1st Quarter Financial Summary
FY 2014-15

This report provides summary information on the City's financial status as of the end of September, 2014; more detailed comparative income statement form data is available on-line at this link.

PERFORMANCE AT A GLANCE (YEAR TO DATE)		COMMENTS
GENERAL FUND		
General Fund Expenditure vs. Revenue	WATCH	Revenues appear under target until property taxes are received in Q2, though department spending is at appropriate levels for this point in the fiscal year. Property tax receipts are better this year due to no Hewlett-Packard refund that led to negative prior year results.
Property Tax Revenue	POSITIVE	Property tax receipts will lag budgeted levels until turnovers start in November when the majority of funds will be received for the year. Per 2014 tax certifications, AV growth of 4.5% appears promising to improve Revised revenue over Adopted projections.
Transient Room Tax	POSITIVE	Q1 receipts are up 14% over prior year actuals, and on track to exceed budget. The increase likely stems from great summer weather and higher enrollment at OSU this fall.
Franchise Fees	POSITIVE	Franchise fees are trending higher in the first quarter of FY 14-15; given anticipated increases in City utility revenues, staff currently expects budgeted levels to be exceeded.
State Shared Revenue	POSITIVE	FY 13-14 receipts were about 5% above budget, and FY 14-15 revenues to date are running about 5% over the prior year, with the exception of a one-month lag in liquor tax receipts. Cigarette taxes continue to decline, but are a small portion of this revenue.
Fines & Forfeitures	WATCH	While the first two months of the quarter saw higher traffic fine revenue than the prior year, significant CPD vacancies/absences and the learning curve associated with implementation of e-citations and e-ticketing saw revenues declining in September. The net result was higher receipts than last year for the quarter, but a current downward trend.
General Fund Expenditures vs. Budget	WATCH	General Fund expenditures are generally on target and in line with prior year spending, Parks & Recreation (P&R) is typically higher in Q1 due to summer month activities; Fire is over 29% expended year-to-date (YTD), and higher than FY 13-14 due to two long-term employee departures with cashouts totaling over $70,000, as well as overtime already at 72% of budget for summer conflagrations and the September Timberhill fire.
SPECIAL REVENUE FUNDS		
9-1-1 Emergency Services	WATCH	Declining fund balance; although prior year revenues met expectations, and budget was underexpended, current spending YTD is ahead of budget and higher than prior year.
Community Development Revolving	WATCH	FY 13-14 ended with a positive fund balance, but negative cash balances are expected to continue and will be monitored based on reduced federal grant revenue availability.
Development Services	POSITIVE	Permit revenues are ahead of last fiscal year and budget, whereas charges for service are on track so far this fiscal year. Development projects continue to underpin much improved results in this fund relative to a few years ago.
Parking	WATCH	Revenues are higher than prior year, but lagging budget and fund balance has declined. The November ballot on Residential Parking Districts (RPD) has operational unknowns.
Street	WATCH	Declining fund balance; future revenues may not be adequate for current service levels.
Transit	POSITIVE	Current revenues are lower than last fiscal year and FY14-15 budget, yet expenditures remained stable; FY 13-14 net revenues contributed to a higher ending fund balance.
ENTERPRISE FUNDS		
Airport	POSITIVE	While revenues typically lag against budget at this point in the year, they are expected to achieve budgeted levels by year end; operating expenditures are low and on target.
Storm Water	POSITIVE	Metered revenues are up some from prior year; expenditures are on track with budget.
Wastewater	POSITIVE	Metered revenues are up some from prior year; expenditures are on track with budget.
Water	POSITIVE	Metered water usage has increased and the application of the new rate structure has bolstered YTD revenues; expenditures are on track.
INTERNAL SERVICE FUNDS		
Risk Management	WATCH	Risk coverage premiums continue to increase; claims are using up deductible capacity and reserves may be insufficient for a catastrophic event.

What the ratings mean:

Positive – Current revenues and City Council-adopted use of reserves are sufficient to support the current level of service. Fund balances appear stable over a three-year forecast. No significant negative issues are identified.

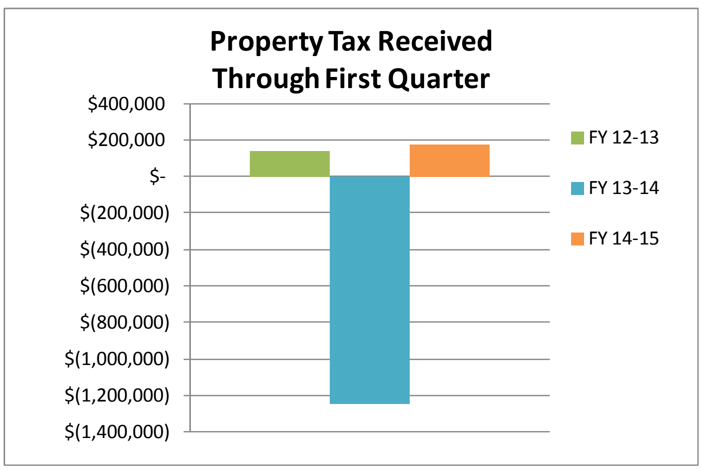
Watch – Various stressors may cause current revenues to be flat or decline and impact the fund's capacity to support the current level of service. Factors exist that may contribute to higher than anticipated expenditure levels in more than one category over the next 6-12 months.

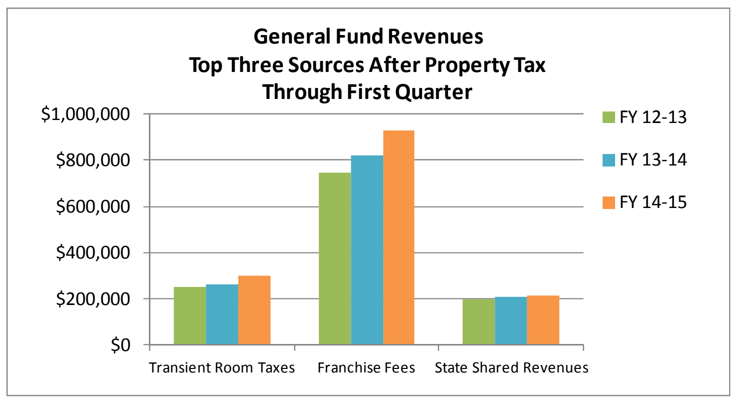
Negative – Current expenditures exceed or revenues are significantly behind forecast assumptions. Fund balance is unstable. Immediate action to reduce expenditures is required.

GENERAL FUND COMBINED*

REVENUE	AMENDED BUDGET	1st Quarter FY 13-14	Y-T-D FY 13-14	FY 13-14 % REC/EXPEND	AMENDED BUDGET	1st Quarter FY 14-15	YTD FY 14-15	FY 14-15 % REC/EXPEND
Budgeted Beg. Fund Balance (incl reserves)	6,265,564				$6,451,158			
Property Taxes	$20,617,620	-$1,247,274	-$1,247,274	-6.05%	$24,447,050	$175,184	$175,184	0.72%
Other Tax	1,372,600	264,590	264,590	19.28%	1,427,600	302,061	302,061	21.16%
Licenses/Permits	5,925,060	919,148	919,148	15.51%	5,741,280	1,025,550	1,025,550	17.86%
Charges for Service	5,889,850	1,438,489	1,438,489	24.42%	5,786,580	1,456,563	1,456,563	25.17%
Intergovernmental	4,227,760	210,411	210,411	4.98%	3,877,120	216,357	216,357	5.58%
Fines/Forfeitures	771,390	167,380	167,380	21.70%	759,660	174,807	174,807	23.01%
Miscellaneous	1,307,680	141,132	141,132	10.79%	536,080	162,001	162,001	30.22%
Other Financing Sources	7,075,308	166,243	166,243	2.35%	798,330	456,497	456,497	57.18%
TOTAL CURRENT REVENUE	$47,187,268	$2,060,119	$2,060,119	4.37%	$43,373,700	$3,969,021	$3,969,021	9.15%
EXPENDITURE BY DEPARTMENT								
City Manager's Office	$326,250	$66,051	$66,051	20.25%	$293,300	$72,422	$72,422	24.69%
Community Development	1,309,840	287,856	287,856	21.98%	$1,498,870	$302,162	$302,162	20.16%
Finance	646,770	163,441	163,441	25.27%	$647,260	$150,129	$150,129	23.19%
Fire	10,485,960	2,663,141	2,663,141	25.40%	$11,397,090	$3,337,040	$3,337,040	29.28%
Library	6,524,140	1,414,233	1,414,233	21.68%	$6,151,640	$1,478,737	$1,478,737	24.04%
Parks & Recreation	6,295,130	1,734,097	1,734,097	27.55%	$6,114,820	$1,784,679	$1,784,679	29.19%
Police	10,688,290	2,621,368	2,621,368	24.53%	$11,293,220	$2,709,298	$2,709,298	23.99%
Public Works	1,026,260	151,517	151,517	14.76%	$991,940	$202,331	$202,331	20.40%
Non-Departmental	1,480,870	342,356	342,356	23.12%	994,420	212,438	212,438	21.36%
TOTAL OPERATING EXPENDITURES	38,457,260	9,444,060	9,444,060	24.56%	$39,382,560	$10,249,236	$10,249,236	26.02%
Debt Service	$243,180	$220,530	$220,530	90.69%	$837,160	$222,644	$222,644	26.60%
Transfers / Other Financing Uses	7,085,818	460,206	460,206	6.49%	2,940,640	537,183	537,183	18.27%
Contingencies/Reserves	597,200	0	0	0.00%	630,000	0	0	0.00%
TOTAL ALL EXPENDITURES	$46,383,458	$10,124,796	$10,124,796	21.83%	$43,790,360	$11,009,063	$11,009,063	25.14%
CURRENT REVENUE LESS TOTAL EXPENDITURES		($8,064,678)	($8,064,678)		($416,660)	($7,040,042)	($7,040,042)	

