



CITY OF LA PINE

Mayor

Ken Mullenex

Council Members

Stu Martinez
Kathy Agan
Karen Ward
Dennis Scott

Fiscal Year 2016-17

Budget Message

May 1, 2016

The Honorable Mayor Ken Mullenex

Members of the La Pine City Council

Members of the La Pine Budget Committee

As the Budget Officer for the City of La Pine, it is my pleasure to present the proposed Fiscal Year (FY) 2016-17 budget for the City of La Pine. The budget is submitted as required under Chapter 294 of the Oregon Revised Statutes (ORS) and City of La Pine Code.

It is worth noting the review process of the proposed budget. The ORS budget law separates the process into three levels: the City Manager, the Budget Committee, and the City Council. This allows for input and opportunity to suggest alteration if any review level believes it is in the best interests of the City of La Pine. We pride ourselves on the ability to maintain a fiscally responsible budget, while providing the quality public services the citizens of La Pine deserve.

Budget Overview

It is clear that tremendous care and effort has been put into stabilizing the City's financial systems over the last handful of years. Many changes occurred, some more painful than others, and an array of policies were implemented to ensure financial operations were functioning effectively. The City staff will continue to be diligent in seeking areas for improvement, always keeping an eye on the short-term and long-term needs of the City. After the financial management and health of the City, the next two areas of focus are the essential services provided to the public: Water and Sewer Services (Public Works) and Planning Services (Community Development).

A continued focus this year is on the Community Development Department. The City has seen applications for development pick up significantly since January 2016 and anticipates it to continue through Fiscal Year 2016-17. There has been stability with planning services staff since July 2016 and the team in place has been very efficient. City staff intends to continue this trend which will make the process much easier for the general public, developers, businesses, and industry as they orient themselves within the City of La Pine.

City staff recommended the creation of an Industrial/Economic Development Fund to better track industrial park land revenue from leases, purchase options, and sales. This fund will help to support the Area Economic Development Manager, market the industrial park in La Pine, and save for future industrial land development. The expenditures in the fund will largely be dictated by the revenues generated by the above mentioned sources.

This year, the City saw capital outlay projects come to completion in the form of a signal at First Street and US 97, sidewalks, and streetscapes. There are similar projects in the near and long-term future for the City. This year, the City funded a branding initiative that was partially paid for by a grant. All of these steps will continue to improve the physical and perceived image of La Pine, and ultimately lead to more investment by businesses, tourists, and residents.

The core of this budget is on strengthening essential services (Public Works and Community Development) while investing in infrastructure improvements (Water/Sewer, Roads, Streetscapes, etc.) all of which will pay dividends in the long-run. It is no secret that Central Oregon is a desired place to live, work, and play. The City must plan accordingly for business and residential growth in the second decade of incorporation. Due to smart planning and hard work, the City is in a great position and has a very bright future.

Priorities and Issues

This proposed budget provides funding and reserves for several projects and programs that have been identified as priorities by both City staff and the La Pine City Council.

- Set-aside \$850,000 in reserves for the US 97 Sidewalk & Streetscape Project Westside Project, Cagle Neighborhood road improvements, and general street maintenance.
- Earmarked \$40,000 across three funds for the Sustainable City Year Program through the University of Oregon to provide creative, forward-looking ideas for the downtown core along Huntington Road and Wickiup Junction area.
- Set-aside \$25,000 for Capital Outlay in the Tourism Fund for a signature “Welcome to La Pine” monument sign to be considered after the branding initiative concludes.

Water Fund

During FY 2015-16, the City updated the Water Master Plan with grant funds from the Infrastructure Finance Authority. This resulted in a 20-year plan for the City’s water system. The City changed its rate structure for water service in July 2015. This budget includes a water rate increase of 3%. Currently, the City’s System Development Charges (SDCs) methodology is under review. City staff will continue to pursue a funding package and conduct community outreach for the future Cagle/Glenwood Water Expansion. That project is expected to move through funding, engineering, and construction in 3-5 years with City Council checkpoints along the way.

