

The City of Bend Budget Committee Meeting was called to order at 5:16 P.M. in the City Council Chambers, 710 NW Wall Street. Present were Budget Committee Members Mark Capell, Jodie Barram, Doug Knight, Scott Ramsay, Victor Chudowsky, Sally Russell, Peter Werner, A.J. Tyvand, Dennis Huserik, Jade Mayer, David White and Bill Wagner. Committee Members Jim Clinton and James Lewis were absent.

Introduction / Elect Budget Committee Chair and Co- Chair

City Manager Eric King gave brief introductory remarks and thanked everyone for attending the meeting. He reminded the committee that there is a vacancy for chair and co-chair. He stated that it is preferred that a citizen member act as chair.

Member Mayer expressed his willingness to act as chair but because he will miss the May budget deliberations due to vacation, he doesn't think it would be appropriate.

Member Capell nominated Member Tyvand as chair. Member Mayer nominated Member Werner as co-chair. The Committee was in agreement with the nominations.

Mr. King said the Budget Committee will be focusing on the General Fund with the goal of keeping 20% in reserves. Mr. King and Finance Director Sonia Andrews met with Department Heads to create proposals for some additional funds for Police, Streets and Fire in an attempt to preserve service levels

Ms. Andrews reviewed the *General Fund 5 Year Projections* handout. The revenue projections are stronger but still can't fund each department's needs. The following changes were made to the proposed budget that was presented at the January 25, 2013, Financial Retreat: The proposed Street Division budget was reduced from \$5 million a year to \$2.3 million. The Police and Fire Department's reduced their request for 3 hires to 2 each. However, these are still preliminary numbers that may be changed when the budget is brought before the Committee in May.

Chair Tyvand asked for a brief explanation on the process used to determine these reductions. Mr. King said he and Ms. Andrews equally distributed the additional resources to Street's, Fire and Police and then reviewed it with the management team.

General Fund Allocations **- Staff report**

- Budget committee discussion and approval

Member Wagner asked what the reduction means for the pavement condition index (PCI) for Streets. Street Manager Hardy Hanson explained what the impact will be to the PCI. The proposed workload is to grind and inlay 3rd Street which will use all \$500,000. It will allow the City to stay at 68 or 69 PCI but will drop 1% each year, to a 65 PCI which is a D+.

Member Capell asked what other sources of funding Street's receives. Mr. Hanson said Streets receives \$770,000 from the Metropolitan Planning Organization (MPO) which is earmarked for paving to repair streets. The majority of that money is contracted out. They also receive \$500,000 in franchise fees from garbage. This fluctuates based mostly on construction since they generate more waste.

The *2013 Street Division Pavement Preservation* map was presented. Mr. Hanson said Street's was hopeful that the SE interceptor would help fund paving restoration on 27th Street. With the stall of the SE Interceptor, there isn't adequate funding to repave 27th Street. Other failed street locations were noted.

Member Barram asked if any of these treatments also overlap with needed accessibility work. Mr. King said that anything noted in blue will also include curb ramps. The Brookwood, from Reed Market to the City boundary, overlay will be curb-to-curb which means ramps will be included.

Member Knight clarified that most improvements will be on collector and arterials and asked if local roads had been discussed. Mr. Hanson said there is a program for local streets but it has very limited funding. Residential roads are a big issue but are used far less and deteriorate much slower than arterials and collectors. The PCI referenced covers all roads.

Member Knight noted the dirt streets on the west side. He would like to see a reserve fund set up to address this with the goal of having a complete grid street network. Mr. Hanson would like to see this happen but it is beyond maintenance. Currently, the only option is an LID.

Mr. King said it's important to understand that streets are a big and growing problem that needs a robust solution. The Committee needs to stay focused on this problem. Some options include instituting a gas tax or transportation utility fee (TUF).

Member Mayer said what seems to be lacking is a long term plan for funding and asked what is in place. Mr. King said that Council has been discussing creating a separate fire district which would free up some general fund money for Street's and Police. Some

options are a local option levy, TUF, gas tax, etc. but it takes political will to further the discussion. Member Mayer urged Council to look at long term solutions for streets.

Member Capell said it's a revenue problem because the cuts have already been made. The question is whether the Council will have to will to do this. It needs to be done. Another option, which Medford chose, was a public safety utility fee that was added to the utility bill.

