HOOD RIVER COUNTY

BUDGET COMMITTEE MEETING #2
FISCAL YEAR 2025/2026

May 1, 2025
3:00pm

MEETING AGENDA

I. Call to Order

II. Conflicts or Potential Conflicts of Interest

III. Additions or Deletions from the Agenda

IV. Items from the Public (Public comment allotted 3 minutes each)

V. Introduction of Speaker, Brian Beebe, Records and Assessments Director

VI. Sheri Patterson, Budget & Finance Director Reviews Attachments, Q&A, Begins the Budget Discussion Starting on Pg. 26

VII. Review Future Meetings Schedule:
a. Thursday, May 8th
b. Thursday, May 15th
c. Thursday, May 22nd

VIII. RECESS UNTIL THE NEXT BUDGET MEETING ON MAY 8TH

HOOD RIVER COUNTY
BUDGET COMMITTEE

IN THE MATTER OF A RESOLUTION REGARDING DEVELOPMENT OF A SUSTAINABLE FINANCIAL PLAN	)))	**RESOLUTION No.** 2223

WHEREAS, Hood River County is a small County with a big mission, Providing Quality of Life for All"; and

WHEREAS, Quality of Life is related to the sustainable provision of public services; and

WHEREAS, Hood River County seeks to develop a sustainable financial plan where sustainability is measured by the ability of the County to use current and future revenue sources to make investments in needed people, capital equipment and facilities to provide services to the people in Hood River County over the long term; and

WHEREAS, the County wishes to establish some policies to provide guidance to County staff in preparing the Annual Budget, and to establish a plan for moving the County forward to address financial issues, and

WHEREAS, the County seeks to develop and implement the financial plan in or before fiscal year 2021-22.

NOW THEREFORE BE IT RESOLVED by the Hood River County Budget Committee:

Section 1:

The County commits to a process to define acceptable service levels for the residents of Hood River County and to seek approval for any new funding measures requiring voter approval to pay for the desired services. The process will include the convening of focus groups to define desired service levels, the development of a model to define the costs of providing the desired services, identification of potential revenue sources and hosting of community meetings to match potential revenue sources with desired services. The plan developed at the end of the process will include a projection of operating costs, and the capital improvements program needed to support operations for at least 5 years. The plan will be implemented through the County's annual budget process.

Section 2:

While the plan is being developed. The County may utilize reserves from the timber deposit interest fund, and the capital reserve funds as necessary to balance the budget. The amount used should allow the County to retain a minimum of 6% of the General Fund operating costs in reserves at the end of 3 years (FY2020-21). The County shall seek to equally distribute the amount of reserves between years to allow multiple years to develop and implement a financial plan with approximately 25% to 30% being used in any one year. As an example, assuming a reserve amount of $3 million dollars, and a General Fund of $12.5 million dollars, the County will use $750,000 for three years and have a remaining balance of $750,000.

HOOD RIVER COUNTY

BUDGET COMMITTEE MEETING #4
FISCAL YEAR 2020/2021

OCTOBER 22, 2020
3:00pm

VIRTUAL MEETING VIA WEBEX

AGENDA

Present: Nancy Slagle, Ed Weathers, Buck Parker, Arthur Babitz, Mike Oates, Les Perkins, Rich McBride, Jeff Hecksel, County Administrator, Tina Ruffin, B&F Director.

CALL TO ORDER

Committee Chair Babitz reconvened the FY 20/21 Hood River County Budget Committee meeting.

APPROVAL OF MINUTES FROM MAY 20, 2020 BUDGET COMMITTEE MEETING

Oates made a motion to approve the minutes with one change to page 4, top paragraph, "next year we will…." Karen seconded the motion. It was unanimously approved.

