Sound financial and debt management practices; though declining revenues and aging assets challenge long-term financial health.
About the Lane County Performance Auditor’s Office

The Lane County Performance Auditor’s Office conducts audits to help improve the performance, accountability, and transparency of Lane County government.

The County Performance Auditor reports to the Board of County Commissioners and is independent of other departments within Lane County government. An audit committee provides oversight of the County Performance Auditor and was established to protect the independence of the performance audit function.

Lane Code 2.130 states the policy of Lane County is to maintain a performance audit function. The performance audit function provides the Board of Commissioners, the County Administrator, and all levels of management with timely analysis and information to assist the County in the control of operations, ongoing improvement efforts, and effective achievement of the County’s broad objectives.

Lane Manual 3.072 states the County Performance Auditor is authorized to conduct performance audits for all departments, offices, activities, and programs under the control of the County, including operational, compliance, and information systems. Additionally, the County Performance Auditor is authorized to perform special reviews and investigate allegations of misuse of County assets or resources.

Audit Team

Shanda Miller, CIA, MPA, County Performance Auditor

Ellie Austin, JD, MPA Candidate, Audit Intern

The courtesies and cooperation extended by officials and employees of the County Administrator’s Office, including Budget & Financial Planning and Financial Services, during the course of this review were commendable and sincerely appreciated.

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Lane County's current financial health is stable. This is due to sound financial and debt management practices and strategic financial planning. Declining revenues, growing expenses, and aging assets challenge the County’s long-term financial health.

Financial Strengths

- The General Fund reserve is healthy and adequate for cash flow and unexpected financial emergencies.
- The County’s business activities, also known as enterprises, are self-sufficient. They bring in enough revenue from user fees to cover costs.
- Liquidity is adequate; there is enough cash to meet immediate needs.
- The County has a healthy amount of debt and a strong credit rating.
- Although the County’s employee pension liability is increasing, it is consistently funded above 80%.

Long-term Challenges

- With the exception of Jail Levy revenues, local property taxes collected per person have been flat over the past 10 years when adjusted for inflation.
- The County’s expenses are growing and outpacing revenues. In addition to inflation, employee expenses such as health care and pensions are driving up costs. This threatens the County’s ability to continue to provide services at current levels.
- Federal and state revenues have declined over the past 10 years, with federal revenues declining over the past 30 years, including the end of federal timber funding. This has created more reliance on local revenues, which also means more local control.
- The County’s capital assets are aging across all categories analyzed due to deferred maintenance and repairs.
- Socioeconomic indicators show declining labor force participation and flat personal income.
- Increasing numbers of county residents are on food assistance, and more children are qualifying for the Free and Reduced Lunch program.

Recommendations

To ensure continued financial health and to minimize impacts to services, we recommend Lane County continue its efforts to develop and annually refine a long-term comprehensive financial management strategy. This should include continuing financial planning efforts to identify cost savings and possible revenue solutions, and monitoring the PERS liability and capital assets aging (see Page 17 for the detailed recommendations).

Department Response

The department response is attached at the end of the report.
# Financial Indicators and Results

