BEFORE THE METRO COUNCIL

FOR THE PURPOSE OF FORMALIZING BUDGET ASSUMPTION GUIDELINES FOR DEPARTMENTAL USE IN PREPARING THE FISCAL YEAR 2006-07 BUDGET AND DIRECTING THE CHIEF OPERATING OFFICER TO ADVISE COUNCIL OF ANY SUBSTANTIVE CHANGES IN THE ASSUMPTIONS PRIOR TO THE SUBMISSION OF THE PROPOSED BUDGET TO COUNCIL FOR PUBLIC REVIEW	RESOLUTION NO 05-3629 Introduced by Michael Jordan, Chief Operating Office with the concurrence of the Council President

WHEREAS, The Metro Council has deliberated upon the global budget assumptions shown in Exhibit A to better understand the factors that are used in creating Metro departmental and agency assumptions; discuss questions, issues, or concerns related to these proposed assumptions; determine areas where a change in assumptions may be desirable; and determine areas where Council has little or no discretion in changing assumptions; and

WHEREAS, The Metro Council has agreed upon the need for this set of assumptions to be used by departments in the preparation of the Fiscal Year 2006-07 budget; and

WHEREAS, The Metro Council wishes to formalize these assumptions as guidelines prior to the dissemination of the Budget Preparation Manual; now therefore

BE IT RESOLVED that the Metro Council approves and formalizes the budget assumptions as guidelines for departmental use in preparing the Fiscal Year 2006-07 budget, and directs the Chief Operating Officer to advise the Council of any substantive changes in these assumptions prior to the submission of the budget to Council for public review.

ADOPTED by the Metro Council this 27th day of October, 2005

David Bragdon, Council President

GODKÄND APPROVED METRO COUNCIL HUVUDSTADSRÅD METRO COUNCIL

APROVED AS TO FORM:

Daniel B. Cooper, Metro Attorney

EXHIBIT A
Resolution 05-3629
SUMMARY OF FINANCIAL ASSUMPTIONS FOR FY 2006-07 BUDGET

	FY 2006-07 Assumption	FY 2006-07 Cost Estimate
Salary Adjustments:		
✓ Elected Officials	0% increase	$0
✓ Cost of Living Adjustment – ***Represented Only***	2.5% COLA	$520,010
✓ Other Salary Adjustments		
o AFSCME	3.0% pool	$426,260
o Non-Represented (Metro & Unclassified)	6.0% pool	$635,893
o Non-Represented (MERC)	6.0% pool	$303,441
o All Other Groups (i.e. LIU 483, AFSCME 3580-1, etc.)	0.0% pool	$0
Fringe Benefits:		
✓ FICA	7.65% of salaries/wages with exceptions for Elected Officials	$3,360,306
✓ TriMet Payroll Tax	0.6218% of salaries/wages	$274,966
✓ Worker Comp Tax	$0.017 per hour worked	$19,990
✓ Long Term Disability	0.55% of eligible salaries/wages	$243,218
✓ Life Insurance	$0.15 per $1,000 of annual salary (to a maximum of $50,000) per month	$50,744
✓ Accidental Death Insurance	$0.03 per $1,000 of annual salary (to a maximum of $50,000) per month	$10,151
✓ Dependent Life Insurance	$0.35 per employee per month	$2,699
✓ Employee Assistance Program	$1.78 per employee per month	$13,870
✓ TriMet Passport Program	Regular Employees Only Metro Regional Center - $189/emp. Oregon Zoo - $164/emp. Solid Waste Offsite - $46/emp. (average) Regional Parks Offsite Facilities - $20/emp	$82,021
✓ Health & Welfare Program	$727.12 per employee per month	$5,693,963

EXHIBIT A
Resolution 05-3629
SUMMARY OF FINANCIAL ASSUMPTIONS FOR FY 2006-07 BUDGET

	FY 2006-07 Assumption	FY 2006-07 Estimate
General Revenue Estimates:		
✓ Interest Rate	3.75% of cash balances	Varies
✓ Excise Tax Forecast		
o Base solid waste excise tax	2.5% above FY 2005-06 base	$6,497,209
o All other facilities	2.5% above FY 2005-06	$2,715,251
o $2.50 per ton to Parks	2.5% above FY 2005-06 rate - $2.614/ton for FY 2006-07	$3,489,690
o $0.50 per ton to Tourism Account	2.5% above FY 2005-06 rate - $0.523/ton for FY 2006-07	$698,205
Other Global Assumptions:		
✓ Excise Tax Allocations		
o Base allocations	2.5% increase over FY 2005-06 allocations (Planning & Parks)	$5,45,169
o Per ton allocations	As calculated above. Assume full allocation	$3,187,895
o VDI Compliance	FY 2005-06 last year of agreement.	$0
✓ Inflation factor for other costs	2.5% where no other factors exist	Varies
✓ Contingency	4% of operating expenses with variances based on volatility of activity	Varies
✓ Special Appropriations		
o Elections Expenses	General elections for Council President, Auditor, and three Council seats plus one regional election	$300,000
o Contribution to RACC	Contribute same amount as in current year	$25,000
o Water Consortium Dues	Provide for inflation over 5-year period	$15,750
o Sponsorships	Same as current year budget	$35,000
o Public Notifications	$50,000 funded from carryover from current year	$150,000
o External Financial Audit Contract	Same as current year. Cost to be allocated.	$115,000
✓ Central Service Transfers/Overhead Rates	Central service estimates to be provided in the budget manual based on a preliminary run of the FY 2006-07 cost allocation plan as described above.	TBD