ITEMS FROM THE PUBLIC

No comments

CONTINUED DISCUSSION

a) DISCUSSION OF SUSTAINABILITY
~~b) QUESTIONS ABOUT BUDGET DOCUMENT~~

Buck; assuming that we have reserves somewhere… if we had no policy changes to make, a new budget would come out with inflationary change and no major changes would need to take place. Sustainability: make sure your revenues match up with your expenses over time and build up a reserve in case of an emergency/unforeseen event.
Babitz- its fine to spend reserves if it is according to policy. If you are spending reserves because it makes your budget easier to do, then it is unsustainable. By year 3 we need to have a plan for how it will be sustainable beyond year 5. Mike: start that process from year 1, not year 3. Ed: not "sit on your hands til year 3" rather define what an acceptable contingency is, are we capturing all of the ongoing costs and build reserves, at year 1,2, or 3 you are reducing the services you have or delaying equipment &

This is an expense that is integrated into the general fund. It is a contribution out of the general fund and that money is used to replace the vehicles on a regular basis. Rich: we make a yearly contribution to the vehicle replacement fund annually. We don't always use it all. The amount that gets spent on vehicles varies each year depending on the needs of the departments. The amount being put into the fund is a relatively stable amount. It is dependent on a projection of what we need in current years. Babitz: model/planning/working towards sustainability.

Facility replacement & maintenance discussion:

Funds set aside for building maintenance for this year. Arthur: is this something we want staff to work on in the next budget or are we satisfied with continuing with the current model

Rich: q to jeff, do we have a building assessment and an idea of what level of maintenance we are going to need in the next 5 years. Jeff: if you were to go around and talk to the department heads about issues they have in their buildings they could tell you. Example: the BOC building: the windows are poor & inefficient and need to be replaced. No evaluation on it has been done and no number has been assessed to it.

Babitz: do we have a solid understanding of the backlog and annual needs?

Jeff: Mikel & his staff have a pretty good handle on it. There are costs we cannot anticipate that could be very expensive.

Arthur: what he would like to see in next year's budget discussion is some statement of what the actual backlog looks like for maintenance and what the annual needs are. Then the budget committee & BOC will be able to do a better job of planning. (Re: maintenance, not replacement.) rich is right, w/o knowing the magnitude it's going to be hard to plan. Jeff – Q – routine maintenance: preventative maintenance like what is done on the HVAC systems. Or are you looking at "capitalized maintenance" like replacing elements of the HVAC system" where on the spectrum are you wanting cost. Ed: roof maintenance – roof maintenance has a lifespan, if the budget committee has an ongoing idea of what those items are that is really helpful. Rich – it's akin to the vehicle replacement schedule, assess the equipment you have or any item you have that has a reasonably predictable lifespan, and hopefully be able to budget for it. Rich agrees it's important to have that kind of schedule for all the county properties. Arthur – no understanding of the facility needs of the county.

Facility Replacement

Courthouse Issues:

Arthur: what do we want to talk about as far as facility replacement as part of our next budget discussion? Karen – the courthouse has to be part of the discussion. The building is at the end of its life. It has chunks of cement falling off of it, is seismically unsafe, and made with unsafe building materials. Karen's discussion – we have to have some discussion, as a minimum, regarding the courthouse. There is a discussion started with the city concerning the city/county joint needs for justice facilities. Ed: large undertaking, hopefully we can work with the city so the county/city & taxpayers can all win. Synergy. Arthur: should the budget account that to be funded by "special assessment" such as a bond levy or should it be budgeted on a year to year basis? Ed – special levy. Is it the job