Sewer Fund

During FY 2015-16, the City updated the Sewer Master Plan with grant funds from the Infrastructure Finance Authority. This resulted in a 20-year plan for the City’s wastewater system. The City changed its rate structure for sewer service in July 2015. This budget includes a sewer rate increase of 10%. Currently, the City’s System Development Charges (SDCs) methodology is under review. City staff will continue to pursue a funding package and conduct

community outreach for the future Cagle/Glenwood Wastewater Expansion. That project is expected to move through funding, engineering, and construction in 3-5 years with City Council checkpoints along the way.

Urban Renewal District

This is the second year of revenue for the Urban Renewal Fund. Last year, all of the approximately \$20,000 of revenue was moved to reserves, other than for accounting/audit and contracted services. The City staff plans to move all but \$5,000 (Sustainable City Year Program) of this year's revenue to reserves. The Urban Renewal Fund takes decades to grow and has the ability to be leveraged grants, revolving loans, and other expenditures to improve the area within the District as outlined in the Urban Renewal Plan. It is expected that similar revenues to last year will be received and a budget is being developed for FY 2016-17. The Urban Renewal Agency will hold a budget process in May and June.

Conclusion

The City of La Pine continues to be a financially sound organization that relies on diverse sources of revenue that are matched with healthy fund stability. This proposed budget for FY 2016-17 reflects the priorities, policies, and goals of the La Pine City Council and the community it represents. As with other cities, our challenge remains the same – to balance priorities while being prudent about rising costs and variable revenues.

I have outlined below the major changes to funds in FY 2016-17 for the Budget Committee, City Council, and community to better understand the direction recommended by staff. The City staff has been instrumental in making 2015-16 very successful from all measures. Thanks to Rick Allen, Ashley Williams, Brenda Bartlett, Patti Morgan, and Scott Perkins, this budget is presented with clarity and confidence for the coming year.

If you have any questions, please feel free to visit City Hall or contact me via email cmisley@ci.la-pine.or.us or phone 541-536-1432.

Respectfully Submitted,

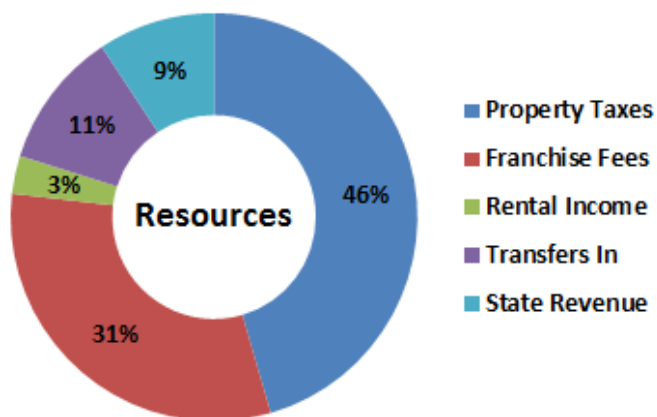
Cory Misley
Assistant City Manager
Budget Officer

General Fund

Property Tax Values and Tax Rates

The City of La Pine has an approved maximum tax rate of \$1.98 per one thousand of assessed value (millage rate). This budget reflects a statistically based, yet conservative, estimate of the expected revenues for FY 2016-17. The past year has seen increases in property values as the economy and real estate markets continue to rebound. As a result, City staff anticipates an increase in property taxes collected by the City. These revenues are the single largest contribution to the General Fund and significantly fund City operations.

This year is the second in a row where market conditions have improved, and we should continue to see that trend for the next couple of years. The most important aspect of maintaining stable City operations and ability to construct projects is not overestimating revenues and overspending. The City must look on 5-15+ year time horizons to plan for capital projects and continue to save incrementally to reach the required funding levels. Fortunately, due to thoughtful financial management over the last five years, the City is in excellent financial condition and is poised to be successful in achieving its priorities both short and long-term.



\$1.98 Millage Rate Estimated to generate \$264,239 in Property Tax Revenue to the General Fund (10-310-110)

Business License Revenue

Since July 1st, 2014 the City of La Pine has required those doing business within the City to obtain a business license. With any new program and requirement, it has taken time to mature while City staff has worked to inform and educate the business community. As expected, the number of business licenses each year has continued to grow; there are currently over 250 active business licenses. However, City staff continues to pursue businesses and increase enforcement of this requirement.

