W. 9.a.

Memorandum Date: April 16, 2008

TO:	Board of County Commissioners
DEPARTMENT:	Management Services
PRESENTED BY:	Kay Blackburn, Financial Services Manager
AGENDA ITEM TITLE:	DISCUSSION ON POTENTIAL USES OF ONE-TIME FUNDS

I. MOTION

None.

II. AGENDA ITEM SUMMARY

Discussion on the County's options for reducing ongoing operating costs by applying one-time funds.

III. BACKGROUND/IMPLICATIONS OF ACTION

A. Board Action and Other History

During the Goal Setting session on March 18, 2008 the Board expressed an interest in exploring options for the potential use of one year renewal Secure Rural School fund to reduce ongoing operating costs.

B. Policy Issues

Should the County use funds from a one year renewal of Secure Rural Schools to offset ongoing operating costs? Lane Manual 4.005 Financial and Budget Management policies have the purpose of supporting the County's strategic goals to ensure stability in service delivery and to promote the efficient use of public funds. Use of funds to offset ongoing operating costs would promote stability in service delivery.

C. Board Goals

This item supports Priority Strategic Objective 1 by exploring options for containing costs.

D. Financial and/or Resource Considerations

A discussion of various financial considerations follows. The County's current long-term liabilities are:

Obligation	Balance	Matures	Int. Rate	Notes
General Obligation Bonds	19,360,000	2015	2.725% - 5.250%	a
Limited Tax Bonds	16,565,000	2023	3.00% - 5.375%	b
Limited Tax Pension Bonds	67,298,600	2028	6.39% - 7.36%	c
Limited Tax Pension Bonds - callable	1,565,000	2025	6.60%	d
PERS Liability (Asset)	(65,744,000)	Ongoing	8.00%	e
Note Payable	6,300,000	2010	8.30%	f
Retiree Health Liability	70,000,000	2050	Market	g

Notes:

a. No prepayment option, debt serviced by property tax revenues.
b. No prepayment option, debt serviced by various capital improvement funds.
c. No prepayment option, debt serviced by assessment on payroll.
d. Callable portion, debt serviced by assessment on payroll.
e. Net pension asset, offset by outstanding bonds results in net liability of approximately $3,119,600.
f. No prepayment option.
g. Current funding provided by assessment on payroll. Balance is an estimate.

The non-callable bonds could be defeased (prepaid) by placing funds in an escrow account to cover the ongoing debt service requirements. Based on the current economy and interest rate climate, this would not be a feasible option for use of one-time funds.

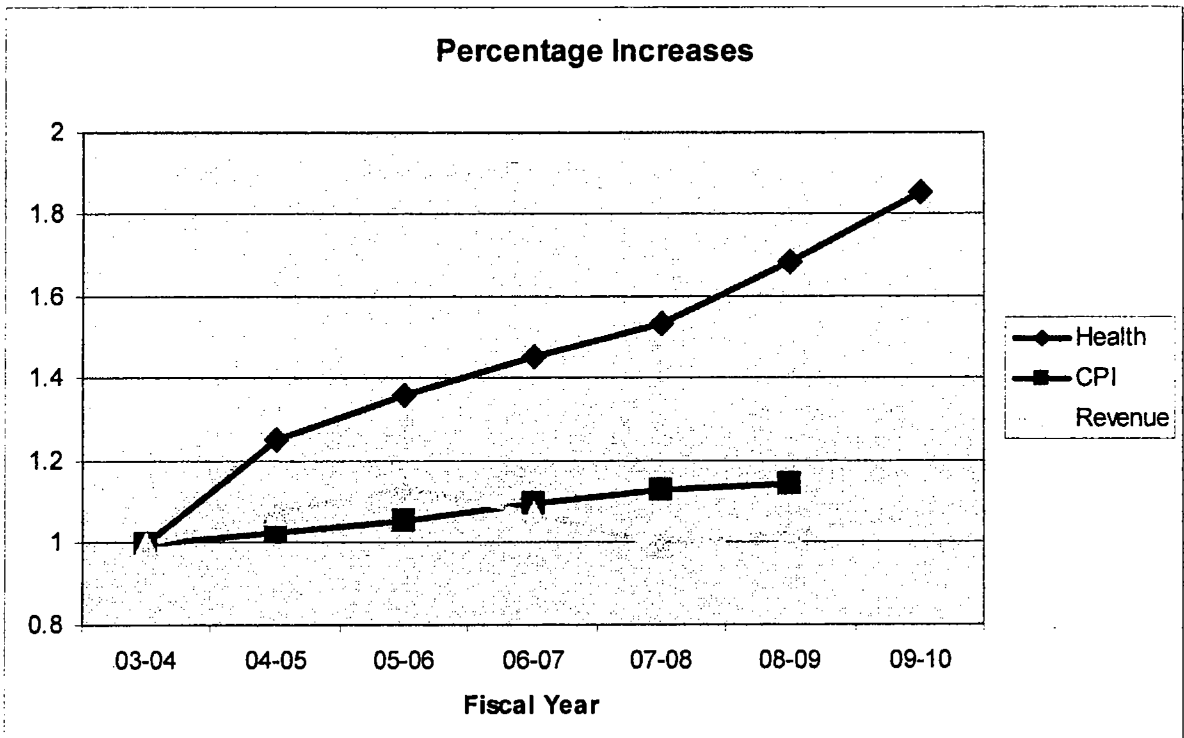
$1,565,000 of the callable pension bond is outstanding. The bond could be called at any time which would result in savings of interest payments totaling $1,755,930 (NPV at 4% of $1,256,592).

