



**CORVALLIS  
CITY COUNCIL WORK SESSION  
AGENDA**

**May 22, 2013  
7:00 pm**

**Downtown Fire Station  
400 NW Harrison Boulevard**

**COUNCIL ACTION**

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- I. ROLL CALL**
- II. UNFINISHED BUSINESS**
  - A. Tax Levy / Levies Discussion
- III. ADJOURNMENT**

For the hearing impaired, a sign language interpreter can be provided with 48 hours' notice prior to the meeting. Please call 541-766-6901 or the Oregon Communications Relay Service at 7-1-1 to arrange for TTY services. A large print agenda can be available by calling 541-766-6901.

*A Community That Honors Diversity*

**MEMORANDUM**

May 13, 2013

TO: Mayor and City Council  
Budget Commissioners  
FROM: Nancy Brewer, Finance Director *NB*  
SUBJECT: **Issues to Consider for a Local Option Property Tax Levy**

**I. Issue**

To outline issues surrounding potential renewal of the 2011 Local Option Levy and/or a new Public Safety levy.

**II. Discussion**

The City Council has discussed the 2011 Local Option Levy (LOL), which expires at June 30, 2014, and whether or not to request renewal of the levy. In addition, the Administrative Services Committee considered a Public Safety Tax (PST) as a method to raise funds for public safety services, but recommended pursuing a LOL instead of creating a tax on the utility bill.

This memo attempts to put together the issues for the City Council and the Budget Commission to discuss and provide advice to the City Council on preferences for how a LOL might be configured.

- A. Timing – All property taxes that would be levied outside of the City’s permanent tax rate must be approved by voters. As a result, selecting which election to place a LOL on the ballot becomes a critical issue in developing the time line for making decisions, etc.

The November and May elections each year require a simple majority; March and September elections require for a property tax measure a “double majority” where 50% + 1 registered voter must turn out to vote and then the measure must pass by 50% +1 of the voters voting yes. This discussion is occurring too late for the September 2013 election. Critical dates for the next three elections are:

Critical Steps	November 2013	March 2014	May 2014
City Council decides to refer a levy to the voters	July 1, 2013	Oct 21, 2013	January 21, 2014
Notice of election is filed with Benton County	September 5, 2013	January 9, 2014	March 20, 2014
Election Date	November 5, 2013	March 11, 2014	May 20, 2014
Measure goes into effect	July 1, 2014	July 1, 2014	July 1, 2014

- B. Term – The term for a LOL must be defined in the language of the ballot measure. Term can be from one to five years. The term can extend to ten years if the LOL monies will be used for capital expenditures that have a useful life of ten years or more. The City Council has already heard from supporters of the 2011 levy that there is a desire to extend renewal to the maximum of five years.
- C. Use of LOL Monies – The use of the monies is likely the area City Council will spend the most time. Citizens and Advisory Board members have already begun to indicate preferences for either a single, large, “fund it all” levy or two levies, with one identified as a renewal of the existing levy and the other funding public safety.

At this point, the discussion should focus on one of two alternatives:

- Determine the tax rate the Council wants to place on the ballot, the revenue raised from that rate, and then what that amount of revenue would fund; or
  - Determine the services to be funded, the amount necessary to fund those services, and then the tax rate necessary to raise that much revenue.
- D. Tax Rate – Determining the tax rate to levy will occur later in the process, but tax rates become part of the discussion as individuals consider how to structure a levy question. A LOL can be placed before the voters as a whole dollar tax levy or as a tax rate. The whole dollar levy will raise that amount regardless of the tax rate on individual properties as long as the tax rate derived from the levy does not place properties into compression. A rate based levy will raise more money when assessed value (AV) increases/less money when AV decreases, and is subject to the same compression issues as a whole dollar levy. About 2.5% of any levy will not be revenue due to early payment discounts.

