

**Transcript of the Board of Commissioners
Multnomah Building, Board Room 100
501 SE Hawthorne Blvd., Portland, Oregon
Thursday, May 23, 2013**

BUDGET WORK SESSION #8

Chair Jeff Cogen called the meeting to order at 9:12 a.m. with Vice-Chair Judy Shiprack and Commissioners Deborah Kafoury and Diane McKeel present. Commissioner Loretta Smith arrived at 9:28 a.m.

Also attending were Jenny Madkour, County Attorney, and Marina Baker, Assistant Board Clerk.

[THE FOLLOWING TEXT IS THE BYPRODUCT OF THE CLOSED CAPTIONING OF THIS PROGRAM. THE TEXT HAS NOT BEEN PROOFREAD, AND SHOULD NOT BE CONSIDERED A FINAL TRANSCRIPT.]

Chair Cogen: GOOD MORNING, EVERYONE. WELCOME TO THIS MORNING'S BUDGET WORK SESSION. WE'RE GOING TO BEGIN AN INFORMATIONAL ON THE FORECAST UPDATE.

Mr. Jaspin: GOOD MORNING. MIKE JASPIN FROM THE BUDGET OFFICE. WE'RE HERE TO UPDATE OUR FIVE-YEAR GENERAL FUND FORECAST. AS IN PAST FORECASTS, WE'LL FOLLOW THE SAME FORMAT. I'LL DO A BRIEF ECONOMIC OVERVIEW FOR THE SAKE OF BREVITY I'M GOING TO GLOSS OVER THE OREGON CONDITIONS, INSTEAD FOCUS MORE ON THE FEDERAL LEVEL BECAUSE THOSE ARE SOME OF THE IMPACTS THAT WILL IMPACT US AND THE ECONOMY MORE OVER THE NEXT ONE TO TWO YEARS. I HAVE A FEW TOO MANY SLIDES SO I'M GOING TO PLOW THROUGH THEM QUICKLY OR SKIP OVER A COUPLE. THAT LEADS INTO TALKING ABOUT THE LOCAL HOUSING MARKET WHICH LEADS INTO OUR PROPERTY TAX AND THE REVENUE FORECAST. WE'LL TALK ABOUT CURRENT REVENUES. WE'LL GIVE AN UPDATE ON CONTINGENCY, THEN LOOK OUT OVER THE NEXT FIVE YEARS AND AS I ALWAYS SAY WE WILL PROVIDE THE APPROPRIATE CAVEATS UNDER THE RISKS AND ISSUES SECTION. IN THE SUMMARY WE'LL MAKE SURE WE HAVE ALL THE PIECES AND PARTS FOR YOU AS WE MOVE FORWARD. I'M GOING TO SKIP OVER THE OREGON CONDITIONS. IT'S PRETTY STRAIGHTFORWARD. INSTEAD START OUR STORY COURTESY OF THE FEDERAL RESERVE. EARLIER THIS MONTH THEY RELEASED -- THEY DID A PRESS RELEASE AFTER THEIR OPEN MARKET COMMITTEE AND TOLD THE STORY OF THE ECONOMY QUITE WELL. THE ECONOMY HAS BEEN EXPANDING AT A VERY MODEST PACE. THE LABOR MARKET IS VERY SLOWLY IMPROVING BUT UNEMPLOYMENT REMAINS UNACCEPTABLY HIGH TO EVERYTHING. HOUSEHOLD SPENDING IS FINALLY LOOKING BETTER, BUSINESSES ARE DOING WELL. PROFITS ARE VERY GOOD. THE HOUSING SECTOR CONTINUES TO STRENGTHEN AFTER A NUMBER OF

YEARS OF EXTREME WEAKNESS. JUST SO WE GET EVERYTHING ELSE GOING IT SEEMS THE FEDERAL FISCAL POLICY IS NOW PROVIDING A DRAG TO THE ECONOMY. INFLATION IS RUNNING VERY LOW. IN FACT BELOW THEIR 2% LONG TERM OBJECTIVE, WHICH MEANS THAT THEY HAVE ALREADY LOWERED INTEREST RATES TO SHORT TERM INTEREST RATES TO ZERO AND WITH INFLATION WELL CONTAINED OR AS THEY WOULD SAY ANCHORED, THEY CAN ENGAGE IN QUANTITATIVE EASING. THAT'S WHAT YOU HEARD ABOUT IN THE NEWS. THEY HAVE BEEN BUYING \$40 BILLION A MONTH OF MORTGAGE-BACKED SECURITIES AND ANOTHER 45 BILLION IN U.S. TREASURY DEBT TO DRIVE DOWN LONG TERM INTEREST RATES TO HELP SUPPORT THE ECONOMY. THIS IS THE PART OF THEIR DUAL MANDATE. ESSENTIALLY WE HAVE STABLE PRICES SO MAYBE WE SHOULD FOCUS ON UNEMPLOYMENT. WE CAN SEE THE STORY IN A FEW PICTURES. THIS GRAPH SHOWS GROSS DOMESTIC PRODUCT, THE VALUE OF GOODS AND SERVICES PRODUCED IN THE U.S. IT'S A QUARTERLY CHANGE, SO OVER ON THE RIGHT SIDE OF THE GRAPH ARE THE FIRST QUARTER GDP, THE PRELIMINARY ESTIMATE CAME IN AT 2.5%. OVER THE LAST 15 QUARTERS OF THE RECOVERY, IT'S BEEN AVERAGING ABOUT 2.1% ANNUAL GROWTH PER QUARTER. OVER THE LAST FOUR QUARTERS, IT'S BEEN A BIT WORSE AT 1.8%. AS WE SAID BEFORE, THIS IS NOT FAST ENOUGH FOR US TO REDUCE UNEMPLOYMENT OR CONVERSELY INCREASE EMPLOYMENT AT A VERY FAST RATE. THIS CAN BE SEEN VERY GRAPHICALLY IN THIS GRAPH THAT WE HAVE SHOWN YOU BEFORE. WHAT THIS GRAPH SHOWS IS PERCENT JOB LOSSES IN EACH OF THE RECESSIONS SINCE WORLD WAR II. THE RED LINE IS OUR CURRENT RECESSION. SO OVER TWO YEARS WE LOST ABOUT 6.25% OF OUR JOBS NATIONALLY AND 3.25 YEARS AFTER BOTTOMING OUT WE'RE STILL NOT BACK TO WHERE WE WERE, NEVER MIND ADJUSTING FOR POPULATION. IF YOU DO SOME INCREDIBLY COMPLICATED MAP AND DRAW A LINE IT WILL BE ANOTHER YEAR AND A QUARTER BEFORE WE GET BACK TO WHERE WE STARTED. ON THE PLUS SIDE, AS A FEDERAL RESERVE NOTED, HOUSING IS STARTING TO RECOVER. SO WHAT THIS CHART SHOWS IS TOTAL HOUSING STARTS GOING BACK TO 1968, AND THE BLUE LINE IS ONE UNIT STRUCTURES AND THE RED, TOTAL STRUCTURES, INCLUDING MULTI-FAMILY HOUSING. THE GOOD NEWS IS IN THE LAST THREE OR FOUR YEARS THE TOTAL NUMBER OF HOUSING STARTS HAS DOUBLED. THE BAD NEWS IS TO BE ABLE TO SAY YOUR HOUSING STARTS HAVE DOUBLED AND STILL REALIZE THAT YOU'RE BARELY AT THE BOTTOM OF PAST RECESSIONS, TELLS YOU HOW SEVERE THE RECESSION IS AND IN FACT EVEN THOUGH IT'S ADDING TO THE ECONOMY AT THIS POINT, IT IS STILL VERY WEAK BY HISTORICAL STANDARDS. IF HOUSING IS ACTUALLY A POSITIVE FOR A CHANGE, WHAT'S HAPPENING AT THE FEDERAL LEVEL IS A NEGATIVE. YOU PROBABLY HEARD LAST WEEK THAT CONGRESSIONAL BUDGET OFFICE SAID THAT THE FEDERAL DEFICIT IS SHRINKING FASTER THAN THEY PROJECTED. IN SOME RESPECTS THIS IS GOOD NEWS BECAUSE WHAT IT MEANS IS THE FEDERAL GOVERNMENT WILL NOT FACE A DEBT CEILING EARLY THIS SUMMER. INSTEAD THAT'S PUSHED BACK INTO THE FALL. THE BAD NEWS AS THIS GRAPH SHOWS, WHICH ACTUALLY CAME OUT OF THAT REPORT, IS THAT

