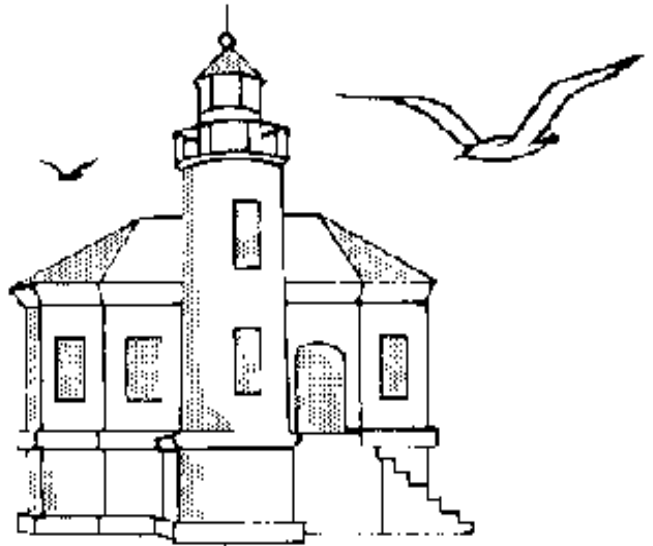


DATE: March 28, 2011
TO : Mayor and City Council
Budget Committee
FROM: Matt Winkel
City Manager/Budget Officer



**SUBJECT: FY 2011-2012 CITY OF BANDON
BUDGET MESSAGE**

The proposed fiscal year 2011-2012 budget total is \$20,676,106, which is \$239,185 (1%) less than the prior fiscal year 2010-2011 budget of \$20,915,291.

Comparing the current year's budget and fund totals to the proposed budget totals will be slightly more complex again this year, since the fiscal year 2010-2011 budget included closing and combining a significant number of Funds. This was done to simplify the budgeting and accounting process, and is in accordance with recommendations made by the City's auditor. When Funds are closed and incorporated into other Funds, the transferred balances are "double-counted" in that fiscal year's budget since those same amounts are shown as revenues and expenditures in the Funds being closed, and again as revenues and expenditures in the Funds into which the transfers are made. Now that they have been closed and combined, the previously shown figures for those funds will appear as "\$0" expenditures in the upcoming fiscal year 2011-2012 budget. From this point forward, it will be easier to compare the proposed and prior budget totals. All of the expenditures will continue to be accounted for, but will be shown as line items in the Funds into which they have been incorporated, as opposed to stand-alone Funds.

An overall Summary of Revenues and Expenditures by Fund, comparing the proposed budget to the prior year's budget, is included on the following pages.

BUDGET SUMMARY
REVENUES AND EXPENDITURES BY FUND

<u>FUND</u> <u>CATEGORY</u>	<u>FUNDS</u>	<u>ACCT</u> <u>NO.</u>	<u>COUNCIL</u> <u>ADOPTED</u> <u>2010-2011</u> <u>BUDGET</u>	<u>BUDGET</u> <u>OFFICER</u> <u>PROPOSED</u> <u>2011-2012</u> <u>BUDGET</u>	<u>DIFFERENCE</u> <u>FROM</u> <u>2010-2011 &</u> <u>2011-2012</u>
GENERAL FUND					
GENERAL	GENERAL FUND	100	\$2,500,415	\$2,382,148	-\$118,267
	<i>Mayor & Council</i>		38,100	31,400	-6,700
	<i>Administration</i>		372,241	326,767	-45,747
	<i>Accounting & Billing</i>		169,636	189,958	20,322
	<i>Municipal Court</i>		4,300	4,700	400
	<i>Police Department</i>		871,217	870,666	-551
	<i>Fire Department</i>		111,392	111,793	401
	<i>Streets</i>		84,998	87,000	2,002
	<i>Parks & Recreation</i>		234,453	193,312	-41,141
	<i>Planning</i>		231,078	134,173	-96,905
	<i>Community Center</i>		97,000	125,935	28,935
	<i>Non-Departmental</i>		286,000	306,444	20,444
SPECIAL	DRUG ENFORCEMENT	150	\$6,292	\$0	-\$6,292
SPECIAL	ECONOMIC DEVELOPMENT	240	\$3,665	\$0	-\$3,665
	TOTAL GENERAL FUND		\$2,510,372	\$2,382,148	-\$128,224
STREETS & DRAINAGE					
SPECIAL	STATE TAX STREET	210	\$176,301	\$197,069	\$20,768
CAPITAL	STREET -- SDC - Reimbursement	710	\$365,394	\$345,434	-\$19,960
CAPITAL	STREET -- SDC - Improvement	711	\$214,539	\$228,453	\$13,914
CAPITAL	LOCAL OPTION STREET	750	\$514,672	\$544,953	\$30,281
CAPITAL	STORM DRAINAGE -- SDC - Reimbursement	715	\$219,941	\$250,881	\$30,940
CAPITAL	STORM DRAINAGE -- SDC - Improvement	716	\$212,314	\$236,804	\$24,490
	TOTAL STREETS		\$1,703,161	\$1,803,594	\$100,433
PARKS & RECREATION					
CAPITAL	PARK & RECREATION DEV	550	\$179,620	\$169,202	-\$10,418
SPECIAL	COMMUNITY BEAUTIFICATION	250	\$72,228	\$72,228	\$0
	TOTAL PARK & RECREATION		\$251,848	\$241,430	-\$10,418
LIBRARY					
SPECIAL	LIBRARY	230	\$370,412	\$345,007	-\$25,405
SPECIAL	LIBRARY MEMORIAL	220	\$199,300	\$227,003	\$27,703
SPECIAL	LISA WAMPOLE TRUST FUND	990	\$14,503	\$16,000	\$1,497
	TOTAL LIBRARY		\$584,215	\$588,010	\$3,795

<u>FUND</u>			<u>COUNCIL</u>	<u>BUDGET</u>	<u>DIFFERENCE</u>
<u>CATEGORY</u>	<u>FUNDS</u>		<u>ADOPTED</u>	<u>PROPOSED</u>	<u>FROM</u>
		<u>ACCT</u>	<u>2010-2011</u>	<u>2011-2012</u>	<u>2010-2011 &</u>
		<u>NO.</u>	<u>BUDGET</u>	<u>BUDGET</u>	<u>2011-2012</u>
ELECTRIC					
ENTERPRISE	ELECTRIC	910	\$6,474,492	\$6,586,979	\$112,487
ENTERPRISE	ELECTRIC REVENUE BONDS	370	\$78,193	\$0	-\$78,193
ENTERPRISE	ELECTRIC RESERVE	920	\$542,746	\$0	-\$542,746
ENTERPRISE	LOW INCOME ASSISTANCE	930	\$21,261	\$0	-\$21,261
	TOTAL ELECTRIC FUND		\$7,116,692	\$6,586,979	-\$529,713
WATER					
ENTERPRISE	WATER	940	\$926,014	\$826,284	-\$99,730
ENTERPRISE	2006 AIRPORT WATER & SEWER DS	380	\$23,017	\$0	-\$23,017
ENTERPRISE	WATER RESERVE	740	\$51,357	\$0	-\$51,357
ENTERPRISE	WATER -- SDC - Reimbursement	720	\$391,144	\$398,776	\$7,632
ENTERPRISE	WATER -- SDC - Improvement	721	\$891,205	\$936,303	\$45,098
	TOTAL WATER DEPARTMENT FUNDS		\$2,282,737	\$2,161,363	-\$121,374
SEWER					
ENTERPRISE	SEWER	950	\$1,197,689	\$3,061,375	\$1,863,686
ENTERPRISE	1992 SEWER REV G O BONDS	350	\$109,971	\$0	-\$109,971
ENTERPRISE	SEWER RESERVE	533	\$77,034	\$0	-\$77,034
ENTERPRISE	SEWER -- SDC - Reimbursement	730	\$114,274	\$131,897	\$17,623
ENTERPRISE	SEWER -- SDC - Improvement	731	\$115,125	\$115,666	\$541
	TOTAL SEWER DEPARTMENT FUNDS		\$1,614,093	\$3,308,938	\$1,694,845
OTHER FUNDS					
SPECIAL	STATE REVENUE SHARING	260	\$29,478	\$25,659	-\$3,819
SPECIAL	BLOCK GRANT	410	\$395,241	\$188,196	-\$207,045
SPECIAL	9-1-1	270	\$0	\$20,000	\$20,000
CAPITAL	CAPITAL IMPROVEMENT	510	\$556,150	\$237,512	-\$318,638
CAPITAL	EQUIPMENT RESERVE	520	\$52,831	\$53,829	\$998
	TOTAL OTHER FUNDS		\$1,033,700	\$525,196	-\$508,504
DEBT SERVICE					
DEBT	GENERAL OBLIGATION BONDS	365	\$631,572	\$673,161	\$41,589
ENTERPRISE	RURAL DEVELOPMENT G.O. BONDS	343	\$69,070	\$0	-\$69,070
ENTERPRISE	SDWRLF G.O. BONDS	344	\$23	\$0	-\$23
DEBT	LOCAL OPTION STREET TAX DEBT SERVICE	345	\$431,769	\$0	-\$431,769
ENTERPRISE	2006 WATER PLANT GO BONDS	375	\$134,456	\$0	-\$134,456
ENTERPRISE	1991 SEWER G O BONDS	360	\$108,149	\$0	-\$108,149

