2nd Quarter Financial Summary FY 2014-15

This report provides summary information on the City's financial status as of the end of December, 2014; more detailed comparative income statement format 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 are exceeding budget since the majority of property tax revenues are received in Q2; receipts are also higher this year due to no Hewlett-Packard refund. Department spending is generally at targeted levels for this point in the fiscal year; long term fiscal health of the fund remains a concern.
Property Tax Revenue	POSITIVE	The majority of Property tax receipts were received during Q2. Per 2014 tax certification, 4.3% AV growth should improve Revised revenue over Adopted projections.
Transient Room Tax	POSITIVE	First half receipts are up nearly 13% over prior year, and on track to exceed budget. The increase likely stems from great summer weather and higher Fall enrollment at OSU. Additionally, a Special Olympics event in March is expected to maintain this growth.
Franchise Fees	POSITIVE	Franchise fees are trending 3% higher in the first half of FY 14-15; although no utility rate increases are expected in 2015, staff still expects budgeted levels to be exceeded.
State Shared Revenue	POSITIVE	FY 13-14 receipts were about 5% above budget, and YTD FY 14-15 revenues are running nearly 7% over prior year, but slightly under current year budget. Nonetheless, this revenue stream is expected to meet budget by the end of the fiscal year.
Fines & Forfeitures	WATCH	The first two months of the fiscal year saw higher traffic fine revenue, but significant CPD vacancies/absence, as well as the learning curve due to e-citation and e-ticketing implementation caused revenue declines in September through November. Some increase in December, but lower receipts for the first half overall.
General Fund Expenditures vs. Budget	WATCH	General Fund expenditures are generally on target and in line with prior year spending, Fire is over 51% 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 110% 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, YTD spending is right on target with budget, but higher than prior year.
Community Development Revolving	NEGATIVE	FY 13-14 ended with a positive fund balance, but negative cash balances are expected to continue and calculations ytd anticipate a $230K negative ending fund balance for FY 14-15, due to reduced federal grant revenue availability and ineligible administrative costs.
Development Services	POSITIVE	Permit revenues and charges for service are ahead of last fiscal year and budget ytd. The improved results in this fund relative to a few years ago are from increased development.
Parking	WATCH	Revenues are higher than prior year, but lagging budget and fund balance has declined. The November ballot on Residential Parking Districts (RPD) did not pass so all related activity has been revised out of the FY 14-15 budget. Parking citation revenue is expected to be on a downward trend through at least April due to Parking Enforcement vacancies.
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 remain 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 low as a % of budget.
Wastewater	POSITIVE	Metered revenues are up some from prior year; expenditures are low as a % of 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	Contingencies will be sought in 3rd quarter due to over target spending on self-insurance.

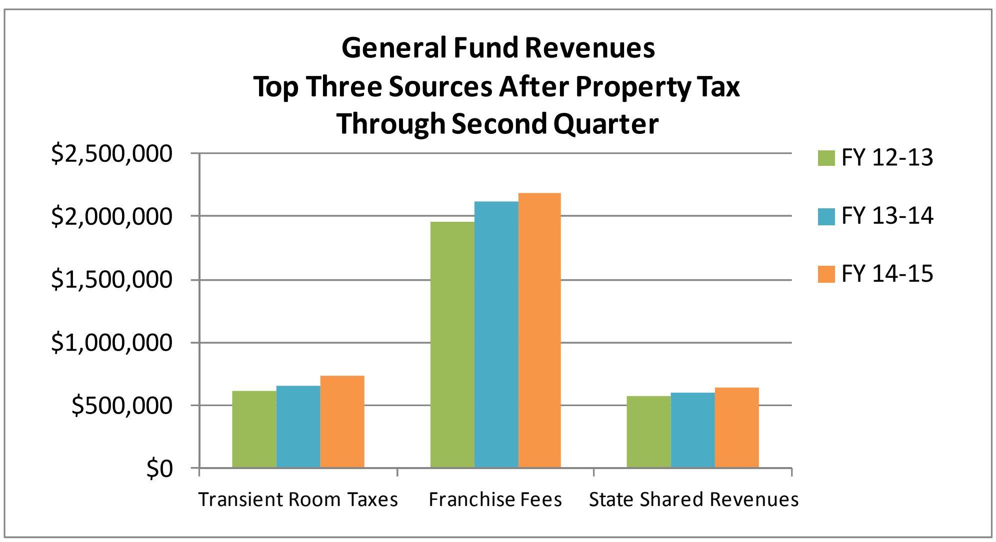
What the ratings mean: Positive – Current revenues and City Council-adopted use of reserves are sufficient to support the current level of service. Fund balances appear stable over a three-year forecast. No significant negative issues are identified.
Watch – Various stressors may cause current revenues 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 balance fund is likely required.

