

**CITY OF WILSONVILLE
BUDGET COMMITTEE MEETING MINUTES**

A Budget Committee meeting was held February 12, 2015, beginning at 6:00 p.m. in the Wilsonville City Hall. Mayor Knapp called the meeting to order at 6 p.m. and passed the gavel to Chair Steiger. Chair Steiger called for the roll call and the Pledge of Allegiance.

Committee members present:

Scott Starr, Council President – Excused
Julie Fitzgerald, Councilor
Susie Stevens, Councilor
Charlotte Lehan, Councilor – Excused
Tim Knapp, Mayor

Tony Holt, Committee Member
Lonnie Gieber, Committee Member
Andrew Karr, Committee Member
Wendy Veliz, Committee Member - Absent
Alan Steiger, Chair

Staff present included:

Bryan Cosgrove, City Manager
Jeanna Troha, Assistant City Manager
Susan Cole, Finance Director
Sandra King, City Recorder
Cathy Rodocker, Assistant Finance Director
Keith Katko, Finance Operations Manager
Stan Sherer, Parks and Recreation Director
Nancy Kraushaar, CD Director
Jeff Smith, Chief of Police

Mark Ottenad, Government and Public Affairs
Arnie Grey, Public Works Supervisor
Stephan Lashbrook, SMART Director
Steve Allen, SMART Operations Manager
Eric Mende, Engineering
Pat Duke, Library Director
Delora Kerber, Public Works Director
Mike Kohlhoff, City Attorney
Barbara Jacobson, Assistant City Attorney

CITY MANAGER INTRODUCTION

Mr. Cosgrove thanked the members of the Budget Committee for sending in questions, which made it easier for staff to prepare responses. He noted the Finance Director met individually with each member of the Budget Committee, and made presentations to Council to talk about the differences between this year's Five-Year Forecast and past efforts. Changes were made based on the comments voiced by the Committee last year about the Forecast and the budget process and to insure the information was delivered in a way the Committee finds useful.

FIVE-YEAR FORECAST

Susan Cole, Finance Director, began her presentation by defining a Forecast as “an evaluation of the city’s fiscal health, it is a valuable tool used to evaluate financial trends, and it is a point of view of the future”. A Forecast is not a budget, a plan, or certainty. By a “plan” it is not a course of action the City intends to take. It is more like a game of chess, where you have pieces on the board and you have a goal in mind to accomplish, which is check-mate, and you envision how you are going to move the pieces and try to think of the outcomes of each move. Opponents may be time, interest rates may change, business climates will cycle through and so as we move through time, then the Forecast will be adjusted and actions will be adjusted appropriately. The Forecast is for a point in time for a certain set of assumptions and circumstances, it is subject to change.

The presentation focused on the City's operating funds that include:

- General Fund
- Community Development Fund
- Building Fund
- Transit Fund
- Water Operating Fund
- Sewer Operating Fund
- Stormwater Fund
- Street Lighting Fund
- Road Operating Fund

The Forecast contains some common assumptions

- The City's population growth is assumed at 3 percent per year for the next five years;
- Interest rates remain low, assumed at 0.5 percent to begin with, gradually increasing to 1 percent;
- Base level of personnel costs assumed to grow at 3.3 percent; and
- Base level of materials and services assumed to grow at 2 percent.

Ms. Cole explained the basis for the 2 percent growth for materials and services using the Library fund as an example. Some line items remain flat; others increase 8 percent resulting in an overall increase in the total fund of 2 percent. Labor costs work the same way; wages represent 67 percent of City costs, overall they increase roughly 2 percent - this accounts for attrition, vacancies, merit increases, all of that is wrapped into a macro level look. Overall across the City accounting for part-time hours, full-time hours, vacancies and the like, it is a 2 percent increase. PERS is based on wages and adding that in labor may increase 3 percent across the city. It is a city-wide macro trend viewpoint of how the accounts change.

General Fund

The General Fund includes expenditures from the following:

- Parks
- Library
- Police
- Municipal Court
- Public works Administration and Facilities
- Policy and Administration
- Transfers Out
- Capital Improvements

Four categories of revenue make up the General Fund; they include property taxes (capped at 3 percent per year), right of way charges, transfers in, and other revenue.

Property taxes are based on assessed value; the State Constitution limits assessed value growth at 3 percent per year. New construction can be counted; however, it is put on at a county wide average, not actually at market value. URA receives the benefit of the new construction that occurs within the district. Wilsonville does have new construction occurring outside of the

URA. The Forecast assumes a 5 percent growth in assessed value made up of the 3 percent constitutional limit plus a margin of 2 percent for new construction. Wilsonville's property tax rate is fixed at \$2.52 per \$100,000 of assessed value.

