METRO COUNCIL

Work Session Worksheet

Presentation Date: November 5, 2008 Time: 10:00 am - noon Length: 2 hours

Presentation Title: FY 2009-10 Budget Planning Session

Department: Office of the Chief Operating Officer

Presenters: Budget Officer Michael Jordan, COO with Finance Team and Strategy Team

ISSUE & BACKGROUND

This session will be divided into two parts:

Part I: Tactical

The tactical session will include presentation and discussion of key budget assumptions necessary to begin preparation of the FY 2009-10 budget.

1. Key Budget Assumptions (material attached)
   Background information about key budget assumptions provides an overview of the budget basics, revenue and expenditures. We will use meeting time to discuss and determine consensus on a limited number of the key assumptions including labor costs, PERS, PERS reserves and excise tax.

2. Tonnage Update
   The current decline in tonnage, while anticipated for FY 2008-09, now appears deeper than originally forecast. This has implications for both the Solid Waste system and the collection of per-ton General Fund excise tax in the current year and for FY 2009-10.

3. Early look at Quarter 1 (full report will be made on November 25)
   In addition to the tonnage report, we will bring forward any concerns from the initial review of the first quarter financial reports.

4. Commitments for FY 2009-10
   Council's three year spending plan for the General Fund reserves will enter its third and final year in FY 2009-10. We will provide a brief status report on the elements of the plan.

5. FY 2009-10: Appropriating the “Legal Budget” by Fund and Organizational Unit
   The structure of the FY 2009-10 budget will change as we move to full implementation of the Sustainable Metro Initiative (SMI). A single operating unit such as Parks and Environmental Services will now manage its budgeted resources across multiple funds, creating the need for increased monitoring to avoid possible Oregon budget law exceptions.

Part II: Strategic

The second hour will include a discussion about the strategic direction of the FY 2009-10 budget, lead by the Budget Officer and the Strategy Center. See separate material.

FINANCIAL ASSUMPTIONS FOR FY 2009-10 BUDGET
Presentation to Council
Council Work Session November 5, 2008
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 2009-10 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. <u>Salary Base and Adjustments</u>

The analysis used the FY 2008-09 adopted base budget salaries, wages, and FTE as the base for all FY 2009-10 cost estimates. Budgeted salaries and wages were adjusted to reflect the results of the Sustainable Metro Initiative and the recently completed non-represented classification and compensation study as well as the actual COLA award for represented employees and estimated average step/merit awards for all employees. The analysis is broken down by department (as they existed at the time of the adopted budget) and employee representation status or group (such as non-represented, AFSCME, LIUNA 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 MERC collective bargaining agreements have pay plans with limited steps. MERC's 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 date of completing his/her 6-month probationary period. An AFSCME employee takes 6.5 years to matriculate to the top step of the pay plan. LIUNA's pay plan includes four steps with average eight percent increments between each step. An employee steps through the plan with annual increases of approximately eight percent on the anniversary date of completing his/her 6-month probationary period. It takes 2.5 year for a LIUNA employee to matriculate to the top step of the pay plan. Elected Officials' salaries are tied to the District Court Judge salary that is adjusted by the Oregon 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 six categories: (1) elected officials, (2) Metro non-represented/unclassified, (3) MERC non-represented, (4) Metro AFSCME, (5) LIUNA 483, or (6) MERC represented groups. The salary base and proposed assumption(s) for FY 2009-10 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 by Metro Charter to the Circuit Court Judge salary. Adjustments are allowed only through legislative action. The Public Official Compensation Commission (POCC) has proposed a series of recommendations regarding public official salaries. The Commission's final recommendations are due by the end of October and will be included in the Governor's budget. A legislative act is required to adopt the recommendations. The POCC recommends an increase in the Circuit Court Judge salary from $114,468 to $132,000. We recommend Metro's budget follow the recommendations of the POCC. The issue will be monitored throughout the legislative process. Adjustments to this recommendation based on legislative act will be made to the budget as needed.

Recommendation: Budget salary increases according to recommendations of the POCC

Metro Elected Officials	Current	POCC Rec.	Increase
Council President	$114,468	$132,000	$17,532
Councilor	$37,774	$43,560	$5,786
Auditor	$91,574	$105,600	$14,026

2) Non-Represented (Metro only), Unclassified

In the Performance Evaluation Process, 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 rating and their current position 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. 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 correspondent 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.

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 for funding these increases from their operating budgets.

Following discussions with the Human Resources Director and Senior Management, the Chief Operating Officer recommends a merit pool of 5.0 percent of non-represented employee salaries, effective March 1, 2010. There will also be additional costs for non-represented salaries related to promotions, reclassifications, new hires above the budgeted rate, and costs associated with bringing employees to the minimum pay rate once the salary ranges are trended based on the cost of labor. A pool equivalent to 1.75 percent of non-represented salaries will be necessary to meet these other salary adjustment needs.

Recommendation: 5.00% of salaries for merit pool (effective March 1st)
1.75% of salaries for other salary adjustments

3) MERC Non-Represented

MERC non-represented salary adjustments are made on a performance based merit system very similar to Metro's performance evaluation process. Employees receive salary adjustments based on two factors: their individual performance rating and their current position in the pay range (quartile). Merit increases are made on a common review date of July 1st for all of MERC. The merit pool is determined by MERC management with approval by the MERC Commission. MERC is currently using a 6.0 percent estimate for non-represented increases for FY 2009-10, however, this amount may be modified by staff or the MERC Commission as MERC proceeds through its budget review process.

