

CITY OF HALSEY
PO Box 10, 100 West Halsey St., Halsey OR 97348

PH: (541) 369-2522
FAX: (541) 369-2521
TTY: (800) 735-2900

April 14, 2017

To: Mayor Marjean Cline
Members of the City of Halsey Budget Committee

2017-2018 BUDGET OVERVIEW

I respectfully submit the City of Halsey Fiscal Year 2017-2018 Proposed Budget for the year beginning July 1, 2017. This budget was prepared in accordance with Oregon budget law. State budget law provides for three levels of review and analysis of this budget: the City Administrator, the Budget Committee and the City Council. The budget was developed to sustain current service levels, to increase the capability for infrastructure and facility maintenance, and to continue adding funds to the water and sewer reserves.

Budget Format and Organization

The City of Halsey budget document is organized into 16 funds. These funds fit into five categories: general fund, debt service fund, enterprise funds, special revenue funds, and reserve funds. Each fund has specific revenues and expenditures. Some funds have multiple sources of revenue (taxes, fees, grants, user fees, transfers, etc.), while other funds have only one main source of revenue. Some funds have restrictions on how they can be used.

The General Fund provides for planning & building services, city building maintenance, police protection and other general expenses like training, publications, and professional services. The Street Fund, Library Fund and Park Funds are special revenue funds that provide for ongoing services such as, street maintenance and improvements, park maintenance and improvements and library services. The Water Fund and the Sewer Fund are enterprise funds, which means that they are required to be self-supporting. They are used to provide water and waste water services to households and businesses. The SDC Funds are special revenue funds with a specific revenue source that also have usage restrictions. The Bond Fund is a debt service fund that pays for the Water Bond. The Water and Sewer Reserve Funds are funds that are reserved for future upgrade or improvement to the water and waste water systems. The Streets & Pathways fund is also a reserve fund required by the State in conjunction with receiving the ODOT Highway Tax revenue that goes into the Street Fund.

Each fund in this budget has line items that show specific projected revenues and expenditures for that fund. A narrative is also included in the Budget Message to help the reader understand the purpose of the fund and its departments and programs, as well as explaining any changes from the FY 2016-17 Budget.

Financial Policies and Practices

The 2017-18 Proposed Budget has been prepared based on city fiscal policies and the following practices:

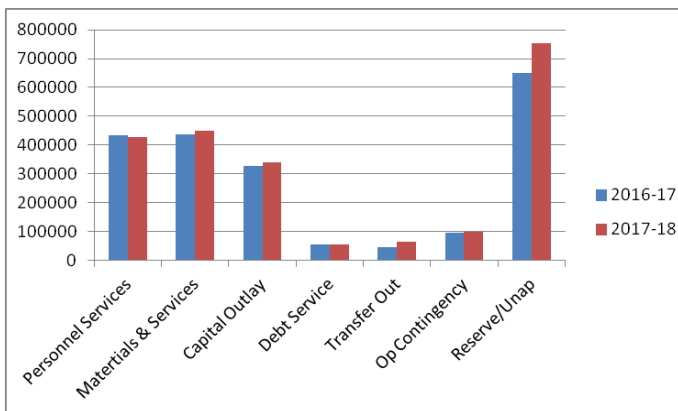
- Revenues and expenditures are estimated accurately, but conservatively
- Reserves are maintained in each fund that are adequate to provide a bridge to cover expenses that are incurred prior to the receipt of tax revenues in November
- Ongoing expenses should be covered by ongoing revenue
- Capital equipment and vehicles should be maintained and/or replaced so they are in proper working order
- While this City budget is a one-year document, a multi-year approach is used to consider the future implications of current fiscal conditions and decisions.

FY 2017-2018 Proposed Budget Comparison

The following are changes in the proposed 2017-2018 expenditures from the 2016-2017 adopted budget.

The total proposed budget for fiscal year 2017-2018 is \$2,188,517. This amount is up by \$145,438; an increase of approximately 7% from the 2016-2017 adopted budget of \$2,043,079.