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Trend</th>
<th>Interpretation</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund Balance: reserves adequate for cash flow and financial emergencies</td>
<td>↑ Upward trend</td>
<td>OK</td>
</tr>
<tr>
<td>Enterprise Fund Working Capital: program self-sufficiency</td>
<td>↑ ↓ Lane Events Center Trend is increasing; Solid Waste Trend is decreasing slightly</td>
<td>OK</td>
</tr>
<tr>
<td>Liquidity: cash resources to meet immediate needs</td>
<td>Above the standard in 2015</td>
<td>OK</td>
</tr>
<tr>
<td>General Fund Revenue and Expense Forecast: ability to maintain service levels (5 year forecast)</td>
<td>↑ Expenditures projected to outpace revenues</td>
<td>Caution</td>
</tr>
<tr>
<td>Property Taxes Collected Per Person</td>
<td>↑ Below the average benchmark in 2015</td>
<td>Attention</td>
</tr>
<tr>
<td>Revenue by Source: indicator of local control</td>
<td>Local revenues as a percentage are increasing; federal &amp; state revenues declining; overall revenues down</td>
<td>Attention</td>
</tr>
<tr>
<td>County Employees per 1,000 County Residents</td>
<td>↓ Below the average benchmark in 2015</td>
<td>OK</td>
</tr>
<tr>
<td>Spending per Person</td>
<td>Below the average benchmark in 2015</td>
<td>OK</td>
</tr>
<tr>
<td>Percentage of Spending on Debt: County dollars spent on principal and interest</td>
<td>↑ Slight trend upward, though consistently well below the standard</td>
<td>OK</td>
</tr>
<tr>
<td>Outstanding Debt Per Person</td>
<td>↓ Below the average benchmark in 2015</td>
<td>OK</td>
</tr>
<tr>
<td>Credit Ratings: independent assessment of County’s debt health</td>
<td>Very strong credit quality in 2015</td>
<td>OK</td>
</tr>
<tr>
<td>PERS Liability: future payment obligations</td>
<td>↑ Upward trend</td>
<td>Attention</td>
</tr>
<tr>
<td>PERS Funding Ratio: how close to fully funded are the County’s pensions?</td>
<td>Consistently funded above the standard of 80%</td>
<td>OK</td>
</tr>
<tr>
<td>Capital Assets Aging: maintenance and repair of County’s buildings, roads, bridges, machinery, and equipment</td>
<td>↓ Capital Assets are aging in all categories analyzed</td>
<td>Caution</td>
</tr>
</tbody>
</table>
About this Report

The purpose of this report is to provide residents and public officials with information on the short and long-term financial health of Lane County Government. This report provides an overview of Lane County’s financial health. It presents results for 14 financial indicators and 4 socioeconomic indicators.

This report covers the 10-year period from fiscal year 2006 through 2015. Unless otherwise indicated, data are presented on a fiscal year basis (e.g., 2015 represents the fiscal year beginning July 1, 2014 and ending June 30, 2015).

The methodology used in this report is based on or adapted from Evaluating Financial Condition: A Handbook for Local Government by the International City/County Management Association (ICMA).

Our primary sources of information were the audited Comprehensive Annual Financial Reports (CAFR) issued by Lane County and 5 comparator counties in Oregon. The 5 comparator counties were Jackson, Washington, Deschutes, Clackamas, and Marion.

We presented most of the financial indicator results in constant dollars to account for inflation. This means we adjusted dollar amounts for each prior year to equal the purchasing power in 2015.

Lane County Profile

Lane County was established in 1851. It is governed by an elected Board of Commissioners representing five districts.

The county is 4,620 square miles in size. Forestland makes up 90% of Lane County, and 58% of the land is managed by the U.S. Forest Service or Bureau of Land Management.

Lane County is the fourth most populous county in Oregon and has the third most populous metropolitan area. In 2015, Lane County’s population was 358,805. The population has grown 6.8% in the past 10 years.

County Services

The County provides direct services to both urban and rural residents of Lane County. Residents living in incorporated cities or unincorporated areas of Lane County equally receive services, with the exception of Sheriff patrols that service only the unincorporated areas.

Public health and welfare services include health care through the Community Health Centers, behavioral health services (counseling and drug treatment), developmental disability services, public health (disease prevention, maternal health), restaurant inspection, Veterans’ services, workforce programs, animal services and family mediation.

Public safety services include Sheriff patrols and law enforcement, corrections, search & rescue, parole and probation, youth services (probation, counseling, detention), medical examiner, victim services, family law, and criminal prosecution.
Public works services include waste management, maintaining County roads and bridges, operating County parks, and land management.

The County also provides tourism and economic development services, and maintains the County Courthouse.

In addition to direct services, the County provides various support services to other departments.

The County also appraises properties and collects and distributes local property tax dollars to 83 taxing jurisdictions, including cities, school districts, fire districts, urban renewal districts, and other special districts. In 2015, Lane County received 12 percent of the property tax revenue collected.

