CITY OF NORTH BEND
BUDGET MESSAGE
FISCAL YEAR 2013 - 2014

Presented to the City Council and Budget Committee April 30, 2013

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 2013-2014 which will begin on July 1, 2013 in accordance with Oregon State Budget Law.

The past three 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. Although it appears that trend has slowed slightly and might well be reversing itself.

However, the costs for providing services are increasing at a greater pace than the pace of increasing revenues. Costs are principally led by the State of Oregon mandated PERS rate increase which is set to take effect July 1, 2013.

The proposed General Fund budget for 2013-2014 is 1.9% less than last year’s budget. With the overall city budget (excluding the URA) being 1.03% more than the current year’s budget. The increase is due to the proposed increased capital projects in wastewater.

Being fiscally prudent, utilizing a pay as you go philosophy and taking advantage of progressive opportunities when they present themselves has been the hallmark of this City and we attempt to continue that philosophy 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 continuing Urban Renewal improvements as well as significant improvements to the waste water system.

The proposed budget does include a number of proposed grant opportunities. Dollar wise, the largest proposed grant is tied to the Fire Department’s quest for a SAFER Grant to offset the anticipated Airport District transition away from contractual services with the Fire Department.

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.

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 the case has been for the previous twelve 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 strive to maintain the current minimal staffing levels in all departments, although actions by outside agencies may ultimately result in reductions to the Fire and Rescue Department.

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 the Street Fund, Library Fund and Wastewater Fund we are losing ground.

As stated earlier the City has been buffeted by the effects of the national economic downturn in addition we have also had to deal with the local trifecta of travail of decreasing assessed property values, State mandated PERS increases and the inflationary pressures on the purchasing of all goods and services.

A serious issue on the immediate horizon is the Fire Agreement with the Coos County Airport District. At the current time we are at impasse and the District appears set on discontinuing our fire services agreement. The impact to our budget is a loss of $192,559 in revenue to the general fund in which resides the Fire Department. Loss of that revenue means the Fire Department’s salary line item increases 23% with no offset.

The City’s Library is also facing challenge. As a member of the County Library District, the Library receives a proportionate share of Library District taxes with which to operate. As goes the assessed valuation so goes the funding level. At the current levels the Library in the next fiscal year will be faced with having to attempt right sizing its operations to live within the revenues generated by the District. That process of evaluation and changes has already begun and needs to be completed before December 2013.

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.

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.
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.
- Waste Water 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 fluctuated mildly over the past few years due to the diligence and cooperation of the city’s department heads and the ever vigilant over sight of the Finance Department. As a primer, the Ending Fund Balance (ending cash) is used essentially to sustain the city’s general fund and library operations 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...but not indefinitely.

It is estimated that the proposed Net Working Capital of the General Fund for FY 2012-2013 will be $1,614,914 a decrease of slightly over 4% from the current year. As currently calculated the Net Working Capital in General Fund provides the General Fund with the liquidity it needs for about 2.6 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 $1,834,324.

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 2013-2014 the property tax revenues are estimated to be $3,433,983. The net tax amount results in an increase of $33,141 above the FY 2012-2013 estimated property taxes. The increase is, after controlling for uncollectible taxes, a net increase of .9%.

Salaries/Positions

Last year the City set sail on a new course with the retirement of City Administrator Jan Willis and the replacement of the City Finance Director.

This year we saw the replacement of the City’s long time Visitor Service Manager Barb Dunham. This upcoming year we will continue on the course of change as our valued and valiant Police Chief, Steve Scibelli will retire at the end of this July for a well deserved retirement.

The police union will be in the third 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 will be in the first year of their new three year contract which has a set COLA of 2%. The crystal ball which is the CPI index has the increase for 2012-13 between 2 and 2.4%. The fire union is in the second year of their three year contract which has a stipulated 3% increase in wages.

The budget does not contain cost of living increase for the non represented employees. The budget does however contain adequate funding to allow for those employees with a satisfactory evaluation to receive a step increase should there be a step available.

The City’s health insurance provider has indicated there will be a 5% increase in health insurance premiums which is half of last years increase.