In addition, MERC has implemented a new Targeted Achievement Program or TAP. TAP permits the General Manager to recommend to the MERC Commission organizational goals that become the basis for results-based lump sum incentive awards for eligible staff based on the organization's performance and ability to pay. The incentive award is established annually for eligible non-represented staff. Subject to Commission approval the TAP awards are recommended at $1,160 per eligible full-time employee and $530 per eligible part-time employee. The total award program for FY 2009-10 is estimated at $142,500.

Recommendation: 6.00% of salaries for merit pool (effective July 1st)
$1,160 / $530 per eligible employee for TAP

4) Metro AFSCME

The current AFSCME 3580 collective bargaining agreement is effective through June 30, 2011. It provides for compensation based on a seven-step pay plan and annual salary adjustments for cost of living. 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 of each year. For FY 2009-10 the minimum COLA award will be 1.5 percent and the maximum COLA award is set at 2.95 percent. The first half 2007 Portland-Salem CPI-U was 3.85 percent. The Portland-Salem indicator is only issued on a six-month basis. An analysis of the first half of the calendar year shows that all other CPI indicators have been well above three percent. We recommend we budget the maximum COLA allowed under the existing bargaining agreement.

In addition to the cost of living award AFSCME employees are eligible for 5 percent annual step increases on anniversary date until the employee reaches step 7 in the pay plan. Currently, it is estimated that 52 percent of the AFSCME employee base will be at step 7 by June 30, 2009. In addition, the step increase is awarded on each employee's anniversary date. Since anniversary dates vary throughout the year it is not necessary to budget for a full 5 percent increase of all salaries. Analysis of anniversary dates indicates that approximately 55 percent fall within the first six months. Given these two indicators a pool of 1.5% of all AFSCME salaries/wages will be sufficient to provide for step increases for eligible employees.

Finally, throughout the course of the fiscal year, AFSCME employees may receive increases if they are promoted or reclassified. Departments are responsible for funding these other increases from their operating budgets. 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 must also be funded from a department's operating budget. Human Resources estimates that 1.0 percent of AFSCME salaries/wages will be sufficient to meet these other costs.

Recommendation: 2.95% for COLA
1.50% of salaries/wages for step increases
1.00% of salaries/wages for other salary adjustments

5) LIUNA Local 483

The current LIUNA local 483 collective bargaining agreement is effective through June 30, 2010. LIUNA's pay plan includes four steps with average eight percent increments between each step. An employee steps through the plan with annual increases of approximately eight percent on the anniversary date of completing his/her 6-month probationary period. In all cases, employees reach the top of the scale in 2.5 years. Thereafter, salary adjustments are based on annual cost of living adjustments. Since over 90 percent of the employees in this group have reached the top step, the financial assumptions for the budget usually assume that all employees in this group have reached the top step. However, there is flexibility for departments to provide for the limited step increases for certain employees if needed. In addition to an annual COLA, employees in this group are also eligible for a merit bonus based on performance.

An annual cost of living adjustment is awarded to each employee. The award is tied to the average of the 1st half and 2nd half Portland-Salem CPI-U All Items. The minimum award for FY 2009-10 is 1.5 percent and the maximum award is 3.25 percent. The 1st half CPI-U for 2008 was 3.85 percent. The 2nd half 2008 CPI-U would need to be below 2.75 percent before the average would dip much below the maximum award allowed in the collective bargaining agreement. Based on a review of receive CPI indicators it is prudent to budget for the maximum allowed under the agreement

The agreement with LIUNA also contains a pay-for-performance component based on an employee's performance evaluation from the prior year. Those employees who score in the top two tiers of the rating scale are eligible for a $1,000 or $750 lump sum bonus. This amount is payable on March 1, 2010. Human Resources estimates that approximately 45 of the 85 employees will be eligible to for a bonus with approximately 15 percent of those eligible receiving the $1,000 bonus and 85 percent receiving the $750 bonus. Departments are responsible to fund these increases from the department's operating budget. It is estimated that 0.80 percent of LIUNA 483 salaries/wages will be sufficient to meet the merit pool needs of this group.

Finally, the existing collective bargaining agreement calls for a classification and compensation study to be performed for all classifications under the agreement. The Human Resource department has begun the study during FY 2008-09 with implementation anticipated for FY 2009-10. As part of the study, salary ranges may be adjusted possibly resulting in adjustments to employee salary. The department has recommended a pool equivalent to 1.5 percent of eligible LIUNA 483 salaries/wages to implement the study results.

Recommendation: 3.25% for COLA
0.80% of salaries/wages for merit award
1.50% of salaries/wages for class/comp study

6) All Other MERC Groups

All other employee groups, such as 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. Of the six collective bargaining agreements representing MERC employees, three expire in the current fiscal year. Two of the remaining agreements have a maximum COLA provision of 4 percent while the third has a maximum COLA provision of 3 percent. Pending final approval by the MERC General Manager and Commission, staff is recommending that MERC use an average 4.0 percent for cost of living.

Recommendation: 4.0% for COLA

***Summary of Salary Base and Adjustment Assumptions*:**

	Assumption	Estimated Beginning Salary Base	Estimated FY 2009-10 Cost (salary only)
Elected Officials	per POCC	437,718	67,058
Cost of Living			
AFSCME	2.95%	17,393,402	513,104
LIU 483	3.25%	4,413,904	143,452
MERC Represented	4.00%	3,543,519	141,739
Pay for Performance Merit			
Metro Non-Rep (effective March 1st) *	5.00%	14,614,325	244,060
MERC Non-Rep (effective July 1st)	6.00%	6,606,010	396,361
LIU 483	0.80%	4,413,904	35,311
Other Salary Adjustment Pools:			
AFSCME - Step adjustment	1.50%	17,393,402	260,899
AFSCME - Other salary adjust.	1.00%	17,393,402	173,940
Metro Non-Represented/Unclassified	1.75%	14,614,325	255,747
LIU 483 Class & Comp Study	1.50%	13,038,704	66,208
MERC Non-Represented TAP	per FTE	5,778,508	142,500
Total			**$2,440,379**

* NOTE: The budget impact is split between fiscal years. One-third of the salary increase impacts FY 2009-10. The remaining two-thirds salary cost (approximately $488,120) impacts FY 2010-11.