FUND CATEGORY	FUNDS	COUNCIL ADOPTED ACCT NO.	BUDGET 2010-2011 BUDGET	BUDGET OFFICER	DIFFERENCE FROM 2010-2011 & 2011-2012
				PROPOSED 2011-2012 BUDGET	
DEBT	2000 STREET & SEWER LID BONDS	633	\$18,965	\$17,267	-\$1,698
DEBT	2001 BANDON LID	634	\$9,364	\$6,312	-\$3,052
DEBT	LOCAL IMPROVEMENT DISTRICTS	640	\$2,336,122	\$2,336,123	\$1
DEBT	2004 HIGHWAY 101 SEWER	635	\$78,983	\$45,585	-\$33,398
	TOTAL DEBT SERVICE FUNDS		\$3,818,473	\$3,078,448	-\$740,025
GRAND TOTAL			\$20,915,291	\$20,676,106	-\$239,185

BUDGET FORMAT

The overall format of the 2010-2011 budget document remains similar to last year, although the “Department Budget Summaries” no longer include a breakdown showing the separate Funds from which each Department receives its funding. Reducing the number of Funds and combining them into departmental groupings simplified the format and made the separate departmental summaries unnecessary.

- **Budget Summary (RED Tab)**

The Budget Summary is intended to provide an overview of the proposed budget. This includes the Budget Message and City Council Goals, the City organizational chart, an index to the account numbering system, and the budget calendar.

- **Funds (YELLOW Tabs)**

The Funds section of the document represents the substance of the actual City Budget, which will be formally approved and adopted. Detailed revenue and expenditure projections are included for all of the City’s “Funds,” all of which are categorized together in one of the following five Fund types:

- **General Fund**
- **Special Revenue Funds**
- **Enterprise Funds**
- **Capital Funds**
- **Debt Service Funds.**

As required by Local Budget Law, the figures in the first four columns of each Fund indicate the “actual” revenues and expenditures in FY 2008-2009 and FY 2009-2010, “budgeted” revenues and expenditures for FY 2010-2011, and amounts “proposed” by the Budget Officer (City Manager) for the upcoming FY 2011-2012. The last two columns will contain the final budget figures as “approved” by the

Budget Committee and as “adopted” by the City Council. Within each “Fund,” revenues are shown for each of the various sources from which they are received. Expenditures are broken down into four major categories: PERSONAL SERVICES (personnel costs, wages, and benefits); MATERIALS & SERVICES (utilities, supplies, contractual services, etc.); CAPITAL (individual capital projects); and NON-DEPARTMENTAL (transfers, contingencies, and other expenses).

- **Department Budget Summaries (GREEN Tabs)**

Each Department Budget Summary includes an activities and service level description, an outline of previous year’s accomplishments, a listing of the major activities proposed for the upcoming fiscal year, annual staffing level comparisons, and historic service level indicators. This information is intended to provide a framework for the City Council, Budget Committee, citizens, and staff to measure overall performance during the last fiscal year, and to determine the degree to which the budget accomplishes the 2011-2013 City Council Goals, and meets the anticipated needs of the community.

- **Capital Improvement Plan (BLUE Tab)**

The Capital Improvement Plan lists all of the projects which are proposed to be undertaken by each Department. This section contains an outline of all major capital projects planned by each department for fiscal year 2011-2012. Projects which were completed last year, and those proposed for future years, are also shown. Projects which are contained in the *Capital Improvement Plan* are designated with “CIP” within each Fund budget.

PERSONNEL - WAGES & BENEFITS

The PERSONAL SERVICES budget within each Fund has been adjusted to include the projected wage and benefits costs for the anticipated number of employees during the upcoming fiscal year.

Personnel Levels

The proposed budget includes a total of 36 FTE (full-time equivalent) regular employees. This is 4.5 FTE less than fiscal year 2008-2009 and 1 FTE less than last fiscal year 2010-2011, reflecting the layoff of 1 full-time Records Clerk/Planning Secretary, the layoff of 1 full-time Utility Clerk, elimination of the part-time Code Compliance Officer position by combining those duties with a City Planner position, not filling a vacancy in the Police Department, and last year’s elimination of the City Recorder’s position and combining it with the City Manager’s position.

Collective Bargaining Agreements

With the exception of management staff (City Manager, Finance Director, Assistant Finance Director, Chief of Police, Police Sergeant, and Librarian), all City employees are represented by labor unions. The City has four collective bargaining agreements, including the International Brotherhood of Electric Workers (IBEW) representing the Electric Department; the Teamsters Union representing the Police Department; the Teamsters Union representing the Public Works Department, Water Department, and Sewer Department; and the IBEW representing the clerical staff from the Finance Department, Administration, Planning Department, Public Works Department, and the Library. The term of these contracts are: Police - July 1, 2007 - June 30, 2012; Clerical - July 1, 2010 - June 30, 2014; Public Works - July 1, 2010 - June 30, 2014; and Electric - July 1, 2010 - June 30, 2015.

Employee Wages

The employee wages in the proposed budget are in compliance with each of the collective bargaining agreements. Accordingly, this includes normal scheduled step increases for those employees to whom they are due, and a cost of living adjustment (COLA). Each union contract includes a minimum and maximum COLA, indexed to the consumer price index for urban Portland (CPI-U), which was 0.9% in calendar year 2010. The increases for each of the collective bargaining units will therefore be at the minimum contractual amounts of 2.5% for Police, 1.5% for Clerical, 1.5% for Public Works, and 2% for Electric (step and COLA combined).

Employee Benefits

Health Insurance: Based on information provided by Blue Cross/Blue Shield (BC/BS), the City's health insurance carrier, the budget includes a 10% increase in health insurance rates. All City employees' continue to pay 10% of their health insurance premiums.

Retirement: The anticipated City share of payroll contributions into the employees' retirement programs are 13.74% for Public Employees Retirement System (PERS) employees, 10.88% for Oregon Public Service Retirement Plan (OPSRP) regular employees, and 13.59% for OPSRP police employees, plus the City continues to pick up the employees' 6% share of the PERS and OPSRP contributions. The City also offers the employees the opportunity to voluntarily participate in the AIG-VALIC and ICMA deferred compensation programs, which are completely funded by employee contributions, at no cost to the City.

Vacation Accruals: Each departmental budget includes funds for vacation purchase, to cover any expenses which may be associated with purchasing vacation time from retiring or resigning employees. To help keep these liabilities as low as possible, employees' accumulated vacation and compensatory time are each capped at 240 hours, as of July 1st. Most employees are well within these limits, except for a limited number who were

individually allowed to carry additional vacation time forward, in cases where that is determined to be in the best interest of the City.

GENERAL FUND REVENUES

The total proposed General Fund (100) budget is \$2,382,148, which is \$128,224 (5.1%) less than last year.