SPENDING AT THE FEDERAL LEVEL IS SHRINKING AND REVENUES ARE INCREASING, AND THIS GRAPH ISN'T THE EASIEST TO UNDERSTAND BUT ESSENTIALLY SHOWS OUTLAYS AND REVENUES AS A PERCENTAGE OF GROSS DOMESTIC PRODUCT. THINK OF IT AS HOW MUCH DO WE SPEND AS A PERCENT OF THE NATION'S INCOME. THE NEXT GRAPH SHOWS THIS A BIT BETTER. SO THIS GRAPH JUST SAYS, WHAT IS THE FEDERAL BUDGET SURPLUS OR DEFICIT AS A PERCENT OF GDP? IF YOU LOOK AT THE RED OVAL, IN 2009 WHICH WAS THE DEPTH OF THE RECESSION, IT WAS ABOUT 10% OF GDP, AND HAD BEEN SHRINKING RAPIDLY N.2013, WHICH IS THE CURRENT FISCAL YEAR, IT SHOULD BE DOWN TO ABOUT 4%. IF CURRENT TRENDS HOLD IT WILL BE DOWN TO 2% BY 2015. IN MANY RESPECTS, THIS IS WHEN THE FEDERAL RESERVE SETS FEDERAL FISCAL POLICIES SLOWING GROWTH. WHAT'S HAPPENING IS THE FEDERAL GOVERNMENT IS CONTRACTING OR INCREASING TAXES, WHICH IS REDUCING GROWTH ELSEWHERE. IN SOME RESPECTS BECAUSE THE FEDERAL GOVERNMENT IS SUCH A LARGE PORTION OF OUR ECONOMY, IT SWAMPS THE INCREASE IN OTHER AREAS OF THE ECONOMY SUCH AS HOUSING. THIS IS THE HEAD WIND WE FACE FOR THE REST OF THIS YEAR. IF THERE'S ANY GOOD NEWS ONCE WE GET THROUGH THIS YEAR, THE HEAD WINDS WILL DIMINISH. IT STARTS TO PLAY INTO OUR STORY OF BASICALLY JUST SLOW AN STEADY GROWTH. NOTHING TOO FAST, NOT DIPPING BACK INTO RECESSION. THE OTHER THING JUST FROM A PURELY POLICY PERSPECTIVE THAT'S INTERESTING, ESSENTIALLY THE FEDERAL GOVERNMENT IS DOING WE HAVE A LONG-TERM PROBLEM ESPECIALLY RELATED TO MEDICAL "CONSUMER REPORTS." FUNDAMENTALLY IT'S A PROBLEM WHEN YOU START CUTTING HEADSTART, NATIONAL PARKS AND DORKING AROUND WITH THE AIR TRAFFIC CONTROL SYSTEM TO TRY TO SOLVE YOUR LONG TERM HEALTH CARE COSTS. THAT'S ESSENTIALLY WHAT'S PLAYING OUT.

>> MIKE JASPIN GETS ALL POLITICAL ON US! I LIKE IT.

>> THE MORNING OF THE FEISTY ECONOMIST! [LAUGHTER]

>> AS THEY HAVE POINTED OUT, AS HEALTH CARE COSTS ACTUALLY HAVE STARTED TO MODERATE, IF WE CAN GET THEM TO MODERATE A COUPLE PERCENTAGE POINTS THE LONG TERM DEFICIT DOESN'T LOOK THAT BAD. THE OTHER PART OF THIS STORY THAT WE HAD THIS RECESSION IS ESSENTIALLY IT'S BEEN A BALANCE SHEET RECESSION. WHAT WE MEAN BY THAT IS AS PEOPLE SPENT TOO MUCH ON THEIR HOUSES, TOOK ON TOO MUCH DEBT AND IN SOME CASE THROUGH NO FAULT OF THEIR OWN LOST THEY'RE JOBS AND WERE UNABLE TO PAY THEIR MORTGAGES THEY HAD A VERY LARGE AMOUNT OF DEBT. DEBT IS SOMETHING YOU CANNOT FIX VERY QUICKLY. SO WHAT THIS GRAPH SHOWS IS TOTAL DEBT. IT'S IN TRILLIONS TO GIVE YOU A SENSE OF MAGNITUDE. THE ORANGE BARS IS MORTGAGE DEBT. SO THAT PEAKED IN 2008. YOU CAN SEE IT'S VERY SLOWLY COMING DOWN. THERE'S ONLY A COUPLE WAYS TO GET RID OF MORTGAGE DEBT. ONE, YOU

DO IT THE OLD FASHIONED WAY, YOU PAY YOUR MORTGAGE OR SELL YOUR HOUSE. THE OTHER THING IS PEOPLE GET FORECLOSED UPON AND THEY LOSE THEIR HOUSE AND THE MORTGAGE GETS WIPED OUT. THIS IS A LONG PROCESS, WHICH IS ONE REASON THE RECOVERIES VERY SLOW. ONE SIDE NOTE TO MAKE, YOU CAN LOOK AT THE RED BARS, WHICH IS STUDENT LOAN DEBT, WHICH IS WHEN PEOPLE SAY THAT'S EXPLODING, IT'S NOT ENOUGH TO CAUSE ANOTHER RECESSION BUT FOR INDIVIDUALS THAT TAKE ON EXCESSIVE DEBT AND AREN'T, SAY, ELECTRICAL ENGINEERS OR PEOPLE THAT WILL BE ABLE TO PAY THOSE DEBTS, SOME PEOPLE WILL EXIT COLLEGE AND BASICALLY BE BURDENED WITH THAT FOR A GOOD CHUNK OF THEIR ADULT LIFE. THE OTHER WAY TO THINK OF THE DEBT IS YOUR ABILITY TO SERVICE IT, WHICH IS, WHAT'S THE INTEREST RATE? SO WHAT THIS GRAPH DOES IS SHOW ESSENTIALLY THE 30-YEAR FIXED MORTGAGE. I'M GOING BACK TO 1971. WHAT YOU CAN SEE IS SINCE THE HIGH INFLATION YEARS OF THE EARLY '80s, LATE '70s, IT HAS STEADILY DECLINED. IF YOU LOOK AT THE FAR RIGHT, WHAT YOU'LL NOTICE IS THROUGH MOST OF THE 2000s WE WERE RUNNING AROUND 6%, THEN WHEN THE RECESSION HIT, THE FED LOWERED INTEREST RATES AND THEN ENGAGED IN QUANTITATIVE EASING AND HAVE DRIVEN DOWN LONG TERM INTEREST RATES SO YOU CAN GET A 30-YEAR FIXED LOAN FOR 3.5% PROBABLY WITHOUT PAYING ANY POINTS. IF YOU'RE AFTER A 15-YEAR THOSE ARE ROUGHLY 2.5%. ONE OF THE REASONS YOU WANT TO DO THAT IS IT ALLOWS PEOPLE TO REFINANCE. IT ALLOWS THEM TO REDUCE THEIR MONTHLY LIABILITIES SO THEY CAN SPEND ON OTHER THINGS. YOU CAN THINK ABOUT HOW THAT PLAYS OUT. WHEN WE TAKE -- ONE OF THE WAYS WE OFFSET IS THAT ABOUT HALF THE PEOPLE IN THE ROOM HAVE PROBABLY REFINANCED AT LEAST ONCE IF NOT TWICE, BY LOWERING MONTHLY PAYMENTS YOU CAN HELP ABSORB THAT. YOU CAN SEE IF PEOPLE CAN BORROW MONEY MORE CHEAPLY THEY CAN INVEST. IMAGINE YOU'RE A COUNTY THAT NEEDS TO REPLACE A BRIDGE THAT HAS TO BORROW ABOUT \$128 MILLION -- [LAUGHTER] IS THAT -- JUST TO THROW THAT OUT THERE. AND ALSO IT IMPACTS HOW BUSINESSES MAKE INVESTMENTS. THE DOWNSIDE OF THE LOWERING INTEREST RATES IS SOMETIMES IT DOESN'T ALWAYS HELP PEOPLE. IF YOU DON'T HAVE ANY EQUITY IN YOUR HOME AN CAN'T QUALIFY FOR THE LOAN YOU HAVE NOT BEEN ABLE TO REFINANCE, WHICH IS THE PURPOSE OF A LOT OF GOVERNMENT PROGRAMS IS TO HELP PEOPLE REFINANCE. THIS IS A GRAPH THAT ALSO KEEPS US UP AT NIGHT. WE SAID THAT QUANTITATIVE EASING WILL END AT SOME POINT. THAT'S WHAT THE MARKETS WERE ALL JITTERY ABOUT YESTERDAY AND EARLY THIS MORNING, WHEN WILL THE FED START BACKING OUT AND WHAT WILL HAPPEN WHEN THIS START BACKING OUT IS ONE OF TWO THINGS. IF THEY BACK OUT TOO EARLY WE'LL WITHDRAW SUPPORT FOR THE ECONOMY AND WE COULD SLIP BACK INTO RECESSION. IF IT'S POORLY MANAGED INTEREST RATES COULD GO UP TOO QUICKLY. TO TIE THIS BACK TO OUR OWN REVENUE SOURCES, IF INTEREST RATES GO UP IT BECOMES FAR MORE EXPENSIVE TO BUY A HOUSE. WE DON'T GET OUT OF THE RECESSION AS FAST AS WE THINK. THE FEDERAL RESERVE TERM IN

