



BUDGET MESSAGE

May 6, 2019

Honorable Mayor Holladay and City Commissioners,
Budget Committee Members, and Citizens of Oregon City,

INTRODUCTION

It is my pleasure to present the 2019 - 2021 Biennial Budget for the City of Oregon City. The budget is balanced and has been prepared in accordance with Oregon budget law. Oregon City's biennial budget is designed to coordinate with the City Commission election and goal setting process. In addition, budgeting every two years saves hundreds of hours of administrative time, allowing policy makers and staff more time to focus on important projects for the community.

As a result of the leadership of our City Commissioners, Oregon City is positioned to serve our residents more effectively than at any other time in recent history. The Commissioners, City staff and community volunteers have worked hard to achieve extraordinary goals the past few years. As discussed below and throughout the budget document, improvements continue to be made in every service area, and we are budgeting strategically to remain fiscally strong.

This message provides an executive summary of the budget document and is divided into four sections. First is a budget overview, including an explanation of the total biennial budget and some of the changes being made to better support our community. The next section provides budget highlights of City Commission priorities and important department specific goals. The third section gives information on the City's major funds including summaries of revenues, expenditures and key programs. Finally, the message includes a description of the fiscal policies and budget assumptions that guided development of the budget.

BUDGET OVERVIEW

The proposed budget for the period July 1, 2019 through June 30, 2021 is \$248.3 million. The Budget is designed to enhance *Core Services* provided for the citizens of Oregon City. These core services include police protection, parks and recreation, community planning and safe buildings, maintenance of streets, and the provision of safe drinking water and sewer treatment services. In addition, Oregon City has an award-winning library and a growing tourism program.

Along with prioritization of core services, the City Commission is dedicated to improving livability in the community through the accomplishment of *City Commission Goals and Priorities*. The proposed budget includes funding for several priorities that were established by the City Commission during their biennial goal setting workshop.

There are two types of funding available to provide core services and accomplish Commission goals and priorities; *discretionary* and *dedicated*. Dedicated funds make up the vast majority of the City's budget and include resources that are legally or contractually restricted for specific services. For example, water utility payments are exclusively used to maintain the City's drinking water system.

Discretionary revenues can be used for general purposes and are typically accounted for in the City's General Fund. Property taxes are the most specific example of discretionary revenues and are allocated to police and parks and recreation. Each budget cycle, the City estimates discretionary resources and determines if additional funding will be available for core services or to address City Commission priorities. While many General Fund expenditures are technically not discretionary, the level at which they are funded is.

Oregon City Budget 2019 - 2021 Biennium (in millions)			
Discretionary		Dedicated	
General Fund		General Fund	
Policy & Administration	\$ 8.6	Policy & Administration	\$ 2.1
Police	24.1	Tourism & Grants	1.4
Parks & Recreation	9.8	Pass-Through	0.8
General Government	5.5	Library	8.0
Transfers to:		Planning	3.3
Library	0.3	Building	7.2
Planning	0.7	Transportation	16.7
Transportation	0.3	Water	20.7
Reserves	6.4	Wastewater	34.1
Equipment Replacement	2.6	Stormwater	7.8
<i>Total Discretionary</i>	<u>\$ 58.3</u>	Public Works	11.4
		System Development Charges	33.2
		Community Facilities	36.5
		Debt Service	6.8
		<i>Total Dedicated</i>	<u>\$ 190.0</u>
		Proposed Budget	<u>\$ 248.3</u>

The table above provides a breakdown of the allocation of discretionary and dedicated resources for the entire City budget. The budget includes \$58.3 million in programs funded with discretionary revenues. Policy and Administration comprise \$8.6 million or 15% of the discretionary budget. The collection of departments in this category include City Commission, City Manager, City Recorder, Finance, Municipal Court, Human Resources, Economic Development, and Information Technology. The proposed budget maintains existing service levels for Policy and Administration.

A portion of Policy and Administration includes funding from dedicated resources. For example, support departments, like finance and information technology, provide services to the utility funds. These \$2.1 million in services are reimbursed from sources like utility rates. The General Fund budget also includes \$1.4 million in dedicated funds for the City's Tourism and Community Enhancement Grant programs and \$0.8 million in pass-through payments to the County and State.

The Police Department is the primary focus of the City's discretionary resources with \$24.1 million in the General Fund and an additional \$1.6 million in an equipment replacement reserve for vehicles. The Department represents 44% of discretionary resources. An enhancement included in this budget is the addition of a new Traffic Sergeant. This is in response to the City's extremely high crash statistics, as well as requests from neighborhood associations for additional traffic related enforcement. The budget for the new Police, Municipal Court and City Commission building is included within the dedicated Community Facilities funds, since most of the resources are voter approved and legally obligated.