Compression is calculated for each individual property; for non-education governments the 1990 Measure 5 rate limit is \$10 per \$1,000 of real market value (RMV). The current tax rate subject to compression for most Corvallis property, as applied to AV, is \$8.9679; this rate includes both Benton County and the City of Corvallis’ LOLs. It might help to see some examples of how these calculations are made:

Property	RMV	AV	M5 Maximum Taxes (.01 * RMV)	Current Taxes (.0089679 * AV)	\$ Capacity to M5 Cap	Capacity as a tax rate/1,000
Residence A	330,000	120,000	3,300	1,076	2,223	18.53
Residence B	330,000	249,000	3,300	2,233	1,066	4.28
Residence C	330,000	319,000	3,300	2,861	439	1.37
Commercial	19,560,568	11,558,753	195,605	103,657	91,947	7.95
Industrial	364,045,776	328,485,796	3,640,457	2,945,827	694,629	2.11

The following table shows a variety of tax rates, the revenue that is projected to be raised, the number of parcels that would be in Measure 5 compression, and the dollars

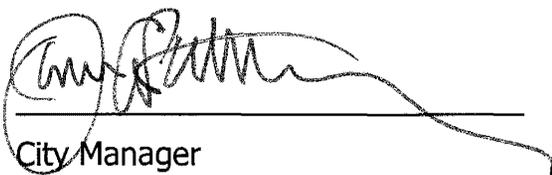
lost to compression. These calculations are based on data from Benton County Assessment at one point in time and reflect 2012 property values as they have been adjusted through the year to account for tax appeals where a decision has been rendered. As a result, property that is still in the appeal process (i.e., Hewlett-Packard, Comcast) is reported at current AV, not at the lower AV that would go into effect if either/both parties prevail. These calculations include Benton County's current LOL, but not the City's as it expires at the end of next fiscal year. The rate set at \$1.48 below is the highest rate that could be levied and likely not see any additional compression losses.

\$ Rate	Levy Amount	Actually Raises (after 2.5% discount)	\$ Compression Losses	# of Accounts in Compression
0.2500	\$ 1,001,207	\$ 976,177	-	0
0.5000	\$ 2,002,414	\$ 1,952,354	-	0
0.7500	\$ 3,003,621	\$ 2,928,530	-	0
1.0000	\$ 4,004,828	\$ 3,904,707	-	0
1.2500	\$ 5,006,035	\$ 4,880,884	-	0
1.4800	\$ 5,927,145	\$ 5,778,966	-	0
1.5000	\$ 6,007,242	\$ 5,850,962	6,099	1,170
1.7500	\$ 7,008,449	\$ 6,732,778	100,460	1,374
2.0000	\$ 8,009,656	\$ 7,593,307	216,108	1,704

### III. Requested Action

No decision is made during a work session. This staff report is provided for information and assistance in guiding the Council/Budget Commission discussion.

Review & Concur:



City Manager



# City Priorities and Program Funding Survey



Davis, Hibbitts & Midghall INC. | Opinion Research and Consultation

**Prepared By:**  
DHM Research  
**Prepared For:**  
City of Corvallis

## INTRODUCTION

Davis, Hibbitts & Midghall, Inc. (DHM Research) conducted a telephone survey of voters in the city of Corvallis to measure their priorities for city services and their level of support for a property tax levy to fund city services like police, fire, the library, and parks and recreation.

**Research Methodology:** Between October 14 and 17, 2010, DHM Research conducted a telephone survey of 400 Corvallis voters that took an average of 18 minutes to administer. Voters were contacted using a list of registered voters that was filtered for voters who voted in two or more of the last four general and primary elections (2006 general, 2008 primary, 2008 general, and 2010 primary). This list included both land line and cell phone numbers. Quotas were set by age, gender, and political party based on the total population of likely voters living in the city for a representative sample. Interviews were conducted in each Ward. The 90% and 50% margins of error are +/-2.9% and +/-4.9%.

## EXECUTIVE SUMMARY

**Voters are optimistic about the direction of Corvallis, with majorities who think things are headed in the right direction.**

- Seven in ten (70%) of voters think things are headed in the right direction, 19% think things are off on the wrong track, and 10% are undecided.

