To the Honorable Mayor, City Council, citizen members of the Budget Committee.

It is my duty and privilege to submit for your consideration this annual budget for fiscal year 2012-2013 which will begin on July 1, 2012 in accordance with Oregon State Budget Law.

The past two budget cycles have seen the city’s budget strongly influenced by the effects of the state, national and global economy as it works its way down to our budget. Regrettably this year’s budget will be no exception.

The negative economic trends reported daily in the national, state and local news is still influencing us here in North Bend.

The costs for providing services are increasing at a greater pace than the pace of increasing revenue.

The proposed General Fund budget for 2012-2013 are 6% less than last year’s budget. Which in turn is less than the previous years budget.

Being fiscally prudent and taking advantage of progressive opportunities when they present themselves in these economically challenging times has been the hallmark of the City. That trend continues in this budget.

The budget presented herein continues last year’s trend and will consist of infrastructure construction and planning for projects when the fiscal picture turns more favorable.

Anticipated capital projects in this budget include Urban Renewal’s Downtown Streetscape project, expanded parking in the downtown core area, improvements to storm water system and as of yet unidentified street improvement projects.

With regards to capital projects, the increasing costs of oil on the international markets have a direct impact on our ability to prosecute some capital projects.

The economics of our state and nation will undoubtedly make for changes in how we will live in the coming years. And likewise the City is changing to meet these new opportunities and challenges.

While the price of a barrel of oil is readily apparent in our trips to the filling station, it is less so when it comes to street paving. Two years ago the cost of asphalt in Coos County was $120/ton. Last year the cost was approximately $90/ton. And with the parking lot project recently awarded
by City Council the cost was $85/ton a drop of 6% over last year’s costs. The only thought on why the disconnect between the price of asphalt and the price of oil/gas is that in the construction industry perhaps the economy or rather lack of economy is driving paving companies to squeeze their margins to generate business to keep them afloat.

Based upon the current price of asphalt I am hopeful that timing may be right to start up some paving projects before the price of oil goes higher or the economy improves to the extent of driving asphalt prices higher.

In Urban Renewal, staff is finalizing the plans to develop additional parking, replacing sections of sidewalk, provide additional street amenities such as benches, decorative lighting with a purpose of enhancing the pedestrian experience and shopping ambiance in North Bend’s core commercial district.

The proposed budget does include a small number of proposed grant opportunities. Dollar wise, the majority are tied to the Library’s need for heat pump replacements. There are however the usual grants for planning, as well as Homeland Security grant for the Police Department. Also, included is the annual grant for the maintenance of the boat launching facility at the end of California Street.

The small number of proposed grants does not mean we will not seek out and bring to Council’s attention funding opportunities staff believes are within the ability of the City to go after and receive, rather the intent is to give a realistic bare bones picture of the City’s financial capacity and our realistic expectations of success in securing grants.

Rest assured, city staff will continue seeking grant dollars and opportunities as they present themselves as long as the projected outcomes will result in a stronger, more positive and sustainable city.

City staff is confident of their abilities and recognizes the measure of our success will be how we recognize, embrace and adapt to the changes, challenges and opportunities the future presents to North Bend.

As was the case in last year’s budget, this year’s theme will also be one of major capital outlay for construction principally in Urban Renewal but also in storm and wastewater.

As the case has been for the previous eleven years, the budget being presented is the result of a proactive stance taken by the current and previous City Councils and Budget Committees as well as the concerted efforts the Department heads and employees.

The City will continue to maintain the current minimal staffing levels in all departments.

The cuts and financial and expenditure controls enacted over the past years along with aggressive management of municipal resources and monies continue to yield results in all funds. That however, is not to say we are in good shape. We are not. We are mostly holding our own against the seemingly inevitable forces of spiraling costs, and diminishing revenues. In some cases, such as Transient Room Tax Fund, Streets Fund and Sewer Fund we are losing ground.
As stated earlier fuel prices have been increasing with the uncertainties in the Mideast and elsewhere. The City has since July of this year seen its fuel costs increase 11.5%.

And the other sectors of the energy market have been as unkind as well. Our Northwest Natural Gas prices have rate increase requests before the State PUC of between 6 - 9%. PP&L is seeking a rate increase that will add an additional 4.3% cost to the city’s streetlight costs on top of the 12% increase experienced last year. Clearly our municipal budget like our individual budgets are negatively affected by such increases.

