

Appendix 3: Economic Conditions and Management

Contents

Appendix 3: Economic Conditions and Management.....	1
3.1 Economic Conditions.....	2
3.1.1 Property values	2
3.1.2 Fuel cost	2
3.1.3 Employee benefit costs.....	2
3.1.4 Revenue is limited.....	2
3.1.5 Cost of money is increasing	3
3.1.6 Rising costs vs. limited revenues.....	3
3.2 Management Responses to Economic Conditions.....	3
3.2.1 Growth in property values	3
3.2.2 Manage costs	3
3.2.3 Manage long-term debt and cost of money	4
3.2.4 Seek higher earnings on investments	4
3.2.5 Provide some services through contractors	5
3.2.6 Build a self-sustaining loan fund.....	5
3.2.7 Invest in working lands	5
3.2.8 Maintain the WeedWise program	6
3.2.9 Maintain financial assistance to constituents.....	6

Budget Message for Fiscal Year 2018-2019
Clackamas Soil and Water Conservation District

3.1 Economic Conditions

3.1.1 Property values

During FY 2016-2017, the economy became less unsettled than it has been in recent years. Over the past four years, assessed valuation of real property in Clackamas County has rebounded.

Property tax revenue has been increasing by more than three percent annually as construction activity and new home sales have increased.

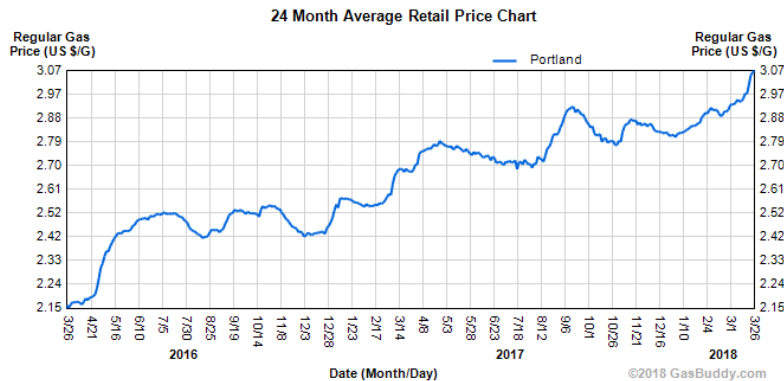
3.1.2 Fuel cost

During the prior year we saw fuel costs decrease, but this trend reversed in FY 2016-2017. Average fuel prices in the Portland area continue to rise.

The cost of fuel affects most goods and services procured by the District.

Overview

- ✓ *Economy more stable*
- ✓ *Costs rising*
- ✓ *Manage costs and debt*
- ✓ *Seek higher returns*
- ✓ *Provide assistance to cooperators*
- ✓ *Use contractors*
- ✓ *Grow the loan fund*
- ✓ *Invest in working lands*
- ✓ *Maintain WeedWise program/services*



3.1.3 Employee benefit costs

In FY 2015-2016, employee benefit costs remained level for the first half of the fiscal year (July through December 2015) and then rose about 10 percent for the second half of the year (January through June 2016).

On January 1, 2017, premiums increased for employee medical and dental insurance. Premiums increased again on January 1, 2018. Plans were modified such that deductibles faced by employees were increased, and some benefits were reduced. These factors contribute to higher costs for both the District and for employees.

3.1.4 Revenue is limited

For a tax-based public entity such as the District, opportunities to increase revenue are limited. The District's permanent tax rate is capped at five cents per thousand dollars (5¢/\$1,000) of

Budget Message for Fiscal Year 2018-2019
Clackamas Soil and Water Conservation District

assessed property value. To provide the maximum level of service possible, the District assesses the full tax of five cents per thousand.

Investment of money is also limited by state law, with restrictions favoring safety over earnings. The District continues to seek safe opportunities to increase earnings on investments.

3.1.5 Cost of money is increasing

The cost of money the District expects to borrow for construction of the Conservation Resource Center is increasing. The slowly rising prime rate means that the District's interest rate on construction debt may be higher.

Other loans already received by the District are on terms very favorable to District. Interest rates are low, and for one large loan, a principal forgiveness clause means the District will not have to repay the entire loan proceeds.

3.1.6 Rising costs vs. limited revenues

The District seeks to balance rising costs against a capped revenue stream that is increasing slowly. On average, inflation has been low for several years. Growth in property tax revenue has been greater than inflation.

3.2 Management Responses to Economic Conditions

3.2.1 Growth in property values

The Budget Officer predicts that the value of assessed real property will continue to increase.

The Oregon State Constitution limits the annual increase in assessed property value for a property to three percent. Tax revenue received by the District has increased at more than three percent a year for the past several years in Clackamas County. More recently, it has increased by more than four percent.

Based on local economic conditions, historical growth, and an upward trend in property values in Clackamas County, the Budget Officer utilized a projected rate of growth in tax revenue of 5.0 percent in developing the FY 2018-2019 proposed budget. For comparison, the District's estimate for FY 2017-2018 was underestimated based on a 4.5-percent growth rate.

3.2.2 Manage costs

Managers watch expenditures and continually seek more efficient ways to improve service, promote safety, and reduce cost. Management's challenge is to improve services while managing costs so that costs remain less than the expected growth in revenues.

When fuel prices rise, the cost of goods and services often rise. Management seeks competitive prices and free or low-cost delivery options whenever possible. Controlling costs is key to maintaining services within the limits of revenues and appropriations. The District

Budget Message for Fiscal Year 2018-2019
Clackamas Soil and Water Conservation District

believes that normal attrition and careful management will allow adequate control of operating costs for the foreseeable future.