Reserves –
We've been operation down 1-2% which he now believes is too low. Think the reserves need to be quite a bit larger. Arthur – contingency is appropriated; reserves are not appropriated. Reserves are money you are putting aside for future purposes and future operations. Mike thinks 10% is too high. Jeff: if you have a contingency targeted at 5%, what is the reserve targeted at? The less flexibility that you provide in your guidance as it relates to those two numbers, the more likely you will have to reduce taxes. Arthur: is there a reason why we need to say something.... Jeff thought the number was an absolute, apparently it is not.
Jeff: the county has an unappropriated ending year balance. About 5%. Cannot spend. Mike: clarification – talking about unappropriated ending fund balance on the expenditure side of the fund. That is essentially a reserve for the future. Mike is thinking closer to 10-15%. The reserve is too low. Arthur agrees. Strict policy reasons to draw it down. No reason to limit the growth of the reserve. Ed weathers – in agreement, grow the reserve to a reasonable amount (10-15%) and only draw down for policy reasons.
Jeff – aware of a county where they had more than their general fund set aside in reserves. It bares the question: is that too much? Interesting policy question, it will not be HR County's problem.

Arthur: are there any subjects we should have further discussion on before the budget committee meeting?

Jeff – please remind us how that works. Jeff – we start our budgeting within the next couple of months. That will be taking place in the next couple of months. Start budget meetings a little bit later. It enables jeff and tina to be more prepared and have more information for the budget committee.
2020 budget committee info was sent out 5/11, meeting was 5/14
(part of it was starting so late because of Covid)

Target is to start in late April.
Perhaps we need to start earlier.

Preparing for the end of the meeting.
Mid to late April will be the next meeting for the budget committee.

Policy Maker's Guide to Compression
Arthur Babitz
5/26/2024

There are many primers on Oregon Measure 5 (M5) and Measure 50 (M50) which explain what they are and how taxes are calculated, but I couldn't find any that approached it from the point of view of a policy maker attempting to craft reasonable local tax policy which avoids unintended consequences in the short and long term. I attempt to do that here, intentionally avoiding policy discussions related to the wisdom or equity questions embedded in this law. I treat current tax law as a mathematical fact, and consider its implications for a policy maker.

In our preliminary levy discussions the question was asked, "If we levy a tax of $x/$1000, what effect will that have on compression?" It seems like a simple question, but in most cases:

- it can only be answered precisely for past years
- it can only be estimated with any confidence for a couple of years into the future

That doesn't mean it is pointless to consider compression, but we need to think about it differently. I'll show why there isn't a satisfying answer to that question, and explain how I come to the conclusion compression probably isn't an important factor to discuss with respect to a public safety levy. If you're wondering why you should read all this if it doesn't matter: There are several subjective factors involved, so I'd like to give you the information to draw your own conclusions. It's also very likely to come up again in other policy or budget discussions.

When M5 first passed in 1992 compression was mathematically simpler, and policy makers could easily forecast whether their actions would trigger compression, and by how much. M5 placed a limit on the mill rate for all taxing districts in two categories: $10/$1000 real market value (RMV) for "General Government" levies, and (after a phase in) $5/$1000 RMV for "Education" levies. Those sums exclude capital levies. If the limit was exceeded, it was resolved by the "compression" where all the non-capital levies were reduced proportionately until the limit was reached. Compression scaled down each levy proportionally. The same mill rate adjustment was applied to all properties within a district. For example, all properties in Cascade Locks are members of all the same taxing districts, so they all shared the same compression calculation.

M50 in 1997 removed Oregon from a RMV based tax model and created a couple of new concepts:

1. the "Taxable Assessed Value" (TAV) which
   a) is <= the RMV
   b) has growth capped at 3%/year.
2. three categories of levies:
   a) "permanent rates" which is a maximum mill rate a taxing district can impose
   b) "operating levies" or "local option levies" which allow additional voter approved taxes for 5 years or less
   c) "capital levies" which are voter approved levies for bonded debt.

Crucially, the gap between TAV and RMV is unique to every property. While tax levies are calculated based on TAV, compression is calculated based on RMV, so properties next door to each other will reach compression under different conditions, and the effect of compression will also be different. Compression must be calculated independently for each property.

