

## Deschutes wrestles with budget Real estate collapse good, bad for revenue

By Hillary Borrud / *The Bulletin*

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Deschutes County residents can count on most county services remaining at current levels through mid-2011 thanks to money officials squirreled away before the recession.



But after two difficult budget years, the county has little fat to trim from its budget, and county Administrator Dave Kanner said Tuesday that the real estate market — a major factor in county revenue — might not recover until 2012.

“In the last budget year, people really cut to the bone,” Kanner told the Deschutes County Budget Committee, which met Tuesday afternoon.

“A year ago, most economists were predicting by the spring of 2010 we would begin to feel like we’re out of the recession,” Kanner said.

“All economists are saying real estate is going to lag behind the rest of the economy, especially in Central Oregon,” Kanner told the Budget Committee. “My impression is, as (county Assessor Scot Langton) said, we’re bumping along the bottom. We’re not going to get worse, but we’re not going to get better until 2012.”

The real estate sector is a critical source of revenue for county government, which charges fees to record deeds and other documents and to issue building permits and perform building inspections. Property values can also determine how much the county can charge in taxes.

Kanner and other county officials at Tuesday’s meeting are beginning to discuss the revenue and costs they expect in the 2010-11 budget, which the County Commission usually adopts in June. County officials have not yet arrived at specific budget numbers, but Kanner said the total 2010-11 budget will probably come close to the current \$280 million budget.

The collapse in the real estate market has reduced county revenue in some areas and increased revenue in others.

The county estimates total property tax collections will be about \$851,538 higher than budgeted for 2009-10, according to a finance update.

County Treasurer Marty Wynne said about \$300,000 of that increase will likely come from payment of “prior year” taxes on which property owners had fallen behind. County officials have said the higher-than-expected rate of payments of delinquent property taxes probably results from the increase in foreclosures, because banks are paying delinquent taxes when they take ownership of properties.

The Clerk’s Office, which records documents related to foreclosures such as notices of default, also has brought in more revenue than expected. The county estimates the office will end the budget year with \$150,000 more than budgeted.

“Our challenge as we put the budget together is to determine how much of this revenue uptick is sustainable, and how much is a one-time revenue bump that needs to be put into contingency funds or budgeted for capital projects,” Kanner said.

The Community Development Department, which is largely supported by building and land use planning fees, has seen its revenue fall and has already done layoffs. The department could end the budget year in July with \$693,202 less in revenues than expected, according to the county’s latest finance update.

When asked whether the county plans to eliminate more jobs in the Community Development Department, Kanner wrote in an e-mail, “We are weighing our options with regard to (the department).”

The Budget Committee also discussed the higher employee salary and benefit costs the county will probably have to pay in 2010-11. Deschutes County, along with other local governments, will have to increase its contribution rate for employee pensions by as much as 7 percentage points in 2011 to compensate for the impact of the financial markets’ collapse on the statewide retirement fund.

The rate increase would bring the county’s highest pension contribution rate to 25 percent of payroll for some employees, but the county will probably absorb the increase by using a \$12.4 million pension reserve fund it built up in better times.

The county also faces the cost of paying two simultaneous cost-of-living wage increases beginning July 1 under a labor contract with the American Federation of State, County and Municipal Employees, which represents most county employees. The union agreed to postpone a wage increase of about 3 percent it would have received in July 2009. Now, that increase is set to take effect at the same time as the July 2010 cost-of-living increase.

A bright spot in the county budget discussion was mental health services, which are doing better this year after the county avoided most of the state funding cuts anticipated in 2009.

The state Legislature chose not to enact many of Gov. Ted Kulongoski’s recommended budget cuts to mental health, alcohol and drug services, county Director of Health and Human Services Scott Johnson wrote in an e-mail.

Deschutes County Health Services reduced hours for most mental health workers to 36 per week in March 2009. But this month, the county returned these 90 employees to a 40-hour week. The 10 percent increase in hours equates to nine caregivers and support staff, “so it should help us in serving the community,” Johnson wrote.

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