

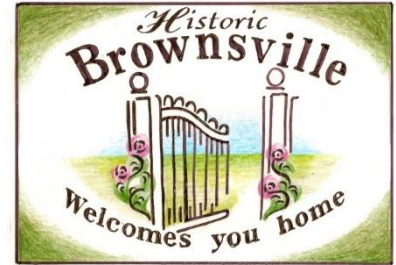


Budget Message FY 2018-2019

April 26th, 2018

General Notes

Budget Season 2018! Thank you for serving as a member of the Budget Committee. The City appreciates your time and effort on this most important task. Financial information can be dry and somewhat challenging to grasp. I also know that the City requires members to review a lot of background information to have a deeper understanding of Council direction and to provide you with some context. The budget message consists of a quick review of local budget law requirements, discusses how the budget is constructed, general assumptions used for the calculation of the budget, historical decisions that have led to items included in the budget, and projects included in the budget for this fiscal year.



The annual Organizational Prospectus document that includes the *Summary Report Card* which reviews and grades nearly all services provided by the City, the current *Council Goals* which were recently completed by Council, and a *Master List* of projects and objectives that are based on the current annual budget. The Prospectus is the most important document to review in preparation for the budget committee meetings. It will provide you with the most complete picture of City responsibilities.

I also complete a monthly *City Administrator Report* for Council meeting which you may choose to review. These reports are available on-line and they detail a perspective of current accomplishments, challenges and future projects, but really articulate the month-to-month happenings of Council. If anyone should want to review any other supporting documentation, please let me know. I have placed the information pertaining specifically to the budget on the website for your convenience. To access the on-line files, use the following address: <http://www.ci.brownsville.or.us/budget.html>.

The City will face some major changes over the next few years due to Federal and State policies that will change the way the City can accomplish certain services and tasks. Unfunded mandates and the continued pre-emption of local control at the county and municipal levels will bring an end to an era unless there is a wide-scale movement to re-establish local control.

All goods and services continue to increase at a percent greater than the City collects in tax revenue. The cost of maintaining what we have is ever growing. The City will never have enough resources to meet all the expectations of every civic group or citizen, not even close, and that must be remembered. The City has capital infrastructure challenges that are nearly insurmountable given the levels of available resources.

Bonds are a great tool, but are limited to voter approval and the overall saturation of the tax base. The Central Linn School District is still trying to find solutions to building and maintenance issues that are providing challenges to education delivery. The City of Brownsville is reviewing structures in Pioneer Park, the Central Linn Recreation Center, and has a major Water Treatment Plant expansion looming all within the next seven years; although Council & Staff have done an admirable job over the last ten years, the future is uncertain.

Based on the trends of the last twenty-five years, something will have to eventually give. Perhaps citizens will accept major changes to the livability of their community or will decide to pay



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the bill for the major systems that need improvement in the community. The only part of the local funding equation that can change is Council influence. I do think it is time for Council to actively engage elected representatives at the Federal and State level to tell the Brownsville story. Elected and appointed officials can share the Brownsville story with friends and neighbors. Officials can work to garner regional support to raise awareness of the resulting affect these policies and mandates have on local citizens. I want to believe that we as Americans want small towns to forever be a 'living' part of our national fabric, but the policies being carried out are destroying the ability of local citizens to have any control over and for their communities.

Statement of Preparation

The proposed budget for fiscal year (FY) 2018-2019 for the City of Brownsville was prepared in accordance with the laws of the State of Oregon, with the general guidance of the Oregon Department of Revenue (ODR), using figures from the FY 2017-2018 audit prepared and provided by Boldt, Carlisle & Smith LLC, (*Salem, Oregon*), using the internal financial expenditure and revenue reports for FY ending 2017-2018, current financial expenditure and revenue reports from FY 2017-2018 through March, information from the Linn County Treasurer & Assessor's Office and the general direction of Council, the Library Advisory Board, the Parks & Open Space Advisory Board and Staff.

Administrative Assistant Tammi Morrow attended the annual ODR training offered at the Linn County Fairgrounds in Albany, Oregon this winter. The message delivered by ODR Staff was nearly identical to the year before. ODR representatives stayed the course regarding their recommendation concerning "allocated" and "non-allocated" classifications for a fourth year.