GENERAL FUND COMBINED*

REVENUE	AMENDED BUDGET	2nd Quarter FY 13-14	Y-T-D FY 13-14	FY 13-14 % REC/EXPEND	AMENDED BUDGET	2nd 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	$18,896,232	$17,648,957	85.60%	$24,447,050	$22,913,330	$23,088,514	94.44%
Other Tax	1,372,600	389,826	654,416	47.68%	1,427,600	434,391	736,453	51.59%
Licenses/Permits	5,925,060	1,375,809	2,294,957	38.73%	5,741,280	1,331,390	2,356,940	41.05%
Charges for Service	5,889,850	2,287,032	3,725,521	63.25%	5,892,810	2,263,366	3,719,929	63.13%
Intergovernmental	4,227,760	2,383,739	2,594,150	61.36%	3,877,120	2,785,320	3,001,677	77.42%
Fines/Forfeitures	771,390	175,949	343,330	44.51%	759,660	181,823	356,629	46.95%
Miscellaneous	1,307,680	745,316	886,448	67.79%	617,440	149,289	311,289	50.42%
Other Financing Sources	7,075,308	2,361,139	2,527,382	35.72%	798,330	358,029	814,526	102.03%
TOTAL CURRENT REVENUE	$47,187,268	$28,615,041	$30,675,161	65.01%	$43,561,290	$30,416,938	$34,385,957	78.94%
EXPENDITURE BY DEPARTMENT								
City Manager's Office	$326,250	$79,301	$145,353	44.55%	$293,300	$75,013	$147,435	50.27%
Community Development	1,309,840	293,024	580,880	44.35%	$1,498,870	$298,930	$601,092	40.10%
Finance	646,770	148,986	312,427	48.31%	$647,260	$142,477	$292,606	45.21%
Fire	10,485,960	2,495,024	5,158,165	49.19%	$11,397,090	$2,526,183	$5,863,223	51.44%
Library	6,524,140	1,415,271	2,829,505	43.37%	$6,151,640	$1,410,829	$2,889,566	46.97%
Parks & Recreation	6,295,130	1,341,344	3,075,441	48.85%	$6,302,410	$1,356,987	$3,141,666	49.85%
Police	10,688,290	2,419,213	5,040,582	47.16%	$11,293,220	$2,624,478	$5,333,775	47.23%
Public Works	1,026,260	190,924	342,441	33.37%	$991,940	$221,548	$423,879	42.73%
Non-Departmental	1,480,870	283,345	625,701	42.25%	994,420	220,839	433,277	43.57%
TOTAL OPERATING EXPENDITURES	38,457,260	8,666,433	18,110,495	47.09%	$39,570,150	$8,877,284	$19,126,519	48.34%
Debt Service	$243,180	$0	$220,530	90.69%	$837,160	$0	$222,644	26.60%
Transfers / Other Financing Uses	7,085,818	1,729,853	2,190,059	30.91%	2,940,640	1,614,292	2,151,475	73.16%
Contingencies/Reserves	597,200	0	0	0.00%	630,000	0	0	0.00%
TOTAL ALL EXPENDITURES	$46,383,458	$10,396,286	$20,521,084	44.24%	$43,977,950	$10,491,576	$21,500,638	48.89%
CURRENT REVENUE LESS TOTAL EXPENDITURES		$18,218,755	$10,154,076		($416,660)	$19,925,362	$12,885,319	

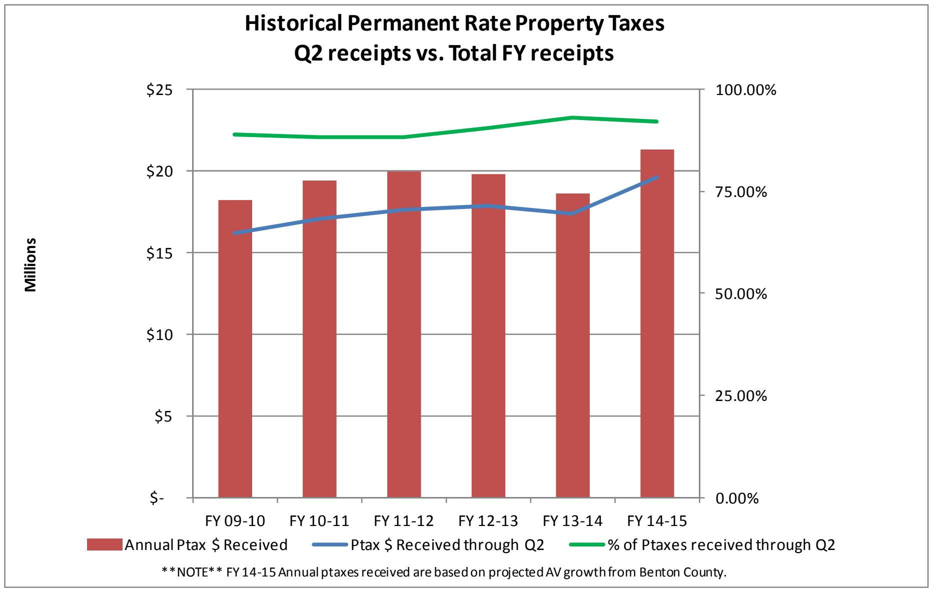
* General Fund Combined includes component reserve funds effective FY 14/15