The business license fee is \$45 annually or \$25 temporary, while nonprofits and community organizations have no fee. The proposed revenue for FY 2016-17 is \$10,000 up from \$9,000 last

budget cycle. In the General Fund, the revenue from Business Licenses is spent through the City Improvement Projects (Business) line item; this was increased from \$14,000 to \$15,000 to reflect an anticipated increase in business license revenue. The increase demonstrates the City's continued commitment to the business community as these funds are designated to improve the business and economic vitality in the City.

\$10,000 in the General Fund Revenue (10-320-230)

\$15,000 in the General Fund for City Improvement Projects (10-520-2175)

Transfer In of Revenue from Tourism, Water, and Sewer Funds

The tax levied on the use of lodging throughout the City of La Pine is referred to as the Transient Room Tax (TRT). The recent additions to local lodging institutions, uptick in the regional economy, and subsequent higher lodging rates have resulted in growth of TRT revenue. The Oregon Revised Statutes (ORS) allows Cities to transfer up to 30% per budget year of TRT revenue to the General Fund for operations costs. The amount transferred into the General Fund is projected to increase by \$3,000 to \$33,000 for FY 2016-17.

The Water and Sewer Funds contributed \$12,000 in FY 2013-14 and FY 2014-15, and \$15,000 in FY 2015-16. These transfers to the General Fund over the last few budget cycles assist with shared costs associated with operating the water and sewer utility that includes City Council and staff training. The Water and Sewer Funds will each contribute \$15,000 for the FY 2016-17 budget, no increase proposed.

The total transfers in to the General Fund from the Tourism, Water, and Sewer Funds are \$63,000 for FY 2016-17. These are shown in the budget as line items:

\$33,000 from Tourism Fund to General Fund (10-480-220)

\$15,000 from Water Fund to General Fund (10-480-500)

\$15,000 from Sewer Fund to General Fund (10-480-520)

Accounting and Audit

Currently, the City has a professional services contract with a regional accounting firm to provide the necessary financial services. Typically, the finance contractor is at City Hall one day per week to reconcile bank statements, conduct journal entries, and add an additional layer of financial oversight. They work very closely – both in City Hall and remotely – with the City's billing and accounts payable staff. With review of the financial services arrangement over the

past year, the current approach has been found to be successful and agile in meeting City needs. The ability to contract allows for flexibility, more or less time when necessary.

The audit reviews the City's entire financials and is therefore divided between the three major funds: General Fund, Water Fund, and Sewer Fund. Last May, the City awarded a new contract for auditing services that will last for at least two more years.

The recommended allocation for the financial services contract is consistent with FY 2015-16 at \$36,000. The audit services projection increased slightly to \$18,166 that reflects an additional \$1,500 budgeted in the Streets Fund. Financial services are paid for through these line items:

- \$6,000 from the General Fund (10-520-2050)
- \$1,500 from the Streets Fund (21-520-2050)
- \$5,333 from the Water Fund (50-520-2050)
- \$5,333 from the Sewer Fund (52-520-2050)

Legal Fees

Quality legal services are an essential part of successful City operations, development, and prudent growth. The legal fees are distributed to various funds that require legal services. During FY 2015-16, the City was forced to deal with an unexpected demand of legal services and corresponding expense through the General Fund and Community Development. This increase is a result of marijuana regulation, as well as sales, leases, and purchase options on City managed (County owned) industrial park property. Staff anticipates the legal services provided through the General Fund to return to normal operating levels during FY 2016-17 and has subsequently kept funding levels stable.

Funding for legal fees was held stable in the General, Streets, Tourism, Water, and Sewer Funds – changes were made to the Community Development, Cemetery, and Industrial/Economic Development Funds. The increase in development and demand on the planning department prompted staff to correspondingly increase the budgeted amount of legal fees by \$4,000 in the Community Development Fund. The Cemetery Fund legal fees were increased from zero to \$300. Legal fees associated with industrial land leases and sales previously were paid for through the General Fund. With the creation of the Industrial/Economic Development Fund, those legal fees have been reflected in that fund as \$5,000.