The largest individual sources of General Fund revenues continue to be the transient occupancy tax, utility sales taxes, utility in-lieu taxes, and utility reimbursements. Other resources include property taxes, franchise fees, intergovernmental reimbursements such as liquor, cigarette, and 911 taxes, and miscellaneous permits and fees. The budget also includes an allowance for receiving \$200,000 from miscellaneous grants, which is offset by an identical expenditure line item for spending that money if it is received.

DEPARTMENT BUDGETS

The overviews which follow describe the major budgetary highlights and changes within each City department.

Mayor & Council

The Mayor and City Council expenses continue to be charged to the General Fund (100), with 75% of those costs reimbursed by the Enterprise Funds. The total proposed Mayor & Council budget is \$31,400, which is \$5,758 less than last year.

General Administration

The City's general administration expenses are charged to the General Fund (100) and Enterprise Funds [Electric Fund (910), Water Fund (940), and Sewer Fund (950)], with 75% of the operational costs paid by those utilities to cover their share of administrative expenses. The total proposed General Fund Administration budget is \$326,767, which is \$45,474 less than last year. The PERSONNEL budget was adjusted to reflect elimination of the City Recorder's position and moving the Administrative Assistant's position into the Finance Department where 90% of personnel costs are charged to the utilities versus 75% in General Administration.

The only major capital expenditure is *City Hall Fascia Repair and Painting*.

Finance Department

Finance Department expenses are charged to the General Fund (100) and Enterprise Funds [Electric Fund (910), Water Fund (940), and Sewer Fund (950)], with 90% of the operational costs paid by those utilities to cover their share of the accounting and utility

billing expenses. The total proposed General Fund Finance Department budget is \$189,958, which is \$20,322 more than last year. The PERSONNEL budget was adjusted to reflect moving the Administrative Assistant's position into the Finance Department where 90% of personnel costs are charged to the utilities versus 75% in General Administration.

The only significant CAPITAL purchases include upgrading the *Computer Server* and/or purchasing a new utility bill *Stuffing/Folding Machine*, both of which continue to have serious maintenance and reliability problems. An increased capacity stuffing/folding machine would save staff time and would allow the City to better accommodate the many community service organizations who utilize the City's utility bill mailings to disseminate important information to citizens and utility customers.

Municipal Court

The Municipal Court is funded by the General Fund (100). The total proposed budget is \$4,700, which is \$400 more than last year. The bulk of these expenditures is *Contractual Services* for the Municipal Court Judge.

Police Department

The activities of the Police Department are funded through the General Fund (100). In prior years, the City maintained a separate Drug Enforcement Fund (150), but that Fund is now being closed and those expenditures incorporated as a line item in the Police Department's General Fund budget. Another change involves moving the 911 emergency telephone system payments out of the General Fund and into its own stand-alone 911 Fund (270). These payments are a pass-through of revenues received from the State 911 tax and paid to Coos County for operating the 911 system, and the Local Budget Law requires that they be accounted for in their own separate fund. The total proposed Police Department budget is \$870,666, which is \$551 less than last year. 6 uniformed police officers are included, which remains one less than the 7 officers the City had until fiscal year 2009-2010 when a vacant position was not filled due to a lack of funding.

Over 71% of fiscal year 2011-2012 General Fund budgeted revenues which are not legally restricted to other uses are now allocated for police protection. The Police Department budget now consumes over 100% of the total projected receipts from property taxes, transient occupancy taxes, and utility sales taxes combined. The General Fund costs are actually more than that, since those figures do not include the cost of administration, finance (payroll, accounting, and auditing), and City Hall building maintenance expenses.

The only major CAPITAL item is \$30,000 for *Major Equipment Replacement*. Since the police levy did not pass, the City has been unable to initiate a planned program to ensure more dependable police response through regular scheduled replacement of older vehicles with new vehicles. These funds are being carried forward as a reserve in anticipation that the Police Department can eventually implement a proper vehicle replacement program when a dependable, longer term funding source is available. Minor CAPITAL purchases include a *Used Patrol Vehicle* and a new *Digital Speed Traffic Enforcement Sign*.

Fire Department

Fire protection is provided through a contract with the Bandon Rural Fire District, with funding from the General Fund (100). The total proposed Fire District budget is \$111,793, which is \$401 more than last year. MATERIALS & SERVICES expenditures include \$90,743 in payments to the Bandon Rural Fire Protection District, and \$17,000 which is reimbursed by the Fire District for COBRA health insurance payments for the Fire Chief. The Contractual Services line item also includes \$4,000 as an allowance to offset increased payments which could result if any annexations take place during the upcoming year, since any such annexations would remove that property from the Fire District tax base and add it to the City's tax base.

The amount of the annual Fire District payment is indexed to changes in the City's taxable assessed valuation. The \$90,743 budgeted in fiscal year 2011-2012 is based on an assessment equal to \$.227 per \$1,000 assessed valuation, which was the equivalent rate established in the 1995 agreement between the City and the Fire District, adjusted for increases in the total City assessed valuation.

Streets & Drainage

Funds for operation, maintenance, and improvement of the City's streets, sidewalks, and storm drainage systems and are provided from a number of resources, including the General Fund (100), the City's share of the State gas taxes which are deposited into the State Tax Street Fund (210), and capital projects funding from the Street SDC - Reimbursement Fund (710), the Street SDC - Improvement Fund (711), the Storm Drainage SDC - Reimbursement Fund (715), the Storm Drainage SDC - Improvement Fund (716), and the Local Option Street Fund (750). The total proposed budget for Streets & Drainage is \$1,890,594, which is \$102,435 more than last year.

40% of the Public Works Department employee costs are allocated to Streets & Drainage. The Public Works crews have been increasingly utilized to undertake street, drainage, and sidewalk capital improvement projects, decreasing the need to utilize outside contractors and keeping expenditures as low as possible.

A significant amount of the money for street improvements comes from the Local Option Street Tax Fund, which is funded by a local option street tax in the amount of \$.8455 per \$1,000 assessed valuation which was approved by the voters in 2001. As a 10-year levy, it expired this year, and no new revenues will be available in the upcoming fiscal year 2011-2012 or thereafter, unless it is extended. The City Council placed on the May 17, 2011 ballot a measure to renew the same \$.8455 local option street tax for another 10 years. If passed, this will provide the funding necessary to continue improving and maintaining the City's streets and pedestrian facilities without increasing the property tax rate. If it is not passed, the *Beginning Balance* in the Local Option Street Tax Fund will allow the City to provide a certain amount of street maintenance for the upcoming fiscal year 2011-2012, after which it will likely be depleted.

Since the fate of the May 17, 2011 ballot measure extending the existing Local Option Street Tax has not yet been determined, the proposed budget recommends initially earmarking all State

Revenue Sharing funds for *Pothole & Street Repair*. Although this would not be enough money to make up the shortfall, it would provide some help in addressing the critical shortage in funds for street and sidewalk improvements which would result if the Local Option Street Tax is not continued. If the Local Option Street Tax extension is approved by the voters, the need for utilizing the State Revenue Sharing funds for streets would not be as great, which would allow that money to be reallocated to the various community service organizations which it is anticipated will be requesting some of those funds.

Although new SDC revenues are expected to continue at a fairly slow pace due to the building slowdown, beginning balances are being carried forward in the Street and Storm Drainage SDC Funds. SDC's cannot be used for ongoing street and drainage maintenance, since those funds are restricted to use on projects specified in the SDC Plan and for projects associated with capacity building to meet the demands placed on the street and drainage systems by future growth. The balances are primarily being held to build and maintain reserves for future major capital improvement projects which will be undertaken when sufficient funds have been accumulated and/or when future growth necessitates additional City investment in the streets and drainage infrastructure to accommodate that growth.

Major proposed CAPITAL projects include continuing the City-wide program to install *ADA Sidewalk Corner Ramps, Overlay Beach Loop from Strawberry Drive to Sunset Motel, and Mapping Software Upgrades*, as well as funds for normal annual maintenance and repair projects. Reserves are also being maintained in the Street and Drainage SDC Funds for *Stabilization of Ohio Avenue at Ferry Creek, Street and Pedestrian Improvements, Gross Creek Culvert Replacement, and future Storm Drainage Projects*.

