



DATE: March 29, 2010
TO : Mayor and City Council
Budget Committee
FROM: Matt Winkel
City Manager/Budget Officer

**SUBJECT: FY 2010-2011 CITY OF BANDON
BUDGET MESSAGE**

The proposed fiscal year 2010-2011 budget total is \$20,809,637.

Comparing the prior budget and proposed budget for various Funds and Departments will be slightly more complex than usual this year, since the proposed fiscal year 2010-2011 budget includes closing and combining a significant number of Funds. This is being done to simplify the budgeting and accounting process, and is in accordance with recommendations made by the City's auditor. When Funds are closed and incorporated into other Funds, the transferred balances are "double-counted" in that fiscal year's budget since those same amounts are shown as revenues and expenditures in the Funds being closed, and again as revenues and expenditures in the Funds into which the transfers are made. Closing these funds results in a total of \$1,219,180 in transfers which are therefore "double-counted." So, although the proposed fiscal year 2010-2011 budget appears to be \$998,973 more than the 2009-2010 budget, without the fund closures the proposed budget is actually \$220,207 less than last year.

The Enterprise Fund [Electric Fund (910), Water Fund (940), and Sewer Fund (950)] budgets will be inflated as the result of closing several Capital Reserve and Debt Service funds and incorporating them into the corresponding Enterprise Fund. Closing the Drug Enforcement Fund (150) and incorporating those expenses as a line item in the Police Department, and closing the Economic Development Fund (240) and incorporating those expenses as a line item in the Administration Department, will also inflate the General Fund (100) budget by a corresponding amount. All of these expenditures will continue to be accounted for, but will be shown as line items in the Funds into which they have been incorporated, as opposed to stand-alone Funds.

An overall Summary of Expenditures by Fund, comparing the proposed budget to the previous year's budget, is included on the following page.

| BUDGET SUMMARY BY FUND | ACCT NO. | ADOPTED 2009-2010 BUDGET | PROPOSED 2010-2011 BUDGET | DIFFERENCE 2009-2010 & 2010-2011 |
|--|-------------|--------------------------------|---------------------------------|--|
| GENERAL FUND | 100 | \$2,333,513 | \$2,500,415 | \$166,902 |
| <i>DRUG ENFORCEMENT</i> | 150 | \$5,669 | \$6,292 | \$623 |
| STATE TAX STREET | 210 | \$170,196 | \$176,301 | \$6,105 |
| LIBRARY MEMORIAL | 220 | \$196,686 | \$199,300 | \$2,614 |
| LIBRARY | 230 | \$365,200 | \$370,412 | \$5,212 |
| <i>ECONOMIC DEVELOPMENT</i> | 240 | \$92,105 | \$3,665 | (\$88,440) |
| COMMUNITY BEAUTIFICATION | 250 | \$70,400 | \$72,228 | \$1,828 |
| STATE REVENUE SHARING | 260 | \$40,796 | \$29,478 | (\$11,318) |
| BLOCK GRANT | 410 | \$406,242 | \$395,241 | (\$11,001) |
| LISA WAMPOLE TRUST FUND | 990 | \$16,710 | \$14,503 | (\$2,207) |
| ELECTRIC | 910 | \$5,554,400 | \$6,474,492 | \$920,092 |
| <i>ELECTRIC REVENUE BONDS</i> | 370 | \$156,986 | \$78,193 | (\$78,793) |
| <i>ELECTRIC RESERVE</i> | 920 | \$547,745 | \$542,746 | (\$4,999) |
| <i>LOW INCOME ASSISTANCE</i> | 930 | \$27,020 | \$21,261 | (\$5,759) |
| WATER | 940 | \$702,125 | \$1,350,652 | \$648,527 |
| <i>RURAL DEVELOPMENT G.O. BONDS</i> | 343 | \$228,768 | \$69,070 | (\$159,698) |
| <i>SDWRLF G.O. BONDS</i> | 344 | \$38,684 | \$23 | (\$38,661) |
| <i>2006 WATER PLANT GO BONDS</i> | 375 | \$199,354 | \$134,456 | (\$64,898) |
| <i>2006 AIRPORT WATER DEBT SERVICE</i> | 380 | \$59,131 | \$23,017 | (\$36,114) |
| WATER -- SDC - Reimbursement | 720 | \$367,449 | \$391,144 | \$23,695 |
| WATER -- SDC - Improvement | 721 | \$761,640 | \$891,205 | \$129,565 |
| <i>WATER RESERVE</i> | 740 | \$162,225 | \$51,357 | (\$110,868) |
| SEWER | 950 | \$991,040 | \$1,318,969 | \$327,929 |
| <i>1992 SEWER REV G O BONDS</i> | 350 | \$214,678 | \$109,971 | (\$104,707) |
| <i>1991 SEWER G O BONDS</i> | 360 | \$201,740 | \$108,149 | (\$93,591) |
| <i>SEWER RESERVE</i> | 533 | \$113,674 | \$77,034 | (\$36,640) |
| SEWER -- SDC - Reimbursement | 730 | \$128,667 | \$104,274 | (\$24,393) |
| SEWER -- SDC - Improvement | 731 | \$204,917 | \$105,125 | (\$99,792) |
| CAPITAL IMPROVEMENT | 510 | \$908,822 | \$556,150 | (\$352,672) |
| EQUIPMENT RESERVE | 520 | \$70,534 | \$52,831 | (\$17,703) |
| PARK & RECREATION DEV | 550 | \$256,413 | \$179,620 | (\$76,793) |
| LOCAL IMPROVEMENT DISTRICTS | 640 | \$2,336,122 | \$2,336,122 | \$0 |
| STREET -- SDC - Reimbursement | 710 | \$368,600 | \$365,394 | (\$3,206) |
| STREET -- SDC - Improvement | 711 | \$192,346 | \$214,539 | \$22,193 |
| STORM DRAINAGE -- SDC - Reimbursement | 715 | \$241,848 | \$219,941 | (\$21,907) |
| STORM DRAINAGE -- SDC - Improvement | 716 | \$230,095 | \$212,314 | (\$17,781) |
| LOCAL OPTION STREET TAX DEBT SVC | 345 | \$298,634 | \$431,769 | \$133,135 |
| 2000 STREET & SEWER LID BONDS | 633 | \$21,610 | \$18,965 | (\$2,645) |
| 2001 BANDON LID | 634 | \$8,187 | \$9,364 | \$1,177 |
| 2004 HIGHWAY 101 SEWER | 635 | \$88,554 | \$78,983 | (\$9,571) |
| LOCAL OPTION STREET | 750 | \$431,139 | \$514,672 | \$83,533 |
| TOTALS | | \$19,810,664 | \$20,809,637 | \$998,973 |

The Funds shown in *ITALICS* are being closed as individual stand-alone Funds and incorporated into the General Fund and Enterprise Funds in the proposed 2010-2011 Budget.

BUDGET FORMAT

The overall format of the 2010-2011 budget document remains identical to last year, although significant changes have been made within certain Funds and Fund groups resulting from combining some and eliminating others, as discussed above.

