

**CITY OF PHILOMATH
BUDGET COMMITTEE
MINUTES
May 11, 2017**

Chair Robert Boss convened the meeting of the Philomath Budget Committee at 7:00 p.m. at City Hall, 980 Applegate Street, Philomath.

1. ROLL CALL

Present:

City Council Members: Mayor Rocky Sloan, City Councilors Doug Edmonds, Charla Koeppe, Candy Koetz, David Low, Sean Manning and Eric Niemann.

Citizen Members: Robert Boss, Marion Dark, Ashley Folgate, Murl Meredith, Scott Weaver, and Terry Weiss.

Staff: Chris Workman, City Manager; Joan Swanson, Finance Director; Ken Rueben, Chief of Police; Kevin Fear, Public Works Director; Ruth Post, City Recorder; and Garry Black, Public Works Operations Supervisor.

Absent: Citizen Member Brian Noakes.

2. APPROVAL OF MINUTES

2.1 May 4, 2017, Minutes – Amendments were requested as follows:

Marion Dark:

Page 3, Paragraph 4:

Line 2 – Delete “COLA,” and Line 3 – Add “\$7,500 of” before Miscellaneous. The sentence should read: She suggested eliminating deferred compensation and longevity pay from the General Fund and Public Works Funds and \$7,500 of Miscellaneous in the City Council budget ...

Line 8 – The sentence, “She stated that department heads should be directed to cut their budgets by 6% but that none of her recommendations touch the police department or union contracts” should read: “She stated that an alternative way to decrease the budget shortfall would be to go back to the 2015-2016 budget totals and let the Department Heads make allocations as they know best.”

Mr. Weaver requested additional detail as follows:

Page 5, Paragraph 1:

Line 4 – Add the sentence: “He stated that with the General Fee at \$22 per month, it would cover the 7.1% increase for five years.”

Ms. Post offered to make the corrections as requested and place the May 4, 2017, minutes on the agenda again for the next meeting. Chair Boss tabled approval of the May 4, 2017, minutes.

3. VISITORS/PUBLIC COMMENTS

3.1 Robert Ponder, Philomath, OR -- Robert Ponder thanked Mayor Sloan for providing him with a copy of the Oregon Department of Revenue publication titled *Local Budgeting in Oregon*. He had concerns about the fee being inappropriate because it doesn't meet the criteria allowed as described on Page 5 under “Elections and budgeting.” He stated that a tax levy is the best solution to the problem. He stated that

the processing being used is flawed and changes should be made to find a way to improve via the lessons learned methodology.

3.2 Mark Weiss, Philomath, OR -- Mr. Weiss stated he has experienced two successful methods for cutting a budget during his career. He described cuts that occurred while serving as a program coordinator for a non-profit. He stated he volunteered to take a 22% pay cut so that the hands-on teachers weren't impacted. He suggested collapsing a couple of positions; and if a position is to be eliminated, it should be a manager, instead of a hands-on worker. He cited working at LBCC during a budget crisis in which the President refused a pay raise. He stated that there must be some form of savings to safeguard during times of budget downturn.

3.3 Joseph Sullivan, Philomath, OR -- Mr. Sullivan recommended that the frolic funding and gap between the flower basket revenue and expenditures should be addressed via corporate sponsorships. He stated that the CEO of Alyrica is willing to accept that sponsorship or open a bidding war for the opportunity to win those sponsorships.

3.4 Michael Sprouse, Philomath, OR -- Mr. Sprouse stated that the speaker request forms have reduced time allowed to 3 minutes during the Budget Committee meetings and suggested the time be restored to 5 minutes as at the City Council meetings. He stated that this is an affordability issue for residents. He read all of the taxing districts that receive funds on a property tax statement and stated that the total impact should be considered.

3.5 Robert Turner, Philomath, OR -- Mr. Turner stated he sees comparisons between the national budget and the local budget. He stated a cop in Philomath requires \$110,000 in budget funds and that translates into a \$423 per day cost for a cop. He described using contract workers during his career to fight fires. He suggested looking at other alternatives for police coverage, including contracting for private policing services like Cops For Hire. He stated that the Police Department cannot continue to consume over 50% of the General Fund budget and cannot be left off the table. He described the effect of the declining ending fund balance. He challenged the Budget Committee to balance the budget without asking for more money and stated that contract packages must be renegotiated in the near future.