An example will probably help: if the total General Government mill rate is $11/$1000 TAV, compression is theoretically possible, but because it is calculated based on RMV and the tax is levied on the TAV, you need to consider the ratio between the RMV and TAV to calculate the effect. If your RMV = TAV, compression is $1/$1000 of the $11, and compression rules will be applied so that you are paying $10/$1000 RMV (more on those rules later). If your RMV is more than 10% greater than your TAV, your property will not be in compression. Even though your tax rate as a percentage of TAV is >$10, your tax rate as a percentage of the RMV is less than $10 so it complies the M5 limit.

The larger the gap between TAV and RMV, the larger the mill rate which you can have without compression. Conversely the higher the mill rate (above the threshold) the greater the range of properties which will have some amount of compression. If the mill rates add up to $12, any properties with RMV within 20% of TAV will be in compression, with the amount dependent on the specific RMV to TAV ratio.

There's an additional element of how compression is calculated which policy makers need to understand: the rule of compression is that operating/ local option levies are the first levies to be reduced, and only after those levies are zeroed out for a particular property does the compression calculation touch permanent rates, which it reduces proportionally. Remember this calculation is done property by property, so one neighbor may not be paying for an operating levy while another is, and another is paying 50%.

The fact that compression first reduces operating levies before touching district levies is very important for policy makers to understand. This means even relatively mild compression can have a significant impact on operating levies, long before it significantly impacts districts permanent rate levies. All the effect can be focused in a very narrow way. Even mild compression can seriously reduce the ability of local governments/voters to use operating levies to address the service level issues they are typically used for. Our school district lost 16% of its local option levy to compression this year (and 1% of its district levy) with what I would consider mild compression.

Summarizing to this point: IF the total taxes in General Government or Education (excluding capital levies) exceed the statutory threshold compression is possible, but the amount will depend on the size of the gap between the TAV and RMV for each property, calculated individually. You can calculate that effect for last year, but you can only roughly estimate it for future years.

Applying that summary, in tax year 2023-24, Hood River County residents who lived in the City of Hood River had General Government taxes adding up to $6.96/$1000 TAV, Education taxes adding up to $6.26/$1000 TAV, and $1.78/$1000 TAV for capital bonds. You might conclude compression is not a risk on the General Government side unless another $3 of levies materialize, while compression should be happening on the Education side.

That's almost true, but there is a complicating factor we need to discuss: Urban Renewal. UR significantly complicates compression calculation and forecasting, and its impact can be significant. Even if the sum of the non-capital permanent rates and voter passed operating levies for General Government is <$10, urban renewal can trigger compression.

UR splits the TAV for properties in the district into two parts. The TAV at the date of the formation (called the "frozen base") continues to be used to levy taxes for all the underlying districts, but the growth of that TAV in subsequent years (called the "tax increment") is levied for the benefit of the UR district activities exclusively. UR district levies are considered "General Government" levies, so the tax due to a UR district for levies in the Education bucket is shifted into the General Government bucket through a mechanism I'll outline in the next paragraph. But the important policy point is that as a UR district ages, this effect can become quite significant. Policy makers cannot ignore it.

The rules for how UR is accounted for in the tax levy are very complex, but the effect is that every levy has an “effective rate” which is lower than the actual rate (technically “billing tax rate”) we’re familiar with. This effective rate accounts for the effect of UR shifting levy dollars above the frozen base into the UR district levy. For example, the City of Hood River has four active UR districts, so in 2023-24 every property in the city saw the rate levied for city services reduced from the permanent rate of $2.81 to an effective rate of $2.57. Every other levy saw a similar reduction. The other side of the ledger is that each of the three UR districts was also assigned an effective rate, and those rates account for all the dollars “lost” to the reduction in the other rates. Key to our compression discussion is that this same effect happens to all the Education levies, but the rates “lost” to UR in Education are added to the General Government bucket because they appear in the effective rate of the UR districts.