Expenditures by Object Classification

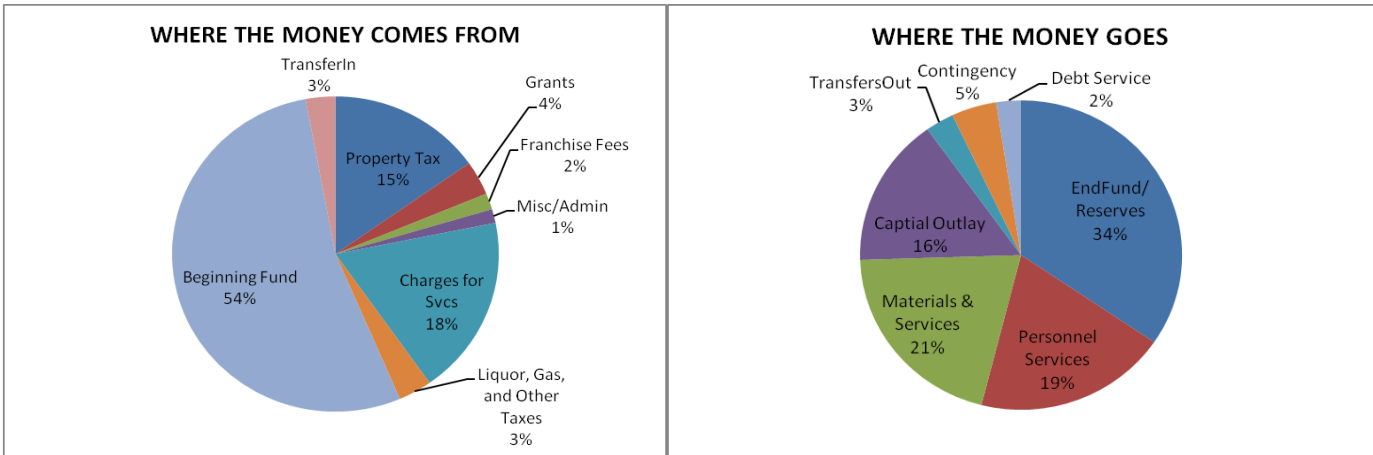


	2016-17	2017-18	Increase/ <Decrease>	Percent Increase <Decrease>
<i>Personnel Services</i>	\$433,950	\$426,440	<7,510>	<2%>
<i>Materials/Svcs</i>	\$436,084	\$449,345	\$13,261	3%
<i>Capital Outlay</i>	\$327,342	\$341,200	\$13,858	4%
<i>Debt Service</i>	\$54,544	\$54,544	\$0	0%
<i>Transfers Out</i>	\$46,000	\$63,000	\$17,000	37%
<i>Contingency</i>	\$94,200	\$99,200	\$5,000	5%
<i>Reserves/Unap.</i>	\$650,959	\$754,788	\$103,829	16%

Financial Outlook for 2017-2018

The 2017-18 Budget shows some increase in revenue and expenses as compared to the 2016-17 Budget. The unexpected departure of the City Administrator in October 2016 and the subsequent reduction in staff level until the Assistant City Recorder was hired in March 2017 led to lower personnel expenses across several funds, and resulted in higher projected beginning fund balances for the 2017-18 fiscal year.

On the revenue side, property values and property taxes are increasing. State Shared Revenues have remained stable. Increased property values and low interest rates may have contributed to the unanticipated growth in planning and permit revenue in 2016-17. We have projected for that activity to continue. Increased permit activity also brought additional revenue into the System Development Charge funds. Transfers out of the General Fund are increased in 2017-18, to help support projects in several other funds including Streets and Parks.

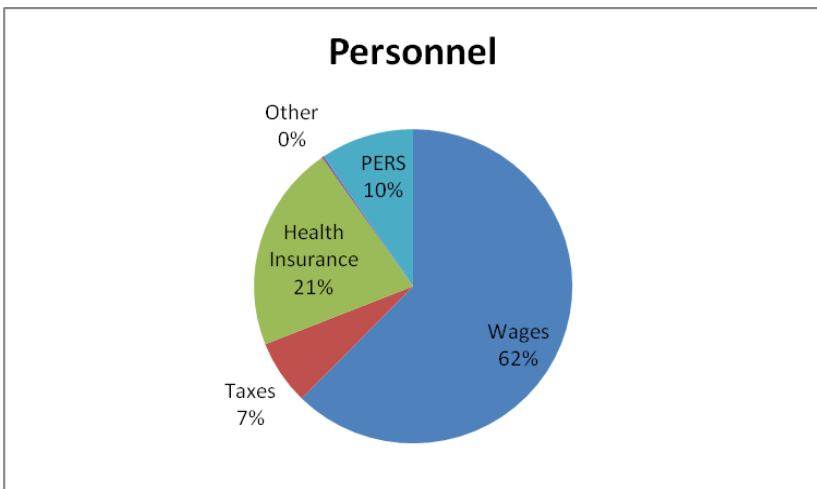


Personnel Services – Benefits and Salaries

In the 2017-18 fiscal year, the proposed budget includes a 2% reduction in the overall cost of Personnel Services. The primary savings come from the change in Employee Health Benefit Plan that will occur in January of 2018. The combination of the new plan, plus the required contribution from the employees will save the city about \$22,000 in personnel expenses.

