

## Budget Message

City Councilors, Budget Committee Members and Citizens of Woodburn:

After several years of declining General Fund revenues and resulting budget reductions, including layoffs, delays in projects and generally doing more with less, I'm pleased to report that Woodburn is experiencing a leveling off in projected revenue losses. For the first time in years the City is not in the midst of mid-year budget corrections needed to trim spending.

Although painful at times, it is clear that our aggressive cost-containment strategy greatly helped keep the City financially sound during the recession. At City Hall, there is a growing sense that things are starting to look up; but progress remains gradual. General Fund revenues appear to be stabilizing near 2010 levels.

I would also like to point out that our efforts to improve Woodburn's budget document and our internal accounting processes continue to evolve. These changes are reflected in the *Proposed FY 2014/15 Budget*. We are proud of these efforts and the progress made over the past few years. For the second year in a row the City has received a *Distinguished Budget Presentation Award* from the Government Finance Officers Association. From a work product standpoint, these recognitions constitute a significant accomplishment.

As busy members of our community, I appreciate the time each of you has contributed to the budget process, in studying the volumes of material you are provided and donating the time to attend the annual Budget Committee meeting. City staff values your input.

I would like to thank department heads and City staff for adhering to the City's budget policies and prudent financial management throughout the years. I would like to particularly recognize Woodburn's Finance Department staff for their countless hours, attention to detail and the months of work that went into preparing this proposed budget. Their hard work is reflected in the quality of this document.

### • Overall FY 2014/15 Budget

The total *Proposed FY 2014/15 Budget*, including ending fund balances and transfers, totals **\$64.4 million**; an approximate **\$4.6 million** reduction from the current *Adopted FY 2013/14 Budget* of **\$69.1 million**. The total *Proposed FY 2014/15 Budget* (excluding transfers, contingencies and reserves) is **\$34.5 million**.

#### **2014-15 Budget Highlights**

- \$34.5M Operating Budget
- 2.9% Increase in Property Tax Revenue
- FTE increased by 4.6
- \$9.5M in Capital Expenditures
- Partial Restoration of Library Hours

As required by State law, the proposed budget is balanced.

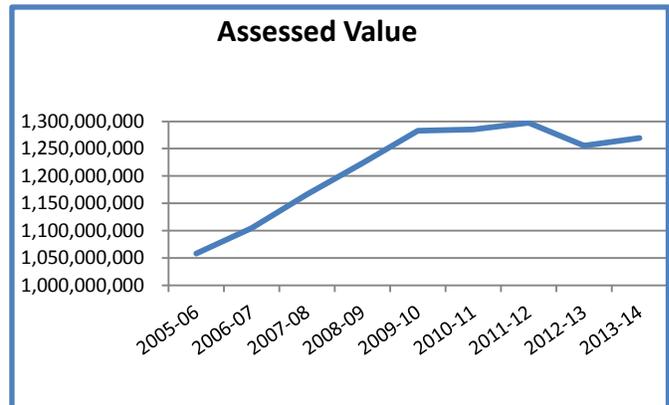
For next year, the *Proposed FY 2014/15 Budget* maintains current staffing levels and includes no reductions in current service levels. The *Proposed FY 2014/15 Budget* also includes capital improvements intended to address years of deferred maintenance and facility repairs. Overall, infrastructure funding is down from previous years due to changes in project development and accounting procedures governing how and when capital projects are authorized. This change is discussed in more detail later.

- **Revenues**

Woodburn relies on two major sources of revenue to fund operations: property taxes and utility charges. These two revenue categories constitute more than 70% of the City’s operating revenues and significantly impact the City’s ability to fulfill our mission. Other revenues supplement City operations including franchise fees (levied on utilities for use of public right of way), intergovernmental revenue (state shared revenue, liquor and cigarette taxes, transportation revenues), fees and charges (planning and engineering fees, recreation fees, business and solicitation registration fees), and fines (court fines). These secondary revenue sources are critical to overall financial health of the City and are historically less volatile than our other sources of funding.

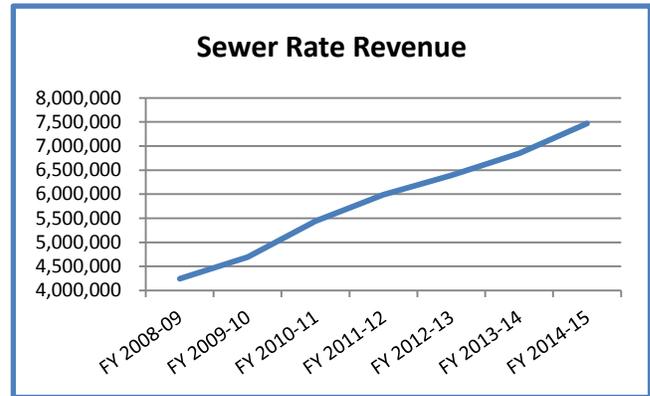
In terms of the General Fund, property taxes serve as the largest source of funding for critical General Fund programs such as police, library, parks, aquatics, etc. However, property tax revenues have proven more volatile in the past few years. Unfortunately, Woodburn continues to struggle with the fallout of the 2008 housing collapse and property tax compression. As a sign of optimism, General Fund Property Tax revenue is projected to increase by **\$200,000**, totaling **\$7.2 million**.