* General Fund Combined includes component reserve funds effective FY 14/15





The two graphs on this page illustrate improvements being noted in all of the major revenue categories year-to-date in the General Fund. However, Q1 operating expenditures offset these improvements somewhat, as they are $805,000 higher than last fiscal year as of the end of September. While the budget anticipated a net increase in costs, this spending takes the General Fund a full percentage higher than the first quarter budget target of 25%. Part of this is attributable to P&R which typically spends more in the summer months, and is only about $50,000 higher than this time last year, but 1.5% higher as a proportion of budget. The Fire Department also saw significantly higher Q1 spending than anticipated, due to two unbudgeted accrual cash outs totaling over $70,000 and overtime spending at 72% of FY 14-15 budget vs. about 55% of budget in the first quarter of FY 13-14. Casual (i.e., temporary) employee wages for the Fire Department were also higher at 51% of budget vs. 44% of budget in the prior year. Overtime and casual overages partly reflect backfilling for minimum coverage for absences, but this year are also due to increased conflagration activities in August and the Timberhill fire in early September. The impact of these events should each be partly offset in future months by reimbursements from other agencies for the former and insurance monies for the latter; Fire is currently awaiting a $93,000 reimbursement from the Office of the State Fire Marshall for personnel service costs for the Beaver Complex fire, amongst others, with which the department assisted in August. P&R staff was also impacted by the Timberhill fire, which along with increased overtime and casual spending to backfill for vacancies, led to nearly 50% of budgeted dollars being spent in those categories in Q1. While both department personnel service budgets have seen cuts over the last three years, the percent expended in the first quarter has been increasing. P&R casual employee costs are also heavily impacted by minimum wage increases.

GENERAL FUND

BUDGETARY BASIS	UNAUDITED FY 13-14	ADOPTED FY 14-15	Year-To-Date FY 14-15	% of Budget Year-to-Date
RECURRING				
NON DEDICATED REVENUE				
Property Taxes - Permanent Rate	$18,632,793	$20,808,660	$0	0.00%
Local Op Levy 2013 - HP Replacement/Social Services Funding	0	706,340	0	0.00%
Prior Year Delinquent Tax Revenue	451,986	438,280	175,184	39.97%
Transient Room Tax	1,424,997	1,427,600	302,061	21.16%
Franchise Fees	5,486,499	5,374,000	928,338	17.27%
State Revenue Sharing	537,106	531,160	132,995	25.04%
Alcohol/Cigarette Tax	847,782	826,580	79,049	9.56%
Pass-Throughs	618,750	790,130	456,497	57.77%
Miscellaneous Other Revenues	1,188,762	103,690	40,663	39.22%
TOTAL NON-DEDICATED RECURRING REVENUE	**$29,188,676**	**$31,006,440**	**$2,114,787**	**6.82%**
DEDICATED REVENUE				
Property Tax - Local Option Levy	$1,910,761	$2,493,770	$0	0.00%
City Manager's Office	121,176	121,000	102,741	84.91%
Community Development	140,902	117,590	36,018	30.63%
Finance	133	625,200	135,103	21.61%
Fire	3,602,373	3,618,080	681,679	18.84%
Library	2,523,642	2,785,260	107,340	3.85%
Parks & Recreation	1,930,571	1,730,190	515,552	29.80%
Police	378,124	378,730	152,411	40.24%
Public Works	145,282	0	0	0.00%
TOTAL DEDICATED RECURRING REVENUE	**$10,752,962**	**$11,869,820**	**$1,730,843**	**14.58%**
TOTAL RECURRING REVENUE	**39,941,638**	**$42,876,260**	**$3,845,631**	**8.97%**
EXPENDITURES				
City Manager's Office	$320,760	$293,300	$72,422	24.69%
Community Development	1,236,569	1,498,870	302,162	20.16%
Finance	615,548	647,260	150,129	23.19%
Fire	10,879,265	10,697,090	2,717,020	25.40%
Library	5,968,502	6,068,140	1,460,752	24.07%
Parks & Recreation	6,190,145	5,817,320	1,673,224	28.76%
Police	10,604,806	11,123,210	2,700,277	24.28%
Public Works	820,250	703,940	148,585	21.11%
Non-Departmental	1,296,681	822,420	181,417	22.06%
Debt Service	243,174	837,160	222,644	26.60%
Pension Obligation Bond Debt - Transfers	1,870,950	1,931,790	471,950	24.43%
Pass-Throughs	597,869	790,130	65,233	8.26%
Contribution to Fund Balance Reserve/Contingencies	1,269,085	1,645,630	0	0.00%
TOTAL RECURRING EXPENDITURES	**$41,913,604**	**$42,876,260**	**$10,165,816**	**23.71%**
RECURRING REVENUE EXCESS (SHORTFALL) OVER EXPENDITURES	**($1,971,966)**	**$0**	**($6,320,185)**	
POTENTIAL BEGINNING BUDGETARY FUND BALANCE	915,509	269,750	277,314	
Net Recurring Revenue/Expenditure	(1,971,966)	-	(6,320,185)	
Net Non-Recurring Revenue/Expenditure	1,333,770	(269,750)	(265,630)	
ENDING BUDGETARY FUND BALANCE	**$277,314**	**$0**	**(6,308,501)**	
Ending Reserve Balance by Type				
RESTRICTED	$629,919	$377,160	$508,065	
COMMITTED	1,106,989	1,018,258	$1,030,389	
ASSIGNED	1,334,729	448,875	$931,299	
FUND BALANCE	3,174,574	4,190,204	$4,820,204	
	$6,246,211	$6,034,498	$7,289,957	

The General Fund Financial Plan update provided above shows the unaudited, estimated status of the "green line" at the end of Q1. Because property taxes will be received in the second quarter, the sustainable green line and the ending budgetary fund balance YTD are shown as negative, but will become positive once property tax revenue is received. Property tax levy notifications have been received from Benton County and certified assessed value for the City grew by

4.3% versus the 3% increase built into projections. Thus, current estimates are for the General Fund to end FY 14-15 with a potentially much higher positive bottom line than projected at time of Budget Adoption. However, Comcast and HP appeals are still ongoing and the County has advised the City of approximately $100,000 in holdbacks for possible future HP interest refunds should the award decision prevail, which will reduce the revenue amounts turned over to the City for permanent rate, local option and debt service levies. Directors will be reviewing deferred maintenance and infrastructure/CIP projects to determine the highest priority alternatives for use of any funding higher than budgeted that may become available. The Q1 ending budgetary fund balance above is currently reflective of:

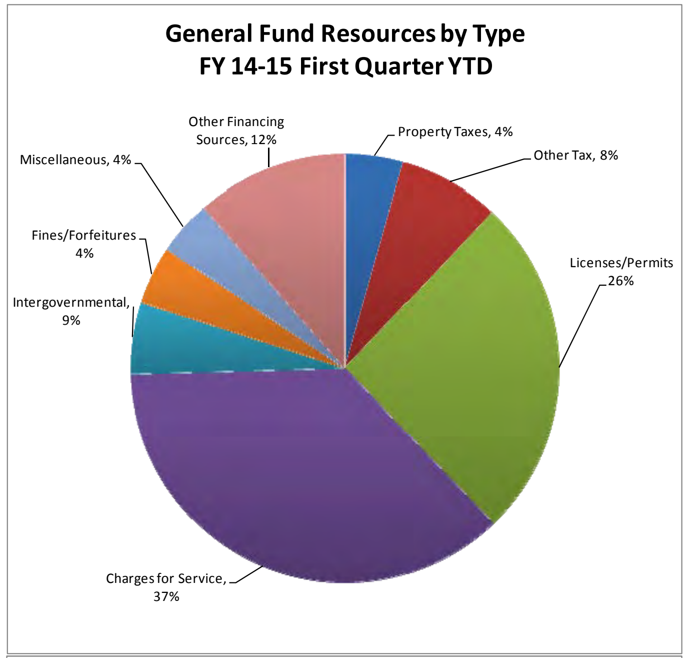
- removal of a $500,360 interfund loan payback in FY 14-15 to the Water SDC Fund that was originally anticipated to be needed in FY 13-14, due to the HP appeal; and
- a near final FY 13-14 ending budgetary fund balance of approximately $277K, pending any final audit adjustments by the end of the second quarter.

