



Memorandum

Date: August 18, 2011

To: John Kovash, Mayor
Members, West Linn City Council

From: Chris Jordan, City Manager *cf*

Subject: Updates from the Finance Department

Fourth Quarter Financial Update

The City's Finance Department has completed its unaudited final budget status report for Fiscal year 2011. It can be found on the City's website at:

<http://westlinnoregon.gov/finance/quarterly-financial-report-june-2011>.

I have attached to this memorandum the executive summary prepared by the City's Chief Financial Officer Richard Seals.

Water Infrastructure Maintenance

One of the Council's top 5 priorities for 2011 included the following statement about the water system:

- The Utility Advisory Board will recommend a plan to the City Council for maintaining, upgrading and sustaining the West Linn water system.

To assist the UAB in this analysis, staff has prepared a significant amount of information about the Water fund and the City's ability to finance the maintenance of the system. This information has been presented to the UAB in a series of meetings. CFO Richard seals provided the following update from the last UAB meeting:

The UAB met on July 12, 2011 and invited the City's Chief Financial Officer to report back on questions such as whether the City issues only revenue bonds or can it issue other types of bonds, what expenses and costs can be funded with the only five percent rate increase. The main take-away from this meeting was a request for updated Five Year Financial Forecasts for June 30, 2011 actuals and a request for staff to prepare alternative options for financing the water master plan projects.

The UAB met again on August 9, 2011, along with the City's Water Superintendent and Chief Financial Officer. As requested, updated forecasts were presented showing water revenues continue to be flat with sewer and surface revenues coming in slightly higher than budgets. A Decision Flow-chart was presented highlighting the various decisions points, for example, \$8

million versus \$21 million, and GO Bonds versus Revenue Bonds. Various financing options were discussed to include the option of offering lower sewer and surface water rates to help offset increased water rates.

The UAB Chair issued homework assignments for all members, to review all the financial information presented and return to the next month's meeting with their ideas, comments, and suggested recommendations. Complete materials of this meeting are available online at: <http://westlinnoregon.gov/finance/utility-advisory-board>

To assist the Council in understanding the UAB's process, attached to this memorandum is the decision flow chart mentioned in the summary above.

Please contact Richard or me with any questions.

Attachment



CITY OF
**West
Linn**

Fourth Quarter

Financial Report through the fourth
quarter of Fiscal Year 2011,
ended June 30, 2011

Executive Summary

We are pleased to offer this financial report of City operations for your review. This report covers the fourth quarter of the fiscal year ended June 30, 2011, which also represents the final quarter of the 2010-2011 biennial budget.

QUARTERLY HIGHLIGHTS

This fourth quarter financial report summarizes the financial results for the fiscal year ended June 30, 2011 and highlights certain topics of interest.

Police Station Ballot Measure

In July, the City Council approved a resolution placing a \$8.5 million general obligation bond measure on the November 2011 ballot to construct a new police station at 8th Avenue and 13th Street. If West Linn voters approve this measure, the land use process and construction would begin in 2012. If West Linn voters oppose this measure, the police station will remain at its current location at 22825 Willamette Drive. It is estimated that this measure would increase the property tax rate by \$0.16 per \$1,000 of assessed value and that the tax impact on an average West Linn home with an assessed value of \$285,000 is estimated at \$46 per year.

Public Safety 911/Communication Services

The City has an agreement with the City of Lake Oswego to provide public safety dispatch services for West Linn's Police Department which expired in this fourth quarter. This arrangement has worked well over the years and continues to provide a financial benefit to the City. This multi-year contract is currently being negotiated. The cost of these services is approximately \$382,000 per year which is offset by the State's allocation of 911 tax monies amounting to approximately \$120,000 per fiscal year.

The public safety dispatching services with the City of Lake Oswego includes, but are not limited to, 24-hour-per-day answering of emergency telephone lines (including 9-1-1 calls) for fire, police, and emergency medical service requests; radio communications with police personnel regarding emergency and routine police matters; and other dispatching services for law enforcement purposes.

Financial Management Services

The City entered into an intergovernmental agreement effective February 1, 2011 with the City of Milwaukie to provide professional financial management services for both cities at the Finance Director level overseeing both finance departments. Pertinent terms of this agreement are as follows:

- The term of the agreement continues through June 30, 2013, may be extended or renewed for one-year periods, and is cancellable on June 30th of each one-year period by mutual agreement of each City with written acknowledgement no less than sixty days prior to that date.

- It includes providing the financial management services for each City, targeting one contract director to be present on-site at each City, five days per week. The City of Milwaukie agrees to pay the City \$8,333 per month indexed by 3 percent after twelve months.

With budget processes to complete for two cities, Casey and I have found ourselves quite busy this last quarter. The City of Milwaukie faces its own set of financial challenges from how best to redevelop its waterfront and downtown areas to securing funding for a \$5 million pledge towards the region's light rail project. So far the arrangement has worked well.

Utility Advisory Board

From the Water System Improvement Task Force and Section 44 of the Municipal Code, to the Utility Advisory Board, the City and community of West Linn have been very active studying water rates over the last three decades. Currently, one of Council's five priority areas falls upon the Utility Advisory Board (UAB) to study funding options for water infrastructure maintenance. Now televised, the UAB meetings are scheduled throughout the summer to discuss their continued mission of recommending a plan to the City Council for maintaining, upgrading and sustaining the West Linn water system. They are also working on targeting outreach which will include messages about needed improvements to our water infrastructure system and specific information about projects, necessity, and funding of maintenance and upgrades.