B. <u>Fringe Benefits</u>

Fringe benefits include all costs coded to the Fringe Benefit line item in personal services. They include items such as health and welfare (medical, dental, vision insurance), PERS, and life insurance, as well as required payroll taxes (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. There were minor changes from the FY 2008-09 assumptions in the TriMet payroll tax rate and the annual fee for the TriMet passport program as summarized below. In addition, starting in FY 2008-09 elected officials are now fully covered under social security. For all other benefits this analysis uses the current existing rates and makes no assumption for an increase in FY 2009-10. The following table summarizes the proposed assumption for each benefit and estimates the cost to Metro for FY 2009-10.

- The 2003 Oregon Legislature provided TriMet with the authority to increase the payroll rate 1/100 of a percent annually for 10 years to help pay for new transit service throughout the region. The rate will increase to 0.6718% effective January 1, 2009 and to 0.6818% effective January 1, 2010. The analysis assumes the January 1, 2010 rate for the analysis.
- The annual TriMet passport program rates have changed. With the new contract effective September 1st, the Metro Regional Center rate is $243 and the Oregon Zoo rate is $236. Previous analysis assumed $211 for Metro Regional Center and $247 for the Oregon Zoo.

Summary of Required and Miscellaneous Benefits:

Benefit	Rate Assumptions	Estimated FY 2009-10 Cost
FICA (including elected officials)	7.65% of salaries/wages	4,368,994
TriMet Payroll Tax	0.6818% of salaries/wages	389,394
Worker Comp Tax	$0.014 per hour worked	21,857
Total Required Benefits		**$4,780,245**

Benefit	Rate Assumptions	Estimated FY 2009-10 Cost
Long Term Disability	0.55% of eligible salaries/wages	271,984
Life Insurance	$0.14 per $1,000 of annual salary (to a maximum of $50,000) per month	63,162
Accidental Death Insurance	$0.03 per $1,000 of annual salary (to a maximum of $50,000) per month	13,540
Dependent Life Insurance	$0.35 per employee per month	3,089
Employee Assistance Program	$1.78 per employee per month	15,979
TriMet Passport Program	Regular Employees Only Metro Regional Center - $243/emp Oregon Zoo - $236/emp Parks Offsite (average) - $130/emp Solid Waste Offsite - $35/emp	124,966
Total Miscellaneous Benefits		**$492,720**

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

Currently, Metro's cap on health & welfare for FY 2008-09 as set by the Chief Operating Officer for non-represented employees and various bargaining agreements is $839 per employee per month. The agreement with AFSCME provides for a 10 percent increase in the amount paid by Metro, to $923 per employee per month. In addition, any increase in premiums above 10 percent would be shared equally by Metro and the employee. All other collective bargaining agreements have "look to" provisions in their contract. If Metro chooses to implement a cap for another group at a higher level the higher cap will be applied equally to all groups.

Historically, Metro has used the same cap for all employees for budget purposes. It is recommended that we maintain this practice and assume a cap of $923 per employee per month. If in June 2009 actual costs are higher than 10 percent and must be shared by Metro, an analysis will be done of the fiscal impact on the budget. Funding recommendations will be developed at that time.

The following table estimates the costs by major employee group of:

- The proposed health & welfare cap assumption of $923.00 per employee per month
- Each 1% increase in the proposed cap (i.e. from a 10% increase to a 11% increase; or from $923 per month to $931 per month)
- Each $10 increase in the proposed cap

	Estimated Cost @ $923 cap	Estimated Cost of each 1% increase in Cap	Estimated Cost of Each $10 Increase in Cap
Elected Officials	88,608	806	960
Non-Represented	3,059,746	27,852	33,150
Represented	5,180,579	47,110	56,128
Total	**$8,328,933**	**$75,768**	**$90,238**

Recommendation: $923.00 per employee per month

3) PERS – Public Employee Retirement System

The Present through June 30, 2009

Through June 30, 2009, Metro's employer PERS rate is 5.17 percent for Tier 1 and 2 employees, and 7.63 percent for OPSRP employees. Based on a Metro employee census, the blended average Metro PERS employer rate is approximately 6.0 percent. When combined with the 6 percent employee pick-up provided to all employees except LIUNA Local 483 (member employees received an offsetting salary increase) Metro's total PERS rate is 12.0 percent.

In addition, adopted budget personal services assumptions include a rate to collect from departments the amount needed to pay debt service on the outstanding pension obligation bonds. Finance and Administrative Services collects this assessment from departments based on payroll expenditures throughout the year. This is called the PERS bond recovery rate. This rate is determined by dividing the annual debt service requirements by the estimate for PERS eligible salary base. For FY 2008-09, the PERS bond recovery rate is 3.2 percent.

The Future effective July 1, 2009

PERS recently completed its biennial actuarial system valuation based on data through December 31, 2007. Based on strong investment returns through December 31, 2007, the PERS Board approved a reduction to Metro's employer contribution rates. The new rates are 2.49 percent for Tier 1 and Tier 2 employees, and 3.16 percent for OPSRP employees. Using an updated employee census, the blended average Metro employer rate is approximately 3 percent. When combined with the 6 percent employee pick-up provided to all employees except LIUNA Local 483, Metro's total PERS rate beginning July 1, 2009 is 9.0 percent, a 3 percent decrease.