**Voters value living in Corvallis for many reasons, but particularly the sense of community they have there.**

- The top values voters have about living in Corvallis are the small town atmosphere, the livability and quality of life, the sense of community, and the people and friendliness.

**Despite their optimism about the city's direction, they are concerned about the economy and its effect on jobs and the community at large.**

- When asked what the most important issue city officials need to address is, economic and business development and lack of jobs and unemployment topped the list. Balancing the city budget came in third.

**Two-thirds of voters think there should be at least some tax increases to balance the city budget, and a majority (57%) said they would vote in favor of a levy that would increase property taxes by \$0.30 per \$1,000 of assessed property taxes to fund services like police, fire, the public library, and parks and recreation.**

- Twenty-seven percent (27%) said they want the city to increase taxes and not cut the city budget any more than it has been to date, and 29% said they want a combination of additional tax increases and budget cuts. Twenty-eight percent (28%) said there should only be cuts, no tax increases.
- Close to six in ten (57%) said they would vote for a \$0.30 tax levy, 37% said they would vote against it, and 6% said they didn't know how they would vote. Support for the \$0.30 levy increased to 64% at the end of the survey after being asked about their priorities for the budget, as well as changes in service levels that may occur without any additional revenue.

**While voters said all the city services tested in the survey are important to them, the Fire Department, Police Department, the Public Library, and Social Services are voters' top priorities for the city budget.**

- The Fire and Police Department are most important to voters, and they are services that they are most opposed to cutting. Nine in ten say both services are “very” important and six in ten are “very” opposed to reducing their funding.
- Close to one-half think social services like food and shelter assistance and the Public Library are “very” important, and one-third are “very” opposed to reducing their funding. More than seven in ten voters said both of these services are “very” or “somewhat” important to them, and are “very” or “somewhat” opposed to cutting their funding.
- While parks and recreation, the Senior Center, and the Aquatic Center are important to a majority of voters, they are not at the same importance level as Police, Fire, the Public Library, and food and shelter assistance, nor are voters as highly opposed to cutting their funding.

**A majority of voters agree that the city has done the best job they can to maintain important services despite facing a budget deficit.**

- One-half (52%) think the city has done a good job maintaining services while facing a budget deficit, and 56% are satisfied that the city is spending money efficiently and effectively. However, 45% think the city needs to raise taxes to maintain services, and 48% think cuts can still be made.

## 2012 Citizen Attitude Survey

The 2012 Citizen Survey was conducted for the City of Corvallis by the Oregon State University Survey Research Center (OSU-SRC). The questionnaire was designed by the City and the OSU-SRC provided reviews. The sample was selected and all mailings were administered by the City of Corvallis. Data entry and analysis were conducted by the OSU-SRC.

A random sample of 1,200 people was drawn from Benton County's database of Corvallis registered voters, limiting the sample to residents age 18 and older.

Four mailings were sent through the United States Postal Service. The first survey mailing was sent on September 27, 2012. The mailing included a cover letter that explained the objectives of the study, the questionnaire, and a postage-paid return envelope. One week later, a reminder/thank you postcard was mailed on October 4<sup>th</sup>. The second/follow-up survey mailing was sent on October 18<sup>th</sup>, which was two weeks following the postcard mailing. The third and final survey mailing was sent on November 1<sup>st</sup>, which was two weeks following the second/follow-up survey mailing. The second and third survey mailings were only sent to those in the sample who had not yet responded to the survey. These mailings included another cover letter, questionnaire, and postage-paid return envelope.

Questionnaires in which at least half of the questions were answered were considered complete. Questionnaires completed by someone other than the sampled person were considered invalid and not used in the analysis. Data entry was completed on November 29, 2012.

Of the 1,200 questionnaires mailed, 66 were undeliverable and 778 were completed and returned. Three questionnaires were returned but not considered complete (two were completed by someone other than the selected individual and in the other, less than half of the questions were answered).