Parks & Recreation

Parks & Recreation operation and maintenance is funded through the General Fund (100) and the Community Beautification Fund (250), with Capital Improvements funded through the Parks & Recreation Development Fund (550). The budget also continues to include a \$25,000 subsidy of the *Summer Recreation Program* by the Electric Fund (910). The total proposed Parks & General Maintenance budget is \$434,742, which is \$51,559 less than last year. The major reasons for this reduction include the fact that a portion of the Public Works employees which used to be charged to Parks & Recreation are now being more properly charged directly to the Community Center PERSONNEL SERVICES since it now has its own budget, and reduced budgets for *Utilities* and *Summer Recreation Fees* to more accurately reflect last year's actual expenditures. Most of the Parks & Recreation Development Fund revenues are reflected in its *Beginning Fund Balance*, which was received from required contributions from subdivisions which took place several years ago. With the economic slowdown and corresponding halt to any new subdivisions, these funds are not being replenished. The only new resource continues to be an annual transfer of \$10,000 from the Capital Improvement Fund (510), although that fund is nearly out of money, so those transfers are likely to be discontinued after this year.

15% of the Public Works Department employee costs are allocated to Parks & Recreation.

The Community Beautification Fund derives its revenues from the garbage franchise fees paid by the garbage franchisee, 100% of which are deposited into this Fund. Nearly 90% of these revenues are budgeted for *Contractual Services* to pay an outside contractor to provide landscaping maintenance services for a number of public areas including City Hall, the Visitor Information Center, the Fire Memorial, Old Town parking lot and Pedway, the Welcome-to-Bandon entrance signs, City Park entrance triangles, the Library, and the Community Center (Barn) and parking lot islands. A portion of these expenses used to be paid from the General Fund, but all of them have now been shifted to the Beautification Fund to keep sufficient money in the General Fund to provide those services which do not have alternative revenue resources, primarily the Police Department. To keep expenditures from increasing above annual revenues, Public Works employees have picked up some of the previously contracted landscaping maintenance services. A small amount of annual revenues is left over for other beautification projects, and some money has been carried forward as a beginning balance, which is budgeted for such items as *Benches & Trash Cans, Fire Hydrant Painting, Beautification Programs, and Tree Trimming & Maintenance*. This has been possible since those funds were not spent in prior years, but the beginning balance has been continuously declining, and once these expenditures have been made, either these items will have to be deleted, landscaping maintenance will have to be reduced, or another revenue source will have to be identified.

Major proposed CAPITAL projects include the *Eastside Park, Playground Safety Matting, and Park Directional Signs*, and some funds continue to be carried forward for *Miscellaneous Park Improvements*. The Urban Renewal Area 2 Fund (570) budget includes *New Restrooms at City Park*.

Planning Department

The activities of the Planning Department are funded primarily through the General Fund (100). The total proposed Planning Department budget is \$134,173, which is \$96,905 less than last year. This is a significant reduction, resulting primarily from the fact that year's budget included a \$60,000 reimbursement from the Department of Geology and Mineral Resources (DOGAMI) to pay a portion of the wages and expenses for the second City Planner to operate a City-wide tsunami education, awareness, and preparedness program. Those funds will not be available in the upcoming year. Another major difference is that one of the planner's salaries is being allocated as an administrative expense. A major portion of the job responsibilities are related to code compliance, prosecuting court cases, and administering the zoning compliance and development review board (DRB) functions. As an administrative expense, 75% of those expenses are charged to the utilities instead of the General Fund, which frees up General Fund money for those major functions such as police protection which have no other funding source. Having one of the City Planners serve as the City's Code Compliance Officer also helps further subsidize the Police Department by freeing up sworn police officers for more critical law enforcement activities.

No major CAPITAL expenditures are included in the proposed fiscal year 2011-2012 Planning Department budget.

Community Center

Revenues and expenditures for the Barn/Community Center are run through the General Fund (100). The total proposed budget is \$125,935, which is \$28,935 more than last year. This increase primarily results from the fact that 5% of the Public Works employee expenses, which used to be charged to Parks & Recreation, are now being more properly charged directly to the Community Center PERSONNEL SERVICES to reflect the amount of time they are actually spending on Community Center operation and maintenance. Although last year's budget over-anticipated rental fee receipts, it should be noted that the actual receipts have been steadily increasing each year.

Many of the Barn/Community Center users are community service, volunteer, and youth oriented agencies, groups, and organizations, which have difficulty paying rental fees and liability insurance premiums on top of the expenses for conducting their events. Many of them are therefore allowed to utilize the facilities at reduced charges. Typically, all users are charged a set-up/clean-up fee to cover those costs, and must provide proof of liability insurance. To help in this latter regard, the City has made insurance available through City County Insurance Services at very affordable rates. It is also important to recognize that charging a higher fee for certain events does not actually increase revenues, since many of those events would be lost to other facilities which charge lower or no fees. To help promote tourism and the resulting economic benefits, including increased transient occupancy tax (TOT) revenues, the City allows motels and other lodging businesses the right to reserve the facilities at reduced rates for out-of-town groups who book sufficient rooms to justify a waiver of the fees. This is not unlike the practice in other resort and convention facilities, which waive the meeting room use fees in exchange for booking rooms. To make sure the Community Center user fees are appropriate, they are scheduled to be reviewed and possibly revised by the City Council prior to the beginning of the upcoming fiscal year.

Library

The Library is primarily operated out of two funds: the Library Fund (230), and the Library Memorial Fund (220). The majority of library funding comes from a share of Library District property taxes collected by the County, which are projected to be fairly consistent with last years receipts. Since library taxes can only be used for operation and maintenance but not capital construction, all property tax receipts are deposited into the Library Fund, and are used for personnel, materials, services, and equipment. Revenues from all other resources are deposited into the Library Memorial Fund, where they can then be used for a variety of purposes, subject to any restrictions which may have been placed on donations by the donees. The total proposed Library budget is \$588,010, which is \$3,795 more than last year. In addition, Library operations are subsidized by the General Fund (100), which pays for administration, finance (payroll, accounting, and auditing), and Public Works Department building maintenance activities; and the Community Beautification Fund (250), which pays for landscaping maintenance.

The only anticipated major CAPITAL purchase is \$34,000 which has been included in the proposed Library Memorial Fund budget to replace five *Exterior Emergency Exit Doors* which are becoming severely rusted, and could become a fire and safety hazard. Their replacement is

fairly expensive since they have to be fire-rated, and it is recommended that they be replaced with stainless steel doors to provide as long a life as possible. Funds are also being reserved for future library *Materials & Services* and *Capital Projects*.

Electric Department

The electric utility is funded through the Electric Fund (910), with revenues derived primarily from the sale of electricity to customers inside and outside of the City. The total proposed Electric Department budget is \$6,586,979, which is \$529,713 less than last year. The decrease is primarily due to last year's "double-counting" the balances in the Electric Reserve Fund (920), Low Income Assistance Fund (930), and Electric Revenue Debt Service Bond Fund (370) which were closed and incorporated into the Electric Fund.

With the continuing slowdown in building activity and home sales, electric utility revenues are projected to remain relatively flat, as they have been for the last three years. Bonneville Power Administration (BPA), from which the City purchases all of its electrical power, increased wholesale power rates 7.48% in October 2009. A new tiered rate system will be implemented by BPA on October 1st, and the wholesale power rates are again projected to increase, this time by 7.65%. The last time Bandon increased its retail electric rates was 2007. Although the City did not find it necessary to increase its retail rates in response to the 2009 wholesale rate increase, a 4% retail rate increase is being recommended and included in the proposed 2011-2012 budget. The proposed rate increase is in compliance with the tax and utility rate setting restrictions of the City Charter, since increasing electric rates are specifically allowed to offset BPA wholesale rate increases. Another important consideration is that the City Council is currently able to set electric rates to cover increased distribution system costs, since the 1994 Electric Revenue Bond financing agreement, which pre-dated the subject City Charter amendments, contains rate covenants which require the City to maintain utility rates at a level which generates sufficient revenue to properly operate and maintain the electric system, and meet the debt service obligation. However, those bonds will be paid off in 2014, after which those rate covenants will no longer be in effect. So, except for increases to offset wholesale power cost increases, the City Council will be required to obtain voter approval for future rate increases unless and until those Charter restrictions are repealed or declared invalid or unconstitutional.