TESTIFYING THAT YESTERDAY SAYS IT PRETTY WELL. PREMATURE TIGHTENING OF MONETARY POLICY COULD LEAD TO RISES TEMPORARILY BUT ALSO WOULD CAUSE A SUBSTANTIAL RISK OF SLOWING OR ENDING THE RECOVERY. IN OTHER WORDS WE COULD SLIP BACK INTO RECESSION. FORSAKE OF EXPEDIENCY, I'M GOING TO SKIP TO THIS GRAPH. THIS GRAPH IS NOT OVERLY INTERESTING LOOKING BUT IT HELPS TELL A STORY. THIS SHOWS HOW HOLD FINANCIAL OBLIGATIONS AS A PERCENT OF DISPOSABLE INCOME. SO AT THE HEIGHT, RIGHT BEFORE THE RECESSION, HOUSEHOLD FINANCIAL OBLIGATIONS, WHICH FOR THIS GRAPH INCLUDES YOUR MORTGAGE PAYMENTS, PROPERTY TAXES, AUTO INSURANCE, AUTO PAYMENTS, ET CETERA, WAS GETTING CLOSE TO 19%. YOU CAN SEE NOW THAT IT'S DROPPED DOWN TO ABOUT 15.5%. ESSENTIALLY THIS IS IN AGGREGATE FOLKS HAVING MORE MONEY TO SPEND, BASICALLY REPRESENTING THAT PEOPLE ARE NOT AS STRETCHED AS THEY WERE PRIOR TO THE RECESSION. THAT DOESN'T MEAN THAT THEY NECESSARILY HAVE MORE MONEY TO SPEND, BUT THEY ARE NOT AS PRESSED. THE ONE DOWNSIDE ABOUT THIS GRAPH IS IT AGGREGATES EVERYBODY INTO ONE SUPERHUMAN BEING. WHEN WE LOOK AT DISTRIBUTIONAL IMPACTS, THIS IS ABSOLUTELY NOT THE CASE FOR EVERYONE. WE KNOW THAT THERE ARE PEOPLE IN THEIR 50s AND 60s THAT HAVE LOST THEIR JOBS, THAT ARE MORE LIKELY HAVE A VERY DIFFICULT TIME FINDING EMPLOYMENT AGAIN, AND LIKEWISE PEOPLE ARE COMING OUT OF COLLEGE THAT WILL BE BURDENED BY DEBT AND THEY WILL NOT BE REPRESENTATIVE OF THE SITUATION. SO THE QUESTION IS WHERE DOES THIS LEAVE US? SIMPLY PUT, THE FEDERAL POLICY WILL CONTINUE TO BE A DRAG ON THE ECONOMY FOR THE REST OF THE YEAR AS ASSUMING THE FED DOES NOT START WITHDRAWING STIMULUS TOO EARLY THAT WILL NOT BE A DRAG, BUT IN THE UPCOMING YEARS AS THEY DO THERE WILL BE A LOT OF UNCERTAINTY ABOUT HOW THEY DO THAT BECAUSE THE QUANTITATIVE EASING IS SOMETHING THAT REALLY HAS NOT BEEN DONE SINCE THE GREAT DEPRESSION, SO THERE'S A LOT OF UNCERTAINTY HOW THAT WILL PLAY OUT. THIS GRAPH, I WAS TRYING TO FIGURE OUT HOW TO SHOW HOW MUCH DRAG THE FEDERAL ECONOMY CAN CAUSE. THE BLUE BAR REPRESENTS THE GDP CHANGE FIRST QUARTER OF THIS YEAR, 2.5%. THE ORANGE BAR SHOWS CONTRIBUTION RESIDENTIAL CONSTRUCTION MADE TO THAT 2.5%. THE ORANGE BAR SHOWS HOW MUCH PERSONAL SPENDING CONTRIBUTED TO THAT 2.5%. WE HAVE TO HAVE A VERY STRONG QUARTER PRELIMINARILY AT LEAST FOR PERSONAL CONSUMPTION EXPENDITURE. THE GREEN BAR SHOWS THE DRAG OF THE FEDERAL GOVERNMENT. WHAT YOU CAN SEE IS THAT IT DRAGGED IT DOWN BY TWO-THIRDS OF A PERCENT, SO YOU CAN DO THAT SAME MATH IF YOU GO TO THE FINAL QUARTER OF LAST YEAR WHEN GDP GREW AT JUST A QUARTER OF A PERCENT. THAT'S ONE REASON, AGAIN, WE KEEP SAYING WE'RE GOING TO HAVE A SLOW, STEADY RECOVERY. SO ON TO OUR LOCAL STORY, I'M GOING TO START WITH HOUSE PRICE CHANGES. THERE'S A NUMBER OF INDEXES FOR LAST YEAR, HOUSE PRICES WERE 6.4% IF YOU USE THE S&P, ESSENTIALLY MID- TO HIGH SINGLE DIGITS. THE REASON I SHOWED

IT AS THE ENDS OF LAST YEAR IS OUR TAXES FOR THE UPCOMING FISCAL YEAR ESSENTIALLY ARE BASED ON PROPERTY VALUES AS OF JANUARY 1 OF THIS YEAR. WE WANT TO KNOW HOW MUCH DID THEY GO UP LAST YEAR. THERE'S TWO KEY NUMBERS TO PAY ATTENTION TO HERE. ONE IS WHAT'S HAPPENING IN SOUTHWEST PORTLAND. THAT'S WHERE COMPRESSION OCCURS. YOU CAN SEE THAT WHETHER YOU'RE USING THE RML S DATA OR DATA OUT OF ZILLO, THEY ALL SHOW HEALTHY GAINS. THOSE GAINS WILL HELP DRIVE DOWN COMPRESSION IN THOSE AREAS. THE OTHER ONE TO PAY ATTENTION TO IS GRESHAM-TROUTDALE. THERE'S NO COMPRESSION IN GRESHAM-TROUTDALE, BUT IN THAT AREA A LOT OF THOSE PLACES THAT ASSESSED VALUE EQUALS REAL MARKET VALUE, SO YOU DON'T NATURALLY GET THE 3% GROWTH. ON THE PLUS SIDE THOSE VALUES ARE INCREASING SO I HAVE INCLUDED TO THE RIGHT THE MOST RECENT INFORMATION WE HAVE. NOW WE'RE GETTING THAT VALUE GROWTH. IF WE DON'T SEE THE VALUE GROWTH FOR THIS YEAR WE'LL CERTAINLY SEE IT FOR NEXT YEAR. SO THIS IS THE CHART WE SHOW EVERY FORECAST. THE BLUE LINE SHOWS THE YEAR OVER YEAR CHANGE IN S&P, CASE SCHILLER PRICE INDEX. IT'S NICE TO SEE VERY HEALTHY GAINS ON THE RIGHT HAND SIDE. THE RED LINE IS IF YOU JUST TAKE THE PRICE AND DIVIDED BY PEOPLE'S INCOME. THE IMPORTANT THING TO REMEMBER IS PRICES ARE ABOUT WHERE THEY SHOULD BE RELATIVE TO PEOPLE'S INCOMES. BUT BECAUSE INTEREST RATES ARE SO LOW, THERE'S HOME PRICES CAN PROBABLY CONTINUE TO INCREASE FOR A WHILE BUT EVENTUALLY THAT WILL BE CAPPED. AS YOU THINK ABOUT WHAT HAPPENS WITH THE FEDERAL RESERVE, JUST THINK ABOUT INTEREST RATES. WHEN INTEREST RATES START GOING UP THAT WILL BASICALLY PROBABLY TAP OUT HOME PRICES.

>>> ON TO OUR CURRENT YEAR REVENUES. I WOULD LIKE TO SAY THE NEXT COUPLE SLIDES WILL BE THANKFULLY KIND OF BORING. SO SAME FORMAT AS IN PAST YEARS, FIRST COLUMN OUR ADOPTED BUDGET. THE NEXT COLUMN IS HOW WE CHANGE THE FORECAST IN OCTOBER, THE NEXT IS HOW WE'RE CHANGING IT IN MAY. WE'RE COLLECTING A SLIGHTLY HIGHER PERCENTAGE OF OUR PROPERTY TAXES SO THAT'S ABOUT \$740,000. WE HAD A RELATIVELY STRONG FALL FOR MOTOR VEHICLE RENTAL TAXES, SO WE'RE BUMPING THOSE UP. OUR RECORDING FEES AND IN PARTICULAR THE CAFA GRANT IS HIGHER IN PART BECAUSE WE HAVE NOT CUT OUR ASSESSMENT IN TAXATION AS MUCH SO WE'RE ENTITLED TO A LARGER SHARE OF THAT POT AND DELINQUENT INTEREST IS A BIT HIGHER. ANOTHER THING IS OUR ANIMAL SERVICES FEES ARE A BIT LOWER DUE TO SOME COLLECTION ISSUES THEY HAD IN THE MIDDLE OF THIS YEAR. SO ALL TOLLED WE'RE BUMPING REVENUE UP BY ABOUT 1.6, \$1.7 MILLION. FOR THE ENTIRE YEAR WE'RE DOWN ABOUT \$1.3 MILLION, ABOUT A THIRD OF A PERCENT. WE CONSIDER THAT GOOD AND MOVE ON WITH LIFE. JUST TO UPDATE YOU ON THE DIT, WE'RE ALWAYS THANKFUL FOR WHEN APRIL PASSES AND IT COMES IN AS FORECASTED. WE'RE RUNNING UP 6.3% FOR THE FISCAL YEAR. WE BUDGETED TO BE UP FOUR. 4.15%. WE FIGURE WITHIN 5% EITHER WAY WE'RE HAPPY AND MOVE