EXHIBIT A
Resolution 05-3629
SUMMARY OF FINANCIAL ASSUMPTIONS FOR FY 2006-07 BUDGET

Estimated Fringe Rates for FY 2006-07	
Variable Rates:	
✓ Regular Employees – with 6% PERS pick-up	32.30% of eligible salary/wages
✓ Regular Employees – without 6% PERS pick-up	26.30% of eligible salary/wages
✓ Non-benefit eligible salary/wages	8.30% of eligible salary/wages
Fixed Rates:	
✓ Regular Employees – Metro Regional Center	$9,082 Per eligible FTE
✓ Regular Employees – Oregon Zoo	$9,057 Per eligible FTE
✓ Regular Employees – Solid Waste Offsite	$8,939 Per eligible FTE
✓ Regular Employees – Regional Parks Offsite	$8,913 Per eligible FTE
✓ Regular Employees – MERC	$8,893 Per eligible FTE
✓ Non-benefit eligible salary/wages	$35.50 per estimated FTE

STAFF REPORT

IN CONSIDERATION OF RESOLUTION NO. 05-3629 FOR THE PURPOSE OF FORMALIZING BUDGET ASSUMPTION GUIDELINES FOR DEPARTMENTAL USE IN PREPARING THE FISCALYEAR 2006-07 BUDGET, AND DIRECTING THE CHIEF OPERATING OFFICER TO ADVISE COUNCIL OF ANY SUBSTANTIVE CHANGES IN THE ASSUMPTIONS PRIOR TO THE SUBMISSION OF THE PROPOSED BUDGET TO COUNCIL FOR PUBLIC REVIEW

Date: October 11, 2005 Prepared by: Kathy Rutkowski

BACKGROUND

At the October 11, 2005 Council work session, Financial Planning staff presented for discussion a series of financial assumptions to guide the development of the FY 2006-07 budget. The assumptions included estimates for salary adjustments for various employee groups, fringe benefit costs such as health & welfare and PERS, and a variety of general revenue or global assumptions such as excise tax forecast and allocations for FY 2006-07 and elections expense. A copy of the report is included as Attachment 1. Staff will follow up with any additional requested information at the Council work session on October 25, 2005.

This resolution is presented for approval at the October 27, 2005 Council meeting. Assumptions included in this resolution will be incorporated in the budget manual guidelines to be distributed to departments in early November. Departments are to begin budget development in November.

ANALYSIS/INFORMATION

1. **Known Opposition:** None known.

2. **Legal Antecedents:** None.

3. **Anticipated Effects:** Approval of this resolution will formalize the assumptions to be used in the FY 2006-07 budget. It provides that any significant changes to these assumptions will be brought back to Council prior to submission of the Proposed Budget.

4. **Budget Impacts:** The estimated cost impact of each assumption has been calculated where appropriate, and is shown in Exhibit A to the Resolution, Summary of Financial Assumptions.

RECOMMENDED ACTION

The Chief Operating Officer recommends approval of Resolution No. 05-3629.

FINANCIAL ASSUMPTIONS FOR FY 2006-07 BUDGET

Presentation to Council
Council Work Session October 11, 2005
Prepared by: Kathy Rutkowski

Assumptions are inherent in any financial planning process. They provide the numerical basis for the development of the annual budget. This report will outline and discuss the various global financial assumptions to be used in the development of the FY 2006-07 budget. It will be divided into four main categories: Salary Base and Adjustments, Fringe Benefits, General Revenue Estimates, and Other Global Assumptions. Each main category will include multiple assumptions. Significant assumptions (such as health & welfare, PERS, and excise tax) will be discussed individually, while other assumptions will be discussed as a group. Included in the report will be an estimate of the cost to Metro if the Council accepts the proposed assumption. The analysis includes all departments and facilities of Metro, including MERC, as well as all salary/wage costs including temporary, seasonal, MERC part-time event-related staff, and overtime/holiday pay.

A resolution will be submitted to Council that will formalize the financial assumptions to be used by departments in the preparation of their FY 2006-07 budget. It will also direct the Chief Operating Officer to advise the Council of any substantive changes in the assumptions prior to submission of the proposed budget to the Council for public review.

A. Salary Base and Adjustments

The analysis used the FY 2005-06 adopted budget salaries, wages, and FTE as the base for all FY 2006-07 cost estimates. Budgeted salaries and wages were adjusted to reflect a COLA award of 3.2 percent for represented employees and 1.6 percent for non-represented employees as well as estimated average step/merit awards. The analysis is broken down by department, and employee representation status or group (such as non-represented, AFSCME, LIU 483, etc.). This presentation will focus on costs by employee representation status or group.