The City has been purchasing 4% of its total load in the form of Environmentally Preferred Power (EPP), which comes exclusively from wind resources. Approximately half of this "green" power is now being purchased by a total of 150 customers. This represents an increase of 13 customers over last year's 137. The remainder of the EPP which is not being re-sold is being banked as renewable energy credits (REC's) towards meeting the State of Oregon's Renewable Portfolio Standard (RPS) requirement that Bandon purchase 5% of its total electric load from renewable resources by the year 2025. The new wholesale BPA rates which will become effective in October 2011, however, will incorporate BPA's renewable resources into the tier 1 power mix, which will eliminate the current EPP option. It is not currently known exactly what options for "green" power purchases will be available at that time, so the proposed budget eliminates separate "green power" sales revenues and expenditures effective on October 1, 2011, which is 25% of the way through the upcoming fiscal year.

The Electric Utility utilizes Federal funds and the proceeds of a dedicated charge which is added to each electric bill to operate a Low Income Energy Assistance Program to provide bill-paying assistance to qualifying low income electric customers. Both the Federal and the local programs are administered under an agreement with Oregon Coast Community Action. With declining Federal resources, and increasing needs for assistance, the City initiated the Round-Up Program in 2009, through which customers are able to voluntarily agree to have their monthly utility bill “rounded up” to the next whole dollar value. At this time, a total of 216 customers are participating in the Round-Up Program, which represents an increase of 23 customers over last year’s 193.

Since the economic slowdown has reduced the number of new utility connections being made, the Electric crews have been increasingly utilized to undertake capital improvement, undergrounding, and line and pole replacement projects, thereby decreasing the need to utilize outside contractors and keeping expenditures as low as possible.

Major CAPITAL expenditures include *1st Street Underground (Jetty Road to Cleveland Avenue), 9th Street SW Underground (Franklin Avenue to Highway 101), Mapping Software Upgrades, Replacement Meter Truck, New Office PC; Shop Site Preparation, Barn/Community Center Parking Lot Lighting, and Electronic Readerboard Entrance Signs.* The budget also includes funds for normal annual purchases of *Transformers, Meters, Poles, and Street Lighting Fixtures for System Replacements, Storm Damage Repairs, and Substation Maintenance.*

Water Department

Water treatment and distribution activities are funded through the Water Fund (940), with revenues derived primarily from the sale of water. Some capital expenditures are also budgeted from the Water SDC - Reimbursement Fund (720), and the Water SDC - Improvement Fund (721). The total proposed Water Treatment budget is \$2,161,363, which is \$121,374 less than last year. This decrease is primarily due to last year’s “double-counting” the balances in the Water Reserve Fund (740) and 2006 Airport Water Debt Service Fund (380) which were closed and incorporated into the Water Fund. Those expenditures will continue to be accounted for individually, but will become items within the Water Fund as opposed to being maintained as separate Funds. Another significant difference is that last year’s budget anticipated the receipt of \$111,000 in grants for additional raw water storage feasibility studies, but those grants were not received and have been eliminated from the proposed budget.

100% of the Water Treatment Plant employee costs and 30% of the Public Works Department employee costs are allocated to the Water Department primarily for their work on the water distribution system. Since the economic slowdown has reduced the number of new utility connections being made, the Public Works employees have been increasingly utilized to undertake capital improvement and line replacement projects, decreasing the need to utilize outside contractors and keeping expenditures as low as possible.

With the continuing slowdown in building activity and home sales, water utility revenues are projected to remain relatively flat as they have been for the last three years. The last water rate

increase was in 2006, and no rate increase is being proposed for fiscal year 2011-2012. Unlike the electric and sewer utilities, there are no outstanding bonds which have rate covenants requiring the City to maintain rates at a particular level, so the water system is currently subject to the City Charter restriction which requires voter approval of utility rate increases. That will remain the case unless and until those Charter restrictions are repealed or declared invalid or unconstitutional. The financial condition of the water utility will continue to be monitored throughout the year to determine whether a rate increase is necessary, and a decision would be made at that time regarding if and when to place such a rate increase on the ballot.

No major CAPITAL Water projects are anticipated in fiscal year 2011-2012. The budget does include funds for normal annual purchase and replacement of *Meters*, *Service Lines*, and *Fire Hydrants*, as well as *Mapping Software Upgrades*. Funds continue to be carried forward in the Water Fund and Water SDC Funds as reserves for the City's participation in the Bandon Cranberry Water Control District's proposed *Johnson Creek Reservoir*, *Replacement of the Ohio Avenue SE Water Line*, and *Miscellaneous Water Projects*.

Sewer Department

Wastewater treatment and collection activities are funded through the Wastewater Fund (950), with revenues derived primarily from the wastewater treatment sales. Some capital expenditures are also budgeted from the Sewer SDC - Reimbursement Fund (730), and the Sewer SDC - Improvement Fund (731). The total proposed Wastewater Treatment budget is \$3,308,938, which is \$1,694,845 more than last year. Decreases resulted from last year's "double-counting" the balances in the Sewer Reserve Fund (533), 1992 Sewer Revenue Bond Fund (350) which were closed and incorporated into the Wastewater Fund. Those expenditures will continue to be accounted for individually, but will become items within the Wastewater Fund as opposed to being maintained as separate Funds. The reason for the large overall increase is the addition of a \$500,000 grant and a \$1,436,115 loan to finance a major capital improvement project which involves the installation of a sludge dewatering system at the wastewater treatment plant and reconstruction of the North Avenue pump station which is in serious need of repair. The sludge dewatering system will improve plant efficiency, help avoid potential permit violations, improve the ability to control odors, and reduce sludge hauling and disposal costs.

With the continuing slowdown in building activity and home sales, sewer utility revenues are projected to remain relatively flat as they have been for the last two years. The last sewer rate increase was in 2007. A 6% rate increase has been included in the proposed budget to generate sufficient funds for sewer system operation and maintenance, and to allow the City to meet the debt service obligation on the proposed \$1,436,115 loan without having to increase rates again next year when the loan payments begin. This is the ideal time to undertake this project, since the City has the opportunity to obtain a \$500,000 grant which may not be available in the future, and payments on the new loan are roughly the same as the existing revenue bond payments which will be retired at the same time payments on the new loan begin. The funds currently being allocated to bond payments can simply be rolled over and applied to the new loan payments. Another important consideration is that the City Council is currently able to set sewer rates to cover increased operation and maintenance costs, since the 1992 Sewer Revenue Bond financing agreement, which pre-dated the subject City Charter amendments, contains rate

covenants which require the City to maintain utility rates at a level which generates sufficient revenue to properly operate and maintain the sewer system, and meet the debt service obligation. However, those bonds will be paid off in 2013, after which those rate covenants will no longer be in effect, and the City Council will be required to obtain voter approval for future rate increases unless and until those Charter restrictions are repealed or declared invalid or unconstitutional.

100% of the wastewater treatment plant employee costs and 10% of the Public Works Department employee costs are allocated to the Sewer Department primarily for their work on the sewer collection system. Since the economic slowdown has reduced the number of new utility connections being made, the Public Works employees have been increasingly utilized to undertake capital improvement and line replacement projects, decreasing the need to utilize outside contractors and keeping expenditures as low as possible.

The CAPITAL budget includes funds for *Mainline Replacement on 11th Street SW* and *Mapping Software Upgrades*, as well as the previously discussed loan and grant for the proposed *Wastewater Treatment Plant Sludge Dewatering System* and reconstructing the *North Avenue Pump Station*. Reserves are also included in the Sewer SDC Funds future system expansion, upsizing, and *Inflow & Infiltration* repairs.

NON-DEPARTMENTAL EXPENDITURES

The expenditures described below are classified as “Non-Departmental Expenditures” since they are not allocated to any specific City Department.