Rights-of-Way Charges are levied on utilities that use the city's right of way, such as garbage, electricity, natural gas, etc. This category of accounts is assumed to grow 1.5 percent next year, and 2 percent thereafter. .

Transfers In and Other Revenue were described. Other City funds do pay the General Fund for services such as, billing, accounting, human resources, and overall management by transferring in resources to the General Fund. This fund is expected to increase about 1 percent per year during the Forecast period Examples include: Clackamas County Library District Levy, Hotel/Motel tax; cigarette and liquor taxes, municipal court fees; charges for services, licenses and permits.

The growth of the General Fund revenue is Forecast at 3.2 percent. General Fund expenditures Forecast were displayed on a chart with a brief explanation for each of the eight segments. The Forecast did not take into consideration future growth in the Coffee Creek, Basalt Creek or Frog Pond areas, whose growth is outside of the Five-Year Forecast. Capital Improvement projects and an estimate of the costs for the Forecast period were identified.

It is anticipated the General Fund will have a deficit between operating revenues and expenses of approximately \$1 million within this forecast period. Money has been set aside in the reserve fund for capital improvements which is intended to come out of the reserve fund and reduce the amount of that fund. Staff does not want reserves to go below the contingency set-asides limit established by Council policy at roughly 25 percent of expenditures. Eventually the Budget Committee and City Council will need to discuss levels of service, programs, revenue enhancements, local option levies, or increase on rights-of-way charges so that reserves do not drop below contingency amounts...

Questions on General Fund

Mayor Knapp asked how the General Fund will remain above the contingency amount over time, is this dependent on implementing additional revenues in the Five-Year Forecast time line.

Ms. Cole stated the Budget Committee and City Council will need to make those decisions during each annual budget cycle. If the desire is to swing the summary back into balance it would need to be one of two things, either reduce services, or increase revenues, or some of both. When the detailed budget is presented, the Budget Committee and Council can deliberate whether or not they want to offer the same level of services, or drop the level of services, or explore implementing new revenues. A local option levy would require the voters' approval; however, the Council has the authority to pass a parks maintenance fee or increase the rights-of-way fees. The Council cannot change the permanent property tax rate of \$2.52 per \$1,000.00.

The Year 2000 Plan is projected to close in FY 2020-21. If that does happen, revenues will increase and help to close the gap. New construction outside of the Urban Renewal districts will

help to raise the property tax revenue. The Urban Renewal areas have been very successful in Wilsonville and the increased valuations will be realized when the Agencies close. In the meantime, Council may consider continued monitoring of the General Fund reserves, implementing revenue enhancements, or reduce services to reduce expenditures.

Mayor Knapp observed making modest incremental changes early on can have a significant impact over time, compared to waiting until there is a crisis. How we approach the trend lines and the choices we make to make improvements to mitigate problems in the long-run is a strategy that merits discussion.

Ms. Cole remarked this type of discussion would be beneficial to have at the Budget Committee meetings in May since there will be the most up to date information and figures.

Mr. Giebar commented incremental increases can have a detrimental effect on low income residents over time. He asked if the reserves were set by Council policy or law.

Ms. Cole responded the reserves are set by City policy. She explained the reason for the reserves drop off is due to the core financial software purchase, and the public works facility.

Mr. Steiger added the General Fund Forecast Summary Graph showed the funds balance is going down, however, it is still above the contingency level established by the Council.

Mr. Holt asked if the public works facility buildings can be funded in another way. Ms. Cole said the City could issue voter approved debt, but noted the \$2 million is a very preliminary figure, and the Public Works department is going through a needs assessment in terms of office buildings, staffing, equipment yards and repair shops.

Mr. Karr wanted to know how the parks maintenance fee and right-of-way charges compare to surrounding cities, and how Wilsonville's debt compared to surrounding cities.

Ms. Cole replied most cities have rights-of-way charges, but Wilsonville is on the low side.

Mr. Cosgrove explained the City had very little General Fund debt; noting a library bond that will be paid off next year.

Ms. Cole added there is debt for the Water Treatment Plant, and the Wastewater Treatment Plant, but the City is very well positioned and is not heavily leveraged.

Mr. Steiger asked if the right-of-way franchise fees are increased, are those increases passed on to the rate payers for those services. Mr. Cosgrove stated they were.

Community Development Fund

The Community Development Fund receives revenues from Engineering and Planning fees, charges for services, transfers in, and General Fund support. The revenue is received before staff begins its review work. The CD Fund shows spikes and dips due to the way the fees are received and spent. Community Development Fund expenditures include:

- Land Use
- Engineering
- Code enforcement
- Master plans
- Natural environment
- Economic development
- Urban renewal agency
- Capital construction management
- Provides services for capital improvement projects

Mayor Knapp asked why the expenditure line was increasing if no new staffing was Forecast. Ms. Cole responded the increases were due to the use of consultants and professional services.