**The adjusted response rate for this study is 68.6%.**



# CITY OF CORVALLIS

## 2012 CITIZEN SURVEY REPORT

**Ward Response – Distribution of response by City Wards:**

Ward 1 .....	14%
Ward 2 .....	5%
Ward 3 .....	12%
Ward 4 .....	5%
Ward 5 .....	5%
Ward 6 .....	13%
Ward 7 .....	16%
Ward 8 .....	19%
Ward 9 .....	11%

**1. How many years have you, yourself, lived in Corvallis?**

	<u>2012</u>
1 Less than 5 years .....	20%
2 5 to 10 years .....	20%
3 10+ to 19 years .....	20%
4 20 years or more .....	40%

**2. Below is a list of sources that can be used to inform residents about the City. Please indicate whether or not each is a preferred source of information for you.**

	<i>Preferred Source?</i>	
	<u>No</u>	<u>Yes</u>
a. City websites .....	33%	67%
b. Online newsletter <i>the City</i> .....	64%	36%
c. Information in the Gazette-Times .....	24%	76%
d. Cable's government access channel 21 .....	87%	13%
e. Social media (Facebook, Twitter, etc.) .....	74%	26%
f. Parks and Recreation Activity Guide .....	22%	78%
g. Other.....	56%	44%

**3. All in all, do you think Corvallis is growing too quickly, at about the right pace, or too slowly?**

	<u>2012</u>
Too quickly .....	32%
At about the right pace .....	55%
Too slowly .....	13%

4. The City Council has established the overarching goals of Sustainability, Diversity, Citizen Involvement, and Cost Efficiency. How important to you are the City's efforts toward each of these goals?

	<u>Very Important</u>	<u>Somewhat Important</u>	<u>Not Important</u>
a. Sustainability .....	65%	30%	5%
b. Diversity.....	41%	40%	19%
c. Citizen Involvement .....	52%	45%	3%
d. Cost Efficiency.....	75%	23%	2%

5. City government provides many services and facilities to Corvallis residents. Please indicate whether or not you or anyone in your household has used each of the following in the past 12 months. If you have used, please rate the quality of that service or facility as excellent, good, fair, or poor.

	<u>Used:</u>		<u>If used, rate quality as:</u>			
	<u>Have Not</u>	<u>Yes Have</u>	<u>Excellent</u>	<u>Good</u>	<u>Fair</u>	<u>Poor</u>
a. 911 emergency dispatch.....	79%	21%	77%	20%	3%	0%
b. Ambulance services.....	88%	12%	88%	9%	2%	1%
c. Bicycle lanes/multi use paths.....	29%	71%	41%	52%	6%	1%
d. Building inspection services.....	90%	10%	24%	53%	15%	8%
e. Chintimini Senior Center .....	84%	16%	37%	52%	9%	2%
f. City bus service.....	56%	44%	37%	46%	15%	2%
g. City parks/trails/open space.....	12%	88%	53%	45%	2%	0%
h. City recreation programs.....	69%	31%	37%	56%	7%	0%
i. Code enforcement services .....	89%	11%	19%	36%	24%	21%
j. Fall leaf collection .....	47%	53%	51%	42%	6%	1%
k. Housing assistance programs.....	95%	5%	48%	30%	11%	11%
l. Osborn Aquatic Center .....	57%	43%	49%	45%	6%	0%
m. Police services .....	72%	28%	42%	39%	13%	6%
n. Public Library services .....	25%	75%	70%	26%	3%	1%
o. Public review of land development proposals.....	91%	9%	17%	33%	37%	13%
p. Utility billing customer service.....	57%	43%	31%	52%	14%	3%
q. Vegetation/weed abatement services .....	92%	8%	24%	30%	26%	20%
r. Other .....	87%	13%	50%	11%	17%	22%

6. In making decisions about City services, what do you believe are the three most important things for the City Council to consider? (Mark an X in the box of your top three choices.)

