



## Budget Committee Minutes

April 27<sup>th</sup>, 2017

Members of the Budget Committee met this day in regular session at City Hall, Brownsville, Oregon at 7:00 p.m.

**Present:** Mayor Don Ware, Councilor Mandy Cole, Councilor Lynda Chambers, Councilor Mike Neddeau, Councilor Gary Shepherd, Councilor Doug Block, Marilyn Grimes, Rick Dominguez, Don Andrews, Mike McDaniel, Kim Clayton, Administrative Assistant Tammi Morrow and Budget Officer S. Scott McDowell.

**Absent:** Councilor Carla Gerber, Kaye Fox & Allen Buzzard.

**Public:** No one was present.

**Presiding:** Don Ware & Don Andrews.

The meeting was called to order at 7:05 p.m. by Mayor Ware. Ware opened the floor for Committee Chair nominations. A motion was made by Ms. Cole to nominate Mr. Don Andrews. A second was made by Mr. Shepherd. The floor was closed to nominations. Mr. Don Andrews was elected as Committee Chair. The motion carried unanimously. Mr. Andrews conducted the meeting.

Chair Andrews asked Mr. McDowell to recognize Budget Committee Membership. McDowell explained that the seven (7) members of Council are required to count toward attendance/quorum regardless if they are present or not according to State law. If a municipality is incapable of filling the same number, seven (7), of public participants, the Committee membership is based on that total number of Committee members. This year the City recognizes the full fourteen (14) member Committee.

Chair Andrews then turned the meeting over to McDowell for the delivery of the Budget Message. McDowell introduced and welcomed Ms. Kim Clayton who was recently appointed to the Committee. McDowell thanked all the members of the Committee for their time and effort in helping with this important annual task.

McDowell reviewed the binder documents. McDowell indicated that all of these documents are available for the public in two places, in a binder downstairs and on the City website. McDowell said the Budget Message encourages members to be familiar with certain operational realities of the City. McDowell shared the City website where many documents are stored for ease of access and further research as desired by each individual member. McDowell indicated that if any of the members wish to review any additional reports that were mentioned in the Budget Message, they are welcome to review those reports or any other documents upon request. McDowell feels it is important for the community leaders to understand the inner workings of the organization and the external impacts that require public expenditures.

McDowell stated that the presentation this evening would include six parts, 1) the legal requirements & duties of the budget process, 2) how the City budget is built, 3) how to read the budget, 4) bonded debt, 5) adjustments and 6) projects. McDowell explained that he would be



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expounding on past projects and certain policy decisions made by Council over the last several years for insurance reasons, historical purposes and TMDL implications. Last year, the Committee got too "hung up" discussing policy decisions that are the responsibility of Council. Mr. Andrews and Mr. McDowell will help the Committee stay focused on their duties as a Budget Committee. McDowell indicated that the purpose of the Committee is to determine if the amounts in the line items are sufficient enough to carry out Council's policies and certain requirements.

McDowell briefly reviewed the on-going discussion regarding allocated and non-allocated resources as discussed by the Oregon Department of Revenue (ODR) attended in early March by Administrative Assistant Tammi Morrow and City Administrator Scott McDowell. McDowell explained how the City allocates all expenditures to the appropriate Fund and organizational unit. McDowell explained that it is also linked to payroll and Worker's Compensation calculations. McDowell once again predicted that ODR will eventually change this recommendation. ODR did say that cities were not required to use this process.

Highlights from the presentation included a discussion about tax rates and the Linn County SAL report. McDowell explained how general obligation bonds were not counted toward the permanent tax rate. Voter approved general obligation debt is counted separately or cities would have no way of affording major capital improvements such water and sewer treatment plants and the like. McDowell explained several other State requirements for taxation including the uncollectable tax percentage and shared the Linn County breakdown showing where tax dollars flow.

McDowell discussed the refinancing of the water and sewer debt. After many years of the USDA not allowing cities to refinance without being seen as a "self-sustaining utility" the USDA began allowing cities to refinance debt due to the record low interest rates last year. Council decided to attempt to receive a bond rating for a possible refinance of the City's debt. Mr. Matt Donahue from D.A. Davidson indicated that if the City were to receive a high bond rating, his firm could provide a thirty (30) year term as a refinance option. The savings would be between \$.40/\$1000 and \$.65/\$1,000. Many financial and economic factors were reviewed by D.A. Davidson. After all reviews the City received an A- rating from Standard & Poor's which made the refinancing possible.