- **Budget Summary (RED Tab)**

The Budget Summary is intended to provide an overview of the proposed budget. This includes the Budget Message and City Council Goals, an outline of total revenues and expenditures by fund and department, the City organizational chart, an index to the account numbering system, and the budget calendar.

- **Funds (YELLOW Tabs)**

The Funds section of the document represents the substance of the actual City Budget, which will be formally approved and adopted. Detailed Detailed revenue and expenditure projections are included for all of the City's "Funds," all of which are categorized together in one of the following five Fund types:

- **General Fund**
- **Special Revenue Funds**
- **Enterprise Funds**
- **Capital Funds**
- **Debt Service Funds.**

In accordance with local budget law, the figures in the first four columns of each Fund indicate the "actual" expenditures in FY 2007-2008 and FY 2008-2009, "budgeted" expenditures for FY 2009-2010, and amounts "proposed" by the Budget Officer (City Manager) for the upcoming FY 2010-2011. The last two columns will contain the final budget figures as "approved" by the Budget Committee and as "adopted" by the City Council. Also within each "Fund," revenues are shown for each of the various sources from which they are received. Expenditures are broken down into four major categories: PERSONAL SERVICES (personnel costs, wages, and benefits); MATERIALS & SERVICES (utilities, supplies, contractual services, etc.); CAPITAL (individual capital projects); and NON-DEPARTMENTAL (transfers, contingencies, and other expenses).

- **Department Budget Summaries (GREEN Tabs)**

The Department Budget Summaries are not a part of the formal City Budget, but are used internally by City staff, and to help clarify total departmental expenditures for the Budget Committee and the public. Since the proposed expenditures by each individual "Department" can come from several "Funds", the total expenditures for each department are illustrated by combining the amounts which are budgeted from the various funding sources.

Each Department Budget Summary also includes an activities and service level description, an outline of previous year's accomplishments, a listing of the major activities proposed for the upcoming fiscal year, annual staffing level comparisons, and historic service level indicators. This information is intended to provide a framework for the City Council, Budget Committee, citizens, and staff to measure overall performance during the last fiscal year, and to determine the degree to which the budget accomplishes the 2009-2011 City Council Goals, and meets the anticipated needs of the community.

- **Capital Improvement Plan (BLUE Tab)**

The Capital Improvement Plan lists all of the projects which are proposed to be undertaken by each Department. This section contains an outline of all major capital projects planned by each department for fiscal year 2010-2011. Projects which were completed last year, and those proposed for future years, are also shown. Projects which are contained in the *Capital Improvement Plan* are designated with "CIP" within each Fund budget.

PERSONNEL - WAGES & BENEFITS

The PERSONAL SERVICES budget within each Fund has been adjusted to include the projected wage and benefits costs for the anticipated number of employees during the upcoming fiscal year.

Personnel Levels

The proposed budget includes a total of 37 FTE (full-time equivalent) regular employees, plus temporary employees in some departments. This is the same as in fiscal year 2009-2010, and remains 3.7 FTE less than in fiscal year 2008-2009, reflecting last year's reductions in force (layoff of 1 full-time Records Clerk/Planning Secretary and 1 full-time Utility Clerk, elimination of the part-time Code Compliance Officer position by combining those duties with a City Planner position, a reduction of the City Clerk's position from 40 hours per week to 32 hours per week, and not filling a vacancy in the Police Department).

Collective Bargaining Agreements

With the exception of management staff (City Manager, City Recorder, Finance Director, Assistant Finance Director, Chief of Police, Police Sergeant, and Librarian), all City employees are represented by labor unions. The City has four collective bargaining agreements, including the International Brotherhood of Electric Workers (IBEW) representing the Electric Department; the Teamsters Union representing the Police Department; the Teamsters Union representing the Public Works Department, Water Department, and Sewer Department; and the IBEW representing the clerical staff from the Finance Department, Administration, Planning Department, Public Works Department, and the Library. All of the current agreements became effective on July 1, 2007, and have varying terms. The Electric contract expired on June 30,

2009 and was extended for one year to June 30, 2009, the Clerical and Public Works contracts expire on June 30, 2010, and the Police contract expires on June 30, 2012. The contracts which expire on June 30, 2010 are currently under negotiation.

Wage Increases

The proposed budget anticipates removing the wage freeze to which the City employees voluntarily agreed in fiscal year 2009-2010. Past practices and the collective bargaining agreements call for wage (step) increases and cost of living adjustments (COLA) for City employees. In accordance with those agreements, the proposed budget includes scheduled step increases and a COLA adjustment of 2.5% for all employees with the exception of the Electric Department employees whose salaries are increased a total of 4% (step and COLA combined).

Employee Benefits

Health Insurance: Based on information provided by Blue Cross/Blue Shield (BC/BS), the City's health insurance carrier, health insurance rates are projected to rise an additional 10% this year. That anticipated increase has been included in the proposed personnel budgets for each department. The City employees' share of the health insurance premiums continues at 10% plus 100% of their vision insurance premiums.

Retirement: The City of Bandon's contributions into the employees' retirement program remains the same as last year's rate. The anticipated percentage of payroll contributed by the City is 9.60% for Public Employees Retirement System (PERS) employees, 8.72% for Oregon Public Service Retirement Plan (OPSRP) regular employees, and 11.43% for OPSRP police employees. In addition, the City continues to pick up the employees' 6% share.

Vacation Accruals: Each departmental budget includes funds for vacation purchase, to cover any expenses which may be associated with purchasing vacation time from retiring or resigning employees. To help keep these liabilities as low as possible, employees' accumulated vacation and compensatory time are each capped at 240 hours, as of July 1st. Most employees are well within these limits, except for a limited number who were individually allowed to carry additional vacation time forward, in cases where that is determined to be in the best interest of the City.

DEPARTMENT BUDGETS

The Summary of Expenditures by Department on the following page, and the overviews which follow, provide a description of the major budgetary highlights and changes.

GENERAL FUND REVENUES

The total proposed General Fund (100) budget is \$2,500,415, which is \$166,902 (7.2%) more than last year.