As the national and local county economy continue to stagger under the present economic difficulties, the City of North Bend’s conservatively managed finances have allowed the City to largely avoid some of the challenges being experienced in other sectors of the economy requiring large layoffs and curtailment of core operations. But this has been accomplished at a price.

Non represented staff have not seen the same type of COLAs received by their represented employees for several years, some maintenance projects have been deferred, capital projects have been shelved and the number of city employees has decreased over the years as revenues continue to be flat or regress in the face of escalating costs.

I am proud to say that city staff is ever mindful of the financial circumstances the City is in and strives to be the most efficient and effective organization possible.

As mentioned earlier, this budget document presented herein continues a trend started years ago. The creation of a solid plan for both the current and long term financial health of the City is still the goal. And the budgeting principals established by the Council, Budget Committee and staff over years are still valid and have served this city well and are incorporated into this budget document.

Financial and Budgetary Principals

The proposed budget has been created based upon the following financial and budgetary principals:

- Revenue estimations are both realistic and conservative.
- Expenditure estimations are based upon what is necessary for the achievement of stated fund and project purposes.
- Accurate distribution of personnel costs are observed.
- Equitable distribution of indirect charges to the various municipal departments and funds occur.
- Sewer Utility operations which is financially self-sufficient and able to meet its infrastructure challenges
- Development of sufficient net operating capital to meet expenditure needs before receipt of property taxes and shared revenues.

The City’s ending cash balance in the General Fund has been keeping steady over the past few years do to the diligence and cooperation of the city’s department heads and the over sight of the
Finance Department. As a primer, the Ending Fund Balance (ending cash) is used essentially to afford the city’s general fund operations to continue between July 1 and the end of November when property tax dollars are received from the county.

In keeping with the conservative approach to budgeting in uncertain economic times, the General Fund is 6% less than the budget adopted last year. It is also noteworthy to add that even though the dollars are less than in the previous year, the proposed budget is able to absorb the increases in inflationary costs and mandated union contract increases.

It is estimated that the proposed Net Working Capital of the General Fund for FY 2012-2013 will be $1,687,937 a decrease of 3% over the current year. As currently calculated the Net Working Capital in General Fund provides the General Fund with the liquidity it needs for about 2.7 months of operation.

It should be noted the General Fund operates for about five months without receipt of property tax dollars. The goal for the General Fund cash balance is an amount that should equal about one quarter of the General Funds operational costs. One quarter’s cost in today’s dollars would require net working capital amounts of $1,847,232.

Staff is committed to trying to reach the goal of having at least one quarter’s revenue for the beginning working capital cash balance when possible.

**Valuation and Taxes**

As in years past, the City’s current permanent tax rate is $6.1831 per $1,000 of assessed taxable value.

For FY 2012-2013 the property tax revenues are estimated to be $3,400,842. The net tax amount results in an increase of $67,970 above the FY 2011-2012 estimated property taxes. The increase is, after controlling for uncollectible taxes, a net increase of 2%.

**Salaries/Positions**

This year the City has embarked on a new path with the retirement of long time City Administrator Jan Willis. It is hard to express in words the breath and scope of impact that Jan Willis has had on the community and to the organization. We are grateful for her service, happy for her retirement and she will be missed.

The second key replacement the city has had to make is that of Finance Director. With the departure of veteran Finance Director Matt Zook to the wilds of the City of Damascus, Oregon necessitated finding a qualified replacement quickly as Budget season was upon us. Matt in his short time with the Finance Department likewise made a positive impact upon both the department and upon the community.

The police union is in the second year of their 3-year contract which requires a minimum 2% to a maximum of 5% cost of living increase for their represented members. The Public Works -
Streets union is in the final year of their contract which states their membership will receive a 2% to maximum 5% cost of living increase. The increase for both Police and Street union employees for 2012 will be 2.7%

We are currently negotiating a new collective bargaining agreement with the IAFF which represents the Fire Department personnel and have not yet reached a settlement with the IAFF

The budget does propose a 2% cost of living increase for the non represented employees. Over the past several years the represented employees have been receiving 4.0%, 2.7% and 2.7 % increases. Non-represented employees have received .1%, 2.7% and 2.7%. To have non-represented employees receive significantly less cost of living adjustments is not an equitable situation and it creates both a perceived and real morale problem that I hope to partially address with this budget.