The legal fees in the General, Cemetery, Streets, Tourism, Community Development, Industrial/Economic Development, Water, and Sewer Funds total \$71,800 for FY 2016-17 budget. The breakdown of each fund is shown in the budget as line items:

- \$26,000 for Legal Fees in the General Fund (10-520-2600)
- \$300 for Legal Fees in the Cemetery Fund (20-520-2600)
- \$6,000 for Legal Fees in the Streets Fund (21-520-2600)
- \$2,500 for Legal Fees in the Tourism Fund (22-520-2600)
- \$12,000 for Legal Fees in the Community Development Fund (23-520-2600)
- \$5,000 for Legal Fees in the Industrial/ED Fund (24-520-2600)
- \$10,000 for Legal Fees in the Water Fund (50-520-2600)
- \$10,000 for Legal Fees in the Sewer Fund (52-520-2600)

Capital Outlay and Reserves

This budget presents an incremental increase to reserved capital for future improvements to City Hall. The budgeted amount for capital outlay is held stable with the expectation that some proposed projects will come to fruition at City Hall and other City owned property. With the understanding that future large capital improvements will be required at City Hall, the line item for Reserves for Future Capital is increased by \$13,000 to \$48,000. This continues a steady building of reserves that was started during the FY 2014-15 budget cycle. Ultimately, the goal is to have \$100,000 in reserves for City needs such as a cooling and heating system, parking lot expansion, and roof replacement. The stepped increase in reserves for FY 2016-17 maintains the trajectory of meeting that goal for future capital improvements.

- \$30,000 for Capital Outlay City Hall Improvements (10-550-5150)
- \$10,000 for Capital Outlay Parks Projects (TBD)
- \$48,000 for Reserve for Future Capital City Hall (10-950-6000)

Streets Fund

First Street Signalization and Landscaping Project

As this budget is being presented, the final touches on the first street signalization and landscaping project is coming to a close. In addition to the signal at the intersection of First Street and US 97, this project included streetscape elements such as eight-foot sidewalks, streetlights, and landscaping. The signal light was operational in the fall and has received

overwhelmingly favorable comments regarding the increased safety and convenience. Staff made a financially prudent decision to bid the landscaping work over the winter separately from the ODOT project. This resulted in a upwards of \$100,000 of savings based on the initial estimates and actual project costs.

The cost of \$118,737 for this landscaping project was paid for through the Capital Outlay section of the Streets Fund, specifically Projects (Roads, Sidewalks & Other). Subsequently, the amount budgeted has dropped to \$100,000 as there are no major projects on the immediate horizon for FY 2016-17.

\$100,000 for Capital Outlay (Roads, Sidewalks & Other) in Street Fund (21-550-5650)

Aston Eaton Boulevard (US 97) Sidewalk and Streetscape Project with STIP 2015-18 Funding

The City staff has worked closely with ODOT staff over the past year in preparation for the west side sidewalk and streetscape project along US 97 from First Street to Sixth Street. Two-thirds of the project costs (approximately \$950,000) have been secured through ODOT funding, while the additional third will come from the City's Street Fund. Those funds will provide for landscaping and additional streetscape costs. The timeline for this project has been expedited so that it will occur in conjunction with the US 97 Sunriver to OR 31 repaving project.

There was \$300,000 set-aside during last budget cycle, and \$200,000 has been added for the FY 2016-17 budget. The total amount in Reserve for Future Capital line item for the US 97 sidewalk and streetscape is \$500,000. As a result of prudent saving, the City is in excellent position to contribute to making this project a success.