The proposed Personnel Services budget also includes a 2% COLA for staff, annual step increases, and the increase of the Assistant City Recorder position to be full time with additional job responsibilities. Finally, due to changes in the PERS system, the Employer Contribution requirement was greatly increased for the 2017 biennium (42%.) However, Halsey had previously experienced an unexpected, significant decrease in PERS in the 2015 biennium. The current rate is only 14% over the cost in 2014. Personnel changes in 2016-17, and the decrease in health benefit costs have left Halsey in a better position to deal with increased PERS costs than many other cities in Oregon.

The City of Halsey Full Time Equivalency (FTE) is at 4.75; which means that collectively between the six employees hired, full and part time, the regularly scheduled hours are equivalent to 4.75 full time employees. Personnel Services is built across 5 funds; the General Fund, Street Fund, Water Fund, Sewer Fund and the Library Fund.



Materials and Services

The 2017-18 Budget shows an increase of 3% in Materials and Services. This increase is primarily due to expected increased costs in supplies and materials that we use to maintain service levels, but also includes scheduled maintenance work and projects. These will be discussed in the specific fund summaries below.

Capital Outlay

The 2017-18 Budget shows an increase of 4% in Capital Outlay. This includes the final payment to Engineering America for the maintenance work done on the water tower in 2015, two paving projects, the Veterans Memorial Park project and some smaller projects that will be described in the fund summaries below.

Transfers Out

The 2017-18 Budget shows an increase of 37% in Transfers Out (\$17,000.) \$2000 of this is a required transfer associated with the receipt of Highway Tax funds from the state. \$8,000 is transferred from the General Fund to the Library and Park Funds to support programs at the library and additional maintenance and improvements at the park. The remaining \$7,000 is an increase in the funds transferred into the Sewer and Water Reserve Funds.

Reserves/Un-appropriated

The 2017-18 Budget shows an increase of 15% in Reserves and Un-appropriated funds. Primarily, this increase is due to the transfers into the Water and Sewer Reserve Funds in 2016-17, to the building activity in 2016-17 which increased revenue to the System Development Charge Funds, and to an increase in un-appropriated funds to ensure uninterrupted service during the gap between the end of the fiscal year and receipt of tax revenues in November of 2018.

2017-18 BUDGET HIGHLIGHTS BY FUND

As noted earlier, most funds will see similar spending to the prior year. The exceptions are small program enhancements and increases in the several funds to support planned capital improvements and preventative maintenance. A brief narrative on several key City funds is presented below.

General Fund

FY 2017-18 assessed valuation for property taxes is budgeted at 1.04% above the current fiscal year. This represents an increase of current General Fund property taxes of \$16,000. Franchise Fees are projected to be stable, except Northwest Natural Gas has declined slightly in the current year and we project that to continue. Revenue from Planning and Permit fees is projected higher, based on increased building activity in 2016-17 and the possibility that that trend will continue.

Total General Fund revenues (excluding working capital) are expected to increase by \$37,050 (up 10%) compared to 2015-16.

Highlights in the General Fund for FY 2016-17 include:

- A reduction in personnel costs, due to lower health insurance costs, employee transitions, and a lower State Unemployment Tax Rate (SUTA).
- The Building Permits and Cust Planning Exp line items have both been increased to accommodate a possible increase in building activity in 2017-18.
- The Linn County Sheriff Contract reflects a 15% decrease as a result of a collective bargaining process that Halsey participated in with several other cities this winter
- Computer/Software Support line shows an increase based on the need to increase cyber security and agility recovery and for some needed software updates on the shop and library computers.
- Capital Outlay in the General Fund is for updating one of the aged office computers per year for the next three years, for constructing a wall and door in the community center to allow for a Sheriff's Office Substation, and for landscaping City Hall.

The General Fund also shows increased transfers to the Street Fund, Park Fund, Veterans Memorial Park Fund and the Library to support scheduled projects, maintenance and programs.

Street Fund

Revenues in the Street Fund include the ODOT Highway Tax Apportionment, which is anticipated to be the same as in 2016-17 and the Special City Allotment grant for the H Street Project. I have put some additional money into the Street Sweeping and Storm Drainage line items for increased maintenance in these areas. As compared to the 2016-17 budget, some funds have been moved from the Materials and Services classification into the Capital Outlay section to accommodate two planned paving projects this year: the H Street project (funded by the SCA grant) and paving 1 block each of West M, 5th, and L Streets. There is also a \$2000 transfer to the Streets & Pathways fund, which is a requirement for receiving the ODOT Highway Tax Apportionment.