Council made many decisions to make the refinancing possible. Council could not include the IFA or OECDD debt instrument because the cost of incorporating this debt was too expensive both from a hard cost standpoint and a timing standpoint. McDowell will demonstrate this decision in the annual audit as well as the written budget message.

Staff was busy crunching numbers and supplying vital information like the City's Capital Improvements Plan (2008), multiple year audits from Boldt, Carlisle & Smith LLC, the City Prospectus (2015 & 2016) and a list of capital projects the City had completed over the previous nine years which demonstrated excellent financial management to achieve City goals during difficult economic times.

McDowell discussed how he landed on the factors necessary to calculate the debt appropriately for water and sewer. The refinance included both the water and sewer debt. The



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factor created by McDowell takes into consideration the future schedule and amortization of the previous debt so that it could be properly charged out to each utility.

McDowell briefly reviewed the bond information recounting a story from a few years ago about the fluctuation of the annual payment. McDowell explained that the bond amount levied depends on the actual amounts collected by Linn County which fluctuates year to year. The City budgets an amount more than needed in order to make sure that the obligation can be met in full. McDowell reviewed the impact of the debt service fee which is a major part of how the City covers the annual debt obligation. The bonded amount plus the monthly debt service fee will be combined with monies already in the fund to meet this year's obligation. McDowell indicated that there could be questions regarding this from the general public.

McDowell discussed the adjustments used in developing this year's budget. He said that he used a 0% approach and based most of the calculations on past experience. The City has spent a lot of money on capital projects over the last ten years. Last fiscal year it was important to allow the treasury to rebound a bit before taking on another major project. However, the treasury did not rebound as quickly as hoped. McDowell explained that the margins continue to shrink relentlessly. Insurance costs, utility costs, service costs all continue to rise disproportionately to the amount of money collected by the City.

McDowell, once again, praised Staff for their ability to look for bargains and being efficient with City resources. McDowell praised the Council and the Committee for setting and approving good budgets that achieve specific financial goals. The results have been remarkable.

McDowell indicated that the budget includes a 3% increase for utility rates. McDowell felt that it should really be closer to 8% this year, but that is not possible. McDowell indicated that many communities across Oregon have been implementing General Fund Fees to supplement General Fund tax dollars to keep the city moving forward at the same level of service. The City of Philomath will be putting on a \$17 per month General Fund Fee on residents monthly utility bills. The purpose of the fee is to continue to provide police and parks.

McDowell explained that tax rates are static. Cities ability to expand their boundaries are limited by the State. There is no way cities can increase revenue without these kinds of financial options. The Federal government and the State government continue to force unfunded mandates on local residents; exactly like TMDL. McDowell talked about the implications of the TMDL program being required by the DEQ.

McDowell said that Council will be faced with difficult decisions in the next few years if the City is going to continue to operate at the same service level.

McDowell reviewed last year's Committee discussions. McDowell shared a few policy issues that were discussed too much. One example he gave was the LCSO contract. The decision regarding the contract belongs to Council. Council enters into a contract to provide additional law enforcement for the community. The Committee needs to remain focused on its responsibilities. Chair Andrews asked for clarification and McDowell shared the scope of the Committee. The Committee shall review the numbers to determine if resources can meet requirements. The Committee can provide alternative funding ideas. The Committee can decide to move money from different areas to cover certain services and the like.



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Mr. McDowell reviewed the areas listed below:

### Recent History & Near Future Capital Improvements

#### ***Earthquake Insurance***

For the last three years, 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 been experiencing. The City added an additional \$5 M for a premium of \$14,592.75 last year. I have included \$15,000 for inclusion in this year's budget.