3.6 Rick Flacco, Philomath, OR -- Mr. Flacco stated he had previously suggested the possibility of moving the Republic Services and Pioneer Telephone franchise fees to the General Fund from the Street Fund; and Mr. Workman had explained to him those fees serve as a stable funding source for the Street Fund. He recommended raising a local gas tax to shore up the Street Fund. He stated that all franchise fees should collect the maximum allowed by law. Mayor Sloan stated a gas tax would be a new tax. Mr. Meredith stated that Ms. Dark had also made the proposal to transfer those franchise fees from the Street Fund to the General Fund.

4. CODE OF CONDUCT

Ms. Folgate distributed a Code of Conduct for the Committee to consider upholding during deliberations. It was unanimously agreed that the Committee would adhere to the Code of Conduct as presented.

5. **GENERAL FUND DISCUSSION**

Chair Boss stated that six proposed budgets have been made with different budget reductions. He suggested each of the authors be allowed to present their proposals.

Ms. Folgate reviewed her recommendation as included in the packet and stated they are based on citizen advice she had received. She requested removing the cut to incentive pay from her proposal as it was included in error. Her proposal recommended a \$6 fee for residential, \$10 for commercial, and \$0 for low income. She described her reasoning for her proposed reductions and noted that the City could have gone out for a local option levy during the recession years ago but chose to spare the citizens of another line item on their tax bills. She stated she chose to swing wide and swing small in hopes of reaching an operationally sustainable budget. She reviewed each of her proposed cuts including deferred compensation, longevity pay, a 1% cut to the Police Department, parks, social service funding, League of Oregon Cities membership, City Council miscellaneous, Frolic fireworks, transfers for buildings and contingency. She stated this was a compromise budget and recommended this budget scenario for a year to be reviewed next year.

Mr. Meredith stated he proposed a \$5 fee and reviewed his proposed reductions as included in the packet, including almost \$85,000 that would come from employees and \$163,000 in cuts basically in contingency and transfers. He noted that almost \$70,000 in transfers in the LB&E for court software and a police car drop off in the 2018-2019 budget and some of those transfers should be able to be moved into the second year. He stated that his proposed ending fund balance is \$160,667 assuming that the \$50,000 in contingency is spent. He stated that would be a 60% increase from the current year's ending balance; and if contingency isn't spent, it would be a 100% increase. He stated this is a proposed one year solution.

Mr. Low stated that he submitted two proposals that are included in the packet. He stated that cutting back has been documented in past Budget Committee meetings and tax growth recovery has not occurred, and may not occur for some time. He described the concern for low income residents and stated that there are citizens who a fee will definitely hurt. He proposed two options for the fees. He complimented the Police Department on the job they do and noted many of the cases they work on are beyond their control. He added that Benton County, Corvallis or State policing should not be relied on. He noted, however, that the department is 51% of the General Fund budget. He stated he reluctantly proposed cutting one officer in his \$4.50 residential and \$7 commercial fee proposal. He stated that if this is a multi-year situation, it may be more sustainable. He described the consequences of reducing an officer. He suggested that the \$9/\$12/\$0 proposal would be more of a short-term option. He described the need for a healthy ending fund balance towards paying the bills for the four months until the property taxes are received in November.

Ms. Dark stated her proposal, included in the packet, was a \$5 fee and included transferring the Republic Services and Pioneer Telephone franchise fee revenues from the Street Fund. She reviewed her proposed reductions, including deferred compensation for \$30,305, longevity pay \$15,268, City Council miscellaneous \$10,000, Frolic \$3,500, contingency \$50,000 and \$50,000 transfers to LB&E for a total adjustment to expenditures of \$159,073. She stated this left a contingency of \$50,000, transfers to

LB&E of \$100,000 and an unappropriated ending balance of \$130,473. She stated deferred compensation and longevity pay adjustments to the Public Works managerial staff in the Street Fund would help to offset \$23,856 of the franchise fees transfer in the Street Fund, leaving a reduction of \$25,544 in the Street Fund which might require adjustment of the contingency or ending fund balance in that fund. She stated she didn't believe it should necessitate any adjustment in the street fee.

Mayor Sloan deferred to allow Scott Weaver to present a different proposal. Mr. Weaver's recommendation was a no fee proposal. He stated he took all the cuts on the table to see what it looks like and the second proposal takes advantage of looking into the future a couple of years and seeing what it looks like. He described his criteria, including cash in the bank, which has historically been about \$200,000. He also stated his other criteria was adjustment surplus, to make sure there is a small surplus that adds up to the cash balance to build it up to historic levels and create a margin buffer to weather economic storms. He described his analysis process. He reviewed the bus figures and given the low ridership and City subsidy of \$47,000 per year, he believed the City is paying almost \$5 per person per day to ride the bus and this is way too high and should be considered for elimination. He noted his first proposal includes reduction of a police officer and comes up with a balanced budget with cash reserves of approximately \$200,000 for the next year. In his second proposal, Mr. Weaver recommended cuts plus borrowing \$110,000 because the budget forecast improves over subsequent years. He recommended borrowing money from other funds internally or trying to raise money in the bond market to get through this year without having to make too many drastic cuts.