Member Mayer believes that citizens will vote for streets before water and sewer because they are seen and driven on daily.

Member Wagner asked what it would take to hold at 69 PCI in each of the 5 years. Mr. King said \$5 million every year.

Member Capell asked what the \$4 per month Stormwater fee brings in a year. It brings in \$2.5 million per year.

Member Chudowsky asked what the relationship is between the five proposed Street hires and the reduction of funding. The request was scaled back to two hires, one each year. Mr. King explained that the reason for the two employees is that when street repairs are deferred, there is more maintenance needs with pothole patching, crack sealing, etc.

Police Chief Jeff Sale discussed how the Police Department is trying to be proactive in violent crime. These two new hires allow them to focus on violent crime level and the collision picture within the city. However, new hires for Police take approximately 1 year before they are viable employees due to the required training.

Member Russell asked about overtime policies and mental health changes. She asked if any of the assumptions have been included in the discussion. Chief Sale said not at this point because they're still in negotiations. The Department is predicting savings but there are a lot of variables that have to be in place first that are out of their control.

The Police Department is applying for a grant to hire a mental health crisis intervention coordinator. The challenge is how they coordinate all these different services that are tied to more than just response.

Fire Chief Larry Huhn explained what their two new positions would be used for. The Fire Department is down 11 positions over the past 5 years. Adding back 2 FTE's is building a more sustainable staffing level to provide an opportunity to mitigate some of their overtime and look at different deployment options; however, the details will be the new chief's decision.

Revenues

- Staff report on projections of major revenues

Ms. Andrews explained the *Projections of Major Revenues* handout. Water and sewer fees and charges are not included because they are still being fine-tuned with what is needed. Property taxes are the City's largest revenue source.

Member White clarified that property taxes are driven by assessed values and not dependent on more people moving to Bend. Mr. King explained that it is restricted by State law to 3% of tax assessed value as long as it's below real market value. Ms. Andrews explained that when that happens, the real market becomes the tax assessed value. Currently, 50% of the city's accounts are below. Mr. King said that as the market recovers and 50% is below tax assessed value, there is a lot of volatility in projecting the number.

Ms. Andrews noted that there was a lot of building in 2012 and it is continuing. However, the biggest driver is the increase of value rather than the increase in construction. The whole city's tax assessed value is \$8.2 billion. For new construction in FY13/14, the County assessor projected \$200 million.

Member Wagner asked the difference between projections and year end estimate. Ms. Andrews said it's what we've collected to date and what we project for the rest of the year.

Member Capell said it looks like we'll bring in \$900,000 more in current property taxes versus delinquent taxes than what was projected. He asked where the money will go.

Member Mayer clarified that it's noted in the *General Fund 5 Year Projections (Preliminary Draft)*. Ms. Andrews said that in May when the Committee reviews the budget fund by fund, she'll show where the revenues go.

Ms. Andrews also said we can only assess the amount we have in debt service which is \$1.8 million in FY13/14 which is \$.23/thousands of assessed value. This is lower than the \$.27/thousands initially anticipated.

The only urban renewal taxes remaining are Juniper Ridge and Murphy Crossing.

Member White asked how much Walmart contributed to urban renewal dollars. Budget Manager Sharon Wojda said the Walmart expansion is expected to generate approximately \$82,000 in property tax revenues.

Ms. Wojda said for Murphy Crossing, the value on just the improvements was \$6.8 million and 87% of that was used on assessed value.

Room taxes are split 70% to the General Fund and 30% to the Tourism Fund. There will be an increase due to the new Hampton Inn Hotel in Old Mill. Member Capell said the increase assumes that the hotel created new customers rather than moving them from one hotel to another. Ms. Andrews agreed. Mr. King said there has been an annual 6% growth in room tax for the last 10 years.

Ms. Andrews said that franchise fees are lower than were projected due to a 19% rate reduction from Cascade Natural Gas. For the 2013-15 biennium, staff is proposing that 50% of the 3% water/sewer franchise fees that Transportation Construction receives be reallocated to Accessibility Construction to complete high priority curb ramps.

