

## Budgeting for Fiscal Year 2018-19

### Income Factors:

1. Population estimate is up by 25 people to a total of 7,245.
2. Per capital revenue sharing estimates show an increase in liquor revenue of \$.52/person and a decrease in cigarette revenue of \$.06/person, for a total change of \$.46/person or an additional \$3,333 to the general fund if estimates are met. The quarterly revenue sharing tax for all cities is anticipated to increase by 3.9% to \$36,926,000. The city's portion of this tax will be approximately \$126,940.
3. City revenues from the State Highway Trust Fund will see significant per capital dollar increases starting next fiscal year that will continue to grow in the following years. This is due to the passage of the transportation package, HB 2017, during the 2017 legislative session. For Umatilla, the Highway fund tax sharing is due to increase by \$7.73/person. This results in an increased apportionment for 2018-19 of approximately \$56,004.
4. Currently, the state imposes a 17 percent tax on recreational marijuana products. Cities receive 10 percent of the state's total revenues on recreational marijuana products but the formula for distributing that 10 percent has changed over time. Originally, 10 percent of state taxes collected between January 1, 2016 and June 30, 2017 was distributed to all cities on a per capita basis. Those payments were made in 2017 and we received \$21,479. However, due to the intent of the voters who enacted the recreational marijuana measure, Measure 91, cities that ban one or more marijuana license types will no longer receive any shared revenues from the state marijuana tax.
5. Total taxable assessed value for 2017-18 is \$331,766,767, a 24.7% increase in value from the prior year. The major increase is due to the consumable property at the data centers (racks and servers) that have passed the three year abatement. The limit under Measure 50 is a 3% annual increase in existing value. Our current permanent tax rate is \$2.9191 per \$1,000 of assessed value. The bond rate for the ending fiscal year was \$0.0822 per \$1,000. This is our total income from taxes.
5. Reserved STP (Surface Transportation Program) exchange funds for Street Projects has a remaining balance from prior years of \$647,270 and a new allotment for next year of approximately \$86,625, making \$733,895 available for streets projects. The exchange rate is \$.94 state funds for every \$1 federal funds that is exchanged.
6. Electrical franchise revenue has leveled out now that collections from UEC have met the cap of \$500,000 that was imposed on the franchise agreement in 2015. We also project revenue of \$185,000 from Pacific Power. This franchise cap cannot be reconsidered until March 2020.

Expense Factors:

1. Police Department Expenditures: In lieu of a new vehicle this year, the Chief would like to budget for 7 mobile notebooks to replace the current outdated tablets in their vehicles. Each unit costs \$6,000 including the unit, installation and hardware. To offset some of this cost, the Chief also intends on applying for a Wildhorse grant.

The copy machine at the Police Department is also in need of replacement at an approximate cost of \$9,000.

This year we would like to budget for three taser replacements at \$900 each and two additional car cameras for \$5,200 each.

Dispatch fees will increase again this year to \$63,880 in addition to the 911 fees that pass through to the County. This increase is the final part of a three year tiered increase.

The Police Department is in the process of adding a criminal evidence building south of the police station inside their gated area. There are enough funds allocated in the current budget to purchase the building. In the 2018-19 FY, we need to allocate \$7,000 for the concrete. The building will be installed during the summer of 2018.

2. Under the Purchase and Sale Agreement entered into with the Port of Umatilla and J.P. Hammer Properties in the 2014-15 fiscal year, the City is obligated to pay \$44,000/year for four budget cycles to acquire 15.4 acres of land owned by the Port. The last payment will be made in the 2018-19 fiscal year. This payment will be made by transferring funds from the General Fund to Capital Reserve Fund.

The City is in the process of identifying all desirable pieces of property within the UGB to assist in developing a land acquisition plan. At a minimum, administration would like to allocate \$50,000 per year to land acquisition. In most cases, we can work out a 2-3 year purchase agreement if we were to acquire property that cost more.

3. The City budgeted funds this fiscal year for a consultant to evaluate the City's System Development Charges, which have not been increased since they were approved in 1998. Due to time constraints, this funding will be rolled into the FY 18-19 budget and we will be issuing an RFP for consultants in the summer of 2018.

The City would also like to allocate \$50,000 for a consultant to create a buildable lands inventory in the next fiscal cycle. The BLI is an assessment of the City's capacity to accommodate projected changes in housing and employment, including a series of maps. The maps will be used to identify land areas as either having full, diminished, or no capacity to accommodate additional housing units or additional jobs over an extended period of time.

