If desired cost recovery levels and fees are not updated frequently, the County's General Fund or other County resources subsidize the users of the services until fee adjustments are made.

There are also instances where departments providing similar services impose notably different fees for those services. For example, functions that individually utilize GIS services do not currently impose consistent fees. Approaching fees from a comprehensive standpoint could address these issues.

Secondly, the County has not considered nor adopted policy-based cost recovery objectives that would guide the method and level of fees across its departments. The County should examine the fee-related services it provides and evaluate the public and private benefits derived from those services. A good starting point for setting fees is to determine a level that recovers that portion of the full cost of service equal to the estimated (or perceived) level of private benefit received. For example, if a service provides 100% benefit to the private citizen requesting the service, the fee should recover 100% of the full cost of service. There may be specific services for which this type of general approach yields impractical results, but for the majority of fees, it serves as a consistent basis with which to evaluate appropriate fee levels.

Finally, through interviews with staff, there may be areas in which fees are not currently imposed but which may be reasonable candidates for charging fees to the extent they provide benefit to the private citizen (as opposed to the public at large). In its current financial condition, the County should evaluate these opportunities, examine the full cost of providing these services, and potentially implement new fees. For example, the County does not currently impose system development charges for its public infrastructure programs. In addition, during interviews with department staff, the County has adopted fees that County departments are not collecting, and the County should decide whether it should continue to have a fee if it is not planning on charging the fee. For example, the fee for supervision for juveniles charged with minor in possession is not collected. In three of the surveyed counties there was no such fee, and for the other two counties, the contact person did not know whether the county had a fee.

Clatsop County's fee setting practices are not significantly different than the five counties surveyed. Highlights on their fee-setting practices and policies are as follows:

- Three of the five surveyed counties (Hood River, Lincoln, and Washington) adjust their fees annually, while two counties (Columbia and Lincoln) have not adjusted fees on a regular basis.

- Like Clatsop County, the Columbia County Commissioners did not pass fees recommended by a fee study three years ago. Each department attempts to recover as much cost as possible.

- For Tillamook County, its fees were set years ago, and the basis for the fees is unknown.

- In Washington County, the County charter states that fees should aim to recover 100% of related costs.

- Hood River's cost recovery policy is to recover only the direct costs and to exclude overhead costs.

- Lincoln County began raising fees annually as of FY 2003-2004, but raised fees every three years prior to last year. Fees are adjusted by a cost of living factor.

Listing of Fees and Charges

The County has established a number of fees and charges, and during discussion and review of the fees, we found that the fee ordinance did not include all of the County's fees. The fees for each department were then identified based on a department's actual line item revenues, and a listing of the fees by department was developed. Appendix D shows the fees in the listing for each department and provides information on whether it is based on state statute or County ordinance.

Revenue Diversification

As discussed in Chapter II, one of the NACSLB's recommended practices for adopting financial policies is to adopt a policy that encourages a diversity of revenue sources. The policy should identify approaches that will be used to improve revenue diversification. The County's current policy for General Fund supported departments encourages pursuit of other revenue sources, and the policy is the following:

> Pursuit of New Departmental Revenues - Pursue revenue source to the fullest extent possible for all services as well as total cost identification (including indirect costs) for fee setting purposes. Fee schedules will be reviewed annually to ensure true costs are appropriately recovered.

As revenues and financial resources become more limited for all funds and not just the General Fund, the County may need to seek other revenue sources to broaden its revenue base and to maintain and improve services. Besides identifying services that currently have no fee, but could have a fee, the County has several other revenue options. These other options include the following:

- A local option levy,
- A hotel/transient occupancy tax,
- A local gas tax,
- A real estate excise tax, and
- System development charges.

These revenue sources are also used in one or more of the five surveyed counties:

- Three of the five counties have a hotel/transient occupancy tax. Hood River has an 8% rate with 90% of the revenue distributed to the Chamber of Commerce and with 10% going to the County. Lincoln County has a 5-6% rate. Washington County has a 7% rate with 1% dedicated to the Fair Board and 1% to the Washington County Visitors Association. The remaining 5% is divided evenly between the County and the cities. The cities' share is divided among the cities based on the amount raised in their jurisdiction.

- Four of the counties do not have a local gas tax. Tillamook had placed a gas tax on the ballot, but the voters turned it down. Washington County has a $.01 gas tax and uses the revenues for road maintenance. The County had an additional gas tax of $.06 but it sunset, and renewal was subsequently defeated by a public vote.

- Only Washington County has a real estate excise tax. The rate is .1%.

- Only Columbia and Washington Counties have system development charges. In both counties the funds are used for roads and streets.

Other revenue sources might include expansion of existing funding mechanisms, such as creating special districts.

Conclusions and Recommendations

The County has an Indirect Cost Allocation Plan, and the County's budget policies emphasize the recovery of its indirect costs from non-General Fund sources and as part of fees. The County has several challenges and opportunities to improve its plan and revenues. The opportunities include increasing cost recovery for expenditures now paid for by the Special Projects Fund, and the challenges are explaining these increased costs to departments who will have to find ways to pay for these additional costs. The County should do the following.

- Include as part of an indirect function's costs any on-going expenditures currently paid for by the Special Projects Fund. The largest impact will be for information systems and technology expenditures, and if there are capital expenditures (i.e., items costing more than $5,000) the annual allocated cost of these items should be amortized over the life of the equipment. Other Special Projects Fund expenditures for indirect functions include human resource related costs, such as employee recognition and training, and building grounds maintenance costs. The County should also consider whether these types of expenditures should be part of the General Fund rather than the Special Projects Fund,

- Improve and develop management summaries to help explain how indirect costs are allocated to the various departments and funds. Before implementing the changes, the Finance Department should meet with the affected departments to explain the proposed changes, the allocation methodologies, and the potential impacts on their budgets. Because of the potential impacts, especially for the information systems and technology costs, the County may want to consider a phased implementation approach if the impact is too significant on their departmental budgets, and

- Evaluate the level of detail used in the existing Indirect Cost Allocation Plan and review the number of indirect functions that are allocated to determine if the functions are consistent with budgeting and actual service delivery and if those functions with the same allocation factor can or should be combined.

Fee Setting

The County last conducted a comprehensive fee study in 1999, and the recommendations were not implemented at that time. Since the study was completed, departments have been initiating various fee increases over the past several years using a variety of different methods for setting the fees. The fee setting methodology used in the study, however, did identify the full cost of service including the County's overhead costs. A recommended fee setting framework to establish the cost of services and fees is in Appendix D. The challenge in fee setting is to determine what services should be self supporting, what services should have fees, and what should be the cost recovery policy for services that have both public and private benefit. The opportunity in fee setting is to increase revenues to support services that should recover more of their costs through fees rather than through other County resources. To meet these challenges and opportunities, the County should do the following:

- Update its fees, and if necessary conduct targeted cost of service studies for specific types of fees where the programs should be more self sufficient, such as the one recently done for Planning and Development,
- Identify the programs and services that should be self sufficient,
- Establish and adopt cost recovery policies for all other services with fees and charges not established by state statute, and
- Identify opportunities for new fees, and determine whether to eliminate fees that the County does not actually charge.

Revenue Diversification

The County has opportunities to increase its revenue base by using different revenue sources besides fees. These other revenue options include a hotel/transient occupancy tax, a local gas tax, a real estate excise tax, system development charges, and special districts. If the County wants to use these other revenue sources, the challenge for the County is to satisfy the public and specific stakeholder groups that such financing is needed to either enhance services or achieve equity in funding. Given the County's financial status, the County should do the following:

- Identify any services that require additional resources to implement operating and capital plans, and determine if any of the additional revenue options are appropriate for providing funding for these plans, and
- If the County determines that a new funding source is appropriate, it should develop a plan to involve any affected groups and should have adequate justification to support the use of a new funding source.

V. THE SPECIAL PROJECTS FUND

In conjunction with its budget policy on the General Fund's timber revenues, the County established a Special Projects Fund to pay for General Fund capital projects. The policy was established as a means to avoid relying on an unpredictable revenue source for ongoing General Fund operating costs, a practice recommended by GFOA and the NACSLB. From FY 1998-1999 to FY 2001-2002 the County's budget policy was to transfer from the General Fund all timber revenue except for $350,000. In FY 2002-2003 the policy was changed so that all the timber revenue went to the Special Projects Fund, and for FY 2003–2004 and the FY 2004-2005 budgets, the policy was changed again so that the General Fund would retain no more than the lowest year of timber revenue in the last 15 years.

Since most of the funding for the Special Projects Fund comes from the transfer of General Fund timber revenue, the Special Projects Fund is essentially an extension of the General Fund with specific policies regarding the use of the funds. Over the past five years, the eligible uses for the Special Projects Fund have been expanded from the County's original intent. Prior to FY 2000-2001, the County's budget policies restricted the use of the Special Project's timber revenue to only General Fund capital projects, but for that fiscal year the policy was broadened to include one-time expenditures and expenses. In FY 2003-2004 the County added the General Fund's portion of the unfunded PERS liability. The current purpose of the timber revenue in the Special Projects Fund, as amended over the years, now includes funding for General Fund capital projects, other one-time expenditures and expenses, and the General Fund portion of the PERS unfunded liability.

Over the past ten years as timber revenue has grown, the amount remaining in the General Fund has remained somewhat fixed. As a result, the Special Projects Fund has grown and has had large fund balances relative to its annual expenditures. Compared to the General Fund's declining fund balance, the Special Projects Fund has been increasing its fund balance significantly. In eight of the last ten years, the ending fund balance has been greater than the expenditures for the year. At the end of FY 2002-2003, the fund balance was over $4.8 million compared to the General Fund's fund balance of $1.3 million. Exhibit 10 shows the Special Projects Fund's financial history over the past ten years.

