



# BUDGET MESSAGE FISCAL YEAR 2019-20

**DATE: May 1, 2019**

Ladies and Gentlemen of the Budget Committee:

Thank you for volunteering your time, energy, and expertise to the City's budget process. I am pleased to present the proposed FY2019-20 City of Harrisburg and Harrisburg Redevelopment Agency budgets. The budgets are a tool used by City Council and staff to provide a roadmap for future operations and capital investments. The proposed budgets are our best attempt at providing funding at a level consistent with current and projected operational service needs and incorporate strategies and goals requested by the City Council in the 2019-2023 Strategic Plan. You are asked to consider the budgets for the next fiscal year for the City of Harrisburg and for the Harrisburg Redevelopment Agency (HRA). The fiscal year goes from July 1, 2019 through June 30, 2020. The City and HRA are separate entities and therefore each has its own budget. The Budget Committee for the City also serves as the Budget Committee for the HRA. There are separate advertised public hearings scheduled for the City and HRA budgets.

Per ORS 294.403, a budget message is presented to the Budget Committee explaining the budget document, describing proposed financial policies, highlighting important features of the budget, explaining significant changes to the budget, and identifying major changes in financial or accounting policy and practice. The Finance Officer and City staff has prepared proposed budgets. It is your responsibility to review them and make changes you think are appropriate.

As you read through the proposed budgets, I want to bring to light some items that do not jump off the page. The costs of running a city continue to rise. Retirement costs continue to increase and are expected to trend in this direction for the next several years. Other personnel costs, like wages and health care are also on the rise and the city needs to decide how to address these increases, while maintaining sufficient service to the public.

The City's Budget Committee is aware there are many needs that simply will not be met in a single year's budget. Street maintenance, storm water management, and water and sewer improvements are just a few of the expensive items that will not be adequately addressed in a single year's budget. The proposed budget includes some tough decisions that were made to address the street maintenance issue. The Budget

Committee and City Council will need to continue to make tough decisions on how to best use the public's money.

It is likely we will never have sufficient resources to meet all of the wishes and desires of our citizens. In the foreseeable future, Cities will have greater financial demands and will have less ability to pay for them. As we move into this next fiscal year, we must look to that future and make the changes necessary today to continue to provide the best services we can afford.

Keep in mind these basic municipal budgeting principles:

- The complete City budget is divided into funds.
- Some funds, called "Enterprise Funds", are required to be self-supporting. These funds include the Water Fund and the Sewer Fund.
- The City budget is required to be balanced. The amount of money shown on the expense side must equal the amount shown on the revenue side.
- The City cannot spend more money in a fund than is actually available.

You have been provided a copy of the proposed City budget and the HRA budget. At the beginning of each fund are a chart and table that summarily describe the proposed revenues and expenditures for the fund. These tools also give a historical comparison of the last three years financial position to help determine the needs for fiscal year 2019-20 and future budget years. As they say a picture paints a thousand words and that is the idea behind using charts and tables.

In the Budget document, the revenue table headings are **BLUE** while the expenditure table headings are **GREEN**. The expenditure table is further broken down into Object Classifications and Expenditure Detail. Expenditure Details are the line item expenses or the details of the budget. Object Classifications are simply Expenditure Details arranged by organization unit or program. Examples of Object Classifications in the City's Budget document are Personnel Services, Materials and Services, Capital Outlay, Debt Service, Inter-fund Transfers, and Contingency. It is worth noting that in the General, Water and Sewer Funds the Materials and Services Object Classification includes a lot of detail and therefore are broken down into several 'subcategories'. It is also important to understand when budgeting that it is acceptable, although not encouraged, for expenses to exceed the amount identified in the Expenditure Detail of a specific line, as long as the total expenditures do not exceed the amount budgeted in the Object Classification. See diagram 1 below which shows the difference between a Fund, Object Classification, and Expenditure Detail.