| BUDGET SUMMARY | | | 2010-2011 | DIFFERENCE |
|--|-----------------|-------------------------|------------------------|----------------------------------|
| DEPARTMENT BUDGETS | FUND NO. | 2009-2010 BUDGET | PROPOSED BUDGET | 2009-2010 & 2010-2011 |
| DEPARTMENTAL EXPENDITURES | | | | |
| MAYOR & COUNCIL | | \$61,820 | \$67,578 | \$5,758 |
| ECONOMIC DEVELOPMENT | | \$498,347 | \$398,906 | (\$99,441) |
| GENERAL ADMINISTRATION | | \$435,834 | \$596,047 | \$160,213 |
| FINANCE | | \$407,082 | \$430,559 | \$23,477 |
| MUNICIPAL COURT | | \$4,300 | \$4,300 | \$0 |
| POLICE | | \$905,674 | \$877,509 | (\$28,165) |
| FIRE | | \$107,000 | \$111,392 | \$4,392 |
| PLANNING | | \$206,053 | \$231,078 | \$25,025 |
| COMMUNITY CENTER | | \$66,700 | \$97,000 | \$30,300 |
| STREETS – PUBLIC WORKS | | \$2,215,160 | \$2,092,491 | (\$122,669) |
| PARKS & MAINTENANCE – PUBLIC WORKS | | \$499,098 | \$486,301 | (\$12,797) |
| ELECTRIC | | \$5,811,883 | \$6,786,520 | \$974,637 |
| WATER TREATMENT | | \$1,205,836 | \$2,131,430 | \$925,594 |
| WATER DISTRIBUTION – PUBLIC WORKS | | \$747,151 | \$737,338 | (\$9,813) |
| WASTEWATER TREATMENT | | \$995,445 | \$1,339,474 | \$344,029 |
| WASTEWATER COLLECTION – PUBLIC WORKS | | \$363,618 | \$401,647 | \$38,029 |
| LIBRARY | | \$578,596 | \$584,215 | \$5,619 |
| TOTAL DEPARTMENTAL EXPENDITURES | | \$15,109,597 | \$17,373,785 | \$2,264,188 |
| NON-DEPARTMENTAL EXPENDITURES | | | | |
| GENERAL FUND | 100 | \$347,263 | \$286,000 | (\$61,263) |
| CAPITAL IMPROVEMENT FUND | 510 | \$430,822 | \$221,818 | (\$209,004) |
| EQUIPMENT RESERVE FUND | 520 | \$70,534 | \$52,831 | (\$17,703) |
| LOCAL IMPROVEMENT DISTRICTS | 640 | \$2,336,122 | \$2,336,122 | \$0 |
| TOTAL NON-DEPARTMENTAL EXPENDITURES | | \$3,184,741 | \$2,884,271 | (\$300,470) |
| DEBT SERVICE | | | | |
| LOCAL OPTION STREET | 345 | \$298,634 | \$431,769 | \$133,135 |
| 2000 STREET & SEWER LID BONDS | 633 | \$21,610 | \$18,965 | (\$2,645) |
| 2001 BANDON LID | 634 | \$8,187 | \$9,364 | \$1,177 |
| 2004 HIGHWAY 101 SEWER | 635 | \$88,554 | \$78,983 | (\$9,571) |
| RURAL DEVELOPMENT G.O. BONDS | 343 | \$228,768 | \$0 | (\$228,768) |
| SDWRLF G.O. BONDS | 344 | \$38,684 | \$0 | (\$38,684) |
| 1992 SEWER REV G O BONDS | 350 | \$214,678 | \$0 | (\$214,678) |
| 1991 SEWER G O BONDS | 360 | \$201,740 | \$0 | (\$201,740) |
| ELECTRIC REVENUE BONDS | 370 | \$156,986 | \$0 | (\$156,986) |
| 2006 AIRPORT WATER & SEWER DS | 375 | \$199,354 | \$0 | (\$199,354) |
| 2006 WATER PLANT GO BONDS | 380 | \$59,131 | \$0 | (\$59,131) |
| TOTAL DEBT SERVICE | | \$1,516,326 | \$539,081 | (\$977,245) |
| GRAND TOTAL EXPENDITURES | | \$19,810,664 | \$20,809,637 | \$998,973 |

The largest individual sources of General Fund revenues continue to be the transient occupancy tax, utility sales taxes, and utility in-lieu taxes. Secondary resources include property taxes and reimbursements from the electric, water, and sewer utilities for administration and accounting services. Other resources include franchise fees, intergovernmental reimbursements such as liquor, cigarette, and 911 taxes, and miscellaneous permits and fees. The budget also anticipates the receipt of \$200,000 from the police operating levy being voted on in May 2010, plus funding from the Department of Geology and Mineral Industries (DOGAMI) for undertaking a year-long City-wide tsunami preparedness program, and an increase in revenues from the Barn/Community Center.

Until FY 2006-2007 the City allocated 70% of the annual utility tax receipts to the General Fund (100), with the balance distributed 27% to the Capital Improvement Fund (510) and 3% to the Equipment Reserve Fund (520). That money was then used to undertake various capital improvement projects and equipment purchases for projects that had no other funding resources. In FY 2006-2007, as explained in that year's Budget Message, *"Due to increasing Police Department expenses, and the need to subsidize the Water Department, the 27% share of utility taxes normally allocated to the Capital Improvement Fund (510) are instead being deposited into the General Fund (100) this year."* The same thing was done to the Equipment Reserve Fund (520). That year's Budget Message concluded with a recommendation *"that the matter of a Police Operating Levy be placed on the ballot."* In November 2006, the voters approved a water rate increase, which eliminated the need for water system subsidies, but the shortfall in police funding has continued until now. Since the utility tax was the only long-term source of money for these Funds, those balances steadily declined over the last four years. The proposed budget anticipates passage of Ballot Measure 6-130, the Police Levy, which will allow the City to end subsidizing the Police Department with funds which should properly be deposited into the Capital Improvement Fund (510) and Equipment Reserve Fund (520).

Mayor & Council

The activities and expenses of the Mayor and City Council continue to be charged primarily to the General Fund (100). As administrative expenses, they are reimbursed by the Enterprise Funds at the same ratio as the General Fund Administration expenses (75%). Discretionary "contributions" to outside organizations are also made by the Mayor and City Council, and are budgeted from the State Revenue Sharing Fund (260). The total proposed Mayor & Council budget is \$67,578, which is an increase of \$5,758 over last year.

Unlike most municipalities, the City of Bandon has for the last several years not been utilizing its State Revenue Sharing funds for general operating purposes, but has instead annually contributed these funds to various local community service organizations. This money comes from the State of Oregon, and is a share of the State liquor revenues which is annually distributed to cities and towns. The proposed budget continues the prior practice, and maintains the established maximum contribution of \$3,500 for any one organization. The list of proposed recipients is included in the State Revenue Sharing Fund (260) budget. To balance the budget last year, a transfer of \$18,576 into the General Fund (100) was necessary. Since that used up the remaining reserves in the State Revenue Sharing Fund (260), there is not a sufficient amount

left to include such a transfer in the upcoming fiscal year 2010-2011 budget without negatively impacting the community service organizations which depend on this funding.

Economic Development

The Block Grant Fund (410) includes \$285,241 for future *Capital Improvements*, and \$100,000 for *Loans To Small Businesses*. These funds primarily serve as a resource for loaning money to other funds and for small business start-up, equipment, construction, and property purchase. Capital improvements loans were made by the Block Grant Fund, and are being repaid by Urban Renewal Area #2, to help pay for construction of the new Library and last year's Barn/Community Center renovation project. Small Business Loans are available in any amount up to \$30,000, for a period up to 15 years, at a fixed interest rate of 1% less than the local fixed rate for a 15 year single-family residential mortgage. Many loans have been made to local businesses over the last several years, all of which have been repaid except for three active loans made in 2008, 2009, and 2010.