Each employee group has its own pay plan and scale; however, certain generalities can be made. All collective bargaining agreements, except Metro AFSCME, have pay plans with limited steps. In all cases, employees in these other collective bargaining agreements reach the top step within one year. Metro AFSCME's pay plan includes seven steps with five percent increments between each step. An employee steps through the plan with annual increases on the anniversary of the date of hire into the position. Elected Officials' salaries are tied to the District Court Judge salary that is adjusted by the State Legislature. Non-represented employees, both Metro and MERC, are paid within a salary range with increases based on a merit pay program. For purposes of this analysis all unclassified employees of the Council and Metro Auditor's Office are treated the same as non-represented employees.

For discussion of the analysis all employees have been grouped into one of five categories: (1) elected officials, (2) Metro non-represented/unclassified, (3) MERC non-represented, (4) Metro AFSCME, or (5) all other employee groups. The salary base and proposed assumption for FY 2006-07 will be discussed separately for each group.

1) *Elected Officials*

The elected officials include the salaries for the Council President, Auditor, and six Councilors. The salaries are tied to the District Court Judge salary. Adjustments are allowed only through legislative action. No actions were taken during the legislative session that would change salaries for the elected officials.

Proposed assumption: 0% increase for FY 2006-07

2) *Non-Represented (Metro only), Unclassified*

During FY 2005-06, Metro introduced the first complete cycle of the new Merit Pay Program for non-represented staff in conjunction with the Metro-wide Performance Evaluation Program for all regular employees. In the new Merit Pay Program, non-represented employees do not receive COLAs or other general increases unrelated to performance. Employees are eligible for a salary adjustment based on two factors: their individual performance ratings and their current positions in the pay range (quartile). This approach is known as a merit matrix. Merit increases are made on a common review date (March 1) for the entire agency, but because FY 2006-07 is the second year of a two-year phased implementation of the common review date, some employees will receive their merit increases retroactive halfway from March 1 to their individual review dates. Unclassified employees, those who report directly to elected officials, are not subject to the new Merit Pay Program, but Human Resources believes that budgetary estimates for non-represented staff will be applicable to unclassified staff.

In conjunction with this process, the Chief Operating Officer has the discretion, to “trend” the salary ranges for non-represented classifications to move them forward along with movement in the labor market. This adjustment is applied only to the salary ranges—employees do not receive a corresponding general increase to their salaries. If the adjustment to the structure results in any non-represented employee falling below the salary range minimum, that employee will need to receive a base pay increase to the new minimum of the range.

Additionally, throughout the course of the Fiscal Year, non-represented employees may receive increases if they are promoted or reclassified. Some non-represented employees are eligible for increases upon the completion of their probationary periods. Departments are responsible to fund these increases from their operating budgets, which “hit” the funds they have allocated for non-represented merit increases. Where departments have budgeted funds to fill a vacancy, and then fill the vacancy at a higher rate than they have budgeted, that additional cost also “hits” the funds designated for the merit pay program.

In FY 2005-06, Metro began implementation of its new Performance Evaluation Program, which involved an improved Merit Pay Program for non-represented employees. In FY 2006-07, non-represented employees will no longer receive COLAs or other general, across-the-board increases, although the salary schedule itself will be trended forward to keep pace with the movement in the labor market. Human Resources estimates that 4.4 percent of non-represented employee salaries will be necessary for the Merit Pay Program, considering both the predicted labor market movement and the distribution of employees within salary range quartiles. Metro will have additional costs to funds budgeted for non-represented salary increases: promotions, reclassifications, new hires above the budgeted rate, and because FY 2006-07 is the second and final year of Metro’s phased implementation of a common review date, merit awards will be made retroactively for more than half of non-represented staff. Human Resources estimates that 1.6 percent of non-represented salaries will be necessary to meet these other costs.

Proposed assumption: 6.0% of salaries/wages for adjustment pool

3) MERC Non-Represented

MERC salary adjustments are based on the pay-for-performance system in effect at MERC. Salary assumptions for MERC non-represented pay-for-performance increases are determined by MERC staff with approval by the MERC Commission. MERC is currently using a 6 percent estimate for non-represented increases for FY 2006-07, however, this amount may be modified by staff or the MERC Commission as MERC proceeds through its budget review process.

Proposed assumption: 6.0% of salaries/wages for adjustment pool

4) Metro AFSCME

AFSCME 3580 is currently in the second year of a three-year agreement that expires June 30, 2007. The bargaining agreement provides for an annual cost of living adjustment and compensation based on a seven-step pay plan. The cost of living award is tied to the Portland-Salem CPI-U, all items, determined annually using the 2nd half indicator usually available in February. For budgeting purposes, the Human Resources Director and Labor Relations Manager recommend using a 10-year average of the Portland-Salem CPI-U, all items. The 10-year average of that indicator is currently 2.5 percent.