The Mayor was optimistic on the development of Coffee Creek Industrial Area and the Frog Pond area, and thought work might begin in a five year horizon, which will positively influence the City funds.

Mr. Cosgrove pointed out the Community Development department was not adding new staff; the use of consultants is, at times, more efficient and cost effective rather than adding permanent staff.

Councilor Stevens wanted to know what was expected from the cost of service review and if it would have an impact on revenues and services. Ms. Cole explained a cost of services study would make sure the buckets of expenditures are recovering appropriately, and it may not affect the total revenues coming into the CD department fund, but may affect a bucket they come in. For example the CD fund has a bucket for permitting fees based on time spent with various activities; and charges overhead for capital projects; and receives a General Fund subsidy; all of those are included in the revenue line. Staff is proposing to have a consultant to look at those buckets to make sure they are all filling according to the cost of service provided. The review would look at all of the services the CD fund provides and make sure there was a clear link to the fees developers are charged and a clear link with the fees we charge with the CIP, and then basically the General Fund would pick up the remainder.

Mr. Cosgrove added the Planning and Engineering fees have not been reviewed in some time but it is tied to the cost of service. He was not sure the General Fund was compensating CD at the appropriate level. The results of the study would be brought back to the Budget Committee when it was completed.

Mr. Karr asked how far ahead of actual construction do the Planning and Engineering fees come in. Using Villebois as an example, Ms. Kraushaar explained there was not a long pause between the phases, and they usually see the plat – which Planning reviews – and then about 6 months after that, engineering plans are submitted for review; then six months after that construction on infrastructure and utilities occurs and is inspected by staff; once the public infrastructure is accepted which can take anywhere from six to nine months, then building permit applications will start to come in. Sometimes the building permits are sent in ahead of time so the building permits are in hand once the infrastructure is accepted. Typically 18-20 months. All of that

factored in does create that delay between when permit fees are received and when staff completes the work.

Building Fund

This fund is connected to the building cycle and received revenue from Building Permit Fees and Building Inspection Fees. The Forecast anticipates Villebois trailing off and prior to building fees coming in for the new development. Past revenues received by the Building Fund built up reserves placing this fund in a very good position. The building permit software will be replaced in 2018-19 using set asides in the reserves. Healthy reserves allow retaining core staffing level should the building trend go down.

Transit Fund

The revenues that come into the Transit Fund include payroll taxes, fares, grants and other revenue. The City levies a half of one percent (.05) payroll tax on local businesses based on wages. Ridership on SMART has grown reflecting the increases in gasoline prices. Transit fund expenditures include:

- Fixed route service
- Dial-a-ride service
- Grant management
- Vehicle maintenance and repair

SMART will expand into areas where new development occurs. Capital improvements include bus replacements which are typically grants funded (80 percent) with a local match of 20 percent.

Transit Forecast shows expenses outstripping revenues – including the grants from local, state and federal sources. Should the grants be eliminated, there will be a larger problem in this fund. The reserve funds are approaching the 20 percent contingency line and it may be prudent for SMART staff to come to Council with ideas on how to keep the Transit fund in balance.

Mr. Holt asked for an update on the Transit Integration Project, and potential changes to the services.

Stephan Lashbrook, SMART Director, stated staff and the consultants have made presentations to Council outlining service changes expected to be implemented this fall. The changes involve both cost cutting measures, especially for out of town Dial-A-Ride services, and changes to services as staff looks to improve the direct service in and out of Portland.

Referring to Dial-A-Ride Mr. Gieber wanted to know what cost cutting strategies were being considered to preserve this service.

Mr. Lashbrook stated SMART would continue to provide a dial-a-ride service; it will continue to be free inside the City limits as long as the rest of SMART services are free inside the City boundary. The biggest concern is the cost of travel to the most distant medical facilities; these trips cost SMART approximately \$140.00 and the bus and driver are not available for other services during the time they are making that trip. The Council was supportive with making cuts

in some of those services, but they will not be changed without extensive outreach and communication to the public. Many of the medical trips are for dialysis services, and some of those facilities are in Tualatin; yet there are riders who insist on going further for those services. SMART will need to let them know the service cannot be continued at the current cost.

Councilor Fitzgerald asked if the Transit Integration study could be provided to the Committee since it contained a lot of information and creative proposals to work with other providers and the area hospitals to find ways of moving to a “car pool” format rather than a “taxi” format. It is important to communicate the changes to riders well in advance so they understand what types of changes are being made.