Exhibit 10
Special Projects Fund Financial Activity

	1994	1995	1996	1997	1998*	1999*	2000	2001	2002	2003
Revenues										
Intergovernmental	$ -	$ -	$ -	$ -	$ 45,950	$ 18,697	$ -	$ -	$ -	$ 212,693
Charges for services	-	-	-	-	-	-	-	-	-	8,799
Interest	25,309	85,712	152,725	201,866	300,382	165,113	90,899	204,435	197,414	28,032
Miscellaneous	24,930	18,415	310,415	71,500	40,000	5,963	145,609	68,564	81,219	30,751
Total Revenues	**$ 50,239**	**$ 104,127**	**$ 463,140**	**$ 273,166**	**$ 386,332**	**$ 189,773**	**$ 236,508**	**$ 272,999**	**$ 278,633**	**$ 280,275**
Expenditures										
Materials & Services	$ 40,220	$ 35,985	$ 151,130	$ 136,480	$ 38,324	$ 253,865	$ 406,149	$ 389,996	$ 467,382	$ 683,418
Other Charges	45,890	229,206	-	-	165,650	7,563	16,900	56,071	1,383,827	521,100
Capital Outlay	989,506	971,639	760,322	1,079,744	2,220,369	2,058,820	1,561,846	987,717	2,921,693	1,220,276
Operating Contingency	-	-	-	-	-	-	-	-	-	-
Total Expenditures	**$ 1,075,616**	**$ 1,236,830**	**$ 911,452**	**$ 1,216,234**	**$ 2,425,343**	**$ 2,320,248**	**$ 1,984,895**	**$ 1,433,784**	**$ 4,772,902**	**$ 2,424,794**
Other Financing Sources/Uses										
Operating Transfers In	$ 1,000,000	$ 2,779,984	$ 2,500,000	$ 2,947,767	$ 1,000,000	$ 1,430,049	$ 2,565,239	$ 2,522,805	$ 2,143,342	$ 3,743,408
Operating Transfers Out	-	(693,563)	(729,363)	(759,500)	-	(94,700)	-	-	-	-
Total Other Financing Sources/Uses	**$ 1,000,000**	**$ 2,086,421**	**$ 1,770,637**	**$ 2,188,267**	**$ 1,000,000**	**$ 1,335,349**	**$ 2,565,239**	**$ 2,522,805**	**$ 2,143,342**	**$ 3,743,408**
Excess (deficiency) of revenues and other financing sources over (under) expenditures	*$ (25,377)*	*$ 953,718*	*$ 1,322,325*	*$ 1,245,199*	*$ (1,039,011)*	*$ (795,126)*	*$ 816,852*	*$ 1,362,020*	*$ (2,350,927)*	*$ 1,598,889*
Beginning Fund Balance, July 1	558,948	533,571	1,487,289	2,809,614	5,130,421	4,211,412	3,416,286	4,233,138	5,595,158	3,244,231
Residual Equity Transfer In	-	-	-	-	20,000	-	-	-	-	-
Ending Fund Balance, June 30	$ 533,571	$ 1,487,289	$ 2,809,614	$ 4,054,813	$ 4,111,410	$ 3,416,286	$ 4,233,138	$ 5,595,158	$ 3,244,231	$ 4,843,120

* Restated Beginning Fund Balances From Audit Reports

The main reason for the large fund balances is that the actual expenditures for the various projects and costs have been significantly less than what the County budgeted. Capital outlay expenditures have been less than the amount budgeted. In fact, during the past five fiscal years the unspent budgets for each year total more than the General Fund timber revenue transfers in the year. Preliminary actual expenditures for FY 2003-2004 show the same trend with a Special Projects Fund budget of $7.1 million, but only 34% of the budget has been spent as of the end of the year. Exhibit 11 shows by expenditure category the amount budgeted and the actual expenditures.

Exhibit 11
Comparison of Special Projects Fund Budget to Actual Expenditures

	FY 99	FY 00	FY 01	FY 02	FY 03
Budgeted Materials & Supplies	$ 340,000	$ 226,400	$ 817,700	$ 267,300	$1,737,700
Budgeted Other Charges	96,100	105,300	161,500	1,412,900	2,113,000
Budgeted Capital Outlay	3,949,400	4,308,522	4,802,600	4,716,300	1,999,900
Budgeted Transfers Out	94,700	-	-	-	-
Budgeted Contingency	1,500,000	1,000,000	934,600	1,000,000	1,000,000
Total Budgeted Expenses	**$ 5,980,200**	**$5,640,222**	**$6,716,400**	**$ 7,396,500**	**$6,850,600**
Actual Materials & Supplies	$ 270,313	$ 317,734	$ 389,997	$ 460,076	$ 683,418
Actual Other Charges	7,563	105,315	56,071	1,391,131	521,100
Actual Capital Outlay	2,042,374	1,561,847	987,716	2,921,692	1,220,276
Actual Transfers Out	94,700	-	-	-	-
Actual Contingency	-	-	-	-	-
Total Actual Expenses	**$ 2,414,950**	**$1,984,896**	**$1,433,784**	**$ 4,772,899**	**$2,424,794**
Under-expenditure (Budget minus Actual)	**$ 3,565,250**	**$3,655,326**	**$5,282,616**	**$ 2,623,601**	**$4,425,806**

As stated in the County's policy, most of the Special Projects Fund budget is directed to General Fund departments and projects. In the last five years the largest budgets have been in the "Other" category, which includes the implementation of the County Campus Plan, the PERS liability, and the contingency. Over the past five years, the Central Services Department has received the most funding for a department at $4.5 million, primarily for computer-related software and hardware. The Sheriff's Office has received the second most funding at $1.8 million, primarily for equipment. Exhibit 12 shows the Special Projects Fund budgets by department.

Exhibit 12
Special Projects Fund Budgets By Department

Department	FY99	FY00	FY01	FY02	FY03	Total
A&T	$ -	$ 2,000	$ 370,600	$ 241,900	$ 75,000	$ 689,500
Animal Control	700,000	13,250	-	-	-	713,250
B&G	-	-	-	-	1,143,800	1,143,800
BOC	-	700	-	-	-	700
CAO	51,900	16,900	32,700	29,100	893,800	1,024,400
CEDC	94,500	88,400	-	-	-	182,900
Central Services	1,049,600	1,278,500	773,600	610,300	803,600	4,515,600
Child Support	-	-	-	-	-	-
Clerk - Records	130,000	122,400	64,000	42,750	-	359,150
Community Dev.	-	-	-	-	-	-
District Attorney	-	800	15,000	-	-	15,800
Employee Relations	-	-	-	-	21,500	21,500
Fair	60,000	-	65,400	-	-	125,400
Health	42,800	63,500	147,600	14,700	21,500	290,100
Juvenile	318,000	1,100	24,000	3,400	602,200	948,700
Parks	-	75,000	121,200	13,000	53,400	262,600
Planning	55,200	5,000	-	-	20,000	80,200
Property Mgt	-	-	-	500	-	500
Sheriff	283,300	252,400	577,100	343,850	382,100	1,838,750
Surveyor	700	2,700	13,400	13,000	11,000	40,800
Victims Assistance	8,000	-	-	-	-	8,000
Other/Misc.	3,186,200	3,717,572	4,511,800	6,084,000	2,822,700	20,322,272
Total	$5,980,200	$5,640,222	$6,716,400	$7,396,500	$6,850,600	$32,583,922

In addition to the Special Projects Fund being used primarily for General Fund departmental needs, the County's policies also focus on using the funds for capital and one-time expenses as well as the PERS liability. Although many expenditures are capital or one-time expenditures, there are several expenditure categories that appear to be recurring or operating expenditures that would normally be part of the ongoing General Fund operating budget. An analysis of actual expenditures for the past five years shows the following types of expenditures that might fit the recurring and operating expenditure category.

- Clothing and uniforms
- Computer software, hardware, and training,
- Office supplies,
- Contractual services,
- Jail beds lease,
- Education and training,

The total amount of these types of expenditures for FY 2002-2003 was slightly over $1 million. Exhibit 13 shows the past expenditure trends for these types of expenditures.

Exhibit 13
Examples of Recurring Types of Special Project Expenditures

Description	FY99	FY00	FY01	FY02	FY03	TOTAL
Clothing & Uniform Expense	-	-	12,070	87,033	6,603	105,706
Office Supplies	-	-	-	3,982	6,961	10,943
PC Equipment	-	-	-	99,245	95,931	195,176
Contractual Services	270,313	222,738	248,960	(4,680)	34,280	771,611
Jail Beds Lease	-	94,996	77,996	89,000	212,802	474,794
Rents & Leases. - S., L., & G	-	-	25,390	11,407	-	36,797
In-house Training	-	-	-	16,159	3,807	19,966
Education & Training	-	-	3,333	4,812	23,201	31,346
Digitizing Records	-	-	-	7,304	3,868	11,172
Employee Recognition	-	-	-	2,967	3,703	6,670
PERS Liability	-	-	-	1,348,700	1,315	1,350,015
Automotive Equipment	18,041	-	46,081	33,053	46,337	143,512
Police Cars	84,006	72,553	23,200	-	50,280	230,039
Office Equipment	32,513	32,930	9,560	13,980	32,817	121,800
Misc Equipment - Sheriff	28,593	44,259	49,045	18,656	57,403	197,956
Miscellaneous Equipment	301	38,150	1,294	262	-	40,007
Computer Software	450,915	600,429	267,784	246,533	376,906	1,942,567
GIS	141,447	144,340	196,747	119,022	170,482	772,038
Computer Equipment	136,446	203,704	102,332	20,431	-	462,913
Radios & Equipment	2,437	8,640	11,281	5,504	-	27,862
Totals	**$1,165,012**	**$1,462,739**	**$1,063,003**	**$1,933,110**	**$1,017,201**	**$6,641,065**

Although there has been adequate funding for these types of recurring expenditures in the past, this practice increases the County's risk for the General Fund if timber revenues decline significantly. The practice for the past two years is to keep timber revenues for the General Fund at an amount equal to the lowest annual amount of timber revenue in the past 15 years (i.e., $668,900). Even though FY 2003-2004 General Fund expenditures have been based on the $668,900, the effect of these recurring expenditures is to make the amount of ongoing operating costs supported by timber revenue closer to $1.7 million rather than just the General Fund amount of $668,900. In addition to these types of recurring expenditures, the County also uses the Special Projects Fund to support various operating programs, such as its juvenile detention facility, with "seed money" for multiple years. For FY 2004-2005 the recurring expenditures increased dramatically to about $4 million because of funding for such items as the PERS liability, the juvenile detention facility, structures and improvements, and Courthouse restoration. If the County continues to fund these ongoing expenditures in the future, and if there is a significant decline or no growth in timber revenues, the County will either need to increase revenues from other General Fund sources, reduce General Fund or Special Projects Fund expenditures, or have adequate reserves to compensate for the timber revenue loss.