The Medicare reimbursement rates will be reduced to 41.6% and then 39.6%. Member Chudowsky asked if this is the same Medicare reimbursement rate that is discussed and never happens. Chief Huhn said that they're often threatened with reduced rates and it hasn't happened to the level they say it will be. However, it's important to budget for it in the event that it does happen. Member Chudowsky said he would be surprised if it actually happens.

- Staff report on court fines

Ms. Andrews explained that several years ago, the State enacted a \$45 per ticket fee that the City could keep. Two years ago, the State took this away. In January 2012, the legislature changed the base fine amount and the judge is now allowed to reduce fines by up to 50%. The combination of these things is reducing court revenue by approximately \$500,000. This will be discussed further with Council in a future work session.

Chair Tyvand asked if Bend has more judge reductions than other cities. Mr. King said it's dependent on the judge; however, Council can provide some direction on how much the judge reduces tickets. Member Capell said he sees this as a huge opportunity.

Member Huserik asked how the City becomes aware of grant opportunities. Mr. King said there are a number of ways which include the senator's office and the state providing publications on upcoming grants. Ms. Andrews said that a lot of grant programs are already established that the City continues to reapply for. There are also new opportunities the City applies for.

Member Knight commented about the Cascade Natural Gas decrease. He said he was trying to protect the City from surprise decreases but understands that by nature, it is difficult to do so.

- Staff report on Community Development Department (CDD) revenues.Planning fees

- Budget committee discussion and approval of projections

Ms. Wojda explained where the projections for CDD came from. Planning and Engineering revenues are based on projections in commercial development and population. Building is based on residential with some commercial. Community Development Director Mel Oberst stated that the type of activity and complexity is also factored in. Ms. Wojda said the housing starts in Bend are used to compare to the State forecast on housing starts. Mr. Oberst said that the current year is projected conservatively.

Chair Tyvand asked if there's any way to determine if these are new projects or people that just postponed development. Mr. Oberst said that some of it is previous development extensions; however, that program is no longer available.

Mr. Oberst explained the realization of an issue in fee structure. CDD is working towards changing from an increasing block rate structure to a decreasing block rate structure.

- Building fees and permits

Assistant City Manager Jon Skidmore reviewed the *General Fund/Fee Split Comparison* handout comparing Bend to Ashland, Gresham, Hillsboro and Medford. Getting more routine challenges on the long range planning and general services might not be directly tied to the permit. In 2009, a group was hired to review the City's fee structure. They analyzed the appropriate recovery fee for long range planning. In practice, this recovery hasn't worked out because of the high volume of long range planning activity with a low amount of revenue coming in to fund it. The question is does Council want to fund Long Range Planning? The Worthy Brewing Co. was used as an example of how much permits cost. They paid \$250,000 in permits before they even started building. If long range planning is going to be a priority, there needs to be a better revenue source.

Member Capell said he understood the logic but said the challenge is funding the work without charging the existing fees. He asked staff for suggestions.

Mr. King said there is some room in the General Fund to show movement in that direction; however, this is a much longer term problem that will have to be dealt with.

Council has made some changes in permit fees being reduced with General Fund money going towards planning.

Co-chair Werner asked if there is a land use attorney in town that has raised this issue. City Attorney Mary Winters explained that the definition of permit in the statute has a fairly narrow definition, which explicitly excludes, limited land use decisions which is majority of the decisions that CDD performs. She feels that the City is not vulnerable in court under the statutory language but would rather not fight this in court.

Member Knight asked if there are other cities in the state with the same fee structure that we have. Mr. Oberst wasn't aware of any.

Member Capell stated that discussions had occurred with developers on how fast they wanted permits back and how much they were willing to pay for them. During the boom, they were willing to pay more.

Mr. Skidmore said that one of the BEDAB sub-committees is discussing this issue and staff is looking internally to make sure that what we're doing makes sense and is recoverable.

Mr. Oberst said that the development community wants to pay a fair fee. The equity question is should we also be charging the mom and pop's that come in to ask about a fence.

Member Chudowsky asked how much money is being discussed. Mr. King said that calculations weren't brought to the Committee because they wanted their feedback on what direction to take.

Member Capell clarified that funding for long range planning is what is being discussed and confirmed that 14% of planning fees go to long range planning and 20% go to general services that are not associated to a permit and fee. To completely fund long range planning, \$800,000 would be needed. Approximately \$300,000 from the General Fund would be needed for planning.