2012

Impact on the City's core responsibilities (resident well being, public safety, ..... infrastructure, livability, and economic vitality)	78%
Financial impact to the City .....	52%
Number of people impacted .....	44%
Environmental impact .....	39%
Impact on long-term maintenance of services .....	34%
Impact on special populations (older residents, minors, etc.) .....	23%
Input from the community, such as this survey .....	23%
Other .....	2%

7. Overall, would you rate the job the City is doing in providing City services as excellent, good, fair or poor?

2012

Excellent .....	21%
Good .....	65%
Fair .....	13%
Poor .....	1%

8. Over the last two years, the City has cut approximately \$5 million in services to balance the City General Fund budget. Without additional funding, the City may have to make additional cuts to services over the next several years. Does knowing this make you more or less supportive of a measure that could fund one or more of the following services?

*How supportive?*

	<u>More Supportive</u>	<u>Less Supportive</u>	<u>Makes No Difference</u>
a. 911 emergency dispatch.....	71%	7%	22%
b. Ambulance/emergency medical services.....	70%	7%	23%
c. Code enforcement services .....	22%	35%	43%
d. More Library hours, including re-opening on Sundays.....	37%	31%	32%
e. Parks services and Parks maintenance .....	52%	19%	29%
f. Police enforcement services .....	58%	38%	4%
g. Re-open Zimbrick Fire Station #5 .....	72%	24%	4%

**9. Which one of the following approaches do you think is the best way to deal with the City General Fund deficit?**

**2012**

- 1 Increase taxes and do not cut the City budget more than it has been to date..... 19%
- 2 Find some combination of additional tax increases and budget cuts to balance the City budget, acknowledging that this will mean major cuts in service levels ..... 50%
- 3 Make sufficient cuts in funding for City services so that it is unnecessary to have any further tax increases on anyone in the City, even if that means major cuts in service levels..... 25%
- 4 Implement more fees on the utility bill targeted to fund specific services ..... 6%

**10. How valuable are the following City services to you as a resident of Corvallis – very valuable, somewhat valuable, or not valuable? (Check one box for each service.)**

*How valuable?*

	<u>Very Valuable</u>	<u>Somewhat Valuable</u>	<u>Not Valuable</u>
a. 911 emergency dispatch.....	80%	19%	1%
b. Ambulance services.....	72%	25%	3%
c. Economic development (e.g. business retention, tourism).....	31%	52%	17%
d. Fire suppression services .....	59%	37%	4%
e. Land use planning services .....	26%	55%	19%
f. Library services.....	47%	44%	9%
g. Low income/affordable housing assistance	28%	46%	26%
h. Parks, natural areas, and trails .....	58%	38%	4%
i. Police services .....	72%	24%	4%
j. Recreation, including aquatic and senior centers.....	38%	51%	11%
k. Social services .....	33%	50%	17%
l. City bus service .....	40%	42%	18%
m. Weed abatement services .....	6%	49%	45%
n. Other .....	75%	19%	6%

**11. Do you agree or disagree with each of the following statements about Corvallis? (Check one box for each.)**

	<u>Agree</u>	<u>Disagree</u>
a. Things in Corvallis are headed in the right direction .....	70%	30%
b. The City uses its revenue wisely .....	58%	42%
c. The City values community input .....	84%	16%
d. The City does a good job informing citizens about City Council decisions .....	72%	28%
e. The City does a good job providing opportunities for citizens to be involved in citywide planning and decision making .....	77%	23%
f. The City actively provides information about City services .....	86%	14%

**12. Would you say that you usually vote, or usually do not vote, on City issues? (Check one box.)**

	<u>2012</u>
Usually vote on City issues .....	86%
Usually do not vote on City issues .....	14%

**13. The Police Department strives to provide a safe community for all Corvallis residents. Please rate how safe or unsafe you feel in the following settings. (Check one box for each.)**

	<i>Feelings of safety</i>		
	<u>Safe</u>	<u>Neither Safe nor Unsafe</u>	<u>Unsafe</u>
a. In your neighborhood during the day .....	97%	3%	0%
b. In your neighborhood after dark.....	78%	18%	4%
c. In Corvallis' downtown during the day.....	94%	5%	1%
d. In Corvallis' downtown after dark .....	57%	33%	10%