Mr. Lashbrook clarified the Councilor was talking about a medical shuttle service; the idea that treatment such as dialysis and regular visits to medical providers in Tualatin could be provided via a small bus carrying 2-4 people at once. Making this work means giving those people plenty of warning, staff will reach out to the medical providers, both inside Wilsonville and Tualatin to coordinate services. Commuter route changes between Wilsonville and Portland will be made as well.

Chair Steiger asked about the length of the WES contract with Tri-Met. Mr Lashbrook indicated it was a 20-year contract and there were 12 more years left in the contract. The contract contains a CPI escalation clause that became effective last year and is included in the budget.

Mr. Lashbrook explained the grant application process, and the time line in which the funds were awarded and actually received.

Water Operating Fund

There are two revenue sources for the Water Operating Fund, monthly charges, and sale of water to the City of Sherwood. The City Council implemented a series of rate increases with the first occurring in January 2015, the next in January 2016, with the final increase in January 2017.

This fund is responsible for the Water Treatment Plant, and water distribution system, as well as capital improvements. Water fund capital improvements will address system deficiencies, and system expansions.

Mr. Giebar questioned the recent rate increase when he understood Wilsonville rates would be stabilized with partners purchasing water such as the City of Sherwood.

Ms. Cole said all things being equal, the more customers the City has helped to stabilize rates. The water utility is a capital intensive fixed cost utility; there are high fixed costs when operating a water utility, so the more entities to spread the costs over the more stable the rates remain. However, there have been increases in the filter media, chemicals and processes used to treat the water, and there is no control over the charges for electricity. There are operational costs that will increase over time and the City needs to be mindful of those. Selling water to other jurisdictions helps to offset those costs but there are variable costs; the more water treated increases the variable costs of chemicals and treatment media.

The funds paid by the City of Sherwood is fully retained by the City of Wilsonville; and the funds go into the water operating fund to pay for the contract with Veolia to treat the water, to the city's public works staff to maintain the distribution pipes, and chemicals and supplies for the plant.

Mr. Cosgrove noted rates for any utilities are driven by operations and maintenance, debt service, and capital requirements.

Mr. Holt asked how many millions of gallons the City used per day from the plant.

Ms. Kerber explained the average winter use is about 3 million gallons per day, with summer use of 7 million gallons per day. The City of Sherwood uses 5 million gallons per day for their peak summer use, in the winter they use about 1.5 million gallons per day. The capacity of the plant is 15 million gallons per day.

Sewer Operating Fund

Ms. Cole noted the Sewer Operating Fund received sewer charges, and revenue from other sources such as system development charges. Rate increases were implemented to prepare the sewer fund for the WWTP expansion and rehabilitation. This fund is responsible for the wastewater treatment plant and the sewer collection system. Ms. Cole identified five capital improvements anticipated for the next five years, as well as aging infrastructure City wide and annual repairs.

Stormwater Operating Fund

The Stormwater Operating fund receives its revenue from charges. This fund is responsible for the stormwater system, pipes, detention ponds, catch basins, and natural drainage systems. In the five year Forecast there is an additional engineer added to the Stormwater Fund specifically to work on the Charbonneau projects. Ms. Cole identified capital improvements and the funding sources for the needed improvements to the aging infrastructure in the Charbonneau area and throughout the city.

Street Lighting Fund

This fund received its revenues from charges based on the type of street light fixture. Street lighting fund is responsible for maintaining fixtures, and paying for the electricity to light the street lights. Capital improvements include street light infill projects, and the replacement of worn poles and fixtures. What is not represented in this Forecast is the use of LED street lights, which is still being analyzed and should be completed in six months.

Mayor Knapp noted other cities report a significant savings with the switch to LED lighting.

Road Operating Fund

The Road Operating fund is funded by the State of Oregon Gas Tax, based on the city's population. This fund is responsible for street maintenance and repair, sidewalk and pathway maintenance and repair, upkeep of pavement markings, upkeep of signs and signals, as well as employing additional seasonal labor during the summer months. Ms. Code identified road capital improvements.

Councilor Fitzgerald wanted to know if the Budget Committee had received the Stormwater Study, Transportation Integration Executive Summary, and the Water Rate Study. Mr. Cosgrove indicated he would provide a copy or link to any information the Committee wanted.

Mayor Knapp commented Wilsonville is in a good fiscal position compared to other cities in the region. The City is stable although there are funds with challenges, but being proactive and making modest changes going forward will allow the City to be able to provide the kind of services residents have come to expect.

Ms. Cole advised the proposed budget document would be provided to the Committee two weeks before the Committee's first meeting set for May 14th.

Chair Steiger reminded the Budget Committee of the date of the first Budget Committee meeting, then opened meeting for citizens input, seeing none he adjourned the meeting.

ADJOURN

The Budget Committee meeting adjourned at 7:46 p.m.

Sandra C. King, MMC, City Recorder