

**CITY OF CORVALLIS
COUNCIL WORK SESSION**



AGENDA

**June 13, 2011
7:00 pm**

**Madison Avenue Meeting Room
500 SW Madison Avenue**

COUNCIL ACTION

- I. ROLL CALL

- II. UNFINISHED BUSINESS
 - A. Mayor/Council/Manager Quarterly Meeting
 - 1. Budget Goal Next Steps
 - 2. City Council Liaison Roles
 - 3. Relationships Using Self-Evaluation Tools
 - 4. Councilor Discussion (issues/topics not identified)
 - 5. Other

- III. ADJOURNMENT

For the hearing impaired, a sign language interpreter can be provided with 48 hours' notice prior to the meeting. Please call 766-6901 or TTD/TDD telephone 766-6477 to arrange for such service.

A LARGE PRINT AGENDA CAN BE AVAILABLE BY CALLING 766-6901

A Community That Honors Diversity

MEMORANDUM

May 25, 2011

TO: Mayor and City Council

FROM: Nancy Brewer, Finance Director *NB*

SUBJECT: Outline of the Revenue Discussion Process for the Council Goal on a Sustainable Financial Plan

I. Issue

To define the process to be followed for the revenue discussion associated with the Council Goal to create a financially sustainable budget.

II. Discussion

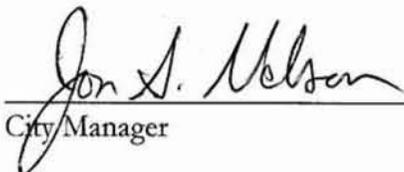
Staff proposes the following time line for Council discussion of revenue alternatives:

- | | |
|------------------|---|
| Summer, 2011 | Staff will update the revenue matrix to review any changes made by the legislature that either allow or pre-empt any of the revenue alternatives previously discussed, update revenue projections associated with each alternative, and add alternatives if any are available for consideration. |
| Aug/Sept, 2011 | Council work session to review the matrix of ideas and see if there is consensus on one or two alternatives to work further to develop. Update the City Council on the status of projects already in the works – Parks & Recreation and 9-1-1 Users group discussions of districts, status of Fire Department and City/County IT partnership potential. |
| Fall 2011 | Staff work on selected revenue alternatives |
| Winter 2011/2012 | Decision by the City Council on the revenue alternatives. Update on the status of the Parks & Recreation and 9-1-1 Users group discussions of districts, status of Fire Department and City/County IT partnership potential. |

III. Requested Action

Discuss the proposed plan and time line and advise whether the City Council would like a different process followed.

Review & Concur:



City Manager

INTER

OFFICE

MEMO

To: Mayor and City Council
From: Ellen Volmert, Assistant City Manager 
Subject: Compensation Policy Review and Turnover Cost Estimate
Date: June 13, 2011

Issue

Discuss the Council's Compensation Policy review and timeline relative to the Budget Goal.

Discussion

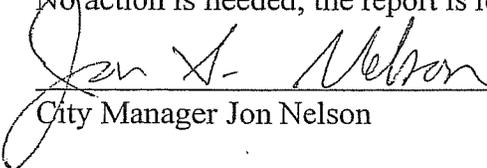
The Administrative Services Committee is due to review the City Compensation Policy at their meeting of August 3rd. The City Council also approved contracting with the Local Government Personnel Institute (LGPI) for a compensation and staffing study as part of the review. The data gathered will also be used to prepare for next year's labor negotiations with the Corvallis Regional Communications Center Association (CRCCA) and the International Association of Fire Fighters (IAFF).

While a proposal from LGPI and a detailed scope of work has yet to be developed, LGPI has indicated they would not be able to begin work on the project until September. They will have data gathered from other Oregon city processes already prepared. More will be known about this timeline once additional scoping for the project has been completed. Several elements of the Council Policy review can be undertaken prior to project completion, including review of how the City Council policy fits in with State collective bargaining law and identification of issues/questions Council would like addressed in the review. A revised policy should be ready for City Council action before the end of the calendar year and in time for both 2012 labor negotiations and Budget Commission guidance.

One measure of appropriate compensation is turnover rate. The Budget Commission asked for a general rule of thumb for the cost of turnover to the organization. One measure provided by the US Department of Labor puts the cost at 86% of the annual wage for the position, based on an assumed 3 month vacancy and 7 year leave payout. For profit organizations have higher turnover costs of close to 150% of a year's wages when lost opportunity, sales, etc. is added in along with the cost of temporary hires. Costs to an organization include administrative time for the setup of the vacancy, advertising, interview costs, hiring costs (reference checks, the physical, etc.) orientation and training, lost productivity as the prior employee exists and the new employee is beginning, as well as the disruption to coworkers, lost productivity during the vacancy, added supervisory costs, and leave payouts.