The General Fund Income Statement format above illustrates that the Fund is generally in better shape than it was this time last year, and is also largely on track with budget. One area of note above that is not discussed elsewhere in this report, but of which both ASC and Council are aware as of the date of this memo, is the status of pass-through receipts for payments to other agencies having already surpassed adopted at 102%of estimated levels at quarter end. A budget adjustment will be needed in the third quarter in order to increase appropriations for pass these payments on.



The adjacent graph illustrates improvements being noted in all of the major revenue categories year-to-date (YTD) in the General Fund. Although YTD operating expenditures offset these improvements somewhat, as they are over $1M higher than last fiscal year as of the end of December, the budget did anticipate a net increase in costs, and spending YTD is slightly below 50% of budget which is where we would expect to be at the end of Q2. The Fire Department saw significantly higher first half spending than anticipated, due to two unbudgeted accrual cash outs totaling over $70,000 and overtime spending at 110% of FY 14-15 budget vs. about 78% of budget in the first half of FY 13-14. Casual (i.e., temporary) employee wages for the Fire Department were also higher at 81% of budget vs. 54% 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; at the end of the second quarter, Fire was awaiting a $102K reimbursement from the Office of the State Fire Marshall for personnel service costs for the Beaver Complex fire, with which the department assisted in August.

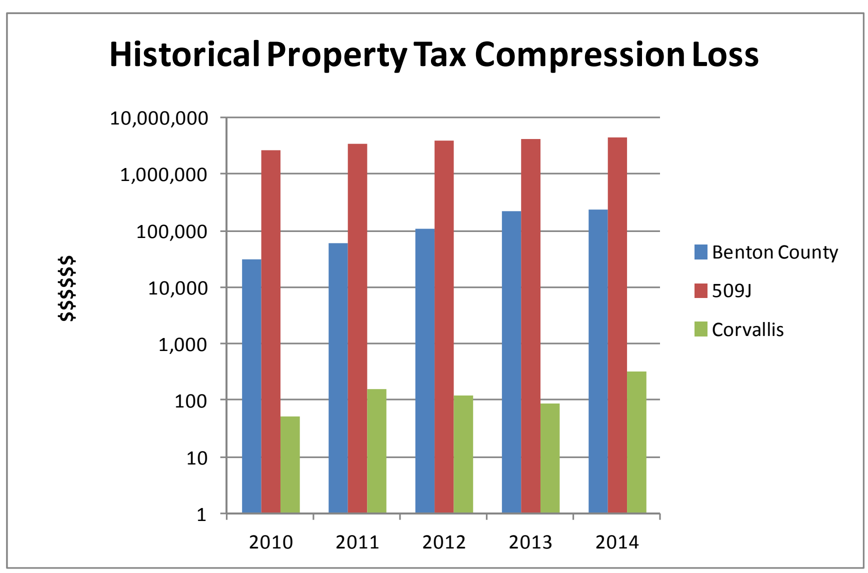
Property Taxes and Assessed Value:
The majority of property taxes in any given year are received during the second quarter as a result of property tax statements being distributed to tax payers in October and then primarily paid in full in November and December. Tax payers are incented to pay early due to a 3% discount that represents a good “return” relative to what that money would get if left in the bank at current interest rates. The graph to the right shows total annual property taxes received in the fiscal year (red bar), with the blue line depicting the amount of property taxes received through the second quarter of the fiscal year, and the green line showing what percent Q2 property tax receipts are of the annual property taxes received, which on average is approximately 90%.



Tax Year	$K RMV	Growth From Prior Yr	$K AV	Growth From Prior Yr
2005	4,522,703	5.19%	3,433,647	4.27%
2006	5,088,443	12.51%	3,467,066	0.97%
2007	5,565,083	9.37%	3,613,017	4.21%
2008	5,946,532	6.85%	3,745,147	3.66%
2009	5,825,693	-2.03%	3,825,054	2.13%
2010	5,664,529	-2.77%	3,999,075	4.55%
2011	5,672,462	0.14%	4,118,580	2.99%
2012	5,496,249	-3.11%	4,139,865	0.52%
2013	5,574,068	1.42%	4,201,469	1.49%
2014	5,891,389	5.69%	4,381,367	4.28%
Avg Annual		3.33%		2.91%

Property taxes for operations are levied in accordance with the Oregon constitutional limitations known as Measure 5 (1990) and 50 (1997). Measure 5 (M5) placed a maximum tax rate for non-education governments of $10 per $1,000 of real market value (RMV) on each parcel of property. Measure 50 (M50) set a permanent property tax rate for each governmental entity and developed a base assessed value (AV) for each parcel of property that is different than RMV for purposes of levying taxes. While AV growth is technically limited to 3% for each parcel of property, it can be more or less based on factors such as residential, commercial and industrial development, personal property depreciation, valuation appeals, sales of privately owned properties to non-taxable entities/agencies such as OSU or Samaritan Health, and vice versa. The table to the left depicts the recent history of AV and RMV growth in Corvallis; in five of the last ten years, total AV has not increased by the full 3% that most people “expect” from their understanding of M50.