The recommendation made by ODR still remain in conflict with past practices of the Department and also conflict with other guidelines. The key requested change was to place money in two categories as "allocated" and "non-allocated" for everything from personnel services to materials and supplies. The City allocates all funds based on the area or fund to which they pertain as required by State law. The City does not have any funds that would fall under or into a "non-allocated" category.

Two years ago, when questioned about this requirement, representatives from ODR indicated that cities were not required to report information this way, but they had said moments before in their presentation that they were requiring this process for all agencies. I have based the budget on historical, legal practices and will not incorporate this change. Public accounting is done using fund accounting principles. Every tax dollar that is spent is allocated to a specific fund for which the dollar was spent.

The ODR Staff have a documented history making recommendations such as these and then changing those same recommendations in following years. Unfortunately, they seem to rarely focus on the actual reasons for local budgeting law. Recommendations I would make for the Department would include, 1) standardize forms across all municipalities, 2) adopt a standard chart of accounts, and 3) provide consistent advice to municipal budget officers that do not conflict with other requirements.

Tax Rate, Factors & Projections

The tax rate for FY 2018-2019 will be the full permanent rate limit of \$6.9597 per \$1,000 of property valuation of Assessed Value (AV) or Real Market Value (RMV) as determined by the Assessor's Office. The result of levying the full permanent rate will yield approximately \$679,500 minus uncollected taxes.





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General Obligation Bonds (GOB) are not counted toward the full permanent rate of \$6.9597 because GOB are voter approved and thereby exempt.

Council successfully refinanced all general obligation bonds in September 2016. The City received an A- rating from Standard & Poor's which made this refinancing possible. Significant changes were made in calculating the GOB debt this year due to the refinance. The GOB debt was combined. I used a factor to determine which portion of the debt should be paid from water and which portion should be paid from sewer. The ratio is 0.1419305 for water and 0.8580695 for sewer. These figures were determined based on the previous percentages used by the City.

The current Water Bond is levied as a lump sum amount to help cover the total annual payment. The total annual payment is \$354,427 with water paying \$47,167. The actual amount levied is \$49,950 due to the anticipation of uncollectable taxes as provided by Linn County.

The current Sewer Bond is levied as a lump sum amount with the total annual payment being \$307,260. The actual amount levied for sewer is \$127,003 to yield \$119,927. The total amount necessary to meet the obligation includes the accumulation of the monthly Debt Service Fee (\$125,000) that appears on customer bills as a \$15 Debt Service Fee, along with additional funds that have accrued over previous fiscal years that become part of the fund such as interest and uncollectable taxes. I am figuring this closer than usual this year in order to narrow the gap of carry over monies collected for the bonds. At the same time, I do not want to short the payment and have to pass a supplemental budget.

City revenues for FY 2018-2019 have been projected in accordance with traditional historical data & trends, however, many of the entries were completed using the zero-based budgeting method and my experience over the last several years with the City's budget and financial conditions. The revenues have been estimated based on many economic indicators including information from the State of Oregon, the League of Oregon Cities and the Oregon City-County Managers Association (OCCMA). Projections are based on the Social Security Administration data, trends in the housing market and overall economic conditions of the area and other general indexes that impact the actual amounts of revenue that may be collected during the course of the year.

Estimates for actual tax yield and overall property valuation were provided by both the Linn County Treasurer's and Assessor's Office. Revenue projections are calculated low in an effort to prevent deficits which can lead to overspending and unwanted shortfalls. The intent of calculating revenue projections conservatively is the hope that actual collected revenue will be higher, leading to a strong carry over balance for the next fiscal year. The carry over balance makes up nearly 50% of the City's budget from one fiscal year to the next.

The Consumer Price Index (CPI) rose overall by 3.9% (*second half of 2017*); however the total increase for 2017 was 8.3% which is the largest annual increase since a 7.8% increase in 2007. The Social Security COLA adjustment was 2.0% for 2017; as has been historically used by the City. CIS (City/County Insurance Services) rates for all but one line of coverage including Liability, Workers Compensation and Health Care Benefits are going up, as usual, this fiscal year. Property stayed flat this year. The City's financial goal has been to maintain a low spending profile over the last several fiscal years, however, the City will attempt to complete a few needed projects this fiscal while continuing to





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prepare for a major sewer reconstruction project in downtown Brownsville.

