WASHINGTON COUNTY
OREGON

To: Board of County Commissioners
From: Jes Larson, Department of Housing Services Assistant Director -- Homeless Services Division
Date: December 10, 2024
RE: Projected SHS revenue reductions

Background:

In October, the Department of Housing Services provided a funding update to the Board of County Commissioners outlining changes in revenue trends with SHS taxes, and likely program reductions needed to adjust to these changes. Fiscal Year 2023/2024 closed with $6,272,497 less in revenue collected by Metro and disseminated to Washington County, than had been previously forecasted in Metro's Fall 2023 forecast. Furthermore, programmatic spending rates have increased as the system of care reaches full capacity in the fourth program year. These trends indicated that program expenditures will need to decrease to ensure program spending does not exceed actual revenues received.

Staff presented recommendations for adjustments to SHS funded homeless services programming to mitigate potential overspending, while protecting service levels as much as possible. Changes recommended by staff at the October briefing included:

- Delaying new program launches and program expansion that had not yet been contracted.
- Delaying some budgeted staff positions until further budget certainty could be established.
- Communicating funding constraints with partners to forecast reductions in the base-budget capacity for next fiscal year, and the potential for program reductions in FY 24/25, if necessary; and
- Preparing for program ramp-down of temporary programs scheduled to conclude next fiscal year due to one-time or time limited funding availability.

The Board discussion supported these program adjustments and planning efforts, recommending that staff hold off on further action until more information was available through Metro's annual fall forecast update, and updated expenditure rates in the first few months of FY 24/25. The discussion also included consideration for using available carry forward funds in the event that FY 24/25 program expenditures exceed revenues. These reserved funds could include program reserves, Washington County's portion of unallocated Regional Strategies Investment Fund, and other unallocated funds remaining in the SHS carry forward balance.

Metro Fall 2024 Forecast:

On Wednesday, December 4th, 2024, Metro shared and updated 5-year forecast with the Counties. The 2024 Metro forecast presents another rebasing of the taxes after further evaluation of collections data and economic trends over the past year. The 2024 Fall forecast estimates total revenues in FY 24/25 will be $51.4 million lower than previously forecasted, and that revenues are not likely to increase for the next three years at the rate previously forecasted. This new forecast indicates that Washington County is projected to received $16.4 million less than previously forecasted and budgeted in FY 24/25 ($98.7

million). It is now estimated that Washington County will receive only $100.4 million in the upcoming FY budget 25/26 year.

FY 2024-25 – FY 2029-30 Forecast

Ended FY 2023-24 roughly 6% below forecast. Slower growth also expected in near term due to lower expectations for local economy.

	FY 25	FY 26	FY 27	FY 28	FY 29	FY 30
Forecasted Tax Revenue	$323.1	$328.8	$349.7	$383.2	$408.7	$427.0
Tax Collection Costs	$11.1	$11.4	$11.8	$12.1	$12.5	$12.8
Net Collections	$312.0	$317.4	$337.9	$371.1	$396.2	$414.2
Metro Admin	$15.6	$15.9	$16.9	$18.6	$19.8	$20.7
Partners	$296.4	$301.5	$321.0	$352.5	$376.4	$393.5
Clackamas	$63.1	$64.2	$68.4	$75.1	$80.2	$83.8
Multnomah	$134.3	$136.6	$145.4	$159.7	$170.5	$178.3
Washington	$98.7	$100.4	$106.9	$117.4	$125.3	$131.0
Nov 2023 Forecast	$374.5	$378.7	$404.0	$420.2	$437.0	--
Forecast Difference	-$51.4	-$49.9	-$54.3	-$37.0	-$28.3	--

A complete Metro Fall 2024 Fall forecast memo is available here. Metro continues to communicate that due to the volatility of these new revenue sources and limited available tax data, actual revenues could range as much as $50 million in any given year, which is the case in the most recent forecast update.

SHS program spending and updates:

Homeless Services has been preparing for program reductions due to revenue collections below the previous forecast since the end of FY 23/24. These preparations, along with the Board's direction at the October 25th, 2024, work session have helped the Homeless Services Division, and our partners prepare for the updated forecast. Nonetheless, the forecast presents a worst-case scenario for the program, and further actions will be necessary to mitigate overspending in relation to anticipated reduced revenues in FY 24/25.

As discussed in October, staff have put on hold any new program launches or contract expansions. Temporary programs, including eviction prevention and motel voucher funds that extended COVID-era programs, have been notified that funding will not be available in the coming year and planning is underway to ramp down these programs. The first quarter financial report shows spending is on track at 15% of the authorized annual budget, which verifies the need for reductions Staff have been working in program teams and with the Solutions Council to plan for an 'essential system' program budget that maintains our commitments to voters and our Local Implementation Plan. This program budget will also implement cost efficiencies by optimizing program design and scaling down programs that can be reduced while maintaining a balanced system of care. Staff are preparing a budget proposal $10-15 million below current program levels to plan for a more conservative base budget to absorb changes in revenue and are on track to deliver a reduced FY 25/26 annual program budget reflective of the new forecast.