History of Federal Timber Funding

With forestland making up 90% of the county’s land, Lane County has relied on timber harvest revenue to help fund County services and roads. Federal timber harvests began declining in the 1980’s. They further declined with the change in federal forest policies in the early 1990’s.

The U.S. Congress helped bridge the funding gap by approving a federal timber revenue guarantee in 1993 and a new 6-year guarantee in 2000, commonly referred to as Secure Rural Schools.

From 2007 to 2015, Congress approved extensions to Secure Rural Schools timber funding, though at decreasing amounts, especially when adjusted for inflation. Since 2015, Congress has not approved any extension of Secure Rural Schools timber payments.

The County expects 2015 to mark the end of Secure Rural Schools timber funding. This will mean a return to actual timber harvest revenue, substantially lowering the County’s timber revenue.
The General Fund Reserve is Healthy

General Fund Balance: reserves adequate for cash flow and financial emergencies

The General Fund is the primary fund supporting the operation of Lane County government. Most funds placed in the General Fund are unrestricted, which means they are not reserved for a specific use.

Lane County’s General Fund spendable fund balance is relatively stable. As a percentage of General Fund revenues, the balance is consistently higher than the County policy of 10%. It also meets the Government Finance Officers Association recommended minimum of 5-15%.

Currently, the County’s General Fund reserve level is enough to cover emergency and other unexpected costs, such as from a natural disaster.

Enterprise Fund Working Capital: program self-sufficiency

An enterprise or business fund is a self-supporting fund for programs that deliver goods and services for a fee. Working capital is the difference between current assets and current liabilities.

We found the Solid Waste Fund and Lane Events Center Fund (and the County's other enterprise funds) are somewhat self-sufficient.

Lane Events Center: Out of the Red and Into the Black

The Lane Events Center, an enterprise program, pulled itself out of a deficit starting in 2008.

The trend of growth in the fund's working capital is positive, and in 2014 had working capital of over $500,000.
Solid Waste Fund: Ups and Downs Due to Planned Construction

The Waste Management Division’s Solid Waste Fund follows a consistent pattern of growth, with periodic dips reflecting spending for planned construction projects. The decline in working capital over the 10 year period analyzed was due primarily to cell construction in 2007 and 2008 and stagnant fees between 2007 and 2014. A fee increase in 2014 caused a slight growth in revenues in 2015.

Adequate Liquidity

Liquidity: cash resources to meet immediate needs

The liquidity ratio is the proportion of the County’s liquid assets compared to its liabilities. Being more liquid means the County has enough cash to cover its current expenses. An asset is liquid if held as cash or if it can be easily sold for cash.

The County’s total liquidity for 2015 is 1.4:1. This is above the standard of 1:1. The current liquidity ratio is healthy and indicates the County is able to meet its current obligations.
General Fund Forecast Shows Expenses Growing Faster Than Revenues

General Fund Revenue and Expense Forecast: ability to maintain service levels

Expenditures for current service levels are projected to increase faster than revenues over the next 5 years and into the future. Revenues average 3-4% growth per year. This is due in part to the permanent tax rate and Measure 50. Voters passed Measure 50 in 1997 to reduce the assessed value of every property to 90 percent of its 1995-96 assessed value, limit annual growth in assessed value to 3 percent, and delink assessed value from real market value.

The County’s expenses have historically grown 5-6% per year due mainly to increased personnel costs (i.e., health insurance, PERS, and salary). As a result, the County is facing a long-term structural imbalance. The structural imbalance threatens the County’s ability to provide consistent levels of service over time. Without local property tax or state tax reform, Lane County is left with few options. Taking no action will require the County to provide fewer services.

To help address the growth of expenses, the County has taken steps to reduce the cost of employee health insurance. It moved to self-funded employee health insurance and invested in employee wellness and prevention. The County has taken steps to reduce its Public Employee’s Retirement System (PERS) costs. It set aside reserves and paid off $6.5 million of its PERS Pension Obligation Bond early. The County has also reviewed services and consolidated or downsized when necessary, and increased the use of technology.