ON. ONE THING THAT IS NOTICEABLE, FOLKS ARE CARRYING MORE CREDITS, WHICH IN PART MAKES SENSE BECAUSE INTEREST RATES ARE SO LOW, IF THEY ARE ENTITLED TO A CREDIT OR REFUND THEY JUST TAKE IT AS A CREDIT. WHAT THIS MEANS IS WE'LL ACTUALLY SEE LESS REVENUES POTENTIALLY IN FUTURE YEARS. THAT'S ABOUT \$1 MILLION, NOT ENOUGH TO GET OVERLY EXCITED ABOUT GIVEN THE REVENUE SOURCE MOVES AROUND, BUT IT'S SOMETHING TO NOTE. NONE OF OUR OTHER REVENUES HAVE CHANGED SIGNIFICANTLY. I HAVE GRAPHS IN THE BACK OF THE PACKET IF YOU'RE INTERESTED IN ANY OF THOSE. A BRIEF UPDATE ON OUR CURRENT YEAR CONTINGENCY, THERE HAS NOT BEEN MUCH THAT HAS CHANGED SINCE I WAS HERE IN DECEMBER, SO ESSENTIALLY WE STARTED THE YEAR WITH ABOUT \$3.3 MILLION IN OUR UNEARMARKED CONTINGENCY. WE HAVE ABOUT \$3 MILLION LEFT. THE APPROVED BUDGET ASSUMES WE WON'T SPEND \$1.8 MILLION OF THAT AND IS ROLLED OVER INTO '14 AS ONE-TIME ONLY MONEY. THAT MEANS THERE'S \$1.2 MILLION THAT IS AVAILABLE TO USE IN THE CURRENT FISCAL YEAR OR IF IT'S UNSPENT IN THIS YEAR IT CAN BE ROLLED OVER INTO NEXT YEAR AS ONE-TIME-ONLY FUNDING. WE HAVE ADDRESSED ALL OF THE EARMARKS PREVIOUSLY. SO ONE-TIME RESOURCES AVAILABLE FOR NEXT YEAR, AGAIN, THIS LOOKS VERY SIMILAR TO DECEMBER. IN DECEMBER WE SAID THERE WAS 6.8 MILLION PLUS 6.6 MILLION FROM NOT NEEDING TO CONTRIBUTE YEAR TWO AND THREE TO THE LIBRARY, SO TO THAT WE ADD THE 1.6 MILLION THAT WE'RE BUMPING UP THE CURRENT YEAR FORECAST BY BECAUSE WE HAD ALREADY ADDRESSED THAT IN THE EARLIER FORECAST. THE OTHER THING THAT WE NEEDED TO TWEAK IS OUR RESERVE REQUIREMENTS ARE ACTUALLY A LITTLE BIT LOWER BECAUSE AS PROPERTY TAX INCREASES, PROPERTY TAX COMPRESSION INCREASES OUR TAX REVENUES GO DOWN WHICH MEANS WE DON'T NEED QUITE AS LARGE A RESERVE. THAT'S \$13.6 MILLION, ADD IN THE 1.8, THAT'S \$17.5 MILLION, WHICH IS FULLY BUDGETED IN THE APPROVED BUDGET. ONE NOTE IS IF YOU THOROUGHLY READ THE BUDGET DOCUMENTS WE HAD ABOUT 413,000 TUCKED AWAY IN A PROGRAM MARKED ONE TIME ONLY THAT WOULD BE AVAILABLE FOR NEXT YEAR. WHEN WE RECONCILED THIS FORECAST WITH THE APPROVED BUDGET THAT MONEY NEVER REALLY EXISTED. TO BE PERFECTLY HONEST, I DID NOT GET THE BWC GOING INTO NEXT YEAR TO THE RIGHT LEVEL AND THAT WAS WHERE WE PARKED IT UNTIL WE FIGURED OUT WHY OUR NUMBERS WEREN'T QUITE RIGHT. IN THE END MATH WORKED THE WAY IT SHOULD HAVE, BUT YOU DON'T HAVE THOSE FUNDS. THEY NEVER REALLY EXISTED. SO WHERE DOES THIS PUT US FOR THE FIVE-YEAR GENERAL FUND FORECAST? ESSENTIALLY WE'RE GOING TO CONTINUE TO SEE MORE OF THE SAME. IT'S BASICALLY PROJECTED AND UNEVEN RECOVERY OR IF YOU DON'T GET PANICKED ABOUT EVERY NEWS ARTICLE OR HEAD WIND, IT'S JUST SLOW AND STEADY. THAT'S WHAT WE THINK WILL CONTINUE FOR THE NEXT COUPLE OF YEARS. THERE'S VERY FEW CHANGES FROM OUR DECEMBER FORECAST. WE HAVE FORMALLY INCORPORATED THE LIBRARY DISTRICT. THE LIBRARY DISTRICT IMPACTS ARE NO DIFFERENT THAN WHAT WE TALKED ABOUT IN DECEMBER. IF YOU'RE

INTERESTED IN WHAT THOSE ARE, YOU CAN LOOK AT THE PRIOR FORECAST. WE OUTLINED IT IN THE BUDGET DIRECTOR'S MESSAGE AND WE WOULD BE HAPPY TO CHAT WITH YOU ABOUT IT. WE BUMPED UP THE MOTOR VEHICLE TAX A BIT. WHERE THAT LEAVES US IS ACTUALLY IN A GOOD PLACE TO BE. IT GETS BACK TO THAT DELICATE BALANCE THAT KAREN TALKED ABOUT A COUPLE OF WEEKS AGO. ESSENTIALLY OUR BUDGET IS BALANCED FOR THREE YEARS IF WE CONSIDER THE ADDITIONAL CONTINGENCY ONGOING, OR FIVE YEARS IF WE CONSIDER ONE TIME ONLY. ONE OF THE THINGS TO KEEP IN MIND IS THAT OUR BALANCE IS DEPENDENT IN PART ON DECREASING PROPERTY TAX COMPRESSION AND OVER ALL ABOVE AVERAGE REVENUE GROWTH. IT'S NOT SPECTACULAR BUT SLIGHTLY ABOVE AVERAGE, WHICH IS ENOUGH TO TAKE CARE OF OUR STRUCTURAL DEFICIT. A QUICK EXPLANATION, FOR FY-14 OUR ONGOING DISCRETIONARY GENERAL FUND IS 380 MILLION WITH ADJUSTMENTS. OUR EXPENSES ARE 378 MILLION. WE SET ASIDE THE 2.1 MILLION. WE CALLED IT ONGOING BUT LET'S CALL IT ONE TIME ONLY TO MAKE THE TABLE EASY TO UNDERSTAND. THAT GETS US BALANCED. FOR NEXT YEAR IF YOU ASSUME THAT'S ONE TIME ONLY MONEY YOU ONLY HAVE \$3 MILLION ADDITIONAL FUNDS TO SPEND IN '15. IF YOU TREAT IT AS ONGOING THEN YOU WOULD ONLY HAVE ABOUT 900,000. YOU GET TO 16, YOU CAN SEE THE PATTERN. IF YOU TREAT IT AS ONE TIME ONLY YOU HAVE A BALANCE OF ABOUT \$3 MILLION TO SPEND. IF YOU TREAT IT AS ONGOING YOU'RE BASICALLY BALANCED FOR THREE YEARS. IF YOU GET TO THE END OF OUR FIVE-YEAR FORECAST, IF YOU TREAT IT AS ONE TIME ONLY WE WOULD BE BALANCED. IF YOU TREAT ALL THE ADDITIONAL MONEY EACH YEAR AS ONGOING, ESSENTIALLY WE WOULD HAVE A \$3 MILLION GAP.

>> IS THAT WHAT YOU'RE TALKING ABOUT THAT 2.1 MILLION MONEY IN THE BUDGET TO DEAL WITH FEDERAL, STATE AND OTHER LOCAL CUTS?