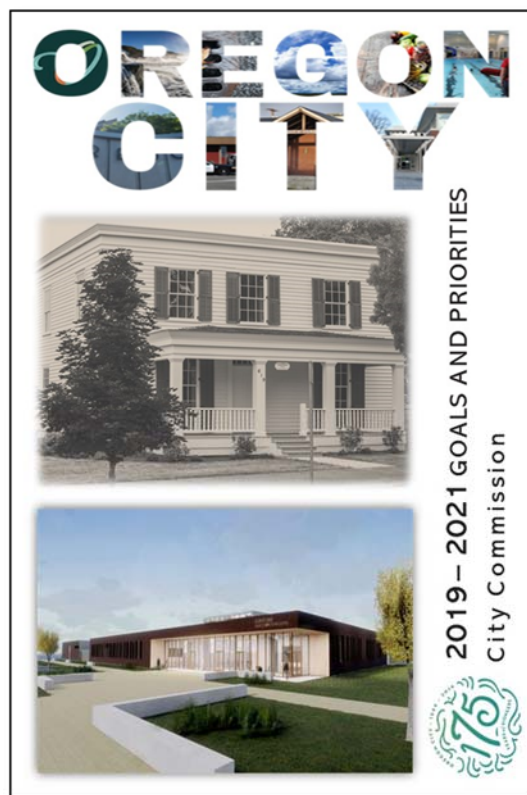
Parks and Recreation (Community Services) is budgeted at \$9.8 million in the General Fund and \$1.0 million in a reserve for equipment and vehicles, totaling 19% of discretionary funding. At the request of the City

Commission, a Parks Maintenance Specialist has been added to the proposed budget and additional funding has also been allocated to the Department's capital outlay budget to address a small portion of deferred maintenance. Community Services will remain well underfunded even with these additions.

The General Government category includes expenditures for city-wide shared costs and for programs that benefit the City as a whole. Examples of shared costs are general liability and property insurance, building maintenance and utilities. City-wide programs include street lighting and contributions to the Willamette Falls Legacy Project. Other discretionary support is provided by transfers to the Library, Planning and Transportation (to operate the Municipal Elevator). The budget includes the addition of a Facilities Maintenance Specialist that is urgently needed to maintain the City's building infrastructure; there is currently only one dedicated position for this function.

The General Fund budget includes an ending unrestricted reserve balance of \$6.4 million. To ensure fiscal resiliency, the City's goal is to maintain an ending balance of at least 27% of annual operating expenses. The percentage consists of a stabilization reserve of expenses for two months, recommended by the Government Finance Officers Association and a 10% contingency, recommended under Oregon budget law. Reserves provide protection to the City should an extraordinary event occur, such as the loss of a major revenue source or taxpayer. Strong reserves also help to maintain the City's strong credit rating, significantly lowering the costs of borrowing.

As an administrative function, the City budgets reserves under the heading *Operating Contingency* because Oregon budget law restricts ending fund balance access to emergency situations (involuntary conversion, civil disturbance or natural disaster). Use of contingency monies always requires City Commission approval.



BUDGET HIGHLIGHTS

The City Commission holds a formal goal setting process every two years to establish policy direction and goals for the upcoming biennium. The proposed budget is then prepared based on achieving those goals. This budget includes all City Commission priorities and meets legal and departmental operating requirements.

The City Commission and executive staff participated in the goal setting process in February of this year and developed the **CITY COMMISSION 2019 – 2021 GOALS AND PRIORITIES**. A complete presentation of the Commission's goals and priorities can be found immediately following this budget message. In addition, copies of the Goal and Priorities booklet is available at City Hall and on the City's website.

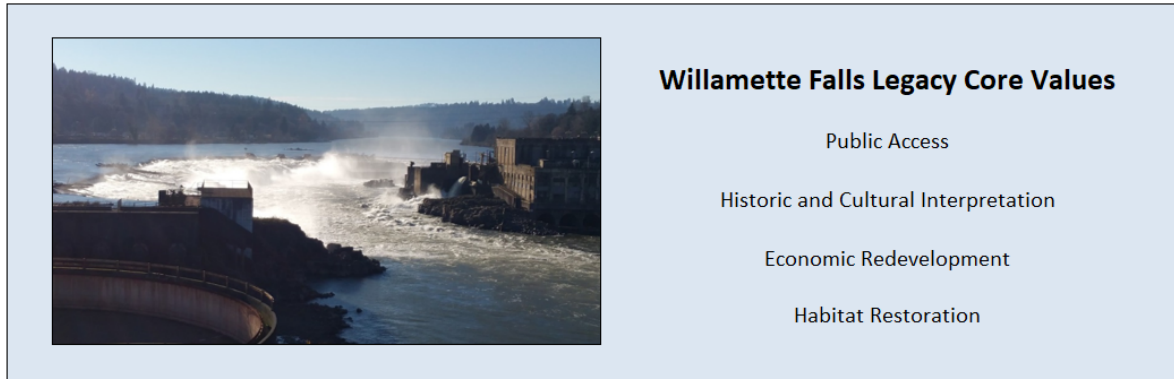
Highlights of the proposed budget include ongoing funding for economic development opportunities including the Willamette Falls Legacy Project, construction of Meyers Road and associated infrastructure for the industrial lands in the Beavercreek Employment Area, further development of the City's Economic Development and Tourism Plans, and completion of design and construction drawings for a railroad right of way in the downtown area.