Property Taxes Collected Per Person Were Flat Until 2013 Jail Levy

In 2015, Lane County collected the lowest amount of property taxes ($148 per person) compared to the 5 comparator counties ($265 per person average). There was a bump in property taxes collected per person in 2014 and 2015 due to the 2013 Jail Levy.

Lane County’s permanent property tax rate is fixed at $1.28 per $1,000 of assessed value. This is well below the average among all Oregon counties of $2.82 per $1,000 of assessed value.
This is also below the average of 5 comparator counties of $2.31 per $1000 of assessed value. When Measure 50 was enacted, it replaced most tax levies with permanent rates. At that time, Lane County received much higher timber revenue payments.

To increase the County’s property tax revenue, residents would need to vote in new local option tax levies. Local option tax levies are usually tied to a specific service and do not exceed 5 years.

Compared to the 5 comparator counties, the distribution of property taxes going to Lane County is less, with proportionately more going to the cities within Lane County.

**Percent of Local Revenues Up but Overall Revenues Down**

Revenues from local County taxes as a percentage of revenue are growing due in part to the 2013 Jail Levy. County taxes include property, transient room, and car rental taxes.

At the same time, revenues from state and federal operating grants are down, and total revenue is down from 2006 levels. Historically, federal revenues have declined over the past 30 years.

The main reason for the decline in revenues from federal sources is the decline and recent termination of Secure Rural Schools timber payments.

The decline in overall County revenues puts more stress on local residents to fund local government services. On the one hand, this increases local control. Yet, under current state and local law, there is little the County can do to increase local revenues. Over the years, the County has formed several task forces to help identify potential local revenue solutions.
Low County Employees per 1,000 Residents is Due to Reductions in Service

The number of County employees per 1,000 residents was below 5 from 2006 to 2015. This is consistently below 1.0% of the county’s population. In 2015, the number of County employees per 1,000 residents was below the benchmark average.

The low number of employees per 1,000 county residents is due primarily to service reductions resulting from less revenue. At the same time, the County has focused on increased efficiencies in providing services. This indicates the County responds responsibly to declining revenues by scaling back expenditures rather than overspending or borrowing money to cover operating expenses.

The impact of fewer employees is felt throughout the County, but most deeply in public safety and in the assessment and taxation office.

County Spending per Person below Benchmark Average

Overall, Lane County spends $580 per person, mainly on public health and welfare, public safety, and roads and bridges. Lane County’s spending per person is lower than the average benchmark of $810.

Lane County spends less per person than the benchmark counties, likely because its revenues are lower. As a result, it is likely providing lower service levels than the comparator counties.

<table>
<thead>
<tr>
<th>Spending per Person</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Health and Welfare</td>
<td>$220</td>
</tr>
<tr>
<td>Public Safety</td>
<td>182</td>
</tr>
<tr>
<td>Roads and Bridges</td>
<td>76</td>
</tr>
<tr>
<td>General Government</td>
<td>47</td>
</tr>
<tr>
<td>Debt</td>
<td>20</td>
</tr>
<tr>
<td>Capital Projects</td>
<td>15</td>
</tr>
<tr>
<td>Community Development</td>
<td>12</td>
</tr>
<tr>
<td>Parks</td>
<td>8</td>
</tr>
<tr>
<td><strong>Total per Person</strong></td>
<td><strong>$580</strong></td>
</tr>
</tbody>
</table>
Debt Spending is Low and the County has a Healthy Amount of Debt

**Percentage of Spending Used for Debt: county dollars spent on principal and interest**

The percentage of total County spending used for debt principal and interest payments is trending up slightly.

For each year analyzed, total spending for debt was well below 10%, which is considered acceptable. This indicates the County is relatively flexible with regard to spending.

The County does not have a set cap or target amount of debt it will take on. County debt policy is to consider each capital project individually, by determining the County’s ability to repay the debt and the project’s long-term cost savings.