The City's health insurance provider has indicated there will be a 10.6% increase in health insurance premiums.

Staff will continue to evaluate ways of reducing our health care premiums without unduly impacting the health care options for our employees. But the time is drawing closer that unless there is a major change in the cost structure of all the city's health insurance plans, health insurance may become too costly to continue.

And while our employees do contribute to their health premiums, their share will either have to increase or the city will be forced to switch health plans to a high deductible HSA system or other health care system in order to find a means to control health costs.

The following is a brief description of some of the major funds within the city’s operating budget.

**GENERAL FUND** revenues come from property taxes, franchise fees, licenses, intergovernmental agreements such as the Coquille Indian Tribe annual payment, Coos County Airport District for fire and police services, grants and other sources that fund police, fire, parks, pool, planning, engineering, finance and administration.

**STATE GAS FUND (02)** includes funds the Street Department uses for operations including personal services and materials for minor maintenance of streets;

**LIBRARY FUND (03)** funds the library operations and is part of a library cooperative service district with a separate tax revenue source.

**WASTEWATER FUND (04)** funds wastewater operations including personal services, materials & services and equipment; continual upgrades to the treatment plant, pump stations and all sewer lines throughout the city.

**TRANSIENT ROOM TAX FUND (10)** funds the operation of the information center and the room tax funds are used to promote the Bay Area with a portion of the tax provided to the Coos Bay North Bend Visitor and Conventions Bureau.
STORM WATER FUND (15) enables the city to maintain the city's storm water infrastructure, catch basins and outfall lines. Staff is planning for additional storm water projects in the coming fiscal year.

PROPOSED GRANT REVENUES

City staff has budgeted to receive grants as follows:

<table>
<thead>
<tr>
<th>Granting Agency</th>
<th>Purpose of Grant</th>
<th>Amount</th>
<th>Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>OR Dept of Land Conserv &amp; Devel</td>
<td>Planning Grant</td>
<td>$10,000</td>
<td>General (01)</td>
</tr>
<tr>
<td></td>
<td>Maintenance Assistance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>OR State Marine Board</td>
<td>Program</td>
<td>$3,300</td>
<td>General (01)</td>
</tr>
<tr>
<td>U.S. Dept. Homeland Security</td>
<td>Homeland Security Grant</td>
<td>$35,000</td>
<td>General (01)</td>
</tr>
<tr>
<td>Collins Foundation</td>
<td>Heat Pump Replacement (5)</td>
<td>$30,000</td>
<td>Lib. Donat (13)</td>
</tr>
<tr>
<td>Meyers Memorial Foundation</td>
<td>Heat Pump Replacement (5)</td>
<td>$25,000</td>
<td>Lib. Donat (13)</td>
</tr>
<tr>
<td>Oregon Library Association</td>
<td>Ready to Read Program</td>
<td>$4,000</td>
<td>Lib. Donat (13)</td>
</tr>
<tr>
<td>Unidentified Support</td>
<td>Library Support</td>
<td>$1,000</td>
<td>Lib. Donat (13)</td>
</tr>
<tr>
<td>OR Dept of Land Conserv &amp; Devel</td>
<td>Hamilton Trail</td>
<td>$45,000</td>
<td>Foot &amp; Bike Tr.(17)</td>
</tr>
<tr>
<td>Oregon State Parks</td>
<td>Park Restrooms Boynton Pk</td>
<td>$20,000</td>
<td>Parks Improv (21)</td>
</tr>
</tbody>
</table>

General Fund (01-02 through 01-20) – FY 2012-2013 General Fund budgeted revenues total $7,388,930 which is down from the revenues anticipated to be received in the current fiscal year of $7,410,445 and down from 2010-2011 ($8,698,003). It should be noted that revenue in the amount of $450,218 is budgeted in 2012-2013 as pass through revenue for the Coos Bay North Bend Water Board. Therefore, non Water Board revenue shown in the current year budget totals $6,938,712. The actual property taxes received in FY 2010-2011 budget for property taxes was $3,275,806, the amount received in FY 2011-12 was $3,332,743 and the proposed budget for taxes expected to be received in FY 2012-2013 is set at $3,400,842. The tax figures used to prepare the budget document are provided to the city by the Coos County Assessor’s Office and the most recent assessed valuation information on which taxes are based was provided in April 2012.