Staff has been tasked with, by December of the upcoming year to have answers to the questions of costs and benefits for replacing the current CCIS sponsored insurance program system with higher deductible and lower premium plan. The current rate of increase to benefits has simply 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, 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>Oregon Coastal Management Planning</td>
<td>$10,000</td>
<td>General (01)</td>
</tr>
<tr>
<td>Safety Belt</td>
<td>Maintenance Assistance Program</td>
<td>$4,300</td>
<td>General (01)</td>
</tr>
<tr>
<td>Bullet Proof Vest</td>
<td>Safety belt enforcement</td>
<td>$1,500</td>
<td>General (01)</td>
</tr>
<tr>
<td>Pedestrian Safety</td>
<td>Vest acquisition</td>
<td>$4,200</td>
<td>General (01)</td>
</tr>
<tr>
<td>U.S. Dept. Homeland Security</td>
<td>Crosswalk enforcement</td>
<td>$1,400</td>
<td>General (01)</td>
</tr>
<tr>
<td>Oregon Library Association</td>
<td>Homeland Security Grant</td>
<td>10,000</td>
<td>General (01)</td>
</tr>
<tr>
<td>SAFER Grant</td>
<td>Aide to Fire Fighters</td>
<td>$1,000</td>
<td>Lib. Donat (13)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$220,734</td>
<td>Fire (14)</td>
</tr>
</tbody>
</table>

General Fund (01-02 through 01-20) – FY 2013-2014 General Fund budgeted revenues total $7,242,630 which is down from the revenues received in the current fiscal year of $7,388,930 and down from 2010-2011 ($8,698,003). The actual property taxes received in FY 2012-2013 for property taxes was $3,400,842, the amount proposed budget for taxes expected to be received in FY 2013-2014 is set at $3,433,983. 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 2013.

Franchise fees are expected to remain flat this coming 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 lower (4.3%) than in prior years due to a softening in the over revenue resources of the city. The FY 2012-2013 transfer from the general fund to Fund 06, the Equipment and Construction Fund totaled $114,783 in 2012-2013 has been decreased to zero in this upcoming year. 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 before placing general fund dollars into equipment and construction funds. As was the case in FY 2012-2013 no transfer to the PERS Reserve Fund is budgeted for FY 2013-2014. The General Contingency Fund remains at $470,000. The city expects to receive slightly (1.9%) more revenue in the State shared revenue sharing in the coming year. Revenue in the miscellaneous category is expected to drop by 50% or about $5,000.
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 2011-2012 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.

<table>
<thead>
<tr>
<th>VEH.#</th>
<th>ASSIG.</th>
<th>YR.</th>
<th>MAKE</th>
<th>MODEL</th>
<th>MILAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>Detective</td>
<td>2004</td>
<td>FORD</td>
<td>TAURUS SES</td>
<td>62,700</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>TAURUS</td>
<td>47,356</td>
</tr>
<tr>
<td>7</td>
<td>Chief</td>
<td>2007</td>
<td>FORD</td>
<td>TAURUS SEL</td>
<td>54,617</td>
</tr>
<tr>
<td>1</td>
<td>Reserves</td>
<td>2007</td>
<td>FORD</td>
<td>CROWN VIC</td>
<td>95,750</td>
</tr>
<tr>
<td>5</td>
<td>Patrol</td>
<td>2010</td>
<td>FORD</td>
<td>CROWN VIC</td>
<td>40,823</td>
</tr>
<tr>
<td>4</td>
<td>Patrol</td>
<td>2010</td>
<td>FORD</td>
<td>CROWN VIC</td>
<td>44,159</td>
</tr>
<tr>
<td>9</td>
<td>Patrol</td>
<td>2011</td>
<td>FORD</td>
<td>CROWN VIC</td>
<td>27,984</td>
</tr>
<tr>
<td>11</td>
<td>Patrol</td>
<td>2012</td>
<td>DODGE</td>
<td>CHARGER</td>
<td>3,880</td>
</tr>
<tr>
<td>10</td>
<td>Patrol</td>
<td>2012</td>
<td>DODGE</td>
<td>CHARGER</td>
<td>4,491</td>
</tr>
</tbody>
</table>
Fire Department Vehicle Inventory