General Administration

The City's general administration expenses are charged primarily to the General Fund (100), with 75% of the operating costs paid by the Enterprise Funds [Electric Fund (910), Water Fund (940), and Sewer Fund (950)] to cover their share of the administrative activities. The total proposed General Administration budget is \$596,047, which is \$160,213 more than last year. This increase is due primarily to closing the Economic Development Fund (240) and adding the *Economic Development - Tourism Promotion* budget (Chamber of Commerce contribution) as a line item in the General Administration budget, and *City Hall Fascia Repair and Painting*.

Finance Department

Finance Department expenses are charged to the General Fund (100), with 90% of the general operating costs paid by the Enterprise Funds [Electric Fund (910), Water Fund (940), and Sewer Fund (950)] to cover their share of the accounting and utility billing costs. The total proposed Finance Department budget is \$430,559, which is \$23,477 more than last year.

The most significant CAPITAL purchases include upgrading the *Computer Server* and/or purchasing a new utility bill *Stuffing/Folding Machine*, both of which continue to have serious maintenance problems. An increased capacity stuffing/folding machine would allow the City to better accommodate the many community service organizations who utilize the City's utility bill mailings to disseminate important information to citizens and utility customers.

Municipal Court

The Municipal Court is funded by the General Fund (100). The total proposed budget is \$4,300, which is identical to last year. The bulk of these expenditures is *Contractual Services* for the Municipal Court Judge.

Police Department

The activities of the Police Department are funded through the General Fund (100). In prior years, the City maintained a separate Drug Enforcement Fund (150), but that Fund is now being closed and those expenditures incorporated as a line item in the Police Department's General Fund budget. The total proposed Police Department budget is \$877,509, which is \$28,165 less than last year. A total of six uniformed police officers continue to be included, under the assumption that the Police Levy (Measure 6-130) will be approved by the voters.

The only proposed CAPITAL purchase is \$30,000 for a new *Parol Vehicle*. With the anticipated passage of Measure 6-130, this will ensure more dependable long-term police response by replacing deteriorating older vehicles with new vehicles, which will initiate a program of regular scheduled patrol vehicle replacement. Due to the shortage of adequate police funding for the past several years, the City has only been able to replace older vehicles with high-mileage used vehicles which had been retired by other police agencies.

Fire Department

Fire protection is provided through a contract with the Bandon Rural Fire District, with funding from the General Fund (100). The total proposed Fire District budget is \$111,392, which is \$4,392 more than last year.

MATERIALS & SERVICES expenditures include payments to the Bandon Rural Fire Protection District, and for providing employee health insurance coverage for the Fire Chief. That latter expense is reimbursed by the Fire District. The amount of the annual payment is indexed to changes in the City's taxable assessed valuation. The \$89,892 budgeted for Fire District payment in fiscal year 2010-2011 is based on an assessment equal to \$.227 per \$1,000 assessed valuation, which was the equivalent rate established in the 1995 agreement between the City and the Fire District, adjusted for increases in the total City assessed valuation. An additional allowance of \$4,500 has also been included to offset increased payments necessitated by annexation(s) this year, which would cause the removal of that property from the Fire District tax base.

Planning Department

The activities of the Planning Department are funded through the General Fund (100). The total proposed Planning Department budget is \$231,078, which is \$25,025 more than last year. The difference results from a \$30,000 expenditure for Tsunami Preparedness materials. This additional expense is more than offset by the anticipated receipt of \$60,000 from the Department of Geology and Mineral Resources (DOGAMI) to pay the wages and expenses for a half-time City Planner who will be responsible for operating a City-wide tsunami education, awareness, and preparedness program.

The Planning Department continues to subsidize Police Department functions by allocating part of the second City Planner's job responsibilities as the City's Code Compliance Officer to enforce

and prosecute certain City Code violations, thereby freeing up sworn police officers for more critical law enforcement activities.

Community Center

Revenues and expenditures for the Barn/Community Center are run through the General Fund (100). The total proposed budget is \$97,000, including contracted management fees, utilities, janitorial costs, and other miscellaneous expenses. This is \$30,300 more than last year, but this amount also includes increased janitorial expenses and costs to provide bar, food, and servers for various events. These additional costs are projected to be more than offset by a \$35,000 increase in Barn use fees.

Many of the Barn/Community Center users are community service, volunteer, and youth oriented agencies, groups, and organizations, which have difficulty paying rental fees and liability insurance premiums on top of the expenses for conducting their events. Many of them are therefore allowed to utilize the facilities at no charge other than security/cleaning deposits and insurance. To help in this latter regard, the City has made insurance available through City County Insurance Services at very affordable rates. It is also important to recognize that charging a fee for certain events does not actually increase revenues, since many of those events would be lost to other facilities which charge lower or no fees.

Considering current economic conditions and the significant demand for use of the facility by large numbers of local individuals and organizations, the Barn has started to realize its significant potential as an economic development promotional tool. To this end, the City allows motels and other lodging businesses the right to reserve the facilities at reduced rates for out-of-town groups who book sufficient rooms to justify a waiver of the fees. This is not unlike the practice in other resort and convention facilities, which waive the meeting room use fees in exchange for purchasing food and lodging. It is anticipated that the resulting reduction in rental receipts will be outweighed by the economic benefits that increased meetings, events, and small conventions would have on local motels, restaurants, businesses, and shops, as well as increasing the City's transient occupancy tax (TOT) revenues.

Street Department - Public Works

Operation of the Street Department is funded from the City's share of the State gas taxes which are deposited into the State Tax Street Fund (210), some funding from the General Fund (100), and capital projects funding from the Capital Improvement Fund (510), Equipment Reserve Fund (520), Street SDC - Reimbursement Fund (710), the Street SDC - Improvement Fund (711), and the Local Option Street Fund (750). Since the Street Department is also responsible for the storm drain system, the Storm Drainage SDC - Reimbursement Fund (715) and the Storm Drainage SDC - Improvement Fund (716) are also included in the budget. The total proposed Street Department budget is \$2,092,491, which is \$122,669 less than last year.

40% of the Public Works Department employee costs are allocated to Streets. Since the economic slowdown has reduced the number of new utility connections being made, the Public Works crews have been increasingly utilized to undertake capital improvement and line

replacement projects, decreasing the need to utilize outside contractors and keeping expenditures as low as possible.

Major proposed CAPITAL projects include continuing the City-wide program to install *ADA Sidewalk Corner Ramps, Reserves for a New Backhoe, Guard Rail at 8th Street NE, Ohio Avenue Overlay, Stabilization of Ohio Avenue at Ferry Creek - Phase 1, Overlay Bandon Avenue from 2nd Street to 3rd Street, 125' Overlay on Riverside Drive, Shop Site Preparation, South Jetty and Jetty Road Erosion Control, and Mapping Software Upgrade*, as well as funds for normal annual maintenance and repair projects. Reserves are also being maintained in the Street SDC - Reimbursement Fund (710) and Street SDC - Improvement Fund (711) for future *Street Projects*, the Storm Drainage SDC - Reimbursement Fund (715) and Storm Drainage SDC - Improvement Fund (716) for *Gross Creek Culvert Replacement* and other future *Storm Drainage Projects*, and the Local Option Street Fund (750) for miscellaneous *Street and Pedestrian Improvements*.