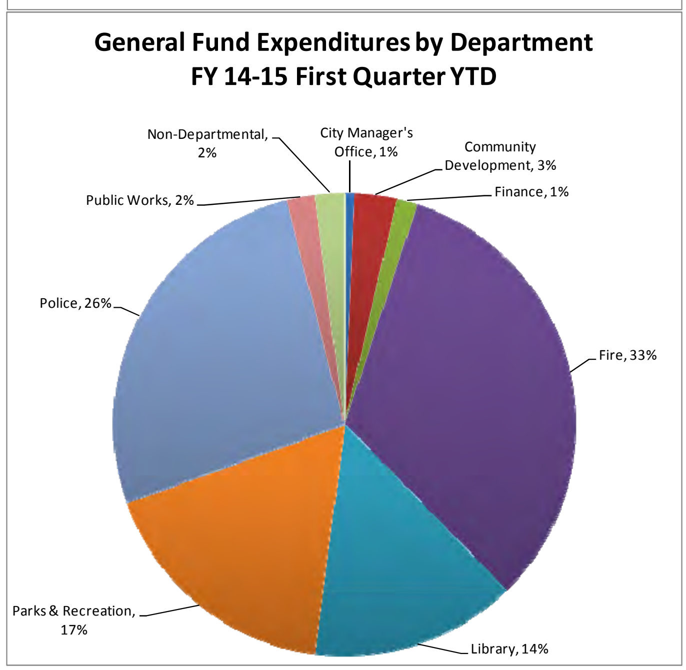
The **resources** pie chart, to the right, graphically illustrates the YTD proportions of all resources supporting General Fund services. Property taxes look low at only 4%, but that is normal at this point in the year, since the large influx of property tax receipts are typically received during Q2 in November and December.

The **expenditures** pie chart shows the distribution of General Fund expenditures by department through the first quarter. The public safety departments (Fire and Police) account for 59% of fund operating expenditures; while other operations such as library, parks, recreation, economic development, planning, code enforcement, and municipal court make up the remaining 41% of expenditures.

Comparing year-to-year expenditures in this Fund (table on page 2) demonstrates that FY14-15 spending is closely aligned with FY13-14 as a percentage of budget, but higher as a whole in FY14-15. Some notable increases by department include:

- Fire's purchase of a new aerial equipped engine, along with increased personnel service costs due to retirement cashouts and use of over-time for conflagrations;
- Library's personnel services are trending higher due to restoration of Sunday hours, funded by the 2013 operating levy;
- Police's personnel services are up 10% from last year due to being close to fully staffed, especially since three police officer positions are funded and staffed in FY 14-15 but were only authorized and not funded in FY 13-14; and
- Parks & Recreation (P&R) saw an 18% increase in non-personnel services due to the $36,000 payment for annual Art Center support, which was formerly accounted for in the non-departmental budget, and for expenditures incurred as a result of an increased number of specialty summer camps.





Fund Name	Resources YTD through 1st Quarter FY13-14	Resources YTD through 1st Quarter FY14-15	Variance 13-14 to 14-15	FY 14-15 Total Budgeted Revenue	YTD% of FY 14-15 Total Budgeted Revenue
911 Emergency Services	514,884	556,017	41,133	2,350,140	23.66%
Administrative Services	1,134,031	1,247,261	113,230	5,026,820	24.81%
Airport	81,573	91,127	9,554	601,950	15.14%
Capital Improvement Project	422,512	898,145	475,633	11,733,950	7.65%
Community Development Revolving	580,203	338,130	(242,073)	2,659,050	12.72%
Davidson	7	7	-	0	0.00%
Development Services	1,307,942	1,000,629	(307,313)	2,829,890	35.36%
Facility Maintenance	199,552	201,814	2,262	806,490	25.02%
Fleet Maintenance	204,503	205,959	1,456	851,110	24.20%
General Obligation Debt Service	(64,068)	2	64,070	1,131,610	0.00%
Parking	140,777	165,885	25,108	1,129,420	14.69%
Parks System Development Charge	882,049	1,321,783	439,734	618,100	213.85%
Pension Obligation Debt Service	603,700	603,700	-	2,720,030	22.19%
Risk Management	796,714	842,049	45,335	1,121,350	75.09%
Street	744,438	716,006	(28,432)	4,356,940	16.43%
Street & Utilities Systems Development Charge	1,797,464	4,618,736	2,821,272	3,874,990	119.19%
Stormwater	879,464	684,647	(194,817)	2,741,440	24.97%
Technology & Communication	396,465	395,742	(723)	1,583,280	25.00%
Transit	886,152	636,237	(249,915)	3,475,420	18.31%
Wastewater	2,723,054	2,572,555	(150,499)	20,123,810	12.78%
Water	3,958,446	3,894,239	(64,207)	11,717,120	33.24%
TOTAL RESOURCES	**$ 18,189,862**	**$ 20,990,670**	**$ 2,800,808**	**$ 81,452,910**	**25.77%**

RESOURCES – Info on <>5% difference in Operating Funds from prior year or budget target (25%)

Airport – *Building and hangar rental revenues came in greater than last year, but are lagging against budgeted levels.*

CD Revolving – *Resources are less than prior year and budget, but Community Development Block Grant (CDBG) and the HOME program grant revenues are based on reimbursements and received only after expenditures are incurred. Timing of spending and receipts is sporadic and relatively unpredictable, so results above are typical; a significant portion of FY13-14 CDBG and HOME projects were carried forward to FY14-15 as is also the norm.*

Development Services / Parks System Development Charge (SDC) / Street & Utilities SDC – *Charges for Service revenue in these funds, related to permits/reviews/inspections and SDC's respectively, are above target and, in the case of SDC's also ahead of last fiscal year, courtesy of development at OSU and a $1 million site package for the Oak Creek Retreat. Timing of large projects is variable, spanning multiple months/years, so revenues are less predictable.*

General Obligation Debt Service – *While not an operating fund, the GO Debt Service revenue impact from the Hewlett-Packard property tax refund in July 2013 bears noting, due to the negative first quarter balance above, whereas for FY 14-15 status of receipts has returned to normal. This year's first significant tax turnover is anticipated in November.*