Franchise fees are expected to slightly increase (1%) this coming year (FY 2012-2013) as compared to the current fiscal year. Revenue from the school district for pool use will not see any increase, however, the other private schools in the area have started to utilize the pool for swim lessons. Working capital to begin FY 2012-2013 is expected to be slightly higher (1.6%) than less than in prior years due to lower transfers from the general fund to other funds which is an indicator of a softening in the over revenue resources of the city. The FY 2011-2012 transfer from the general fund to Fund 06, the Equipment and Construction Fund totaled $420,000 which is $190,749 higher than is proposed for FY 2012-2013. It is not a case of not needing capital items, rather because of the uncertainty it is more prudent to take a wait and see approach to the economy. As was the case in FY 2011-2012 no such transfer to the PERS Reserve Fund is budgeted for FY 2012-2013. The Contingency Fund has dropped 1.7% from $498,782 in FY 2011-2012 to a proposed $490,000 in FY 2012-2013. The city expects to receive slightly more revenue in the State shared revenue sharing in the coming year, however, revenue in the miscellaneous
category is expected to drop by 25% or about $31,200.

State Gas Fund (02) – The State Gas Fund budget revenues projections are being reduced a bit this year as the promise of increase gas tax revenue due to State Legislative action in 2009 did not materialize for 2011-2012 fiscal year. Staff’s concerns about the impact of higher fuel costs on the sales of fuel have been borne out in our actual revenue receipts from the State.

Staff adjusted our expectation down to about 90% of what the State projected for our share of the fuel tax revenue stream.

The city does continue to receive in Fund 06 Surface Transportation Program revenue which is used to complete at least one street project every year or so. The FY 2011-2012 budget includes an amount of $200,000 from a local revenue source for street improvements. The amount is in the budget in the event the city makes a decision to create a new revenue source. However, pursuant to the 2009 legislative action, no local gas tax ordinances can be approved by cities until after the year 2014. We continue to budget this $200,000 in the event the city should consider an alternate revenue source although no such alternative has been discussed. The State Gas Fund budget includes funding for three street department employees and part-time summer help.

Equipment and Construction Fund (06) – For FY 2012-2013, the Equipment and Construction Fund budget is down 9.1% over the 2021-2012 budget. Included in the proposed budget is a revenue transfer from the general fund in the amount of $82,783, which will add revenue to the city’s equipment replacement fund and enable the city to purchase a public works vehicle and two public safety vehicles. As stated earlier, the proposed transfer from the general fund in the coming fiscal year is $17,217 less than the 2011-2012 transfer and some $287,217 less than 2010-2011. The City must maintain its fleet at safe levels and every attempt is made to replace vehicles each year. It is important to maintain a healthy reserve fund for vehicle replacement. Following is a list of public safety vehicles including year and mileage. Higher mileage vehicles will be disposed of upon purchasing new vehicles. As is evidenced below, it does not take long for police vehicles to accumulate high mileage. The city vehicles receive regular maintenance and are well-taken care of. However, because of high usage, public safety vehicles must be rotated out more often than other vehicles in the city’s fleet.