However, the rates do not consider calendar year 2008 investment returns. While PERS' actuary reported the PERS system remains healthy, they urged caution for the future due to declining economic conditions. At the date of the study, calendar year investment returns through June 30, 2008 were -5.17 percent. The actuary cautioned that if returns remained at this level for the full year, the system funded percentage would decline, and employer contribution rates could increase by as much as 5 percent on July 1, 2011, the date of the next PERS employer rate change. Further deteriorating economic conditions could result in an even greater employer rate increase in 2011.

Given the current economic conditions and the likelihood that a short-term PERS employer rate reduction in 2009 will be followed by a greater PERS employer rate increase in 2011, we recommend Metro re-establish contributions to the PERS Reserve of 3 percent beginning July 1, 2009. The fiscal impact of this recommendation on Metro department payrolls is neutral, as departments would continue to pay the 12 percent they currently pay, with 3 percent going to the PERS Reserve. The PERS Reserve would remain an internal Metro reserve within each of the appropriate funds (i.e. General Fund, Solid Waste Fund, MERC Fund).

The table below compares the current rates with the recommended rates and indicates the estimated cost for FY 2009-10 of the rate recommendations.

	FY 2008-09		FY 2009-10	
	Rate	**Estimated Cost**	**Rate**	**Estimated Cost**
Required - Employee Pick-up/Contribution	6.00%	2,518,144	6.00%	2,687,410
Required - Employer Contribution	6.00%	2,782,979	3.00%	1,483,465
Required - PERS Bond Recovery Rate	3.20%	1,484,253	3.20%	1,582,349
Option - PERS Reserve	0.00%	0	3.00%	1,483,465
TOTAL	**15.20%**	**$6,785,376**	**15.20%**	**$7,236,689**

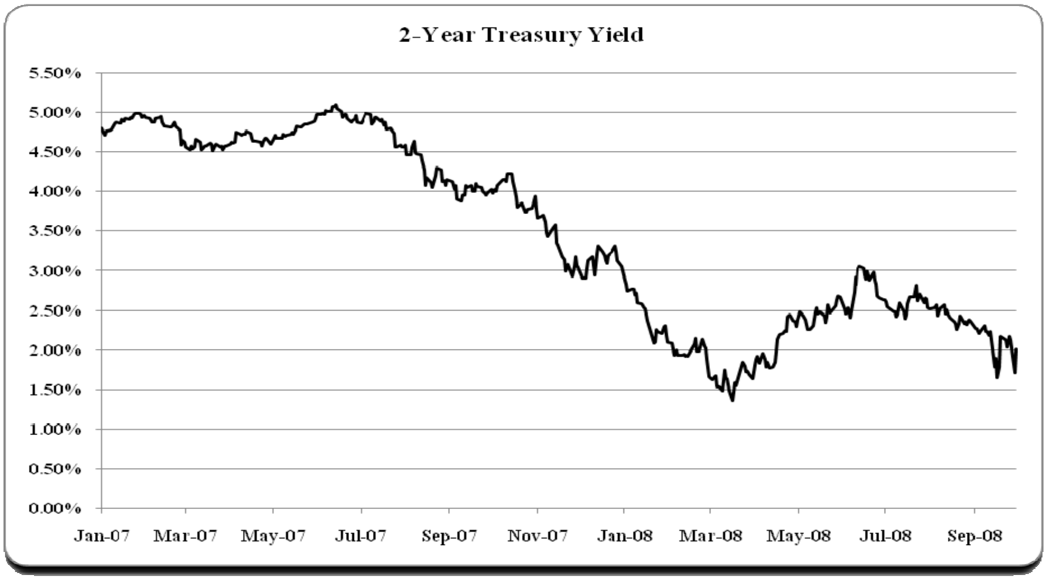
C. <u>General Revenue Estimates</u>

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.

The current Fed funds rate is 1.50% and most analysts think the rate will continue to decrease. If employment numbers are weak the Fed is more likely to continue decreasing the Fed funds rate. If the Fed decreases the Fed funds rate then the short end of the Treasury yield curve will continue to drop.

Metro's maturity limitation for investments in Pooled Cash is 18 months. That means the portfolio yield is directly affected by the Fed funds rate since that rate affects the short end of the treasury yield curve. The investments that Metro purchases are priced off the 2 year treasury bill's current yield. For example, a Federal Home Loan Bank bond might be priced at the 2 Year Treasury yield plus 10 basis points. Where the 2 Year Treasury is headed is where Metro's yield is headed. The direction right now is down.



The average annual investment yield for the FY 2007-08 was 4.49 percent. The average pooled cash investment yield for the month of August was 3.25 percent. The interest rate assumption for the FY 2008-09 budget was 4.00 percent. As Metro's current investments mature they will be reinvested at lower interest rates reducing the average investment yield. With the 2-year treasury yield curve headed down and uncertainty in the employment numbers we are recommending an interest rate assumption for FY 2009-10 of 2.50 percent. Metro's average pooled cash investments total $100 million. A 25 basis point difference in the assumption, 0.25 percent, would cause a $250,000 change in interest earnings. We typically take a more conservative approach to interest earnings believing it is better to under estimate than over estimate earnings.

Recommendation: 2.50% for FY 2009-10

2) Excise Tax Forecast

The discussion of the excise tax will be divided into three parts – solid waste generated base excise tax, solid waste per ton additional excise tax and all other facility generated base excise tax,.

a. <u>Solid Waste Generated Excise Tax</u> – 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 2008 is used to determine the allowable increase in solid waste generated base excise tax for FY 2009-10. 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 2009-10.

	CPI [2]	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	$124,289
FY 2006-07	2.5%	$6,497,209	$158,469
FY 2007-08	2.7%	$6,672,634	$175,425
FY 2008-09	3.4%	$6,899,504	$226,870
FY 2009-10	3.9%	$7,168,585	$269,081

(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.