Councilor Manning reviewed a proposal that she distributed. She recommended no fee and transferring zero funds to LB&E and reducing contingency to \$50,000, which would create a balanced budget. She stated that most of the people she has spoken to have no problem with the fee and think Philomath has been well run. She stated Philomath is known for being fiscally sound and she doesn't want to get off course from that. Her concern with this proposal was that it pushes the problem out to future years. She stated her concerns over a short term fix instead of coming up with a long-term fix. She recommended making cuts this year and instituting salary freezes and spending in subsequent years. She stated she didn't realize the \$17 fee would receive this level of resistance. She described elements that could impact future years such as development and PERS costs.

Mayor Sloan stated that his proposal was a basic starting point based on what had already been agreed upon in the straw polls at the last meeting using a \$10 fee with cuts to City Council miscellaneous \$10,000, Frolic \$3,500, transfers for buildings \$78,400 and contingency \$50,000, for a total of \$141,900. He stated more cuts could be voted on and added in, but his goal was to create a starting point.

Ms. Weiss stated she thought there were cuts that could be and probably should be made. She recommended a cap on salaries and elimination of the step program completely and have merit raises with a percentage that people can expect or a percentage that can be negotiated as allowable by the union. She stated the exception would be the union employees' step program. She stated this is the only workplace she has ever heard of, public or private, that doesn't use flexible spending. She described the use of flexible spending accounts to allow employees to have an amount deducted pre-tax from salaries to cover deductibles, medication costs or other allowable medical

expenses. She stated she had difficulties determining what some employee salaries are because they are spread over different categories. Regarding incentive pay, she stated that an employee that gets training owns the training and takes it with them if they leave. She stated it's an equal benefit for the City and employee. She stated that incentive pay works out to a lot and should be cut. She questioned the planner expense and stated she sees no planning going on except by developers. She stated that the City planner shows up, goes to the Planning Commission, reels off the statutes and says it's good. She recommended eliminating it totally or cutting it substantially. She stated every inch of Benton County can be annexed; but unless the developer says he's going to develop it, it sits there. She stated that once it's annexed, though, it takes away all of the citizens' say so. She stated there are acres and acres of land within the city limit that are undeveloped. She stated she cannot remember a request for a rezone being turned down and it's easy to get a rezone. She suggested the City Manager should be sent out to shake up developers to get development going on. She stated it would be nice to get more businesses.

Ms. Dark stated her recommendations are for one year, to be re-evaluated. She stated she wouldn't recommend it for five or three years. Ms. Weiss suggested putting something in place for one year and go out to the ballot to determine how many people supported it. She stated this would tell the City Council and Budget Committee what they need to know.

Mr. Low stated that the Council did consider going out to the ballot for a tax levy. He stated that the dollars that would result would require a very high assessment rate. He explained that compression causes the amount of money that can be collected to impact the equity factor with some homeowners paying more than others. Ms. Swanson further explained the effect of compression and the Council's opinion that it wasn't the most equitable option. Councilor Niemann stated that a levy also negates the ability to provide any low income relief. Mr. Meredith questioned if the fee itself could be put to the voters instead of a levy.

Mr. Workman stated that the City Council can send any referendum to the voters. Ms. Swanson stated there is a time lag in going out to the voters that wouldn't meet this year's budget timeline. Ms. Weiss stated her comments were for a one-year budget and then go to the November ballot with a question.

Councilor Koeppé stated when the Finance/Administration Committee originally considered the issue, they were anticipating a one-year solution followed by a vote. Mr. Weaver stated his opinion is that the budget has been underperforming but not mis-managed. He stated he believed there was a lack of management by the City Manager. He stated that he is not in favor of a fee because if budgets had been cut in prior years this situation wouldn't exist. He stated there is a lack of guidelines and fiscal policies in place. He stated that the City was able to manage cash carryover throughout the Great Recession and only now finds itself in this situation.

Councilor Koeppé questioned if prior years' General Fund transfers could be transferred back into the General Fund. Ms. Swanson stated that they could as long as they were funds that originated in the General Fund. Councilor Low stated that the prior City Manager was very experienced and Mr. Workman is developing his skills. He stated that Mr. Workman is well aware of the need to get business development in Philomath. Mr.