The budget also includes investments in public facilities to better serve the City's growing population. These include a new Police, Municipal Court and City Commission building, and the relocation of the City's Public Works operations center, along with the Parks Operations Division for cost efficiencies. Funding is also included for enhancements to transportation and to support City-wide communications and utility infrastructure planning.

Budget Message

Economic Development

Willamette Falls Legacy Project - One of the most important undertakings in our City's history is to shape the future of Willamette Falls, the second most powerful waterfall in North America and a historical and cultural treasure in our community. Development of the 23-acre former industrial site along the river represents an opportunity to provide public access to the falls for the first time in 150 years.



The Willamette Falls Legacy Project Partners continue to work towards the construction of the first phase of the Riverwalk. Willamette Falls Trust, a nonprofit dedicated to advancing the project has created an amazing fundraising effort that allows people everywhere to participate. The Riverwalk concept plans were approved, and the Partners are working with the consultant team to complete the necessary regulatory permits and building and construction drawings. The project is scheduled to break ground in the Spring of 2020.

This project will truly be a signature destination along the banks of the Willamette River attracting regional and national travelers, anchoring the south end of downtown and spurring significant private investment on the property and within the surrounding area. "The Riverwalk" will be a major achievement for the community.

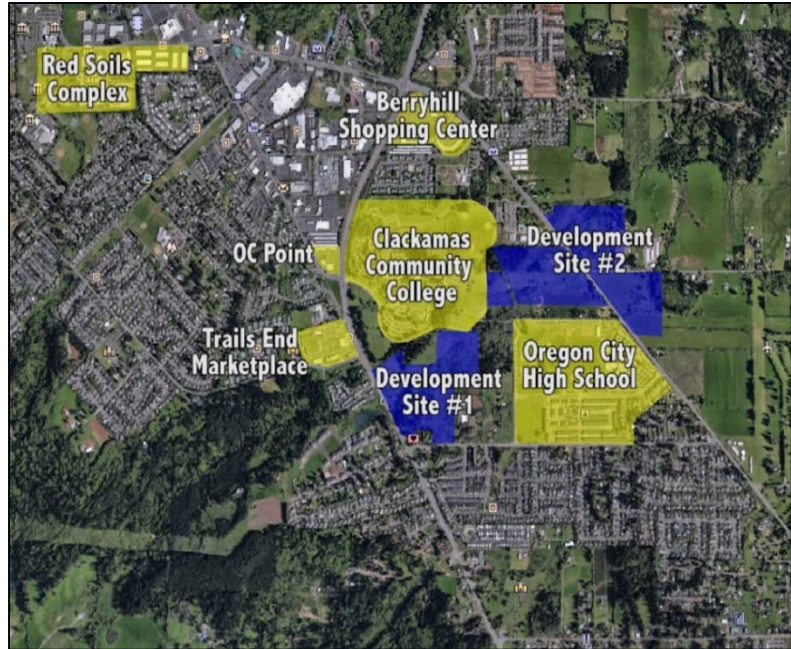


Rendering of the Willamette Falls Legacy Project

Beavercreek Industrial Lands - The Beavercreek Employment Area includes approximately 86 acres of industrial and employment land next to Clackamas Community College. There are two development sites, which are zoned campus industrial. The first site is located between OR 213 and Beavercreek Road. The second site is bisected by Beavercreek Road and includes plans for a new road alignment for Loader Road.

In late 2014, the City established an Enterprise Zone that encompasses industrial areas along Beavercreek Road, including the two development sites. The designation provides limited tax abatement incentives for businesses that build or expand facilities or machinery and increase full-time, permanent employment.

More recently, the City completed construction of approximately 2,400 feet of sewer main extension providing for service to the employment lands along Beavercreek. The Economic Development Department secured a design grant for the project, and the Public Works Department completed the project using primarily system development charges with a contribution of discretionary General Fund dollars as well.



The proposed budget includes construction of the Meyers Road extension from High School Avenue to Highway 213, further supporting the partnership between the Oregon City Chamber of Commerce City, Clackamas Community College, Clackamas County, and Oregon City. With the “Putting Education to Work” campaign more than 32 business and industry partners are working to promote the area.

Tourism Plan - Oregon City is a national tourist destination because of its historical significance as the official end of the Oregon Trail and the first incorporated City west of the Rockies. With access to Willamette Falls, unique heritage attractions, and a wide array of recreational destinations, the City’s tourism industry is expected to grow significantly in the next several years. In late 2018, the City Commission approved the Oregon City Tourism Plan and the addition of a Tourism Coordinator, funded through the hotel occupancy tax.