Diagram 1

**CITY OF HARRISBURG**  
**General Fund (10)** ← **Fund**  
BY ORGANIZATIONAL UNIT OR PROGRAM & ACTIVITY

GENERAL FUND (10): REQUIREMENTS				Budget for Next Year FY 2019-2020		
Historical Data			REQUIREMENTS FOR: ADMINISTRATION	Proposed by Budget Officer	Approved By Budget Committee	Adopted By Governing Body
Actual Second Preceding Year 2016-2017	Adopted Budget This Year 2017-2018	Adopted Budget This Year FY 2018-2019				
<b>Object Classification</b> → <b>PERSONNEL SERVICES</b>						
229,833	256,591	267,225	ADMINISTRATION WAGES	270,545	0	0
0	0	5,500	ADMIN OFFICE ASSISTANCE	5,500	0	0
4,800	4,800	7,200	COURT WAGES	7,200	0	0
237	268	279	ADMIN UNEMPLOYMENT TAXES	281	0	0
18,148	20,543	21,311	ADMIN SOCIAL SECURITY TAXES	21,493	0	0
69,610	84,092	91,710	ADMIN MEDICAL INSURANCE	91,710	0	0
41,190	54,691	57,531	ADMIN PERS	70,505	12,974	0
1,047	1,167	1,225	ADMIN LIFE & DISABILITY INS	1,225	0	0
2,250	4,388	5,550	ADMIN PAY & LONGEVITY	4,600	0	0
84	92	185	ADMIN WORK COMP QUARTERLY	185	0	0
7,343	5,058	9,000	ADMIN WORK COMP PREMIUM	9,000	0	0
0	2,400	2,400	PERSONNEL SERVICES-MARINE BD	2,400	0	0
54	45	200	MEALS - TRAINING	200	0	0
300	300	300	CELLULAR PHONE	300	0	0
<b>374,896</b>	<b>434,435</b>	<b>469,616</b>	<b>TOTAL PERSONNEL SERVICES</b>	<b>485,144</b>	<b>12,974</b>	<b>0</b>
3.0	3.0	3.0	Total Full-Time Equivalent (FTE)	4.0	4.0	4.0

**← Expenditure Detail**

**City's Strategic Plan:**

The City Council annually reviews and adopts a 5-year Strategic Plan for the City. The Strategic Plan lays out the Council goals and priorities for the upcoming fiscal year. In 2019, the City Council adopted six priorities, four of which have direct fiscal impacts in this year's budgets. Table 1 is a list of the Council's priorities for FY 2019-20.

**Table 1: Council Priorities in the 2019-2023 Strategic Plan**

<b>Objective / Action #</b>	<b>Description</b>
<b>Objective 4</b>	<b>Achieve and maintain total City park land inventory at a minimum of 7 acres per 1,000 residents.</b>
<i>Actions</i>	<i>Acquire by purchase the 100-acre parcel from Knife River. Develop existing and future parklands.</i>
<b>Objective 6</b>	<b>Provide safe and accessible streets and sidewalks for the entire community, by seeking temporary and permanent funding opportunities.</b>
<i>Actions</i>	<i>Create and implement budget policies that increase the street maintenance fund. Seek alternative permanent street funding options.</i>
<b>Objective 7</b>	<b>Repair and improve 4<sup>th</sup> Street from LaSalle Street to Smith Street.</b>
<i>Actions</i>	<i>Design and construct a long-term rail/roadway solution with the railroad. Determine how to fund this project.</i>
<b>Objective 9</b>	<b>Bring community awareness to crime issues in our city and work to create solutions to reduce and prevent crime.</b>
<i>Actions</i>	<i>Hold quarterly community crime prevention forums; establish and strengthen neighborhood watch groups and neighborhood watch patrol.</i>
<b>Objective 11</b>	<b>Provide a second sanitary sewer crossing beneath the railroad tracks.</b>
<i>Actions</i>	<i>Design and construct LaSalle Street pump station and piping beneath the railroad crossings on LaSalle Street.</i>

Objective / Action #	Description
<b>Objective 13</b>	<b>Provide a Capital Improvement Plan and System Development Charges (SDC) program that encourages development.</b>
<i>Actions</i>	<i>Revise and update the City's Capital Improvement Plan. Update the City's SDC program and consider incentives to encourage development.</i>

The budgets have been prepared with these Council priorities in mind. To achieve Objective 4, the City will use Park SDC monies to make the final payment for the 100+ acre reclaimed gravel mine from Knife River. The remaining balance to be paid by the City is \$52,000. The City has developed park concept plans for the 100+ acre property. The City will be applying for additional grant funds to develop detailed construction plans and to build site improvements in the next few years.