![Percent of Expenditures Used for Debt Payments](chart1.png)

**Outstanding Debt per Person Decreasing and Below Benchmark Average**

The amount of outstanding debt the County has per county resident is trending downward and is slightly less than the benchmark average. The County is also well below the legal limit for allowable bonded debt.

In 2015, the County used a portion of the last Secure Rural Schools payments to pay off two limited tax bonds early, which freed up operating money for the future and saved the County money on interest. A limited tax bond is a bond funded by a specific tax or category of taxes.

In addition, the County paid off the Juvenile Justice Center General Obligation Bond on schedule in 2015. This was a 20-year bond approved by voters in 1995.

![Outstanding Debt Per Person - adjusted](chart2.png)

$= Benchmark Average (Jackson, Washington, Clackamas, Deschutes, Marion)$
County’s Credit Ratings Reflect Very Strong Credit Quality

Credit Ratings: independent assessment of county’s debt health

The County’s credit ratings indicate it is in a strong financial position.

For Limited Tax bonds, the County’s credit rating is Aa3, meaning very strong quality. For General Obligation bonds, the County’s credit rating is Aa2, also meaning very strong quality. As of June 30, 2015, the County had no General Obligation bond debt.

The County has worked deliberately to improve its bond ratings. The County has been careful to responsibly take on debt. This has helped it maintain a healthy amount of debt. The County’s high bond ratings enable the County to take on debt when needed and at lower interest rates.

<table>
<thead>
<tr>
<th>Rating</th>
<th>Credit Quality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aaa</td>
<td>Highest quality – lowest credit risk</td>
</tr>
<tr>
<td>Aa1 – Aa3</td>
<td>High quality – very low credit risk</td>
</tr>
<tr>
<td>A1 – A3</td>
<td>Upper-medium grade – low credit risk</td>
</tr>
<tr>
<td>Baa1 – Baa3</td>
<td>Medium grade – moderate credit risk</td>
</tr>
<tr>
<td>Ba1 – Ba3</td>
<td>Speculative – substantial credit risk</td>
</tr>
<tr>
<td>B1 – B3</td>
<td>Speculative – high credit risk</td>
</tr>
<tr>
<td>Caa</td>
<td>Speculative of poor standing – very high credit risk</td>
</tr>
<tr>
<td>Ca</td>
<td>Highly speculative – likely or very near default</td>
</tr>
<tr>
<td>C</td>
<td>Lowest rating – typically in default</td>
</tr>
</tbody>
</table>
Pension Funding Liability Is Increasing Yet Consistently Funded Above 80%

PERS Liability: future payment obligations for which reserves have not been set aside

The County's Public Employees' Retirement System (PERS) pension liability was $128.9 million as of the 2014 actuarial valuation. This represents the County's highest liability in the past 5 years. The increase in liability is due in part to a recent court decision overturning the Oregon State Legislature's changes to PERS. The County's PERS liability is also connected to stock market performance. County retirees are living longer, causing PERS to adjust the life expectancy rates. This also increases the County's liability.

A higher PERS liability can cause a rise in the pension rates the County must pay. The County expects PERS rates to increase indefinitely until OPSRP employees fully replace Tier 1 and Tier 2 employees. Oregon Public Service Retirement Plan (OPSRP) members are those PERS-covered employees hired on or after August 29, 2003. Tier 1 employees are those hired prior to 1996, and Tier 2 employees are those hired between 1996 and August 28, 2003. Generally, the earlier an employee was hired, the higher his or her pension benefits, and the higher the County's pension liability.

If PERS expenses continue to rise, the County will be forced to fund fewer services.

The County has compensation control policies in place to prevent pension spiking. Pension spiking, also called pension inflation, can also influence the PERS liability and pension rates.

PERS Funding Ratio: how close to fully funded are the County’s pensions?

The County's PERS pension was funded at 82% as of the 2014 actuarial valuation. Since at least 2009, the funding ratio has been above the standard of 80%.

The County does not control PERS rates, though it does control how much it funds its PERS account. The County recently set aside money in reserves to cover any increases in PERS rates.