An issue with using a one-time cash payment to offset outstanding liabilities is the matching of the source of cash to the obligation. The County currently recovers the cost of benefits from each program that has personnel cost, including grants and funding from outside sources. Both the debt service costs on the outstanding pension bonds and the current funding of the retiree health liability are assessed against all funds and programs with payroll. If a one-time cash payment was made from the General Fund which reduced the assessment, the General Fund would be subsidizing that cost for other funding sources.

E. Analysis

The primary ongoing cost outpacing inflation is health care, both for active and retired employees. The chart illustrates the increase in the cost of health insurance over the past 6 fiscal years as compared to increases in the Consumer Price Index, and County business-type revenues.

For every $1 in fiscal year 03-04, the cost of health care is now $1.85 as compared to $1.14 for CPI and $1.06 for County revenues.



In order to have the greatest impact on the long-term structural deficit, the cost element carrying the greatest increases should be targeted. The OPEB liability represents ongoing health and Medicare insurance for retirees.

F. Alternatives/Options

Potential options for paying down the outstanding OPEB liability follow, along with the *estimated* financial impact of each option:

Pay as you go premiums cost is approximately 4.75% of payroll. The Retiree Health Fund will have a cash balance at 6/30/08 of approximately $7,800,000.

1. Contribute $15,000,000 assuming a 4% rate of return.
    a. Positive cash balance with no current funding through 6/30/2015
    b. Eliminate 5% assessment on payroll for 7 years.

2. Contribute $15,000,000 assuming an 8% rate of return.
    a. Positive cash balance with no current funding through 6/30/2017
    b. Eliminate 5% assessment on payroll for 9 years.

3. Contribute $15,000,000 assuming a 4% rate of return and continue payroll assessment at 2%.
    a. Positive cash balance through 6/30/2022.
    b. Reduce payroll assessment from 5% to 2%

Funding the liability in this manner allows us to apply investment earnings to the outstanding liability, but does nothing to address the underlying cost increases in health care premiums. In order to address those increases, changes in the health care plan itself would need to be made.

Assumptions used:

1. *County's historic rate of return is approximately 4%.*
2. *If the OPEB funds were placed in a dedicated trust, Oregon law would allow more flexibility in investments. Historically the underlying investment returns in similar trust have been in the 8% range. However, the current stock/bond market is reflecting losses. S & P since 7/01/07 reflects 11.75% loss, NASDAQ since 7/01/07 reflects 11.41% loss. Trust funds invested more aggressively would be at risk for losses.*
3. *Payroll Assumptions. Non-renewal payroll of $69,100,000 at historic fill rate of 95% increased by 2.25% annually.*

IV. RECOMMENDATION

No recommendation is made at this time. This is an informational item.

V. TIMING/IMPLEMENTATION

None.

VI. FOLLOW-UP

None.

VII. ATTACHMENTS

None.