Conclusions and Recommendations

The Special Projects Fund was originally established to support capital expenditures for General Fund departments, but now it also supports one-time expenditures and the PERS liability. In addition, the County has been using the Special Projects Fund to support one-time expenditures that occur annually, such as computer purchases and software licenses. As a result, there are recurring expenditures each year that reduce the funding available for capital projects. If timber revenues are reduced, the County may need to find additional General Fund and capital revenue sources or make significant cost reductions in either its General Fund or Special Projects Fund. The County's challenge is to address its operating needs that are supported by timber revenues and to either reduce the amount of timber revenues allocated for recurring expenditures or find additional capital funds to support projects that would have been previously funded by the Special Projects Fund. A number of changes are needed in managing the timber revenues and the Special Projects Fund.

- Revise the policy on the amount of timber revenues retained by the General Fund and used for operating costs to reflect the County's past practices.

- Set a limit on the amount of recurring operating costs supported by timber revenues. The County might be able to reduce its risk if it limited the amount of ongoing operating costs to at least 50% of the average timber revenues over the last 10 years. Using a 10 year average normalizes the revenue amount given the fluctuations that occur over time with the timber revenues. Over the past 10 years the average is about $2.9 million, which would result in a limit of $1.45 million for operating costs. This average is slightly higher than what the lowest amount of timber revenues would be in the past 15 years for FY 2009-2010. Using a 50% figure is also consistent with the significant historical declines in timber revenues over the past 19 years.

- Continue to budget a Special Projects Fund contingency amount or maintain unreserved fund balances (See the following section on reserves) to help offset significant declines in timber revenues. If there is a decrease in timber revenue, the target reserve amount should be based on the amount of the budgeted year's timber revenue. This means that for a particular budget year a contingency or unreserved fund balance is being set aside for the next year should timber revenues decline. If the County wants to maintain its ongoing expenditures as well as its capital expenditures at the budgeted year's level, the reserve amount would need to be set at an amount equal to the budgeted year's timber revenues minus $1.45 million for operating expenditures. At a minimum, the County might want to reserve $1.45 million in order to assure that it can have minimum of $2.9 million available assuming that timber revenues never drop below $1.45 million. If the County wants to assure that at a minimum it can meet its PERS liability, the contingency reserve would need to be at least $2.4 million.

- Determine the length of time reserves will be needed and budget accordingly based on the annual reserve amount needed as discussed above. At least one year is recommended because it will allow the County time to revaluate its capital needs and make adjustments for the next year if revenues do not increase. If the County believes that timber revenues will decline and remain at a lower level for a couple of years, the reserve would need to be at least twice as large.

- Include as part of the recurring expenditure items associated with functions included in the Indirect Cost Allocation Plan, such as information systems and technology. Some of these costs should be recovered from other funding sources to help offset the cost to the General Fund for these functions and to provide additional revenue to the General Fund.

VI. RESERVE FUNDING

As noted in Chapter II, the County has adopted reserve and contingency policies to help it manage its General Fund cash flow and its unpredictable revenues, primarily timber revenues. The County has targeted a minimum of $1.2 million for a General Fund reserve, but has not yet established a policy target for its General Fund Resource Stabilization account. The County's reserve and contingency policies are the following:

> Funding of Contingencies: For the General Fund, place at least 10% of the Fund's appropriation, but in no case less than $1.2 million, into the Fund's operating contingency with the expectation that most of the money will not be spent and will become part of the 2005-06 beginning fund balance.
>
> General Fund Resource Stabilization Account: Establish a line item in the Special Projects Fund to set aside timber revenue resources, to the extent they are available, to provide the long term resource for General Fund operations in the event timber revenues received are insufficient in the future.

Within Oregon's local budget law, ORS 294.525 allows the County to establish reserve funds to hold moneys for financing the cost of services, projects, property, and equipment. The Board of Commissioners can create such funds without a vote and can determine the amount and revenue sources necessary to support the fund. At least every ten (10) years, the Board of Commissioners must review the fund and determine whether to continue or abolish the fund.

Reserve funds are generally used to set aside monies for specific purposes or circumstances that help a jurisdiction meet operating costs (e.g. revenue stabilization fund), legal commitments (e.g. debt service reserves), and capital funding needs (e.g. facility or equipment replacement funds). Based on a review of the County's June 2003 Annual Financial Report the County has only a few true reserve funds, the General Road Equipment Replacement and the Insurance Reserve, but uses contingency budgeting to establish reserves for many of its funds.

The Government Finance Officers Association has developed a policy concerning the level of unreserved fund balance in the General Fund. GFOA recommends, at a minimum, that general purpose governments, regardless of size, maintain an unreserved General Fund fund balance of no less than five to fifteen percent of regular general fund operating revenues, or no less than one to two months of regular general fund operating expenditures. GFOA believes that it is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g. revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates. Fund balances are also a crucial consideration in long term financial planning. In determining the level of unreserved fund balance, GFOA recommends that jurisdictions consider the following:

- The predictability of its revenues and the volatility of its expenditures,
- The availability of resources in other funds as well as the potential drain upon the General Fund resources from other funds,
- Liquidity, and
- Existing designations of unreserved fund balance for specific purposes.

General Fund Reserve Levels

In Oregon, a contingency budget is essentially like reserving fund balance for items that would normally require the use of unreserved fund balance when no contingency is budgeted. When contingency budgets are used, GFOA believes that such amounts should be considered as part of the unreserved fund balance for purposes of analyzing the reserve level. For Clatsop County, the contingencies are usually not spent and then become part of unreserved fund balance at the end of the year. The budgeted contingency represents the entire fund balance for the General Fund. The County's goal is to maintain at least 10% of the Fund's appropriation, but in no case less than $1.2 million. The $1.2 million represents the amount of cash needed for the County's cash flow until it receives its first payments for property taxes in November.

The County was at the high end (15%) of the scale for unreserved fund balance in FY 1998-1999, but as mentioned previously in Chapter III, the County needed to use its General Fund fund balance to support its operating budget over the past five years. Consequently, the County's level of contingency for the General Fund dropped to 8% by the FY 2003-2004 budget. However, the County also created a General Fund Resource Stabilization account in the Special Projects Fund and budgeted $1 million as a contingency. The combined total for the two funds keeps the County at the 15% level, but the County would have to make an appropriation from the Special Projects Fund to the General Fund if any of those funds were needed. Exhibit 14 shows the amount of contingency budgeted in the General Fund and the Special Projects Fund since FY 1998-1999.

Exhibit 14
Adopted General Fund and Special Projects Fund Contingency Reserves

Fiscal Year	Adopted General Fund Contingency	Adopted General Fund Expenditures	Adopted Operating Transfers	Contingency Percentage	Adopted Special Projects Contingency	Contingency % With Special Projects
1998-1999	$ 1,915,574	$ 12,817,300	$2,254,426	15%	$ 1,500,000	27%
1999-2000	$ 1,459,850	$ 13,821,300	$3,360,400	11%	$ 1,000,000	18%
2000-2001	$ 1,621,800	$ 14,584,300	$3,492,400	9%	$ 934,600	16%
2001-2002	$ 1,327,300	$ 14,829,100	$3,501,900	9%	$ 1,000,000	15%
2002-2003	$ 1,200,000	$ 15,481,850	$4,292,500	8%	$ 1,000,000	14%
2003-2004	$ 1,329,700	$ 15,732,100	$3,806,800	8%	$ 1,000,000*	15%

* Specifically for General Fund Resource Stabilization Account

In comparison to other Oregon counties selected by the County, Clatsop County has a higher percentage of funds budgeted as General Fund contingency. These other counties, however, have unreserved General Fund fund balance that is not included in the contingency, whereas Clatsop County's contingency represents the total amount of reserved and unreserved fund balance. Exhibit 15 shows the budgeted contingency for FY 2003-2004 for the five counties included in the survey.

Exhibit 15
FY 2003-2004 General Fund Contingency Budgets for Other Oregon Counties

County	General Fund Contingency	General Fund Expenditures	Contingency Percentage	Other Resources	Percentage With Other Resources
Columbia	$ 813,870	$ 17,127,952	5%	$700,000 unappropriated/ unreserved fund balance	9%
Lincoln	$ 1,772,341	$ 28,472,285	6%	$2,217,592 unappropriated/ unreserved fund balance	14%
Tillamook	$ 250,000	$ 16,267,477	2%	$2,640,360 unappropriated/ unreserved fund balance	17%
Washington	$ 9,634,132	$ 140,077,437	7%	$7,345,544 in Revenue Stabilization Account	12%
Hood River	$ 150,000	$ 9,266,678	2%	$450,000 unappropriated/ unreserved fund balance	6%

Only Hood River County did not have a specific target for its reserves. Columbia County is working to establish a contingency reserve of $1.4 million; Lincoln County bases its reserve on the revenue generated from 4.5 months of property tax receipts; Tillamook has a target of $4 million; and Washington County's goal is to maintain a $10 million balance.