Requested Action

No action is needed; the report is for information and discussion only.



City Manager Jon Nelson

CITY OF CORVALLIS
COUNCIL POLICY MANUAL

POLICY AREA 2 - COUNCIL PROCEDURES

CP 94-2.08 **Council Liaison Roles**

Adopted August 1, 1994

Affirmed October 18, 1999

Affirmed December 20, 2004

Revised November 2, 2009

2.08.010 Purpose

To define the role of the Mayor-appointed liaisons to the City's advisory Boards and Commissions and to independent, non-governmental organizations with which the City has a relationship.

2.08.020 Background

2.08.021 The Municipal Code Chapter on Boards and Commission states in Section 1.16.040: "The Mayor shall appoint a Councilor to serve as a non-voting observer and liaison between Council and each Board and Commission."

2.08.022 The importance of communications between City government and various official and independent groups is recognized.

2.08.023 The City's Code-established Boards and Commissions and its other *ad hoc* groups and Task Forces are advisory to the Council and are not policy-making bodies.

2.08.024 Other independent, non-governmental groups have Mayor-appointed liaisons either at the group's request, as a result of a special relationship with the City, or as a result of provisions contained in an agreement between the organization and the City. These groups may be policy-making organizations.

Council Policy 94-2.08

2.08.025 The appearance of impropriety by a Council member may be created when the Councilor is a voting member of an agency's Board of Directors, votes on an issue as a Board member, and subsequently votes as a Councilor on that same issue, particularly if funding is involved.

2.08.030 Policy

2.08.031 General -- Council Liaison Role

- a. Council liaisons to the City's advisory Boards and Commissions, its *ad hoc* groups and Task Forces, and to independent, non-governmental agencies shall be non-voting members of those groups, except as specified in Corvallis Municipal Code Chapter 1.16, "Boards and Commissions," where the Council liaison is serving as a voting member.
- b. Voting may be appropriate for Council liaisons serving on independent, non-governmental agencies such as Prosperity That Fits Committee and Metropolitan Planning Organization.
- c. Council liaisons serve to establish two-way communication conduits between the Council and the groups.
- d. Liaisons will be:
 - Conscientious in meeting attendance;
 - Informed about current group activities;
 - Responsive to questions from the organization, understanding that she or he speaks as an individual and not for the Council in most matters,
 - Information-sharers to Council regarding the organization, and
 - Cognizant of the adopted City Council Code of Conduct.

2.08.032 Independent, Non-governmental Agencies -- Council Liaison Role

- a. Liaison responsibilities noted in 2.08.031 apply.
- b. The liaison's communication role is his or her primary function; she or he is not to serve in a policy-making role with the organization.
- c. At the desire and request of the group, the Council liaison may serve on its Board of Directors as a non-voting member.

Council Policy 94-2.08

2.08.033 Independent Board Service -- not City-related

- a. It is recognized that Councilors occasionally serve as independently appointed members of an organization's Board of Directors rather than as Mayor-appointed liaisons.
- b. In these instances, while a certain vote may not be a violation of ethics laws, the Councilor will need to use individual judgement in deciding whether to vote as a Councilor on matters relating to that organization.

2.08.034 Quasi-judicial matters before Council

- a. To reduce the appearance of bias, Council liaisons to a quasi-judicial decision-making Board or Commission such as the Historic Resources Commission and Planning Commission should limit their meeting participation to legislative matters.
- b. In any quasi-judicial matter before Council in which a member of the Council has participated in discussions as a Council liaison, the Councilor should declare whether she or he has a bias or whether there has been an *ex-parte* contact.

2.08.040 Review and Update

This Council Policy shall be reviewed every five years by the Council and updated as appropriate.

activities and volunteer opportunities. Research quickly identified a similar Web site that already exists. The previous LB Vision Web site has been replaced with a site developed in partnership between the Community Services Consortium and Hands On Network: www.handsonlinnbenton.org. The Natural Areas Action Team will work with the Consortium to help notify the public about the Web site.

Mr. Adams announced the second annual Natural Areas Celebration Week, scheduled for May 6-15. The event includes hikes, walks, and guided tours at Beazell Memorial Forest, Hoover School, Finley National Wildlife Refuge, Chintimini Wildlife Rehabilitation Center, and Tyee Wine Cellars.

In response to Councilor Hervey's inquiry, Mr. Adams said he works for the OSU Extension Service managing a database serving all Oregon communities. Although his education is in biology, he works with community demographics.

Mr. Adams confirmed that the Beazell Memorial Forest meeting room barn will be open for a short time during the celebration week. The schedule of events is listed on the Sustainability Coalition's Web site.