General Fund (100)

The General Fund (100) contains \$306,444 in *NON-DEPARTMENTAL EXPENDITURES*, including a reserve for *Insurance Liability Risk Share* to pay a higher deductible which reduces the liability insurance premium; *External Insurance Payments* which are made on behalf of former employees who are able to continue their City health insurance coverage (the City is reimbursed for those payments by those former employees); *Other* unanticipated minor expenses; \$200,000 in *Miscellaneous Grants* to account for unanticipated grant awards; and \$18,283 in *Contingencies*.

State Revenue Sharing Fund (260)

State Revenue Sharing Fund money comes from the State of Oregon, and is a share of the State liquor revenues which is annually distributed to cities and towns. Unlike most municipalities, the City of Bandon has for the last several years not been utilizing all of its State Revenue Sharing funds for general operating purposes, but has instead annually contributed most of these funds to various local community service organizations, together with an occasional allocation for *Pothole & Street Repair*. For the last two years, the City has also been transferring some of this money into the General Fund to provide funds for the Police Department operations following the defeat of the previously proposed police levy. To help balance the General Fund budget last

year, the City was forced to make significant cuts to the amounts contributed to several local community service organizations. Due to the increased expenditures, the balance in the State Revenue Sharing Fund has been declining over the last three years to the point that virtually no *Beginning Balance* is left to be carried forward into the upcoming fiscal year.

Since the fate of the May 17, 2011 ballot measure extending the existing Local Option Street Tax has not yet been determined, the proposed budget recommends initially earmarking all State Revenue Sharing funds for *Pothole & Street Repair*. This would not be enough money to make up the shortfall, but would provide some help in addressing the critical shortage in funds for street and sidewalk improvements which would result if the Local Option Street Tax is not continued. If the Local Option Street Tax extension is approved, the need for utilizing the State Revenue Sharing funds for streets would not be as great, which would allow that money to be reallocated to the various community service organizations which it is anticipated will be requesting some of those funds.

Block Grant Fund (410)

The Block Grant Fund (410) includes \$20,000 for *Materials & Services*, \$68,196 as a reserve for future *Capital Improvements*, and \$100,000 for *Loans To Small Businesses*. These funds primarily serve as a resource for loaning money to other City Funds and for small business start-up, equipment, and construction loans. Capital improvements loans were made by the Block Grant Fund, and are being repaid by Urban Renewal Area #2, to help pay for construction of the new Library and the Barn/Community Center renovation project. Small Business Loans are available in any amount up to \$30,000, for a period up to 15 years, at a fixed interest rate of 1% less than the fixed rate for a 15 year single-family residential mortgage at a local lending institution. Numerous loans have been made to local businesses over the last several years, and there are currently three active loans which are being repaid.

Capital Improvement Fund (510)

The Capital Improvement Fund (510) contains \$227,512 in *NON-DEPARTMENTAL EXPENDITURES*, including \$203,432 as a reserve for future *Land Purchases*, which has been tentatively earmarked for acquiring additional land in the watershed, and \$24,080 in unspecified *Miscellaneous Capital Projects* which have not been earmarked for any specific projects.

Equipment Reserve Fund (520)

The Equipment Reserve Fund (520) contains \$52,829 in *NON-DEPARTMENTAL EXPENDITURES*, as a reserve for *Miscellaneous Equipment & Fixtures* which can be used in any department for unanticipated equipment purchases.

Local Improvement District Fund (640)

The entire Local Improvement District Fund (640) budget of \$2,336,123 is classified as a *NON-DEPARTMENTAL EXPENDITURE* since local improvement districts (LIDs) can be formed for various infrastructure improvement projects in any Department. The budget includes an allowance for principal & interest on the interim financing (bond anticipation notes), principal & interest on the construction financing, engineering, and bond sale expenses necessary to undertake \$1,000,000 in LID projects.

DEBT SERVICE FUNDS

The City is currently making payments on 10 existing bonds and loans. The type, purpose, annual payments, final years, and remaining balances are outlined on the following table. The 2002 Street Tax Bond (345), which was used to pave all of the streets in Bandon, has now been repaid using the proceeds of the Local Option Street Tax. Utility Revenue Bonds, which are paid through utility rates, are included within the individual Electric (910), Water (940), and Sewer (950) Funds. General Obligation (GO) Bonds, which are repaid through property tax assessments, are included in the Debt Service Fund (365). Local Improvement District (LID) Bonds, which are paid through assessments against the benefitted private properties, each have their own individual LID Funds (633, 634, and 635). Once all of fiscal year 2010-11 payments have been made, the outstanding principal balance on the City's total debt as of July 1, 2011 will be \$5,674,799, which is \$788,647 less than last year. The table below lists each of the City's outstanding bonds and loans, together with the type of financing, the purpose, annual payments, final payment year, and remaining balance as of July 1, 2011.

Fund	Type of Financing	Purpose	FY 2011-12 Payment	Final Year	07/01/11 Balance
345	2002 Street Tax Bond	Street Paving	\$ 0	2012	\$ 0
365(343)	2000 RD Water GO Bond	New Water Plant	\$165,768	2040	\$2,699,566
365(344)	2000 SDWA GO Bond	New Water Plant	\$ 37,183	2020	\$ 274,961
365(360)	1991 Sewer GO Bond	Wastewater Plant	\$100,520	2013	\$ 192,000
365(375)	2006 Water GO Bond	Clarifier & UV	\$ 63,900	2034	\$ 877,777**
910(370)	1994 Electric Rev Bond	2-Mile Substation	\$ 79,700	2014	\$ 210,000*
940(380)	2006 Airport Utility Loan	Water	\$ 50,805	2030	\$ 648,208*
950(350)	1992 Sewer Rev/GO Bond	Wastewater Plant	\$104,721	2013	\$ 200,376*
633	2000 Street & Sewer LID	Local Imp. District	\$ 3,963	2023	\$ 56,743***
634	2001 Bandon Ave LID	Local Imp. District	\$ 1,623	2017	\$ 18,004***
635	2004 Hwy 101 Sewer LID	Local Imp. District	\$ 35,431	2034	\$ 497,164***
TOTALS			\$ 643,614		\$5,674,799

* No property taxes are assessed for these bonds. The 1992 Sewer Bonds are paid from sewer revenues and Urban Renewal; the 1994 Electric Revenue Bonds are paid from electric revenues; and the 2006 Airport Water & Sewer Bonds are paid by private property owners (68%) and Water SDCs (32%).

** 42% of the 2006 Water GO Bond debt is paid with Water SDCs.

*** No public funds or property taxes are used to pay LID bonds. Payments are made through assessments against the private properties within the district.

PROPERTY TAX RATES

The City's permanent property tax rate remains unchanged at \$.46 per \$1,000 assessed valuation. With the Local Option Street Levy at \$.84 per \$1,000 assessed valuation, and with \$.84 per \$1,000 assessed valuation levied for general obligation bond repayments, Bandon's total fiscal year 2010-2011 property tax rate was \$2.14 per \$1,000 assessed valuation. The Local Option Street Tax remained in effect, so the Urban Renewal Special Levy was again not imposed. If the voters approve continuing the Local Option Street Tax, then the property tax rate for fiscal year 2011-2012 will remain at its current level. If the Local Option Street Tax is not approved by the voters and the Urban Renewal Agency exercises their option to impose the Urban Renewal Special Levy at the maximum allowable amount of \$1.02 per \$1,000 assessed valuation, then the total property tax rate would increase by \$.18 per \$1,000 assessed valuation.

For comparison, the FY 2009-2010 property tax rates for all cities in Coos County are shown in the table below.

CITY	Permanent Rate (Inside M5)	Local Option Tax (Inside M5)	Bonds (Outside M5)	Urban Renewal Special Levy	TOTAL
Myrtle Point	7.99		.26		8.25
Powers	7.39				7.39
Coos Bay	6.36		.64		7.00
North Bend	6.18		.03	.29	6.50
Coquille	6.10				6.10
Bandon	.46	.84	.84		2.14
w/UR Sp.Levy	.46		.84	1.02	2.32
Lakeside					0

INTEREST ON INVESTMENTS

The City’s cash is currently invested in the Oregon State Treasury’s Local Government Investment Pool (LGIP), from which it is periodically transferred into the City’s local checking account for monthly payroll and accounts payable expenditures. The amount of interest earned depends on the interest rates being applied to the total amount of cash being maintained on deposit. As shown in the table below, interest earnings have been dropping for several years, and declined drastically over the last two years. The annual rate in February 2011 was down to 0.5%. Interest payments are allocated monthly to each Fund, based on the proportionate share of the total cash balance.