(2) CPI = CPI-U Portland Salem for 1st half

b. Per ton additional excise tax– In prior fiscal years the Council took actions that levied an additional $2.50 per ton dedicated to Regional Parks and an additional $.50 per ton dedicated to a Metro Tourism Opportunity and Competitiveness Account (MTOCA) for the Oregon Convention Center. The per ton levies were allowed to increase by CPI annually. During the FY 2006-07 budget process, the Council amended the excise tax code to combine the additional per ton levies into one per ton levy amount set at $3.14 effective September 1, 2006 increased annually by CPI. In addition, the amendment removed the specific dedications to Regional Parks and MTOCA recognizing instead that all revenue allocations should be made during the budget process. The following is a historical summary showing the combined per ton rates under the amended ordinance along with the CPI indicator, tonnage estimates and estimate of excise tax to be collected.

	CPI	Per Ton Rate	Tonnage	Excise Tax Estimate
FY 2001-02	3.3%	-----	-----	-----
FY 2002-03	2.7%	$1.000	1,194,862	$1,194,862
FY 2003-04	1.3%	$1.013	1,230,193	$1,246,186
FY 2004-05 [1]	1.4%	$3.000	1,297,969	$3,893,907
FY 2005-06	2.0%	$3.060	1,351,221	$4,134,736
FY 2006-07 [2]	2.5%	$3.140	1,409,303	$4,425,211
FY 2007-08 [3]	2.7%	$3.225	1,351,694	$4,359,213
FY 2008-09 Budget	3.4%	$3.335	1,430,000	$4,769,050
FY 2008-09 Forecast	3.4%	$3.335	1,312,010	$4,375,553
FY 2009-10 [4]	3.9%	$3.465	1,290,000	$4,469,850

(1) Rate per ton changed 9/1/04 from $1.027 per ton to $3.00 per ton. For purposes of this table, the excise tax estimate assumes $3.00 per ton for full year.

(2) Effective 9/1/06 the rate per ton is set at $3.14 per ton.

(3) The tonnage forecast for FY 2007-08 corrects an error in the FY 2006-07 estimated tonnage

(4) Preliminary tonnage amount subject to change later in budget process

c. All Other Facility General Excise Tax – The excise tax on all other facilities is set by Metro Code section 7.01.020(a). The current rate is 7.5 percent of all eligible enterprise revenues. Beginning September 1, 2008 the Council exempted all Oregon Zoo revenues from the payment of excise tax. For all other facilities, this analysis uses the estimate of enterprise revenue for FY 2009-10 from the most recent 5-year forecasts to estimate the amount of excise tax to be collected from all non-solid waste facilities. The following table compares excise tax generated by facility. Excise tax forecasts will be reviewed and updated based on revised revenue forecasts as we proceed through the budget process.

Facility	FY 2007-08 Actual Revenue	FY 2008-09 Budgeted Revenue	FY 2009-10 Estimated Revenue	Change from FY 2008-09	% Change from FY 2008-09
Zoo	$1,185,478	$396,449	$0	($396,449)	-100.0%
Planning	16,530	16,800	25,011	$8,211	48.9%
Regional Parks	218,005	190,163	205,110	$14,947	7.9%
Expo Center	451,128	444,063	499,271	$55,208	12.4%
Building Management	47,500	56,058	49,244	($6,814)	-12.2%
Convention Center	1,266,400	1,221,319	1,371,472	$150,153	12.3%
Misc. Other Funds	7,785	0	0	$0	n/a
Base Excise Tax Estimate	**$3,192,826**	**$2,324,852**	**$2,150,108**	**($174,744)**	**-7.5%**

Summary – Excise Tax Forecast

In summary, overall excise tax available for allocation is estimated to decrease 1.5 percent from the current year budget. The CPI increase in the base solid waste excise tax revenue is offset by a reduction in tonnage resulting in a reduction in the excise tax received on a per ton basis. In addition, the exemption of Oregon Zoo revenues from the payment of excise tax did not take effect until September 1, 2008. The FY 2008-09 budget included excise tax revenue on Zoo Revenues for the months of July and August. The FY 2009-10 forecast eliminates these two months resulting in a reduction of almost $400,000.

It is still very early in the fiscal year. With the uncertainty in the economy it is very difficult to predict with any certainty the impacts on solid waste tonnage and discretionary enterprise revenues. We'll be monitoring revenues very closely and will be revising assumptions as needed. We are currently assuming no contribution to the General Fund Recovery Rate Stabilization Reserve during FY 2008-09 and only a minimal contribution next year. Excise tax generated from solid waste revenues will be used first to fully fund the base and per ton allocations prior to any contribution to the General Fund Recovery Rate Stabilization Reserve.

	FY 2008-09 Adopted Budget	FY 2008-09 Revised for lower tonnage	FY 2009-10 Estimate	Change from FY 2008-09 Budget	Percent Change
Excise Tax Sources					
Solid Waste - base tax	6,899,504	6,899,504	7,168,585	269,081	3.9%
Solid Waste - additional per ton	4,769,050	4,375,553	4,469,850	(299,200)	(6.3%)
All Other Facilities	2,324,852	2,324,852	2,150,108	(174,744)	(7.5%)
Excise Tax Resources Available for Allocation	**$13,993,406**	**$13,599,909**	**$13,788,543**	**($204,863)**	**(1.5%)**
Est. Contribution to Rec. Rate Stab. Reserve	*$1,113,503*	*$0*	*$200,000*	*($913,503)*	*(82.0%)*
TOTAL EXCISE TAX	**$15,106,909**	**$13,599,909**	**$13,988,543**	**($1,118,366)**	**(7.4%)**

3) *Property Tax Forecast*

Metro levies property taxes for two purposes – general operations and repayment of general obligation debt. The levy for general operations is subject to the limitations of both property tax limitation measures – ballot measure 5 and ballot measure 50. The levy for the repayment of general obligation debt is exempt from the limitations of both measures.