This means you can’t just do the simple math of adding up all the permanent and operating levies to figure out if you are below the $10 threshold and therefore safe from compression. You have to consider the effect of Urban Renewal. This UR effect will vary with time as the districts age, and that variance is very hard to predict. The termination of Hood River’s “downtown” UR district and creation of the Westside district reset the clock, dropping the UR effect significantly, but that effect will only grow for the next two decades. That effect will be to reduce compression on the Education side and increase the risk on the General Government side, even when we think our levies are below the $10 threshold.

While we are probably safe from General Government compression in Hood River County for the next five years, it’s very hard to say that with confidence for a longer time horizon. To understand the risk and scale of compression in the future you must consider and forecast many factors:

- new operating levies
- new districts
- annexation
- growth of UR effect
- changes in the ratio between TAV and RMV on an individual property basis
- changes in state tax code

Policy makers need to discuss what they consider reasonable assumptions for each of those variables. Knowledge of local politics can help you make estimates about the new operating levies and new district formation. Economic modeling can help with the annexation, the UR effect, and the TAV RMV gap forecasting, which are linked to regional economic conditions. It’s probably pointless to try to anticipate state tax code reform.

Central to this policy makers’ discussion is consideration of risk tolerance. Forecasting growth of TAV in UR districts and growth of the gap between TAV and RMV depends on a model of the regional economy. In most years the RMV increases at more than 3% so the gap between RMV and TAV grows, but there is a significant risk to making that assumption. You could convince yourself compression risk will be reduced by this margin growing faster than UR or new levies can increase it, but history includes significant economic disruptions that have caused the real estate market to stagnate or decline. Five years of stagnant (unchanged) real estate values can decrease the gap between TAV and RMV by 15%: you lose 3% every year because the TAV will continue to grow while the RMV does not. A 15% reduction in the TAV/RMV gap for all properties could bring a significant number of them to the point where they would reach compression as soon as the TAV exceeds $10/$1000. Risk tolerance has to be considered for decisions that are “forever” like creation of a new district.

So let’s go back to our real local numbers and review the risks. Properties in the City of Hood River are at the greatest risk for General Government compression, but that will not happen until the ~$7 in the General Government bucket (which includes the UR effect) grows by $3. The city accounts for a little less than 40% of the total county TAV, though annexation will likely increase that number— so compression for city residents would be significant for the county as a whole. Annexation, likely driven by Westside growth, will steadily increase the amount of the county TAV at risk of compression under city tax rates.

The most recent new non-capital levies are the new Library district at $0.39/$1000, and the county operating levy at $0.78 (Westside Fire just passed a $0.47 increase in their operating levy renewal). It would take several levies of this scale to close the $3 gap. It's a political calculation to guess whether that is likely, but the long term effect of M50's 3% TAV growth cap has been to encourage formation of new districts and operating levies. Several have been on the ballot in recent years. It's also not inconceivable to imagine a larger scale levy being approved for a compelling need.

I haven't yet calculate the range of possibilities for growth of the UR effect. I suspect it's enough to bring the $3 gap within the range you could imagine being filled by new districts and operating levies, at which point operating levies become problematic.

When the $3 gap is closed, the gap between TAV and RMV comes into play. While it would be easy to dismiss because the average residential property in our county is appraised at only 42% of its RMV, that doesn't tell the full story. That number is volatile, and compression is calculated property by property. You need to consider the distribution of that gap instead of the average. There are properties whose TAV is very close to their RMV, and some which are very far away. Business Personal Property is currently assessed at 100% of its RMV, so all personal property would quickly enter compression in that model. This accounts for 3.5% of county TAV. Large industrial properties have their initial TAV set by a different mechanism which leads to TAVs closer to RMV, so it is very possible some of our biggest tax payers would enter compression much earlier than an average residential property.