The Tourism Plan objectives include development of a governance structure that creates the capacity necessary to drive the strategic plan and provides for participation by all tourism stakeholders. Additionally, the Tourism Coordinator will be focused on coordination between heritage assets and development of national promotional campaigns. The budget also includes funding to celebrate the City’s 175th Anniversary in the Summer of 2019, as well as continued startup funding to support operation of the Ermatinger House, the recently restored location of the original coin toss that determined the name of neighboring city, Portland.

Economic Development Opportunities - The proposed budget includes funding to develop a City-wide Economic Development Plan. The plan will include a clear vision of development priorities and will be used to prioritize incentives, infrastructure investment and development agreements. The budget also supports completion of agreements to support Clackamette Cove Phase II, the mixed-use development focused on residential housing in the downtown area, and funding for design and construction drawings to complete railroad crossing mitigation efforts that would allow for quiet zones (where train horns are prohibited) in the downtown area. Completion of the quiet zone project requires identification of a funding strategy.

Budget Message

Public Facility Investment

Police, Municipal Court and City Commission Building - State standards require that essential needs facilities meet seismic standards by the year 2022. The existing Police facility was built in the 1960s and fails to meet even the minimum standards. Intended as a temporary location, the Police Department was placed in the building thirty years ago, and the size of the Department has since doubled. The building is woefully inadequate to serve the public.

In September of 2017, voters approved issuance of \$16 million in bonds for construction of a new building. The bonds will be repaid with revenues from the Community Safety Advancement Fund utility fee. Additional resources for the building include accumulated savings, a contribution from the City's General Fund and proceeds from the sale of the existing building. The new building will deliver the best customer service possible, and create a safe, user-friendly environment that is open and accessible to the general public.

The Police Department has been working with a design team to engage stakeholders through open houses and meetings that have included neighborhood associations, community members, police and municipal court staff, and the City Commission. During the engagement process, a determination was made to include a new City Commission chambers in the facility. This will provide better service for public meetings and allow for additional space at the current City Hall building. The efforts of the team have resulted in a design that meets the needs of the community, fits the budget and allows for future growth. The building is designed to be energy efficient as well.

With design development completed, the project is in the construction documents phase. These documents will be the final blueprint for construction and are near completion. The City is planning a ground breaking celebration this summer. It will provide an opportunity for a walk through of the existing grounds and aged school building and kick off this amazing community project.



Police, Municipal Court and City Commission Building Rendering

Public Works and Parks Operations Center - The Planning and City Commissions adopted the Public Works Center Master Plan in 2010, which recognized the existing Center Street location as a preferred site to expand the Public Works Operations Center because of the established facility, ownership of the property and central location to the older neighborhoods and infrastructure in our community. However, the City Commission recognized that an expansion could impact residents of the nearby McLoughlin Neighborhood.

Over several years, the City Commission and staff evaluated over fifty different locations for the Operations Center. No successful alternative site could be found. Then, in 2018 the City learned that a 97-year old distributing business on Fir Street was being sold to a larger company and seeking to liquidate its large warehouse facility. The City quickly responded and was able to purchase the property, which has adequate space to house Public Works operations and Parks operations. Formerly, it was anticipated that Parks would be required to build an additional facility.

The proposed budget includes funding to renovate the Fir Street property and to relocate Public Works and Parks operations. Savings for the renovation have been accumulated over many years in the Community Facilities Fund through responsible savings by each of the Public Works utilities. In addition, contributions will be made from Parks System Development Charges, some savings from parks donations and a contribution from the General Fund.



Public Works and Parks Operations Center Preliminary Site Planning

Parks Maintenance - The most significant challenge for our Community Services Department is deferred maintenance at parks facilities. The issue exists because of the lack of a sufficient, dedicated funding source. The adopted budget includes an additional \$0.2 million in capital spending for park deferred maintenance, and as mentioned above the addition of a new Parks Maintenance Specialist. While additional funding is needed, the City's General Fund is limited in its available resources. A long-term solution of new funding will need to be determined.

The City Commission Goals and Priorities for the biennium include development of a communication strategy and outreach plan for parks deferred maintenance. Community input will inform and guide revenue option decisions and prioritization of the projects to be completed.

Budget Message

MAJOR FUNDS

General Fund

The General Fund includes programs that are funded by property taxes and general revenues, rather than specific dedicated revenue sources. Police and parks are the primary service areas, as well as economic development and departments that provide city-wide support.

Property tax revenues are projected at \$27.9 million for the biennium. This reflects estimated increases of 4.5% in the assessed value of property for each of the two years, with 0.3% compression, and 94% collection rates after discounts and delinquencies. The budget maintains a property tax rate significantly below the maximum allowed under law. This is very rare for cities in Oregon and saves single family home owners in Oregon City more than \$160 annually, based on a typical new home's taxable assessed value of approximately \$250,000.