Regarding Objective 6, the City Council has a goal to annually budget \$250,000 in Street Maintenance funds. This goal is tied to funding recommendations contained in the 2016 Street Conditions Report prepared by the City's Public Works Department. This past year, the City was able to budget \$130,000 in Street Maintenance through a General Fund transfer. \$100,000 of that money was sustainable and the other \$30,000 was a one-time transfer. The City Council directed staff to increase the street maintenance budget this year by \$75,000 to a total of \$175,000. This was achieved by increasing the General Fund transfer to \$145,000, shifting a portion of the personnel services costs from the Street Fund to the Water and Sewer Funds, and by making other budgetary cuts. The budget cuts include:

- Reduce City staff by 1.25 Full-time Equivalent (FTE)
  - Eliminate 0.75 Utility Billing Clerk position
  - Eliminate two (2) Seasonal Public Works Employees
- Reduce Intergovernmental Contracts by \$25,000
  - Reduce Sheriff's Office Contract from 320 hours per month to 275 hours per month
- Restructure Staffing at Library
  - Eliminate 0.825 Librarian position
  - Add two (2) 0.45 Librarian positions
- Reduce Street Fund Personnel Services from 9% to 5% Overall Payroll
  - Water and Sewer Funds will pick up the payroll reduction at 2% overall payroll each
- Reduce HART Donation by 50% (\$7,500)
- Reduce Administration Training by \$5,500
- Eliminate the water rate study \$13,000

It is anticipated the remaining \$75,000 to achieve the \$250,000 street maintenance goal will be generated through the state gas tax increases approved in 2017 and implemented over the next three years.

Objective 7 is related to Objective 6, in that the monies provided through Objective 6, will be used to complete the design and engineering for the 4<sup>th</sup> Street project. Construction

funding for 4<sup>th</sup> Street will likely be a combination of city funds, private funds, and State or Federal grants.

Objective 11 is to design and construct the LaSalle Street pump station and piping beneath the railroad crossings. This project will be paid for out of the Sewer Reserve Fund. In 2018-19, the Sewer Reserve Fund provided a \$350,000 loan to the Water Reserve Fund to pay for the design and engineering work for the water bond project. The City will be selling bonds for the water project in this upcoming budget year, and the \$350,000 loan will be repaid to the Sewer Reserve Fund. This repayment will keep the Sewer Reserve Fund healthy and able to pay for this and other sewer capital projects.

### **Changes to the Budget:**

All actively used funds are still being used, and no new funds have been added. The most notable change to the budget includes the use of the 'Unappropriated Fund Balance' line on the expenditure table. Over the past several years, the City and HRA budgets would keep unappropriated monies from each fund in the Contingency line. Contingency money is meant to be money that will be spent in the budget year, it is simply not put in a specific expenditure line, making it more flexible. The City's practice has been to not use the contingency money, and that has been used for the next year's beginning fund balance. Since contingency money can be easily spent, staff felt it more appropriate to place next year's beginning fund balance in the 'Unappropriated Fund Balance' line. In this location, if the City needed to spend this money, it would require the City to pass a supplemental budget. The supplemental budget process follows the same process for adopting the City budget. Therefore, this money is a bit more protected in this line than in contingency. Staff's goal was to have a minimum of 30% of the total organization/program requirements be retained in the unappropriated fund balance. The unappropriated fund balance is not used in Reserve or SDC Funds.

### **Budget Highlights:**

1. Assessed Property values for our City increased by 3.4% in 2018 as per the Linn County Tax Assessor's office. This results in a property tax revenue increase from last year.
2. Residential construction activity in Harrisburg is slow with a handful of homes being built each year. Commercial and industrial construction activity is moving very well with many businesses filling vacant storefronts and industrial businesses expanding.
3. The Harrisburg Redevelopment Agency received a \$200,000 Oregon Main Street Revitalization Grant to do a historic renovation of the Oddfellows Building in the downtown.
4. Propose a 2% water rate increase. This rate increase will keep pace with inflation and rising cost of materials and personnel.
5. Propose a 4% sewer rate increase. In addition to keeping pace with inflation and rising costs of materials and personnel, this rate increase is necessary to enable a healthy ending fund balance.

### **City Projects:**

1. The General Obligation Bonds for the City's Water Project will be sold in August/September of 2019. The rates are better than they were at the time the bond was passed, which is great news. Construction on this project will begin in 2019-20.
2. The City will continue making street repairs this year. The remaining HRA street projects will be completed in FY19-20. Other local street projects will be engineered and construction will hopefully be completed in FY19-20.