Rick Schroff, Furniture Share board member, referred to an e-mail he previously sent to Council President O'Brien and Mayor Manning. As Council liaison, Councilor Raymond attended the April 27 United Way Allocations Committee meeting that was closed to the public and allocation applicants. Council Policy 94-2.08 states that the liaison is to be advisory in matters of legislative process and City policy. He opined that Councilor Raymond created a conflict of interest by specifically advocating for the Corvallis Homeless Shelter Coalition. No other applicant had an equal opportunity to have someone from outside of the evaluation process advocate for their application. Using her position to have access and influence over proceedings has created an appearance of impropriety. United Way Allocation Committee members informed Mr. Schroff of Councilor Raymond's advocacy and said they were uncomfortable with her intrusion into the process. Mr. Schroff said the allocations process is difficult for the volunteer committee members because of the 4:1 ratio of requests for available funds. Some applicants will not receive any funding and some will receive only a fraction of their needs. He believes it is grossly unfair to all applicants if one applicant receives full funding due to an intervention by a Council liaison. It appears to be necessary for Council to revisit their policy to ensure this appearance of impropriety does not happen again.

Stewart Wershow stated that when he served on the Council, a liaison appointment was instituted for the United Way Allocations Committee to provide direction and advice. It is appropriate for a Council liaison to inform the individuals doing the work where Council stands as a body. It is frustrating for committees to accomplish work only to have Council reject their recommendation.

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Human Services Committee Grant Process

- **To:** "Ward 1" <ward1@xxxxxxxxxxxxxxxxxxxxxxxxxxxx>
- **Subject:** Human Services Committee Grant Process
- **From:** Rick Schroff <rschroff@xxxxxxxxxxxx>
- **Date:** Thu, 28 Apr 2011 11:10:25 -0700
- **Cc:** <mayor@xxxxxxxxxxxxxxxxxxxx>, <scott.fewell@xxxxxxxxxxxxxxxxxxxx>, <mayor@xxxxxxxxxxxxxxxxxxxx>

Councilor O'Brien,

I am contacting you in your position as Council President, from my position as a Board Member of Furniture Share. As you are aware, United Way is in the process of evaluating grant applications for distribution of limited City funds to local charitable organizations. There are numerous citizens who have spent hundreds of hours conducting site visits and interviews in preparation for their final recommendations. Total requests for funds exceed available funds by about 4:1, so these volunteers have a difficult task to perform. Councilor Jeanne Raymond has been assigned to this committee as a representative of the Council in, I believe, a position of advisor to provide guidance in matters of process and policy.

This evaluation committee met last night, April 27, to begin the process of evaluating applications and making recommendations. This was not a public meeting, and there were no applicants invited to attend. Councilor Raymond was in attendance. It is my understanding that Councilor Raymond took this opportunity to specifically and explicitly advocate for an organization that has a pending grant application and in which she has a personal interest, the Corvallis Homeless Shelter Coalition.

This is a clear and flagrant instance of conflict of interest. Councilor Raymond took advantage of her position and access to try and influence the proceedings, and add weight to the application from the CHSC. Her intrusion in to this process is a serious violation of the trust and responsibility given to this evaluation committee. I believe she did not speak out for any other applicant. There certainly was no equal opportunity for other applicants, Furniture Share included, to have any last chance to provide input on their respective applications.

At the least, I believe Councilor Raymond should be reprimanded for her actions, and she should publicly apologize to the committee members and other applicants. Perhaps the City Attorney would be able to provide guidance on this. I also believe it would be appropriate that CHSC's grant application be withdrawn from consideration, as her intrusion in the process has most probably influenced how some individual committee members will make their final recommendations. This is a serious consequence, but she made a serious error that will probably have a negative impact on grant awards made to other applicants.

I look forward to hearing back from you on this matter.

Rick Schroff

Member of the Board – Furniture Share

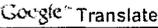
CC: Julie Manning – Mayor

Scott Fewell – City Attorney

• **Follow-Ups:**

- **Re: Human Services Committee Grant Process**
 - *From:* Mark O'Brien
- Prev by Date: **FW: Walkable Neighborhoods, Earl Blumenauer, and Pringle Creek**
- Next by Date: **RE: Walkable Neighborhoods, Earl Blumenauer, and Pringle Creek**
- Previous by thread: **RE: Walkable Neighborhoods, Earl Blumenauer, and Pringle Creek**
- Next by thread: **Re: Human Services Committee Grant Process**
- Index(es):
 - **Date**
 - **Thread**

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501 SW Madison Ave. PO Box 1083 Corvallis, OR 97339-1083 ph: 541-766-6900 Fax: 541-766-6936

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Councilor Hervey acknowledged that ODOT's staff fulfilled what they believed were the best purposes for Oregon citizens.