### Police Department Vehicle Inventory

<table>
<thead>
<tr>
<th>VEH.#</th>
<th>ASSIG.</th>
<th>VEHICLE YR.</th>
<th>VEHICLE MAKE</th>
<th>VEHICLE MODEL</th>
<th>MILAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>20</td>
<td>Volunteers</td>
<td>1998</td>
<td>FORD</td>
<td>CROWN VIC</td>
<td>138,061</td>
</tr>
<tr>
<td>8</td>
<td>Detective</td>
<td>2004</td>
<td>FORD</td>
<td>TAUROUS SES</td>
<td>62,700</td>
</tr>
<tr>
<td>18</td>
<td>Patrol K-9</td>
<td>2005</td>
<td>FORD</td>
<td>CROWN VIC</td>
<td>106,965</td>
</tr>
<tr>
<td>3</td>
<td>Patrol</td>
<td>2006</td>
<td>FORD</td>
<td>CROWN VIC</td>
<td>112,048</td>
</tr>
<tr>
<td>2</td>
<td>Reserves</td>
<td>2006</td>
<td>FORD</td>
<td>CROWN VIC</td>
<td>107,636</td>
</tr>
<tr>
<td>6</td>
<td>Captain</td>
<td>2006</td>
<td>FORD</td>
<td>TAUROUS</td>
<td>47,356</td>
</tr>
<tr>
<td>7</td>
<td>Chief</td>
<td>2007</td>
<td>FORD</td>
<td>TAUROUS SEL</td>
<td>54,617</td>
</tr>
<tr>
<td>Veh. #</td>
<td>Make</td>
<td>Mileage</td>
<td>Condition</td>
<td>Year</td>
<td></td>
</tr>
<tr>
<td>--------</td>
<td>------------</td>
<td>---------</td>
<td>-----------</td>
<td>------</td>
<td></td>
</tr>
<tr>
<td>8301</td>
<td>Ford Exped.</td>
<td>1894</td>
<td>New</td>
<td>2011</td>
<td></td>
</tr>
<tr>
<td>8302</td>
<td>Ford F-150</td>
<td>83,831</td>
<td>Good</td>
<td>1999</td>
<td></td>
</tr>
<tr>
<td>8303</td>
<td>Ford Exped.</td>
<td>98,435</td>
<td>Good</td>
<td>1991</td>
<td></td>
</tr>
<tr>
<td>8308</td>
<td>Ford 1 ton</td>
<td>130,236</td>
<td>Poor</td>
<td>1995</td>
<td></td>
</tr>
<tr>
<td>8312</td>
<td>Chev Tahoe</td>
<td>153,161</td>
<td>Fair</td>
<td>1996</td>
<td></td>
</tr>
<tr>
<td>8313</td>
<td>Ford F-350</td>
<td>651</td>
<td>New</td>
<td>2012</td>
<td></td>
</tr>
</tbody>
</table>

Fire Engine Equipment

<table>
<thead>
<tr>
<th>Number</th>
<th>Make</th>
<th>Mileage</th>
<th>Hours</th>
<th>Condition</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>8304</td>
<td>Gruman</td>
<td>77,859</td>
<td>6148</td>
<td>Fair</td>
<td>1989</td>
</tr>
<tr>
<td>8305</td>
<td>Spartan</td>
<td>42,380</td>
<td>2827</td>
<td>Good</td>
<td>2001</td>
</tr>
<tr>
<td>8306</td>
<td>Kovath</td>
<td>14,839</td>
<td>2283</td>
<td>Excel</td>
<td>2003</td>
</tr>
<tr>
<td>8310</td>
<td>Ferrara (ladder)</td>
<td>19,264</td>
<td>2318</td>
<td>Fair</td>
<td>1995</td>
</tr>
<tr>
<td>8314</td>
<td>Ford 850</td>
<td>36,256</td>
<td></td>
<td>Good</td>
<td>1987</td>
</tr>
</tbody>
</table>

Equipment and Construction Fund also shows budgeted revenues from the Oregon Department of Transportation Surface Transportation Program (exchange program) of $426,000. As a reminder, this revenue is federal money which is available to the city through ODOT’s exchange program. The city must expend the revenue on street improvement projects and the exchange rate is 94 cents on the dollar. The budgeted number of $426,000 (amount after the exchange) includes the balance of previously exchanged revenue, the 2011 and the 2012 exchange revenue which will be accessed through an intergovernmental agreement with ODOT. It is anticipated that in FY 2012-2013, the city council will likely determine the next street improvement project during the coming year.

Building Program Fund (07) - The city anticipates the receipt of approximately $80,000 in building department fees for fiscal year 2012-2013. We have also budgeted $125,000 in funds for potential abatement actions for FY 2012-2013. Inasmuch as there continues to be insufficient building activity to warrant a full time inspector the city will continue the building official on a part-time basis. Additionally, staff is exploring ways to provide building inspection activities to further reduce the costs of operation.
Improvement Revolving Fund (08) – The city continues to carry budgeted funds in the Improvement Revolving Fund (also known as the LID fund). This revenue could be made available for a city street improvement project on an assessment basis. The city will have approximately $321,919 for a street improvement project using the LID fund.