3. The City will be engineering and constructing a new sewer pump station and piping beneath the railroad tracks on LaSalle Street, providing a second railroad crossing for the City's sewer system.

### **GENERAL FUND**

The beginning fund balance is down \$135,000 to \$731,700 this year. This is not too concerning, but something that we'll need to keep our eye on over the next few years. On the revenue side property taxes continue to rise while franchise fees and licenses and permits remain flat. Fines and forfeitures are climbing a bit, due to increases municipal court. It is expected this line will continue to rise as the City has taken on traffic offenses this year.

On the expenditure side, personnel services increased by around \$25,000. This is predominantly due to steep rate increases in the Public Employee Retirement System (PERS) and the employee health care costs. A 2% cost of living wage increase is also proposed, adding to the overall increase in the personnel services line. Materials and services is proposed to be reduced by \$140,000. This is the result of the Linn County Housing Rehabilitation Partnership grant funds being spent, and the City tightening its belt to put more money towards street maintenance. The reductions from the General Fund for street maintenance include reducing the Sheriff's office contract from 320 hours per month to 275 hours for a savings of \$26,000, reducing the HART Community Center Donation from \$15,000 to \$7,500, and reducing administrative staff training by \$5,500

The capital outlay dropped by \$200,000, which was the result of the Justice Center remodel project. The Debt Service payment for the HRA can simply be paid out of the HRA funds, so it is no longer needed out of the City's General Fund. Lastly, the General Fund contingency and unappropriated fund balance are a bit above \$525,000, which is a good increase above this past year's contingency.

### **STREET FUND**

The beginning fund balance of the Street Fund is up about \$155,000 from last year. Intergovernmental revenue is relatively flat, but this actually reflects a decrease in the amount of grants we are seeking, balanced by a \$26,000 increase in the state gas tax. The inter-fund transfers are also increased to \$165,000 this fiscal year.

On the expenditure side of the Street Fund, personnel services has dropped by \$33,000. This is the result of modifying the percent of total personnel services the Street Fund is paying for public works and utility billing employees. For the past few years the percentage has been 9% of total payroll, and this budget has dropped that percentage to 5%. The purpose for the change is to apply more money inside the Street Fund towards street maintenance. The 4% difference is being made up in the Water and Sewer Funds, at 2% for each fund. Materials and services and inter-fund transfers remains steady, while capital outlay is increasing by \$150,000. The goal with the increase in capital outlay is to accomplish more crack sealing and overlay of our city streets.

### **BIKE PATH RESERVE FUND**

This fund receives revenue from state shared revenues from the gas tax. By statute, 1% of the gas tax is to be used for bike and pedestrian facilities. This fund has a beginning fund balance of \$33,900 and is expected to receive \$2,500 in tax revenue. No specific projects have been identified for this money. It will continue to grow slow until a project has been identified.

### **COMMUNITY & ECONOMIC DEVELOPMENT FUND**

The beginning fund balance in this fund is down nearly \$150,000. This is primarily due to the renovation of the Justice Center building, which used, in part, money from the building and property reserve capital outlay line. Revenue in this fund comes from two sources, business and rental licenses, and donations.

There are a few items historically paid out of this fund, including summer concerts and movies, youth sports programs donation, a chamber of commerce donation, and the payment to Oregon RAIN for their work with our local businesses. We also propose providing funding for the work associated with the Main Street program out of the C&ED Fund.

### **LIBRARY FUND**

The beginning fund balance for the Library is down roughly \$10,000. This is not concerning. The primary revenue for the Library comes from a General Fund Transfer. The transfer this year was reduced by \$15,000 to help pay for street maintenance. To accommodate the reduction in revenue, the Library staffing was restructured from one 33-hour per week benefitted employee to two 18-hour per week non-benefitted employees. The cost savings came from the loss of benefits. With this restructuring more money was saved than needed for the street maintenance. The additional money was put back into the Library with a \$2,000 increase in the book budget, \$1,400 increase in professional development, and a new \$4,000 Library programs expenditure line.

### **STORM DRAIN RESERVE FUND**

The Storm Drain Fund is used to pay for public storm water improvements. The beginning fund balance is up about \$4,000. Revenues for this fund are collected as a fixed rate assessment on the utility bill. There is no rate increase proposed for this fund in FY2019-20. It is expected the fund will collect \$65,000 in revenue.