Parks & General Maintenance - Public Works

The Parks & General Maintenance Department is funded primarily by the General Fund (100) and the Community Beautification Fund (250), with Capital Improvements funded through the Parks & Recreation Development Fund (550). The budget also continues to include a \$25,000 subsidy of the *Summer Recreation Program* by the Electric Fund (910). The total proposed Parks & General Maintenance budget is \$486,301, which is \$12,797 less than last year.

20% of the Public Works Department employee costs are allocated to Parks & General Maintenance.

Major proposed CAPITAL projects include the *Eastside Park, Playground Safety Matting, and Park Entrance and Directional Signs*. Some funds continue to be carried forward for *Miscellaneous Park Improvements*.

To maintain adequate funds in the General Fund (100) in fiscal year 2009-2010, "placeholder" line items had been included in the Parks & Recreation Development Fund (550) for *Rebuilding the Sprague Theater Air Handlers* and *Handicapped Accessible Doors at the Barn/Community Center*. These funds were being maintained there in case the air handlers or doors completely broke down, but were not released since those items are actually maintenance items which should have been included in the General Fund budget. Had the expenditures been absolutely necessary, then they would have been released in the form of a loan to be repaid by the General Fund. Those items have now been moved back into the General Fund budget for completion in the upcoming fiscal year.

Electric Department

The electric utility is funded through the Electric Fund (910), with revenues received primarily from the sale of electricity to customers inside and outside of the City. The total proposed Electric Department budget is \$6,786,520, which is \$974,637 more than last year. This increase is primarily due to "double-counting" the balances in the Electric Reserve Fund (920), Low

Income Assistance Fund (930), and Electric Revenue Debt Service Bond Fund (370) which are being closed and incorporated into the Electric Fund. Those expenditures will continue to be accounted for individually, but will become items within the Electric Fund as opposed to being maintained as separate Funds.

With the continuing slowdown in building activity and home sales, electric utility revenues are projected to remain relatively flat compared to the last two years. Bonneville Power Administration (BPA), from which the City purchases all of its electrical power, increased wholesale power rates 7.48% in October 2009. With last year's wage freeze, and by utilizing some of the reserves which had been accumulated, the City was able to continue operating without having to increase retail rates to pass those costs on to the customers. The financial condition of the Electric Utility will continue to be closely monitored throughout the year to determine if and when an electric rate increase will be necessary. At this time, a rate increase is not being proposed. The last retail electric rate increase was in 2007. BPA's new tiered rate system will be implemented in October 2011, which will likely necessitate a retail rate increase at that time, if not before.

The City continues to purchase 4% of its total load in the form of Environmentally Preferred Power (EPP). Half of this "green" power, which comes exclusively from wind resources, is now being purchased by a total of 137 customers. This represents an increase of 10 customers over last year's 127. The remainder of the EPP which is not being re-sold is being banked towards meeting the Renewable Portfolio Standard (RPS) requirement of securing 5% of Bandon's total electric load from renewable resources by the year 2025. The new wholesale rates which will become effective in October 2011 will eliminate the current EPP option, and it is not currently known exactly what options for "green" power purchases will be available at that time.

The Electric Utility utilizes Federal funds and the proceeds of a dedicated charge which is added to each electric bill to operate a Low Income Energy Assistance Program, which provides bill paying assistance to qualifying low income electric customers. Both the Federal and the local programs are administered under an agreement with Oregon Coast Community Action. With declining Federal resources, and increasing needs for assistance, the City initiated the Round-Up Program in 2009, through which customers are able to voluntarily agree to have their monthly utility bill "rounded up" to the next whole dollar value. At this time, a total of 193 customers are participating in the Round-Up Program, which represents an increase of 29 customers over last year's 164.

Since the economic slowdown has reduced the number of new utility connections being made, the Electric crews have been increasingly utilized to undertake capital improvement and line replacement projects, decreasing the need to utilize outside contractors and keeping expenditures as low as possible.

Major CAPITAL expenditures include a *Used Bucket Truck*, *Used Digger Derrick Truck*, *11th Street SW Underground (Gross Creek to Franklin Avenue)*, *9th Street SW Underground (Franklin Avenue to Highway 101)*, *Willow Creek Generating Station Feasibility Study*, *Load Sectionalizing Study*, *Mapping Software Upgrades*, and *Barn/Community Center Parking Lot Lighting*; and

normal annual purchasing of *Transformers, Meters, and materials for System Replacement and Substation Maintenance.*

Water Treatment

Water treatment activities are funded through the Water Fund (940), with revenues derived primarily from the sale of water. Some capital expenditures are also budgeted from the Water SDC - Reimbursement Fund (720), and the Water SDC - Improvement Fund (721). The total proposed Water Treatment budget is \$2,131,430, which is \$925,594 more than last year. This increase is primarily due to “double-counting” the balances in the Water Reserve Fund (740), 2000 RD Water General Obligation Bond Fund (343), 2000 SDWRLF General Obligation Bond Fund (344), 2006 Water Plant General Obligation Bond Fund (375), and 2006 Airport Water Debt Service Fund (380) which are being closed and incorporated into the Water Fund. Those expenditures will continue to be accounted for individually, but will become items within the Water Fund as opposed to being maintained as separate Funds.

With the continuing slowdown in building activity and home sales, water utility revenues are projected to remain relatively flat compared to the last two years. The last water rate increase was in 2006, and no rate increase is being proposed for fiscal year 2010-2011. The financial condition of the water utility will continue to be monitored throughout the year to determine whether a rate increase is necessary, and a decision would be made at that time regarding if and when to place such a rate increase on the ballot.

The major CAPITAL expenditure includes the *Clarifier Tube Settlers*, and funds continue to be carried forward in the Water SDC - Improvement Fund (721) as a reserve for the City's participation in the Bandon Cranberry Water Control District's proposed *Johnson Creek Reservoir* project.

Water Distribution - Public Works

Water distribution activities are funded through the Water Fund (940), Water SDC - Reimbursement Fund (720), and Water SDC - Improvement Fund (721). The total proposed Water Distribution budget is \$737,338, which is \$9,813 more than last year.

30% of the Public Works Department employee costs are allocated to Water Distribution. Since the economic slowdown has reduced the number of new utility connections being made, the Public Works have been increasingly utilized to undertake capital improvement and line replacement projects, decreasing the need to utilize outside contractors and keeping expenditures as low as possible.

No major CAPITAL purchases are anticipated other than funds for a *Mapping Software Upgrade*, although the budget does include funds for normal annual purchase and repair of *Water Meters*, *Service Lines*, and *Fire Hydrant Replacement*. Reserves are also being maintained in the Water SDC - Reimbursement Fund (720) and Water SDC - Improvement Fund (721) for miscellaneous and future water distribution improvement and expansion projects.