Applying these principles to our Public Safety levy discussion, I have no trouble concluding compression won't be a significant issue during the life of a new 5 year levy, should be decide to propose that. At the same time we know that a new special district or service district would be more resistant to the longterm effects of compression, since compression starts by removing operating levies before it reduces permanent rates. Even a little compression could cause us to question the wisdom of depending on an operating levy for public safety funding— but I believe any meaningful risk of that happening is several 5 year cycles in our future— if ever.

I don't think we should spend a significant amount of time debating compression with respect to a public safety levy, though I would like to see some math on rate of growth of the UR effect under most likely Westside growth predictions.

Overall conclusion: While modeling compression or testing scenarios is of limited value to our public safety levy discussion, a risk analysis approach can fill the gap. General Government compression probably does not favor one property tax-based approach over another in a meaningful time horizon. Commissioners and Budget Committee members should understand compression well enough to make future decisions which tend to preserve the utility of the operating/ local option levy, so this discussion is still valuable.

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April 1, 2025

TO: Gilliam County, Hood River County, Sherman County, Wasco County
FROM: NORCOR Business Manager, Nichole Biechler

RE: Proposed Increase to NORCOR County Payment

Greetings,

NORCOR is formally requesting a county payment modification for the FY2025-26 budget to increase the prior year 5% subsidy to 10% for FY2025-26. We estimate that this modification, if approved, would increase the county allocations to NORCOR by $521,922.90[1] for FY2025-26.

This request supports two primary goals: ensuring long-term adaptability and stabilizing our workforce. As the costs of doing business continue to rise, reducing expenses or staff is not a viable option. A 10% increase will enable us to absorb rising costs related to staffing, maintenance, food services, and other operational needs. NORCOR is resource-intensive, and any additional funding will help us maintain essential services despite the increasing financial pressures.

What is contributing to these increased costs?
Year after year, NORCOR has been forced to freeze critical positions in order to maintain a sufficient beginning fund balance. For FY24-25, we budgeted the ending fund balance into operational costs to ensure that we could operate at legally sufficient levels. Unfortunately, we once again had to freeze these positions to avoid a negative balance at the end of the fiscal year.

Infrastructure concerns continue to be a significant challenge, including the necessary maintenance of HVAC systems, backups for critical components, and the replacement/repair of the rental building roof. Due to budgetary constraints in FY24-25, NORCOR had to freeze all capital improvement projects. Moreover, although our Board adopted a resolution to save at least $100,000 annually for contingency, we were unable to contribute to this fund in the current fiscal year.

Additionally, NORCOR will face a 21% increase in General Liability Insurance due to the rising costs of insuring jails and juvenile detention facilities. This increase does not reflect any deficiencies, as we continue to work with CIS to manage risk.

The requested 10% subsidy increase is essential for NORCOR to continue meeting statutory jail and detention standards and to provide appropriate care for both the adult and juvenile populations in our custody.

[1] Increase to County payments would result in the following (Adult & Juvenile combined); Wasco - $260,961.30, Hood River - $208,768.80, Sherman/Gilliam - $26,096.40

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Relying on external contracts or alternative revenue streams continues to demonstrate financial instability, which can undermine the quality of care and security within our facility. Research continues to show that jails/detention facilities which are fully funding by their counties ensure greater accountability, consistency, and long-term sustainability, providing local communities with reliable services without depending on unstable or unpredictable external sources.

Our facility continues to seek out and leverage funding through outside grants and contracts. Each Manager diligently works with the outside jurisdictions to negotiate increases to stay in line with any local increases. Costs allocated for contract beds are calculated to ensure the daily costs of housing is covered by the rates.

While we recognize that this is only one solution for long-term sustainability, our focus remains on addressing short-term needs for the upcoming fiscal year. A minimum 10% payment increase is a critical step toward ensuring that our facility operates at its highest capacity, with the necessary resources to prioritize safety, rehabilitation, and compliance with statutory standards.

Please let me know if you have any questions or need additional information.

Sincerely,

Nichole

Nichole Biechler
Business Manager