### **DEBT SERVICES FUND**

This fund is used to repay debts the City has collected. For the past many years, this fund has been used to repay the 1999 Water Bond. As mentioned above, the City will sell General Obligation Bonds this August/September for the water improvement project. Taxes to repay this bond will start to be collected in 2019. Total taxes to be collected for both bonds is estimated to be \$389,000. Total principal paid on the two bonds will be \$105,000, and total interest will be \$281,000.

### **OFFICE EQUIPMENT RESERVE FUND**

The beginning fund balance is a little over \$24,000 this year. Due to the really healthy beginning fund balance, the inter-fund transfers from the General, Water, and Sewer Funds were reduced by \$2,000 each. Inter-fund transfers are the primary source of revenue for this fund. The main expenditures from this fund include software purchases and licenses, computer and office furniture purchases, and the replacement funds for the copier machine and servers. We expect to replace a few computers at City Hall this year.

### **EQUIPMENT RESERVE FUND**

The beginning fund balance is slightly down this year. The city purchased a few pieces of equipment this last year, most notably a skid steer and attachments to assist our work primarily at the sewer plant. In this fund, we set aside various amounts of moneys into different expense lines for specific pieces of equipment that will need to be replaced. Currently, the transfers and earned interest do not equal the amount desired for each piece of equipment. In a perfect world this numbers would be equal, but we are

managing the best we can and taking care of the equipment we have to extend the useful life of the equipment. The only planned major equipment purchases for FY2019-20 will be a utility truck.

### **WATER FUND**

The beginning fund balance is up roughly \$70,000. The biggest change in this fund is the proceeds from selling the general obligation bonds for \$7,500,000. Staff proposes a 2% rate increase in the Water Fund. Small rate increases are necessary to keep pace with inflation, personnel costs, and new costs associated with the water system.

As mentioned above, the Water Fund absorbed a 2% increase in personnel services from the Street Fund for street maintenance. Staffing levels were also reduced in this fund. There were no major changes in materials and services. Staff propose a \$25,000 transfer to the Water Reserve Fund, and a repayment of \$350,000 to the Sewer Reserve Fund.

### **SEWER FUND**

The beginning fund balance for the Sewer Fund is down roughly \$130,000. This is concerning, as we saw a similar drop in the beginning fund balance from FY17-18 to FY18-19. A few factors have contributed to this downward trend. Despite small rate increases over the past several years, revenues are not growing as expected. Over the past 5 years, sewer revenues have only increased by a total of \$35,000. During this same period, expenditures have been outpacing the revenues. Staff propose a 4% rate increase to help restore stability to the Sewer Fund.

Similar to the Water Fund, the Sewer Fund absorbed a 2% increase in personnel services from the Street Fund for street maintenance. Staffing levels were also reduced in this fund. Staff do not propose to transfer any money to the Sewer Reserve Fund from the Sewer Fund. However, a \$350,000 loan to the Water Fund will be heading back to the Sewer Reserve Fund in this fiscal year.

### **WATER RESERVE FUND**

This fund is designated for major purchases and projects for the city's water system. Transfers from the Water Fund are the primary source of revenue. The Water Fund is providing a \$25,000 transfer this year. The beginning fund balance is down \$30,000 from last year, meaning the city spent some money on water projects this past year. It should be noted, the water bond projects are being paid directly out of the Water Fund.

### **SEWER RESERVE FUND**

This fund is designated for major purchases and projects for the city's sewer system. Transfers from the Sewer Fund are the primary source of revenue. The Sewer Fund is unable to make a transfer to this fund this year. However, this year the Water Fund will be repaying a \$350,000 loan made from this fund. The beginning fund balance is significantly less than last year, and this is primarily due to the loan previously discussed. Also discussed above, the City will be doing a couple of major sewer projects in FY2019-20. One of the projects is to construct a new pump station and piping beneath the railroad tracks on LaSalle Street. The other project is to replace the pumps at the main lift station in downtown. These projects will have a major impact on the Sewer Reserve Fund, but are necessary for the health of the sewer system.

### **SYSTEM DEVELOPMENT CHARGES (SDCs)**

There are five distinct SDC Funds: Transportation, Parks, Storm, Water, and Sewer. System Development Charges may only be used for new public improvements, master



planning, or expansions to the systems. These funds cannot be used for maintenance of the system. Revenues for these funds are collected through development permits. Rates are tied to the master plans and capital improvement plans. Staff conservatively estimate SDCs based on two new single family dwelling units per year. This estimate is very conservative and prevents the City from spending money it may not collect.