Low stated that the Finance Director is very experienced and managed the budget throughout the recession. He described residential developed that was completed at the beginning of the recession and the lack of that since then. He stated he did not advocate cutting salaries at this time due to the impacts it can create on morale and productivity.

Councilor Niemann questioned if the Committee believed that the contracts that have been negotiated with the City's employees should be honored or negated. He stated that the Police Chief took a pay cut from his previous position at the Department of Justice because of the negotiated salary package he accepted. He stated that there could be serious legal and financial ramifications for invalidating negotiated contracts.

Mr. Meredith stated that you can't just say it should all go on the citizens or all on the employees. He stated it needs to be shared. Mr. Weaver stated that every year there is a \$100,000 increase in year-over-year. He stated that 7% is a very high rate of inflation and hasn't been seen in decades. Ms. Dark agreed with Mr. Weaver and there is an expenditure problem. She stated that the rate of expense increases is out of control.

Mayor Sloan stated that the cost of doing business has gone up. He pointed out that the City is the last local taxing district without an operating tax levy. Ms. Weiss stated that the City has more stable sources of income than a business. She stated that the budget should be considered as having a dependable amount of income. She stated that there was no recommendation to cut salaries but salaries should be capped. She advocated for eliminating the step system.

Councilor Koeppe stated that salary steps are not a guarantee but are awarded as merited. Mr. Weaver stated that he agreed with Mayor Sloan that business costs do go up, but a more reasonable rate of increase is 5%, not 7%. He stated that salaries and wages set by comparing to other cities is a practice taken directly from corporate America and reduces worker incentive.

Ms. Swanson stated that many good points have been made. She pointed out that the Public Works Funds have yet to be reviewed and another meeting will need to be added to the schedule. She stated that the property rolls are currently being prepared for the coming year and she can verify that there has been virtually no growth in the property tax base. She stated that anything less than a \$600,000 cash carryover does require that funds be borrowed and that practice has been ongoing.

Chair Boss recommended taking straw polls on the proposed reductions and the proposed fees. Councilor Edmonds requested a straw vote on the proposals. He recommended looking at the proposal from Mayor Sloan with the addition of cutting the bus service.

Mr. Meredith questioned if Mayor Sloan's proposal was a one-year proposal. Ms. Swanson stated that the Committee is voting on the budget for the 2017-2018 year and the 2018-2019 column is provided for informational purposes only. Mr. Weaver questioned if it is possible to stipulate the fee as a one-year plan. Ms. Weiss restated the proposal to take the fee to the voters for subsequent years and stated she didn't believe she had agreed to anything.

The reductions proposed included:

\$10,000 Eliminated funding of City Council Miscellaneous
\$3,500 Eliminated City Council Frolic funding
\$78,400 Reduced transfers to Land, Building & Equipment
\$50,000 Reduced Contingency
\$141,900 Total

POLL: Elimination of the bus service for \$47,400 was considered by a raised hands vote. Yes 7, No 6. (Yes: Weiss, Weaver, Edmonds, Manning, Niemann, Koeppel and Meredith. No: Dark, Boss, Folgate, Koetz, Low and Sloan.)

Mr. Meredith questioned if the transfer of the franchise fees from the Street Fund could be considered. Ms. Swanson stated it could be added but would impact the Street Fund budget which hasn't been presented yet.

POLL: Mr. Meredith requested a vote to eliminate deferred compensation for \$30,306. Yes 3, No 10. (Yes: Dark, Weiss, Meredith. No: Weaver, Edmonds, Manning, Boss, Folgate, Koetz, Low, Niemann, Koeppel, and Sloan.)

There was discussion about increasing the LB&E beyond the \$78,400 for buildings. Councilor Niemann explained that the Police Department has been awarded a grant for electronic ticketing software but requires a \$10,000 match. Ms. Folgate requested that the projects in the LB&E be summarized by staff. Ms. Swanson reviewed the LB&E transfers shown on Page 71 of the budget, including the \$78,400 for buildings. Ms. Swanson confirmed the need for the police match and the court software. Mr. Meredith questioned if the remainder could be included for an additional reduction of \$21,600. Ms. Swanson suggested using an even \$100,000 reduction.

POLL: Reduction of the LB&E transfers by \$100,000 was considered by a raised hands vote. Yes 10, No 3 (Yes: Weiss, Manning, Boss, Folgate, Koetz, Low, Niemann, Koeppel, Sloan and Meredith. No: Dark, Weaver and Edmonds.)