Finally, the carry forward balance has continued to be invested according to the direction of the Board and continuing commitments made to one-time programming and capital projects. A mid-year budget adjustment added funding from the carry forward balance for eviction prevention and access center capital funding. Recently the Board acted to authorize three new capital projects in transitional housing and an additional access center in Western Washington County.

SHS Carry Forward Funds for One-time Investments (August 30, 2024)	$96,721,471
Eviction prevention rent assistance (committed)	$12,420,000
Capacity building for providers (committed)	$3,500,000
Shelter capital construction (committed)	$13,675,993
Access center capital construction (committed)	$15,000,000
Transitional housing capital investments (committed)	$37,500,000
Remaining Carry Forward Funds: • *Permanent pod site acquisition and Beaverton Access Center (assigned)* • *Transition Fund (unassigned, proposed new use)*	**$14,625,478**

Unassigned carry forward funds, in addition to restricted and required reserves described below, may both be necessary to support program costs as the homeless services system transitions to a reduced base budget over the next couple years, and in anticipation of unknown changes to ongoing revenue for the program through measure reductions.

Required and Recommended SHS Reserves (August 30, 2024)	**$32,814,333**
Contingency reserves (directed by County)	$5,750,000
Stabilization reserves (directed by regional Financial Review Team)	$17,250,000
Regional Implementation Fund (directed by Tri-County Planning Body, unassigned)	$9,814,333

Staff recommendations:

The Fall 2024 Metro Forecast requires Washington County take further action to ensure stable funding of our ongoing programs. It is recommended that further program reductions be made this year to ensure available reserves and remaining carry forward funds can support multiple years of transitioning the program to a reduced base budget, and potential further program reductions considered in a potential Metro reduction ballot measure.

Staff recommend the following programmatic actions in the last two quarters of FY 24/25, as we prepare for FY 25/26:

- **Absorb some funding reductions in already planned ramp-downs of COVID-era eviction prevention and motel voucher programs**. Program ramp-downs plans would include housing or alternative shelter referrals for all 65 shelter guests in motel rooms through a shelter voucher program. Eviction Prevention funds can be ramped down at reduced monthly capacity to remain available through the end of the fiscal year. Staff would amend contract capacity to ensure that staff positions could be maintained through the end of the fiscal year. Four million in cost savings is estimated to be recovered through these modest and planned program reductions.

- **Proactively communicate with partners about further and specific anticipated program reductions in FY 25/26 proposed budget**. These program reductions will likely include reductions in the Rapid Rehousing program capacity, Data Quality Assurance and Housing Careers programs. As soon as these reductions are made clear through the budget drafting process that engages the Homeless Solutions Advisory Council for feedback, staff recommend working with providers to identify voluntary opportunities to begin ramping down programs to anticipated reduced capacity in FY 25/26.

- **Submit a formal request to the Tri-County Planning Body to reassign a portion, or all the reserved Washington County Regional Investment Strategy Fund**. $9,814,333 is currently restricted in Washington County's carry forward fund balance due of underspending in the first two years before the TCPB began directing the regional program. These funds are currently unassigned and could support the transition of system capacity to the new "right-sized" base budget over the next two fiscal years.

- **Use Metro's updated budget forecast to set the base budget for FY 25/26 at $100.4 million**. Previous discussion with the Board considered using a more conservative approach to Metro's forecast to protect the program against lower revenue collections than forecasted. However, Metro's new forecast has rebased the tax base with much more conservative assumptions. This base budget would require a $14.6 million program reduction from current program year including reductions in program capacity and DHS administration costs.

Further reductions to program capacity below the new forecast would be challenging to absorb in one fiscal year. Furthermore, it may no longer be necessary to use a more conservative approach to the Metro forecast, due to their updated methodologies. For these two reasons, staff recommend a proposed budget at the full amount of the new forecast. If revenue collections are below the new forecast, Washington County would rely on SHS reserves and remaining unassigned carry forward balance to manage an estimated three-year transition to a further reduced base budget.

In addition to these staff recommendations for the Board's consideration and direction, staff are also taking further programmatic actions to improve efficiencies and system optimization through leveraged funding and advocacy with state and federal funders.

Staff will continue to work with our community-based providers and health system partners to leverage new Medicaid eligibility for housing supports, especially eviction prevention funds. As the homeless system of care learns to leverage eligible Medicaid funding, it is estimated that as much as 20% of program budgets could be reduced in transitional and permanent housing programs. Furthermore, staff will work with our state partners to advocate for increased resources to maintain stable funding for new shelter capacity through the Governor's Emergency Orders and ongoing increased eviction prevention funds since the conclusion of COVID era funding. Increased ongoing state resources will help Washington

County support a new essential and stable system of homeless services, in conjunction with SHS resources.