\$500,000 for US 97 Sidewalk & Streetscape Project in Reserve for Future Capital
(21-950-6000)

Cagle Neighborhood Roads Improvement Projects

The roads in the Cagle neighborhood are gravel and require grading throughout the year. It has been identified and prioritized that upgrading these roads should occur. However, the significant cost coupled with future water/wastewater expansion requires careful budgeting and planning. In order to maximize resources, the upgrades should happen in conjunction with the utilities expansion project. Last year, \$150,000 was set-aside in the Reserve for Future Capital line item. This budget reflects an addition \$100,000 for future Cagle neighborhood road upgrades for a total of \$250,000. To complement the long-term solution outlined above, the

road-grading budget has been increased by \$8,000 to \$20,000. This will allow for the Cagle neighborhood roads to be graded an additional 2-4 times throughout the year.

\$250,000 for Cagle Neighborhood Road Upgrades in Reserve for Future Capital
(21-950-6000)

City Roads Maintenance

The City has entered its second decade of incorporation. One responsibility that requires planning and budgeting is the maintenance of existing roads. Largely, this includes routine maintenance such as crack sealing and chip sealing. Generally, the maintenance schedule for roads is a ten-year timeframe, depending on usage among other factors. City staff will work to develop a maintenance schedule based on the miles of City roads and projected costs. It is fiscally and operationally prudent to begin to save for near and long-term road maintenance needs. Therefore, the FY 2016-17 budget reflects \$100,000 in Reserve for Future Capital line item for road maintenance, with the expectation to continue to grow this reserve.

\$100,000 for General Road Maintenance in Reserve for Future Capital
(21-950-6000)

The Reserve for Future Capital line item in the Streets Fund will increase from \$450,000 to \$850,000 in anticipation of large projects (outlined above) to be built in the next 2-5 years. In order to continue to build reserves for these projects, the largest transfer out of the General Fund is to the Streets Fund. Due to a steady growth in beginning fund balance, as well as balancing of budget priorities, the transfer in from the General Fund to the Streets Fund was reduced to \$275,000 while staying on track to achieve long-term budgetary goals.

Other Changes to the Streets Fund

One change worth mention is that Engineering Costs have been separated from Contracted Services, which reflects the increased need for engineering services. As such, the City has hired an Engineer of Record and will continue to use their services when necessary. Another change is the amount budgeted for Transportation System Plan (TSP) updates. The TSP is a pivotal long-range planning document that impacts the look, feel and functionality of the City over a several decade time horizon.

\$30,000 for Engineering Costs in the Streets Fund (21-520-2325)
\$20,000 for TSP Costs in the Streets Fund (21-550-5600)

Tourism Fund – Transient Room Tax (TRT)

The primary revenue source the Tourism Fund is TRT paid from local motels and other lodging. This fund provides resources for tourism related expenses, mandated by State law, while some funds can be spent on other community sponsorships. There is a slight increase in the projection of TRT for FY 2016-17 from last budget cycle, and is anticipated to increase 10% to \$110,000. Correspondingly, there is an increase in the amount transferred to the General Fund (30%) for the amount of \$33,000. Other than the 30% transferred to the General Fund, and Community Fund Unrestricted line item that is a transferred in from the General Fund, all expenditures must be connected to tourism promotion.

Approximately half of the Materials & Services (\$52,000) is the amount paid directly to the La Pine Visitors Center (Chamber of Commerce) to fund their operations. The \$7,500 for the La Pine Rodeo Association is not an increase in the City’s contribution – rather it cleans up how the contribution (out of two budgets) has been made in past years. The remainder of restricted funds promotes tourism, supports the local economy, and contributes to local events.

Some funds from the Contracted Services line item were leveraged with grant funds during FY 2015-16 to support a branding initiative. The initiative doesn’t end when the brand is complete. It takes many, many years to get the message out and build that reputation. Therefore, the recommendation was to increase this line item to \$15,000 for future mailers, advertisements, or other contracted services to promote tourism in La Pine.

The Capital Outlay Projects line item has been increased from \$13,000 to \$25,000. This is set-aside for the construction of a signature “Welcome to La Pine” sign. Currently, the City is supporting a branding effort that should conclude this coming fall. The incorporation of that theme – to build cohesion and continuity – into the welcome sign is important to consider.