Wastewater Treatment

Wastewater treatment activities are funded through the Wastewater Fund (950), with revenues derived primarily from the wastewater treatment sales. Some capital expenditures are also budgeted from the Sewer SDC - Reimbursement Fund (730), and the Sewer SDC - Improvement Fund (731). The total proposed Wastewater Treatment budget is \$1,339,474, which is \$344,029 more than last year. This increase is primarily due to “double-counting” the balances in the Sewer Reserve Fund (533), 1992 Sewer Revenue Bond Fund (350), and 1991 Sewer General Obligation Bond Fund (360) which are being closed and incorporated into the Wastewater Fund. Those expenditures will continue to be accounted for individually, but will become items within the Wastewater Fund as opposed to being maintained as separate Funds.

With the continuing slowdown in building activity and home sales, sewer utility revenues are projected to remain relatively flat compared to the last two years. The last sewer rate increase was in 2007, and no rate increase is being proposed for fiscal year 2010-2011. The financial condition of the water utility will continue to be monitored throughout the year to determine whether a rate increase is necessary.

The CAPITAL budget includes funds for a new *Garage/Shop* and a carry-forward for completion of the *Wastewater Plant Ultra-Violet System*, which was started in fiscal year 2008-2009 and will be completed in the upcoming fiscal year. No other major capital projects are anticipated.

Wastewater Collection - Public Works

Wastewater collection activities are funded through the Wastewater Fund (950), Sewer SDC - Reimbursement Fund (730), and Sewer SDC - Improvement Fund (731). The total proposed Wastewater Collection budget is \$401,647, which is \$38,029 more than last year.

10% of the Public Works Department employee costs are allocated to the Wastewater Collection Department. Since the economic slowdown has reduced the number of new utility connections being made, the Public Works crews have been increasingly utilized to undertake capital improvement and line replacement projects, decreasing the need to utilize outside contractors and keeping expenditures as low as possible.

No major CAPITAL purchases are anticipated other than funds for a *Mapping Software Upgrade*, although the budget does include reserves being carried forward in the Wastewater Fund (950), Sewer SDC - Reimbursement Fund (730), and Sewer SDC - Improvement Fund (731) for miscellaneous and future system expansion, upsizing, and *Inflow & Infiltration* repair.

Library

The Library is operated out of two funds: the Library Fund (230), and the Library Memorial Fund (220). The majority of library funding comes from a share of Library District property taxes collected by the County, which are projected to be fairly consistent with last years receipts. Since library taxes can only be used for operation and maintenance but not capital construction, all property tax receipts are deposited into the Library Fund, and are used for personnel, materials, services, and equipment. Revenues from all other resources are deposited into the Library Memorial Fund, where they can then be used for the same purposes, plus capital construction

if needed. The total proposed Library budget is \$584,215, which is \$5,619 more than last year. No major CAPITAL purchases are anticipated.

NON-DEPARTMENTAL EXPENDITURES

Certain expenditures do not fall within a particular City Department, but are applicable to overall City operations. Generally, these involve miscellaneous *Materials & Services*, *Transfers to other Funds*, and *Contingencies*.

General Fund (100)

The General Fund (100) contains \$286,000 in *NON-DEPARTMENTAL EXPENDITURES*, including a reserve for *Insurance Liability Risk Share* to pay a higher deductible which reduces the liability insurance premium; *External Insurance Payments* which are made on behalf of former employees who are able to continue their City health insurance coverage (the City is reimbursed for those payments by those former employees); \$200,000 in *Miscellaneous Grants* and to account for unanticipated grant awards (which is offset by a corresponding Revenue item); and \$25,000 in *Contingencies*.

Capital Improvement Fund (510)

The Capital Improvement Fund (510) contains \$221,818 in *NON-DEPARTMENTAL EXPENDITURES*, including \$202,420 as a reserve for future *Land Purchases*, which has been tentatively earmarked for acquiring additional land in the watershed, \$11,398 in unspecified *Miscellaneous Equipment & Fixtures* which have not been earmarked for any specific project, and \$8,000 in *Contingencies*.

Equipment Reserve Fund (520)

The Equipment Reserve Fund (520) contains \$52,831 in *NON-DEPARTMENTAL EXPENDITURES*, as a reserve for *Miscellaneous Equipment & Fixtures* (which can be used in any department for unanticipated equipment purchases).

Local Improvement District Fund (640)

The entire Local Improvement District Fund (640) budget of \$2,336,122 is classified as a *NON-DEPARTMENTAL EXPENDITURE* since local improvement districts (LIDs) can be formed for various infrastructure improvement projects in any Department. The budget includes an allowance for principal & interest on the interim financing (bond anticipation notes), principal & interest on the construction financing, engineering, and bond sale expenses necessary to undertake \$1,000,000 in LID projects.

DEBT SERVICE FUNDS

The City currently operates 11 Debt Service Funds for the payment of bond and loan debt. The type, purpose, annual payments, final years, and outstanding balances are outlined on the following table. With the fiscal year 2009-10 payments, the outstanding principal balance on the City's total debt as of July 1, 2010 will be \$6,463,446, which is \$568,311 less than last year. The table below shows each of the City's debt service funds, together with the type of financing, the projects undertaken, annual payments, final payment year, and remaining balance.

| Fund | Type of Financing | Purpose | FY 2010-11 Payment | Final Year | 07/01/10 Balance |
|----------------|----------------------------------|---------------------------|--------------------|------------|--------------------|
| <i>343/940</i> | <i>2000 RD Water GO Bond</i> | <i>New Water Plant</i> | \$165,768 | 2040 | \$2,741,946 |
| <i>344/940</i> | <i>2000 SDWA GO Bond</i> | <i>New Water Plant</i> | \$ 37,183 | 2020 | \$ 299,793 |
| 345 | 2002 Street Tax Bond | Street Paving | \$148,155 | 2012 | \$ 416,684 |
| <i>350/950</i> | <i>1992 Sewer Rev/GO Bond</i> | <i>Wastewater Plant</i> | \$104,721 | 2013 | \$ 296,211* |
| <i>360/950</i> | <i>1991 Sewer GO Bond</i> | <i>Wastewater Plant</i> | \$100,520 | 2013 | \$ 284,000 |
| <i>370/910</i> | <i>1994 Electric Rev Bond</i> | <i>2-Mile Substation</i> | \$ 78,900 | 2014 | \$ 270,000* |
| <i>375/940</i> | <i>2006 Water GO Bond</i> | <i>Clarifier & UV</i> | \$ 64,500 | 2034 | \$ 901,734** |
| <i>380/940</i> | <i>2006 Airport Utility Loan</i> | <i>Water</i> | \$ 50,805 | 2031 | \$ 667,443* |
| 633 | 2000 Street & Sewer LID | Local Imp. District | \$ 5,070 | 2029 | \$ 59,805*** |
| 634 | 2001 Bandon Ave LID | Local Imp. District | \$ 1,622 | 2030 | \$ 18,463*** |
| 635 | 2004 Hwy 101 Sewer LID | Local Imp. District | \$ 35,431 | 2034 | \$ 507,367*** |
| TOTALS | | | \$ 792,675 | | \$6,463,446 |

* No property taxes are assessed for these bonds. The 1992 Sewer Bonds are paid from sewer revenues and Urban Renewal; the 1994 Electric Revenue Bonds are paid from electric revenues; and the 2006 Airport Water & Sewer Bonds are paid by private property owners (68%) and Water SDCs (32%).