The remaining major sources of revenue for the General Fund are: rights-of-way user (franchise) fees in the amount of \$7.5 million for the biennium, intergovernmental revenues of \$3.8 million, charges for services (park programs and parking revenues) of \$3.4 million, Municipal Court and other program fines and penalties of \$2.6 million and internal service charges of \$2.1 million. Internal service charges provide a mechanism for all departments to pay a fair share for administrative functions like finance and information technology. Other revenues totaling \$4.2 million include pass-through revenues paid to the County and State on traffic fines, licenses and permits, assessments and other taxes (lodging and marijuana), and interest income. In biennium 2013-2015, transfers in were abnormally high due to the consolidation of unnecessary funds that period (the law requires all closed funds be passed through the General Fund). In the prior biennium transfers in were from departments for their share of a new financial system upgrade.

The Police Department, with a total budget of \$23.3 million, is the largest department in the General Fund, representing 44% of expenditures. Policy and Administration (City Commission, City Manager, City Recorder, Finance, Municipal Court, Human Resources, Economic Development and Information Technology) has a budget of \$11.3 million (21% of expenditures). The Economic Development budget includes the tourism and community enhancement grant programs. Community Services (Parks and Cemetery Maintenance, Recreation and Aquatics, and Pioneer Community Center operations) has a budget of \$9.4 million (18%).

General government expenditures are budgeted at \$4.5 million (9%) and include overall community enhancements (Willamette Falls Legacy Project, street lighting on City roads, investments in heritage assets and elevator operation) and shared City services (including facilities maintenance and general liability insurance). Transfers out comprise the remaining expenditures with payments into equipment reserve funds, for elevator operations and to support the Library, Planning, and Development Engineering service areas.

Ending Reserves - At the conclusion of the biennium, available reserves (contingency) are \$6.4 million. These reserves are necessary to provide working capital for the beginning of the next budget cycle and to provide protection against unexpected changes in financial condition. General Fund reserves are particularly important to municipalities in Oregon because of limitations on ability to increase tax revenues. An additional \$0.8 million has been reserved for future expenditure. This includes dedicated resources for the City's Tourism Program, from park donations and for Community Enhancement Grants. Including discretionary and dedicated amounts, total ending fund balance in the General Fund is \$7.2 million.

The General Fund has been constrained recently by Public Employee Retirement System (PERS) legacy increases. PERS legacy costs represent contractual commitments made decades ago to retirees and some remaining employees. Benefits offered to current employees are much less costly than the original plans, however the significant unfunded liability related to the prior plans has resulted in large rate increases this biennium and possibly for the next as well.

Oregon City is in a better position to fund PERS rate increases than most other cities because of fiscally responsible planning. City leaders made the decision years ago to set aside reserve funds for PERS (along with money used to make debt service payments on refinanced PERS liabilities). In addition, department heads were asked to find cost savings and budget operations with no increase for inflation. Other than for costs

outside of their control, every department met that direction. As a result, the City was able to use those funds, and the cost reductions described above to mitigate PERS impacts this biennium.

Library

The Library Fund is budgeted at \$8.0 million for the biennium. District property taxes are projected conservatively at \$4.8 million and comprise 59% of total resources. The remaining significant resources are a beginning fund balance of \$2.7 million and transfers in of \$0.3 million from the General Fund. The City's General Fund has contributed at least \$0.3 million each biennium for several years to save for the expansion and will continue payments in the current budget to support debt service on the new facility. These remaining resources represent 34% and 4% of total resources, respectively.

The Fund accounts for all Library operations. The budget for staffing and materials purchases is \$3.9 million. Principal and interest payments on the new library bonds are \$0.8 million. After small transfers to the Community Facilities Fund to save for future repairs and maintenance on the new building, the Fund is left with \$3.2 million in ending fund balance (contingency). The Library continues to provide exceptional service to the residents of Oregon City. Recently, the City's Library Director was the recipient of the Oregon Library Association's Distinguished Service Award for her leadership in the industry.

Community Development Funds

The Community Development Department manages two funds: the Community Development Fund and the Building Fund.

The Community Development Fund is budgeted at \$3.3 million for the biennium. The primary revenues are charges for services, including \$0.5 million to customers, primarily for review of land use applications, and \$0.6 million for long-range planning services provided to other departments. Transfers in from the General Fund are \$0.7 million to support the Planning Division and services provided to the community.

Pass-through revenues and expenditures total \$1.2 million. The City collects school excise taxes on behalf of the Oregon City School District and remits the funds to the district for construction of school facilities.

The Planning budget is \$2.1 million after subtracting pass through payments. The Personal Services budget has been reduced due to the elimination of a limited duration position that was previously funded by grants. Materials & Services have decreased significantly because Planning recently moved operations to a new City owned property and lease payments to the former location are no longer required. The prior biennium capital outlay budget was allocated for the move.