Councilor Brauner said the Council's decision today would force ODOT to make the final recommendation regarding the project. Council opposition to the project would serve as a final recommendation. He said he could not support an unsafe project, such as the project as proposed by ODOT. The motion would present to ODOT the Council's opinion of how the project would be acceptable.

The motion passed eight to one with Councilor O'Brien opposing.

2. Airport Base Lease Rate Adjustment

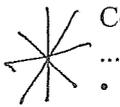
This issue was postponed until the Committee's May 19 meeting.

V. MAYOR, COUNCIL, AND STAFF REPORTS – Continued

B. Council Reports

Referencing his report during the May 2 Council meeting, Councilor Traber asked staff to investigate the process for notifying property owners of street tree trimming activity. He would also like the notification door hanger verbiage reviewed for clarity.

Councilor Traber reported that a constituent expressed concern regarding crossing NW Walnut Boulevard at NW 13th Street between traffic signals. The unmarked crosswalk was legal. Public Works and Police staff advised him that a capital project was awaiting funding to install a flashing signal at the intersection. Police Department staff confirmed that it was illegal for drivers to proceed when people stood at a corner with intent to cross the street. The Crime Alert software on the City's Web site did not indicate the reasons for traffic stops, and no traffic stops were indicated to have occurred at the intersection. The constituent said he and his wife were unable to cross the street because drivers did not stop. Councilor Traber requested a staff response regarding enforcement of the crosswalk law or further education for situations not warranting crosswalk marking or for which the City did not have funding for signals.

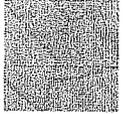


Councilor Raymond reported on several issues.

- People asked her to respond to Rick Schroff's letter regarding social services allocations by the United Way of Benton and Lincoln Counties. She submitted to the record a copy of her letter to Mr. Schroff. Nineteen agencies submitted allocation requests, which were still being reviewed. She would not reap a financial gain though the allocations, so she did not have a conflict of interest regarding the allocations. It would not be possible to fulfill all of the funding requests. She appreciated the City's support of social service agencies. During difficult economic conditions, the vulnerable segments of the population seemed to be affected the most.

Councilor Hirsch referenced long-standing discussions of a local heritage tree program. Oregon established the first statewide heritage tree program. Since the Majestic Theatre

From: Jeanne Raymond
Subject: **United Way allocation of Corvallis Social Services Funds**
Date: May 15, 2011 10:09:18 PM PDT
To: Jeanne Raymond



Begin forwarded message:

From: Jeanne Raymond <
Date: April 29, 2011 3:50:37 PM PDT
To: Mark O'Brien <
Cc: Julie Manning <A>, Jon Nelson <
Subject: Re: The letter I mentioned...

Councilor O'Brien,

Thank you for sending the letter from Rick Schroff, who wrote to you as Council President.

1. I am liaison to the United Way, appointed by Mayor Julie Manning. As liaison, I met with Jennifer Moore previous to the allocations meeting, which I was asked to attend. I thanked all those on the committee for their time and work on behalf of the Council and the residents of Corvallis. I cannot vote on the allocations, nor did I vote. When Charlie Tomlinson was Mayor, he said that as a liaison, we cannot vote, but we may give our opinion. I reiterated to the committee that the social services funding must qualify by being either emergency or transitional service. I realize that the members of the committee have done site visits, the hard work of gathering information, and then doing the difficult work of figuring out which agencies receive the fundings that will be given. They all gave their reports and said what amounts they wished to give. I did not give input on amounts to be allocated or how the funds should be divided among the various agencies.
2. I know most of the agencies that applied for grants, either through first hand experience, or through past experience on the Human Services Committee, or through BCCFC. I am supportive of all the agencies. I know of the good work they do. I wish we could fully support them all.
3. Specifically, I think Furniture Share is an excellent agency, in fact, Ginger Gouveia who is the originator of Furniture Share is a good friend of mine. I commend Rick Schroff for his service to the Furniture Share. Rick Schroff was not at the United Way allocations meeting of which he speaks.
4. I did give my opinion about the need for social work services to the homeless who are served by the Drop In Shelter. It was my opinion,
6. I don't think my opinion, negatively impacted any of the agencies.