In addition to the cost of living award AFSCME employees are eligible for 5 percent annual merit step increases until the employee reaches step 7 in the merit step pay plan. A full 66 percent of AFSCME member employees will be at Step 7 on June 30, 2006. Only one-third of the employee base will be due a 5 percent merit step increase during FY 2006-07. As such, the full 5 percent merit step increase need not be budgeted for every AFSCME member employee. Also, Metro reclassifies or promotes approximately 10 percent of the employees in represented work groups per year. Reclassified and promoted employees typically receive a 5 percent increase in base salary. To provide for annual merit step increases and potential reclasses and promotions, we recommend a salary adjustment pool, in addition to the cost of living adjustment, of 3 percent of salaries and wages.

Proposed assumption: COLA – 2.5% for FY 2006-07
Step Increase – 3.0% of salaries/wages for adjustment pool

5) All Other Employee Groups

All other employee groups, such as LIU local 483, IUOE local 701 and local 701-1, AFSCME local 3580-1 (MERC Utility Workers), IATSE local B-20 and local 28, and MERC non-represented part-time positions, have limited pay scales. In all cases, employees reach the top of the scale in one year. Thereafter, salary adjustments are based on annual cost of living adjustments. The financial assumptions for the budget usually assume that all employees in these groups have reached the top step, however, there is flexibility for departments to provide for the limited step increases for certain employees if needed. The only assumption provided for these groups is the annual cost of living adjustment awarded to each employee. It is recommended the same CPI factor be used for these groups as proposed for Metro AFSCME.

Proposed assumption: COLA – 2.5% for FY 2006-07

Summary of Salary Base and Adjustment Assumptions:

	Assumption	Estimated Base Salary	Estimated FY 2006-07 Cost
Elected Officials	0.00%	$364,038	$0
Cost of Living			
Represented	2.50%	$20,800,590	$520,010
Non-Represented/Unclassified	0.00%	$15,655,486	$0
Other Salary Adjustment Pools:			
AFSCME	3.0% pool	$14,208,734	$426,260
Metro Non-Represented	6.0% pool	$9,813,517	$588,810
MERC Non-Represented	6.0% pool	$5,057,274	$303,441
Unclassified	6.0% pool	$784,695	$47,083
Total			**$1,885,604**

B. Fringe Benefits

Fringe benefits include all costs coded to the Fringe Benefit line item in personal services. They include items such as health & welfare (medical, dental, vision insurance), PERS, and life insurance, as well as required payroll taxes such as FICA, TriMet payroll tax, and worker comp tax. Discussion of these costs will be divided into three categories: (1) Required or Miscellaneous Benefits, (2) Health & Welfare, and (3) PERS.

1) Required or Miscellaneous Benefits

Metro pays three required payroll taxes – FICA, TriMet payroll tax, and worker compensation tax. In addition, Metro provides for six miscellaneous benefits – long term disability insurance, life insurance, accidental death insurance, dependent care insurance, employee assistance program, and TriMet Passport program. This analysis uses the current existing rates for all benefits and makes no assumption for an increase in FY 2006-07. The following table summarizes the proposed assumption for each benefit and estimates the cost to Metro for FY 2006-07.

Summary of Required and Miscellaneous Benefits:

Benefit	Proposed Rate Assumptions	Estimated FY 2006-07 Cost
FICA	7.65% of salaries/wages with exceptions for Elected Officials	$3,360,306
TriMet Payroll Tax	0.6218% of salaries/wages	$274,966
Worker Comp Tax	$0.017 per hour worked	$19,990
Total Required Benefits		**$3,655,262**

Benefit	Proposed Rate Assumptions	Estimated FY 2006-07 Cost
Long Term Disability	0.55% of eligible salaries/wages	$243,218
Life Insurance	$0.15 per $1,000 of annual salary (to a maximum of $50,000) per month	$50,744
Accidental Death Insurance	$0.03 per $1,000 of annual salary (to a maximum of $50,000) per month	$10,151
Dependent Life Insurance	$0.35 per employee per month	$2,699
Employee Assistance Program	$1.78 per employee per month	$13,870
TriMet Passport Program	Regular Employees Only Metro Regional Center - $189/emp Oregon Zoo - $164/emp Solid Waste Offsite - $46/emp (average) Regional Parks Offsite - $20/emp	$82,021
Total Miscellaneous Benefits		**$402,703**

2) Health & Welfare (medical, dental, vision)

Currently, Metro's cap on health & welfare for FY 2005-06 as set by the Chief Operating Officer for non-represented employees and various bargaining agreements is $692.50 per employee per month. AFSCME, Metro's largest collective bargaining unit, is currently in the second year of a three-year agreement that will expire June 30, 2007. Collective bargaining agreements for LIU local 483, the second largest collective bargaining and three smaller units at MERC, expire at the end of the current fiscal year. All four will be in negotiations in the spring. The AFSCME agreement sets a health & welfare cap of $727.12 (a 5 percent increase over FY 2005-06) for FY 2006-07. We recommend using the agreed upon cap in the AFSCME local 3580 bargaining agreement as the basis for Metro's health & welfare costs for all employees

The following table shows the cost estimate by major employee group of the proposed assumption as well as the estimated cost for each 1 percent increase in the cap over $727.12 and each $10 increase in the cap.