The Building Fund total budget is \$7.2 million. Licenses and permits revenue of \$3.2 million are projected to fund operations for the biennium, with resources over operating expenses added to reserves as mentioned above. Pass-through revenues of \$0.5 million include State surcharge and Metro construction excise tax monies that are collected and remitted to those agencies. Operating costs are budgeted consistently with the prior biennium.

The building program ensures that new facilities constructed in the City are safe and structurally sound. Because the economy and development trends have such a significant impact on revenues, managing the program requires balancing immediate service needs with sustaining the program over a long-term. As a result, it is common for Building funds to accumulate larger ending fund reserves (contingency) during times of active development. The Building Fund ending reserve is budgeted at \$4.0 million, 147% of expenditures.

Public Works Funds

The Public Works Department operates in a series of funds, including the Engineering Fund and one for each of the City's utilities: Transportation, Water, Wastewater, and Stormwater. The utility systems all have unique operational and infrastructure maintenance needs. To effectively manage the public investment in these systems, recent updated master planning has been completed for Transportation, Water and Wastewater; Stormwater master planning will be completed this summer.

Budget Message

Transportation

The Transportation Division is responsible for the construction and maintenance of roadways, pathways, sidewalks, traffic signalization and guardrails. Street Operations (gas tax funded) and Pavement Maintenance (utility fee) are accounted for separately within the Transportation Fund.

The Transportation Fund is financed by state gasoline taxes which are anticipated at \$5.4 million for the biennium and, in accordance with State law, are required to be spent on transportation system improvements, safety enhancements, and roadway maintenance. Transportation also collects revenues estimated at \$5.2 million from the pavement maintenance utility. That revenue is restricted for use in accordance with the City's annual pavement maintenance plan.

Expenses in the fund include \$6.0 million for transportation operations and maintenance, \$5.5 million for the Molalla Avenue project noted below and \$2.3 million for city-wide roadway reconstruction projects. Other important capital projects include a roundabout at the intersection of Linn, Leland and Warner Milne and sidewalks at Gardner Middle School. Additionally, transfers of \$0.3 million will be made for construction at the new Public Works operations center along with a small amount for fleet replacement reserves.

Public Works recently secured \$3.8 million in grant funds for the Molalla Avenue Streetscape project between Beaver Creek Road and Highway 213. Remaining funds for the \$9.9 million project come from transportation, system development and water resources. The project includes reconstruction of pavement, the addition of crosswalks, construction of bike lanes and missing sidewalk segments, and amenities such as pedestrian level lighting, benches and trash receptacles, and street trees.

Water

The Water Division maintains and distributes the City's potable water supply and protects public health by closely monitoring the distribution system and complying with all safe drinking water standards. Division activities are accounted for in the Water Fund.

The Water Fund is budgeted at \$20.7 million for the biennium. Water utility charges are projected to be \$14.8 million, and the City plans to spend down about \$3.2 million in reserves that are available for pipe replacement projects. Water rates are budgeted at current levels with inflationary increases of 3% in each year.

Operating expenses are consistent with the prior biennium including \$4.2 million for purchases of treated water from South Fork Water Board, the partnership jointly owned by Oregon City and West Linn. Additional funds are budgeted for engineering, patching and paving, leak detection and emergency repairs.

The City's charter includes restrictions on water rates that prevent the utility from fully addressing aging infrastructure. However, funds are saved in cycles and when enough funds are available, they are allocated to address the most immediate needs or in combination with other infrastructure projects. Pipe upgrades costing \$0.8 million are included to coincide with the Molalla Avenue Streetscape project discussed above. The capital budget also includes \$1.0 million each for pipe replacement in the Clairmont and Rivercrest areas. Additional replacement projects include High Street, Molalla Avenue and Main Street (between 10th and 15th) at a cost of \$0.9 million. Finally, approximately \$2.6 million has been allocated for upgrades to the City's reservoirs.

The Water Master Plan highlights a significant need for replacement of older distribution lines, and the budget includes some funding for replacement projects. However, as mentioned above, replacements are limited by a rate cap in the City's charter. To properly maintain the infrastructure for distribution of one of our most important resources, drinking water, the City will eventually need to make a revision to the charter and invest in major replacement projects.