Sincerely,
Jeanne

Jeanne Raymond
Corvallis City Council
Ward 7

CORVALLIS CITY COUNCIL
Self-Evaluation
June 13, 2011

Self-Evaluation
General Practices
(Updated January 2007)

	1	1.5	2.0	2.5	3	06/13
How are we doing on <i>General Practices</i>?	Low		Mid-range		High	Average
1. Thinking and acting strategically	1	1	4	3	1	2.10
2. Understanding and demonstrating the elements of teams and teamwork		1	2	7		2.30
3. Mastering “small group” decision-making		2	4	2		2.00 **
4. Clearly defined roles and relationships			3	5	1	2.39 **
5. Council/staff partnership		2	3	4	1	2.20
6. Systematic evaluation of policy implementation	2	1	3	4		1.95
7. Allocation of Council time and energy		3	3	3	1	2.10
8. Clear rules and procedures for Council meetings			2	5	3	2.55
9. Response to the public’s concerns and evaluation of Council performance	1	1	1	7		2.20
10. Continuous personal learning and leadership development		2	2	6		2.20

Additional Comments:

- I believe the Council is largely keeping its focus on the four major goals and on the operating guidelines established in the January goal-setting sessions. I see important work beginning with the financial and OSU goals, with efforts ongoing with the remaining two goals. I am pleased with the Council’s work ethic and its collective commitment to the City and its residents.
- Overall, I think we have the potential to achieve lasting, positive results for citizens if we can stay focused on achieving our goals. It is important that we not lose the forest for the trees.
- We’re going through some tough times. Yet I find that Mark and Hal are providing excellent leadership, which I see the rest of the Council appreciating. Yet that too help us understand each other and reduces surprises. I didn’t answer 3, “small group” as I did not come up with a clear understanding of the intent of the question. On item 1, “thinking strategically”, in retrospect, I believe that the SIF’s and the Levy were difficult but appropriate first steps as we begin to deal with the direction of our budget based upon the limits of our property tax funds.
- Leadership has been excellent this term. Sorry, but no so last term.
- 3 – I’m not clear where small group decision-making applies in our structured council environment.
- 6 – Most of the policy evaluation thus far has been tactical not strategic.
- 7 & 8 – Meetings are well structured and work as efficiently as I would expect.

****#3 – 2 did not answer; #4 – 1 did not answer**

**Self-Evaluation
Specific Practices
(Updated January 2007)**

	1	1.5	2	2.5	3	06/13
How are we doing on <i>Specific Practices</i>?	Low		Mid-range		High	Average
1. Effective chartering of committees and acceptance of committee work		3	3	2	2	2.15
2. Prioritizing goals and initiatives and avoiding over-commitment		2	4	3	1	2.15
3. Educating ourselves about issues		2	4	2	2	2.20
4. Limiting amount of time spent on “small-picture” activities	1	3	3	3		1.90
5. Regular evaluation of our effectiveness as a Council		1	5	4		2.15
6. Celebrating success – our own and that of others		3	3	2	2	2.15

Additional Comments:

- On item 3, “educating ourselves,” I scored us fairly low as I’m guessing that most of us are gaining almost all of our information from the staff report. In some ways that’s a credit to our excellent staff. In others, it may be a reflection of not reading with a questioning mind and following up with questions.
- 3 – I find that I find out about issues late and have very limited time to prepare for a decision. Case in point is the ODOT motion.
- 4 – What are small-picture and how to identify them to limit time?
- 6 – We do every well celebrating the success of others.

**Self-Evaluation
Code of Conduct
(Revised February 2009)**

	1	1.5	2	2.5	3	06/14
How are we doing on <i>Code of Conduct</i> ?	Low		Mid-range		High	Average
1. Show consideration; avoid judgmental language	1	1	2	4	1	2.18
2. Strive as a team to keep opposition from moving into conflict			5	4		2.22 **
3. State your opinion; explain reasoning and intent (succinctly); respect the decisions of the body			4	5	1	2.35
4. Focus on understanding interests			4	5	1	2.35
5. Be concise and respectful while focusing on issue		1	5	4		2.15
6. Assume best intentions as you seek common ground		1	3	4	2	2.35
7. Be honest, reliable, and accountable			2	3	5	2.65
8. Prepare adequately for meetings			2	6	2	2.50

Additional Comments:

- 1 – We all show consideration. Still there has also been inappropriately judgmental language in all directions.
- 3 – Almost all, and especially me could improve on explaining and succinct reasoning and intent. But all respect the decisions of the body.
- 6 – I assume the best intentions of my fellow councilors and feel the same of them.
- I think we are doing well here though these answers are filtered through my way of viewing the proceedings. I generally assume all are acting per the code of conduct and have seen very few equity examples.
s/p contrary

**#2 – 1 did not answer

MEMORANDUM

June 13, 2011

TO: Mayor and City Council
FROM: Nancy Brewer, Finance Director
SUBJECT: **Moody's Rating**



I. Issue

To update the City Council on the City's debt ratings.