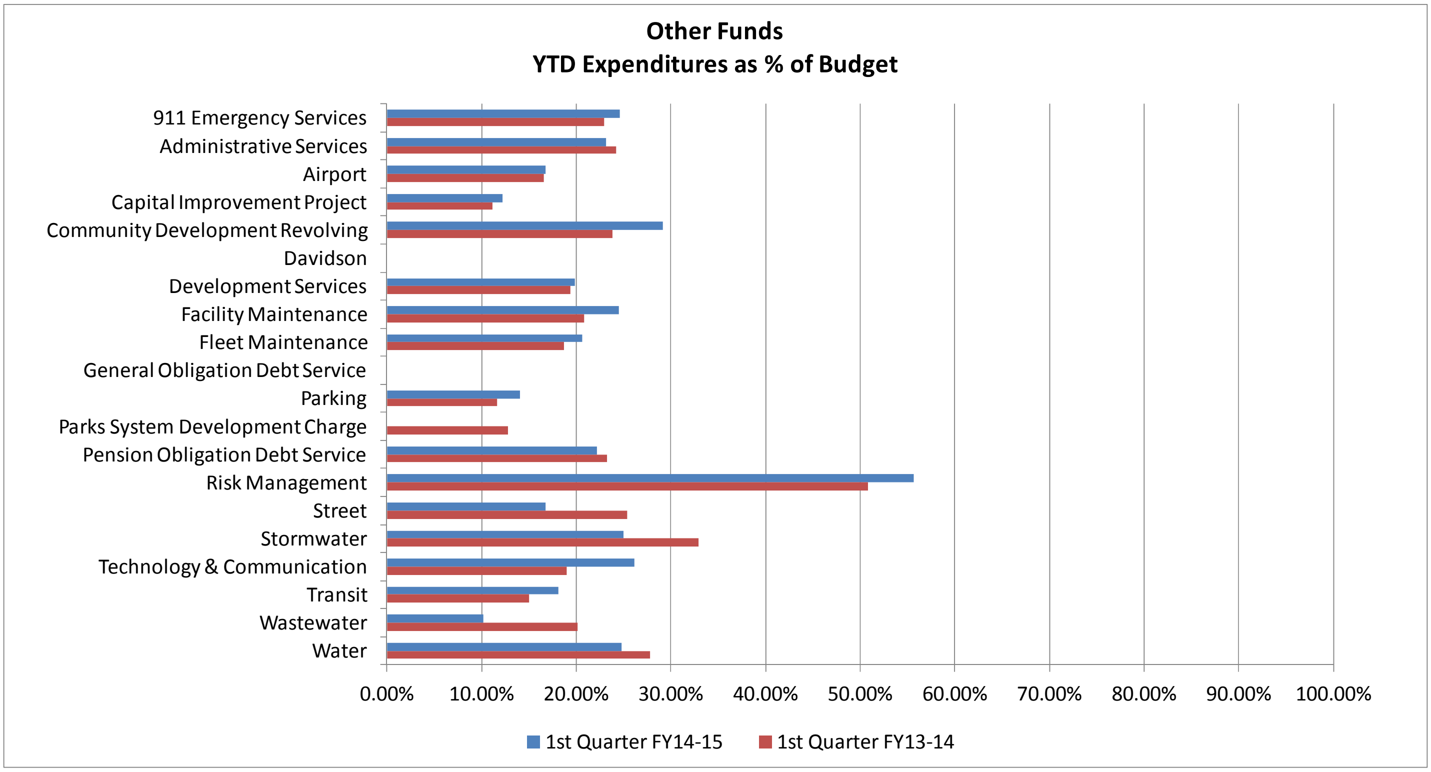
Parking – *Revenues are higher YTD than prior year from approximately $20,000 in unanticipated fees in-lieu of parking program improvements. Revenues are below budget however, with the RPD outcome awaiting the November ballot.*

Risk Management – *Timing of this internal service to departments is weighted to coincide with insurance premium payments, 75% of which occur in July (Q1) and 25% in January (Q3), so Q1 revenues are already at 75% of budget.*

Street – *Highway tax revenues have flattened, due to reduced fuel usage in more fuel-efficient, hybrid and electric vehicles, and are coming in at last year's level; thus total receipts are currently expected to come in under the increased budget amount; Sidewalk and Transportation Maintenance Fee program revenues are on target with budget as of Q1.*

Transit – *Revenues are roughly $250,000 less than the previous fiscal year, mostly due to timing of operating and capital grant draws, as well as a 3.6% decrease approved in February 2014 for the Transportation Operations Fee (TOF).*

Wastewater/Water – *Increased metered usage and a new rate structure are positively affecting Charges for Service receipts this year; however, the table above reflects a decrease in overall revenue due to earlier and larger transfers made in FY 13-14 to the construction component funds for various capital improvement projects.*



EXPENDITURES – Info on <>5% difference in Operating Funds from prior year or budget target (25%)

The above bar graph compares FY14-15 and FY13-14 expenditures through September 30th as percentages of their respective total budgets for all City funds except the General Fund (discussed in previous pages).

Administrative Services – *Spending is slightly below the target YTD due to vacancies for a Public Information Officer (PIO) and an Accountant. The PIO position is on-hold until a new City Manager is hired, while the Accountant position is in the recruitment phase. The Q1 unemployment invoice had not been received by September 30th, also contributing to the lag against budget, but will be reflected in the next quarter.*

Airport – *While total spending is aligned with prior year as a percent of budget, the actual YTD dollar spending is significantly less due to the early payoff of the OBDD loan in FY 13-14.*

CD Revolving – *Spending is slightly high as a percentage of budget mainly because a significant portion of FY 13-14 CDBG and HOME projects were carried forward to this fiscal year, so prior year project spending is well underway, though new FY 14-15 projects have been slower to progress.*

Davidson – *This is designated as a Permanent Fund under governmental accounting guidelines due to the $5,000 endowment established through a 1981 donation in honor of the former librarian Alice Passano Davidson. Only interest earnings are expendable, and so in recent years of minimal revenues, the Library has chosen not to appropriate or spend much, if any, of the available funding hoping to grow the balance needed for specified materials.*

Development Services – *Spending is low as a percentage of budget in both fiscal years due to vacancy savings as well as only a very small portion of special project budget spent in the first quarter of each year.*

Facility Maintenance – *FY14-15 spending is higher than FY 13-14 due to an increase in repair and maintenance activities, as well as the purchase of a replacement vehicle which was approved via supplemental budget in July.*

Fleet Maintenance – *Spending is higher than last year due mostly to the timing of fuel deliveries.*

Parking – *Spending is low as a percentage of budget due to lower than anticipated spending on OSU collaboration and parking district related projects, as well as municipal court clerk, police parking enforcement, and public works* *transportation program specialist vacancies. Budget associated with the RPD initiative by City Council is on hold pending outcome of the November 2014 voter referendum on this topic.*

Parks System Development Charge (SDC) – *Expenditures in this fund are related to capital projects. The FY13-14 expenditure was a transfer for the acquisition and development of the Coronado Park subdivision. No transfers have been made YTD in FY 14-15; park development, trails/bike paths, and playground improvements will occur in future quarters.*

Risk Management – *Timing of internal service charges to departments is weighted to coincide with insurance premium payments, 75% of which occur in Q1 and the remaining 25% occur in Q3. Claims for self-insured expenses are unpredictable and vary from year to year.*

Street – *Operating expenditures are slightly under target YTD in FY 14-15, but are much lower than prior year due to crack/slurry seal program work done in Q1 of FY 13-14 along with support for the Accela asset management project.*

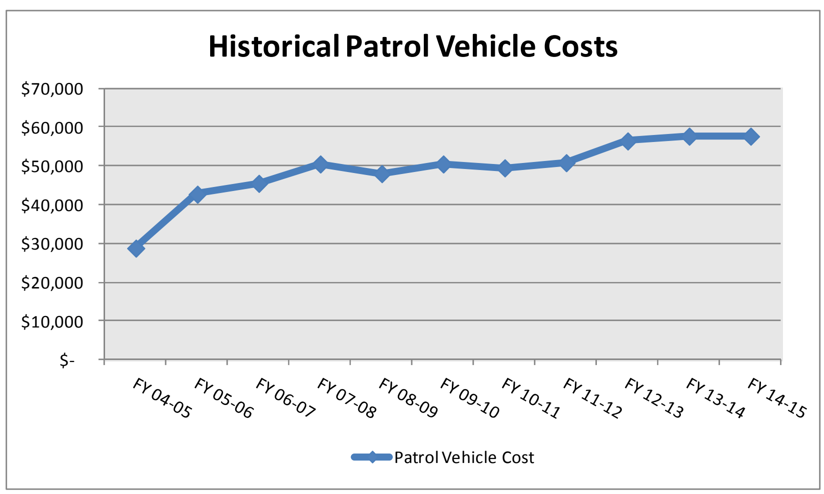
Technology & Communication – *Spending is aligned with budget in FY14-15, however was lower at the same time last year due to a vacancy, no spending yet on special projects, and variation in timing of City-requested work orders.*

Transit – *Actual spending is aligned with prior year, but is lower than budget overall in both years due to the timing and cost of fuel, as well as a replacement bus in FY 14-15 which has been ordered but not yet paid for.*

Wastewater – *Operating expenditures have increased due to fuller staffing and Risk Management internal service charges. The latter situation is attributable to more workers' compensation claims and an updated City-wide property appraisal. Q1 special project expenditures include $264,900 toward construction of the 150kw solar photo-voltaic (PV) system, funded by a Pacific Power Blue Sky grant.*