Budget-to-Actual Financial Results

On the revenue side, total city-wide revenues are \$35.7 million which included the \$6 million of debt refunding proceeds as completed in September 2010 and saving significant future interest costs. Our largest revenue variance is the \$1 million capital outlay item from the County Library District. This item was received after fiscal year-end, on August 9, 2011, and will be properly reflected in the next biennium. Property taxes are down slightly at less than 1 percent short of budget for the biennium. Franchise fee revenues are also down slightly and water revenues continue to be flat at \$2.9 million over the last three fiscal years, inclusive of 5 percent rate increases in each of those years.

On the expenditure side, total city-wide expenditures are \$36.1 million which include the \$6 million of refunded debt payoff and the \$1.5 million net acquisition of the Parker Road property. Overall personnel costs, which make up the majority of the City's budget, closed the biennium at 4 percent under budget with overall materials and services at 8 percent under budget. Debt service came in saving \$100,000 due to the recent refundings. Two expenditure categories exceeded budget, Police materials & services, due to the recording of State 911 monies, and Building personnel costs, due to the staffing up with the turnaround of building activities occurring towards the end of the biennium.

Citizens' Budget Committee

The Citizens' Budget Committee reviewed the City Manager's proposed budget and, at their third meeting on May 3, 2011, approved the proposed budget with amendments completing the second phase of the budget process. The approved budget then moved through the third phase of the budget process ending with Council adoption of the 2012-2013 biennial budget on June 27, 2011. Pertinent highlights of the next biennium's budget include:

- It is a biennial budget balanced at \$75 million
- Personal services represent 43 percent of the total expenditures at \$28 million
- Materials and services represent 20 percent of total expenditures at \$13 million
- Capital outlay makes up 15 percent at \$9.6 million
- Debt service, transfers, contingency, and ending fund balances comprise the remainder

As in the past, the genesis of the budget process is the Five Year Financial Forecast. This document was updated in Fall 2010 and shared with the Citizens' Budget Committee in December. At that time, the projections indicated that we would need to reduce spending by \$1.2 million to meet the City's reserve requirements. As was discussed at that Citizens' Budget Committee meeting, the bulk of those reductions would need to come from reductions in personnel costs through the elimination of positions. In the end, five positions were eliminated:

- Library Supervisor
- Police Records Clerk
- Community Service Officer
- Utility Worker (Water Division)
- Engineering Technician (Public Works Support Services)

Audit Committee

On June 6, 2011, the City's Audit Committee held their annual "kick-off" meeting with the auditors. This was the first meeting at the start of the audit process for the fiscal year ended June 30, 2011. The audit season, beginning in May, typically finishes up in December with the issuance of the audited financial statements.

Reminder that Citizens can now pay their Utility Bill Online

You may now make your monthly Utility Bill payments on-line via credit card using the City's new online payment program from the convenience and security of your home computer. You can also make a payment by calling 1-800-701-8560, 24 hours a day, 7 days a week (a "live" person is available if you call between 8am to 8pm EST). Of course, the regular "non-online" ways of making payments are still available. This new online service is simply one additional way to make payments for your convenience.

Standard & Poor's Downgrades U.S. Debt to AA+

The United States government has been rated Aaa and AAA with Moody's Investors Service and Standard & Poor's respectively since 1917. Accordingly, U.S. Treasury obligations have been the benchmark for risk-free investments for just about one hundred years. On July 13, 2011, Moody's Investors Service placed the Aaa bond rating of the United States government on review for possible downgrade given the rising possibility that the statutory debt limit would not be raised on a timely basis, leading to a default on treasury debt obligations.

In August 2011, Moody's and Fitch maintained their Aaa rating on U.S. debt, but issued a negative outlook. Standard & Poor's however lowered their rating one level to AA+, the first-ever reduction for U.S. debt. Standard & Poor's then lowered 11,500 municipal bond ratings tied to the federal government, but stated that they would not make further downgrades of

state and local government credits dependent on federal funding until details of U.S. spending cuts are settled.

The City of West Linn is an AA rated city, does not have any federal secured debt, and was not immediately/directly affected by these downgrades. Over the long term, the downgrades of AAA debt may eventually trickle-down and could affect all municipal debt holdings and general interest rates – it is hard to say the impact at this time.

Reflection on Today's Economy

As we close the 2010-2011 biennium with this quarter's financial results, I would like to offer a reflection of the economic times we find ourselves in. Unlike the federal government, state and local governments cannot just ask the Federal Reserve to print up additional funding. California is facing a \$19 billion dollar budget deficit next year, and incoming governor Jerry Brown was quoted as saying "We've been living in fantasy land. It is much worse than I thought. I'm shocked." Fortunate in part to Measure 50 passing in the mid 1990s, Oregon is more insulated than other states, but not immune entirely. Local governments need to pass balance budgets, conditioning themselves to living within their existing and sometimes declining revenue streams, as the City West Linn has.

As always, we value your trust and promise to ensure fiscal integrity in all that we do. When you review this quarterly report, I welcome your questions, comments, and any suggestions you may have. The best way to contact me is by email at rseals@westlinnoregon.gov.

Best regards,



Richard Seals, CPA CMA CFM CFE
Chief Financial Officer, City of West Linn

15 August 2011

Utility Advisory Board Rate Recommendation

Principles for Utility Advisory Board recommendation:

1. Simplicity
2. System Investment

This decision tree presents several different policy considerations as a way to help winnow down the available recommendation choices for the Utility Advisory Board's (UAB) consideration. This is by no means an exhaustive list of the available choices for the UAB to consider. Instead, this presents some viable choices for the UAB to ponder at their August 9, 2011 meeting.