One factor which can impact valuations and thus tax receipts, is when a property’s RMV becomes less than its AV. The AV decreases to the RMV level due to “M50 Compression.” The chart to the right shows that some taxing districts, such as Benton County and the 509J School District, have been greatly impacted by compression. These agencies saw respective losses of $242,000 and $4,508,500 in property tax collections due to compression in 2014, while the City of Corvallis has seen relatively little impact from compression, with its largest loss from compression to date at only $318 in 2014. Another element to consider vis-à-vis compression relates to the “order” in which it applies to the various tax rates being levied by an agency. For example, an operating levy is compressed prior to the permanent rate taxes.



GENERAL FUND				
BUDGETARY BASIS	AUDITED 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	$19,613,947	94.26%
Local Op Levy 2013 - HP Replacement/Social Services Funding	0	706,340	693,424	98.17%
Prior Year Delinquent Tax Revenue	451,986	438,280	332,636	75.90%
Transient Room Tax	1,424,997	1,427,600	736,453	51.59%
Franchise Fees	5,486,499	5,374,000	2,185,978	40.68%
State Revenue Sharing	537,106	531,160	277,768	52.29%
Alcohol/Cigarette Tax	847,782	826,580	370,634	44.84%
Pass-Throughs	618,750	790,130	814,526	103.09%
Miscellaneous Other Revenues	1,194,000	103,690	67,159	64.77%
TOTAL NON-DEDICATED RECURRING REVENUE	**$29,193,914**	**$31,006,440**	**$25,092,525**	**80.93%**
DEDICATED REVENUE				
Property Tax - Local Option Levy	$1,910,761	$2,493,770	$2,448,507	98.18%
City Manager's Office	121,176	121,000	112,190	92.72%
Community Development	140,902	117,590	62,746	53.36%
Finance	133	625,200	271,178	43.37%
Fire	3,602,373	3,618,080	2,537,169	70.12%
Library	2,523,642	2,785,260	2,508,728	90.07%
Parks & Recreation	1,930,571	1,730,190	873,472	50.48%
Police	378,095	378,730	225,504	59.54%
Public Works	145,282	0	27	0.00%
TOTAL DEDICATED RECURRING REVENUE	**$10,752,934**	**$11,869,820**	**$9,039,521**	**76.16%**
TOTAL RECURRING REVENUE	**39,946,848**	**$42,876,260**	**$34,132,046**	**79.61%**
EXPENDITURES				
City Manager's Office	$320,760	$293,300	$147,435	50.27%
Community Development	1,304,740	1,498,870	601,092	40.10%
Finance	629,758	647,260	292,606	45.21%
Fire	10,896,499	10,697,090	5,243,203	49.02%
Library	5,990,215	6,068,140	2,861,581	47.16%
Parks & Recreation	6,202,251	5,817,320	2,921,200	50.22%
Police	10,638,622	11,123,210	5,312,613	47.76%
Public Works	860,955	703,940	300,595	42.70%
Non-Departmental	1,296,680	822,420	402,256	48.91%
Debt Service	243,174	837,160	222,644	26.60%
Pension Obligation Bond Debt - Transfers	1,870,950	1,931,790	1,621,980	83.96%
Pass-Throughs	597,869	790,130	529,495	67.01%
Contribution to Fund Balance Reserve/Contingencies	945,000	1,645,630	1,969,720	119.69%
Contributions/Adjustments to Other Reserves	128,856	0	1,226,373	100.00%
TOTAL RECURRING EXPENDITURES	**$41,926,330**	**$42,876,260**	**$23,652,794**	**55.17%**
RECURRING REVENUE EXCESS (SHORTFALL) OVER EXPENDITURES	**($1,979,482)**	**$0**	**$10,479,253**	
POTENTIAL BEGINNING BUDGETARY FUND BALANCE	915,434	269,750	269,750	
Net Recurring Revenue/Expenditure	(1,979,482)	-	10,479,253	
Net Non-Recurring Revenue/Expenditure	1,333,799	(269,750)	(265,630)	
ENDING BUDGETARY FUND BALANCE	**$269,750**	**$0**	**10,483,373**	
Ending Reserve Balance by Type				
RESTRICTED	$761,935	$377,160	$866,425	
COMMITTED	$1,172,107	$1,018,258	$1,095,507	
ASSIGNED	$1,474,499	$448,875	$2,091,649	
FUND BALANCE	$2,850,489	$4,190,204	$4,820,209	
	$6,259,030	$6,034,498	$8,873,790	