**14. Have you had any in-person, phone, or email contact with an employee of the Corvallis Police Department within the past 12 months?**

	<u>2012</u>
No ( <i>After checking No, go to question 15</i> ).....	63%
Yes .....	37%



**14a. If yes, please rate the employee's knowledge, responsiveness, and courtesy/attitude as excellent, good, fair, or poor. (Check one box for each.)**

	<u>Excellent</u>	<u>Good</u>	<u>Fair</u>	<u>Poor</u>
a. Knowledge.....	57%	35%	6%	2%
b. Responsiveness .....	58%	30%	6%	6%
c. Courtesy/attitude.....	63%	21%	8%	8%

**15. What is your gender?**

	<u>2012</u>
Male .....	42%
Female .....	58%
Other .....	0%

**16. In which age category are you?**

	<u>2012</u>
18 to 34 years .....	24%
35 to 44 .....	14%
45 to 60 .....	29%
61+ .....	33%

**17. What is your race (or ethnicity)?**

	<b><u>2012</u></b>
White/Caucasian .....	90%
Black/African American .....	1%
Asian American/Pacific Islander .....	4%
Latino/Hispanic .....	2%
American Indian/Native American .....	1%
Mixed race or ethnicity .....	2%
Other .....	0%

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MAY 13 2013

CITY MANAGERS  
OFFICE

To: Corvallis City Council  
Corvallis Budget Commission

Copy: Julie Manning, Mayor  
Jim Patterson, City Manager

From: Betty Griffiths, Chair  
Parks, Natural Areas and Recreation Advisory Board

Re: Local Option Levy for Library and Parks

Date: May 10, 2013

At the April 18, 2013 Parks, Natural Areas and Recreation Advisory Board (PNARB) we discussed the department budget and the importance of the renewal of the three year levy for parks and library services which expires June 2014. The board was unanimous in their support of placing a renewal of this levy on the November 2013 ballot and not linking on the ballot it to increased funding for police and fire services.

Since this levy expires June 2014, we urge you to begin preparation now for the renewal so that it may be placed on the November 2013 ballot, the results can be included in the budget process and these services continued. The levy was highly successful with the electorate and should be renewed for the maximum period for the existing amounts.

Some of our reasons for this recommendation are:

- The parks and library levy was highly successful with the electorate
- The renewal of this levy allows a continuation of existing services without an increase in taxes
- There are a large and diverse group of residents prepared to work on a successful renewal of this levy including members of the PNARB.
- Voter support for a public safety levy has not been determined
- A potential public safety levy would result in an increase in taxes
- Placing the public safety tax and the local option levy renewal for parks and library services together may cause both to fail with serious ramifications for current services for parks and the library.

We urge you to move forward now to recommend a renewal of the existing levy for parks and library services for the maximum time allowed and spend more time determining the services that are needed for the police and fire along with the dollar amount and the timing of a separate public safety levy. Two separate levies will allow voters to clearly choose the services they wish to pay for.

Please let us know if you have questions or want further information about our position. Thank your consideration of our advice on this issue.

RECEIVED

MAY 10 2013

CITY MANAGERS  
OFFICE

To: Corvallis City Council  
Corvallis Budget Commission

Copy: Julie Manning, Mayor  
Jim Patterson, City Manager

From: Parks, Natural Areas and Recreation Advisory Board

Re: Cost Savings Directives

Date: May 8, 2013

At the March 21st, 2013 meeting of the Parks, Natural Areas and Recreation Board (PNARB), P&R Director Karen Emery shared a letter from the City Manager regarding investigating contracting out park maintenance. She related that Councilor Traber also asked to add recreation services to that list. After this request at the March 4 Council meeting, Traber clarified via email that his request was to research each program that is listed in the activity guides. This letter from PNARB members is in response to these requests.