FUTURE OUTLOOK

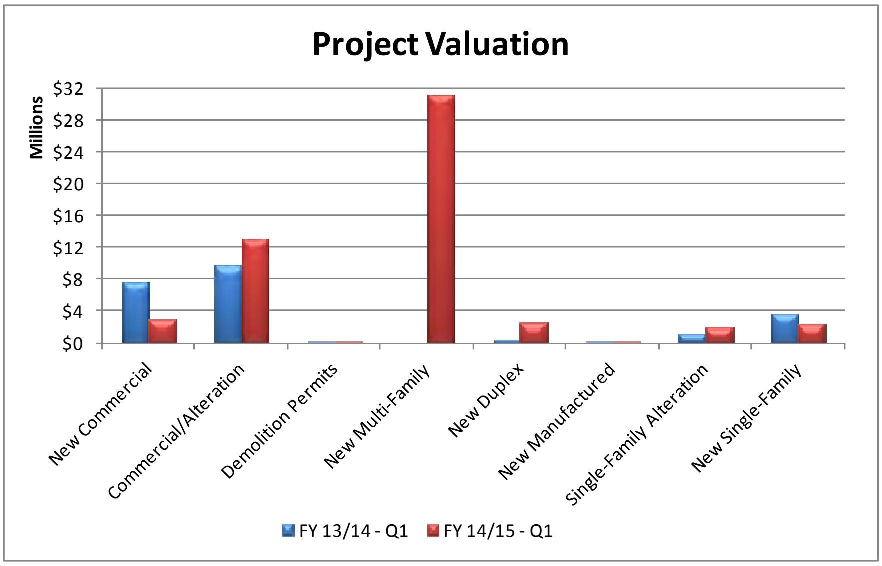
Patrol Vehicles – Over the past 10 years, the cost to purchase and fully equip a new marked patrol vehicle has doubled due to higher vehicle and equipment costs, coupled with implementing various technologies such as digital camera systems, in-car computers/tablets/software programs, E-Citation and technology and digital 700mhz radios. The chart below shows the increase in total vehicle cost with setup of all equipment/technology systems since FY 04-05.



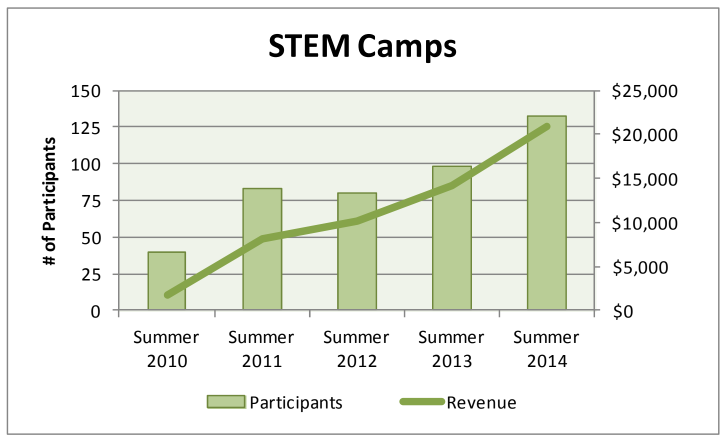
While different model types have been tried in recent years, the impact to cost and optimal length of service time has not been significant. The extension of replacement life for patrol vehicles from three to five years (or up to six years for supervisor and K-9 vehicles) has been driven more by trying to manage equipment reserve balances. Patrol vehicles are driven by all shifts, are often utilized 24/7, so retaining vehicles longer is resulting in higher maintenance costs, as well as increased down time for repair and maintenance. Greater reliance on technology, and the associated maintenance and operating requirements, leads to vehicles being unavailable when the technology is down for repair. Additionally, the technological advances continue to require additional expertise and staff time both in the Police Department and in the City's MIS Division.

In FY 14-15, four new officers were hired through the operating levy. While approximately $10,000 in additional annual contributions to the vehicle reserve were included in the levy funding, this is not sufficient to front the purchase of a new vehicle in the first year for these positions. This has necessitated retaining older vehicles beyond their recommended replacement schedule, as well as purchasing additional tablet computers, camera systems and radios for the older vehicles. Additional contributions into the Police vehicle reserve fund would be required to continue current service levels; the reserve is currently projecting a negative balance in FY 18-19. This further burden on the Police Department operating budget, coupled with higher technology and maintenance costs will continue to impact Police services.

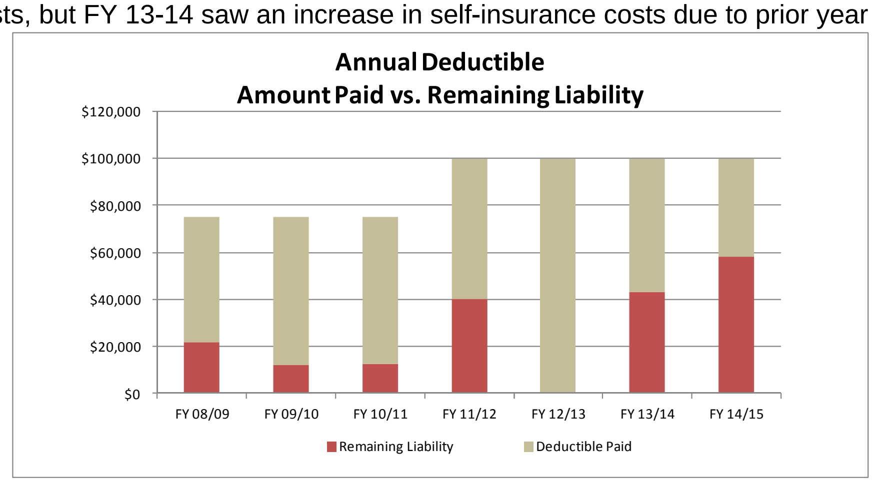
Development Services – Licenses, Fees & Permits in this fund are over 40% of budget at the end of the first quarter, and $146,350 higher than this time last year. While the volume of permits continue to be high this fiscal year, a small number of permits from this quarter included valuations that were very large, such as a $1,000,000 site package for The Retreat at Corvallis, which contains new cottage apartments near the Oregon State University (OSU) campus. The graph to the left highlights the difference in construction permit valuations for Q1 of FY 14-15 compared to Q1 of FY 13-14, at $53.9 million and $22.6 million respectively in total. Services for these projects will likely span multiple years, so it is important that this influx of revenue sustain the related expenditures in the fund over the course of these projects, typically a six month average. As the fund balance grows, staff will have to carefully allocate time and resources to these projects.

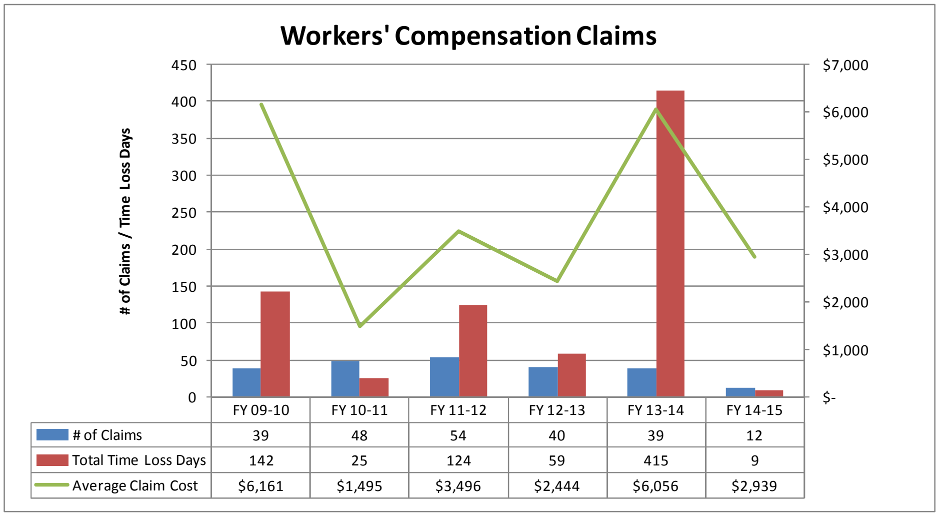


STEM Camps – Since 2010, Parks and Recreation has been offering more specialized, week long, summer camps that build Science, Technology, Engineering, and Math (STEM) skills. Participation in these programs has been increasing year after year since inception. When developing Summer 2014 camps, staff used Cost Recovery methodology to decide to offer additional camps and expand those offerings due to the past demand, popularity and long waiting lists. Comparing just the last two recent summers, 2013 revenue was $14,199 with 98 participants compared to 2014 revenue of $20,839 with 132 participants. This 35% increase in participation created a 47% increase in revenue. This type of program growth impacts the department's budget when determining how to allocate its firm expenditure limit since all program offerings have related expenditures.