4. Insurance costs will be slightly higher for the 2018-19 fiscal year. Liability insurance and auto physical damage will remain flat. Property insurance will increase by 7.5%.
5. The Sewer Department has a few equipment purchase requests. The first is for a new vehicle lift for the shop at an estimated cost of \$5,000. They also need a new demo/chop saw for an estimated \$1,800, a new root cutting system for \$4,800 and a dissolved oxygen meter upgrade for the oxidation ditch at a cost of \$3,900. As part of building maintenance, we are looking to install new flooring in the operations building for \$4,000.

The Street Department also has several equipment requests. They would like to purchase a gas powered pressure washer for \$6,500, backhoe attachment for the Kubota 3130 for \$10,000 and a new/preowned pickup for approximately \$25,000. In addition, they would like to purchase a compact dump truck for approximately \$30,000. We will also continue to transfer \$15,000 per year into reserves for a replacement street sweeper in 10-15 years.

The Parks Department has several high dollar requests. They would like a new/preowned pickup for \$25,000, a compact tractor/backhoe with attachments for \$30,000, a John Deere 997 zero turn mower with MOD and grass catcher for \$28,000 and a 60" broom for \$4,800.

The Water Department's equipment list includes a new line locator for \$6,000, shop tools for \$4,200 and two hydrant meters for \$4,000.

The Water Department also needs to plan for residential meter replacement on an annual basis. The City has approximately 1,400 residential meters at a cost of \$200/meter. The cost to replace 75 meters per year would be \$15,000 which is much easier than the \$280,000 cost of replacing them all at once. Similarly, the City should budget to replace two hydrants per year at a cost of \$5,000/hydrant. These hydrants are separate from those discussed in the 6<sup>th</sup> Street project replacement below.

In addition to the public works purchases, the City Tahoe is also in need of replacement. City Manager Pelleberg would like to purchase a used vehicle for approximately \$25,000.

6. Ferguson Waterworks is the service provider for our electronic water meters. They are doing a mandatory upgrade to their system. The initial upgrade will cost approximately \$35,000 and will result in additional annual service fees of \$15,000. Since the current system will no longer be supported, we need to move ahead with the upgrade.

#### Requested Projects for this Year's Budget:

1. Over the past few years, we have continued to save funds to have matching funds available for the 6<sup>th</sup> Street project. The total cost of the project is \$4,575,000, with the City's matching portion estimated at just under \$650,000. The bulk of these matching funds will come from the Reserved STP exchange funds discussed earlier. We are

working with ODOT to get an accurate estimate of the lighting shortfall. We currently have \$340,000 set aside in reserves for Downtown Revitalization. Any additional shortfall would need to be funded from either the Enterprise Zone Community Service Fees or SIP funds.

Once the 6<sup>th</sup> Street project is paid for, the street department needs to focus on grinding and asphalt overlays that have been delayed. The priority will be a major project on Columbia St. in McNary which would cost approximately \$200,000.

2. There is a 12 inch sewer line that runs to McNary that is in need of repair. The Public Works Department would like to slipline 350 feet of the line to restore structural stability at an estimated cost of \$35,000. This project was originally budgeted for in the current FY but will most likely roll over into the next budget cycle.

There is also an 18 inch line that runs from the prison that is eroding all manholes in its path. The cost to line the manholes and replace the covers is approximately \$100,000.

3. We just received grant funding to replace the playground equipment at Kiwanis Park and resurface the basketball court. It would be ideal to put a restroom up at that park since it is heavily used and is the location for the school district's free lunch program. The cost of building a restroom is near \$90,000. We would also like to add the cost of drinking fountains to this project. If necessary we can budget for this over a two year period.

Based upon a recent study performed by our Youth Advisory Council, it is clear that there is a desire for a second basketball court with lighting at Kiwanis Park. We had initially planned on adding a second soccer field in the next budget cycle but will defer that project. Public Works Director Barron is working on getting an estimate of the total project cost and I will provide more information at our next meeting.

Another project in the works is the extension of water and redesign of Kiwanis Falls at the intersection of 730 and 395. The cost to extend water is estimated at \$8,000 and the total landscaping cost is estimated at \$50,000. The City is partnering with the local Kiwanis club to raise funds for this project.

In addition to these main projects, the Parks Department needs to make irrigation improvements in the center strip island in McNary. The cost of these repairs is approximately \$15,000. This was originally budgeted for in the current FY but will carry forward.

4. The Public Works Department would like to build a new shop/vehicle storage facility with 8 bays. The total cost would be approximately \$200,000. At this point, we only have \$120,000. We will continue to transfer \$40,000/year to construct the shop in two years.