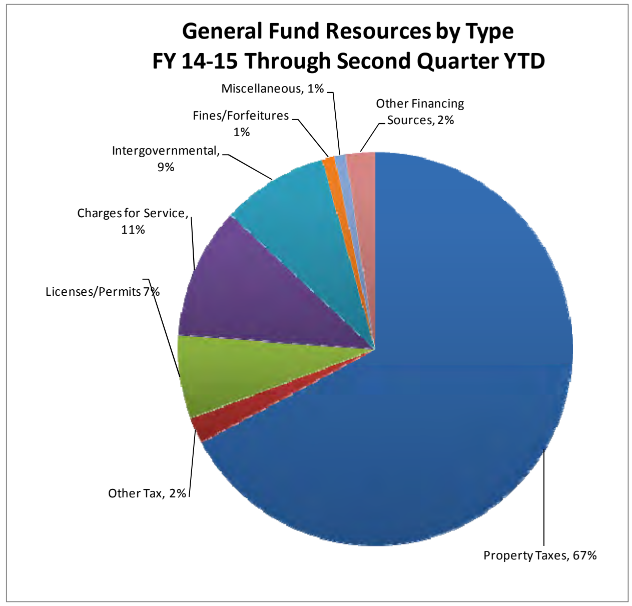
The General Fund Financial Plan update provided above shows the unaudited, estimated status of the “green line” at the end of Q2. The majority of FY 14-15 property taxes were received in the second quarter, thus the sustainable green line and the ending budgetary fund balance YTD are shown with a large positive balance. However, these amounts will decrease as the year progresses with planned department expenditures. Certified assessed property values for the City grew by 4.28% versus the 3% increase built into projections, thus year-end property tax revenue is expected to exceed adopted levels. As such, current estimates are for the General Fund to end FY 14-15 with a higher positive bottom line than projected at time of Budget Adoption. 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. The Q2 ending budgetary fund balance above is currently reflective of several revisions subsequent to adoption, such as removal of an interfund loan no longer needed to balance the Fund; a reduction in the 2014 FFC obligation interest payment as a result of final issuance value; and identifying additional reserve balances based on finalization of the FY 13-14 CAFR.

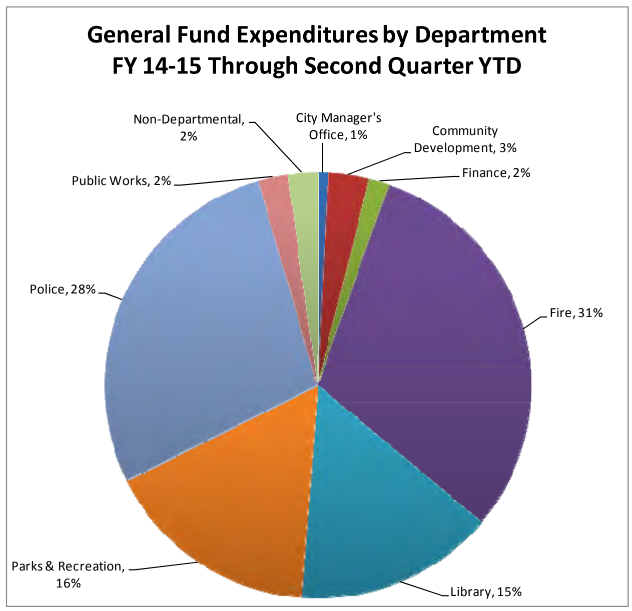
The **resources** pie chart, to the right, graphically illustrates the YTD proportions of all resources supporting General Fund services. Property taxes are exceeding target at approximately 67% of the total resources received YTD and are anticipated to be at least 56% of the total General Fund revenues by June 30, 2015.

The **expenditures** pie chart shows the distribution of General Fund expenditures by department through the second 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 LOL;
- Police's total expenditures are up 6% from last year due to implementation of a contractual 2% COLA plus overtime running higher than it has in recent years to back-fill for vacancies, including the new levy positions not yet hired; and
- Parks & Recreation (P&R) saw a 12% increase in non-personnel services due partly to the $36,000 payment for annual Art Center support, which was formerly accounted for in the non-departmental budget, as well as for expenditures incurred as a result of an increased number of specialty summer camps.