Other Fund Reserves

As mentioned previously, the County has only a few separate reserve funds, the General Road Equipment Replacement and the Insurance Reserve, but does have contingency budgets for many funds besides the General Fund and the Special Projects Fund. There are no specific policies for these other funds, but the same criteria used for the General Fund in addition to any special circumstances might be an appropriate method for determining the level of contingency and unreserved fund balance needed for each fund. Exhibit 16 shows the FY 2003-2004 budgeted contingency and unappropriated fund balance for the County's other funds. The percentage of contingency to expenditures ranges from 0% to a high of 76%, while the amounts range from $300 to slightly over $2 million in budgeted contingency.

Exhibit 16
Contingency Budgets Compared to Total Budgeted FY 2003-2004 Expenditures

Fund	Contingency	Beg. Fund Balance	Total Expenditures	Cont %
Child Support	$ -	$ 5,000	$ 142,500	0%
Liquor Enforcement	-	300	36,600	0%
Marine Patrol	40,000	40,000	234,000	17%
Gambling/Drug Task Force	-	6,300	104,900	0%
Jail Commissary	42,500	61,000	113,700	37%
Emergency Communication	300	4,700	266,600	0%
Juvenile Crime Prevention	-	12,200	119,500	0%
Community Corrections P & P	-	303,300	1,894,700	0%
Courthouse Security	-	228,100	286,100	0%
State Timber Enforcement	131,000	69,400	250,200	52%
Animal Shelter Donations	-	30,400	36,900	0%
Commission on Child & Families	-	57,800	394,900	0%
Child Custody Mediation	9,200	24,500	45,100	20%
Health & Human Services	118,200	314,000	1,968,600	6%
Mental Health Grants	2,800	99,000	4,057,600	0%
County Clerk Records	-	8,000	23,200	0%
General Roads	400,000	256,100	5,380,600	7%
Land Corner Preservation	4,800	169,700	283,200	2%
Bike Paths	96,400	107,900	126,400	76%
Miscellaneous Grants	297,300	273,700	806,100	37%
Fair Board	22,500	9,700	250,300	9%
Park & Land Acq. & Maint.	-	26,400	26,400	0%
CEDC Fisheries	36,900	74,100	715,300	5%
Video Lottery	88,700	47,700	248,400	36%
Insurance Reserve	-	1,400	17,100	0%
Special Projects	1,000,000	4,515,000	7,107,100	14%
General Roads Equipment Replacement	900	18,500	275,500	0%
Industrial Development Revolving	-	20,900	221,200	0%
County School	-	-	4,603,900	0%
Law Library	23,640	34,900	69,800	34%
Westport Sewer Service District	-	42,000	74,500	0%
Westport Sewer Equipment Replacement	49,300	67,200	78,900	62%
CC 4H & Ext Ser Spec Dist	70,000	333,800	290,200	24%
Law Enforcement District	2,017,900	2,744,900	3,800,200	53%
Road District #1	-	589,800	3,205,000	0%
Total	**$4,452,340**	**$10,607,700**	**$37,555,200**	**12%**

The General Fund Stabilization Account

The General Fund Stabilization Account in the Special Projects Fund was established in FY 2003-2004, and the County budgeted $1 million in the contingency account. The purpose of the General Fund Stabilization Account is to provide a long term resource for General Fund operations in the event that timber revenues are insufficient in the future. Washington County was the only surveyed county that had a revenue stabilization account or fund. The fund was established in FY 1988-89 to set aside General Fund resources for use in future years to extend the life of the tax base approved by voters in 1986 and to meet the service delivery plan established in 2000. Washington County's policy is to have a minimum of 5 percent in General Fund Contingency and a combined minimum balance of 10 percent of the General Fund's total revenues in the General fund contingency and the Revenue Stabilization Fund. GFOA examples of revenue stabilization policies included policies from Portland (Oregon), Mission Viejo, (California), and Federal Way (Washington).

- The City of Portland has two reserves for the General Fund based on five percent of the General Fund operating revenues. The first five percent is an emergency reserve available for one-time emergency, unanticipated expenditures or to offset unanticipated revenue fluctuations occurring within a fiscal year. The second five percent reserve is a counter cyclical reserve that is available to either maintain General Fund current service level programs or transition expenditure growth to match slower revenue growth during the first 18 to 24 months of a recession.

- The City of Federal Way has a Contingency Reserve that is targeted at three percent of the City's operating expenditures. The Contingency Reserve is for unexpected operational changes, legislative impacts, or other unforeseen economic events affecting City operations. In addition, the City also has a Strategic Reserve Fund that is for the City to respond to potential adversities, such as public emergencies, natural disasters, or major, unanticipated projects. The target funding for the Strategic Reserve Fund is not less than five percent of the City's operating expenditures.

- The City of Mission Viejo has a number of reserves for its General Fund. There is a Contingency Reserve to provide for unanticipated nonrecurring expenditures and unexpected increases in costs. There is also an Economic Uncertainty Reserve that is used to avoid the need for immediate service level reductions in the event of an economic downturn that causes lower revenues than budgeted. There are several other reserves for the General Fund, but the City's target for a combined unappropriated fund balance and appropriated reserves is no less than 15% of the current year General Fund operating budget.

Because of how the County uses its timber revenues to support the General Fund and the Special Projects Fund, the impact of any decline in the timber revenues will not just affect the General Fund but will also have an impact on the Special Projects Fund and the County's ability to support a variety of projects. As noted in the previous chapter, the Special Projects Fund is primarily funded by the transfer of timber revenues from the General Fund. Over the past ten years, the Special Projects Fund fund balance has grown significantly due to lower expenditures than those budgeted, while the General Fund fund balance has declined.

The current policy for using timber revenues is that the General Fund would retain no more than the lowest year of timber revenue in the last 15 years. For FY 2003-2004, the $668,895 in FY 1990-1991 was the lowest amount in the last 15 years. The budgeted timber sales revenue for

FY 2003-2004 was $4,178,200. If the County continues the policy for the next five years starting FY 2004-2005, the annual amounts that can be budgeted each year for the General Fund will be $668,895, $969,971, $1,034,152, $1,273,438, and $1,377,354. Thus, by FY 2009-2010 the amount of timber revenues that can be used by the General Fund will more than double from $668,895 to $1,377,354.

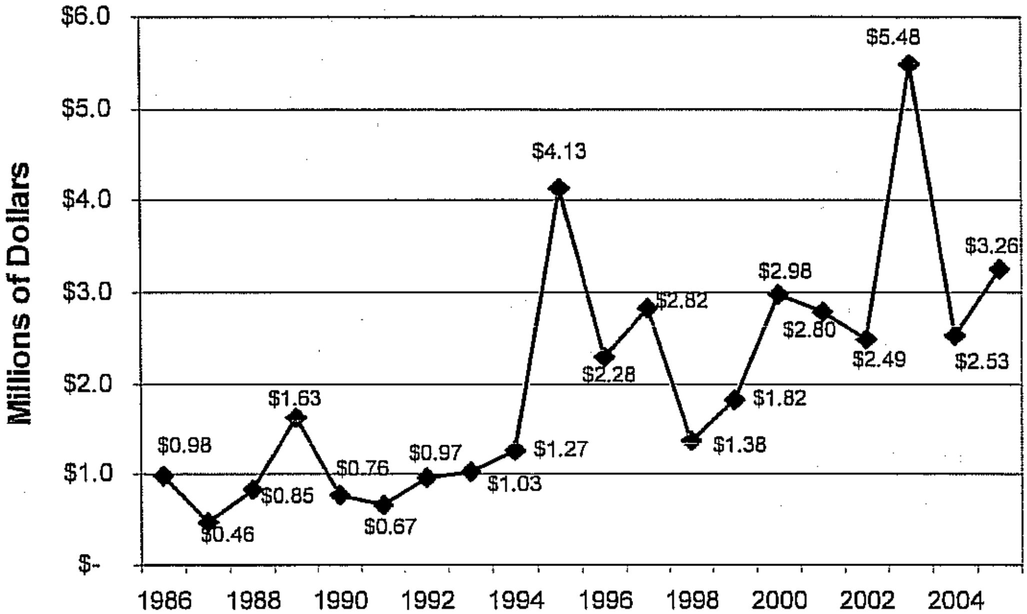
For FY 2003-2004, $1 million was budgeted in the Special Projects Fund as a contingency for the General Fund Stabilization account. It appears that if timber revenues decreased to their 15 year low, the $1 million would be sufficient within the next five years to cover almost one year's worth of timber related General Fund expenditures based on any increase in the expenditures up to the $1.3 million in FY 2009-2010. However, as noted in Chapter V, the Special Projects Fund is being used to support recurring and ongoing General Fund types of expenditures that totaled about $1 million in FY 2002-2003. Thus, if the County continues with its existing policies and expenditure patterns, the minimum amount of funding needed to support timber related General Fund and recurring Special Projects Fund expenditures might grow as high as $4 million in the next five years. Any other budgeted or long term capital projects funded by the Special Projects Fund would add to this total.

The target amount allocated to the General Fund Stabilization account depends on the type of General Fund expenditures that need to be maintained, the potential decrease in timber revenues, potential increases in other General Fund revenue sources, and how long the Board of Commissioners wants to continue services if revenue decreases continue to occur over time.