Proposed assumption: $727.12 per employee per month

	Estimated Cost @ $727.12 cap	**Estimated Cost of each 1% increase in Cap**	**Estimated Cost of Each $10 Increase in Cap**
Elected Officials	$69,803	$664	$960
Non-Represented	$2,016,399	$19,191	$27,732
Represented	$3,607,761	$34,335	$49,618
Total	**$5,693,963**	**$54,190**	**$78,310**

3) PERS – Public Employee Retirement System

Metro's employer PERS rate after bonding the unfunded actuarial liability is 7.76 percent. When combined with the 6 percent employee pick-up provided to all employees except LIU Local 483 (member employees received an offsetting salary increase) Metro's total effective PERS rate is 13.76 percent.

In addition, departments are assessed a rate equivalent to the amount needed to pay debt service. This is called the PERS bond recovery rate. This amount is determined by dividing the annual debt service requirements by the estimate for PERS eligible salary base. For FY 2006-07, the PERS bond recovery rate is 3.1 percent.

Finally, for a period of three years at Council's direction, departments have been setting aside 6.65 percent of PERS eligible salary into a reserve. The amount set aside is equivalent to the decrease received in the employer rate as a result of the 2003 legislative actions. Although challenges to these actions may still be proceeding through federal courts, the Oregon Supreme Court has now ruled on challenges related to both the 2003 legislative actions and the "Lipscomb decision." The impact of these rulings on Metro's PERS rate and unfunded liability is not yet known.

In the past, the Council has stated a desire to maintain a conservative approach regarding PERS, and has opted to retain the 6.65 percent reserve contribution. Until PERS revises the actuarial studies based on the Oregon Supreme Court decisions it is very difficult to forecast where PERS rates will be in the future and the potential impact on our unfunded liability. Metro received a $51.6 million credit to the unfunded liability as a result of the 2003 legislative reforms. We know that at least two of the significant reforms were overturned by the Supreme Court. The PERS Reserve accumulates approximately $2.5 million per year and is estimated to be approximately $7.5 million by the end of FY 2005-06. The supplemental budget recently adopted by Council provides the flexibility for Metro to make an additional lump sum contribution of up to $7.5 million to PERS this fiscal year should the Council choose to do so. Should the Council wish to retain the historical conservative approach to PERS, we would not recommend allocating the PERS savings related to the legislative actions to other program costs and recommend retaining the 6.65 percent reserve until the final impacts are known.

In summary, the proposed recommendation includes four parts – the existing employee rate, the existing employer rate, the existing bond recovery rate, and the recommended optional PERS reserve. The following table summarizes the estimated costs for FY 2006-07 for each rate:

	Rate	Estimated FY 2006-07 Cost
Required - Employee Pick-up/Contribution	6.00%	$2,095,385
Required - Current Employer Contribution	7.76%	$3,003,564
Required - PERS Bond Recovery Rate	3.10%	$1,199,877
Optional - PERS Reserve	6.65%	$2,573,930
TOTAL	**23.51%**	**$8,872,756**

C. General Revenue Estimates

There are two areas for assumptions that impact General Revenue Estimates – interest rate assumption and excise tax forecast. Each will be discussed separately.

1) *Interest Rate*

Oregon law (and Metro's investment policy) generally limits investments to no longer than 18-months in maturity. The action the Federal Open Market Committee (FOMC) takes with the Fed funds rate directly affects the market yield of short-term investments so it is useful to look to the FOMC when forecasting interest rates. At the FOMC's September 20, 2005 meeting the Fed funds rate was increased for the 11th straight time to a new level of 3.75 percent. This tightening of the Fed funds rate came as no surprise, even though it was unprecedented to have the Fed increase rates after a natural disaster (Hurricane Katrina). In its statement, the Fed recognized that "...spending, production, and employment will be set back in the near-term." But the Fed did not see the dislocation caused by the hurricane to be a "persistent threat." However, the Fed did recognize inflation as being a more long-lasting concern when it said "...higher energy and other costs have the potential to add to inflation pressures." Many market watchers feel the Fed signaled its intent to raise rates again in November 2005. However, for the first time in the 15-month tightening cycle, many feel the Fed may end its round of rate hikes at 4.00 percent. Using an analysis of the Treasury Yield Curve, Metro's Investment Manager estimates an average interest yield of 3.75 percent for FY 2006-07.

Proposed assumption: 3.75% for FY 2006-07

2) *Excise Tax Forecast*

The discussion of the excise tax will be divided into four parts – solid waste generated base excise tax, all other facility generated base excise tax, solid waste per ton excise tax dedicated to Regional Parks, and solid waste per ton excise tax dedicated to the Tourism Opportunity and Competitiveness Account.

a. Solid Waste Generated Excise Tax – Metro code sections 7.01.020 – 7.01.028 guide the calculation and budgeting of the excise tax generated from solid waste tonnage. The code provides for a base level of excise tax increased annually by a CPI factor. The base level of excise tax generated from solid waste tonnage is the amount that is available in the General Fund for general revenue purposes. Any amount collected over and above this amount is placed in a reserve in the General Fund and is accessible only by specific Council action. The CPI indicator stated in the code is the Portland-Salem CPI-U for the first half of the federal report year (January – June). The CPI indicator available in August of 2005 is used to determine the allowable increase in solid waste generated base excise tax for FY 2006-07. The following is a historical summary of the solid waste base excise tax calculations with the CPI indicator and base excise tax amount for FY 2006-07.