<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
\$203,792	\$145,808	\$ 81,568	\$108,273	\$204,692	\$338,332	\$354,302	\$218,695	\$ 52,738

CONCLUSIONS AND FUTURE OUTLOOK

Based on the revenue and expenditure projections in the proposed fiscal year 2011-2012 budget, it appears that the City of Bandon will be able to continue functioning at its current staffing and service levels for the upcoming fiscal year. However, several critical financial issues will have to be addressed within the next couple of years if the City is going to be able to continue providing adequate public services and facilities to meet the needs of its citizens.

Water, Sewer, and Electric Utilities

The most significant long term fiscal challenge will be to ensure the continued financial viability of the municipal water, sewer, and electric utility systems, and thereby provide a financial basis for all other public services.

Unlike most other cities whose budgets are based heavily on property taxes, Bandon basically functions as a utility company which provides certain additional spin-off services such as police protection, fire protection, street maintenance, planning, and parks & recreation. Revenues are primarily generated by the electric, water, and sewer utilities, either directly through utility sales or indirectly through taxes and in-lieu taxes on those sales. At only \$.46 per \$1,000 assessed valuation, the City of Bandon's permanent property tax rate is extremely low compared to other full-service cities in the County, whose rates range from \$6.10 to \$7.99. The City's ability to provide essential public services therefore relies upon the overall health of its water, sewer, and electric enterprises.

The main issue with water, sewer, and electric utility revenues revolves around the City Charter amendments which limit the ability of the City Council to increase utility rates except with voter approval. The national economic downturn and the attendant housing market slowdown have significantly impacted utility revenues which are heavily dependent on population growth and a healthy tourist economy. In recent years, a significant amount of the City's revenues for water and sewer capital projects and reserves has been system development charges (SDC's), but these have also been negatively impacted by the slow economy. The proposed fiscal year 2010-2011 budget projects relatively flat sales revenues for the electric, water, and sewer utilities, and only minimum SDC revenues.

The City Council is currently able to set electric and sewer rates, since bond and loan agreements which pre-dated the subject City Charter amendments contain covenants which require the City to maintain utility rates at a level which generates sufficient revenue to properly operate and maintain the electric and sewer system, and meet the debt service obligation. However, those bonds will be paid off in 2013 and 2014, which will negate those requirements. No such covenants exist for the water utility.

It is critical that, as soon as possible, the City determines whether there are any statutory or constitutional provisions which would allow the City Council to set utility rates in spite of the City Charter rate setting limitations, and/or what options may exist with respect to securing

permanent rate setting authority. If it is determined that the City Council can increase utility rates without an amendment to the City Charter, then the City could continue its past practice of instituting smaller increases more frequently to keep the retail rates as stable as possible. If it is determined that a Charter amendment will be necessary to grant authority to the City Council to increase utility rates, then it is recommended that the amendment be placed before the voters at or prior to the November 2011 election. This would ensure that the decision will be known prior to preparing the fiscal year 2012-2013 budget, since the sewer revenue bonds will be paid off on June 1, 2013. If the measure is approved, the City Council could exercise their rate-setting authority in a manner which would ensure the lowest possible impact on the utility customers. If not approved, it is recommended that the City include the maximum possible utility rate increases in the fiscal year 2012-2013 budget, to ensure continued operation of the utilities as long as possible. Subsequent utility rate increases would then have to be taken to the voters each and every time, until proper rate-setting authority could be secured by the City Council.

Police Protection

Another critical issue is the matter of securing enough funding to provide adequate 24-hour police protection. The Police Department is funded almost entirely by the General Fund, and with declining revenues and increasing costs, funding police protection is becoming more difficult. Over 71% of fiscal year 2011-2012 General Fund budgeted revenues which are not legally restricted to other uses are allocated to police protection. The Police Department budget now consumes over 100% of the total projected receipts from property taxes, transient occupancy taxes, and utility sales taxes combined. The actual General Fund costs are even more than that, since those figures do not include the cost of administration, finance (payroll, accounting, and auditing), and City Hall building maintenance expenses.

Since the police levy taken to the voters in 2009 and 2010 did not pass, the City has only been able to maintain a force of six uniformed officers by making a number of budget adjustments, including depositing 100% of the utility tax revenues into the General Fund instead of replenishing Capital Improvement and Equipment Reserve Funds, eliminating 4.5 full-time-equivalent positions, moving 100% of the landscaping maintenance contractual services into the Beautification Fund, eliminating funding for the 4th of July fireworks show, reallocating the expenses of one of the City Planners as an administrative expense so 75% of those costs are charged to the utilities, and moving the Administrative Assistant position into the Finance Department where 90% of those costs are charged to the utilities. Although these adjustments will enable the City to continue providing 24-hour police protection for a short period, proper budgeting and financial management, the City's financial health, and public safety will eventually depend on identifying another resource to fund the Police Department or reducing the number of uniformed police officers. If the situation becomes critical enough, perhaps enough community support can be gained to pass a police levy at some point in the future.

Another option for police funding would be to proceed with increasing the transient occupancy tax (TOT) and dedicate all or some of those funds for police protection. Under current State statutes, 70% of any new TOT revenues must be spent on "tourism promotion," leaving only 30% for other municipal purposes. Proposed legislation is currently before the State Legislature in the 2011 session which would remove those restrictions and allow the City to spend its public TOT revenues as seen fit by the community through their elected officials instead of being regulated by the State. It is therefore recommended that the City wait until the fate of this legislation has been determined before taking this proposal to the voters. If the restrictions are lifted, then the City could generate sufficient police revenue with a relatively small TOT increase. If the restrictions are not lifted, then a much larger TOT tax would have to be taken to the voters. Although this would mean a higher tax for overnight tourist visitors, it would have the added benefit of not only generating funds for police protection, but would also raise generate a significant amount of additional tourism promotion funds which would be helpful for the City's tourism based economy. In either case, the voters may be willing to impose additional taxes which would be paid by the tourists who visit Bandon to help offset the cost of providing them with services, in the same way Bandon residents help fund local services in other cities and states through the taxes they have to pay as tourist visitors to those areas. When the City Council previously considered increasing the TOT to provide funding for the Police Department and tourism promotion, the local lodging businesses indicated they would prefer a local option police levy, and indicated that they would work to promote its passage, but those efforts were not successful. The lodging industry representatives also indicted they would be developing a recommendation for an alternative means of providing the needed funding in a manner which they felt would more equitably distribute those costs. To date, however, no such proposal has been forthcoming.

Streets, Drainage, and Pedestrian Facilities

Another significant financial challenge facing the City is continuing to provide adequate funds for maintaining the streets, drainage systems, and pedestrian facilities.

State Tax Street Fund revenues have been increasing slightly for the last several years, while costs continue to rise even more. It has now reached the point where those funds are barely sufficient to pay the Street Department labor costs, with very little left for materials, supplies, or capital purchases. With the demands placed on the budget by the Police Department, the General Fund is able to contribute only a relatively small amount for street maintenance materials and supplies. Although street and storm drainage SDC funds are available, their use is restricted to projects specified in the SDC Plan and for projects associated with capacity building to meet the demands placed on the street and drainage systems by future growth. With the overall downturn in the national economy, together with the slowdown in the housing market, SDC revenues have dropped significantly. This is expected to continue until the economy improves.

The largest single resource for street, drainage, and pedestrian facilities has been the Local Option Street Tax Fund, which receives its revenue from a local option street tax in the amount of \$.8455 per \$1,000 assessed valuation which was approved by the voters in 2001. The funds have been used to pave all of the City's gravel streets, overlay substandard streets, and

improve pedestrian facilities throughout Bandon. To impose the street tax in a manner which would not increase property tax rates, the Bandon Urban Renewal Agency amended the Urban Renewal plans to specify that the Urban Renewal special levy, which was being imposed at that same \$.8455 rate, would not be levied in any years during which an equivalent street tax was in effect. That allowed the funds to be used for streets and pedestrian facilities throughout Bandon, as opposed to being limited to use only within the Urban Renewal areas. The levy was imposed for a period of 10 years, which is the maximum length a local option capital tax is allowed by State statutes, so it will expire after the current fiscal year 2010-2011.