Timber Revenue Analysis

The timber revenues that the General Fund and Special Projects Fund rely on for funding have fluctuated over the years, and the timber revenues in the last 10 years have been consistently higher than the revenues from 1986 to 1994. The average amount of timber revenues between 1986 and 1994 was $958,000, while the average from 1995 to 2004 was $2,870,000. With the current 15 year policy used for budgeting, the amount of timber revenues remaining in the General Fund over the next four years will be based on the period with the lower average revenues. In the fifth year, the General Fund amount will be based on the higher average period starting in FY 1994-1995. Appendix E shows the history of the timber revenues since FY 1988-1989. Exhibit 17 shows a graphical history of the timber revenues since 1986.

Exhibit 17
Timber Revenues



One of the concerns about timber revenues is that the amount can fluctuate quite widely. The County's policy for General Fund spending has been very conservative to assure that if a significant decline occurs in timber revenues for a particular year, the County has not over extended itself by providing service levels that are not sustainable. When large decreases in timber revenues occurred in the year after a peak amount, the decrease ranged from 45% to 54%, and the amounts ranged from $867,000 to almost $3 million. When there were multiple years with declining revenues, the percentage decrease from the peak was 59% and 67%, and the amounts were $959,000 and $2.6 million, respectively. In the last two fiscal years with the budget policy using the lowest amount in the past 15 years, the General Fund portion did not exceed $668,900. Compared to the timber revenues for those two years, the General Fund policy portion represented 26% and 20% of the budgeted timber revenues. This means that the General Fund services could still be supported if the revenues declined by 74% to 80%. However, because of the recurring expenditures supported by the Special Projects Fund, the proportion of timber revenues used by the General Fund and recurring expenditures substantially increased, and as a result, the margin of safety in declining years is reduced. Exhibit 18 shows an analysis of the peaks and declines in revenue over a one year period and over multiple years.

Exhibit 18
Analysis of Revenue Declines Over One Year and Multiple Years

Period (High to Low)	High	Low	Difference	Percent Change
FY 1989 to FY 1990	$1,627,935	$761,246	($866,689)	-53%
FY 1990 to FY 1991	$761,246	$668,895	($92,351)	-12%
FY 1995 to FY 1996	$4,131,776	$2,283,429	($1,848,347)	-45%
FY 1997 to FY 1998	$2,822,245	$1,377,354	($1,444,891)	-51%
FY 2000 to FY 2001	$2,975,179	$2,795,373	($179,806)	-6%
FY 2001 to FY 2002	$2,795,373	$2,488,094	($307,279)	-11%
FY 2003 to FY 2004	$5,480,758	$2,526,507*	($2,954,251)	-54%
Multiple Years				
FY 1989 to FY 1991	$1,627,935	$668,895	($959,040)	-59%
FY 1995 to FY 1998	$4,131,776	$1,377,354	($2,754,422)	-67%

* Budget estimate, not actual

Retaining the lowest amount of timber revenues in the last 15 years appears to be a very conservative approach, especially given that the lowest revenues occurred primarily 15 to 20 years ago. If the County had followed this approach, the General Fund would be insulated from significant declines in timber revenues a shown in Exhibit 18. However, the County has actually used more timber revenues than the policy dictates for General Fund type of operating costs because additional operating costs are included as part of the Special Projects Fund. In addition, in FY 2004-2005 even more timber revenues will be retained by the General Fund with the added retention of timber revenues for the PERS liability. Keeping the existing policy will mean that the lowest amount of timber revenue will more than double over the next five years in addition to adding to the amount needed for the General Fund PERS liability.

If the County does not want to risk making reductions to its General Fund and recurring Special Projects Fund expenditures supported by timber revenues, the combined total of these expenditures would need, at a minimum, to be less than 45% of the total timber revenues for the budget year. If timber revenues drop significantly in the next budget year as they have in the past, the County would be able to maintain its General Fund and its recurring Special Projects Fund expenditures at the same level. However, there would be little or no timber revenues to support capital or one-time only expenditures in the Special Projects Fund.

Supporting operating costs with an unpredictable revenue source can be risky, especially if a large portion of the revenue is used for such a purpose. To offset these declines in timber revenues for one year, the County might need a reserve equal at least 55% of the prior year's timber revenue. For example in FY 2004-2005, the General Fund portion of the timber revenues equals $668,900 plus the General Fund's PERS liability at $546,800. This totals $1,215,700. If these expenditures represented the only ongoing expenditures, they represented 48% of the previous years estimated timber revenues of $2,526,507. If timber revenues declined by the maximum historical percentage, 55%, the timber revenues for the next year would equal

$1,136,928, leaving a revenue gap of $1,389,579. If the General Fund Stabilization account equaled $1,389,579 (i.e. 55% of the previous year's timber revenues), the County could use it to fund only the General Fund deficit, which would require $78,772 from the reserve or it could spend all the stabilization account by including additional Special Project Fund capital and one-time expenditures at the same level as the previous year.

Another option might be to set a limit on the amount of ongoing operating expenditures regardless of whether they are from the General Fund or the Special Projects Fund. Excluding the PERS liability, the County might also be able to reduce its risk if it limited the amount of ongoing operating costs to at least 50% of the average timber revenues over the last 10 years. Using a 10 year average normalizes the revenue amount given the fluctuations that occur over time with the timber revenues. Over the past 10 years the average is about $2.9 million, which would result in a limit of $1.45 million for operating costs. This average is slightly higher than what the lowest amount of timber revenues would be in the past 15 years for FY 2009-2010. Using a 50% figure is also nearly consistent with the significant historical declines in timber revenues over the past 19 years. If there is a significant decline in an average year, there may be very little effect on the funding for operating costs, but there would be a significant loss of funding for capital projects and one-time expenditures usually supported by the Special Projects Fund.

If the County wants to maintain its ongoing expenditures as well as its capital expenditures, a reserve amount would need to be set at an amount equal to the budgeted year's timber revenues minus $1.45 million for operating expenditures. At a minimum, the County might want to reserve $1.45 million in order to assure that it can have minimum of $2.9 million available assuming that timber revenues never drop below $1.45 million. If the County wants to assure that it can meet at a minimum its PERS liability, the contingency reserve would need to be at least $2.4 million.

Conclusions and Recommendations

The reserve policy for the General Fund is to place at least 10% or a minimum of $1.2 million in the fund's operating contingency. Over the last five years, the amount of fund balance has been declining from a high of 15%, and in FY 2004-2005 the $1,345,900 for the contingency reserve represents about 8.5% of the General Fund appropriations. The GFOA recommends that the unreserved fund balance should be no less than five to fifteen percent of the regular general fund operating revenues or no less than one to two months of regular General Fund operating expenditures. Because of the uncertainty of the timber revenues and as well as other intergovernmental revenues from the state, the County's challenge is to strive for a higher fund balance to assure that a minimum $1.2 million reserve can be maintained even if contingency reserves are needed.

- Increase the unreserved fund balance to 10% of the General Fund appropriations.

The County's other major reserve is its General Fund Stabilization account in the Special Projects Fund. In FY 2003-2004 $1 million was placed in the contingency reserve to be used as the General Fund Stabilization account. In our discussions about the Special Projects Fund, it was noted that reserves could remain part of the fund as a contingency or as unreserved fund balance. The County's challenge will be to not use its contingency reserve in the Special Projects Fund to support Special Project Fund needs and to establish enough reserves to offset significant declines in the timber revenues.

- Identify reserve requirements for other funds besides the General Fund and Special Projects Fund,

- Continue to maintain a General Fund Stabilization account within the Special Projects Fund as a separate contingency amount and/or as part of the fund's unreserved fund balance. The initial purpose of the account is to help offset significant declines in timber revenues, but the reserves should have a broader purpose than just to stabilize timber revenues for the General Fund. The County should also consider whether a broader policy about revenue stabilization beyond timber revenues is needed. In addition, creating a separate Revenue Stabilization Fund is an alternative to annually budgeting contingency amounts and controlling the use of unreserved fund in the Special Projects Fund.

- Initially fund the General Fund Stabilization account from the $1 million contingency reserve in the Special Projects Fund budget. To meet the General Fund's and the Special Projects Fund's reserve needs, additional funding will be needed if the initial Special Projects Fund target is at least $1.45 million. If the Special Projects Fund has more fund balance than estimated because the Special Projects Fund projects spent less than what was budgeted (a very likely occurrence), some of the additional fund balance should be used to increase the funding for the General Fund Stabilization account. The County may also want to establish a policy where, for example, at least 10% of the ending fund balance for the Special Projects Fund is transferred to the General Fund Stabilization account each year until the reserve targets are met.

VII. GENERAL FUND PROFILES OF SURVEYED COUNTIES

As part of the County's effort in developing the long term financial plan and assessing its financial practices, the County wanted to compare itself to other similar Oregon counties. Based on input from the County administration, FCS Group contacted Columbia, Hood River, Lincoln, Tillamook, and Washington Counties to obtain information on various financial practices previously addressed in this plan. Although Washington County is not comparable in size to Clatsop County, the County administration wanted to include it because of its size and its reputation for financial management. Comparisons related to the issues discussed in the previous chapters were incorporated as part of the discussions in the pertinent chapters. This chapter addresses profiles of overall General Fund revenues and expenditures.

Exhibits 19, 20, and 21 compare the General Fund revenue mix and the expenditures by cost category and function. We did not interview staff from the other counties to determine the reasons for differences in revenue and expenditure patterns. Possible reasons for differences include fund structure (i.e. use of other funds instead of using the General Fund), county service priorities, and a county's revenue base. The following summarizes the key comparisons among the counties.

- Clatsop County has the highest proportion of intergovernmental revenues at 47.5%. Tillamook County is the next closest county with a 39.6% share of revenue from intergovernmental sources. Lincoln and Columbia County are slightly above 25%, while Hood River and Washington counties have about 9% from intergovernmental sources.