>> RIGHT. SO IT'S ONE OF THOSE THINGS WHERE WE CAN ACTUALLY SUPPORT SOMETHING ONGOING FOR A FEW YEARS BUT OVER THE LONG TERM ANYTHING WE SPEND THAT MONEY ON WE WON'T BE ABLE TO SUPPORT. BUT 3 MILLION OUT OF 440 MILLION IS NOT EXACTLY -- THAT IS TOTALLY WITHIN OUR ERROR OF MARGIN THAT FAR OUT. I DON'T REALLY WANT TO -- WALK THROUGH ANY OF THESE IN ANY GREAT DETAIL EXCEPT PHONE WORE SET. THAT'S THE PERCENT CHANGE IN ONGOING REVENUE WHICH I HAVE HIGHLIGHTED. WHEN WE WERE HERE TALKING, DOING THE BIG FINANCIAL OVERVIEW, ONE OF THE THINGS WE SAID IS OVER THE LONG TERM, OUR GENERAL FUND REVENUES GROW ABOUT 3.25%. WHAT YOU SEE IS FOR THE NEXT COUPLE YEARS REVENUES ARE GROWING SLIGHTLY ABOVE THAT. ESSENTIALLY THAT'S COVERING UP OUR STRUCTURAL DEFICIT FOR THAT TIME PERIOD. SO LIKE I SAID BEFORE, THAT ASSUMES PROPERTY TAX COMPRESSION COMES DOWN AND WE HAVE REASONABLE BIT GROWTH. ONCE WE GET OUT TO 18, THAT STARTS TO GO AWAY AS WE GO BACK TO THE LONG TERM TREND. AT SOME POINT WE'LL BE DUE FOR ANOTHER RECESSION. RESESSIONS TEND TO COME EVERY EIGHT TO TEN YEARS. IF

OUR LAST ONE STARTED LATE IN 2007, AND ENDED IN 2013 WITHOUT DOING ANY ECONOMIC ANALYSIS ONE WOULD START TO GET WORRIED TOWARDS THE ENDS OF OUR FORECAST -- THE END OF OUR FORECAST PERIOD.

>> YOU'RE SHOWING US POTENTIALLY GOOD NEWS BUT YOU'RE GOING TO RAIN ON US A LITTLE BIT?

>> YES.

>> JUST WANTED TO MAKE SURE. [LAUGHTER]

>> SO I NEED TO -- WE NEED TO DO A FEW EXPENDITURE NOTES THAT ARE FLOWING -- FLOATING AROUND. OUR APPROVED BUDGET ASSUMES THAT OUR PERS RATE WHICH WE CHARGE TO DEPARTMENTS WHICH INCLUDES THE 6% PICKUP, BOND COSTS WILL GO UP BY 4.1% OF PAYROLL. WE ASSUME NO REFORM. JUST TO GIVE YOU A SENSE OF MAGNITUDE, EACH 1% MAGNITUDE EQUALS \$1.6 MILLION IN THE GENERAL FUND. THE GENERAL FUND IS ABOUT HALF OUR PERSONNEL COST, DOUBLE THAT YOU GET ALL THE FUNDS. SENATE BILL 822 WAS PASSED. I DON'T KNOW IF THE GOVERNOR HAS SIGNED IT, I ASSUME HE WILL IF HE HAS NOT. I WANT TO SHOW HOW THAT KIND OF IMPACTS THE COUNTY OVER THE LONGER TERM. BECAUSE WE WON'T HAVE OUR ACTUAL ACTUARIAL RATES FOR A WHILE, IT'S EASIER JUST TO LOOK AT THE GENERAL STATE OF LOCAL GOVERNMENT RATE POOL, WHICH THEY HAVE. PRE-SBE22, FOR THE LAST BIENNIUM, THE RATE FOR 15.1%, FOR THE CURRENT BIENNIUM THEY WENT UP, WHICH IS MORE THAN OUR 4.1%. SB822 DOES REALLY TWO THINGS. THE FIRST IS IT CHANGES HOW COLAS ARE AWARDED. THAT'S SORT OF A PERMANENT LONG TERM CHANGE REDUCING THE RATES DOWN TO 17.2%. THE OTHER THING IT CHANGES THE COLORING MECHANISM, WHICH IN LAYMAN'S TERMS IS SAYING YOU HAVE A BIG UNFUNDED LIABILITY. RATHER THAN FORCING YOU TO PAY IT OFF AS QUICK AS WE HAD WE'RE GOING TO LET YOU PAY IT OFF OVER A LONGER TIME PERIOD, SO THAT DRIVES THE RATE DOWN TO ABOUT 15.3%, BASICALLY BACK WHERE WE WERE FOR THE LAST BIENNIUM. BUT HERE'S WHERE THE PROBLEM STARTS TO COME IN. IF YOU LOOK AT WHAT'S GOING TO HAPPEN IN THE NEXT BIENNIUM, YOU UNDER UP WHERE WE ARE TODAY, -- ARE TODAY. IT HELPS MODERATE THE RATES. IT'S A SHORT-TERM SOLUTION. ONE OF THE THINGS THAT WHEN YOU JUST CHANGE THE RATE COLORING, WHAT YOU'RE REALLY DOING IS ACTUALLY TAKING SAVINGS TODAY BUT INCREASING YOUR COST A LITTLE BIT LATER OUT. INCREASING YOUR COSTS MORE LATER OUT. THAT'S HOW COME YOU ACTUALLY SEE THAT WITH -- IT'S IN THE BUDGET NOTE THERE. THAT'S HOW COME IT LOOKS WORSE AS YOU GO FURTHER OUT. JUST BRIEF PERSPECTIVE, OUR UNFUNDED LIABILITY AS OF END OF 2011, WE DON'T HAVE OUR 2012 NUMBERS YET, WAS \$291 MILLION. IT WILL BE LESS WITH EARNINGS BECAUSE WE HAD FAIRLY ROBUST EARNINGS LAST YEAR. OBVIOUSLY THERE'S A LOT OF LEGAL UNCERTAINTY. WE HAVE A FAIR

BIT OF FLEXIBILITY BECAUSE OF OUR PERS BOND DEFEAT TO FIGURE OUT HOW TO ADJUST OUR INTERNAL RATES TO DEAL WITH THIS OVER TIME.

>> I HAVE A QUESTION. CAN WE GO BACK TO THAT SLIDE? IF WE'RE GOING DOWN TO 15.3 DOES THAT MEAN THERE'S AN EXTRA \$6.4 MILLION IN THE GENERAL FUND?

>> CONCEIVABLY, YES.

>> IT'S GOING TO BACK UP.

>> RIGHT. EXACTLY.

>> WHERE DOES THAT MONEY GO?

>> SO IF RIGHT NOW WHAT WE WOULD END UP DOING IS PROBABLY DEPOSITING IT IN THE PERS BOND FUND BECAUSE WE HAVE NOT REDUCED THE RATES WE ARE CHARGING TO OUR DEPARTMENTS. WE CAN MAKE THAT DECISION OURSELVES AT ANY TIME, WHICH IS A MUCH LARGER POLICY --

>> IT'S JUST SITTING THERE.

>> RIGHT.

>> MY UNDERSTANDING IS WHAT WE HAVE BEEN DOING IN RECENT YEARS, WHETHER IT'S BEEN YEAR BY YEAR FLUCTUATIONS IN THE PERS FUND BUT WE HAVE KEPT THE MONEY THERE TO SMOOTH OUT THE INCREASES WHICH IS ONE OF THE LAST FEW YEARS WE HAVEN'T HAD TO MAKE CUTS WHEN PERS HAS INCREASED.

>> RIGHT. I WANT TO ECHO WHAT THE CHAIR IS SAYING. MARK CAMPBELL, CHIEF FINANCIAL OFFICER. AS MIKE SAID, WE WILL PROBABLY DEPOSIT THIS MONEY, CONTINUE TO CHARGE THAT RATE, DEPOSIT IT IN THE PERS BOND FUND. FROM ONE OF THE THINGS WE'RE GOING TO BE DOING OVER THE NEXT SEVERAL MONTHS, SEATTLE NORTHWEST, OUR FINANCIAL ADVISOR, IS CONTRACTING WITH ECHO NORTHWEST TO PERFORM AN ANALYSIS FOR JURISDICTIONS INTERESTED IN KNOWING WHETHER OR NOT IT WOULD BE WORTHWHILE TO ISSUE ADDITIONAL PENSION BONDS. THAT ANALYSIS IS GOING TO START PRETTY SOON. I THINK THEY SAID THEY WOULD HAVE THE PRELIMINARY ANALYSIS DONE BY THE MIDDLE OF JULY. SO WHAT WE WANT TO DO IS TAKE AN ANALYSIS ABOUT WHETHER OR NOT WE SHOULD ISSUE -- WHETHER IT MAKES SENSE TO ISSUE ADDITIONAL PENSION BONDS AND WEIGH THAT AGAINST TAKING SOME OF THE SAVINGS THAT WE BUILT UP IN THE PERS BOND FUND AND MAKING A CASH PAYMENT TO PERS. THE IDEA WOULD BE THAT IF WE COULD REDUCE OUR UNFUNDED LIABILITY THAT PERHAPS THE RATES THAT WE'RE PAYING NOW WILL COME DOWN ENOUGH

THAT WE WILL GET SUSTAINED DECREASES. DOES THAT MAKE SENSE? SO IN OTHER WORDS, THE 4.4% REDUCTION THAT IS IN DB822, WE WOULD LIKE TO SEE IF WE CAN CONVERT THAT INTO AN ONGOING REDUCTION.

>> I GUESS MY FINAL QUESTION WOULD BE, THESE ARE NOT RESTRICTED DOLLARS. THEY ARE BASICALLY GENERAL FUND DOLLARS. THE 6.4 SAVINGS.