Member Wagner stated that the majority of the work of long range planning impacts the entire community.

Member Capell asked for staff's recommendation on what is fair. Mr. King said that staff can determine the fair amount in dollars but it's the Committee's responsibility from a policy level. Staff will put together some scenarios but the Committee needs to determine if they're coming up with another revenue source and determine what is "fair".

Member Knight said it's dependent on what the policy is. With Bend being sustainable, maybe citizens want development to pay for all costs.

Member Ramsay expressed his concern with being the only community in the State that is structured this way.

Member Barram wants to see costs recovered for the actual not the average. Mr. Oberst said that building reserves is also a goal for the Department.

Member Russell said it's important to recognize that our tax rate is lower than other cities. When comparing to other cities, we need to understand the details so we're comparing apples to apples.

Member Capell said that revenue needs to be addressed.

Member Ramsay said that Bend's tax rate isn't lower than Redmond's when you factor in taxes for their Parks Department, etc.

Mr. King said that staff will discuss this again at a Council work session as well as the May budget meetings.

Break

The meeting resumed at 7:23 p.m.

Capital Improvement Plans

- Staff report on "pay-as-you-go" vs bond financing

Ms. Andrews explained how capital projects are paid for. She reviewed the "*Pay-As-You-Go*" Vs. *Bond Financing* handout and said it depends on the following:

- Size of project
- Timing of project need
- Financial condition of system
- Legal and political considerations
- Other considerations - under some circumstances, it may be impractical or fiscally unwise to "pay-as-you-go" or to borrow.

A simple "pay-as-you-go" vs. bonding scenario was reviewed.

Member Chudowsky asked why a bond for an upcoming project couldn't be floated over 30 years. Ms. Andrews said there are bonding laws that require 80% of monies to be spent within 3 years. Member Chudowsky clarified that for a longer project, it would be broken into smaller pieces before issuing debt. Mr. King said we don't typically issue debt until rates have been increased to cover the project.

Member Chudowsky asked for clarification on how a capital improvement project can be considered maintenance. Ms. Andrews said street overlays, Police vehicles, and Public Works equipment is considered reoccurring, operational or maintenance in general. Member Chudowsky asked if this was an option for streets maintenance. Mr. King said yes, but we would have to be careful because of debt service costs. However, Council may want to take advantage of the low interest rates that are currently available.

Member Wagner said this could be used with a utility fee. It makes sense to use the money up front for street maintenance versus allowing the streets to deteriorate.

Ms. Andrews said that some communities issue debt and repay it with highway gas tax. It would go against the General Fund debt burden. There is \$50 million in full faith and credit debt that is tied to the General Fund.

Member Knight asked for an explanation on the process for issuing debt. Ms. Andrews said the City uses Weston Financial group and also works with the City's financial advisor. Council has final approval.

Member Russell questioned how much rates would have to be raised to address all the infrastructure needs. Mr. King said he is proposing a 0% rate increase for Water in July until there's more clarity in desired treatment. However, Sewer rates would need to be raised for any permanent, long term solutions.

Member Huserik asked if cash is being built to do anything. Mr. Andrews said Water has raised enough for debt issuance on the pipe for the surface water improvement project (SWIP) and a portion of treatment will be funded with cash. On the sewer side, cash will be used for the current short-term projects.

Member Barram expressed her concern with a 0% increase for July with all the projects that are needed for water. She would like to start with some increase in order to be proactive rather than reactive.

Member Capell would like to look at what the least expensive option for the SWIP would be and raise rates to cover it. If it's more expensive, raise rates further in December. Members Russell and Knight agreed.

- Staff report on CIPs:

Engineering Infrastructure & Private Development (EIPD) Director Tom Hickmann presented the following slides:

- Stages of CIP Projects
- Planning Process for Infrastructure
- Current Status of Planning Documents

- Current Status of Growth Projects
- Operational Projects (2 slides)
 - Water
 - Sewer
 - Stormwater
 - Transportation

Member Mayer asked how the WPCF permit impacts the costs that are budgeted. Mr. Hickmann said staff will be providing a presentation to Council in regards to the WPCF permit. This is a new permit and staff has been successful in renegotiating the permit because money was spent on studies showing that the studies the State was using were incorrect. The State has modified the permit and we can meet the requirements within the current stormwater rate.