- Lincoln and Washington counties have the highest proportion of revenue from taxes at 60% and 65%, respectively. Clatsop County at 36.7% is closer to its neighboring counties of Tillamook and Columbia Counties with 40% and 30.5% in taxes.

- Clatsop County has the lowest proportion of revenue from licenses and permits at 1.8%. Columbia and Hood River Counties have the highest proportion of license and permit revenues at 13.6% and 9.6%, respectively.

- For all five of the surveyed counties and Clatsop County, the personnel services cost category represents the largest proportion of General Fund expenditures ranging from a low of 47% in Washington County to a high of 71% in Tillamook County. Materials and supplies is next largest expenditure category.

- Clatsop and Washington Counties have significantly higher proportions of transfer expenditures at 24% and 30%, respectively. The next closest county is Hood River with 11% of the expenditures for transfers, while the other counties show less than 4%.

- All the counties spend the highest proportion of their General Fund on public safety related services. Lincoln, Tillamook, and Columbia counties used over 45% of their expenditures on public safety, while Clatsop, Hood River, and Washington counties spend closer to a third of their expenditures on public safety.

- Clatsop County and Washington County spend a significantly higher proportion of expenditures on non-operating expenses (e.g. transfers to other funds), 32.6% and 36.6%, respectively.

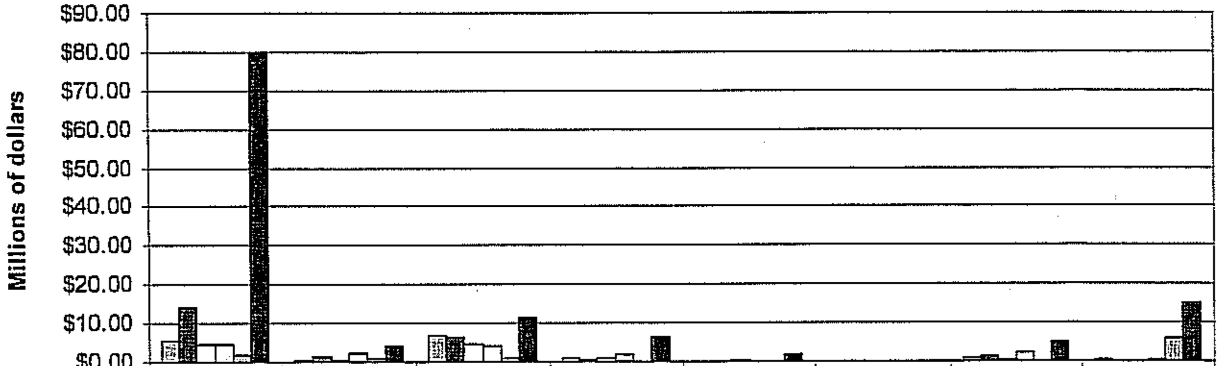
- Hood River is the only county to spend a large proportion of its expenditures, 19.1%, on culture and recreation services.

- Clatsop, Lincoln, and Washington counties spend much less on land use and transportation services (3.6%, 5.1%, and 1.5%) compared to Tillamook, Columbia, and Hood River counties (10.9%, 19%, and 12.1%).

- Clatsop County has one of the lower expenditure rates for health and human services and is in the middle of the counties for its proportion of expenditures for general government direct and indirect services.

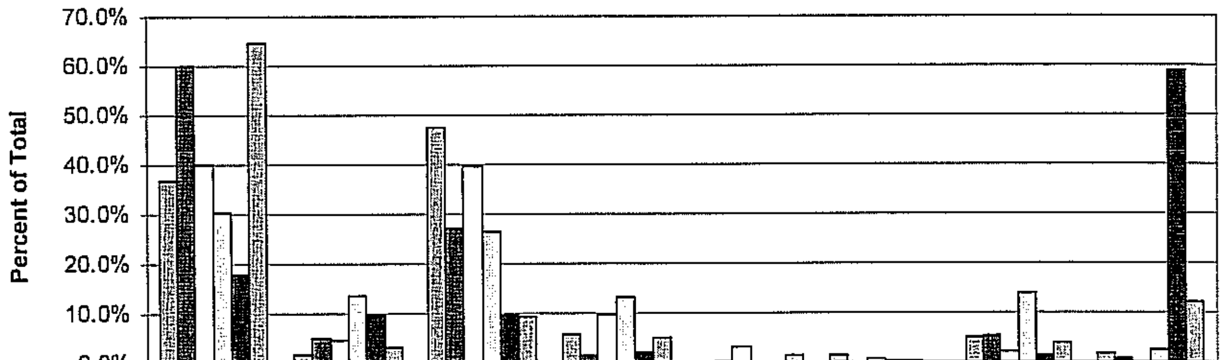
Exhibit 19

FY 2003-2004 General Fund Revenues by Revenue Category



	Taxes	Licenses & Permits	Intergovernmental	Charges for Services	Fines and Forfeitures	Interest	Miscellaneous	Interfund Transfers
Clatsop	$5.26	$0.26	$6.81	$0.82	$0.02	$0.19	$0.71	$0.24
Lincoln	$13.96	$1.19	$6.32	$0.32	$0.05	$0.00	$1.21	$0.16
Tillamook	$4.67	$0.55	$4.63	$1.12	$0.38	$0.10	$0.24	$0.00
Columbia	$4.75	$2.13	$4.13	$2.04	$0.00	$0.03	$2.16	$0.36
Hood River	$1.78	$0.96	$0.94	$0.20	$0.00	$0.05	$0.15	$5.87
Washington	$80.07	$3.89	$11.53	$6.40	$1.68	$0.00	$4.92	$15.22

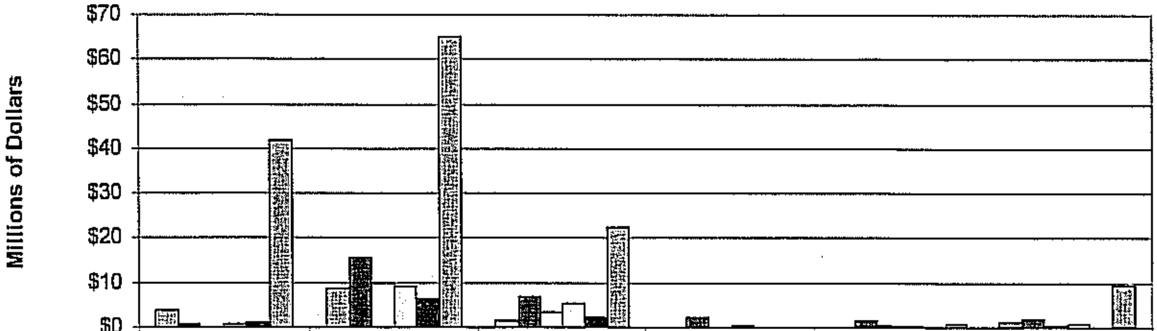
FY 2003-2004 Percentage of General Fund Revenues by Revenue Category



	Taxes	Licenses & Permits	Intergovernmental	Charges for Services	Fines and Forfeitures	Interest	Miscellaneous	Interfund Transfers
Clatsop	36.7%	1.8%	47.5%	5.7%	0.2%	1.3%	5.0%	1.7%
Lincoln	60.1%	5.1%	27.2%	1.4%	0.2%	0.0%	5.2%	0.7%
Tillamook	40.0%	4.7%	39.6%	9.6%	3.2%	0.9%	2.0%	0.0%
Columbia	30.5%	13.6%	26.4%	13.1%	0.0%	0.2%	13.9%	2.3%
Hood River	17.8%	9.6%	9.5%	2.0%	0.0%	0.5%	1.5%	59.0%
Washington	64.7%	3.1%	9.3%	5.2%	1.4%	0.0%	4.0%	12.3%

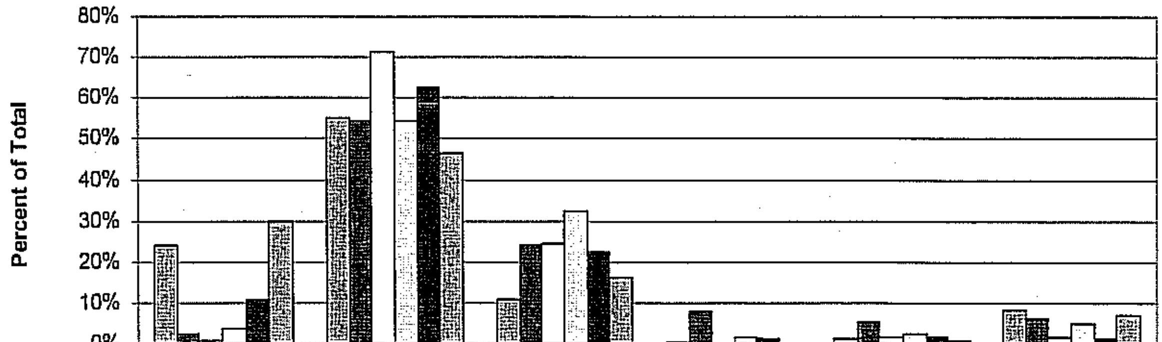
Exhibit 20

FY 2003-2004 General Fund Expenditures by Cost Category



	Transfers	Personnel Services	Materials and Supplies	Other Charges	Captial Outlay	Contingency
Clatsop	$3.81	$8.65	$1.69	$0.08	$0.17	$1.33
Lincoln	$0.70	$15.46	$6.84	$2.22	$1.48	$1.77
Tillamook	$0.13	$9.72	$3.32	$0.00	$0.20	$0.25
Columbia	$0.65	$8.95	$5.32	$0.26	$0.44	$0.81
Hood River	$1.13	$6.50	$2.31	$0.14	$0.17	$0.15
Washington	$41.70	$65.17	$22.62	$0.00	$0.95	$9.63