	CPI	Base General Amount	Increase from Previous Year
FY 2000-01	---	$5,700,000	---
FY 2001-02	3.3%	$5,888,100	$188,100
FY 2002-03 [1]	2.7%	$6,050,000	$161,900
FY 2003-04	1.3%	$6,128,650	$78,650
FY 2004-05	1.4%	$6,214,451	$85,801
FY 2005-06	2.0%	$6,338,740	$210,090
FY 2006-07	2.5%	$6,497,209	$282,758

[1] $5,888,100 + 2.7% increase = $6,047,079. A revision to the excise tax ordinance set a new base rate in FY 2002-03.

b. All Other Facility General Excise Tax – The excise tax on all other facilities is set by Metro Code section 7.01.020(a). The rate is currently 7.5 percent of all eligible enterprise revenues. We have no firm forecasts of revenue for FY 2006-07 as of yet and departments will not be updating their five-year forecasts until later in the budget process. Until further information is known, we recommend using a CPI factor for increase in excise tax generated by all other facilities.

The following table compares excise tax generated by facility.

Facility	FY 2004-05 Actual Revenue	FY 2005-06 Budgeted Revenue	FY 2006-07 Estimated Revenue	Change from FY 2005-06
Zoo	$978,285	$1,028,663	$1,054,380	$25,717
Planning	14,973	12,682	$12,999	317
Regional Parks	176,396	197,310	$202,243	4,933
Expo Center	425,423	417,455	$427,891	10,436
Building Management	42,758	39,513	$40,501	988
Convention Center	1,143,272	953,402	$977,237	23,835
Misc. Other Funds	3,080	0	0	0
Base Excise Tax Estimate	**$2,784,187**	**$2,649,025**	**$2,715,251**	**$66,226**

c. Per ton excise tax dedicated to Regional Parks – During the FY 2004-05 budget process the Council took two actions that affected the per ton excise tax dedicated to Regional Parks – (1) elimination of the sunset clause on the existing $1.00 per ton dedication, and (2) dedication of an additional $1.50 per ton to assist in the development of four open space sites to public facilities, and to provide for renewal, replacement, and maintenance of existing facilities and lands. Effective September 1, 2004, the original per ton dedication was rolled back to $1.00 (CPI adjustment were eliminated) and added to the new $1.50 per ton dedication, for a total per ton dedication of $2.50. The same CPI inflator is applied to the $2.50 per ton as to the base solid waste excise tax. The following is a historical summary of the per ton excise tax dedicated to Regional Parks with the CPI indicator and estimated excise tax amount for FY 2006-07.

			PER TON RATE TO PARKS		
	Actual/ Estimated Tons	CPI	$1.00 per ton for Parks thru Aug. 31, 2004	$2.50 per ton for Parks eff. Sept 1, 2004	Estimate to be earned on $2.50 per ton to Parks
FY 2002-03	1,210,246	----	$ 1.000	$ -	$ 1,210,246
FY 2003-04	1,248,179	1.3%	$ 1.013	$ -	$ 1,264,405
FY 2004-05 (1)	1,315,106	1.4%	$ 1.027	$ 2.500	$ 2,942,106
FY 2005-06	1,247,466	2.0%	$ -	$ 2.550	$ 3,181,038
FY 2006-07	1,335,000	2.5%	$ -	$ 2.614	$ 3,489,690

(1) Excise tax rates per ton changed mid-year FY 2004-05. Actual tonnage for period 7/1/04 through 8/31/04 = 234,663. Actual tonnage for period 9/1/04 through 6/30/04 = 1,080,443

d. Tourism Opportunity and Competitiveness Account – Also in FY 2004-05, the Council adopted legislation than enacted a $0.50 per ton excise tax levy dedicated to the Tourism Opportunity and Competitiveness Account. This levy is also increased annually based on the Portland-Salem CPI-U for the first half of the federal report year (January – June). The following table summarizes the per ton excise tax dedicated to this Account with the CPI indicator and the estimated excise tax amount for FY 2006-07.

			PER TON RATE TO OCC	
	Actual/ Estimated Tons	CPI	$0.50 per ton to Oregon Tourism	Estimate to be earned on $0.50 per ton
FY 2004-05 (1)	1,080,443	-----	$ 0.500	$ 540,222
FY 2005-06	1,247,466	2.0%	$ 0.510	$ 636,208
FY 2006-07	1,335,000	2.5%	$ 0.523	$ 698,205

(1) Excise tax rates per ton changed mid-year FY 2004-05. Actual tonnage above reflects the period 9/1/04 through 6/30/04. Total actual annual tonnage = 1,315,106

Summary – Excise Tax Forecast

In summary, while overall excise tax from all sources is estimated to increase 4.6 percent from current year budget, the largest share of that increase, approximately $370,000 or 9.7 percent, is dedicated to Regional Parks or the Oregon Convention Center in the form of the dedicated per ton levies. Base excise tax available is estimated to increase approximately $225,000 or 2.5 percent.