#### ***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, had been destroyed by the erosion. The City hired River Design Group (RDG) out of 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 State's Regional Solutions team to assist on this issue. The outcome was that the City could spend about \$600,000 to "shore up" the river using the new, approved techniques for bank stabilization. The problem with this option was improvements implementing 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 options was to spend over \$1.2 M to armor the bank to the standards of the Army Corps of Engineers. The problem was simply cash flow. Council decided that it was not appropriate to spend this kind of money on a project that could be lost due to a major flood event. The City would have had to ask the voters for a general obligation bond to cover the construction costs associated with such a project. 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. The City has lost real estate since, but nothing like what was experienced in 2010 & 2011. Council recently reviewed this decision at the March 28<sup>th</sup>, 2017 regular session meeting. Council decided to stay the course and retreat. McDowell indicated that he has included money for a possible retreat. The City has lost considerable real estate this Winter and early Spring.

#### ***Total Maximum Daily Load (TMDL) & Storm Drainage***

Council approved a new plan at the January 24<sup>th</sup>, 2017 regular session meeting. DEQ approved the plan in early March. 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 26<sup>th</sup>, 2016, Public Works Superintendent Karl Frink and I met with representatives from the Oregon Department of Environmental Quality (DEQ) which was precipitated by an article written by Alex Paul of the



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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 \$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. The City of Corvallis project they will spend over \$100,000,000 on stormwater projects over the next ten years complying with TMDL parameters.

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. 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.

### ***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 due to the refinancing of the bonded debt.

### ***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. McDowell discussed the implications of how the City has chosen to handle the replacement of sewer collection lines and water lines.

### ***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 is also contemplating acquisitions that could have considerable implications on the General Fund.

McDowell and Public Works Superintendent Karl Frink gave a presentation in October of 2016 that highlighted some major needs in Pioneer Park and at the Rec Center. Council will be faced with many policy decisions over the course of the next few years dealing with aging community capital assets.

The following project list was presented and discussed for the upcoming fiscal year:



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### Projects

1. Streets	\$100,000
2. Robe Street Water Line	\$140,000
3. Water Filter	\$80,000
4. General Ledger & Utility Software	\$30,000
▶ General has \$20 K ( <i>Operations</i> )	
▶ Water Admin has \$10 K	
▶ Sewer Admin has \$10 K	
5. Rec Center – Reserve Options	\$30,000
6. Rec Center – Project Options	\$20,000
7. Earthquake Insurance	\$15,000
8. Land Inventory ( <i>DLCD</i> )	\$50,000
9. City Hall Safety Improvements	\$15,000
10. Street Trees Plan	\$18,000
11. TMDL Costs	\$10,000
12. City Hall Mini Subs	\$10,000
13. Fireproof Filing Cabinets	\$10,000
14. Pioneer Park Future Roofs	\$20,000
15. Internal Procedures	\$6,000
16. Sidewalks	\$15,000
17. EPC Funding	\$6,500
18. Calapooia Watershed Council & TMDL	\$2,800
19. Backhoe Attachment Options	\$10,000
20. Moving Playground Equipment	\$20,000
21. Library Conference	\$2,000
22. WS Overhaul	\$6,500

McDowell explained that several of these expenditures have been left in the General Fund. The Government Accounting Standards Board (GASB) are encouraging municipalities to leave money for expenditures within the General Fund, for example, instead of transferring it to other funds such as Buildings & Equipment and Community Projects. McDowell indicated that he is continuing that practice again this year, however it will take a few years until some of these capital purchases are made before those other funds can be eliminated from the City budget.

McDowell reviewed sidewalks and how that process would work and indicated that the City really does not have the funds to start that physical project. Council has not implemented a program based on citizens being forced to construct sidewalks and dealing with another assessment against properties. McDowell encouraged Council to review these major capital improvements.



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McDowell thanked the Budget Committee, Council and Staff for playing their vital roles in saving money while providing excellent service. Ms. Cole made a motion to table this meeting at 8:19 p.m. and reconvene on Thursday, May 4<sup>th</sup> at 7:00 p.m. Mr. Shepherd seconded the motion, and it passed unanimously. The discussion was tabled until that time.

**Attest:**

A handwritten signature in blue ink, appearing to be "SM", written over a horizontal line.

S. Scott McDowell  
Budget Officer

A handwritten signature in blue ink, appearing to be "Don Andrews", written over a horizontal line.

Don Andrews  
Budget Committee Chair