<table>
<thead>
<tr>
<th>Veh. #</th>
<th>Make</th>
<th>Mileage</th>
<th>Condition</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>8301</td>
<td>Ford Exped</td>
<td>15,825</td>
<td>New</td>
<td>2011</td>
</tr>
<tr>
<td>8302</td>
<td>Ford F-150</td>
<td>88,676</td>
<td>Good</td>
<td>1999</td>
</tr>
<tr>
<td>8303</td>
<td>Ford Exped</td>
<td>102,975</td>
<td>Good</td>
<td>1991</td>
</tr>
<tr>
<td>8308</td>
<td>Ford 1 ton</td>
<td>130,337</td>
<td>Poor</td>
<td>1995</td>
</tr>
<tr>
<td>8312</td>
<td>Chev Tahoe</td>
<td>156,642</td>
<td>Fair</td>
<td>1996</td>
</tr>
<tr>
<td>8313</td>
<td>Ford F-350</td>
<td>2,111</td>
<td>New</td>
<td>2012</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>79,874</td>
<td>6148</td>
<td>Fair</td>
<td>1989</td>
</tr>
<tr>
<td>8305</td>
<td>Spartan</td>
<td>45,521</td>
<td>2827</td>
<td>Good</td>
<td>2001</td>
</tr>
<tr>
<td>8306</td>
<td>Kovath</td>
<td>15,495</td>
<td>2283</td>
<td>Excel</td>
<td>2003</td>
</tr>
<tr>
<td>8310</td>
<td>Ferrara (ladder)</td>
<td>19,690</td>
<td>2318</td>
<td>Fair</td>
<td>1995</td>
</tr>
<tr>
<td>8314</td>
<td>Ford 850</td>
<td>36,288</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 2013-2014. 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.

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. For FY 2013-2014 the proposed budget anticipates receiving $90,000 in room tax revenue. Of that amount, $23,500 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 2013-2014 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 2013-2014.
Swim Pool Improvement Fund (11) – For FY 2013-2014 there is some funds budgeted for miscellaneous repairs and upgrades to the pool building and grounds. As mentioned in previous budget messages, although a considerable amount of upgrades have been accomplished on the 55 year old swimming pool building, there are continual mechanical and building repairs that must be done each year to maintain this important community asset.

Fire Equipment Fund (15) – Due to the possible impact of the loss of the Airport Fire Agreement staff has proposed to suspend budgeting a transfer from the general fund to the Fire Equipment Fund to ensure that the General Fund retains some flexibility in dealing with potential increased costs and diminished resources.

Footpath and Bike Trails Fund (17) – A portion of the State Gas Street funds the City receives is dedicated by state law to be used for footpath and bike trails. In the past the City has been interested in developing the Hamilton Trail. Staff will embark on what will probably be a multi-year process to secure State Park funding to develop the Hamilton Trail.

Parks Improvement Fund (21) – As with the preceding fund, the city has budgeted $20,000 in the Parks Improvement Fund in anticipation of a future matching grant from Oregon State Parks Local Government Grant Program. If successful, a park restroom project would be completed at Boynton Park. Other capital projects contemplated in this fund is the parking lot development at College Park and fencing on Oak Street.

Technical Equipment Reserve (23) – This fund was used in FY 2012-2013 to upgrade the City’s telephone /dispatch and computer inter-connectivity in City Hall. The project when complete will provide police dispatch with caller ID on the incoming lines. Council Chambers will be updated to allow the maximizing of computer technology. Fire and Library are also part of the upgrade for telephone and wireless connectivity. This year the fund receives a transfer of $41,455 from the General Fund to make the first of two zero interest loan payments for the previously mentioned upgrades.

Miscellaneous Capital Projects Fund (26) – Although no major capital projects are planned at this time, the fund will retain $251,140 in its account.

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 2013 is $642,781,395. According to the Coos County Assessor, the city’s tax assessed valuation in 2012 totaled $636,634,069, which is a difference of $4,852,674. Which amounts to a .95% net increase of assessed value between FY 2012 and FY 2013. That figure speaks to the slow 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 $3,433,983 in taxes to the general fund. The proposed FY 2013-2014 budget for the general fund, which includes taxes and other sources of income, is $7,242,630. Budget recommendations for all funds total $22,196,298 a decrease of 5.5%.

At the time of this writing, the City is in union negotiations with the IAFF (fire union) over impacts the loss of the fire agreement with the Airport District may have on their membership. The budget for that department includes the amounts legally obligated by the existing contract and includes in the General Fund the wages which would have been paid by the Airport District. However, without a steady long
term revenue infusion the increase to the City’s General Fund represented by the additional fire fighters is un-sustainable.

Health insurance has been budgeted at an increase of 5% 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 coverage will increase approximately 6.1%. Staff has budgeted 24.26% (which equates to a 20.4% single year increase) for PERS costs for Tier 1 and Tier 2 employees and 18.87% (a 28.87% single year increase) for OPSRP general service employees and 21.60% (a 24.4% single year increase) for OPSRP public safety employees.