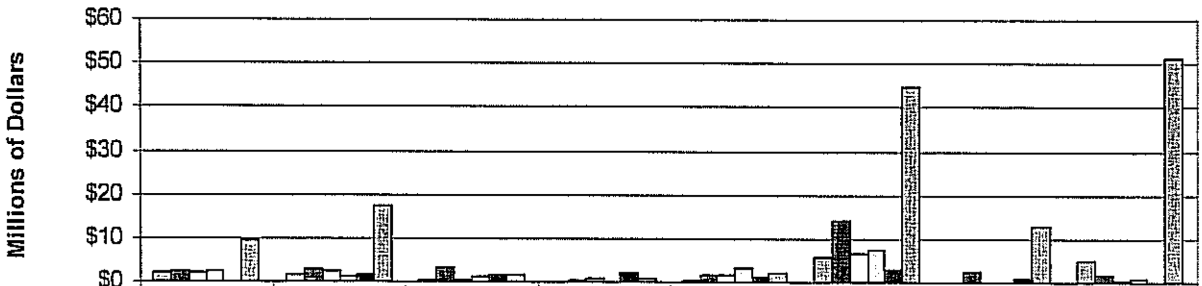
FY 2003-2004 Percentage of General Fund Expenditures by Cost Category



	Transfers	Personnel Services	Materials and Supplies	Other Charges	Captial Outlay	Contingency
Clatsop	24%	55%	11%	1%	1%	8%
Lincoln	2%	54%	24%	8%	5%	6%
Tillamook	1%	71%	24%	0%	2%	2%
Columbia	4%	54%	32%	2%	3%	5%
Hood River	11%	63%	22%	1%	2%	1%
Washington	30%	47%	16%	0%	1%	7%

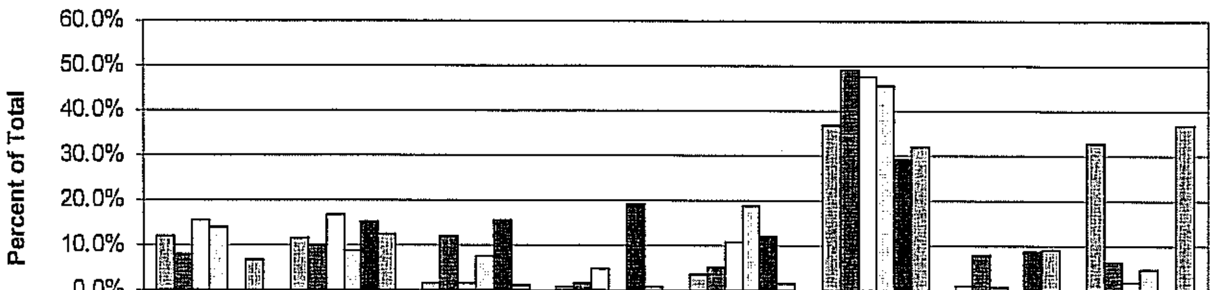
Exhibit 21

FY 2003-2004 General Fund Expenditures by Functional Category



	General Government - Direct	General Government - Overhead/Indi	General Government - Misc.	Culture & Recreation	Land Use & Transportatio n	Public Safety	Health & Human Services	Non-Operating Expenses
Clatsop	$1.87	$1.85	$0.24	$0.10	$0.56	$5.80	$0.18	$5.14
Lincoln	$2.32	$2.82	$3.38	$0.41	$1.45	$14.00	$2.32	$1.77
Tillamook	$2.11	$2.31	$0.21	$0.63	$1.48	$6.51	$0.11	$0.25
Columbia	$2.29	$1.45	$1.25	$0.00	$3.12	$7.49	$0.02	$0.81
Hood River	$0.00	$1.58	$1.61	$1.98	$1.26	$3.05	$0.92	$0.00
Washington	$9.42	$17.29	$1.51	$0.86	$2.06	$44.87	$12.72	$51.34

FY 2003-2004 Percentage of General Fund Expenditures by Functional Category



	General Government - Direct	General Government - Overhead/Indi	General Government - Misc.	Culture & Recreation	Land Use & Transportation	Public Safety	Health & Human Services	Non-Operating Expenses
Clatsop	11.9%	11.7%	1.6%	0.6%	3.6%	36.9%	1.1%	32.6%
Lincoln	8.1%	9.9%	11.9%	1.4%	5.1%	49.2%	8.2%	6.2%
Tillamook	15.5%	17.0%	1.6%	4.6%	10.9%	47.8%	0.8%	1.8%
Columbia	14.0%	8.8%	7.6%	0.0%	19.0%	45.6%	0.1%	5.0%
Hood River	0.0%	15.2%	15.5%	19.1%	12.1%	29.3%	8.8%	0.0%
Washington	6.7%	12.3%	1.1%	0.6%	1.5%	32.0%	9.1%	36.6%

VIII. GENERAL FUND AND SPECIAL PROJECTS FUND FORECASTS

To assess what policies might need to be changed and to understand the future financial challenges that the County may face, five year forecasts from FY 2005-2006 to FY 2009-2010 for the General Fund and the Special Projects Fund were developed. Given the changing economic and state budgeting environment, a longer term forecast does not seem warranted. Although a ten year forecast provides a longer term perspective, the results are also less predictable and reliable in the last five year period. If the County continues to update annually a five year forecast of its revenues and expenditures for the General Fund and Special Projects Fund, the County will be able to better plan for and accommodate changes that it sees in the near future.

The major variable in the five year forecasts is the amount of timber revenue and the amount allocated to the General Fund. The County has established policies for allocating the timber revenues between the General Fund and the Special Projects Fund, and the forecasts are based on existing and alternative allocation policies. Because the timber revenues are somewhat unpredictable and the impacts of the timber revenue can be quite different depending on the amount allocated between the two funds, the five year forecasts are based on two timber revenue allocation scenarios.

- Status Quo/No Change, and
- 50% of the ten year average timber revenue

To develop the forecasts a number of assumptions were made about revenues and expenditures over the next five years. The assumptions include the following:

- Taxes increase at 3% per year, while revenues from licenses and permits and charges for services increase at the consumer price index rate. Intergovernmental and miscellaneous revenues as well as transfers in remain the same throughout the period as proposed in the FY 2004-2005 budget. Interest earned is based on a one year U.S. Treasury bond.

- The timber revenues for the forecasts are based on the FY 2004-2005 budget and the state's estimate of $3,263,176. This estimate is higher than the $2.9 million average for the past ten years.

- Based on the County's policy that the lowest amount of timber revenue within the last 15 years stays with the General Fund, the amounts of timber revenue used for the General Fund in the Status Quo scenario over the next five years are $668,900, $970,000, $1,034,200, $1,273,500, and $1,377,400.

- The amounts allocated to the General Fund based on 50% of the ten year average timber revenue range from $1.4 million in FY 2005-2006 to $1.6 million in FY 2009-2010. This amount does not include the PERS amount.

- All General Fund costs are inflated using Oregon's Office of Economic Analysis consumer price index forecasts for the Portland/Salem area as of June 2004. Transfers to other funds from the General Fund remain constant except for the Special Projects Fund transfers that vary according to the timber revenue scenario.

- The estimated General Fund expenditures for the future assume that no additional services will be added or cut from the budget without a corresponding add or cut as an offset to a change. The increase in the allocation from timber revenues will not be spent on added programs, but will help offset the higher cost of existing services or will help increase the General Fund fund balance.

- For the status quo scenario, future expenditures for the Special Projects Fund represent mostly the ongoing types of expenditures, with a few exceptions. Some of the expenditures are adjusted for inflation, while other costs, such as the PERS liability, occur only in FY 2005-2006 and FY 2006-2007. Also, for FY 2005-2006 and FY 2006-2007, Courthouse restoration costs are included at $500,000 and $1,500,000, respectively. If additional projects were necessary, the ending fund balance would be lower depending on the amount of the additional projects. For those Special Projects Fund costs that should be supported by the General Fund, the costs and corresponding timber revenues are added to the General Fund revenues and expenditures in the Status Quo scenario. Appendix F shows the Special Projects Fund expenditures for the five year forecast and the Special Projects Fund expenditures transferred to the General Fund.

- The PERS liability funded by the timber revenues for the General Fund and the Special Projects Fund has one of the biggest impacts on Special Projects Fund expenditures and the availability and use of timber revenues for other capital and one-time items. The General Fund's share of timber revenues and the amount of its PERS liability are the first priority items met before funds are transferred to the Special Projects Fund.

- The forecasts assume that the budgeted Special Projects Fund expenditures will actually be spent in the year budgeted. As noted previously, the Special Projects Fund expenditures have historically been significantly below what has been budgeted. As result, the fund balances have been increasing and expenditures are often higher than the actual revenue received.

- The General Fund and Special Projects Fund expenditures do not include the contingency budgets. The ending fund balance would include any contingency that is budgeted. Based on the County's current policies, the minimum contingency amount for the General Fund is $1,200,000, while the amount for the Special Projects Fund is $1,000,000.

Status Quo/No Change Scenario

Estimates from the State Forester indicate that the state is expecting that timber harvests and revenues will be stable over the next five years. This scenario assumes that the timber revenues will be the same as estimated for the FY 2004-2005 budget, $3,263,176. With the increasing portion of timber revenues staying with the General Fund, the General Fund is able to increase its fund balance to about $1.9 million, which represents almost 13% of FY 2009-2010 expenditures. The General Fund receives an increasing amount of timber revenues that helps offset overall cost increases, and it also receives enough to cover its share of the PERS liability and the recurring Special Projects Fund expenditures that have been shifted to the General Fund. In contrast, the Special Projects Fund fund balance continues to decline over time and has significant deficits as soon as FY 2006-2007. Even though there is currently a large fund balance, the main reasons for the deficits are that the PERS liability at $1.9 million and other costs are greater than the amount transferred from the General Fund and that in FY 2005-2006 and FY 2006-2007 $2 million is needed to fund the Courthouse restoration. Exhibit 22 shows the forecast for this scenario.