Fund No.	Fund Name	Resources YTD through 2nd Quarter FY13-14	Resources YTD through 2nd Quarter FY14-15	Variance 13-14 to 14-15	FY 14-15 Total Budgeted Revenue	YTD% of FY 14-15 Total Budgeted Revenue
220	911 Emergency Services	1,069,346	1,145,196	75,850	2,350,140	48.73%
625	Administrative Services	2,268,952	2,485,507	216,555	5,026,820	49.44%
560	Airport	255,230	244,549	(10,681)	601,950	40.63%
301	Capital Improvement Project	625,997	5,314,642	4,688,645	12,309,450	43.18%
250	Community Development Revolving	1,152,257	741,823	(410,434)	2,659,050	27.90%
460	Davidson	15	16	1	0	0.00%
230	Development Services	1,831,953	1,896,581	64,628	2,829,890	67.02%
615	Facility Maintenance	398,079	404,309	6,230	806,490	50.13%
610	Fleet Maintenance	385,716	379,233	(6,483)	851,110	44.56%
401	General Obligation Debt Service	964,019	1,016,186	52,167	1,131,610	89.80%
260	Parking	314,790	336,084	21,294	1,129,420	29.76%
218	Parks System Development Charge	1,062,599	1,351,539	288,940	618,100	218.66%
402	Pension Obligation Debt Service	2,124,720	2,208,890	84,170	2,720,030	81.21%
630	Risk Management	806,722	845,019	38,297	1,121,350	75.36%
201	Street	1,836,359	1,835,478	(881)	4,356,940	42.13%
N/A	Street & Utilities Systems Development Charge	2,590,636	5,215,861	2,625,225	3,874,990	134.60%
540	Stormwater	1,505,807	1,347,324	(158,483)	2,741,440	49.15%
620	Technology & Communication	793,395	791,988	(1,407)	1,583,280	50.02%
270	Transit	1,609,700	1,309,980	(299,720)	3,475,420	37.69%
520	Wastewater	5,109,902	5,331,995	222,093	20,123,810	26.50%
501	Water	6,000,524	6,755,938	755,414	11,717,120	57.66%
	TOTAL RESOURCES	**$ 32,706,718**	**$ 40,958,138**	**$ 8,251,420**	**$ 82,028,410**	**49.93%**

RESOURCES – Info on <>5% difference in Operating Funds from prior year or budget target (50%)

Airport – *Although building and hangar rental revenues are running higher than last YTD, overall fund revenue is lagging last year primarily due to no state or federal grant revenue for the Pavement Maintenance Program expected this year.*

CD Revolving – *Resources are less than prior year and budget. While a negative result early in the year is typical, due to timing issues from Community Development Block Grant (CDBG) and the HOME program grant revenues being reimbursed and received only after expenditures are incurred, it has now become a significant issue to the bottom-line, due in part to ineligible expenses incurred to administer the program and reduced availability of federal funding in total.*

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. There was also a Land Development Code change on December 1, which caused a rush of new multi-family proposals in November to beat implementation of new code changes. Timing of large projects is variable, spanning multiple months/years, so revenues are less predictable.*

Fleet Maintenance – *Receipts are below target in FY 14-15 YTD, due to fuel prices having decreased substantially in recent months. This situation has also favorably impacted the cost side, so no real impact is expected on the bottom-line.*