Risk Management – The Risk Management Fund budget is split between the City Manager's Office for workers' compensation (WC) premiums and Finance for self-insurance and property/liability premiums. FY 14-15 budget is already $38,000 lower than total FY 13-14 insurance costs, but FY 13-14 saw an increase in self-insurance costs due to prior year claims that had outstanding deductible liabilities. Beginning in FY 11-12, the City assumed a $100,000 deductible policy with City County Services of Oregon (CIS). Essentially, the City is liable for all claims up to the deductible amount for any given fiscal year. The graph on the right shows the deductible paid and the remaining liability by fiscal year. For claims settled or adjudicated in any year where the City has remaining deductible, CIS will invoice the City up to the remaining deductible on a quarterly basis. During Q1 of FY 14-15, the City was invoiced for claims as far back as FY 09-10.



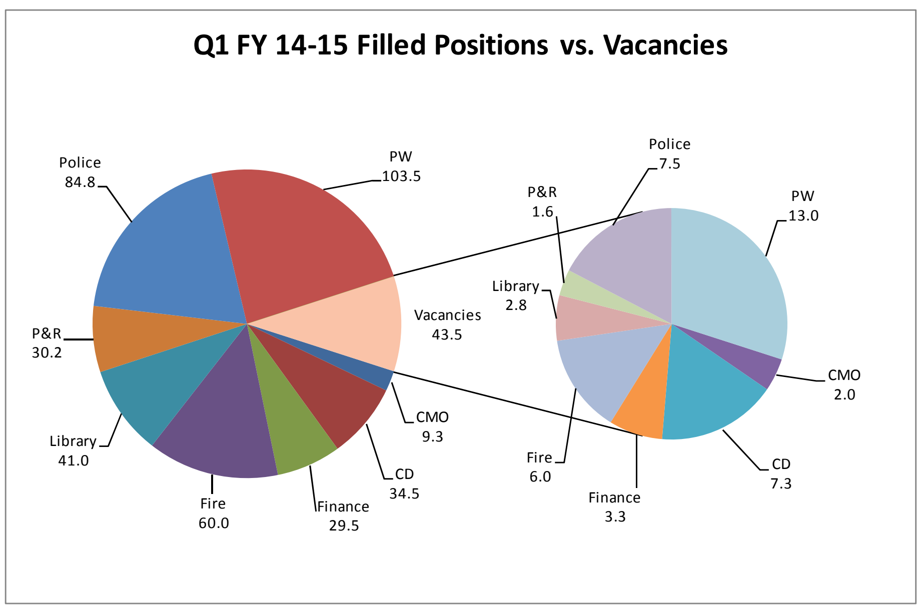


In addition, the cost per WC claim in FY 13-14 was very high, despite the fact that the number of claims were down. Although FY 14-15 Q1 results look significantly lower YTD, first quarter claims have not yet been paid out so it is too early to tell if the City's experience has improved. However, it is noteworthy that the City of Corvallis was awarded the Gold Safety Award by CIS and the League of Oregon Cities from the annual Employee Safety Award for Oregon Cities program, which was initiated by the League Board of Directors in 1973 to stimulate cities' interest and participation in loss prevention programs. The winners are those with the lowest injury frequency, based on a sliding scale, and the City of Corvallis won based upon its FY 13-14 performance. WC claim costs vary constantly based on reserves (included in costs), follow-up treatment, time loss days, and reimbursements from the Employer-at-Injury Program (EAIP) for salary indemnification and equipment purchases, as seen in the graph above.

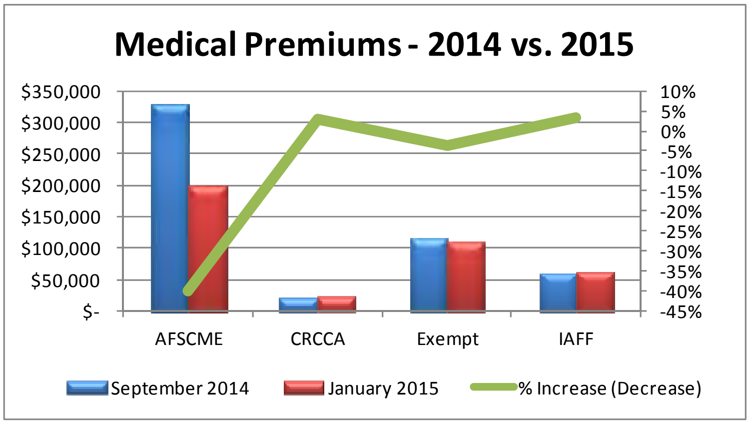
Risk Management costs appear to be running higher than expected in total, and will be closely monitored in coming months in case contingencies are needed to cover unanticipated premium rate increases or additional claim expenditures.

CITY STAFF – PERSONNEL SERVICES QUARTERLY UPDATE

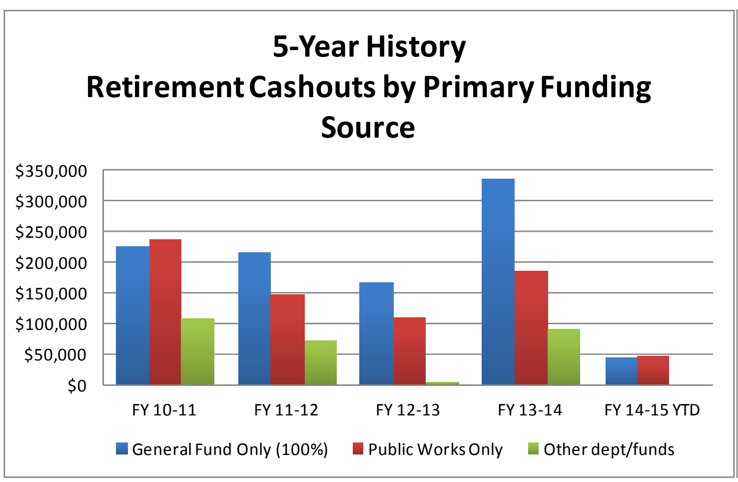
Vacancies – The pie-within-a-pie chart below depicts how different departments have been impacted by vacancies in the first quarter of this fiscal year. Public Works (PW) has already had two departures due to retirements, contributing to the 13 vacant positions at the end of Q1, which accounts for 11% of their total authorized FTE. The 43 FTE in City-wide vacancies accounts for nearly 10% of total FY 14-15 authorized FTE, up from about 36 FTE vacancies this time last year. The primary reason for more vacancies in Q1 this year are the new positions funded by the 2013 Operating Levy that are still in the recruitment phase, but that are expected to be fully staffed in Q2. Other notable vacancies include those associated with the outcome of the Residential Parking District vote in November 2014, and the departure of the City Manager incumbent in August 2014. The latter departure put recruitment on hold for the Public Information Officer, in the City Manager's Office, pending the hiring of a new City Manager. A request for proposal has been initiated for the hiring of a consulting firm to assist with finding a new City Manager. For any position not funded by the 2013 Operating Levy, departments must perform a position review and/or consider reorganizations whenever a position becomes vacant, in order to optimize potential budget savings and/or other possible efficiencies within that department.