The levy for the repayment of GO debt is levied as a fixed dollar set in an amount necessary to fund the obligations for the ensuing year. The calculation of the levy is prescribed in Oregon statutes and requires that other revenues available for the repayment of debt, such as interest earnings, be used first to offset the debt levy. The final levy takes into consideration the rate of collections in the current year.

The levy for general operations is calculated as a permanent rate per $1,000 of assessed value. Metro's permanent rate is $0.0966 per $1,000 of assessed value. This amount cannot be changed. The permanent rate is applied against an estimate of assessed value for the ensuing year. The estimate of property taxes to be received takes into consideration the rate of collections in the current year. The general operating levy is subject to compression under ballot measure 5 and the assessed value growth limitations of ballot measure 50.

Assessed Value

In forecasting property taxes for the coming year two economic factors are important – the rate of assessed value growth, if any, and the rate of collections in the current year. Ballot measure 50 limits the annual growth in assessed value to no more than 3 percent with adjustments allowed for new construction. Since the implementation of ballot measure 50 in the late 1990's, market value has risen much faster than the assessed value cap. As a result, Metro's overall market value to assessed value ratio is about 177 percent. Assessed values under ballot measure 50 will continue to grow at 3 percent annually until they reach equilibrium with market values. Overall given current values, market values would need to drop dramatically for a period of years before assessed values would begin to decline.

In FY 2008-09 total Metro assessed value grew 4.25 percent. Over the last ten years Metro's total assessed value grew an average of 4.95 percent. During the three year period following the events of September 11, 2001 – FY 2002-03, 2003-04, 2004-05 – Metro's assessed value grew 3.8 percent, 3.25 percent, and 4.0 percent respectively. For FY 2009-10 Metro's assessed value will grow a minimum of 3 percent. In addition, there will also be an allowance for construction growth. After conversations with the TSCC we recommend using a 0.50 percent allowance for construction growth for a total assessed value growth assumption for FY 2009-10 of 3.5 percent.

Collection Rate

The collection rate is the second factor specifically related to estimating property tax levies. The collection rate is the percentage of property taxes collected in the first year compared to the amount levied. In the early part of the 2000's Metro's collection rate averaged 94.7 percent. Since FY 2004-05, our collection rate has consistently been over 95 percent. During the FY 2008-09 budget preparation, we increased our collection rate from 94.5 percent to 95 percent. While we don't expect a significant reduction in the overall regional collection rate we do feel it is prudent to drop the collection rate back down to 94.5 percent for FY 2009-10.

We'll monitor tax collections throughout the year for noticeable variations in receipts. In addition, both the TSCC and one other county assessor's office prepare analyses and make recommendations on assessed value growth, construction allowance and tax collection rates. The analyses are usually received in late December or early January. We remain in contact with the TSCC throughout the budget process regarding its recommendations on tax revenues and levies and will bring any significant changes in these recommendations to your attention when they arise.

Recommendation: 3.5% total assessed value growth
94.5% collection rate

D. Other Global Assumptions

1) *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. However, in those cases in which there is no external basis for an increase the department is allowed to apply a basic inflation factor. The inflation factor is also used as a comparison or guideline for overall expenditure analysis. The various CPI indicators for the first half of 2008 range from 3.85 percent to 4.56 percent (see table below). We recommend using an average of these indicators or 4.1 percent.

Consumer Price Index – All Urban Consumers, All Items (not seasonally adjusted)

Portland-Salem	3.85%
West Urban	3.85%
West City, Population 50,0000 - 1,500,000	3.99%
US City, Population 50,000 - 1,500,000	4.56%
US City Average	4.24%

Recommendation: 4.1% for FY 2009-10

2) *Annual Operating Contingency*

Each major operating fund will provide for an annual operating 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 General Fund Contingency and reserves will be budgeted in accordance with reserve policy established during the FY 2007-08 budget development. The consolidated General Fund will provide for the following:

- Contingency equivalent to 4% of total operating expenses
- Stabilization Account equivalent to 3% of total operating expenses
- Opportunity Account - $500,000

For other funds, contingency should be an amount not less than 4% of the total of Personal Services, Materials and Services and Capital Outlay. Variations from this amount are allowed based on operational needs. All other reserves should be budgeted in accordance with adopted policies.

3) Special Appropriations in the General Fund

a. Elections Expenses: The FY 2009-10 budget will include May 2010 primary elections costs for the Metro Auditor, Council President and three Council seats. In May 2006, the last time these same positions were on a primary ballot, the total cost was almost $307,000. The total cost of the May 2008 primary election with four Council seats was slightly over $334,000. A May primary election is more expensive to conduct than a November general election because there are more versions of the ballot that need to be produced and usually fewer items on the ballot among which to allocate costs. Because it is a May ballot actual costs and invoices will not be received until well after the close of the fiscal year. If costs are much higher than anticipated it will be impossible to amend the budget to reflect higher costs. It is recommended that the FY 2009-10 budget for elections be set at a minimum of $350,000. This represents an average 3.5% increase in costs per year over the actual costs of May 2006.

Recommendation: $350,000 for May primary elections

b. *Contribution to Regional Arts & Culture Council (RACC):* For a number of years, the budget has included a $25,000 contribution to RACC. It is assumed that this contribution will continue into FY 2009-10 at the same level of funding.