Transient Room Fund (09) – As reported in the previous budget message, the Transient Room Fund revenues have drastically declined. The drop in revenue is a result of the Coquille Indian Tribe’s decision to collect a 7% room tax on its own behalf for the casino hotel (property held in trust). The Coquille Indian Tribe continues to pay the tax on the RV Park because that property is not in trust. In FY 2011-2012, the city’s Transient Room Fund budget included $90,000 for room tax. The actual receipts are currently anticipated to be around $85,000. For FY 2012-2013 the proposed budget anticipates receiving $90,000 in room tax revenue. Of that amount, $26,000 is transferred to the Bay Area Visitor and Convention Bureau.

Community promotions and visitor center operations are expected to continue at current levels during Fiscal Year 2012-2013 with funding from working capital revenue and anticipated room tax receipts. It appears that sufficient revenue will be available to operate the information center through 2012-2013.

Funding levels for visitor center operations will drop to inadequate levels beginning 2013-2014 and the city will need to determine a subsidy to the fund the operation if the visitor center is to operate status quo. The subsidy could, for example, come from a direct subsidy from the general fund or perhaps from a new fee yet to be determined. Also partnership with the North Bend Downtown Association or another organization to provide promotional assistance in exchange for a financial contribution might be possible. Or the operation can be curtailed back to the levels the revenue stream allows. Funding the visitor center will be a policy decision for consideration by the North Bend City Council during the upcoming fiscal year.

Swim Pool Improvement Fund (11) – For FY 2012-2013 there is some funds budgeted for miscellaneous repairs and upgrades to the pool building and grounds. As mentioned in last year’s budget message, although a considerable amount of upgrades have been accomplished on the 54-year old swimming pool building, there are continual mechanical and building repairs that must be done each year to maintain this important community asset. Staff recommends that revenue be budgeted each year in order to maintain a cash flow adequate to meet the pool’s maintenance needs.

Fire Equipment Fund (15) – Staff has proposed to continue budgeting a revenue transfer of $44,648 from the general fund to the Fire Equipment Fund to ensure sufficient funding is available for future equipment replacement or in the event a grant opportunity becomes available, a departmental dollar match will be available.

Footpath and Bike Trails Fund (17) – The city is interested in developing the Hamilton Trail and over the past few years have submitted grant applications for its construction. Staff will again submit a grant application during FY 2012-2013 in the amount of $45,000 for the development of the Hamilton Trail. The budget includes a match of 50%, however, the local requirement could be less depending on the grant program.
Parks Improvement Fund (21) – The city has budgeted $20,000 in the Parks Improvement Fund for the receipt of a grant from Oregon State Parks Local Government Grant Program. If successful, a park restroom project would be completed at Boynton Park.

Technical Equipment Reserve (23) – This fund was used in FY 2010-2011 to upgrade the city’s financial computer system. The FY 2012-2013 budget includes a $100,000 transfer from the general fund. The purpose for which is to upgrade the telephone/dispatch and computer inter-connectivity in City Hall. As an example, at the present time our police dispatch does not have caller ID on the incoming lines. Physical issues keep the city from fully maximizing the use of the council chambers with computer technology. Additionally, with the exception of three computers in Finance, the city does not have a single all-inclusive computer network, in essence all of our computers are stand-alone systems. Staff believes it is advisable for the city to upgrade it’s telephonic, computer-aided dispatch and computer integration within city hall.

Miscellaneous Capital Projects Fund (26) – Although no major capital projects are planned at this time, the fund will retain $247,448 in its account. And to ensure there will be some available funds for any unforseen expense should it arise, the fund will have $100,000 in the contingency line item.

VALUE AND TOTAL BUDGET

According to the Coos County Assessor’s Office, the City of North Bend’s estimated tax assessed valuation, reported to staff in April 2012 is $636,634,069. According to the Coos County Assessor, the city’s tax assessed valuation in 2011-2012 totaled $623,808,539, which is a difference of $12,825,530. That amounts to a 11.6% reduction in net increase of assessed value over the difference between FY 2010-2011 and FY 2011-2012. That figure speaks to the economic slowdown as new constructions continue to decline and existing property assessments are reduced by the underperforming economy downward.

North Bend’s fixed tax rate is $6.1831 per thousand assessed valuation. After deducting 10% for uncollectible taxes, the FY 2012-2013 budget projects $3,400,842 in taxes to the general fund. The proposed FY 2012-2013 budget for the general fund, which includes taxes and other sources of income, is $7,388,930. Budget recommendations for all funds total $23,181,446.