>> YES.

>> OKAY. WE JUST DECIDED THAT THIS IS AN OPPORTUNITY.

>> YES. ALSO WE BUILT THE BUDGET BEFORE THE LEGISLATURE WENT INTO SESSION. NOT DONE YET.

>> WE HAVEN'T MADE A DECISION YET. THIS IS A RECOMMENDATION.

>> BUT I'M JUST TRYING TO FIGURE OUT IF THIS IS, YOU KNOW, GENERAL FUND MONEY, IF IT'S NOT RESTRICTED. I JUST WANT TO KNOW WHERE OUR MONEY IS.

>> SO COUPLE OTHER LOOSE ENDS, IN THE FORECAST WE DID NOT ACCOUNT FOR THE RECENT CITY-COUNTY AGREEMENT ON PRESERVING COMMUNITY SERVICES, SO WE WILL NEED TO HAVE AN AMENDMENT PACKAGE BEFORE WE ADOPT THE BUDGET. THAT WILL MAKE THE PICTURE A LITTLE BIT -- NOT QUITE AS ROSY BUT IT'S NOT GOING TO DRAMATICALLY CHANGE OUR LONG-TERM FORECAST. WE ALSO DID NOT -- THERE WILL BE A HEALTH DEPARTMENT AMENDMENT COMING FORWARD IN THE NEAR FUTURE RETURNING ABOUT \$74,000 OF UNUSED BALANCE FROM THE ELECTRONIC DENTAL RECORDS PROJECT. AS WE MENTIONED WHEN WE WERE DOING THE FINANCIAL OVERVIEW, WE HAVEN'T EXPLICITLY MODELED IN THE CADILLAC HEALTH INSURANCE TAX WHICH IF I REMEMBER CORRECTLY POPS IN ABOUT 2018. THAT COULD BE A BIG OR SMALL NUMBER. WE WILL BE INCORPORATING PROBABLY A RANGE INTO OUR FALL FORECAST NOW THAT THINGS ARE STARTING TO FIRM UP. TO GIVE YOU AN IDEA HOW MUCH THAT NUMBER HAS CHANGED, WHEN THE CONGRESSIONAL BUDGET OFFICE RELEASED THEIR REPORT ON THE FEDERAL DEFICIT ONE OF THE THINGS THEY ALSO DID IS UPDATE WHAT THEY THINK THE CADILLAC TAX WILL BRING IN AND THEY ACTUALLY REDUCED THAT ESTIMATE BY NEARLY 40%. SO WHAT THAT TELLS ME IS THAT THERE'S A HUGE VARIANCE AND BECAUSE THE TAX IS SO HIGH IT'S LITERALLY 40%. THAT THERE WILL BE A LOT OF MANEUVERING NOT TO PAY THAT. THAT IS SOMETHING TO COME.

>> TAX BE 40% OF WHAT WE PAID FOR HEALTH CARE COSTS?

Mr. Jaspin: THE TAX IS 40%. I DON'T KNOW OFF THE TOP OF MY HEAD. IF IT'S 40% -- IS IT 40% OF ANYTHING OVER THE THRESHOLD OR 40% OF THE

PREMIUM? THERE'S A BIG PENALTY FOR GOING OVER. SO A COUPLE OF COST NOTES, COMMISSIONERS HAD ASKED PREVIOUSLY WHAT OUR SAVINGS ARE FROM LOWER MEDICAL-DENTAL RATES. WE HAVE SOME RULES OF THUMB WE USE. I THOUGHT I WOULD REITERATE THOSE. I THINK WE SAID THAT OVER THE LAST TEN YEARS OR SO OUR MEDICAL-DENTAL RATES HAD INCREASED BY ABOUT 7.5%, 7%. THAT TRANSLATES INTO ABOUT \$2 MILLION IN THE GENERAL FUND SO YOU CAN DOUBLE THAT AND GET ALL FUNDS. WE HAD ASSUMED THEY WOULD INCREASE BY 4.5%, SO YOU CAN DO THE MATH TO GET A ROUGH ESTIMATE OF THAT. SO TO QUICKLY WRAP UP, THE BIG RISK IS IF WE HAVE A WEAKER ECONOMY OR SLOWER HOUSE APPRECIATION THAT WOULD HIT OUR PROPERTY TAXES AND OUR VIT, BECAUSE WE HAVE A VIT RESERVE AND WE DON'T SEE A DRAMATIC CHANGE IN WHAT THOSE WOULD BE, PRETTY WELL BUFFERED. WE ALWAYS HAVE TO TALK ABOUT INFLATION, CPI, BECAUSE IT IMPACTS WAGES. THAT DOESN'T SEEM TO BE AN OVERLY BIG ISSUE IN THE SHORT TERM. THE BIG ISSUE IS WHAT WILL HAPPEN WITH THE FEDERAL FISCAL AND MONETARY POLICY. WILL THE DEBT CEILING TURN INTO A FIASCO LIKE IT DID A FEW YEARS AGO? WHAT WILL BE THE TIMING AND IMPACTS AS THE FEDERAL RESERVE STARTS TO TIGHTEN? WE HAVE THE NORMAL OTHER ISSUES THAT COULD CROP UP. MORE LOCALLY THE STATE IS STILL GOING THROUGH THEIR BUDGET LEGISLATION. THE LIBRARY DISTRIBUTE COME PRESENTATION IMPACT ESTIMATE IS JUST THAT, AN ESTIMATE. I THINK WE HAVE BEEN SAYING IF WE'RE WITHIN \$1 MILLION EITHER WAY WE CONSIDER OURSELVES FORTUNATE IN OUR ESTIMATING. SO IN SUMMARY, THE GENERAL FUND REVENUE FORECAST IS UP ABOUT 1.6 MILLION FOR THE CURRENT YEAR, BUT FOR THE CURRENT FORECAST PERIOD BUT OVER ALL IT'S DOWN 1.34 MILLION, ABOUT A THIRD OF A PERCENT. THERE'S NO ACTION THE BOARD HAS TO TAKE TO DEAL WITH THAT. FOR THE CURRENT FISCAL YEAR WE HAVE ABOUT \$1.2 MILLION IN UNALLOCATED CONTINGENCY. YOU CAN CARRY IT OVER TO NEXT YEAR AS ONE TIME ONLY IF YOU DON'T SPEND IT. FOR '14 THE GENERAL FUND ONE TIME ONLY RESOURCES ARE 17.5 MILLION AND ARE FULLY ALLOCATED IN THE APPROVED BUDGET. THE '14 GENERAL FUND APPROVED BUDGET THAT YOU'RE LOOKING AT IS BALANCED. AND THE GENERAL FUND IS BALANCED FOR THE NEXT THREE TO FIVE YEARS DEPENDING ON HOW YOU TREAT THAT 2.1 MILLION. MOST OF THE RISKS TO THE ECONOMY AND REVENUE ARE LARGELY OUTSIDE OF OUR CONTROL. THE ONE FINAL NOTE IS THIS IS WE HAVE FINALLY GOT TO THAT DELICATE BALANCE OF HAVING OUR REVENUES AND EXPENDITURES IN LINE. I DON'T THINK PEOPLE FULLY APPRECIATE HOW MUCH WORK THAT HAS TAKEN OR WE FORGET HOW HARD THAT HAS BEEN, SO ONE OF THE THINGS I WENT BACK LAST NIGHT AND LOOKED AT WHERE WE WERE ABOUT FOUR YEARS AGO, AND FOUR YEARS AGO IF I WERE SITTING HERE WHAT I SAID WAS THE FY2010 FORECAST ASSUMES A SEVERE RECESSION WITH RIDING UNEMPLOYMENT, TIGHT CREDIT, FALLING REAL ESTATE PRICES AND GENERAL UNCERTAINTY AND FEAR. 36.5 MILLION IS CAUSED BY REDUCED REVENUES OF 19 MILLION AND ONGOING STRUCTURAL DEFICIT OF 5.3 MILLION, ONE TIME ONLY FUND SUPPORTING PROGRAMS OF

4.2 MILLION. ADDITIONAL SPENDING AND ANNUALIZED PROGRAM COSTS OF 4.3 MILLION, ESSENTIALLY DORKING AROUND WITH BUDGET GAMES A LITTLE BIT. OUR PERSONNEL COSTS WERE \$3.7 MILLION HIGHER THAN WE HAD PLANNED FOR. SO ALL SAID WE MANAGED TO ADDRESS ALMOST ALL THOSE THINGS OVER THE LAST FOUR YEARS. WITH THAT, I WILL WRAP UP.

>> THANKS. QUESTIONS FOR MIKE OR COMMENTS? THANKS, MIKE.

Chair Cogen: NOW WE ARE GOING TO GET A LITTLE UPDATE ON OUR FINANCIAL AND BUDGET POLICIES. MARK.