Recommendation: $25,000 contribution to RACC

c. *Dues:* For a number of years the budget has provided for agency dues for the Water Consortium and the Lloyd Business Improvement District. In FY 2008-09, the Council added the Portland Regional Partners for Business. The estimated total in FY 2008-09 for all three agency dues is $37,000 (water consortium - $18,000; Lloyd BID - $13,500; Regional Partners - $5,500). It is assumed the Council wishes to continue these dues and recommend that the budget include approximately $40,000 in FY 2009-10.

Recommendation: $40,000 for dues

d. Sponsorships: For two years, the budget included $35,000 for Council approved sponsorships. In FY 2007-08 the adopted budget reduced this amount to $25,000. It is assumed this sponsorship funding will continue and recommend that the budget include the same amount as in the current year.

Recommendation: $25,000 for Sponsorships

e. Public Notifications: The Special Appropriations category includes an amount to provide for legal notices required under ballot measure 56, ballot measure 26-29 and any other notification required by approved ballot measure or Metro Code. Any amount of the current year budget not used or carried forward to the next year reverts back to the General Fund reserves at year-end. Historically, budgeted amounts have varied from $50,000 to $150,000 depending on anticipated need. Actual spending has varied between $1,500 to almost $80,000. It is recommended the budget retain the same amount as in the current year.

Recommendation: $50,000 for legal notifications

f. *External Financial Audit Contract:* The external financial audit contract is budgeted in the General Fund Special Appropriations category although the Metro Auditor remains as project manager of the contract. The American Institute of Certified Public Accountants (AICPA) establishes auditing standards generally accepted in the United States that certified public accountants and government auditors must follow in conducting of audits of state and local governments. In particular, the new SAS No. 112 establishes standards, responsibilities and guidance for auditors during a financial statement audit engagement for identifying and evaluating a client's internal control over financial reporting. This new standard requires the auditor to report in writing to management and the governing body any control deficiencies found during the audit that are considered significant deficiencies and/or material weaknesses. These new standards have increased the cost of the annual audit above what has been previously budgeted. It's recommended the budgeted amount be increased to $107,000. Costs will be allocated through the cost allocation plan

Recommendation: $107,000 for External Financial Audit Contract

g. *Construction Excise Tax Expansion Area Planning Grants:* In March 2006 the Council adopted ordinance 06-1115 establishing a construction excise tax to provide funding for expansion area planning. The funding is provided to local governments in the form of grants. The tax will be in effect until such time as $6.3 million has been collected. The payments to local governments are determined through intergovernmental agreements and are primarily on a reimbursement basis. The program was originally estimated to be a three-year program. However, the slowdown in the economy has slowed revenue collections. Expenditure reimbursements are also slower than anticipated. First quarter reports are due from local jurisdictions by the end of October. A budget recommendation will be developed following analysis of those reports. The FY 2009-10 budget will include only the completion of the current program and will make no assumption about the continuation of the construction excise tax.

Recommendation: To be determined based on first quarter reports received by the end of October

4) 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.

Financial Planning prepares a preliminary version of the cost allocation plan with updated service level usage/benefit data and forecasted costs for status quo service levels. Estimated costs for status quo service levels are developed using the financial assumptions included in this report. At this time, we anticipate running the preliminary cost allocation plan for FY 2009-10 around the early – mid December time frame. The preliminary plan will provide the Chief Operating Officer with an estimate of central service allocations assuming no increase or changes to services or functions provided. With this information, the COO will determine what assumption(s) departments should use in budgeting for central service transfers. The realignment of functions under the Sustainable Metro Initiative may change how central services costs are allocated.

Recommendation: **Central service estimates to be provided later based on a preliminary run of the FY 2009-10 cost allocation plan as described above.**

Placemaking Initiative

November 2008 Update to Metro Council

In January 2007, Council approved Ordinance 07-1160B, authorizing $450,000 from one-time reserves funds to enhance the Making the Greatest Place (MGP) budget for communications, tools and resources, and catalyst placemaking projects. Following is a status report on the use of those dollars.

Through the Sustainable Metro Initiative (SMI), the Planning and Development Department created a Development Center to focus on local development needs and issues and to foster catalyst placemaking projects. Megan Gibb leads this effort with her Transit Oriented Development Team along with two development oriented staff from the Nature in Neighborhood program. We are also working to define the strategic role of the new Development Center and other Planning and Development Department efforts as we continue to implement the placemaking initiative.

We used the one-time reserve funds to enhance activities on two fronts: MGP policy tracks (e.g., the *Our Place in the World* booklet, Centers Activity Spectrum) and placemaking activities (e.g., specific projects in Milwaukie, Tigard, Oregon City) as noted below. Though the intended use of the placemaking funds remains the same – to spur public and private investment in the region's centers and corridors by providing tools and resources for placemaking projects – we have revised our approach in response to changing circumstances and stakeholder feedback. Generally, we anticipate fewer events and workshops than originally proposed, and an emphasis instead on collaboration and partnerships in response to specific local needs and requests for assistance. We feel this placemaking approach is not only more effective, but also more appropriate in light of the numerous other meetings and events engaging local partners on the policy tracks of the MGP effort.

The current economic downturn is already having significant impacts on budgets and staffing of local jurisdictions. Metro staff anticipates increasing requests from local partners for assistance and funding for placemaking and technical assistance. The current economic climate provides an opportunity for pre-development planning and realignment of codes and incentives to support future development projects. Metro's capacity to provide services and funding for these activities will be essential to ensure that progress continues despite shrinking local resources.

Budget Summary: Below is a summary of the budget. Activities and costs shown in bold are specifically for those activities funded through Ordinance 07-1160B. Other activities listed have been funded through regular department budgets or as otherwise noted.