\$33,000 for Transfer Out of Tourism Fund to General Fund (22-780-1000)

\$52,000 for the Chamber of Commerce in the Tourism Fund (22-520-2200)

\$15,000 for Contracted Services in the Tourism Fund (22-520-2250)

\$25,000 for Capital Outlay Projects in the Tourism Fund (22-550-5150)

\$5,000 for Community Unrestricted in the Tourism Fund (22-520-2220)

Community Development Fund (Planning Services)

In January 2014, the City assumed planning services from Deschutes County. This is one of the core functions of the City with utilities. Now in the second year of performing planning services, the City can better anticipate costs that are largely driven by demand of services (development applications) as well as strengthening and improving the City's codes. Since January 1st the City has received more development applications than in all of 2015. This has generated additional revenue while demanding more services. Ultimately, the General Fund will continue to support these services through a transfer in to the Community Development Fund.

The Transfer In from the General Fund will continue at \$54,000. The revenue from Planning Fees is expected to increase from \$15,000 to \$25,000. These fees are comprised of site plan, conditional use, lot line adjustment, sign permit and other applications. On the expenditure side, there are modest increases in Contracted Services (planning staff), Engineering Costs (site plan review), and Legal Fees (code amendments, etc.). These increases correlate with the continued demand expected for planning services and additional City code updates.

Although projecting for this fund has gained some clarity, it is important to be conservative and not overestimate an improving economy. City staff has prepared careful estimates to ensure quality service from the planning development while keeping various macro factors in mind.

The City has received the second phase of a Transportation Growth Management (TGM) Program grant for code assistance through the Oregon Department of Transportation (ODOT) and the Oregon Department of Land Conservation and Development (DLCD). This will be a two step process: first, an initial assessment of the City's current land development regulations, and then preparation of code amendments for consideration by City Council. No funds will flow to or from the City; this project is entirely funded and managed by the partners mentioned above. City staff expects to begin assisting on this project in the next few months.

The City of La Pine has a unique opportunity in FY 2016-17. The Sustainable City Year Program (SCYP) with the University of Oregon allows undergraduate and graduate students, with consultation from faculty, to partner with local governments and provide creative, pragmatic approaches to projects. These students specialize in landscape architecture, planning, engineering, and urban planning, among other fields. The SCYP has worked with cities such as Medford, Springfield, and Redmond. For the 2016-17 academic year, SCYP would like to conduct a pilot project in smaller cities and has identified La Pine and Sisters as the two cities with which to partner.

The City has budgeted up to \$40,000 – to be matched one-for-one with grant funds – for two projects: The first project is located in downtown along Huntington Road, where the Urban Renewal District (URD) was formed and will focus on plans for streetscapes and other elements to be considered when URD funding becomes available; the second project is at Wickiup Junction at the northern end of the City that serves those that live in unincorporated La Pine out Burgess Road and tourists during the warmer months.

Both projects will have a corollary element of how to better connect the north/south ends of the City together. The funds from the City for the project will come from Contracted Services (\$30,000), Business License Revenue (\$5,000), and Urban Renewal Funds (\$5,000).

\$60,000 for Contracted Services in the Community Development Fund (23-520-2250)

\$12,000 for Legal Fees in the Community Development Fund (23-520-2600)

\$8,000 for Engineering Services in the Community Development Fund (23-520-2325)

Industrial/Economic Development Fund (Ind./ED Fund)

City staff recommended the creation of a new fund in this FY 2016-17 budget cycle to better track/manage industrial land revenue in the City, coordinate with La Pine Economic Development (LED) Group and the La Pine Area Economic Development Manager, and plan for future expansion of the industrial park with land development (water/sewer utilities).

Current Operations (LED) and Contract with EDCO

The City in partnership with Deschutes County has a contract with Economic Development of Central Oregon (EDCO) to support a half-time South County (La Pine/Sunriver) Economic Development Area Manager. Their office is in La Pine City Hall and their primary mission is to manage/spur industrial and business development in the area. This position has an emphasis on traded-sector business (those that manufacture and ship goods) and does not assist retail business. The focus in FY 2016-17 should be on bringing businesses into the La Pine Industrial Park. The current Area Manager has been in the position for approximately one-year and the arrangement is working well.