The County's ability to fund PERS strains its ability to provide services, particularly as PERS rates continue to increase. However, maintaining a funding ratio of above 80% keeps PERS rates down or causes them to rise more slowly.
County Assets Are Aging

Capital Assets Aging: maintenance and repair of County buildings, roads, bridges, machinery, and equipment

Lane County’s capital assets are aging in all categories analyzed, putting the County at risk for significant replacement or repair costs or service disruptions. Capital asset categories are infrastructure, buildings and improvements, and machinery and equipment. Infrastructure includes roads and bridges.

This measure indicates deferred maintenance, and we found there is lack of funding for addressing all needed maintenance and repairs. This is due to the County’s many revenue challenges, including the decline in and termination of federal timber payments.

For example, the April 2015 Lane County Facility Assessment determined 45% of the County’s major mechanical equipment requires maintenance within 2 years. Due to budgetary and other constraints, the maintenance will likely take 5 years to complete.

In the face of revenue challenges, the County has recently been taking a deliberate approach to prioritizing new capital projects to meet its operational needs. The Capital Projects Manager and the Facilities Committee are working to strategically plan and prioritize capital projects, such as needed maintenance and improvements to mitigate operational risk.

The County’s goal is to balance service provision with capital asset maintenance in order to best use public funds.
Lane County’s Socioeconomic Trends are Troubling, but Economic Recovery is Expected to Continue

When looking at labor force participation, per capita personal income, and food assistance programs, the trends are troubling. This socioeconomic information can reflect the strength of the tax base supporting basic government services and also the demand for government services. On the other hand, the Oregon Employment Department’s February 2016 economic forecast for Lane County shows unemployment is down to 5.6% from a high of 13.2% in 2009 and moderate post-recession growth is expected to continue.

Labor Force Participation Rate Declining and Lower than Benchmark Average

The labor force participation rate in Lane County is trending downward, and is consistently lower than 4 of 5 benchmark counties. The labor force participation rate is based on those working or actively looking for work.

Personal Income per Person Flat and Lower Than Oregon and U.S. Averages

Lane County’s per capita personal income is fairly flat when adjusted for inflation, and is less than the Oregon and U.S. averages.

Over 50% of K-12 Students in Lane County are Eligible for Free and Reduced Lunch

Eligibility for the Free and Reduced Lunch program has steadily increased since the 2005-06 school year (41%), reaching a peak in 2013-14 at almost 55%. It began trending downward slightly during the 2014-15 school year, but is still above 50%, and has not returned to its pre-recession level.

Number of County Residents Receiving Food Assistance Up Since 2006

The demand for federal food assistance (also known as Supplemental Nutrition Assistance Program (SNAP) or food stamps) is trending upward, though it has been trending slightly downward since 2013 and has not returned to its pre-recession numbers.
RECOMMENDATIONS

To ensure continued financial health and to minimize impacts to services, we recommend Lane County continue its efforts to develop and annually refine a long-term comprehensive financial management strategy that includes:

- Ensuring continued financial planning efforts to identify cost savings, including employee and internal service cost savings;

- Ensuring continued financial planning efforts aimed at identifying possible revenue solutions, including reviewing and considering recommendations of past Revenue Task Forces;

- Developing requests for alternative revenue sources and working with state and federal lawmakers on revenue solutions;

- Continuing monitoring of the County’s PERS liability, and planning for future projected PERS rate increases;

- Analyzing capital assets aging by fund and developing a system for ongoing monitoring; and

- Ensuring continued efforts to strategically plan for and prioritize capital improvement projects, and investing in those priorities to minimize operational risk and future maintenance and replacement costs.
SCOPE & METHODOLOGY

The objective of this report is to provide residents and public officials with information on the short and long-term financial health of Lane County Government.

The primary source of data in this report was Lane County’s independently audited Comprehensive Annual Financial Reports (CAFR), as well as supporting information and data from Lane County’s Financial Services and Assessment & Taxation departments. Unless otherwise indicated, data are presented on a fiscal year basis (e.g., 2015 represents the fiscal year beginning July 1, 2014 and ending June 30, 2015). For most indicators, data are presented on a 10-year trend (fiscal years 2006 through 2015). Where data were not available, we reported the trend for as many years as possible.