	FY 2004-05 Actual Receipts	FY 2005-06 Adopted Budget	FY 2006-07 Estimate	Change	Percent Change
Base Solid Waste	6,214,451	6,338,740	6,497,209	158,469	2.5%
All Other Facilities	2,784,187	2,649,025	2,715,251	66,226	2.5%
Base Excise Tax Available	***$8,998,638***	***$8,987,765***	***$9,212,460***	***$224,695***	***2.5%***
Contribution to Rec. Rate Stab. Reserve (1)	***$1,097,367***	***$0***	***$0***	***$0***	***0.0%***
$2.50 per ton to Parks	***$2,942,106***	***$3,181,038***	***$3,489,690***	***$308,652***	***9.7%***
$0.50 per ton to OCC	***$540,222***	***$636,208***	***$698,205***	***$61,997***	***9.7%***
Total Excise Tax All Sources	**$13,578,333**	**$12,805,011**	**$13,400,355**	**$595,344**	**4.6%**

(1) At the end of FY 2004-05 the Council, through resolution 05-3580, moved $1.250 million from the General Fund Recovery Rate Stabilization Reserve to a reserve in the General Fund for Nature in Neighborhood, leaving an estimated balance in the Recovery Rate Stabilization Reserve of approximately $83,000.

D. Other Global Assumptions

1) Excise Tax Allocations to Operating Departments

Along with a forecast of the excise tax revenue to the General Fund, the Budget Manual provides initial operating amounts for those departments dependent on excise tax. Historically, the proposed excise tax allocations have been based on the previous years' allocations. This year, the budget process will follow two simultaneous paths. While the Council is engaged in discussions about program priorities during November and December, departments will be preparing initial budget estimates for submittal to the Council President in January. For departments to prepare initial budget estimates, those dependent on excise tax need a base starting point for revenue. We propose to follow historical precedent and provide a preliminary estimate based on current year adjusted by the inflationary factor of 2.5 percent. Excise tax allocations along with budget proposals will be reviewed and possibly modified following Council priority direction.

The Council has also made two "per ton" dedications of excise tax - $2.50 to Regional Parks and $0.50 to the Oregon Convention Center for the Metro Tourism Opportunity & Competitiveness Account. As indicated above, the amount of the per ton dedication increases each year based on CPI. The allocation will also increase based on the estimate of tonnage. The recommendation, based on implementation of Metro Code, is to assume allocation of the full estimated amount.

Finally, for several years, the Council has also provided an additional allocation to the Oregon Convention Center to comply with the VDI agreement on support costs. FY 2005-06 is the last year of the current agreement. At this time, there has been no direction to continue this support and the assumption is that the allocation will stop at the end of the current fiscal year.

Proposed assumption: Base allocations – Current year plus 2.5% inflation
Per ton allocations – Based on CPI & tonnage forecast
VDI Support to MERC – None. FY 2005-06 last year

Summary of Proposed Allocation:

Allocation	Amount
Planning Fund (general allocation)	$3,946,684
Regional Parks Fund (general allocation)	$498,544
Regional Parks Fund (landbanking)	$241,519
Regional Parks Fund (1% on SW)	$763,422
Regional Parks Fund ($2.50 per ton)	$3,489,690
MERC Operating Fund (Tourism Account)	$698,205
MERC - OCC VDI Compliance	$0

2) Inflation Factor for Other Costs

Most expenditures are tied to one or more factors either stated in this report or required by external sources. For example, most contracts or intergovernmental agreements have stated rates or provide for increases based on some CPI factor. Utility expenses are based on experience plus estimates of rates or rate increases from the utility provider. In those cases, however, in which there is no external basis for an increase the department is allowed to apply a basic inflation factor. The inflation factor is usually tied closely to the Portland-Salem CPI-U. This CPI indicator is currently at 2.5 percent for the first half of 2005. We recommend tying the inflation factor for other costs to the same estimate used for cost of living adjustments. That factor uses a 10-year average of the Portland-Salem CPI-U all items annual average.

Proposed assumption: 2.5% for FY 2006-07

3) Contingency

Each operating fund will provide for a contingency for unexpected needs that may arise throughout the year. By law, the Council may only transfer from contingency a cumulative amount not to exceed 15 percent of a fund's appropriations. Any amount exceeding the 15 percent threshold would require a supplemental budget with TSCC public hearing. The Budget Manual provides a general guideline for departments to follow but allows flexibility for each department to budget for a contingency that is more suited to its particular needs. For example, the Planning Fund may not need a large contingency: it is largely grant funded and there are exceptions provided in budget law for the recognition of additional grant funds. However, enterprise operations such as Solid Waste and Recycling that are sensitive to factors outside of their control may wish to budget for higher contingency levels. Contingency levels are evaluated on a case-by-case basis.