Projects completed (Materials and Services)	**Reserves funds**	**Other funds**
Financial Incentives Toolkit (prepared in house)		$2,000
Financial Incentives Workshop	-	$8,000
Innovative Design and Development Codes toolkit	**$ 7,050**	$80,000
Innovative Design and Development Codes workshop	**$ 4,200**	
Centers activity spectrum prototype	-	$1,000
Mayors' Institute on City Design	-	$50,000
Stakeholder survey/communications message development	**$17,000**	
***Our Place in the World* booklet**	**$16,800**	

<u>Projects under way (Materials and Sservices) :</u>		
Hillsboro Regional Center capacity analysis	-	$5,000
Tigard Transit Center redevelopment feasibility analysis	**$30,000**	
Oregon City model impact-based SDC approach	**$15,000**	
Milwaukie model impact-based SDC approach	**$20,000**	
Wood Village model cottage cluster design & development code	**$ 5,000**	
***Our Place in the World* booklet printing**	**$ 8,950**	
<u>Projects anticipated in FY 08-09 (Materials and Services):</u>		
Downtown Beaverton implementation plan (in initial discussions)	**$30,000**	
Additional communications products (print/web/presentation)	**$10,000**	
City design workshop(s)	**$40,000**	
Walkable communities audit	**$15,000**	
Regional/Local aspirations summit (Making the Greatest Place)	**$20,000**	
<u>Projects anticipated in FY 09-10 (Materials and Services):</u>		
Code and Policy Technical Assistance (2-3 communities)	**$30,000**	
Catalyst Project Pre-development (2-3 communities)	**$60,000**	
Public Affairs Staff FY 07/08 and 08/09 (Materials and Services):	**$79,000**	
<u>Diverted by Council for Nature in Neighborhoods</u>	**$42,000**	
Total	**$450,000**	$146,000

Budget Summary

FY 07-08	Allocated	Expended	Diverted	FY 08-09 Carry Over
Public Affairs Staff	$ 21,000	$ 21,000	$ -	$ -
Placemaking funds	$ 129,000	$ - *	$ 42,000	$ 87,000
TOTAL	$ 150,000	$ 21,000	$ 42,000	$ 87,000

FY 08-09	Allocated	Expended	Under Way	Anticipated	FY 09-10 Carry Over
Public Affairs Staff	$ 58,000	$ 19,333	$ 38,667	$ -	$ -
Placemaking funds	$ 329,000	$ 45,050	$ 78,950	$ 115,000	$ 90,000**
TOTAL	$ 387,000	$ 64,383	$ 117,617	$ 115,000	$ 90,000

<u>Notes:</u>

*****Fewer program activities completed in 07-08 than originally slated due to mid-year budget approvals, redeployment of staff to other functions, and intensive staff demands of the Mayors' Institute on City Design.

******Due to long lead time necessary to develop collaborative projects with local partners, it is anticipated that funds for some projects initiated during spring of 2009 will not be formally spent or obligated (signed IGAs or consultant contracts) until FY 09-10.

Urban and Rural Reserves
Update to Metro Council
November 2008

Ordinance 07-1160B as revised by Ordinance 08-1173 authorized the use of $1,050,000 in undesignated reserve funds over three fiscal years for the Urban and Rural Reserves project. Following is a brief status report on the Reserves project and the use of those funds.

Program description

Urban reserves will be areas designated outside the current Metro urban growth boundary (UGB) that may accommodate development that serves future population and employment growth over the next 40 to 50 years. Rural reserves will be areas outside the current Metro UGB, such as valuable farmland, forest lands and natural areas, that will be protected from urban development for the same 40-to-50-year period. The project is co-led by Metro, Clackamas County, Multnomah County, and Washington County.

Process update

The Reserves project consists of five phases, each with a distinct milestone objective. Phases 1 and 2 have been completed on time. We are currently beginning Phase 3, focusing on analysis of the identified study area, which will result in a preliminary recommendation of urban and rural reserve areas in April 2009. Phase 4 (May 2009-September 2009) will result in a recommendation of urban and rural reserves areas via intergovernmental agreements between Metro and the counties. Phase 5 (October-December 2009) will result in formal designation of urban and rural reserve by Metro and the counties.

Use of funding

The allocation from Ordinance 08-1173 included funds to hire lead staff and public affairs staff, as well as funds for internal budget transfers and materials & services expenses.

The lead staff (John Williams) and public affairs staff (Marcia Sinclair) positions were filled as limited duration positions in keeping with the one-time nature of the project and funding source. Remaining funds are being used as anticipated for administrative functions, mapping, data analysis, and other services.

It is expected that the full amount of allocated funding will be needed to complete the Reserves project, particularly due to the fact that we have not been successful in obtaining grant funding for the Steering Committee/Core 4 meeting facilitator, our largest cash expenditure.

Known and anticipated funding amounts are detailed on the reverse of this page.

Urban and Rural Reserves – Use of funds from Ordinance 07-1160B (as revised by Ordinance 08-1173)

FY 07-08	Allocated	Expended	Ret. to fund	Carried forward to 08-09
Planning	$ 170,900	$ 156,056	$ -	$ 14,844
Public affairs	$ 34,100	$ 18,351	$ 15,749	$ -
TOTAL	$ 205,000	$ 174,407	$ 15,749	$ 14,844

FY 08-09	Allocated	From 07-08	Anticipated	Carry forward to 09-10
Planning	$ 556,500	$ 14,844	$ 471,344	$ 100,000
Public affairs	$ 87,500	$ -	$ 87,500	$ -
TOTAL	$ 644,000	$ 14,844	$ 558,844	$ 100,000

FY 09-10	Allocated	From 08-09	Anticipated
Planning	$ 150,000	$100,000	$ 250,000
Public affairs	$ 51,000	$ -	$ 5 1,000
TOTAL	$ 201,000	$100,000	$ 301,000