Exhibit 22
Forecasts With No Change in Timber Revenue Policy

General Fund	FY 2004-2005 Budget	FY 2005-2006 Forecast	FY 2006-2007 Forecast	FY 2007-2008 Forecast	FY 2008-2009 Forecast	FY 2009-2010 Forecast
Total Revenues	$ 14,350,300	$ 13,977,830	$ 14,170,912	$ 14,373,449	$ 14,586,021	$ 14,807,792
Total Expenditures	14,467,700	14,149,112	14,091,275	14,287,273	14,338,071	14,543,608
Surplus/(Deficit)	(117,400)	(171,282)	79,637	86,176	247,951	264,184
Beginning Fund Balance	$ 1,463,300	$ 1,345,900	$ 1,174,618	$ 1,254,255	$ 1,340,431	$ 1,588,382
Ending Fund Balance	$ 1,345,900	$ 1,174,618	$ 1,254,255	$ 1,340,431	$ 1,588,382	$ 1,852,567

Special Projects Fund	FY 2004-2005 Budget	FY 2005-2006 Forecast	FY 2006-2007 Forecast	FY 2007-2008 Forecast	FY 2008-2009 Forecast	FY 2009-2010 Forecast
Revenue	$ 40,000	$ 31,154	$ -	$ -	$ -	$ -
Transfer from General Fund	2,553,200	1,258,138	941,896	861,500	604,143	480,982
Total Revenues	2,593,200	1,289,292	941,896	861,500	604,143	480,982
Total Expenditures	5,837,200	2,615,666	2,733,154	1,251,860	1,272,715	1,294,960
Surplus/(Deficit)	(3,244,000)	(1,326,374)	(1,791,258)	(390,359)	(668,571)	(813,978)
Beginning Fund Balance	$ 5,427,800	$ 2,183,800	$ 857,426	$ (933,832)	$ (1,324,191)	$ (1,992,763)
Ending Fund Balance	$ 2,183,800	$ 857,426	$ (933,832)	$ (1,324,191)	$ (1,992,763)	$ (2,806,740)

50% of the Ten Year Average Timber Revenue

As noted in the Chapter VI, the timber revenues fluctuate quite a bit, and historically when there has been a significant decline in revenues, the decrease from one year to another was between 45% and 55%. To calculate the amount of revenue that should remain in the General Fund, this scenario uses 50% of the average timber revenue for ten years compared to the Status Quo scenario that uses the lowest annual amount of timber revenue in the past 15 years. Because there is additional revenue in the earlier years compared to the Status Quo scenario, additional timber revenue is not allocated for the recurring Special Projects Fund expenditures that are shifted to the General Fund. Exhibit 23 shows the results. Although the General Fund has positive fund balances over the five forecast years, the $32,361 in FY 2009-2010 is significantly below the minimum $1.2 million policy amount. In contrast, the Special Projects Fund will still have deficits and negative fund balances again, but the deficit is much smaller than in the Status Quo scenario because the timber revenues allocated to the Special Projects Fund do not change with the transfer of the recurring expenditures to the General Fund.

Exhibit 23
Forecasts With a 50% General Fund Allocation of the 10 year Timber Revenue Average

General Fund	FY 2004-2005 Budget	FY 2005-2006 Forecast	FY 2006-2007 Forecast	FY 2007-2008 Forecast	FY 2008-2009 Forecast	FY 2009-2010 Forecast
Total Revenues	$ 14,350,300	$ 13,977,552	$ 14,167,307	$ 14,363,077	$ 14,566,452	$ 14,776,621
Total Expenditures	14,467,700	14,175,956	14,385,373	14,639,721	14,853,585	15,109,912
Surplus/(Deficit)	(117,400)	(198,404)	(218,067)	(276,644)	(287,133)	(333,291)
Beginning Fund Balance	$ 1,463,300	$ 1,345,900	$ 1,147,496	$ 929,429	$ 652,785	$ 365,652
Ending Fund Balance	$ 1,345,900	$ 1,147,496	$ 929,429	$ 652,785	$ 365,652	$ 32,361
Special Projects Fund	**FY 2004-2005 Budget**	**FY 2005-2006 Forecast**	**FY 2006-2007 Forecast**	**FY 2007-2008 Forecast**	**FY 2008-2009 Forecast**	**FY 2009-2010 Forecast**
Revenue	$ 40,000	$ 31,432	$ 2,815	$ -	$ -	$ -
Transfer from General Fund	2,553,200	1,284,982	1,235,995	1,213,948	1,119,657	1,047,286
Total Revenues	2,593,200	1,316,414	1,238,810	1,213,948	1,119,657	1,047,286
Total Expenditures	5,837,200	2,615,666	2,733,154	1,251,860	1,272,715	1,294,960
Surplus/(Deficit)	(3,244,000)	(1,299,252)	(1,494,345)	(37,911)	(153,057)	(247,674)
Beginning Fund Balance	$ 5,427,800	$ 2,183,800	$ 884,548	$ (609,796)	$ (647,707)	$ (800,765)
Ending Fund Balance	$ 2,183,800	$ 884,548	$ (609,796)	$ (647,707)	$ (800,765)	$ (1,048,438)

To keep the General Fund fund balance at or above the $1.2 million level, the County could allocate additional timber revenues to the General Fund to offset some of the cost of the recurring expenditures from the Special Projects Fund. If the Special Projects Fund keeps only $500,000 of timber revenue associated with the recurring expenditures and the General Fund receives the remaining amount, the General Fund will be able to exceed the minimum fund balance of $1.2 million and will have a fund balance of $1.5 million by FY 2009-2010. The Special Projects Fund, however, will have a $2.5 million deficit by FY 2009-2010, which is slightly less than the Status Quo scenario. Exhibit 24 shows the results of this change.

Exhibit 24
Forecasts With Partial Transfer of Timber Revenues to General Fund For Recurring Expenditures From the Special Projects Fund

General Fund	FY 2004-2005 Budget	FY 2005-2006 Forecast	FY 2006-2007 Forecast	FY 2007-2008 Forecast	FY 2008-2009 Forecast	FY 2009-2010 Forecast
Total Revenues	$ 14,350,300	$ 13,980,133	$ 14,175,259	$ 14,376,836	$ 14,586,492	$ 14,803,459
Total Expenditures	14,467,700	13,926,618	14,120,894	14,359,045	14,554,852	14,791,918
Surplus/(Deficit)	(117,400)	53,515	54,365	17,791	31,640	11,541
Beginning Fund Balance	$ 1,463,300	$ 1,345,900	$ 1,399,415	$ 1,453,780	$ 1,471,570	$ 1,503,211
Ending Fund Balance	$ 1,345,900	$ 1,399,415	$ 1,453,780	$ 1,471,570	$ 1,503,211	$ 1,514,752

Special Projects Fund	FY 2004-2005 Budget	FY 2005-2006 Forecast	FY 2006-2007 Forecast	FY 2007-2008 Forecast	FY 2008-2009 Forecast	FY 2009-2010 Forecast
Revenue	$ 40,000	$ 28,851	$ -	$ -	$ -	$ -
Transfer from General Fund	2,553,200	1,035,644	971,515	933,273	820,925	729,293
Total Revenues	2,593,200	1,064,496	971,515	933,273	820,925	729,293
Total Expenditures	5,837,200	2,615,666	2,733,154	1,251,860	1,272,715	1,294,960
Surplus/(Deficit)	(3,244,000)	(1,551,170)	(1,761,639)	(318,587)	(451,790)	(565,667)
Beginning Fund Balance	$ 5,427,800	$ 2,183,800	$ 632,630	$ (1,129,009)	$ (1,447,596)	$ (1,899,386)
Ending Fund Balance	$ 2,183,800	$ 632,630	$ (1,129,009)	$ (1,447,596)	$ (1,899,386)	$ (2,465,053)

Forecast Conclusions

Under the current timber revenue policy and if timber revenues remain the same as in FY 2004-2005, the General Fund appears to be able to maintain a higher fund balance at $1.8 million in FY 2009-2010 compared to the minimum of $1.2 million. This also assumes that timber revenues associated with recurring Special Projects Fund expenditures are transferred to the General Fund along with the expenditures.

The forecast, however, for the Special Projects Fund is quite different. With recurring expenditures, the PERS liability, and a Courthouse restoration, the Special Projects Fund will probably not have sufficient timber revenues available from the General Fund to support all the projects that it has funded in the past. Under the Status Quo scenario, the Special Projects Fund could have fund balance deficits as soon as FY 2006-2007. The Special Projects Fund will not be able to exist after a couple of years unless new revenues are found for projects, a major increase occurs in timber revenues, and/or significant expenditure reductions take place. In addition, with no Special Projects Fund fund balance available, the County would not be able to continue a General Fund Revenue Stabilization account within the Special Projects Fund. As noted in Chapter V on the Special Projects Fund, there are a number of policy and financial management issues concerning how and what projects are funded and how projects are managed and implemented.

If the County adopts the recommended change in calculating the amount of timber revenues that should be allocated to the General Fund and does not adjust General Fund timber revenues for the recurring Special Projects Fund expenditures, the General Fund will still continue to have a positive fund balance at $32,361 in FY 2009-2010, but will not meet its minimum fund balance target of $1.2 million. Although the General Fund fund balance declines, the fund balance deficit for the Special Projects Fund is reduced by almost $1.8 million compared to the Status Quo scenario. If the General Fund receives an amount of timber revenue equal to the transferred recurring Special Projects Fund expenditures minus $500,000, the General Fund will be able to generate a fund balance of $1.5 million. The Special Projects Fund, however, will then have a higher deficit fund balance at $2.5 million.