Personnel

Cost of Living & Pay Scale Issues

The City Administrator shall annually update the City's pay scale based on the Social Security Administration's Cost of Living Adjustment (COLA). The pay scale was increased this year by 2.0% figure issued by the Social Security Administration. The pay scale is an important tool in attracting and retaining qualified employees. The proposed budget does allow for a COLA and for step increases. Step increases were authorized the last seven fiscal years.



The City will continue to award pay increases for education & licensure that are based solely on the operational needs of the City. Employees are eligible for step increases depending on their annual performance evaluation as completed by Council, the City Administrator and the Public Works Superintendent. Pay scale step increases are 2.5%. The City also offers longevity pay in order to retain valuable employees. The City's pay scale compared to other cities the size of Brownsville comes out around the median.

Benefits

CIS will be increasing health care costs as follows: 1) Medical by 9.1%, 2) Dental by 0.0%, 3) Vision by 4%, and 4) Life by -14%. The rates for health insurance benefits runs through the calendar year. The CIS Board is trying to do everything they can to keep all insurance increases manageable for membership, offering a buy down of the health increase this year for the pool. The City was moved to a different health plan this year which changed the out-of-pocket to the employee by roughly \$1,600. The City continues to contemplate and monitor other options and models being considered by municipalities across the country. CIS dropped all medical coverage plans that would be considered "Cadillac" plans under definitions called out in the Affordable Care Act, but now the future of health care appears to be on the verge of changing again.

CIS also reported that general liability will not increase this year, while Workers' Compensation will trend around a 7.5% increase, although this is experience rated. Brownsville has a very favorable rating. The City has not had any work loss claims over the last three years.

Retirement

The City currently provides two retirement plans for employees, 1) a 401 plan and 2) a 457 plan through International City County Management Association Retirement Corporation (ICMA-RC). The 401 plan is a standard, employer contribution retirement plan while the 457 plan is an optional plan that allows employees to contribute an additional amount of money into their own portfolio account. Currently, the City contributes 15% toward the 401 plan on behalf of each employee. Council based a longevity clause two years ago that stated, "Employees who have served ten (10) years shall receive an additional five percent (5%) or a twenty percent (20%) City paid portion."



Costs associated with Public Employee Retirement System (PERS) are extremely high. The City not being a PERS member can make it difficult to attract employees coming from the public



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sector. The cost to switch over to PERS would be extremely prohibitive. Council will need to monitor compensation closely to attract and retain quality employees. Implications of the new minimum wage law will also be considered in the future.

Earthquake Insurance

Three years ago the City added additional coverage for this exposure. Due to grave predictions by the State Geologist, Oregon rates have greatly increased causing CIS to not insure at historic levels cities and counties had in the recent past. The City added additional coverage of \$5 M which comes with a premium of over \$15,000. I have included this amount for inclusion in this year's budget as well.

Department Review

Over the course of the last four years, City Hall has successfully reorganized employee duties & responsibilities. The City implemented several organizational changes that have led to better cooperation & coordination of projects among all employees, while allowing everyone to have a broader understanding of Council goals and the mission of the City. Staff continues to execute their duties & responsibilities at a very high level. Individual staff members continue to attend annual training to keep up with programmatic and legal changes and to increase their knowledge base in order to enhance their performance.

Administrative Assistant Jannea Deaver handles Utility Billing as her main focus area. Administrative Assistant Elizabeth Coleman handles all things Planning as her main focus and Administrative Assistant Tammi Morrow handles Finances as her primary focus area. All three are exceptional at the duties they perform for the City. They do anything and everything needed to meet deadlines and reach positive outcomes. Librarian Sherri Lemhouse continues to operate and promote the library at a high level. She continues to develop and foster a robust volunteer workforce. Mrs. Lemhouse continues to provide exciting programming designed to retain and attract patrons.



Public Works Superintendent Karl Frink along with Public Works Operators Josh Kometz and Andy Day work tirelessly to keep the utilities running, roads safe, the parks clean and the town looking as good as it can. Public Works performs a wide variety of tasks and services for the City. Mr. Frink uses contracts and contractors to meet vital needs of our citizenry behind the scenes.

The City added a Temporary Public Works Operator for the last several fiscal years. The position is contracted from the first working day in May through the last working day in October to adequately cover mowing season and execute other Public Works responsibilities. Over the last four years, the City also hired an additional seasonal employee who works from the first working day in June and ends on the last working day in August.