** 42% of the 2006 Water GO Bond debt is paid with Water SDCs.

*** No public funds or property taxes are used to pay LID bonds. Payments are made through assessments against the private properties within the district.

Funds shown in *ITALICS* are being closed as individual stand-alone Funds and incorporated into the corresponding Enterprise Funds.

PROPERTY TAX RATES

The City's permanent property tax rate remains unchanged at \$0.46 per \$1,000 assessed valuation, and the Local Option Street Levy will continue at \$.84 per \$1,000 assessed valuation. With \$1.10 per \$1,000 assessed valuation levied for general obligation bond repayments, Bandon's total fiscal year 2009-2010 property tax rate was \$2.40 per \$1,000 assessed valuation. The Local Option Street Tax remains in effect, so the Urban Renewal Special Levy is again not imposed. For comparison, the FY 2009-2010 property tax rates for all cities in Coos County are listed in the table below. Also shown is the impact of the proposed \$.56 per \$1,000 assessed valuation Police Levy, which would increase Bandon's total property tax rate to \$2.96 per \$1,000 assessed valuation. [Early assessment of the 2006 Water GO Bond (375) accumulated sufficient reserves to allow the fiscal year 2010-2011 payment to be made without a property tax assessment. This will reduce the property tax rate by approximately \$.16, for one year only, resulting in a net increase of \$.40 when combined with the proposed \$.56 Police Levy.]

| CITY | Permanent Rate (Inside M5) | Local Option Tax (Outside M5) | Bonds (Outside M5) | Urban Renewal Special Levy | Total |
|----------------------|----------------------------|-------------------------------|--------------------|----------------------------|---------------|
| Myrtle Point | 7.99 | | .30 | | 8.29 |
| Powers | 7.39 | | | | 7.39 |
| Coos Bay | 6.36 | | .50 | | 6.86 |
| North Bend | 6.18 | | .03 | .31 | 6.52 |
| Coquille | 6.10 | | | | 6.10 |
| Bandon | .46 | .84 | 1.10 | | 2.40 * |
| <i>w/Police Levy</i> | | .56 | | | 2.96 * |
| Lakeside | | | | | 0 |

INTEREST ON INVESTMENTS

The City's cash is currently invested in the Oregon State Treasury's Local Government Investment Pool (LGIP), from which it is periodically transferred into the City's local checking account for monthly payroll and accounts payable expenditures. Interest payments are allocated monthly to each Fund, based on the proportionate share of the total cash balance. For the last 12 months (March 1, 2009 - February 28, 2010*) the City earned a total of \$67,438 in interest, which is \$151,257 less than the same period last year. Interest earned over the last several fiscal years is shown on the following table.

| <u>2001-02</u> | <u>2002-03</u> | <u>2003-04</u> | <u>2004-05</u> | <u>2005-06</u> | <u>2006-07</u> | <u>2007-08</u> | <u>2008-09</u> | <u>2009-10*</u> |
|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-----------------|
| \$203,792 | \$145,808 | \$ 81,568 | \$108,273 | \$204,692 | \$338,332 | \$354,302 | \$218,695 | \$ 67,438 |

The amount of interest earned depends on the interest rates being applied to the total amount of cash being maintained on deposit. For calendar year 2009, interest rates were considerably lower, averaging only 1.06%. Interest rates have been declining each month, and as of February 2010 the annual interest rate was 0.55%.

CONCLUSIONS AND FUTURE OUTLOOK

Based on the revenue and expenditure projections in the proposed fiscal year 2009-2010 budget, it appears that the City of Bandon will be able to continue functioning at its current staffing and service levels for the upcoming fiscal year. No utility rate increases are being proposed, so utility customers should not experience any additional financial burdens as a result of continued City operations during this next year, unless balances in the water, sewer, or electric utility necessitate a utility rate increase during the year. The most significant added taxpayer burden would result from voter approval of the \$.56 per \$1,000 assessed valuation police levy at the May 18, 2010, election.

Police Protection

The most immediately critical issue facing the City last year was the matter of providing sufficient funds for police protection. Approval of the proposed police levy will solve this problem for at least five years, by guaranteeing adequate funds at least six uniformed police officers.

By establishing a baseline Police Department staffing level of six officers, the proposed police levy could possibly have the added effect of allowing the City to expand this number to seven officers at some point in the future. This was the staffing level prior to the recent cutbacks. It may now be possible to secure funding which occasionally becomes available from the U.S. Department of Justice through the Community Oriented Policing Services (COPS) program. This is a competitive grant program which previously made funding available for police officer wages and expenses for a period of up to three years. Without firm Police Department funding, however, the City has recently been unable to apply for and accept COPS funding since the program guidelines only allow hiring additional police officers, and prohibit supplanting existing officers. Another requirement is that the City commit to fully funding the added position for a fourth year following the three-year COPS funding. Once the funding provided by the police levy has been in place for a couple of years, and depending on the rate of future economic growth, the City may be able to determine whether it could commit to the required subsequent funding.

Water, Sewer, and Electric Utilities

Assuming the police levy passes, the most significant remaining long term fiscal challenge will be to ensure the continued financial viability of the municipal water, sewer, and electric utility systems, and thereby provide a financial basis for all other public services. The main concern with the water, sewer, and electric utility systems revolves around the City Charter amendments which limit the ability of the City Council to increase utility rates. The problem is also compounded by the overall downturn in the national economy and the housing market slowdown which can significantly impact an economy such as Bandon's, which is heavily dependent on utility revenue growth, tourism, and retirement in-migration. In recent years, a significant portion of the City's capital improvement revenues for streets and drainage, and the water and sewer utilities, has been system development charges (SDCs), which also depend on continued growth. The proposed fiscal year 2010-2011 budget projects relatively flat revenues for the electric, water, and sewer utilities, and only minimum SDC revenues.

The City Council is currently able to set electric and sewer rates, since bond and loan agreements which pre-dated the subject City Charter amendments contain covenants which require the City to maintain utility rates at a level which generates sufficient revenue to properly operate and maintain the electric and sewer system, and meet the debt service obligation. Unfortunately, however, those bonds will be paid off in 2012 and 2013, which will negate those requirements. No such covenants exist for the water utility.

It is recommended that the City Attorney research the matter of utility rate setting authority and report back to the Council during this next year regarding whether there are any statutory or constitutional provisions which would allow the City Council to set utility rates in spite of the City Charter rate setting limitations, and/or what options may exist with respect to securing permanent rate setting authority.