Mr. Campbell: THIS IS IN KEEPING WITH MY CURRENT THEME OF JUST IN TIME PUBLICATIONS. [LAUGHTER] SO WHAT I WANTED TO DO WAS GIVE YOU AN OVERVIEW OF THE FISCAL YEAR 2014 FUNCTION POLICIES AND THE GOOD NEWS IS THAT THEY HAVEN'T CHANGED FROM FISCAL YEAR 2013, SO THAT COULD BE THE END OF MY PRESENTATION. [LAUGHTER] BUT WHAT I THOUGHT I WOULD WANT TO TALK ABOUT TODAY IS JUST GIVE AN OVERVIEW OF THE POLICIES AND WHY WE HAVE THEM. BRIEF HISTORY OF THE POLICIES, AND THEN WE HAVE A BUNCH OF THINGS THAT GUIDE OUR WORK IN FINANCE AND BUDGET AND THERE ARE POLICIES, PRODUCERS AND PRONOUNCEMENTS. I WANT TO DESCRIBE HOW THEY DIFFER AND HOW THEY DIRECT OUR WORK. THE POLICIES THAT WE HAVE ADOPTED AND THEY ARE ADOPTED ANNUALLY WITH THE BUDGET, REFLECT THE BOARD'S DIRECTION. THEY ARE YOUR FINANCIAL POLICIES. THEY HAVE FIVE ESSENTIAL GOALS. THOSE ARE TO PRESERVE CAPITAL THROUGH PRUDENT BUDGETING AND FINANCIAL MANAGEMENT, TO MAKE THE MOST PRODUCTIVE USE OF FUNDS TO MEET GOALS ESTABLISHED BY THE BOARD, TO ACHIEVE A STABLE BALANCE BETWEEN ONGOING COMMITMENTS AND REVENUES, TO LEVERAGE LOCAL WITH FEDERAL AND STATE FUNDS AND FINALLY TO SUPPORT GOVERNMENTAL ACCOUNTABILITY. WE GO THROUGH AN ANNUAL REVIEW OF THESE POLICIES AND WE COME BEFORE YOU TO UPDATE YOU ON THE STATUS OF THE COMPLIANCE WITH THOSE POLICIES. WE HAVE DEVELOPED 15 POLICY STATEMENTS AND THESE HAVE BEEN DEVELOPED AND REFINED OVER TIME. SO AS I MENTIONED, THERE WERE NO REAL SIGNIFICANT POLICY CHANGES BETWEEN 2013 AND 2014. AS YOU'LL RECALL, WE DID A PRETTY THOROUGH OVERHAUL OF THE POLICIES IN FISCAL YEAR 2013. THAT CHANGE WAS DESIGNED TO STREAMLINE AND CLARIFY SOME OF THE LANGUAGE THAT WAS IN THE POLICIES. WE HAD SOME POLICIES THAT WERE REALLY NOT POLICIES. FOR EXAMPLE WE HAD A POLICY THAT SAYS WE'LL HAVE AN EXTERNAL AUDIT. WE ALWAYS HAVE AN EXTERNAL AUDIT. IT'S A REQUIREMENT. IT'S A GOOD THING THAT WE HAVE IT, BUT IT'S NOT POLICY. THEN WE ALSO TOOK AND REVIEWED THE GOVERNMENT FINANCE OFFICERS ASSOCIATION'S BEST PRACTICES AROUND FINANCIAL POLICY DEVELOPMENT, AND WHAT WE DISCOVERED IS THAT WE ARE IN COMPLIANCE WITH MOST IF NOT ALL OF THE SIGNIFICANT POLICIES THAT THEY SAY A LOCAL GOVERNMENT SHOULD MAINTAIN. THERE'S ONLY A COUPLE MINOR CHANGES

IN FISCAL YEAR 2014 IN THE POLICIES. WE TOOK OUT REFERENCES WHERE IT EXISTED TO THE LIBRARY LOCAL AUCTION LEVY, FOR EXAMPLE, AND WE PROVIDED UPDATES ON STATUS AND PROGRESS TOWARD GOALS SINCE THE PREVIOUS YEAR. WE HAVE HAD POLICIES DATING BACK TO THE 1970s. MANY OF THESE WERE INFORMAL. THEY WEREN'T NECESSARILY WELL DOCUMENTED. SOME WERE BUDGET POLICIES. SOME WERE ACCOUNTING POLICIES. OTHERS WERE SORT OF A HYBRID. BUT THE THING THAT REALLY CRYSTALLIZED THE WAY THAT WE BRING THESE TO YOU NOW WAS AS A RESULT OF THE ECONOMIC DOWNTURN THAT TOOK PLACE IN FISCAL YEAR 2001. I GUESS THE FIRST RECESSION OF THE 2000s. JUST TO KIND OF GIVE YOU A PICTURE OF WHAT WAS HAPPENING BACK THEN, WE HAD ENGAGED IN A NUMBER OF BAD BUDGETING PRACTICES FOR A FEW YEARS. I THINK THAT WE ACTUALLY WERE LULLED INTO THE SENSE THAT MAYBE MEASURE 4750 WASN'T GOING TO HAVE AS BIG AN IMPACT ON US AS IT DID. WHAT HAPPENED WAS WHEN THE RECESSION HIT, WE SPENT OUR RESERVES DOWN TO A POINT THAT WAS ACTUALLY FAIRLY RISKY. WE WERE AT PROBABLY A PERCENT TO A PERCENT AND A HALF TOTAL GENERAL FUND REVENUES, AND AS A RESULT, WE RECEIVED A LOVE LETTER FROM MOODY'S, AND THEY SAID, WE'RE KIND OF CURIOUS ABOUT WHAT'S GOING ON UP THERE IN MULTNOMAH COUNTY. WE WOULD LIKE TO HAVE YOU COME AND TALK TO US ABOUT WHAT YOU'RE DOING. WE'RE GOING TO, BY THE WAY, PUT YOU ON A NEGATIVE CREDIT WATCH. SO AS A RESULT OF THAT, WE GATHERED UP THE POLICIES IN THE FORMAT THAT THEY ARE TODAY. WE DID A NUMBER OF THINGS, BUT AS IT RELATES TO POLICIES WE GATHERED THEM UP IN THE FORMAT THEY ARE TODAY AND WE INTEGRATED THEM IN A WAY THAT WE COULD DEMONSTRATE THAT THE COUNTY HAD A COMMITMENT TO REGAINING FINANCIAL STABILITY. ESSENTIALLY THE BIGGEST THING RELATED TO THAT WAS WE HAD TO DEVISE A PLAN TO GET OUR RESERVES BACK TO WHAT THEY CONSIDERED ACCEPTABLE LEVEL. FROM THE STANDPOINT OF AS A LOCAL JURISDICTION WHY WOULD WE HAVE POLICIES, THEY STATE THE GOALS AND PREFERENCES OF THE GOVERNING BODY AS IT RELATES TO FINANCIAL MANAGEMENT. FROM THE STAFF STANDPOINT IT DOES PROVIDE FOR A PRUDENT FINANCIAL MANAGEMENT AND IT GIVES US GUIDANCE IN HOW WE GO ABOUT OUR WORK. IT GIVES US CONFIDENCE THAT FINANCIAL DECISIONS ARE NOT MADE IN AN AD HOC MANNER. BUT IT'S IMPORTANT THAT POLICIES ALSO HAVE SOME FLEXIBILITY AND THE ONE I LIKE TO CITE IS IN HOW ONE TIME ONLY REVENUES ARE USED. WE DON'T NECESSARILY SAY ONE TIME ONLY REVENUES MUST BE SPENT ON ONE TIME ONLY RESOURCES. OR EXPENDITURES. WE RECOGNIZE THERE ARE SOME TIMES WHEN ONE TIME ONLY REVENUES MIGHT BE USED FOR BRIDGE FINANCING FOR A SPECIFIED PERIOD OF TIME UNTIL THINGS TURN AROUND. ONE OF THE OTHER IMPORTANT REASONS TO HAVE POLICIES IS THAT THEY HELP YOU TO IMPROVE OR MAINTAIN YOUR CREDIT RATING. WHEN I WAS PUTTING THE CAPITAL BRIEFING TOGETHER YOU SAW LAST WEEK, I WAS LOOKING AT SOME OF OUR PREVIOUS DEBT ISSUES, AND PRIOR TO 2003, THE HIGHEST RATING WE HAD ON ANY OF OUR FULL FAITH AND CREDIT ISSUES WAS AAA3.