Ms. Swanson stated the addition of the bus and the additional LB&E transfers to the reductions brought the total to \$180,000, which would leave a fee of approximately \$8.

Mr. Weaver questioned if the City owns the bus. Ms. Swanson explained that a public hearing must be held before its elimination and there may be money owed for the federal grant funding. Councilor Low suggested revising his proposal to \$8/\$12/\$0 and saving the bus. Ms. Weiss requested adding 50% of the planner fee because there is no planning going on. She stated that \$13,000 could be cut from the planner fee.

Mr. Workman stated that ignorance of where money is going isn't a reason to make a cut. He stated that the City has enough work that a planner could be utilized for twice the number of hours that the City budgets for. Mr. Workman described the types of decisions that the planner makes administratively and the analysis completed for staff reports on applications. He stated that the planning department is busier than it has been in years as evidenced by the increase of the City Recorder's salary allocation to 40% in the Building Permits Department and the overall increase in permits and new home construction.

Mr. Meredith suggested that, upon reviewing the Street Fund, if the franchise fee can be transferred that it be stipulated to go to reduce the fee.

(Chair Boss called for a break at 9:00 p.m. and reconvened at 9:10 p.m.)

POLL: Councilor Koeppe requested considering the Parks cuts proposed by Ms. Folgate for \$16,000. Ms. Folgate described her analysis of the Parks budget and the thought that they be considered for one year to see the impact it would have.

Vote by raised hands to reduce the Parks Department budget by \$16,000: Yes 9, No 4 (Yes: Weiss, Weaver, Manning, Low, Niemann, Koeppe, Sloan Folgate, and Meredith. No: Dark, Edmonds, Boss, and Koetz.)

With the additional reduction of \$16,000 in the Parks Department, Ms. Swanson stated the fee could be reduced to \$7 per month. Mr. Meredith questioned if the franchise fees were ultimately transferred from Streets to the General Fund would that reduce the fee to \$5. Ms. Swanson confirmed it would.

Ms. Weiss: Questioned what the intended mechanism is for the discount. Councilor Low suggested considering that as a separate matter in the interest of time. Mr. Weaver questioned using debt financing to borrow. Ms. Swanson stated that would create additional expense.

Councilor Edmonds requested a straw vote on the current reduction package. Ms. Swanson suggested adding the \$1,200 generously offered by Mr. Sullivan to make the flower basket program self-supported. Councilor Niemann questioned transferring money back from the LB&E. Ms. Swanson stated the Police Department has a failing parking lot and has foundation issues that an engineer is reviewing. She recommended against moving those monies back into the General Fund.

POLL: Mr. Meredith requested a poll to reduce contingency to \$0. Yes 2, No 11 (Yes: Weiss, and Meredith. No: Dark, Weaver, Edmonds, Manning, Boss, Folgate, Koetz, Low, Niemann, Koeppe, and Sloan).

Chair Boss proposed considering a \$7 fee with \$229,000 in cuts. Ms. Weiss requested addition of an amendment to put the matter to a vote at the November election. Mr. Workman stated the Committee can make a recommendation but the City Council would make the ultimate decision. Mr. Weaver asked to confirm that the fee is for one year and the Committee would review it after one year.

MOTION: Councilor Niemann moved, Councilor Low second to make cuts of \$229,000 from the General Fund as follows, resulting in a \$7 per month fee for the fiscal year 17-18. \$10,000 Eliminated funding of City Council Miscellaneous

- \$3,500 Eliminated City Council Frolic funding
- \$100,000 Reduced transfers to Land, Building & Equipment
- \$50,000 Reduced Contingency
- \$47,400 Elimination of Bus
- \$16,000 Reduced Parks Department budget
- \$1,200 Flower Basket sponsorship by Alyrica

Motion APPROVED 9-4 (Yes: Edmonds, Manning, Boss, Koetz, Low, Niemann, Koepe, Sloan, and Folgate. No: Dark, Weiss, Weaver, Meredith.)

Ms. Swanson clarified that \$229,000 is an approximation close enough to the actual total of the reductions.

Ms. Swanson explained that an additional meeting date is going to be required to complete the budget review and make final recommendation. A straw poll was taken. The Committee will meet on Thursday, May 18, and agreed to also meet on Tuesday, May 23, 2017.

6. ADJOURNMENT

Chair Boss adjourned the meeting at 9:34 p.m.

SIGNED:
Rocky Sloan, Mayor

ATTEST:
Chris Workman, City Manager