In order to account for inflation, we expressed financial data in constant dollars. We adjusted dollar amounts for each prior year to equal the purchasing power of money in fiscal year 2015. We used the Consumer Price Index – All Urban Consumers U.S. City Average, as reported by the Bureau of Labor Statistics, U.S. Department of Labor. Charts adjusted for inflation are indicated in the chart title.

Financial indicators and the methodology used in this report were based primarily on information contained in Evaluating Financial Condition: A Handbook for Local Government by the International City/County Management Association (ICMA) and Governing’s Guide to Financial Literacy. The selected indicators were also chosen based on the relevance to Lane County and on input from Lane County officials regarding what they would want to know about the financial health of the County.

As nearly all financial information presented is from the CAFR, we relied on the work performed by the County’s external financial auditors. We reviewed other information for reasonableness and consistency. We did not independently audit the accuracy of source documents.

We used data from comparator counties to benchmark the Fiscal Year 2015 Lane County data. We chose the comparator counties due to their similar population size. The five benchmark counties were Jackson, Deschutes, Marion, Washington, and Clackamas.

Additional information, such as economic and demographic indicators, was obtained from the United States Department of Labor, Bureau of Labor Statistics; Oregon Employment Department; Oregon Department of Education; Oregon Department of Human Services; and Oregon Public Employees Retirement System.

We reviewed internal controls as they related to the audit objectives and financial indicator results. In developing and analyzing the financial indicators, we interviewed personnel in Financial Services and Budget and Financial Planning and various other County offices and departments.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.
To: Shanda Miller, County Performance Auditor

From: Steve Mokrohisky, County Administrator
Greg Rikhoff, Director of Operations
Christine Moody, Budget & Financial Planning Manager

Date: March 25, 2016

Subject: Management Response to Financial Indicators Audit

Thank you for the opportunity to comment on the Lane County Financial Indicators Audit. We appreciate the thoughtful analysis of Lane County’s financial strengths, weaknesses, opportunities and threats. We generally agree with the findings of the audit, support the recommendations and commit to continuing our efforts to implement best practices that create long term financial stability.

Since this audit represents the first time you have conducted this process as part of the newly reestablished performance audit function in Lane County, allow us to be the first to express appreciation for the manner in which you completed your work. The process was open, inclusive and objective, with a deep respect for documented factual information.

Long Range Planning

Lane County has a strong history of solid financial management practices. In many critical areas, we lack the resources to provide the level of services that our community desires and deserves, however, we continue to make responsible use of limited taxpayer resources:

- We maintain one of the highest bond rating provided to public agencies
- We are responsibly managing debt and lowering costs to taxpayers
- We maintain a low-risk auditee status with our external financial auditors
- We have been responsive to resource constraints by reduced expenses
- We continue to repair local services by working with local residents to replace resources that have been cut by federal and state governments

Lane County adopted a new strategic plan in 2014 with three priority areas: 1) Safe, Healthy County, 2) Vibrant Communities, and 3) Infrastructure.

Since adoption of the new plan, we have updated and reported on the strategic plan on a quarterly basis to the Board of County Commissioners. The County has established strategies to achieve objectives in each of the three priority areas, and has further identified over 60...
measurable action items that support each of the strategies. Annually, the Board of County Commissioners reviews the Strategic Plan and makes necessary revisions and additions. More information on these status reports can be found on the County’s website at: http://www.lanecounty.org/StrategicPlanning

Lane County has utilized 5-year financial forecasts in both the Road Fund and General Fund for several years. These forecasts have aided in identifying areas of concern and implementing appropriate corrective actions. The County also began preparing and presenting quarterly financial reports to the Board of County Commissioners in mid-2014 to ensure that sound financial planning and management practices are part of our regular dialogue with decision makers. The focus of the financial reports is on monitoring the local and national economic conditions, and reviewing performance of the annual budget in several of our major funds.