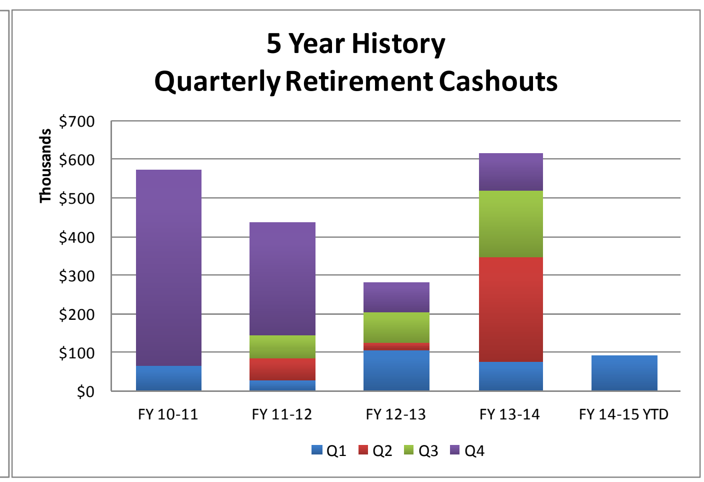


Healthcare – FY 14-15 department budgets held medical costs flat with current year rates since premiums for 2015 were not yet known. Any rate increases are to be absorbed within each department's budget. Fortunately, for FY 14-15, most department budgets should not be as negatively impacted due to significant plan changes for AFSCME and Exempt units and lower increases in the other plan premiums. In FY 13-14, a 9.1% increase was experienced with 2014 rates, but 2015 only increased by 3-4%, depending on the plan. The most notable change to medical benefits for 2015 is the consolidation to a single High Deductible Health Plan (HDHP) for both AFSCME and Exempt units. Not only does movement to a single health plan across over 300 FTE streamline administration functions, but the cost of the HDHP is considerably less than the current HMO (in which a substantial number of AFSCME participants are currently enrolled) and slightly less than the other current plans (PPO and CDHP) which are going away. The adjacent graph illustrates the monthly premium cost, by bargaining unit, for all employed at the end of Q1 (not including vacancies). The bars reflect the totals paid in September 2014 vs. what will be paid in January 2015 per new plans and premiums. It is important to note, however, that while AFSCME, and to a lesser extent Exempt, show significant monthly premium savings compared to the other units, in FY 14-15 a large portion of the savings will be offset by the pickup of City-paid Health Savings Account (HSA) contributions for all HDHP participants (which is paid in January as one annual payment), vs. the monthly Health Retirement Account (HRA) contributions currently being made for the smaller group who have been on the CDHP plan. Additionally, the AFSCME employees will receive a medical stipend under their new contract that is paid upfront and further serves to offset premium savings. The City will pay these two once-annual upfront expenses in January, for the entire 2015 calendar year, the monthly premium savings for the latter seven months of the fiscal year will help compensate for these payments. CPOA is not included in the analysis above as 2015 rates are not yet available.



Retirements – FY 13-14 saw a significant increase in the number of retirements and their related vacation and sick leave accrual cashouts, bringing the average of the prior four fiscal years to $481,000. Retirement cashouts in Q1 of FY 14-15 are on track to be in line with this average, as three individuals retired in Q1 with $95,000 in related cashouts. The graphs below represent a five year history of quarterly cashout amounts in total (right graph), and the impact by funding source (left graph). The funding source graph shows that although Public Works is ahead so far in FY 14-15, this department has had a lower annual volume of retirement payouts than the General Fund (i.e. Police, Fire, Library and P&R) since FY 11-12.





With nearly 20% of regular (non-casual) employees over the age of 55, many of whom are currently eligible for retirement or nearing eligibility, it means there is a potential for FY 14-15 and future years to be subject to large vacation and sick leave accrual payouts. These cashouts are difficult to budget for without substantial written notice from employees, which is not legal to require, so the amounts must typically be absorbed within a department's current year budget as they occur. This type of unexpected activity will continue to be closely monitored over the course of the year in order to assess the level of impact on each budget by fund and department.

CAPITAL IMPROVEMENT PROJECTS QUARTERLY UPDATE ON SIGNIFICANT ACTIVITY

Project	CIP Doc Pg:	Adopted Budget:	Amended:	YTD Expended:
Fire Department Facilities Relocation	7	**$3,501,500**	**$3,501,500**	**$201,741**

This project relocates and replaces the current training facility, which is 40 years old and in poor condition. The new training facility will be located on the north end of the Public Works (PW) compound, and will be compatible with the PW Facilities Plan. Phase I, construction of the building pad was completed in FY 12/13. Phases II and III designs were completed in FY 13/14. Construction began in late July, 2014 and is expected to be completed by April, 2015. Finance staff completed a 2014 full faith and credit debt issuance in September to fund this project. Actual costs of the project are greater than originally budgeted for in FY 14/15, and the bond sale was for the amount needed to complete the project. Staff will be presenting a resolution to appropriate for the additional proceeds above the FY 14/15 adopted project budget.

Project	CIP Doc Pg:	Adopted Budget:	Amended:	YTD Expended:
Storm Drain Replacement	33	**$297,500**	**$297,500**	**$126,594**

This project is the storm drain portion of a project that reconstructs 15^{th} Street and incorporated, OSU owned, Washington Way into the project that is being managed by City staff through an intergovernmental agreement (IGA) with OSU. This portion of the project is complete.

Project	CIP Doc Pg:	Adopted Budget:	Amended:	YTD Expended
15^{th} Street/Washington Way Improvements	41	**$3,081,320**	**$3,081,320**	**$1,204,251**

This project combines the planned reconstruction of 15^{th} Street from Western Boulevard to Jefferson Avenue with OSU's proposed realignment of Washington Way, construction of a traffic signal, a new railroad gate crossing at 15^{th} Street/Washington Way, and reconstruction of a 20-inch water line. City staff is managing design and construction of this expanded scope in collaboration with OSU through an IGA. Construction is nearing completion. Railroad equipment was being installed at the end of October, 2014. The traffic signal will be fully operational in November, 2014 following completion of the railroad's work. The street is now open to the traffic.

Project	CIP Doc Pg:	Adopted Budget:	Amended:	YTD Expended:
Sanitary Sewer Line Rehabilitation	87	**$801,750**	**$801,750**	**$359,338**

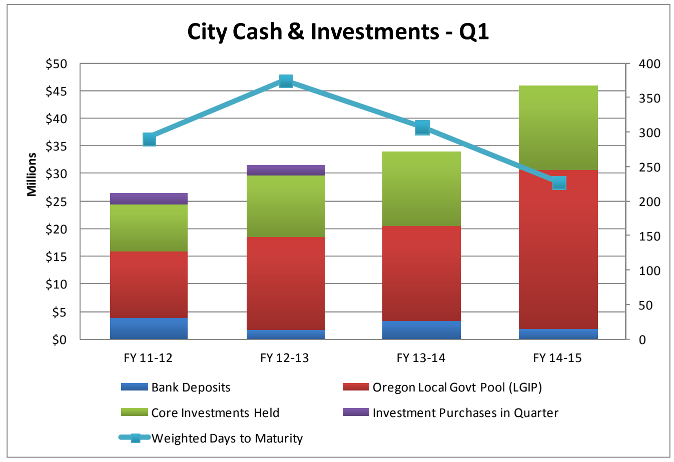
This annual program replaces or rehabilitates sanitary sewers which have exceeded their service life and / or allow excessive amounts of extraneous rainwater or groundwater (inflow and infiltration) into the sewer system. Construction is complete for those projects designed in FY 13/14. An additional high priority line for replacement adjacent to the recently completed work has been identified. There is sufficient budget to complete this additional work which is between 12^{th} and Dixon Streets from Garfield to Grant Avenues, which will be completed through a change order with the original contractor based on their original unit prices. Construction of the additional work began in October with completion in November.

This project also included the sewer rehabilitation portion of a project that reconstructed 15^{th} Street and OSU owned Washington Way Improvements. This portion of the project is completed.

Project	CIP Doc Pg:	Adopted Budget:	Amended:	YTD Expended:
Water Distribution System Rehabilitation	109	**$377,000**	**$377,000**	**$293,866**

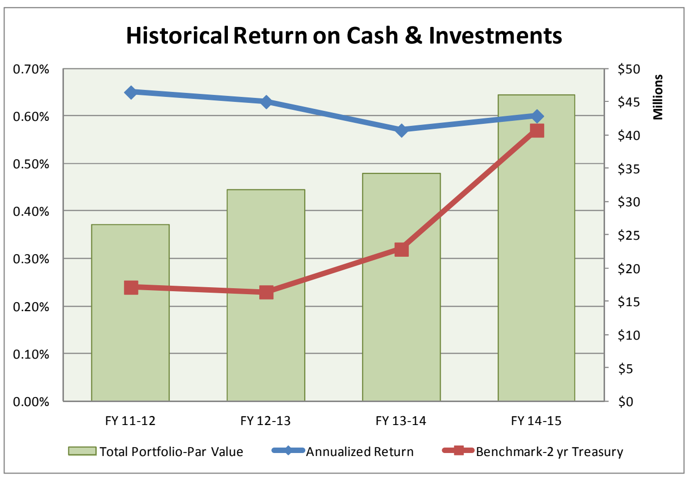
This program provides for ongoing replacement or rehabilitation of the City's water distribution system infrastructure. Construction of the project designed in FY 13/14 has been completed with the exception of patch paving of the street, which was rejected due to poor quality. The paving will be removed and repaired dependant on the weather.