Staffing is the District's greatest single cost center but it is also the primary vehicle for providing conservation help to constituents. Providing technical assistance to customers is a commitment made to voters in the very first sentence of Measure 3-221:

This permanent rate limit will enable Clackamas Soil and Water Conservation District to provide education and technical assistance to urban and rural residents, farmers, businesses, municipalities, and others to meet rising legal and public expectations for healthy and sustainable management of our land, air and water.

At the time this budget message is being written, the District projects that employee benefit costs will remain approximately level, primarily because the large group the District participates in has tended to buffer large swings in cost. Employee benefit costs remain one of the most significant unknowns when forecasting expenditures.

To help control the cost of benefits, the District adopted an "opt out" policy on January 1, 2017. This policy allows employees who have health care coverage elsewhere to decline coverage in the District's medical insurance plan, thus saving money for both the District and for the employee. Two employees currently opt out of District coverage, yielding a net reduction in expenditures by the District.

3.2.3 Manage long-term debt and cost of money

Long-term debt will increase due to providing more loan funding to landowners and due to borrowing to finance the construction of the District's new Conservation Resource Center.

The long-term debt associated with making loans to landowners represents money that will come back to be used again by other customers. One of two loans from the Oregon Department of Environmental Quality was negotiated to include a principal forgiveness clause. The District expects to have to repay less than the amount borrowed.

The District has retained the Special Districts Association of Oregon's Advisory Services to obtain bids for funding the construction of the Conservation Resource Center. This approach will allow the District to select the most advantageous terms for this significant loan.

3.2.4 Seek higher earnings on investments

The interest rate being earned on deposits in the Oregon State Treasury Local Government Investment Pool (LGIP) continues to rise. At the time this Budget Message was written, the District was earning 2.10 percent interest on deposits.

Oregon Revised Statutes chapter 294.035 discusses limitations on investments of public funds by local governments. The District continues to seek investment vehicles available to Oregon local governments that provide safety and interest growth greater than inflation.

Budget Message for Fiscal Year 2018-2019
Clackamas Soil and Water Conservation District

3.2.5 Provide some services through contractors

Rather than hire staff for some tasks and functions, the District will continue to utilize contractors for some activities. For example:

- the District obtains the services of an engineering technician through an intergovernmental agreement with another special purpose district, thus making this resource available to District constituents;
- we contract with an engineer for the review of some conservation designs;
- invasive weed treatments are primarily delivered through contractors;
- the District provides partial support to the Backyard Habitat Certification Program as a way to help implement conservation actions within some urban areas; and
- we also occasionally utilize a contractor to assist with grant writing.

These mechanisms allow the District to provide substantially more services without hiring additional staff.

3.2.6 Build a self-sustaining loan fund

The District has access to funds from the Department of Environmental Quality, awarded for us to address water quality and water quantity issues using loans. Loan repayments from landowners are used to fund new loans to other landowners, thus recycling these dollars for conservation activities.

In fiscal year 2017-2018, the District launched a septic system repair loan program in the Clackamas River watershed to protect water quality and habitat. This pilot program is intended to become a revolving loan fund. If warranted, the District may consider expanding this program in future years to other vulnerable parts of Clackamas County.

To date, no borrower has defaulted on loan payments. Some borrowers have repaid their loans early.

3.2.7 Invest in working lands

Measure 3-221 stated:

"The permanent rate limit will support current District programs including conservation technical assistance, help for landowners navigating regulations, and cost-share funding for conservation projects to improve the quality of our streams, working lands and natural habitat for fish, wildlife, and people."

Conserving working lands is a key focus of the District's priorities. Farms, fields, and forests that are at risk of permanent loss or that provide unique, critical habitats represent focal points for our working lands strategy. Preserving our best agricultural soils is an important aspect of this effort.

Donations to the District are tax deductible if made for a public purpose. The District can accept bequests. Staff continues to work toward establishing a programmatic approach to

Budget Message for Fiscal Year 2018-2019
Clackamas Soil and Water Conservation District

assist in accepting donations and bequests of land. Lands received by gift or bequest could be preserved, improved, leased, harvested, or sold, depending on the wishes of the parties involved and the characteristics of individual parcels. In some cases, it may be advisable to preserve all or part of such working lands with easements.

In FY 2017-2018 we continued outreach efforts around the topic of conserving working lands, and we expect to continue this focus in FY 2018-2019.

In FY 2016-2017, the District's Board of Directors voted to hold a conservation easement on a forested property near Colton, Oregon. The grant to support this work was awarded in fall 2017. The District expects the easement transaction to close in late summer/early fall 2018.

The District began reaching out to residents near Molalla to assess public interest in conserving oak habitats. As this work developed, we partnered with the USDA Natural Resources Conservation Service to offer oak conservation assistance in a wider area. We expect that a few requests to hold conservation easements may arise from this work.

3.2.8 Maintain the WeedWise program

Measure 3-221 stated:

"The District is also responding to citizen demands to implement a countywide weed program focused on education and sustainable control methods."

Control and management of invasive species continues through the District's WeedWise program. The District remains strongly committed to helping constituents control invasive weeds.

Multi-year grant funding also helps to support an expansion of the District's work on invasive species in the Clackamas River watershed.

3.2.9 Maintain financial assistance to constituents

Providing financial assistance was also described in Measure 3-221:

"The permanent rate limit will support current District programs including conservation technical assistance, help for landowners navigating regulations, and cost-share funding for conservation projects to improve the quality of our streams, working lands and natural habitat for fish, wildlife, and people."

While assuring continued technical assistance to constituents is our top priority, providing incentives to help people implement practices that protect public resources is also an important way to help conserve natural resources.