Wastewater

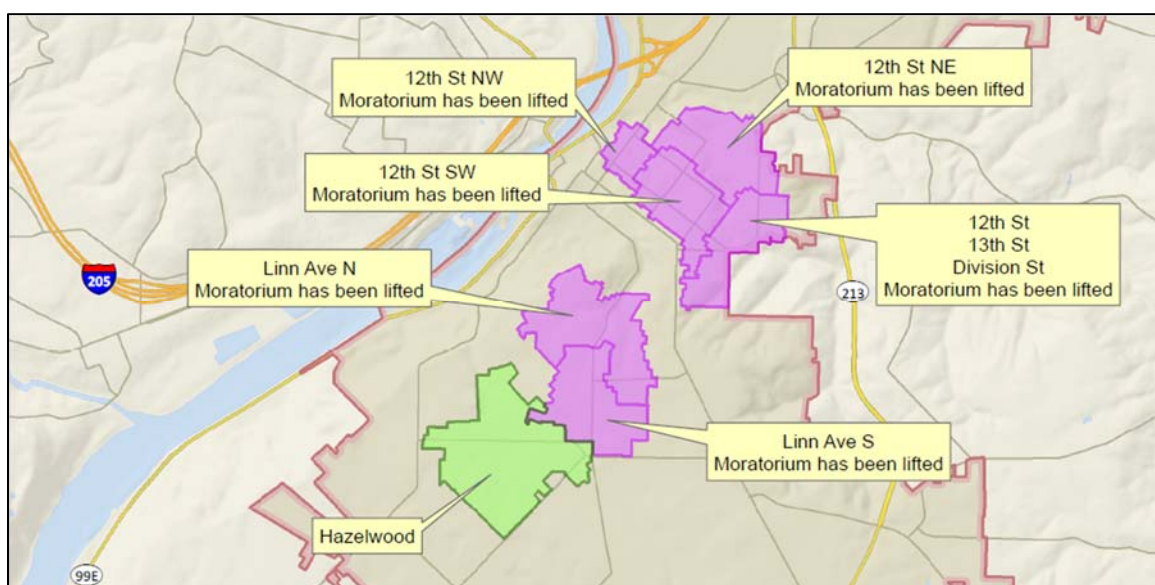
The Wastewater Division is responsible for the operation, maintenance and improvement of the City's sanitary sewer collection system. Division activities are accounted for in the Wastewater Fund.

The Wastewater Fund is projected to receive \$12.2 million in utility revenue for the biennium. This includes inflation only rate increases, not to exceed 3% in each year. For the biennium, approximately \$0.6 million in

rights-of-way usage charges are collected from the County's regional treatment plant and are allocated to support wastewater infiltration and inflow reduction programs. The fund is budgeted to collect \$11.0 million in pass-through charges as well. Those funds are collected from customers for the Clackamas County Tri-City Sewer District.

The City adopted a Sanitary Sewer Master Plan in 2014, which established the capital improvement program necessary to meet existing and future system needs. At that time, seven areas were identified that had significant capacity deficiencies, which could have resulted in overflows of untreated sewage into surface water. As a result the City Commission, as required by State law, adopted a moratorium to correct the sewer deficiencies.

The Public Works Department has done an outstanding job of completing the projects necessary to mitigate the sewer moratorium. Six of the seven projects have been completed to remedy capacity problems including the 12th Street area, 13th Street/Division area, and Linn Avenue area. The final project, in the Hazelwood Drive area, is identified for completion this fall.



Status of Sewer Moratorium Projects as of May 2019

The Wastewater expenditure budget includes operational funding to further the City's efforts to reduce the infiltration and inflow of ground water into cracked sewer pipes. The capital outlay budget includes \$4.4 million in funds for pipeline renewal and replacement projects. Another \$0.2 million is budgeted for remaining work on the Hazelwood Drive moratorium project described above. Additional projects include a placeholder for Trillium Park Drive landslide mitigation and various pump station projects.

Stormwater

The Stormwater Division is responsible for the operation, maintenance and improvement of the City's systems of water runoff conveyance, flood control, and pollution remediation and reduction. Division activities are accounted for in the Stormwater Fund.

The Stormwater Fund is budgeted to receive utility revenue of approximately \$6.0 million. Public Works is nearing completion of updates to the Stormwater Master Plan, as required by the Oregon Department of Environmental Quality. The Plan is designed to meet new permit requirements for stormwater management and is critical to quality streams, rivers and groundwater resources. Upon completion of the Plan, a rate study and a system development charge analysis will be completed to determine the needs of the system. Because the rates are not known at this time, the budget includes only inflationary adjustments.

Budget Message

Expenditures are for staffing with contracts to clean and maintain 22 drainage basins, 53 detention ponds, 4,400 catch basins, 30 miles of streams and 37 underground detention tanks. The catch basins are cleaned annually, and the detention ponds will undergo scheduled maintenance eighteen times each year. In addition, capital projects are budgeted for pipe capacity upgrades at 12th Street (Jackson to John Adams) and pipe replacement projects for Scatter Canyon, Harding Boulevard and a few additional smaller areas.

System Development

System Development Charges (SDCs) are collected on new development to fund future capacity-increasing projects required to meet the demands of related growth. SDCs fund projects in Parks, Transportation, Water, Wastewater, and Stormwater. Each utility is accounted for separately.

The Parks Division is projected to receive \$1.9 million in SDCs during the biennium. The Community Services Department will soon be updating the Parks and Recreation Master Plan to inform development decisions; however, several important projects are already identified. The SDC budget includes \$5.6 million in capital outlay with allocations for Woods Memorial Park in the Caufield Neighborhood and Filbert Run Park in the Hazel Grove-Westling Farm Neighborhoods (subject to additional grant funding). Funding has also been set aside for an esplanade trail system at the Clackamette Cove and for land purchases.