A portion of the PERS cost is shown in each department’s personal services budget. This year (unless the State Legislature takes action) will see the City having to absorb an additional $147,500 and a similar amount in 2014-2015 to our PERS rates. The increases are a result of the PERS fund losing monies during the economic down turn of the past several years. To add to the City’s burden, the State says the increase is an employers cost and must be borne by the organization and not the employee.

In addition to PERS employee/employer costs, the budget includes a $3.10 per hour contribution to the street department employees who are covered by the Teamster’s retirement plan, which is equal to about 15% of their wages.

Similar economic forces have also had an impact on the Great West Life retirement plan as they have had on PERS, although to a much lesser extent. The actuaries for Great West have indicated the City should over the next two (2) years contribute $32,970 to ensure the fiscal health of that fund of which we are responsible. Toward that goal we are contributing an additional $16,485 in this year toward meeting the requirements of the fund.

The city’s proposed unappropriated fund balance is estimated to be $689,408, a decrease of 7.6% over the previous year, again a reflection of the City having to dip into its reserves to meet rising costs with a static or decreasing revenue stream. 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 as noted above less than the current fiscal year. The city should continue to spend conservatively and monitor revenues closely.
Issues of Concern

Library Fund

This is an issue of a concern which is two years out.

The Library District is funded through a county-wide taxing district the revenues are based upon assessed valuations throughout the county and as such are subject to wider fluctuations than the City’s assessed values. Simply put, there have been insufficient increases in Library District tax receipts to offset the increases experienced in North Bend.

At the current level of revenue/expenditures the Library can continue to operate without change for two more years. The 2014-2015 year is the last year there will be sufficient funds to carry on the current activity levels at the North Bend Library without changes being made.

Options for amended operations include reducing staff and expenses, reduced hours and furlough days are all being examined to determine the best mix of actions to allow the Library to continue within the revenue stream currently being provided by the Coos County Library District.

Staff is currently exploring ideas on developing a plan of action to support the Library operations and will be presenting the plan(s) to both the Library Board and 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 barely 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. And based upon the rumors in Salem there may be attempts made by the State to extend that moratorium beyond 2014.

The basis for the rumors is with the increase in federally mandated vehicle fuel efficiencies taking effect there is less gas being purchased and therefore less state gas tax being collected, meaning the ODOT needs more revenue sources to fund its operations. Also the State has signaled its intent to push forward with the new I-5 Columbia River bridge of which Oregon’s share is some $3.5 billion project with $595
million being Oregon (ODOT) share. ODOT representatives have signaled that the amount contemplated will result in a reduction of ODOT funds for other regions of the State.

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. $500,000 a year it would reduce take the City 23 years to repair every street in town.

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, and probably beyond.

The option that Staff will put forward will be based on a street user fee basis, similar to the storm water fee. A $4.50/month assessment would generate approximately $250,000 per year in dedicated funds.

Another possibility is the placement before the voters of a tolling of the URA Special Levy to be dedicated to Street improvements. If the voters agreed that switch would also generate approximately $200,000 per year. The positive benefit (aside from fixing bad roads and sidewalks) of this action would be once the levy was finished (5 years) the URA gets the funds back to continue its work.

**Sewer**

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 improvements have not been done, because 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.

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 eleven (11) 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 does 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.

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 will be working on a proposal which will increase the sewer fees by $4.75/month which would make the monthly bill for a resident become $30.00. And while percentage wise the rate of increase may be thought large, there has been no increase for eleven (11) years. Staff will prepare the proposal
for the City Council to review and consider as a means to address the capital and on-going maintenance needs of the fund.

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.

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 includes those needed and important programs that staff believe are necessary to meet the primary needs of the citizens of North Bend.

In closing, each year brings it's own challenges and I would be remiss if I did not 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 with special appreciation to our Finance Director, Laurie P. Hall and her staff.

I continue to recommend for your approbation the hard work of the City’s employees and those volunteers who labor on behalf of the City and whose dedication to the City makes North Bend truly a special place to live and work, not just on the South Coast, but in all of world.

W.E.B. Du Bois once said, “Now is the accepted time, not tomorrow, not some more convenient season. It is today that our best work can be done and not some future day or future year. It is today that we fit ourselves for the greater usefulness of tomorrow. Today is the seed time, now are the hours of work, and tomorrow comes the harvest and the playtime.”

Let us now do our best work for North Bend’s future.

Sincerely,

[Signature]

Terence E. O’Connor
City Administrator