The City Council placed on the May 17, 2011 ballot a measure to renew the same \$.8455 local option street tax for another 10 years. If it is passed, it will provide the funding necessary to continue improving and maintaining the City's streets and pedestrian facilities without increasing the property tax rate. It would also extend the prohibition against the Urban Renewal Agency re-instituting the Urban Renewal special levy, since the amendment to the Urban Renewal Plans prohibits a special levy from being imposed as long as the local option street tax is in effect. If the Local Option Street Tax is not extended, the Urban Renewal Agency would have the authority to impose a Special Levy of up to \$1.02 per \$1,000 assessed valuation. If it was imposed at that level, defeating the \$.8455 local option street tax would actually result in a tax increase. Another advantage of placing the matter before the voters at this time is that, as an extension of an existing tax, State statutes require the ballot question to include the statement, "This measure renews current local option taxes." In any subsequent year, it would be considered a new tax, and State statutes would require the ballot to include the statement, "This measure may cause property taxes to increase more than three percent."

If the extension of the local option street tax is approved by the voters, it is projected that the average annual combined General Fund, State street tax, and local option street tax revenues over the next 10 years would be in the range of \$622,244 each year for general street, drainage, and sidewalk maintenance and improvements. (These projections do not include SDC funds, since that money cannot be used for general street maintenance, but must be used as specified in the SDC Plan for capital projects associated with capacity building to meet the demands placed on the street and drainage systems by future growth.) If the local option street tax extension is not passed, removing that \$338,175 each year would mean an average annual reduction of approximately 54% in the overall amount of money available for general street, drainage, and sidewalk maintenance and improvements. As shown in the State Revenue Sharing Fund budget, and discussed in that section of the Budget Message, it is being recommended that those funds be utilized as a backup resource for street maintenance in case the proposed local option street tax extension is not passed.

Parks & Recreation

The Parks Master Plan contains numerous recommendations regarding improvements to City Park, development of additional neighborhood and wayside parks, and an extensive walking trail system. Parks maintenance has historically been primarily funded through the General Fund, where it has had to compete for the same funds as police, fire, and planning. Capital improvement funding has been provided from the Parks and Recreation Development Fund, which received its money from a 6% fee assessed against some subdivisions in lieu of park

land dedication, and an annual \$10,000 transfer from the Capital Improvement Fund. With police and fire protection utilizing more and more of the General Fund, with virtually no new subdivisions taking place or planned, and with the Capital Improvement Fund almost out of money, funding parks and recreation maintenance and development is only going to get more and more difficult.

One of the major concerns expressed by the Parks & Recreation Commission is not only finding funds for constructing recreational facilities such as parks and walking trails, but more importantly how to finance their ongoing operation and maintenance once they have been built. At the Commission's recommendation, a proposed \$2 per month electric utility bill surcharge was placed on the ballot for the March 10, 2009 election. The measure, however, was soundly defeated. It is recommended that, at such time as the City Council feels voter approval could be secured, the matter of a parks and recreation maintenance fee be placed back on the ballot for consideration by the voters. Until that or some other funding resource is secured, funding parks and recreation facilities operation, and maintenance is going to become more and more difficult.

A recreational facility which is currently being proposed by a group of citizens is a swimming pool, to be located on property owned by the Bandon School District. This is envisioned as being owned and operated by a private non-profit 501(c)3 organization, the Bandon Community Swimming Pool Development Corporation. Information from other cities indicates that pools such as the one proposed cannot operate on fees generated for their use, and must be subsidized through taxes or some other resource. It is also understood that the Bandon Community Swimming Pool Development Corporation does not intend to seek voter approval for a construction bond or operating levy. Therefore, given the current and projected shortage of funds for parks and recreation facilities maintenance, and considering the experiences and costs in other cities, it is recommended that the City not become in any way involved in the proposed swimming pool project. It is further recommended that the City take any and all actions necessary to avoid even the possibility that swimming pool construction, operation, and/or maintenance could become the responsibility of the City in the future.

Based on the Capital Improvement Plan prepared by the Parks & Recreation Commission, the City Engineer will be preparing a Parks System Development Charge (SDC) Plan, which will determine the appropriate level of Parks SDC's to ensure that future developers and builders for their fair share of parks development costs. However, unless and until building activity picks up, Parks SDC's will not generate any significant revenue. It is recommended that the matter of Parks SDC's be placed on the ballot once the City Engineer has completed the Parks SDC Plan.

The most promising resource for parks and recreation facilities construction is Urban Renewal. The Plans for Urban Renewal Areas 1 and 2 are currently in the process of being amended. While the Area 1 Plan will primarily involve extending the life of the District and making economic development improvements in the Woolen Mill area, the Area 2 Plan primarily involves amending the project list. The Parks & Recreation Commission has been involved in this process, and prepared a list of priority projects involving City Park improvements and constructing walking trails in those areas within the Area boundaries along the ocean bluff and

Beach Loop Drive. As discussed in the Urban Renewal Budget Message, the amount and timing of funding will depend on whether or not the Local Option Street Tax ballot measure is passed, which will in turn determine whether or not the Urban Renewal Agency can impose a special levy to collect more money for capital improvement projects.

Capital Improvement Fund Reserves

Until FY 2006-2007 the City allocated 70% of the annual utility tax receipts to the General Fund (100), with the balance distributed 27% to the Capital Improvement Fund and 3% to the Equipment Reserve Fund. That money was then used to undertake various capital improvement projects and equipment purchases for projects that had no other funding resources. In FY 2006-2007, as explained in that year's Budget Message, "*Due to increasing Police Department expenses, and the need to subsidize the Water Department, the 27% share of utility taxes normally allocated to the Capital Improvement Fund are instead being deposited into the General Fund this year.*" The same thing was done to the Equipment Reserve Fund. That year's Budget Message concluded with a recommendation "*that the matter of a Police Operating Levy be placed on the ballot.*" Since the utility tax was the only long-term source of money for these capital Funds, those balances have been steadily declining ever since.

In November 2006, the voters approved a water rate increase which eliminated the need for water system subsidies, but in November 2009 and May 2010 the voters defeated a proposed police operating levy. Last year's Budget message anticipated passage of the Police Levy which would have allowed the City "*to end subsidizing the Police Department with funds which should properly be deposited into the Capital Improvement Fund and Equipment Reserve Fund.*" Since the Police Levy did not pass, it was not possible to transfer money into those funds last year, and the proposed fiscal year 2011-2012 budget anticipates continuing to subsidize the Police Department with funds which should properly be placed in capital reserves for future needs. Some of the capital projects which have been delayed include *Ohio Avenue SE Hillside Stabilization* where the land is sliding into Ferry Creek, purchasing a *Backhoe* to replace the existing one which is so old that some parts are unavailable, and undertaking additional work on the City's new *Shop Site*, so those facilities could be moved to the City's property on 13th Street SE and out of the floodplain and tsunami inundation zone.

The City's Capital Improvement Fund reserves have now been virtually completely depleted, and the balance is so low that the only significant amount left is \$203,432 which was derived from prior years sales of City properties, and which has been reserved for *Land Purchase* and tentatively earmarked for purchasing additional land in the watershed to protect the City's water supply. The remaining balance includes \$24,080, which is all that is left for *Capital Projects* reserves, and \$10,000 for the annual transfer into the Parks and Recreation Development Fund. This is the main resource for city-wide parks and recreation facility improvement, but unless another source can be identified, it is likely that this will be the last year such a transfer will be possible.

Hopefully, at some point, the City will be able to secure voter approval for a Police Levy or Transient Occupancy Tax increase, or identify some other resource, which will provide the General Fund revenues necessary to end the Capital Improvement Fund subsidies of the

Police Department and allow a portion of the utility taxes to be again deposited into the Capital Improvement and Equipment Reserve Funds. If this fails, another option would be to reduce the number of police officers.