At the time of this writing, the city is in union negotiations with the represented members of the Fire Department. The budget for that department includes the amounts legally obligated by the existing contract and the same general cost of living as proposed for the non-represented employees.

Two years ago the city received notice that the Board of Trustees for City County Insurance Services awarded a credit to cities to begin in FY 2010-2011 and again in 2011-2012. The city has chosen to spread the credit over three fiscal years. This budget will also reflect the third and final year of the insurance credits. The credit is distributed throughout the budget.

Health insurance has been budgeted at an increase of 10.6% for Blue Cross/Blue Shield and for Teamsters Trust Insurance we have been told at this point they anticipate no increase in insurance premiums. Teamsters’ insurance is on a calendar year basis and so we typically get rate increase notices around December.
Workers' Compensation insurance varies depending on job classification and will increase approximately 6%. Staff has budgeted 20.15% for PERS costs for Tier 1 and Tier 2 employees and 14.69% for OPSRP general service employees and 17.40% for OPSRP public safety employees.

A portion of the PERS cost is shown in each department's personal services budget. PERS costs are budgeted at a higher rate in the upcoming fiscal year and will continue through FY 2012-2013. There will be another round of PERS rate increases in the 2013-2014 budget, and PERS sent out a notice that the rates contemplated for 2013 is probably 2% low as interest rates and rates of return on investments are (shockingly) not keeping up with the mandated 8% return for some of the older PERS tier accounts. Therefore, in FY 2013-2014 PERS rates will rise by at least 2%.

In addition to PERS employee/employer costs, the budget includes a $3.00 per hour contribution to the street department employees who are covered by the Teamster's retirement plan, which is equal to 15% of wages.

One city employee remains in the Great West retirement plan, and is planning to retire in September of this year. The city's contribution to that plan is 21%. It should be noted that the PERS and Great West Retirement plan contributions include the employer's liability and the entire contribution is not credited to individual employee retirement accounts. Also, the city continues to fund the Great West Retirement Plan and will do so until no employee is drawing retirement from the plan.

The city's proposed unappropriated fund balance is estimated to be $746,888. Once established as unappropriated during the upcoming fiscal year, this amount cannot be expended except in an emergency situation created by civil disturbance or natural disaster.

The unappropriated amount becomes part of the working capital line item for the succeeding year. The working capital enables the city to finance operations from the beginning of the fiscal year until after November when property taxes begin to flow in. This budget document has been prepared to include reserves for unanticipated expenditures and/or revenue shortfalls and for capital purchases. However, it should be noted that the proposed amount of revenue in the contingency fund and reserve funds is much less than the current fiscal year. The city should continue to spend conservatively and monitor revenues closely.

### Issues of Concern

### Transient Room Tax Fund

For the last several years this fund has been rapidly been depleting it's reserves as a result of the Coquille Tribe's decision to retain their transient room tax generated by their hotel located on
trust land inside North Bend city limits. The net result is a direct loss of more than $100,000 a year in revenue to fund the North Bend Visitor and Information Office.

The operations of the facility which employs one full time and one part time employee has been using the fund's working capital to supplement the remaining transient tax revenues to carry on its operations.

The 2012-2013 year is the very last year there will be sufficient funds to carry on full time activity at the Visitor Center.

Options for continued operation beyond 2012-2013 fiscal year include reducing staff and expenses to part time to live within the revenue stream currently in existence or develop a new source of funds dedicated to the Center and its operation.

Staff is currently exploring ideas on developing alternate revenue streams to support the operations and will be presenting them to the City Council as they become more complete.

Street Fund

The Street Fund which has responsibility for the 47.58 miles of streets in North Bend has sufficient revenue to provide for three employees, pay for the street lights to be on every night and leaves $100,000 for potholes and repairs and that is it. And while $100,000 is nothing to sneeze at the needs of the fund far outstrip the amount of good such a number provides. As an example, staff did a rough estimate to bring all the streets up to a very good condition. The cost would be around $11.2 million in today's dollars to accomplish that task. If we rely on our share of the State fuel tax to fund our repairs, it will take approximately 112 years to accomplish the task assuming the streets would not deteriorate any further nor the prices of repair go higher.