Proposed assumption: 4% of operating expenses as a general guideline with variances based on volatility of activity.

4) Special Appropriations in the General Fund

a. *Elections Expenses*: The FY 2006-07 budget will include elections costs for the November 2006 general elections for the Auditor, the Council President and three Council seats. In addition, the Council has proposed a November 2006 timeframe for a regional ballot measure related to natural area protection. In May 2002, the last time these same elected positions were up on the ballot, the total cost was approximately $174,000. However, subsequent to that election, Multnomah County recognized that it was not including in the allocation of elections costs the cost of printing the ballots. This is an allowable cost to allocate under state law and is now included in the County's elections bills. Had this error been recognized prior to the May 2002 primary election Metro's total elections expense would have been about $277,000. Recognizing that election costs have been trending higher, we would recommend a budget of $300,000 in elections expense for FY 2006-07. This represents an annual 2 percent cost of inflation.

Proposed assumption: $300,000 for November elections for the Auditor, Council President and three Council seats plus one regional ballot measure.

b. *Contribution to RACC:* For the last three fiscal years, the budget has included a $25,000 contribution to RACC. It is assumed that this contribution will continue into FY 2006-07 at the same level of funding.

Proposed assumption: $25,000 contribution to RACC

c. *Water Consortium Dues:* Between FY 2001-02 through FY 2004-05, the General Fund budget included $15,000 for Water Consortium dues. In FY 2005-06, this amount was increased by 5 percent to recognize inflation. The average actual cost for these dues over the last three years has been $15,728. It is assumed these dues will continue and recommend that the budget include the same amount as provided in FY 2005-06

Proposed assumption: $15,750 for Water Consortium Dues

d. *Sponsorships:* During the FY 2005-06 budget discussions, the Council approved two amendments related to sponsorships. The first provided $10,000 for Metro sponsorship of Rail Volution. The second, added an additional $25,000 to establish a sponsorship account and, through a budget note, directed the Chief Operating Officer to develop criteria and policies to guide the awarding of sponsorships. The amendment that established the sponsorship account identified potential recipients such as Rail Volution, the Bridge Pedal and Oregon Nature Step. These two actions have been combined into one recommendation for FY 2006-07. It is assumed that the sponsorship funds in the current budget will be awarded this year, and that the Council desires to fund this sponsorship account annually. It is recommended the budget include the same amount as in FY 2005-06.

Proposed assumption: $35,000 for Sponsorships

e. *Public Notifications*: For several years, the Special Appropriations category has included an amount to provide for legal notices required under ballot measure 56. As part of the FY 2003-04 budget, the purpose of this funding was expanded to include notifications required under ballot measure 26-29 and any other notification required by approved ballot measure or Metro Code. Historically, each year's budget has included a new appropriation of $75,000. Any amount not believed to be needed in that year was carried over to the next year. The FY 2005-06 budget includes $75,000 of new appropriation for notifications plus $75,000 carried forward from the previous year. Preliminary discussions with Public Affairs staff indicate an estimated need of around $150,000 for FY 2006-07 of which $50,000 will be funded with carry over from FY 2005-06. This estimate will be refined as the budget process proceeds and program needs and timelines are refined.

Proposed assumption: $150,000 for legal notifications ($50,000 carry over; $100,000 new appropriation)

f. <u>*External Financial Audit Contract:*</u> The FY 2005-06 budget transferred the external financial audit contract from the Metro Auditor's budget to a Special Appropriation category in the General Fund. The Metro Auditor remains as project manager of the contract. In addition to transferring the existing funds from the Metro Auditor's budget the Council increased the amount budgeted by $20,000, to a total of $114,095. It is recommended that the FY 2006-07 include approximately this same amount, and that this amount continue to be funded by allocations to departments through the cost allocation plan.

Proposed assumption: $115,000 for External Financial Audit Contract

5) Central Service Transfers/Overhead Rates

The cost allocation plan is the tool that calculates central service transfers and overhead rates for each department. Each year the cost allocation plan is updated with new allocation basis data and budgeted costs. As a result, there are two variables that can cause changes in any one department's central service allocations – (1) a change in service level usage or benefit as defined by the allocation basis, and (2) a change in the budgeted cost for that central service function.

Traditionally, the Budget Manual has provided overhead rates that are based on the current year cost allocation plan. These rates do not take into consideration the changes in service level usage by the departments. Changes in usage or benefit levels of service can result in significant shifts in costs between departments. In order to eliminate as many of the variables as possible between Budget Manual estimates and actual costs, Financial Planning now prepares a preliminary version of the cost allocation plan with updated service level usage/benefit data and forecasted costs for status quo service levels using the financial assumptions included in this report and approved by the Council. At this time, we anticipate running the preliminary cost allocation plan for FY 2005-06 around the late November-early December time frame.

Proposed assumption: Central service estimates to be provided later based on a preliminary run of the FY 2006-07 cost allocation plan as described above.