Streets & Pathways Fund

The Streets & Pathways Fund is a reserve fund associated with the Streets Fund. Money in this fund can only be spent on certain kinds of projects and must be reported back to the State.

Bond Fund

This fund receives revenue from property taxes each year. It must always hold the total of one payment, as the payment is due in July and the bulk of the tax revenue is not received until November. The collection rate last year exceeded what was anticipated. Consequently, there is a little bit of extra money in this fund. The recommended collection amount is lower this year to compensate.

Library Fund

During the first year of the library's operation, there were still some grant funds available to help with operating costs. That is no longer the case. The increase in the amount transferred from the General Fund this year will help the library continue to offer new programs, events, and new books to its patrons. It also allowed a small increase to the Contingency fund, and a small amount of Un-appropriated funds for next year.

Water Fund

The Water Fund Revenues include a proposed \$1.00 per month increase. Because of personnel transitions in 2016-17 and general frugality, the beginning fund balance is a little higher this year than last. Consequently, the proposed rate increase is lower. The transfer to the Water Reserve Fund is higher, as we continue to strengthen our reserves for major maintenance work or future improvement projects.

The Materials and Services section budgets funds for several small repairs and maintenance projects including a roof repair at the shop, a gutter replacement, and about \$3,000 of generator preventative maintenance. We also greatly increased the Lab Service line item. This line item was over budget in 2016-17, in part because there were several tests that happen every 3 years, 5 years, and 9 years that all came due at the same time. However, DEQ has been requiring more testing this year of various kinds and we anticipate they will continue this trend. Most of the Capital Outlay section is the third and final payment to Engineering America for the water reservoir repairs that were done in 2015-16.

Sewer Fund

The Sewer Fund Revenues include a proposed \$1.00 per month increase. Because of personnel transitions in 2016-17 and general frugality, the beginning fund balance is a little higher this year than last. Consequently, the proposed rate increase is lower. The transfer to the Sewer Reserve Fund is higher, as we continue to strengthen our reserves for major maintenance work or future improvement projects.

The proposed budget includes funds for repairing the air monitor sensors, for relining the second lagoon (the first was done in FY 2016-17), and for rebuild kits for some of the Chlorination/De-Chlorination equipment. The money in I&I (Inflow & Infiltration) is budgeted every year – this year we will begin a multiyear program of cleaning, TV-ing and repairing the mains, one section of the city at a time.

Water Reserve Fund

The Water Reserve has an estimated beginning fund balance of \$219,500. The proposed transfer from the Water fund will bring the balance to \$231,500. We appropriate a small amount of money in these funds each year in case of emergency. Council would need to pass a Resolution in order for the city to be able to access this money. We do not anticipate spending any of the reserves in 2017-18

Sewer Reserve Fund

The Sewer Reserve has an estimated beginning fund balance of \$74,000. The proposed transfer from the Sewer fund will bring the balance to \$94,300. We appropriate a small amount of money in these funds each year in case of emergency. Council would need to pass a Resolution in order for the city to be able to access this money. We do not anticipate spending any of the reserves in 2017-18

System Development Charges Funds

The City charges System Development Charges (SDCs) to assist with the cost of improvements needed to accommodate new growth. Moderate revenue is anticipated in these funds due to projected building activity. These funds increased slightly during the 2016-17 fiscal year due to several small building projects. These funds can only be used to increase infrastructure capacity to allow for future growth. There

is no anticipated spending from these funds this year; however city staff will be researching how these funds can be used to the benefit of Halsey in future years.

Veterans Memorial Park Fund

The Veterans and War Memorials Grant from the Oregon Parks & Recreation Department must be spent by March of 2018. Because the project is outside, the committee's goal is to have the project complete in the fall of 2017. The money in this fund is to pay for the project and to maintain the park.

Halsey City Park Fund

The transfer from the General Fund is increased in 2017-18, and a small estimated amount has been added in anticipation of writing a grant or seeking donations for some park improvements. With Recreational Immunity in question, regular maintenance and upkeep can help ensure a safe place to play and reduce liability to the city. Also the picnic tables at the park are old and scarred. If we can find a small grant to help pay for their replacement, the extra money transferred into the park fund could provide matching funds.

Conclusion and Recommendation

The proposed budget is balanced and represents a conservative and effective use of resources. As noted previously, basic services are maintained, and resources have been allocated to key areas and important capital needs would be addressed as presented. Staff looks forward to working with the Budget Committee to build the best possible budget to continue to deliver key community services while maintaining the financial stability of the city.

Respectfully submitted,

Hilary Norton

City Administrator and Budget Officer