Unlike most other cities whose budgets are based heavily on property taxes, Bandon's revenues are primarily generated by its electric, water, and sewer utilities. At only \$.46 per \$1,000 assessed valuation, the City of Bandon's permanent property tax rate is extremely low compared to other full-service cities in the County, whose rates range from \$6.10 to \$7.99. The City's ability to provide essential public services relies upon the overall health of its water, sewer, and electric enterprises. These utilities contribute to the City's operation through sales taxes, in-lieu taxes, and direct payments.

If it is determined that the City Council can increase utility rates without an amendment to the City Charter, then the City could continue its past practice of instituting smaller increases more frequently to keep the retail rates as stable as possible.

If it is determined that a Charter amendment will be necessary to grant authority to the City Council to increase utility rates, then it is recommended that the amendment be placed before the voters at an election in fiscal year 2012-2013. If not approved, it is recommended that the City Council institute the maximum possible utility rate increases at that time, to ensure continued operation of the utilities as long as possible beyond expiration of the bond agreements which currently allow the City Council to set utility rates.

Planning

Although planning is normally associated with building and development, its purpose is primarily to provide planning and zoning services which regulate building and development, and are primarily aimed at protecting the existing character of the community. It is impractical to increase planning fees to the point where they cover a very significant portion of the costs to provide those services, or to get voter approval for an operating levy to cover planning and zoning costs. It is therefore anticipated that General Fund revenues will continue to be the primary resource for operating the City's Planning Department.

The current building slowdown has provided the opportunity for the Planning Department to undertake significantly more long range planning and prepare needed amendments to the Comprehensive Plan and Zoning Regulations to address such issues as riparian protection, sign regulations, floodplain regulations, fill in the South Jetty, beaches and dunes protection, and development densities. Completing these items places the City in a much improved position to respond to future development proposals at such time as the economy turns around.

The future of the Planning Department will depend on the timing and pace of the economic recovery and the extent to which it influences future growth and development. To keep the Planning Department functioning during this interim period, some outside funding has been secured, and the two City Planners have been assigned alternative job responsibilities. The City anticipates receiving up to \$60,000 from the Department of Geology and Mineral Resources (DOGAMI) to pay the wages and expenses for a half-time City Planner who will be responsible for operating a City-wide tsunami education, awareness, and preparedness program. The Planning Department also continues to subsidize Police Department functions by allocating part of the second City Planner's job responsibilities as the City's Code Compliance Officer to enforce and prosecute certain City Code violations, thereby freeing up sworn police officers for more critical law enforcement activities.

Parks & Recreation

The Parks & Recreation Commission completed the Parks Master Plan last year, to guide and prioritize the development parks & recreation facilities in the community. It contains numerous recommendations regarding improvements to City Park, development of additional neighborhood and wayside parks, and an extensive walking trail system. Traditionally, these activities have been funded from the General Fund, with some capital improvement funds available from a 6% fee assessed against subdivisions. As a result, parks development and maintenance has had to compete for the same funds as police, fire, and planning. With the limited funds available for those emergency and regulatory services, parks & recreation funding has not fared very well.

One of the major concerns expressed by the Parks & Recreation Commission is the matter of not only being able to afford constructing facilities such as parks and walking trails, but more importantly how to fund their ongoing operation and maintenance once they have been built. At the Commission's recommendation, a proposed \$2 per month electric utility bill surcharge was placed on the ballot for the March 10, 2009 election. The measure, however, was soundly defeated.

It is recommended that, at such time as the City Council feels voter approval could be secured, the matter of a parks and recreation maintenance fee be placed back on the ballot for consideration by the voters.

With respect to funds for future parks and recreation facility capital construction, the City Engineer will be preparing a Parks System Development Charge (SDC) Plan. Based on the Capital Improvement Plan prepared by the Parks & Recreation Commission as an appendix to the Parks Master Plan, this will determine the appropriate level of Parks SDCs to ensure that future developers and builders for their fair share of parks development costs. Unless and until building activity picks up, Parks SDCs will not generate any significant revenue. However,

It is recommended that the matter of Parks SDCs be placed on the ballot once the City Engineer has completed the Parks SDC Plan.

Streets, Drainage, and Pedestrian Facilities

Another significant financial challenge facing the City is securing adequate funds for maintaining the streets, drainage systems, and pedestrian facilities.

State Tax Street revenues have been virtually stagnant for the last several years, while costs continue to rise. It has now reached the point where those funds are barely sufficient to pay the Street Department labor costs, with very little left for materials, supplies, or capital purchases. The General Fund is the only other resource available for street maintenance materials and supplies. Although street and storm drainage SDC funds are available, they can only be used for certain specified capacity-expanding capital improvement projects, and cannot be used for normal operations and maintenance. As previously discussed, the overall downturn in the national economy, together with the slowdown in the housing market, have resulted in a significant drop in SDC revenues, which is expected to continue until the economy improves.

The Local Option Street Fund continues to receive increasing revenues as assessed values increase. It is the most consistent, dependable source for street and pedestrian facility capital improvements, but cannot be used for normal operations and maintenance. This is a voter approved local option tax, in the amount of \$0.8455 per \$1,000 assessed valuation, which was initially assessed in fiscal year 2001-2002. Its initial purpose was to overlay all existing open streets, and a subsequent measure was approved by the voters to allow the funds to be used for bicycle and pedestrian facilities. As a capital tax, it was approved for the maximum term of 10 years, and its last year will be the upcoming fiscal year 2010-2011. To continue beyond this year, the local option street tax would have to be approved by the voters. Extending it would not increase taxes, but would simply maintain the existing tax at the current rate. It would also extend the prohibition against the Urban Renewal Agency re-instituting the Urban Renewal special levy, since the amendment to the Urban Renewal Plans prohibits a special levy from being imposed as long as the local option street tax is in effect.

It is recommended that a 10-year extension of the local option street tax be placed on the ballot for the November 2010 election. This is a general election at which the "double majority" requirement would not apply, and would allow it to be included in the 2011 property tax levy so there would be no break in street improvement funding.

Capital Reserves

For the last four years, the City has been subsidizing the Police Department by depositing into the General Fund 30% of the utility tax funds which had previously been allocated to the Capital Improvement Fund (510) and Equipment Reserve Fund (520). The proposed budget anticipates passage of Ballot Measure 6-130, the Police Levy, which will allow the City to end this subsidy. By re-instituting the allocation of utility tax revenues to these Funds for capital improvements and purchases, the City will be able to undertake some critical infrastructure improvement projects and begin rebuilding reserves for future capital improvement projects that have no other funding resources. The most significant of these needs include safety improvements to the *8th Street NE Guardrail*, building reserves for *Watershed Land Purchase* to protect the City's water supply, and *Ohio Avenue SE Hillside Stabilization* where the land is sliding south of Ferry Creek.

It is recommended that the City continue to allocate at least 30% of the utility tax funds to the Capital Improvement Fund (510) and Equipment Reserve Fund (520) so adequate resources and reserves are available to undertake needed capital improvement projects which are critical to the future health, safety, and general welfare of its citizens.