- Regulatory Projects

Member White asked how common it is to drain stormwater into the aquifer. Mr. Hickmann said it's a historic process, and new drill holes are no longer allowed. DEQ has said in the permit that, as drill holes fail they need to be upgraded to current standards.

Mr. Hickmann said the Airport fund wasn't addressed because whether or not projects move forward is based on receiving funding.

All proposed projects were based on the Infrastructure Advisory Committee's (IAC) recommendations. The IAC doesn't want to issue any debt for Stormwater projects.

Transportation

Ms. Andrews reviewed the *Transportation Construction Fund Capital Improvement Program* handout.

G.O. Bond

Member Knight asked if the excess dollars from construction for the GO Bond projects had been allocated. Mr. King said that Council will be discussing this at tomorrow's Council meeting. Council will get to weigh in on how to allocate those resources.

Mr. Hickmann explained the cost estimate classifications.

Airport

Ms. Andrews reviewed the *Airport Fund Capital Improvement Program* handout.

Member Barram asked when the FTA funds would be dispersed. Airport Manager Gary Judd explained that the Airport is guaranteed \$150,000 a year; however, we may qualify for additional funding. Staff will also continue to pursue Connect Oregon funds to cover the required 10% match.

Water

Ms. Andrews reviewed the *Water Fund Capital Improvement Program* handout which does not yet include any money for water treatment.

Mr. Hickmann said the remaining water work, after the SWIP and Juniper Utility upgrades, is manageable.

Member Mayer asked how realistic it is that \$17,550,000, in FY13/14 for the Bridge Creek Pipeline Maintenance Project will be spent.

Member Wagner asked for an explanation on water rights acquisition and if it's just a place holder in the budget. Mr. Hickmann said new ground water rights require mitigation. As rights become available, this is the money that will be used.

Member Capell said new mitigation credits will soon become available from a COID project.

Member Mayer confirmed that bonds haven't been issued yet for the SWIP project.

Water Reclamation

Mr. King said that the most uncertainty in the capital improvement program is in Water Reclamation. The Sewer Infrastructure Advisory Group (SIAG) is working on this. Mr. Hickmann explained that the Valhalla sewer project is one that has been slowed. This is an odor complaint project which is justified. However, there is no assurance that moving the line would do anything more than moving the odors from the front yards to the back yards of those impacted.

Member Russell asked if any short term solutions have been brought before Council to address odor issues. Mr. Hickmann said that if the SE Interceptor is completed, it will alleviate the odor issues on Silverlake Blvd.

Ms. Andrews reviewed the *Water Reclamation Fund Capital Improvement Program* handout.

Mr. King said there will be a rate increase for sewer; however, the exact rate is unknown at this point.

Stormwater

Ms. Andrews reviewed the *Stormwater Fund Capital Improvement Program* handout.

- Budget committee discussion and approval of CIPs

Member Chudowksy asked for a further explanation on the additional projects that will be addressed with excess GO Bond funds. He commented that if Galveston Corridor and the area on the other side of Galveston Bridge are improved, it seems like the bridge will be a bottle neck.

Member Chudowsky clarified costs for the Juniper Utility upgrades. Ms. Winters explained that the costs for Juniper Utility were developed to be as fair as possible to both the City and owners within the Juniper Utility area. The City knew that the \$3.6 million wouldn't cover all the issues but we couldn't have the rate payers of Bend absorb everything. It was the best we could do with a bad situation for both parties.

Mr. King explained that it's \$30 per month per household

Mr. Hickmann said the hope is that once the irrigation is turned off, it will prolong the life of the potable system.

Member Russell asked where the Arnold Irrigation rights will go after the irrigation is turned off. Mr. Hickmann said it's still unknown. Ideally, in order to benefit the rest of the rate payers, the irrigation rights will be used as mitigation for what is needed.

Mr. Rheault said there are 685 domestic services in the Juniper Utility and 22,212 in the rest of the city. In the Juniper Utility area, it costs the City \$435 per service, while it only costs \$169 in the rest of the city.

Wrap up

The meeting was adjourned at 8:43 p.m.

Respectfully Submitted,

Robyn Christie/mba
City Recorder