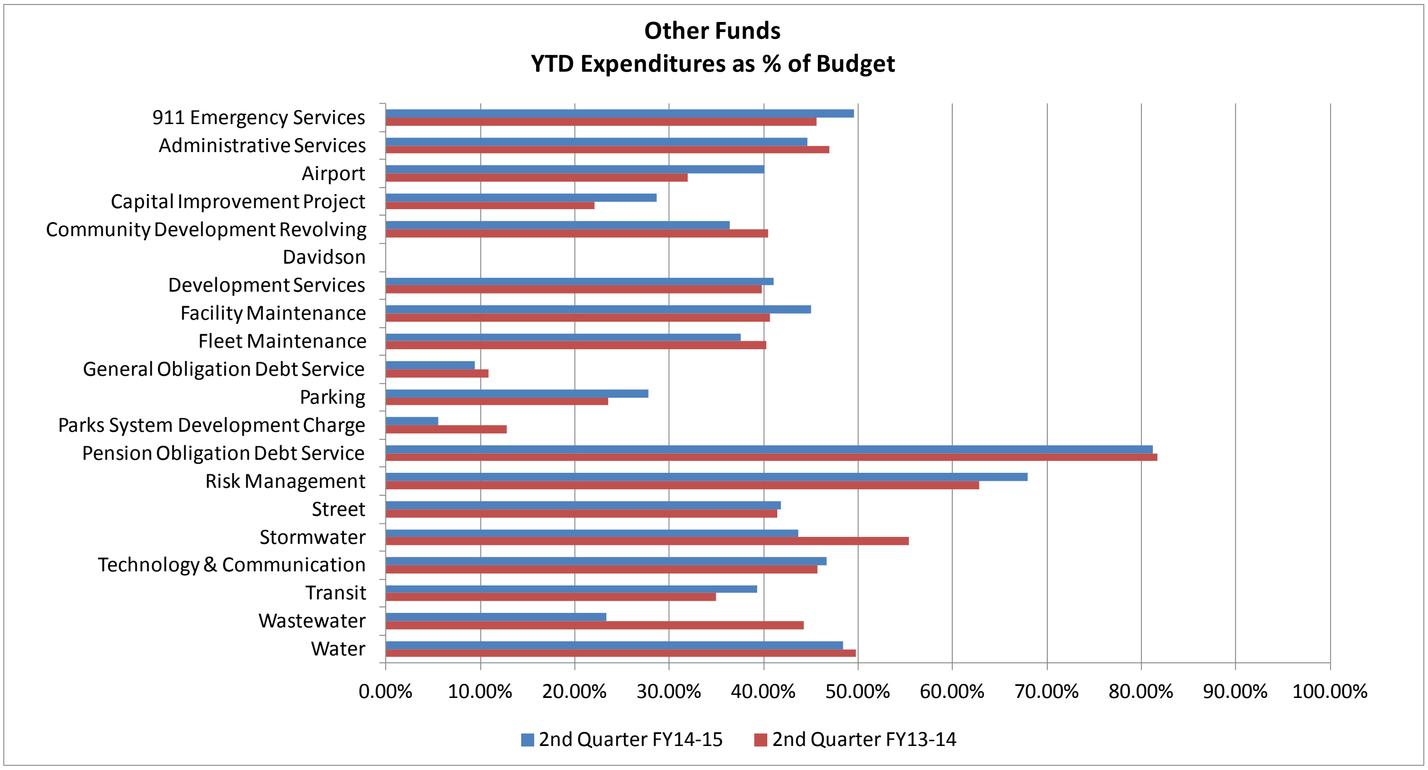
Parking – *Revenues are higher YTD than prior year from approximately $20,000 in unanticipated fees in-lieu of parking program improvements. Revenues are below budget however, due to voters rescinding the Residential Parking District (RPD) initiative on the November ballot. The revenue associated with an expanded RPD will thus not occur and has been revised out of the FY14-15 budget. Increased revenue from stream-lined e-ticketing is anticipated to be mostly offset by decreases in the third quarter due to Parking Enforcement Officer vacancies, thus remaining flat relative to last year.*

Risk Management – *Timing of this internal service to departments is weighted to coincide with insurance premium payments, 75% of which occur in July and 25% in January, so current receipt levels are considered typical.*

Street – *Highway tax revenues have flattened, due to reduced fuel usage in more fuel-efficient, hybrid and electric vehicles as well as decreased prices at the pump. Thus total receipts are flat with last year, and currently expected to come in under the increased budget amount; the Transportation Maintenance Fee program revenues are running ahead of budget target and last year as of Q2, and helping offset the highway tax issue to some degree.*

Transit – *Revenues are roughly $300,000 less than the previous fiscal year, mostly due to timing of operating and capital grant draws, of which only one capital grant is expected for a bus purchase in FY 14-15, 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 effective July 1, 2015 are positively affecting Charges for Service receipts this year relative to last year, although Wastewater has transferred less than 10% of its $9.6 million construction component revenues (typical for this time of year), explaining the below budget results YTD reflected above; the Water Fund also received $84K for water meter installations at the Retreat at Oak Creek Development.*



EXPENDITURES – Info on <>5% difference in Operating Funds from prior year or budget target (50%)

The above bar graph compares FY14-15 and FY13-14 expenditures through December 31st as percentages of their respective total budgets for all City funds except the General Fund (discussed in previous pages).

Administrative Services – *Vacancies for a Public Information Officer (PIO) and an Accountant account for below target spending YTD. The PIO position is on-hold until a new City Manager is hired, while the Accountant position will be hired in the third quarter. The Q2 unemployment invoice had also not yet been received, but is expected to be paid in Q3.*

Airport – *While YTD spending is closer to target this fiscal YTD, the fund income statement shows that expenditure dollars are actually less than the prior year due to buildings and street crews assisting in two major repair/maintenance projects at the Airport last year, and a significant portion of the main hangar roof replacement being completed.*

CD Revolving – *Spending is low as a percentage of budget due to timing of grant-related expenditures, though greater than last year due to a significant portion of FY 13-14 CDBG and HOME projects having been carried forward to this fiscal year with prior year project spending well underway. However, 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 half of each year. Hiring is in process for several vacant positions.*

Facility Maintenance – *FY14-15 spending is higher YTD 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 lower than last year due to an expensive replacement of one of the Camel's water pumps in FY 13-14. It is also lagging budget by more this YTD because of significantly lower fuel costs at the pump.*

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 voter-rescinded RPD expansion will not be spent in FY 14-15, and these expenses have been removed from the FY 14-15 revised budget.*

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, while the FY 14-15 expenditure was a transfer for park improvements associated with the Martin Luther King Walnut Barn. More transfers are expected in the latter half of FY14-15 associated with park development, trails/bike paths, and playground improvements.*