Funds from the Parks SDC Fund will be used to make the final payment of the 100+ acre property from Knife River. Additionally, funds from the Transportation SDC may be used for updating the city's Transportation System Plan and for some construction projects.

### **HRA BUDGET**

The proposed HRA budget includes capital construction funds for street and infrastructure improvements in the downtown. The remaining street and infrastructure projects will be completed in fiscal year 2019-20, and include: Smith Street west of Hwy 99E, 2<sup>nd</sup> Street between Smith and Macy, and Macy Street between 2<sup>nd</sup> and Hwy 99E.

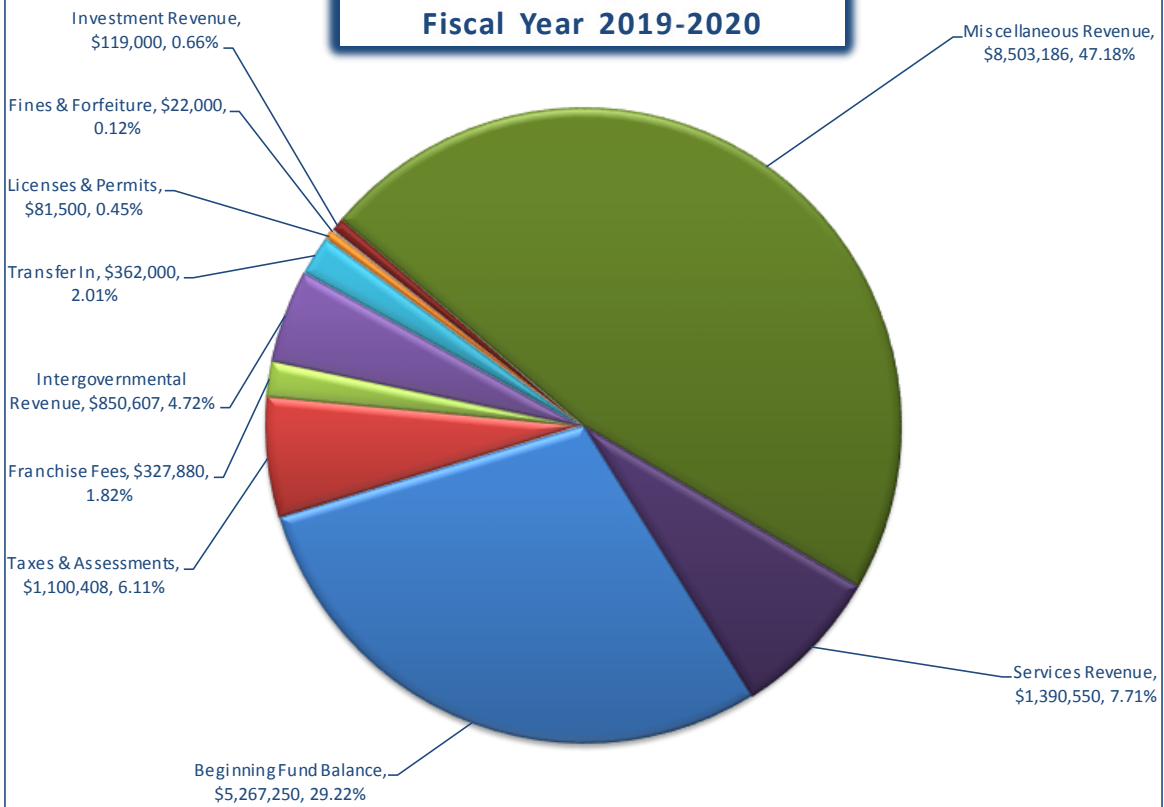
There are also funds available for HRA-offered grants and loans to private business and property owners. This past year, the HRA Board authorized three new grants. There are roughly \$100,000 unrestricted funds remaining in the grant and loan programs. Once the three issued loans are repaid, there will be an additional roughly \$120,000 made available for these programs.

As noted above, debt service payments for HRA debts will be made directly out of the HRA funds.

Respectfully submitted,

Brian Latta  
City Administrator

### Where the Money Comes From Fiscal Year 2019-2020



### Where the Money Goes Fiscal Year 2019-2020