PNARB applauds City Council's efforts to find cost savings in all areas of the city's budget. We are in favor of exploring the possible savings of contracting out for park maintenance services provided the quality is maintained. However, we do have concerns about the profitability of using P&R staff's time. Specifically, we feel the request to explore contracting out recreation services would require an extraordinary amount of staff time to evaluate, with no reasonable expectation of success. The reasons we believe this exercise will be unprofitable are as follows:

- P&R just completed the implementation of a new Cost Recovery Program (CRP), which has been nationally recognized by such groups as the Robert Wood Johnson Foundation, Active Living by Design; Centers for Disease Control and Prevention REACH (Racial and Ethnic Approaches to Community Health) Program; and the City of Houston Parks and Recreation Department. The CRP was designed specifically to have the cost of recreation services be paid for by participants. The program has been in place for less than a year, but the initial numbers suggest the program will be successful. This means that there will be little or no savings to be had by contracting out recreation services. Further, all the time and money spent on the CRP would have been wasted.
- PNARB is concerned that contracting out recreation services will reduce the total number of programs available, as well having the effect of further limiting access for underserved children and families in our community. The evidence from other localities that have contracted out recreation services point to an erosion in quality, higher costs for participants, loss of participants, and dissatisfied citizens in the affected communities. Mildred Warner at Cornell has researched privatization of public parks services and has found very mixed results. Numerous countries that were early experimenters with privatization in the 1990s (e.g., Australia, New Zealand, and the U.K.) have since reversed the policy following increasing problems with service quality and lack of predicted cost

savings. According to Warner and her colleague, Amir Hefetz, competition is a key to the potential cost savings under outsourcing, but lack of competition is a perpetual problem in markets for public goods. Warner and Hefetz suggest that public services like parks and recreation, which enjoy high citizen interest and low opportunity for competition, are poor candidates for privatization.

- One of PNARB's goals for the upcoming year is to further explore the possibilities of partnerships between P&R and the Corvallis School District, private entities such as the Boys and Girls Club and Timberhill Athletic Club, and other governmental entities with the intent of creating mutually beneficial programs. PNARB believes this to be a more profitable approach, in that will be more targeted as well as utilizing the volunteer members of PNARB.

Based on the reasons articulated above, PNARB respectfully request that City Council rescind its directive to P&R staff to explore the possibilities of contracting out recreation services.

**MEMORANDUM**

May 22, 2013

TO: Mayor, City Council, and Budget Commissioners  
FROM: Nancy Brewer, Finance Director  
SUBJECT: **Hewlett-Packard Tax Appeal – More Information**

**I. Issue**

To update the City Council and Budget Commission on the Hewlett-Packard (HP) appeal.

**II. Scope**

As noted in my memo dated May 20, 2013, the total amount of the HP refund, assessed proportionately to all taxing jurisdictions in Benton County, is \$9.5 million. The City's share can be identified as follows:

Permanent rate	\$1,794,560
General Obligation Bonds	90,594
Local Option Levy	<u>158,127</u>
City of Corvallis	\$2,043,281
Benton County Library District	210,986
80% of Rural Fire Protection*	<u>100,170</u>
Total likely cost	<u>\$2,354,437</u>

\* The Corvallis Rural Fire Protection District amount was inadvertently left off the list on the May 20 memo. The CRFPD pays 80% of its property tax collection to the City each year; the figure above assumes CRFPD will maintain that ratio for the refund.

**III. Implications**

The implications of this tax court decision are many, varied, and complex. Summarized and grouped, and reflecting the knowledge we have today, implications are:

- A. Appeal – Whether or not there will be an appeal is a decision the Department of Revenue will make in conjunction with the Attorney General's office. Our understanding at this point is that DOR is taking the matter under consideration and hope to make a decision in the next couple of weeks.
- B. The refund – Benton County Finance will pay the refund out of FY 13-14 property tax revenue paid to the County. The City will not have an expenditure related to the refund; rather the impact to the City of Corvallis will be a reduction in the property

tax revenue turned over during the course of the year. Benton County Finance staff is expected to meet with taxing jurisdictions to obtain their input on whether to pay the refund in one lump sum or over a period of five years. Department Directors have discussed this issue and are in agreement that it would be considerably better to pay the refund once and not continue to accrue 12% interest on the outstanding balance over five years; Finance Department staff will provide that perspective at the taxing jurisdiction's meeting, expected to occur next week.