The City budgeted \$25,000 for the program – the same as previous years. This year, that expenditure will go through the Ind./ED Fund as a Transfer In from the General Fund. Future expansion of this program could occur if business sponsorships are solicited. The LED Group is responsible for managing fundraising efforts and has the opportunity to broaden local

economic development through more robust public/private partnerships. Depending on private contributions, changes to the program are possible during FY 2016-17 with an eye towards next budget cycle.

Future Industrial Land Development

The City of La Pine now manages the County-owned land in the industrial park. An Intergovernmental Agreement (IGA) was signed last year that turned the marketing, management, and pricing of the land over to City management. Under the IGA, the City for the purpose of economic development will retain 50% of the revenues from the land. This IGA is another example of support from Deschutes County to start and grow living-wage jobs in South County.

The revenues for the Industrial/Economic Development Fund are highly contingent on the leases, purchase options and sale of industrial park land. Expenditures will not exceed what is available in the fund and brought in from industrial park revenue. Although there are many, many acres of industrial land available at this moment, City staff recommends beginning to build a reserve fund for future industrial park expansion. The sooner the City starts to make incremental contributions, the better position the City will be in decades from now. City staff recommends to set-aside 50% of all revenue from industrial land as reserves for future capital. This budget reflects \$60,000 from industrial sales, leases, and purchase options; therefore, \$30,000 is allocated to the reserve for future capital line item. This amount is dependent on industrial land revenue.

\$25,000 Transfer In from the General Fund

\$25,000 for Contracted Services (Area Manager) in the Ind./ED Fund (24-520-2250)

\$10,000 for Advertising Expense in the Ind./ED Fund (24-520-2080)

\$30,000 for Reserve for Future Capital in the Ind./ED Fund (21-950-6000)

Water and Sewer Reserve Fund

This essentially is a savings account for the Water and Sewer Funds. The fund grows when there are transfers in from the Water and Sewer Funds. City staff determines this amount based on the demands of daily operational costs as well as general maintenance. Additional resources above meetings those needs are transferred into the Water and Sewer Reserve Fund. This budget details an additional \$200,000 transfer in from the Sewer Fund. Although there is no transfer in from the Water Fund, there is still a sizeable reserve from past transfers.

\$200,000 Transfer In to the Sewer Reserves for Future Capital (26-480-520)
\$950,000 in Sewer Reserves for Future Capital in the Reserve Fund (26-950-6000)
\$565,000 in Water Reserves for Future Capital in the Reserve Fund (26-950-6000)

Debt Reserve Fund

This fund is set-aside to ensure the adequate reserves for service of the USDA loans the City has on the water system. The requirement of the loan is that reserves equal to the annual debt payment are budgeted. This fund will have no activity until the final debt payment, when the reserves will no longer be needed. The total amount of debt reserve in this fund is \$193,503.

\$173,548 in Debt Reserve for USDA 2003 Loan (31-950-1000)
\$19,955 in Debt Reserve for USDA 2005 Loan (31-950-1000)

System Development Charges (SDCs) Fund

Currently, the City of La Pine charges Water and Sewer SDCs on development within the City. These charges are controversial and often misunderstood; it is important to emphasize that these funds cannot be used for operations or maintenance of the current systems. Many Cities also charge SDCs for Transportation; although the City of La Pine does not currently implement a Transportation SDC, inevitably it will be a necessary component of supporting growth.

This is the second year of the SDC Fund to track the resources and expenses associated with the capacity expansion of the City's water and sewer systems. The collection of SDCs must be based on a methodology that factors in capital infrastructure costs and projected population growth. Various State of Oregon laws restrict these funds, and the tracking in a designated account assists City staff and the public to better understand incoming and outgoing uses of SDCs.

The City staff is currently working with a consultant on reviewing the SDC methodology, based on the new Water and Sewer Master Plans completed in January 2016, and changes to the Water and Sewer SDCs may occur during FY 2016-17.

As with other revenues, estimates largely depend on regional economic factors and the associated development in La Pine. With development picking up in the last year, and positive economic forecasts in the near future, the City staff estimated slight increases to SDC income: \$11,708 for Water SDCs and \$24,700 for Sewer SDCs.