Transportation Division SDC revenue is budgeted at \$3.2 million for the biennium. Project funding totals \$12.6 million, including \$7.4 million for the construction of Meyers Road from High School Avenue to Highway 213; Public Works secured \$2.9 million for the Meyers project in the form of cost reimbursements from Clackamas Community College and a State grant. An additional \$1.9 million is included for the Molalla Avenue Streetscape project mentioned in the Transportation section above. Other placeholders include portions of funding for a Linn/Leland/Warner Milne roundabout, pedestrian projects at Gardner Middle School and on Gaffney Lane and Holcomb Boulevard and various roadway reconstruction projects identified in the Transportation System Plan.

The Water Division anticipates \$0.8 million in SDCs for the biennium. Revenues and reserves will be utilized to fund \$1.3 million in waterline replacements for the Molalla Avenue Streetscape Project and \$1.0 million for the waterline associated with the Meyers Road Extension. Additional funds are allocated to begin planning and conceptual design for a new reservoir, pump station and force main needed to service the Beaver Creek Area.

Wastewater Division SDC revenue is budgeted at \$0.8 million for the biennium. Using accumulated resources, \$1.4 million in expenditures are budgeted for the Meyers Road Extension, Hazelwood Drive sewer replacements and a few smaller projects.

The Stormwater Division is anticipated to receive approximately \$0.2 million for the biennium. Projects include Meyers Road extension oversizing, a stormwater extension on Harding Boulevard and other minor improvements. With limited funding to support stormwater system requirements, an SDC study is expected to be completed during the biennium.

FISCAL POLICIES AND BUDGET ASSUMPTIONS

As discussed above, the Biennial Budget was developed with a focus on achieving City Commission goals and priorities, vital municipal operations and important departmental goals that are designed to provide efficient and quality services to our citizens. The following fiscal policies and assumptions were also used to guide the budget process.

Revenues

Revenues are forecasted moderately to maintain operations and support necessary ending reserves. Major revenue assumptions include assessed value increases for property taxes of 4.5% in each year of the biennium. Utility rates for water, wastewater, stormwater and pavement maintenance are budgeted for inflationary increases only, and consistent with restrictions imposed in City Code, the Community Safety Advancement Fund fee will not be adjusted. Other charges for services and general revenues are calculated based on a six-year average with conservative adjustments as requested by departments.

Expenditures

To support our employees, personnel services are budgeted with responsible cost of living increases that are consistent with regional inflation expectations. While medical costs have remained stable for six years (the City requested proposals for medical services three years ago), renewal rates for the biennium are estimated to increase by 9.5% and 5% for medical over the two years, with minimal increases for dental.

Public Employees Retirement System (PERS) rates will increase by an average of 4.5% of covered payroll effective July 1. The cost charged by the pension system to address primarily legacy retiree expenses has been difficult for most local governments to absorb. Oregon City has been able to withstand the increase this biennium because the change was anticipated, and the City has budgeted conservatively over the past two budget cycles as a result. The City will continue to carefully monitor the impact of PERS.

As part of the budget request process, departments were asked to prepare budgets with flat materials and services costs, and capital purchases, assuming 0% change for each of the two years over current budget funding levels. Capital improvement/development fund budgets are exceptions to the capital guidelines because projects are often funded with non-operating resources and reserves accumulate in these funds over time to pay for required improvements. Departments were directed to maintain existing service levels while continuing to provide the highest quality service possible.

CONCLUSION

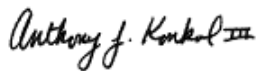
Oregon City continues to embrace the wealth of historical resources in our City while planning for the community that we would like to be in the future. The proposed balanced budget, guided by the Commission's Goals and Priorities, continues to build on the efforts of previous Commissions and provides for vital municipal services, needed infrastructure and programs that will benefit the community for years to come.

The proposed budget was created to address current needs of the City and to position our resources to address the known and unknown fiscal challenges that lie ahead. Balancing the need to address immediate needs with long-term, prudent fiscal decision making has resulted in a budget that provides additional staffing, identifies funding for priority projects and does not raise taxes. This will also require that, as we move forward, we actively monitor the budget to ensure that we are on track with the revenue and expenditure assumptions that we have made.

I would like to thank the Directors, Managers and Staff that helped to prepare this budget. Their understanding of upcoming projects and programming needs and their commitment to making Oregon City an amazing community is greatly appreciated and evident in the work they complete.

I would also like to thank the Mayor and the Commission for their leadership and guidance in preparing the goals for the City and representing the community through their many hours of volunteerism. I look forward to working with the Commission and the Budget Committee members as we review the proposed budget and continue to make Oregon City a wonderful place to live and work.

Sincerely,



Anthony J. Konkol III
City Manager