***Staff's recommended strategy*** – Department Directors met Tuesday morning to discuss possible strategies for making the refund. To the greatest extent possible, Directors unanimously agreed that further service, program, and position cuts in the FY 13-14 budget should be avoided. To meet that objective, Directors recommend using the following mechanisms to address the refund:

- a. Discretionary spending freeze – no discretionary purchases or projects planned but not started will be implemented for the remainder of fiscal year 12-13. Budget Office staff is working with departments to determine how much this may save that would be set aside in the fund balance reserve at June 30, 2013, much like the one-time set-aside done last fiscal year.
  - b. Use the \$967,911 in one-time fund balance reserve set-aside from FY 11-12 to offset the loss in property tax revenue. City Council used this money to fund the reserve faster than policy required, and the purpose of the reserve is to shelter the City from unexpected financial challenges exactly like the one the City faces with this refund. By limiting the draw on the reserve to only the one-time set-aside, the City continues to build the reserves by the Financial Policy directed set asides in FY 12-13 and FY 13-14.
  - c. Put in place an interfund loan, borrowing from ourselves from cash reserves in another fund (likely SDC balances) to manage the cash flow. This will require re-paying the loan, with interest (at a rate significantly lower than 12%), but should allow operations to continue. The amount of this loan is currently unknown and will depend largely on some of the other issues addressed here.
- C. FY 13-14 Budget – The Budget Commission's recommended budget now has two primary areas of concern:
- a. **Sustainable Operations** – another outcome of the tax court's decision is that H-P's assessed value will drop by \$117,000,000. This translates to a FY 13-14 reduction of \$600,000 in property tax revenue from the permanent tax rate and \$52,650 in lost revenue from the local option levy; the Library Service District would lose \$46,180. This comes on top of a couple of smaller appeals that have already reduced expected revenue and led to current fiscal year re-payments. The total revenue loss is about 3 percent of projected revenue, so even with some new development coming onto the tax rolls, it is likely the City's property tax revenue for FY 13-14 will be flat or below FY 12-13 levels. This places the FY 13-14 budget out of balance even without making the refund and the

budget no longer meets the City Council's definition of a sustainable financial operation.

**Staff's recommended strategy** – like the strategy to pay the refund, this has multiple steps:

1. PERS rates are expected to be lower for FY 13-14 based on adopted and signed legislation that is projected to drop rates by around 2.5% of payroll or \$412,370 in the General Fund. Other legislation may occur that would drop rates even further, but since nothing has been passed staff is reluctant to rely on any additional PERS savings.
  2. Local option levy funded services will be managed with fewer resources. To that end, United Way will be informed of the expected \$12,000 to \$13,000 decrease in monies available for allocations in FY 13-14.
  3. The balance of how to address the funding loss is being discussed by departments. A plan will be forthcoming with the budget public hearing staff report.
- b. **Debt Service** – revenue losses in FY 12-13 due to the Timberhill valuation appeal will leave the ending fund balance in the GO Debt Fund below target, so the fund will not be able to absorb the \$90,600 refund associated with the HP appeal. The levy amount for debt service proposed by staff and recommended by the Budget Commission is now inadequate to make the scheduled FY 13-14 bond payments. At the City Council Public Hearing on the budget, staff will recommend the Council increase the levy amount. This will require re-publication of the budget and a second public hearing at the June 17 City Council meeting before the Council can adopt the budget, but in my opinion is the best way to keep from having the General Fund absorb this \$90,600 in revenue loss.

#### IV. Requested Action

No action is required at this time. This is provided as an update to the City Council and Budget Commission on what is known or surmised at this point in time, and to provide the City Council and Budget Commission with information on the strategies staff is implementing to address this significant funding shortfall. More information will be forthcoming to the City Council as part of the public hearing process scheduled for June 3.

Review and Concur:



City Manager