In past years the city budgeted a placeholder amount for a local option fuel tax which would generate and additional $200,000 per year for street improvements. Unfortunately the State Legislature preempted our ability to seek a local fuel tax solution for local streets until after 2014. By way if the City could find a different mechanism to raise $200,000 a year and couple that amount with the $100,000 from the State, it would drive the time line of improving all city streets from 112 years to 37 years!

Over the course of this coming year staff will study the issue some more and develop for Council consideration ways to potentially increase the level of funding to the Street Fund. There are no magic wands or silver bullets to this problem of street maintenance, in fact the State Legislature has already tied one of our arms behind our back until after 2014. Last year the State legislature told cities and counties it would up the state gas tax and share greater with the cities and counties, but it would do so at a price to local government. The price that the legislature exacted from cities and counties was a total preemption on enacting any new local gas tax until after 2014.
The Sewer Utility fund which has not seen an increase in rates for the past eleven (11) years is getting to the point where the department is putting off major replacements and continually needed plant improvements because of lack of funding. That is not to say we have not done improvements for there have been some improvements, but rather the revenue stream has remained the same for eleven years but costs have not. In response city staff has put off major improvement projects rather than seek additional resources.

Staff has kept operational costs to a minimum, the funds which have been built up are a result of saved funds rather than a funding stream from the revenue raised from the rates themselves. As a result the funds set aside for capital in this fund are really savings that have taken ten years to accumulate.

Staff is working on a proposal for the City Council to review and consider ways to address the capital needs of the fund.

The Sewer Fund has an increasing number of projects which need to be addressed including ongoing I & I (Inflow & Infiltration) and pump station upgrades/replacement projects. Like the Street Fund, this fund too suffers from a larger list of capital improvements than the current revenue stream can support to meet its mandates. The last sewer rate increase happened more than ten (10) years ago. Essentially the Sewer Capital Fund has been undertaking projects based upon the amount the fund saved on previous years budgets rather than on budgeted capital funds. As project lists grow so to do their costs and the Fund will not have sufficient savings year by year to accomplish the larger needed capital projects. And unlike other funds, the Sewer Fund is an enterprise fund and the city council has the ability to consider and if necessary adjust the current rate structure to meet those capital project requirements.

Unlike many communities in our state and indeed even in our own county, the City of North Bend invested significant capital years ago in a collection and treatment system which over a decade later retains sufficient capacity and provides exceptional performance of its treatment mission. However, as it seems to be the litany in this section of the budget message, the infrastructure needs of the Sewer Fund require a revenue stream to keep pace with the rising costs of maintaining and improving the investment the City already has in its physical plant.

Summary

Budgets are documents consisting of expectations, expectations of revenues received and expectations of funds expended.

The expectations contained within this budget document are of a fiscally conservative nature. The outcomes proposed in this budget are liberal in their execution and in their beneficial impact on the community.

Community and City Council expectations along with resource allocations determine budgets.
and budgets determine the direction the City is headed. Hopefully we as staff, Council and the Budget Committee will through the budget effort bring the city to the place where the citizens desire it to be, and that the city may become the place the citizens have always envisioned it to be.

The budget as presented is balanced and is in accordance with Oregon budget Law.

The proposed budget does not include any unnecessary programs or projects. There are no increases in personnel or programs. The budget does, barely, include those needed and important programs that staff believe are necessary to meet the primary needs of the citizens of North Bend.

In closing, I acknowledge the efforts of the department heads of this City for all the efforts with which they put into their departments as well as the work they have put into this budget preparation.

I especially would like to commend the work of our new Finance Director, Laurie Hall for your approbation and acknowledgment.

For the first six weeks of being on the job Laurie was thrust into the position of having to work and prepare a budget for an organization she had just joined. Laurie is a supreme “numbers person” she is to be congratulated for both this budget and keeping a cheerful, helpful and professional attitude during this stressful time.

I also recommend for your approbation the hard work of all the City’s employees and those volunteers who labor on behalf of the City and whose dedication to their jobs and visions, make North Bend the gem of the south coast.

Ralph Waldo Emerson once said, “Whatever course you decide upon, there is always someone to tell you that you are wrong. There are always difficulties arising which tempt you to believe that your critics are right. To map out a course of action and follow it to an end requires courage.”

North Bend has shown over the years that it has the courage to continue, and I believe the time is not too far distant when North Bend will be rewarded for its courage.

Sincerely,

[Signature]

Terence E. O’Connor
City Administrator