5. The Marina and RV Park is in urgent need of asphalt resurfacing and striping. We are going to complete the lower parking lot this year. The upper lot will cost approximately \$25,000 and should be completed in the next FY.
6. With the addition of new staff, we need to consider a potential office remodel of City Hall in the 2018-2019 fiscal year. City Manager Pelleberg plans on meeting with an architect in the near future. We transferred \$50,000 into reserves this year and will decide if it is financially possible once we have an estimate.
7. In November 2016 the City Council approved the execution of a 7 year loan from IFA for \$403,000 to complete final design and construction bid documents for a discharge pipeline which enables us to separate industrial wastewater from the data centers and re-use that water for irrigation purposes. This portion of the project is nearing completion and the first of these loan payments of approximately \$61,000 will be due December 1, 2018.

The next phase of this project will be the actual construction of the pipeline. To fund this the City Council approved the execution of a \$2.3 million loan from the DEQ Clean Water State Revolving Fund (CWSRF) with a 30 year repayment term. The loan agreement allows for \$500,000 principal forgiveness upon completion of the project. Based upon the estimated December 2018 completion date, this budget cycle will only see one interest payment due for approximately \$12,000. In subsequent budget cycles the total interest and principal payments will total over \$111,000. One condition of the loan is that the City establishes a Loan Reserve that equals one half the average annual debt service, or \$49,064.

#### Personnel Expenses:

1. There will not be any major changes to the pay scale this year. We are considering a cost of living adjustment of 2% this budget cycle.

In an effort to transition Code Enforcement to the Community Development Department, a transition plan has been put in place to hire a part time Code Enforcement Officer from May-October 2018. At the end of that period, we would like to create a new position, Community Development Code Compliance and Planning Specialist. Our current code enforcement officer will be transitioning into a new position within the Police Department. She will continue to address the police regulated code issues such as dog control, but will also assume new responsibilities over the new evidence building and related record keeping.

City Manager Pelleberg and Chief Huxel are currently negotiating a new three year union contract as the current contract expires June 30, 2018. I will provide more details as soon as we have a mutually agreed upon contract.

2. Insurance costs will increase for the next budget cycle. Health and vision insurance costs will increase by 9.1%. Dental insurance will remain flat. We have looked into options for orthodontic insurance coverage. The benefits offered through CIS are minimal compared to the cost. As an alternative, we are considering increasing the annual VEBA contribution per employee in lieu of that coverage.
3. New PERS rates took effect July 1, 2017 and are locked in until June 30, 2019. Rates are 13.42% for Tier 1 and Tier 2, 11.61% for OPSRP General Schedule and 10.38% for OPSRP Police. (Previous rates were 8.69% for Tier 1 and Tier 2, 2.33% for OPSRP General Schedule and 6.44% for OPSRP Police). In addition to the employer's portion, the City pays the employee's 6% required match.

Review status of Funds:

1. The General Fund has continued to see improvement over the past few years. Property tax collections will be approximately \$250,000 higher than projected as a result of a \$82 million dollar increase in the taxable assessed value. The major increase is due to the consumable property at the data centers (racks and servers) that have passed the three year abatement. In 2016 we received the first community service fee of \$96,000 that resulted from the data center tax abatement. Our 2017 payment was \$229,445. The goal with the income generated from the community service fee is to set it aside to use as matching funds for one time projects, such as the park improvements listed above.
2. Water/Sewer Funds – Overall, we are in a much better position than a few years ago. The Sewer Fund is healthy and sustaining larger transfers into reserves. We will see increased debt service requirements as a result of the industrial re-use project but those payments will be funded by the users of that system. The water system is in worse shape. Rates have not been able to keep up with rising costs, and allow for large enough transfers into reserves. We are spending our reserves faster than we can build them. The challenge is that the majority of our users are residential and cannot afford major rate increases. As we plug in all of the budget figures, we will need to consider the adequacy and affordability of our rates.
3. Streets Fund – The additional revenue sharing and the STP have brought this fund back to a healthy status. As mentioned earlier, the City will need to provide matching funds for the 6<sup>th</sup> Street project. This project will deplete most of the City's street savings and we will need to prioritize projects while building those funds back up.
4. Library Fund – The library fund is healthy. The City has been transferring \$33,000 per year to fund the shortfall from the UCSLD. Expenditures have not increased significantly so I anticipate the transfer will not need to be as large this year.
5. Building Department Fund – The building department fund is healthy. The City continues to contract with Hermiston for plan review and inspection services. Data center activity

will continue and we have seen a tremendous amount of residential permits with the addition of Virginia's Place. This will continue into next year with the new subdivision going in on south hill.