Because Woodburn has not seen assessed property values recover significantly, residents should not expect property tax revenues to grow at the full 3% as allowed by law. However, this could change over time if there is significant and aggressive growth in Woodburn’s construction markets.



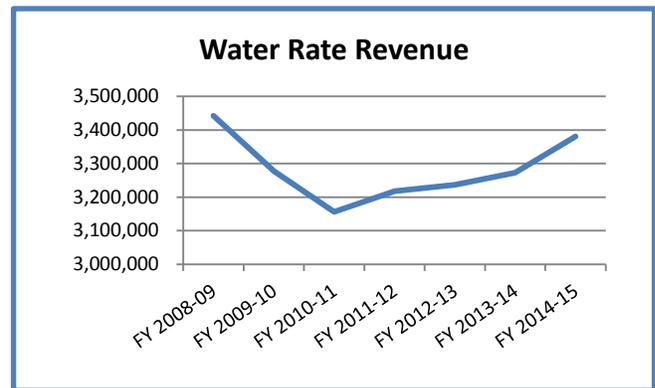
Utility charges fund the City’s water and sewer operations. These programs provide clean and safe drinking water to customers and provide for the safe collection, treatment and discharge of sewer and storm water. Utility charges are rate-driven, based on consumption and are impacted by changes in rates, population growth and new construction.

In anticipation of needed sewer system improvements, users have seen annual sewer rate increases over the past several years. The last of these increases goes into effect July 1, 2014. Unless additional increases are approved by the City Council, residents will see wastewater user rates level off in upcoming years. Future sewer fund revenue will be reliant on consumption, state- and/or federally-mandated system upgrades and new construction.



Water rates have not increased since FY 2005/06. It is likely residents could see an increase in water rates needed to fund upgrades in coming months. Updates to the *Water Master Plan* including a water rate study are long overdue and are planned for FY 2014/15.

Interestingly, Woodburn’s water consumption patterns declined sharply beginning in FY 2008/09, which staff attributes to the economic recession, sewer rate increases and a decline in regional housing markets. Water consumption then rebounded in FY 2010/11 and continues to grow at a modest pace.



The decline and subsequent slow rebound in water fund revenue is impacting Woodburn’s ability to undertake planned water improvement projects.

Several projects have been delayed due to a lack of adequate funding in recent years. Fortunately, the slowdown in consumption made project delays more feasible. Nevertheless, as the economy improves and Woodburn growth begins to accelerate, it will become more urgent that the delayed projects be completed.

- **Expenses**

Personnel services represent the majority of City operating costs. In the *Proposed FY 2014/15 Budget*, personnel services account for 36% of total expenditures and 47% of non-capital expenditures. Overall, this represents a decrease of 0.4% in personnel services from the prior year’s budget. The decrease is attributed to a decrease in Oregon Public Employee Retirement System (PERS) rates (per Oregon Senate Bill 822). The easing of PERS rates is somewhat of an unusual circumstance and not likely to continue in upcoming years. Additional cost reductions occurred as a result of the implementation of a high-deductible health plan.

I am also proposing that a 2% cost-of-living adjustment (COLA) be provided for all non-represented employees. It is worth noting that no COLA was issued in FY 2013/14, meaning the two-year average would be a marginal 1% for those employees not covered under a bargaining unit. The proposed budget includes negotiated

adjustments for AFSCME employees per the labor agreement and contract negotiations with the Woodburn Police Association are currently underway.

The number of full-time equivalent employees (FTE) increased by 4.64 in this budget. While the FTE count increased, two of the positions were the result of reorganization. A current vacant position in the Police Department is being converted to two positions as a cost-neutral reorganization. There was also an increase in FTE in Recreation with the addition of a full-time Recreation Coordinator, the funding for this position was provided by eliminating some part-time FTE and decreasing Materials & Services. The part-time - seasonal parks and facilities FTE of 1.33 was previously funded through Materials & Services because the staff was provided by a temporary agency. The change of the Police Executive Assistant from .5 FTE to 1.0 and the new Management Analyst position are additions to FTE, which require new funding. There were also minor adjustments in part time staffing in various departments.