THE HIGHEST RATING YOU CAN GET FROM MOODY'S IS AAA. WE HAVE TRIPLE-A RATING ON OUR GENERAL OBLIGATION BONDS BECAUSE THEY ARE SUBJECT TO VOTER APPROVAL. THE HIGHEST RATING YOU COULD GET ON FULL FAITH AND CREDIT ISSUE IS A AA-1. THAT'S WHERE WE'RE AT TODAY. WHEN I WAS THINKING ABOUT THIS IN TERMS OF WHERE WE WERE AND WHERE WE ARE, IN TODAY'S MARKET, THAT'S PROBABLY A DIFFERENCE OF A PERCENT IN TERMS OF WHAT YOUR BORROWING COSTS WOULD BE. FOR EXAMPLE HAD WE BEEN AT THE PLACE WE WERE TEN YEARS AGO, WE MAY NOT HAVE BEEN ABLE TO BORROW THE FULL AMOUNT THAT WE WERE -- THAT WAS OUR SHARE OF THE SELLWOOD BRIDGE PROJECT. SO AS I MENTIONED, WE DID A RATHER SIGNIFICANT REVIEW OF THESE POLICIES IN 2013. THE POLICIES ARE JOINTLY MANAGED BY FINANCE AND BUDGET. WE TOOK A CRITICAL LOOK AT WHAT WAS INCLUDED IN THE POLICY DOCUMENT AND DETERMINED THAT THERE WERE SOME WHERE THE BOARD DID NOT EXERCISE DISCRETION TO TAKE AN ACTION, SO AS I WAS THINKING ABOUT THIS, I KIND OF -- I WANTED TO CATEGORIZE THIS BECAUSE I DON'T THINK IT'S WELL UNDERSTOOD BY EVERYONE WHAT THE DIFFERENCE IS BETWEEN THE DIFFERENT THINGS THAT WE OPERATE UNDER. OUR POLICY IS SOMETHING THAT IS AT YOUR DISCRETION. FOR EXAMPLE, THE POLICY WE HAVE ON RESERVES, WE STATED A PREFERENCE WE WANTED A RESERVE THAT EQUALS 10% OF GENERAL FUND REVENUES. THERE'S NO REAL HARD AND FAST RULE ON THAT. SOME PEOPLE HAVE A HIGHER THRESHOLD, SOME HAVE A LOWER THRESHOLD. IT'S ESSENTIALLY WHAT YOUR COMFORT LEVEL IS WHERE THAT NEEDS TO BE GIVEN ALL THE FACTORS THAT INFLUENCE OUR BUDGET. PRONOUNCEMENT IS SOMETHING THAT'S A REQUIREMENT THAT'S ESTABLISHED EITHER IN STATUTE OR SET BY STANDARD. WE OPERATE UNDER WHAT ARE KNOWN AS GENERALLY ACCEPTED ACCOUNTING PRINCIPLES. WE HAVE AN OVERSIGHT BOARD THAT'S THE GOVERNMENT ACCOUNTING STANDARDS BOARD WHICH FROM TIME TO TIME WILL ISSUE PRONOUNCEMENTS ABOUT HOW THINGS SHOULD BE REPORTED IN YOUR FINANCIAL REPORT OR WHAT THINGS YOU NEED TO BE KEEPING AN EYE ON. IT'S GENERALLY DESIGNED SO THAT INVESTORS HAVE A STANDARD WAY OF LOOKING AT YOUR BOOKS. BUT THERE ARE TIMES WHERE PRONOUNCEMENTS CAN HAVE POLICY IMPLICATIONS. FOR EXAMPLE, WE HAVE A PRONOUNCEMENT ON HOW FUND BALANCES ARE ALLOCATED. FUND BALANCES CAN BE UNRESTRICTED, RESTRICTED, COMMITTED -- THERE ARE SEVERAL CATEGORIES. THE BOARD CAN BY ITS POLICY DIRECT WHERE THOSE BALANCES ARE, WHAT CATEGORY THOSE BALANCES APPLY TO. THEN FINALLY, WE HAVE ADMINISTRATIVE PROCEDURES. THOSE ARE ESSENTIALLY OPERATIONAL DIRECTIVES THAT ARE DESIGNED TO STANDARDIZE PROCESSES ACROSS COUNTY DEPARTMENTS AND THEY ARE DELEGATED BY THE AUTHORITY OF THE COUNTY CHAIR. SO AS I MENTIONED, WE HAVE 15 POLICY STATEMENTS. THERE THEY ARE. I WON'T GO INTO DETAIL ON ALL OF THESE, BUT I THINK A COUPLE OF THE ONE I WANT TO CALL OUT THAT I THINK ARE KIND OF CRITICAL TO WHERE WE HAVE BEEN OR WHERE WE ARE TODAY, ONE IS ON FEDERAL-STATE GRANTS AND REVENUE FOUNDATIONS. THE

BOARD HAS A POLICY THAT WE WILL LEVERAGE THOSE TO THE EXTENT POSSIBLE, SO IN OTHER WORDS, THE IDEA IS THAT WE SPEND OTHER PEOPLE'S MONEY FIRST. WE ALSO -- THE OTHER ONE THAT I THINK IS IMPORTANT IS USE OF ONE-TIME-ONLY RESOURCES. IN THE PAST, AND WHEN I DESCRIBE THE BAD BUDGETING PRACTICE PRIOR TO 2001, WE JUST LUMPED ALL OUR REVENUE NEWS INTO A BUCKET AND WE DIDN'T DISTINGUISH WHETHER THEY WERE ONE TIME ONLY OR ONGOING. SO THAT LED IN A LOT OF CASES TO US SPENDING ONE-TIME-ONLY REVENUES ON ONGOING PROGRAMS. NOW WE SEGREGATE THAT OUT, THE POLICY STATES THAT THE BUDGET OFFICE IN THE BUDGET DOCUMENT WILL MAKE A LIST OF HOW ONE TIME ONLY RESOURCES ARE ALLOCATED. THE OTHER ONE IS ON THE GENERAL FUND RESERVE, AND AGAIN, THAT WAS IN RESPONSE TO THE MOODY'S ASSERTION THAT WE NEEDED TO GET OUR FINANCIAL HOUSE IN ORDER SO WE BUILT THOSE BACK UP. NOW WE HAVE A VERY HEALTHY FUND BALANCE THAT I THINK CAN SUSTAIN US THROUGH MOST ANY ECONOMIC DOWNTURN. THE OTHER THING THAT STATES IN THOSE POLICIES, IN THAT POLICY, NOT ONLY DOES IT TALK ABOUT CONDITIONS WHEN IT WILL BE USED, IT TALKS ABOUT HOW WE WILL REPLENISH IT. THE ONE THING I WANT TO HIGHLIGHT ABOUT THIS, THIS GOES BACK TO MIKE'S PRESENTATION, THAT THESE POLICIES ALONE ARE NOT RESPONSIBLE FOR THE FACT THAT WE HAVE REACHED THIS POINT OF FINANCIAL STABILITY WHERE DEPENDING HOW YOU LOOK AT IT WE'RE IN BALANCE FOR A PERIOD OF THREE TO FIVE YEARS, BUT I WOULD SAY THAT THEY HAVE GONE A LONG WAY TOWARD HELPING US ACHIEVE THAT GOAL. SO IN SUMMARY, WE HAVE A SET OF FINANCIAL POLICIES THAT SET A ROAD MAP FOR FINANCIAL DECISION MAKING. RATING AGENCIES AND OUTSIDE FUNDING PARTNERS VIEW THESE POLICIES REALLY FAVORABLY. THEY GIVE THEM CONFIDENCE IN THE FINANCIAL MANAGEMENT OF THE COUNTY. THE POLICIES SHOULD BE REVIEWED AND UPDATED REGULARLY. WE DID A VERY THOROUGH REVIEW LAST YEAR BUT IT'S LIKELY WE WOULD WANT TO KIND OF DO SOMETHING SIMILAR EVERY TWO TO THREE YEARS TO MAINTAIN CURRENCY, AND TO MAKE SURE THAT THOSE POLICIES ARE STILL IN COMPLIANCE WITH YOUR BROADER GOALS FOR THE COUNTY. THEN FINALLY, THE ROLE OF THE BOARD AND OTHER STAKEHOLDERS IN THIS POLICY, AS SITUATIONS COME UP THAT YOU IDENTIFY THAT MAY WARRANT DEVELOPMENT OF A NEW POLICY OR REVISIONS TO EXISTING POLICIES, WE'LL TAKE THOSE INTO CONSIDERATION, DO THE RESEARCH NECESSARY TO DETERMINE WHAT THE DIRECTION SHOULD BE, THEN WE'LL BRING THEM TO YOU FOR YOUR REVIEW AND APPROVAL. THAT IS PRETTY MUCH MY PRESENTATION ON THAT. I'LL TAKE ANY QUESTIONS.

Chair Cogen: GOOD, THANKS, MARK. QUESTIONS FOR MARK OR COMMENTS? THANK YOU VERY MUCH. THAT IS WHAT WE HAVE SCHEDULED FOR THIS MORNING. WE HAVE OUR REGULAR BOARD MEETING AT 11:00, SO UNLESS YOU HAVE ANYTHING TO ADD -- AT THIS POINT WE'RE GOING TO ADJOURN

AND RECONVENE AT 11:00 FOR OUR BOARD MEETING. IF I HAD A THING, I WOULD SAY WE'RE ADJOURNED.

ADJOURNMENT

The meeting was adjourned at 10:09 a.m.

This transcript was prepared by LNS Captioning and edited by the Board Clerk's office. For access to the video and/or board packet materials, please view at:

http://multnomah.granicus.com/ViewPublisher.php?view_id=3

Submitted by:

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Board of County Commissioners
Multnomah County