\$410,260 in SDC Water Reserves for Future Capital (41-950-6000)

\$802,742 in SDC Sewer Reserves for Future Capital (41-950-6000)

Water Fund

Last year, the City altered its water rate structure. That structural change, as well as rate increases, took effect on July 1st 2015. The rate study that informed those changes also suggests additional, incremental rate increases to keep up with operational costs. Simply stated, the current system for water customers is that you pay for the meter size (capacity) and how much water you use. The study that informed this change rectified over a decade of imbalance at the Districts of charging customers differently, some subsidizing others.

City staff is working on an updated rate resolution that will establish the necessary increases for the next three years. The anticipated rate increase for water services is 3%. Water customers will not feel as dramatic of a change as last year, since the rate structure (flow based) will not change. During the rate structure and rate change, City staff received some complaints. This change occurred for the billing in July, when water usage is at its peak. Within a couple of months, there were very little complaints and through winter there have been none.

The City received grant funds from the State of Oregon to update the Water and Sewer Master Plans. These are 20-year planning documents that look at improvements to the current system as well as system capacity expansion with anticipated growth. Additionally, these plans included bringing the Cagle and Glenwood neighborhoods onto the City's water and wastewater system. The City received the final plans in January 2016, and has already begun the several year processes of securing funding, engineering, and eventually construction.

The City held an open house on the expansion project at Rosland Elementary School in February 2016 and recently closed a RFP for engineering firms to put together a funding assistance package. The expectation is that the City is in great position to secure grants and low-interest loans. City Council and staff will continue to hold town halls and work with stakeholders in the community as more information on the project becomes available. There will be checkpoints through the process for the City Council to assess the options and make decisions to proceed.

Sewer Fund

Last year, the City altered its sewer rate structure. That structural change, as well as rate increases, took effect on July 1st 2015. The rate study that informed those changes also suggests additional, incremental rate increases to keep up with operational costs. Simply stated, the current system for sewer customers is that you pay for the meter size (capacity) and how much water you use (the only way to project how much goes down the drain and to the wastewater treatment plant). The study that informed this change rectified over a decade of imbalance at the Districts of charging customers differently, some subsidizing others.

Sewer rates are based on the average winter usage of water for residential customers. The winter months (November to February), when no outside watering/irrigation is done, will be the basis for the sewer bill in the following year. As expected, this creates some increased costs and some reduced costs – as the rate structure adjusts and begins to spread the costs out more equitably.

City staff is working on an updated rate resolution that will establish the necessary increases for the next three years. The anticipated rate increase for sewer services is 10%. Sewer customers will not feel as dramatic of a change as last year, since the rate structure (flow based) will not change. During the rate structure and rate change, City staff received some complaints; however, those complaints lessened as questions were answered and more time passed.

The City held an open house on the expansion project at Rosland Elementary School in February 2016 and recently closed an RFP for engineering firms to put together a funding assistance package. The expectation is that the City is in great position to secure grants and low-interest loans. City Council and staff will continue to hold town halls and work with stakeholders in the community as more information on the project becomes available. There will be checkpoints through the process for the City Council to assess the options and make decisions to proceed.

Changes to the FY 2016-17 Budget

The total for Professional and Contracted Services – spread across many funds – has increased for the FY 2016-17 budget cycle. This is due to an extra consulting position as a result of the Interim City Manager transition. Currently, there is a City Manager and Assistant City Manager. For next year, there will be no Assistant City Manager position. Instead, a contracted consulting position will be created to assist in City operations and special projects, most notably economic

development, water and sewer expansion, and other projects critical to the success of the City. City staff is confident that this arrangement can be successful and will best serve the community from both a financial and operational perspective.

The City of La Pine would like to thank Rick Allen, Interim City Manager, for all of the wisdom and leadership he has brought to half of the City's first decade of incorporation. The City's financial condition is sound and poised for future endeavors due to his financial management. Truly the City's trajectory for a successful second decade and beyond was forged through his presence, style, and implementation of personable and prudent management.