CASHFLOW AND INVESTMENT PORTFOLIO QUARTERLY UPDATE



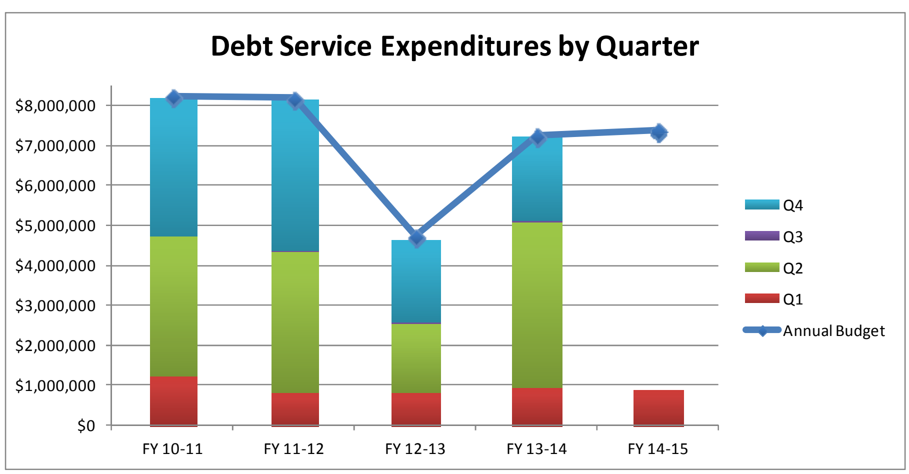
A Treasury Report is prepared and filed monthly for review by the Administrative Services Committee, which reviews the status of investments in conjunction with this quarterly operating report.

The graphs in this section depict a four year history of total holdings at the end of each first quarter. Q1 historically holds the lowest portfolio balances as funds are depleted through the summer months, and the first round of property tax receipts are not received until Q2 of each fiscal year. However, these graphs illustrate that total holdings have successively grown over the past three fiscal years, even in the first quarter, due in part to the addition of the local operating levy revenues as well as the Council Policy directed gradual accumulation of a $6.3 million fund balance reserve in the General Fund. The total portfolio has also benefitted this fiscal year to date from significantly increased balances of system development charge (SDC) reserves, from OSU and other local development work, which have restricted purpose spending.



With the help of its investment advisory firm, Government Portfolio Advisors (GPA), the City maintains a strategically laddered portfolio, term-wise (see graph above showing maturities averaging less than 18 months, per policy), in order to gain some market return without undue risk. The graph to the left shows that the City has successively outperformed the benchmark 2-year Treasury note rates over the past few years. The most recent quarter end saw a spike of the benchmark 2-year Treasury note to 0.57%, narrowing the City's margin of portfolio performance to just 0.03%. Subsequently, the T-note fell over 20 basis points (b.p.), but in recent weeks has returned within an average range of 5 bp below September 30th levels. The City's target core portfolio was raised from $15 to $20 million at ASC's last meeting on this topic, based on the increasing reserve balances noted above. As such, additional investment purchases are expected in Q2 to lengthen the portfolio's average days to maturity and thus optimize returns. As of September 30th, the City's earliest maturity of its non-liquid investments is not until October 2015, and the latest maturity is in July 2017.

NON-OPERATING EXPENDITURES – DEBT SERVICE QUARTERLY UPDATE



Actual debt service expenditures are typically very close to budget since the debt service schedules are known. General Obligation Bond payments are often structured to occur in Q2 when cashflow is higher from property tax inflows. The end of Q4 or beginning of Q1 are the other common times to schedule debt service payments if related to seasonal underlying revenue streams. The significant total debt reduction shown in FY 12-13 is due to three refunded utility-backed loans. While not reflected in payments as yet, $3.9M in new full faith and credit bonds were sold on Sept.23rd (closed Oct.8th) for construction of a fire training facility and several capital project roof replacements. The first interest-only payment on this 1.71% 10-year issuance will be due in February 2015.

Performance Measurement is important for providing management, staff, the City Council and citizens with information on how well City staff are providing expected service levels, as well as linking this performance with Council Goals and values. Continuing pressure to improve accountability and provide greater value-for-money performance has prompted government at all levels to recognize the need for outcome-oriented and strategic performance indicators. Highlighted below are just a few of the many measures which departments utilize to help guide operational decision-making.

COUNCIL VALUES	Management Goals & Objectives	Performance Measures	FY13-14 ACTUAL	FY14-15 TARGET	1st QTR ACTUAL	FY14-15 YTD
Cost Efficiency	Ensure City financial resources are primarily spent on operations that provide services directly to citizens.	Maintain general overhead costs (City Manager's Office and Finance) at less than 7% of total operating budget.	5.50%	<7.00%	5.54%	5.54%
	Provide necessary information technology (IT) resources for departments to operate efficiently.	Achieve 100% server uptime relative to scheduled server uptime.(1)	99.3%	100.0%	99.9%	99.9%
	Provide multiple opportunities for community involvement while lowering program costs.	Total number of hours worked by volunteer staff in support of parks and recreation activities.(2)	22,012 (10.59 FTE)	25,000 (12 FTE)	6,142 (2.95 FTE)	6,142 (2.95 FTE)
	Increase community safety by maintaining overall number of traffic accidents resulting in injuries/fatalities at less than the State average of 5.1/per thousand population.	Fatal and injury traffic accidents per 1,000 population.(3)	143 or 2.58/thou	<2.5/thou	39 or .70/thou	39 or .70/thou
	Have utility rates that contribute to Corvallis being an attractive place to live.	Control operation and maintenance costs to minimize annual utility rate increases.(4)	2.8%	≤3.0%	n/a	n/a
		Percent of average annual water bill to median household income ($69,400). (4)	0.33%	<0.45%	n/a	n/a
		Percent of average annual wastewater bill to median household income ($69,400).(4)	0.46%	<0.65%	n/a	n/a
Diversity	Provide a welcoming organization that promotes and respects diversity.	% of job applicants for regular positions who identify themselves as a minority. (5)	16%	16%	13%	13%
	Assure that low income residents' housing needs are met in a cost effective manner.	Housing units occupied by low income households assisted per $100,000 in City funds invested. (6)	7.2	10.0	6.7	6.7

COUNCIL VALUES	Management Goals & Objectives	Performance Measures	FY13-14 ACTUAL	FY14-15 TARGET	1st QTR ACTUAL	FY14-15 YTD
Sustainability	Seek out the most promising Stage 2 companies in Benton County as determined by local employment growth and capital investment and develop a major account manager program that will proactively address their needs and growth opportunities.	Number of Economic Development division staff visits to Benton County's promising Stage 2 companies.	150	150	36	36
	Conserve resources by reducing fuel and paper use.	Percentage of permits issued online (mechanical, electrical, and plumbing).(7)	52%	35%	52%	52%
	Maintain average fire loss per capita within city & district limits less than regional average of $34.40.	Maintain average loss per capita within city & district limits less than national average.	$5.67	<$34.40	$13.71	$13.71
	Achieve above national average use of 18 items checked out per user each year for comparable sized libraries.	Circulation per registered borrower.(8)	36.8	>35.0	9.2	9.2
	Increase the utilization percentage of Parks & Recreation granted scholarships.	Percent of total scholarship value expended.(9)	47%	47%	32%	32%
	Increase community usage of on-line police reporting system by 10%.	Number of police reports made through the on-line system.	689	758	180	180
	Remain below national average of 10% annual water loss in the distribution system.	Percent of water loss in the distribution system.	4.89%	<10.00%	<2.93%	<2.93%
Community Involvement	Interact with at least 10% of residents (city and rural district) in public Fire education events annually.	Percentage of citizens attending public education events.	6.8%	≥10%	0.4%	0.4%

1. During Q1, MIS did not experience any significant power outages that caused server downtime. Overall performance for the fiscal year is near perfect which indicates adequate server backup and scheduling of maintenance.
2. Volunteers are most prevalent in Q1 and Q4. Parks operations continue to be a leader in the utilization of volunteer labor, capitalizing on college and community need for service project opportunities.
3. There have been 39 accidents, or 0.7 per thousand YTD. The City continues to be well below the State average. FY14-15 YTD figures utilize the most recent actual PSU Population Research Group figure of 55,345 (December 2013).
4. These are annual measures calculated in the second quarter.
5. Of the 488 applicants in the first quarter, 65 indicated they are a minority.
6. In Q1, there was one First Time Home Buyer down payment assistance loan approved and closed.
7. Target is exceeded due to increasing awareness as a result of outreach efforts; 499 permits issued online in Q1.
8. Circulation per registered borrower (i.e., number of items checked out divided by number of people with library cards) has reached 26% of the target as of Q1. Also, 9.2 items per borrower is more than 50% of the national annual average.
9. This program is designed for families at or below federal poverty guidelines. Due to outreach and changes in eligibility per cost recovery policy, utilization rates are increasing substantially. Thus a $125K cap on award utilization is in effect for FY 14-15 to stay within available funding. One quarter's utilization rate may be greater or less than the YTD target utilization rate since awards are granted throughout the entire year, until the cap is met. Q1 awards were $251,400, of which utilization was $79,871 (or 32%), but nearly 64% of the cap.