Cost Control Efforts

We continue to focus on structural adjustments to expenses that are within our control, including moving to a self-funded model for employee health insurance that reduced costs by approximately $2,000,000 in the current fiscal year and continues to stabilize health insurance costs; a voluntary separation agreement that will reduce costs by approximately $500,000 in the first year; benefit adjustments for new employees that will reduce costs; and wellness initiatives that create a healthier workforce and stabilize the cost of medical claims. We have also focused on using one-time resources for one-time expenses, such as paying off debt, and thereby creating greater financial stability, reducing interest expenses and increasing ongoing resource availability.

Revenue

The loss of timber revenue since the mid-1980’s has increased the structural deficit in the General Fund and Road Fund and resulted in severe service reductions in many areas of the County. While the County is severely limited by property tax laws, and various other legislation that limits the ability to generate revenue at the local level, we have continued to look for ways to fund critical services.

Lane County voters passed a 5-year local option levy to restore jail beds and provide critical youth services in May of 2013. In 2011 and 2014 the County completed a review of fees to ensure that the level of fee was correct.

A new Revenue Task Force was formed by the County Administrator in early 2016 to look for short and long-term revenue options that will be presented to the Lane County Budget Committee this May. The goal of the Task Force is to identify opportunities to enhance and align resources with our highest priority services.
PERS Liability

Lane County has very little control over the funded level of the state pension system, which is calculated by PERS by comparing the County’s PERS account balances to the total amount likely to be paid to our retirees. PERS receives its funding from employer contribution rates and investment earnings.

As mentioned in the Audit, Lane County has policies that limit our exposure under PERS by specifically limiting the increase of salaries at or near retirement, which otherwise could unintentionally increase our PERS liability. Lane County has also taken other steps – such as prefunding a large portion of our unfunded liability in 2003 with a bond, paying off a portion of that bond early, and most recently creating a PERS reserve when the Oregon Legislature made changes to the system in 2013 that artificially lowered employer rates and were later overturned by the Courts (thereby increasing rates).

Beyond these policies, the funding level of Lane County’s PERS account is very dependent upon outside influences. While we will continue to identify ways to minimize our liability, our funding level and rates are largely outside of our control.

Capital Assets

One of the three priority areas identified in the Lane County Strategic Plan is infrastructure. In fact, we have identified at least seven specific action items focused on planning and investing in various infrastructure maintenance needs.

We are focused on developing a facilities condition assessment and plan, as well as a parks master plan update. To date we have completed an HVAC assessment, elevator assessment and roof assessment. Lane Events Center will begin its facility assessment in 2016. The Road Maintenance Division has already developed an asset management plan.

Lane County established a Capital Improvement Fund over 20 years ago to help fund maintenance of our aging building assets. That fund receives revenue through depreciation charges. Lane County also reserves funding for future replacement of vehicles, machinery and equipment such as computers and copiers. We are currently evaluating those rates as part of the FY16-17 budget process.

The County has sought reliable and detailed information in its work towards designing and securing funding for a replacement courthouse. A site needs assessments and space programming services with the National Center for State Courts (NCSC) has been completed. The County also successfully obtained $1.4 million in funding from the State to begin planning for a replacement of the inadequate current facility.

Beyond facility studies, the County has focused on consolidation of services within the existing Public Service Building (PSB), and improvement projects that focus on operational savings, such as the data center remodel and steam conversion projects in the PSB, and an HVAC update in the Jail that resulted in decreased utility charges.
Conclusion

Lane County will continue to plan for long term stability while responsibly managing limited resources to deliver vital, customer-focused services with passion, innovation and integrity.

The FY 16-17 budget will seek to reflect the priorities that our community has identified, while responsibly reducing ongoing expenses, aligning ongoing revenues with priority services, and planning for future needs.

Thank you for the hard work your team put into completing this Financial Indicators Audit. We believe the findings and recommendations will help increase awareness of our current financial condition and highlight the continual efforts to improve our financial outlook and the stability of services to our residents.