The *Proposed FY 2014/15 Budget* increases Materials & Services by 19% over the current fiscal year, totaling **\$9.7 million**. However, the primary driver for the increase is a change in accounting procedure associated with how street maintenance service is provided. Previous budgets treated significant street expenditures as capital outlay. Consistent with the new Capital Project Accounting Methodology (discussed in further detail below), most street improvement projects cannot be capitalized as fixed assets (such as minor street resurfacing and repair, slurry seal and chip seal projects), and are now budgeted as Materials & Services expenses. Narratives in the street, water and sewer funds discuss this change in more detail.

Consistent with City policy, operating departments did not increase their bottom line appropriations in most areas. Exceptions have been made for internal service charges such as building maintenance, information services, insurance, maintenance projects (street, water & sewer funds only) and utilities. Most of these costs are driven by factors outside the control of individual departments.

Debt service obligations of the City total **\$5.4 million**, which represents approximately 15% of expenditures. For a detailed listing of the debt outstanding and annual debt service of the City, please refer to the Debt Overview section on page **Error! Bookmark not defined..**

- **Capital Construction Plan**

Capital outlay can be categorized as either significant equipment acquisitions or project expenditures. All Construction Fund capital outlay is tied to specific projects. *Proposed FY 2014/15 Budget* capital spending totals **\$9.5 million** (25%) of total expenditures.

The City's Capital Construction Projects can be found in detail beginning on page **Error! Bookmark not defined..** Consistent with the City's commitment to financial accountability, an improved methodology for planning, authorizing, budgeting and reporting capital construction projects has been implemented for FY 2014/15. For example, all capital projects are now individually reviewed and authorized by the Public Works Director, Finance

Director and the City Administrator prior to inclusion in the annual budget. Each project has a specific scope and budget and the Project Data sheets have been included for all projects.

Only those projects included in this budget may incur expenditures during the fiscal period. Projects added after budget authorization must be authorized by Council through a supplemental budget request, or wait for the next budget cycle for authorization. We feel this is a significant improvement.

In addition, all projects are now budgeted for their full cost, even if the project is expected to span multiple budget periods. This ensures that budget authority is available for the project should the schedule accelerate and prevents inadvertent over expenditures.

Significant capital projects included in this budget include:

- Wastewater Treatment Plant – Natural Treatment Project: **\$1,000,000**
- City Hall Roof and HVAC System Replacement: **\$525,000**
- Legion Park Rehabilitation & Improvement: **\$462,800**

## • Contingencies and Reserves

Woodburn's ending fund balances are comprised of contingency and reserve line items. The *Proposed FY 2014/15 Budget* contains all City Council-mandated contingency balances levels for each operating fund as well as reserves including debt service, dedicated construction funds and/or for other specific purposes. These balances cannot be expended without specific City Council approval.

Overall, contingencies increased modestly consistent with operating expenditures. It can also be noted that construction fund reserves declined by some **\$6.3 million** (16%) due to proposed FY 2014/15 construction projects.

## • General Fund

A General Fund budget (excluding contingencies and reserves) of **\$13.1 million** is proposed for FY 2014/15. Although this figure is 13% higher than the City's FY 2013/14 Amended Budget, the General Fund includes two departments that were relocated into the General Fund for FY 2014/15. These departments were previously in a different fund. The City's Engineering Department and facilities maintenance section are now included in the General Fund. If these changes are excluded, then the General Fund's actual growth falls below 2%.

The General Fund is supported by budgeted revenues of **\$11.9 million** and a **\$3.5 million** beginning fund balance. Revenues are budgeted to increase by **\$853 thousand** (8%) compared to the *FY 2013/14 Budget*.

The City Council's mandated 10% General Fund contingency reserve is met for FY 2014/15. It totals **\$1.2 million**. In addition, the General Fund's Shortfall Management Contingency Reserve of **\$1.1 million** remains in effect.

Because of the City Council's fund reserve policy, no full-time employee layoffs are planned for in the upcoming year. Preservation of our highly motivated and skilled staff remains a priority.

- **Building Inspection Fund**

The City's Building Inspection Fund has seen a dramatic increase in activity over the last couple years. Rebounding construction activity has resulted in a 40% increase in budgeted FY 2014/15 revenues. As a result, staffing has been increased to ensure the City can adequately respond to this demand. I will continue to monitor building activity, revenues and workloads during this growth phase.

- **Funds Consolidation Plan**

In our ongoing effort to improve accounting efficiencies, the Finance Department continues to consolidate funds into similar fund categories. Those changes are included in the budget and clearly marked as closed. Additionally, based on recommendations made in the *2011 Special Financial Report on the City of Woodburn Utility Funds*, several changes have been made to reflect how certain activities are accounted for and shown in the budget document.

- **Conclusion**

The *Proposed FY 2014/15 Budget* continues to allocate limited resources in a manner that supports the strategic direction of the Mayor and City Council.

For all these reasons it is my recommendation as Woodburn's Budget Officer that the Budget Committee approve the *Proposed FY 2014/15 Budget* as submitted.

Sincerely,



Scott Derickson  
City Administrator