The Municipal Court is under the direction of Carol Humphreys. Mrs. Humphreys entered into an agreement with the City about two years ago. The City continues the intergovernmental agreement with Linn County to provide court assistance for any absences and to be prepared for any future personnel transition. The City will spend \$165,500 on the LCSO agreement this year. An increase of 5.7% for the upcoming year.

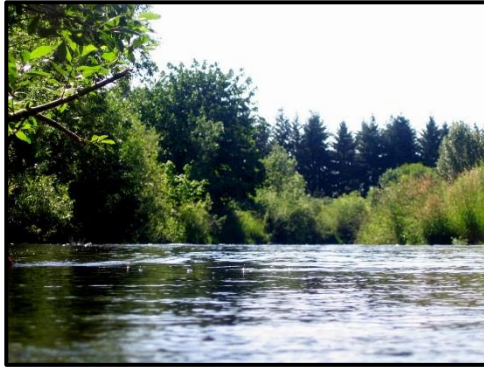


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Recent History & Near Future Capital Improvements

Pioneer Park River Bank

The City spent most of 2011 dealing with the erosion of the river bank in Pioneer Park. The problem had gotten so extensive that a restroom and a major water line that crossed the river, and served the entire west side of the City, were destroyed by the erosion. The City hired River Design Group (RDG), Corvallis, Oregon, to evaluate options. RDG had extensive experience working specifically on the Calapooia River and had a thorough knowledge of the river's dynamics.



Many Federal & State agencies were also involved in the review of the erosion situation. The City incorporated the Governor's Regional Solutions team to assist on this issue. The outcome was that the City could spend about \$600,000, option #1, to "shore up" the river using the new, approved techniques for bank stabilization. The problem with this option was improvements utilizing these new techniques were "washed away" during an above average flood event. The Calapooia Watershed Council had completed two projects in the general proximity of the Park, both structures were destroyed due to high water and flooding.

The other option, option #2, was to spend over \$1.2 M to stabilize the bank to the standards of the Army Corps of Engineers. The problem was simply cash flow. Council decided that option #1 was too risky. The investment could be lost in any given year. Council decided that option #2 would require voters to approve a general obligation bond for the improvement. Council did not feel that this was a realistic or reasonable option. The City received help from Senator Lee Beyer, Representative Phil Barnhart, U.S. Senator Jeff Merkley and U.S. Representative Peter DeFazio.

Council decided to implement a retreatment strategy that would abandon the west road around the playground structure and would eventually relocate the playground structure if necessary. This year the City did lose a fair amount of real estate, the worst since 2010 & 2011. Council decided to stay the course at the March 28th, 2017 Council meeting. Staff has included money to move the playground structure in this budget.

Total Maximum Daily Load (TMDL) & Storm Drainage

The State of Oregon continues to require communities to invest in storm drainage and to prepare for the possible treatment of storm drainage through the National Pollutant Discharge Elimination System (NPDES). On January 26th, 2016, Public Works Superintendent Karl Frink and I met with representatives from the Oregon Department of Environmental Quality (DEQ) which was caused by an article written by Alex Paul of the Albany Democrat-Herald. Staff explained all of the capital improvements projects the City had completed over the last five years and outlined the backlog of projects that still needed attention.

The outcome of the discussion was that the City would rewrite the TMDL plan to suit the needs of the City. According to a drainage study performed by Lee Engineering in 1996 the City does not have a storm drainage system. Staff estimates that if the State required full implementation of the NPDES process, it would cost the City between





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\$12 M and \$18 M; the project would include a collection system that would be tied into a treatment facility. The implications are far reaching for the City budget.

Washington Street and other storm water drainage projects have been considered over the last ten years, however State Law does not allow for the cleaning of ditches all the way to the source/outfall due primarily to the agriculture lobby present in the State. If the City would develop a storm water utility, there would be no place for the water to go due to these limitations. Washington Street was estimated to cost \$250,000 three years ago. The City does not have the capacity to handle these types of projects without going out for a major bond.

Council passed the new TMDL plan in January of 2017 and it was approved by the State's Department of Environmental Quality (DEQ) in late March of this year. Staff is currently working with the Calapooia Watershed Council to assist in meeting some of the goals included in the plan.