II. Discussion

Attached is a copy of an email sent this morning from Moody's Investors Service, which is the organization that rates the City's bonds. Moody's has affirmed the City's current ratings – Aa2 for unlimited tax general obligation bonds and Aa3 for limited tax bonds – but has placed the city on negative outlook. This means that Moody's has concerns about the City's financial position, especially as it relates to fund balances in the General Fund (all tax funds combined). Moody's notes the City's strengths include still solid operating fund balances and a strong tax base bolstered by OSU. The major weaknesses are several consecutive years of deficits that have led to a decline in financial position and expected draws on fund balance for the current and next fiscal years.

Moody's will continue to monitor the City's financial position, which includes reviewing Quarterly Operating Reports, monthly Treasury reports, budget and audit reports. A formal review of the rating affirmation and negative outlook is expected in about a year. Moody's makes specific note that the removal of the negative outlook will require improved financial performance, positive tax base growth, and a trend of economic development. Moody's also notes that continued draws on reserves or reduced liquidity or protracted economic weakness/tax base contraction could make the rating go down.

Staff will prepare the appropriate disclosure notice of this change to be posted, as required, on the federal reporting website. This change may have a very slight impact on the City's outstanding debt which trades some on the secondary market; it will not affect the City's debt payments or requirements. If the outlook does not change before the City next needs to borrow monies, it will likely make the borrowing more expensive. If the rating is downgraded before the City next needs to borrow money it will increase the costs of borrowing.

III. Action Requested

No action on the part of City Council as it relates to this notice is required. However, the work the city Council pursues with relation to the financially sustainable City budget should address the concerns identified by Moody's.

Brewer, Nancy

From: MOODY'S EPI [epi@moodys.com]
Sent: Monday, June 13, 2011 8:07 AM
To: Brewer, Nancy
Subject: Corvallis (City of) OR

MOODY'S AFFIRMS Aa2 RATING ON THE CITY OF CORVALLIS (OR) UNLIMITED TAX G.O. BONDS; Aa3 LIMITED TAX RATING ALSO AFFIRMED AND NEGATIVE OUTLOOK ASSIGNED

RATINGS AFFIRMATIONS AND NEGATIVE OUTLOOK APPLY TO \$37.2 MILLION OF OUTSTANDING DEBT

Corvallis (City of) OR
Municipality
Oregon

NEW YORK, June 13, 2011 -- Moody's Investors Service has affirmed the Aa2 rating on the City of Corvallis, Oregon's outstanding \$1.8 million of general obligation unlimited tax bonds. In addition, Moody's affirms the Aa3 rating on the city's outstanding Limited Tax General Obligation Bonds (Pension Liability Funding); the city's long-term ratings carry a negative outlook.

RATINGS RATIONALE

The negative outlook reflects our expectation that the city will be challenged to maintain satisfactory reserve levels in the near- to medium-term as budgetary pressures remain in place over the outlook horizon. The Aa2 rating reflects the city's large tax base, the stabilizing presence of Oregon State University and average wealth indices. The Aa2 rating also incorporates recent fiscal strain which was reflected in two consecutive operating deficits in fiscal 2009 and fiscal 2010. All of the city's debt is fixed rate and the city is not a party to any derivative agreements.

STRENGTHS

- Still solid Operating Fund balance
- A strong tax base bolstered by the presence of Oregon State University

CHALLENGES

- Several consecutive deficits leading to a declining financial position
- Expected draws on fund balance in both fiscal 2011 and fiscal 2012

DETAILED CREDIT DISCUSSION

SLUGGISH REGIONAL ECONOMIC GROWTH CONTINUES, BUT CITY'S TAX BASE REMAINS STABLE

Corvallis, located about 75 miles south of Portland, is a well-established community which has long

been the home of Oregon State University (OSU).

Positively, the university's presence continues to provide the local economy with some degree of stability and enrollment has increased slightly in recent years. Since the 2000 census, the City's population has increased only 12% to an estimated 55,125 residents. In addition to employment opportunities at the University, other employment sectors include high tech manufacturing and research, primarily at a local Hewlett Packard (HP) facility, government and services. Despite cuts in higher education from the state combined with last year's HP downsizing, the city's April 2011 unemployment rate of 6.1% has improved over the last two years and is currently well below the state (9.5%) and nation (8.7%). According to the 2000 census, per capita and median family income levels approximated state levels although, like most college communities, income levels are negatively skewed by the presence of a large student population.

Similar to the region, real estate values remain below peak levels and the housing market is expected to continue to be a drag on local economic growth over the near term. Between 2004 and 2009, the city's full value increased an average of 9.8% annually, then declined a modest 2% in 2010. The 2010 full value of \$5.8 billion is still above the national Aa2 city median. Tax base growth for 2011 is assumed to be flat as residential and commercial construction remains sluggish at best, although some development in support of campus expansion may provide some offset. Hewlett Packard remains the city's largest taxpayer (8.4% of 2010 assessed value); other large taxpayers make up less than 1.0% of assessed value each and are comprised of manufacturing, land development and commercial entities. Going forward, Moody's notes HP's tax base presence will continue to be diminished and university-related construction projects, including multi-family housing and, over the long-term, recovery in the residential and commercial construction sectors development will support above average economic growth.

CONSECUTIVE OPERATING DEFICITS PLACE CITY IN RELATIVELY WEAK FINANCIAL POSITION; COMMUNITY SUPPORT FOR ADDITIONAL REVENUES PROVIDES PARTIAL MITIGANT

Fiscal 2010 audited results mark the city's fourth consecutive annual operating deficit as growth in expenditures outpaced somewhat flat revenues.

Major operating funds include the city's General Fund, as well as the Library, Parks and Recreation, Fire and Rescue. Still, at \$4.7 million, or 13.5% of operating revenues, reserve levels are considered adequate, but below the median level for similarly rated cities nationally. The city's liquidity position was a satisfactory \$5.0 million in the operating funds (14.3% of revenues). The city expects fiscal 2011 will show another draw on fund balance as it again appropriates a portion of reserves to offset the current year's operating deficit. The fiscal 2011 operating fund balance is expected to end at approximately \$4.4 million (10.4% of revenues). Going forward, the city budgeted approximately \$1.9 million to balance fiscal 2012 operations, which would reduce the operating fund balance to a thin \$1.6 million (3.9% of revenues); positively, management is discussing several proposals both to augment revenues and reduce expenditures in the 2012 fiscal year. Postively, in May 2011, voters approved a three-year local option property tax levy (FY 2012 - FY 2015) to provide partial funding for libray, aquatic and senior center operations. However, management's budgeted reserve expectations are a primary factor in the outlook revision to negative from no outlook.

BELOW AVERAGE DEBT BURDEN

Moody's expects that the district's lower than average 0.2% direct debt burden will be manageable given limited near-term borrowing needs. All outstanding debt is fixed rate and the city is not party to any derivative agreements.

OUTLOOK:

The outlook on the city's long-term ratings is negative. The negative outlook reflects Moody's expectation that the city will remain challenged in its efforts to significantly improve reserve levels over the near- to medium-term.

WHAT COULD MAKE THE RATING GO UP (REMOVAL OF NEGATIVE OUTLOOK):

- Improved financial performance in fiscal 2011 and beyond
- Positive tax base growth and a trend of economic improvement

WHAT COULD MAKE THE RATING GO DOWN:

- Continued draws on reserves and/or reduced liquidity levels
- Protracted economic weakness and tax base contraction

KEY STATISTICS:

2010 population: 55,125

2010 full valuation: \$5.8 billion

2010 full value per capita: \$105,681

Direct debt: 0.2%

Payout of Principal (10 years): 38.7%

FY10 General Fund Balance: \$670,000 (4.8% of General Fund revenues)

FY10 General Fund Balance (unreserved, undesignated): \$482,000 (3.5% of General Fund revenues)

FY10 Operating Fund Balance: \$4.7 million (13.5% of Operating Fund revenues)

FY10 Operating Fund Balance (unreserved, undesignated): \$4.3 million (12.2% of Operating Fund revenues)

1999 Per Capita Income (as % of OR and US): \$19,317 (92.2% and 89.5%)

1999 Median Family Income (as % of OR and US): \$53,208 (109.3% and 106.3%)

Unemployment as of March 2010: 6.7%

The principal methodology used in this rating was General Obligation Bonds issued by U.S. Local Governments published in October 2009.

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To: Mayor and City Council
From: Mark O'Brien, City Council President
Subject: City Council Quarterly Work Session
Date: June 13, 2011

Background:

The City Council has adopted a short list of worthwhile goals for the 2011-12 term. In my opinion, none of these is more important than our commitment to create a fiscally sustainable City budget. Our dilemma is the consistent shortfall between increases in revenues and increases in expenses, the so called "structural problem". We have taken some significant steps to address this budgetary instability. Thus far, the City has: increased efficiencies, reduced services and staffing, enacted new fees, spent down reserves, and put forward the recent levy. Employees have even volunteered some concessions in order to help cover City deficits. Yet, in spite all of our efforts we may anticipate many more painful decisions regarding the budget and City service reductions.

Discussion:

In a recent letter to the G-T, the City Council promised to focus its laser-like attention on creating a more sustainable City budget. Topics worthy of consideration in that effort include:

- Expenses- compensation, operating costs, subsidies, debt service;
- Revenues- taxes, fees, charges for service, transfers, grants;
- Reserves-savings, equipment replacement set asides.