Streets

Council has acknowledged the general condition of the transportation system several times over the last ten years. The reality is simple. Road construction in the past consisted of putting asphalt over rocks and, in some cases, dirt. Road bases were not constructed to any sort of acceptable standard. The result is that many of the City's streets are crumbling and in a state of ill repair. Without the proper drainage infrastructure in place, it makes it next to impossible to improve the roads properly due to the sheer costs associated with such an endeavor. The City has been replacing asphalt in certain areas where drainage does exist. The City cannot afford to reconstruct the roads properly without assessing massive costs to abutting property owners through the local improvement district (LID) process.



Water Treatment Plant Bond

The Budget Committee and the Council has acknowledged the need for a bond for a new Water Treatment Plant, improvements to the City's distribution system and for a new 1.1 M reservoir. Planning for this major improvement should begin in the year 2025.

Utilities

Council has been working diligently on the implementation of a capital improvements plan that is focused on fixing major issues with the water distribution and the wastewater collection systems. Highlights over the last few years have included the construction of the Millhouse Sanitary Sewer, the S. Oak Street Water Line, the School Avenue Water Line, the Averill Street Water Line, the Calapooia Crossing Water Line, and the redevelopment of the GR 12 wellsite which is projected to provide enough water rights for the next thirty (30) years.

Buildings, Equipment & Property

Council has also worked heavily in these areas taking care of City Hall, the Central Linn Recreation Center, the Library, Pioneer Park and adding key pieces of equipment like a new backhoe and a needed service truck. Council has also contemplated acquisitions that could have had considerable implications on the General Fund.



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What is in this Budget?

Assumptions

I assume that each Budget Committee Member has a general working knowledge of the City's Capital Improvements Plan (CIP), the history of the Water & Sewer bonds, some of the major issues facing the City in terms of Water Rights, the Department of Environmental Quality (DEQ) & Oregon Health Authority (OHA) rules, and Land Use Planning issues to mention a few key, fundamental issues during our annual, on-going funding discussions.



Further, an understanding of the general maintenance to the many municipal owned facilities including, but not limited to, all municipal infrastructure and the overall operations for which the City is responsible along with a firm understanding of the importance of protecting, building and maintaining the City treasury. Everyone should know the City is responsible for, 1) Water, 2) Sewer, 3) Deferred Capital Improvements, 4) Treasury Health, 5) Parks, 6) Streets, 7) Contract Administration, 8) Personnel, and 9) General & Existing Services to name a few. The City is fortunate to have a veteran group of volunteers working on the budget.

Projects

Budget Pages Proper		
▶ p. 19	Streets	\$100,000
▶ p. 12	Robe St. Waterline	\$185,000
▶ p. 4	Playground Equipment Change	\$70,000
▶ p. 19	Cemetery Bridge	\$50,000
▶ p. 12	Radio Read	\$40,000
▶ p. 4	CLRC, Cemetery & Park	\$35,000
▶ p. 3	Economic Development	\$25,000
▶ p. 12	Dump Truck	\$38,000
▶ p. 16	\$12,000
▶ p. 4	Kitchen & General Equipment	\$10,000
▶ p. 8	Earthquake Coverage	\$6,000
▶ p. 11	\$6,000
▶ p. 15	\$6,000
▶ p. 8	DLCD Inventory & Analysis	\$45,000
▶ p. 3	EPC Additional Funding	\$7,000
▶ p. 19	TMDL & Calapooia Watershed Council	\$10,000
▶ p. 8	Fireproof Filing Cabinets	\$3,000
▶ p. 19	Sidewalks	\$12,000



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Conclusion

The City remains in good financial standing and has continued to grow the treasury over the last eleven fiscal years due to conservatively forecasting revenues and running operations as efficiently as possible while completing major capital improvements. The City has utilized these conservative budgeting methods for three primary reasons, 1) existing debt requirements, 2) limited available resources, and 3) as an attempt to build the treasury to self-fund capital improvements.

Brownsville should continue a very slow, conservative approach to financial management while continuing an active Capital Improvement Plan to improve and upgrade assets. The end goal must be to ensure a prosperous financial future.

Respectfully Submitted,

A handwritten signature in blue ink, appearing to be "SM", representing S. Scott McDowell.

S. Scott McDowell
City Administrator & Budget Officer