Most of these budget related topics are covered within existing Council policies. By convention, the City Council reviews its own policies on a regular basis through established standing committees. Therefore, the ability to address important changes exists within current procedures and we should be able to make progress toward our fiscal goal without unnecessarily upsetting staff's normal work program.

To begin the process, I've identified meeting dates on the City calendar when critical financial topics are scheduled for review. Through completion of these Council policy reviews by the end of the calendar year, approved revisions can be smoothly incorporated into next year's budget development process.

As a bonus, having thoroughly reviewed relevant policies, the Council will better understand what proactive and positive impact we can have on City fiscal sustainability. In any event, it is likely that some financial benefit will be realized.

To: Mayor and City Council
From: Mark O'Brien, City Council President
Subject: Turnover Cost Estimate
Date: June 13, 2011

I was interested to see the Asst. City Manager's report to Council regarding employee turnover costs and the relationship between turnover and appropriate compensation. This memo shows that turnover can be expensive in theory but says nothing about Corvallis' experience. In order to fully understand the impact on our organization, it seems the Council needs some information.

I'd like to request that staff examine those people who have left the City of Corvallis' employ for the last five years by department. Do our statistics tell us that we have a problem in the overall level of turnover, relative to other organizations? What proportion of employees left because they: a) took a higher paying job at the same level in another organization (If so, how much extra pay was offered by the competition?), b) took a promotion (higher level of responsibility) in another organization, c) retired, d) changed careers, e) moved to a new location for personal reasons, f) were discharged for performance issues, or g) other. Hopefully, the City employs a system of "exit interviews"? This is a standard practice for high-functioning entities. If so, staff should be able to go back over exit interviews for the last five years and note why each employee left City employment.

Armed with this information, Council can determine if Corvallis 1) has a turnover problem related to compensation, 2) has a turnover problem related to some issue other than compensation, or 3) has no turnover problem. Verification will assist Council to avoiding jumping to conclusions about compensation being the cause of turnover before we engage in our Compensation Policy review. And this analysis could be particularly useful in answering recurrent questions from citizens regarding recruit police officer retention.

To: Mayor and City Council
From: Mark O'Brien, City Council President
Subject: Outline of Revenue Discussion
Date: June 13, 2011

I appreciate the Finance Director's May 25th memo regarding the process, proposed timeline, and other details for discussing revenue enhancement alternatives. However, the memo did highlight by contrast what I perceive to be an omission in Council's work plan, regarding "cost containment measures".

In my opinion, it simply isn't reasonable to discuss one without the other. I couldn't help but consider Council's recent adoption of the S.I.F. and forwarding of the levy to a vote in forming this opinion. In the absence of a hard look at cost containment, citizens may well wonder, "Does the Council define "fiscal sustainability" as increasing revenues to meet desired expenditures?" And who could blame them?

Before Council begins to review new or expanded revenue sources, may I please ask that that we prepare to look at strategies for containing costs? I request that we direct Departments to return to Council with laundry lists of cost-savings ideas. It is my hope that these cost-savings ideas would not result in a significant reduction in services, but I accept that some service reductions are inevitable.

I am aware that our departments are already running quite efficiently, but these are extraordinary times and the Council has a responsibility to do all within our power to meet our goal of a fiscally sustainable budget. I know that staff will put their best foot forward on such an effort and the City will certainly benefit.

June 13, 2011

To City Council
From: Dan Brown

Subject: A LITTLE RECREATIONAL READING

Overcome by nostalgia, I reread the City's Comprehensive Communication Plan which appears on the City web site. (Look up *Communications Plan*.) This 57 page plan was written by staff in 2003 and updated in 2007, my first year on the Council. The italicized text below is quoted from this City document.

Déjà vu all over again !

The local government finance picture therefore remains bleak. From 1997 to 2006 the City general fund balance dropped from just over \$9.5 million to \$3.75 million while total expenditures rose in the same period by about 85% and the main general revenues grew 30 % (property tax) or 50% (transient occupancy tax and franchise fees). Revenues are therefore not keeping pace with expenditure demands. The City population grew by just over 5% during this same period and full time equivalent [city] employees increased by 9%.

The City Council 2007-8 goal has changed somewhat to reflect an emphasis on financial planning and leveraging partnerships.

The goal states:

*Develop a **fiscal strategy** for core City services
including a comprehensive and collaborative communication plan
to increase citizen understanding of City budgets and services*

Whoops, maybe we need a Plan B !?!

*The City has **three efforts underway** designed to deal with the financial environment in the longer term The Core Services Committee is looking at long term financial strategies for property tax supported services and the Downtown and Economic Vitality Plan Implementation Committee and Prosperity that Fits Committee are looking at ways to finance and implement the major economic development strategic plans accepted by the City Council.*