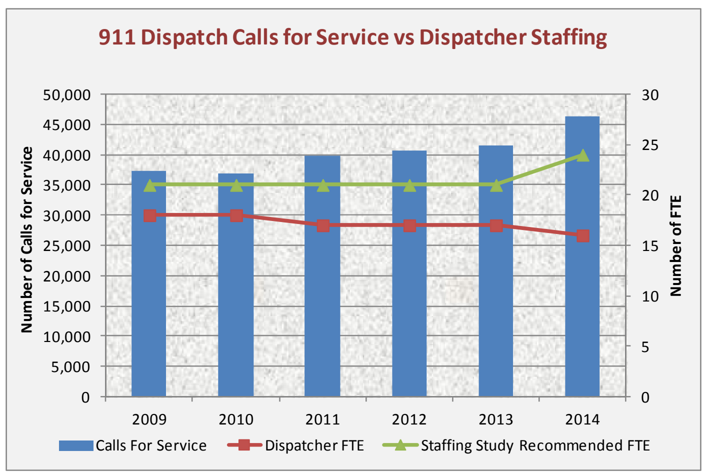
Risk Management – *Timing of internal service charges to departments is weighted to coincide with insurance premium payments, 75% of which occur in Q1 and the remaining 25% occur in Q3. Claims for self-insured expenses are unpredictable and vary from year to year. The adopted budget for property insurance premiums was less than what will actually occur in FY 14-15 due to a property valuation adjustment that was completed subsequent to the FY 14-15 budget development process. Savings in self insurance are unlikely given the significant deductible exposure the City has currently with its known tort/liability claims. However, workers compensation claims appear to be trending lower YTD, and may help offset overages in the insurance program in terms of the bottom line. Use of contingencies is expected nonetheless, and will likely thus affect ending fund balance and catastrophic reserve levels.*

Street – *While the bar chart above indicates both FY are under budget, this is primarily due to capital project related transfers. Operating expenditures are actually a bit over budget YTD in FY 14-15, and higher than the prior year due to two heavy equipment purchases, as well as Sidewalk Safety and the grind/inlay program already being completed for this year. Street SDC's will fund several capital projects that are underway.*

Transit – *Actual spending is higher as a percentage of budget, but is less in dollars spent than the prior year due to greater special project spending early in FY 13-14 for the vehicle information system replacement; FY 14-15 special projects include one replacement bus which has been ordered but not yet paid for.*

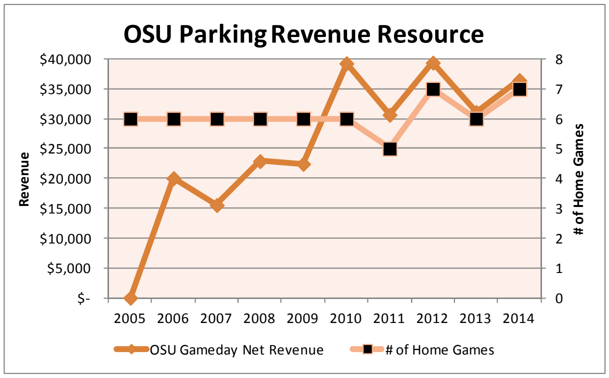
Wastewater – *Operating expenditures increased due to Risk Management internal service charges and early completion on special projects such as the WWRP Solar Array and two replacement vehicles; however total expenditures are much lower than budget vs the prior year, due to transfers for capital improvement projects not taking place yet.*

FUTURE OUTLOOK

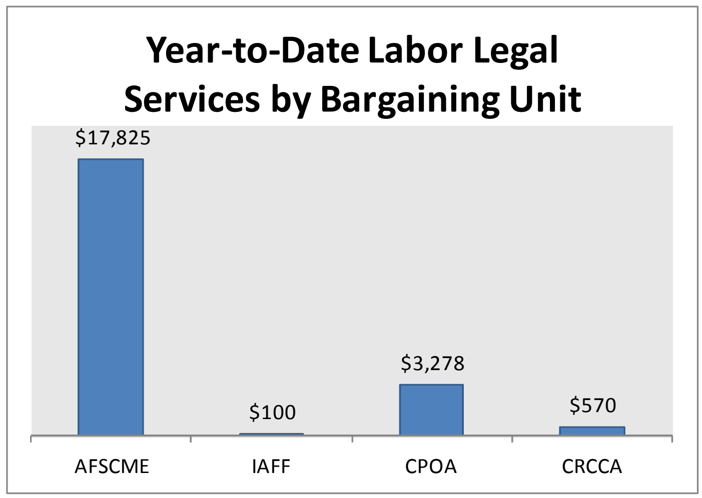


911 Fund Viability and Corvallis Regional Communications Center (CRCC) Staffing – In 2012, Emergency Services Consulting International (ESCI) conducted a comprehensive analysis of CRCC's needs and funding mechanisms. The study recommended increased staffing, both dispatchers and supervisors, and achieving a sustainable funding base for the CRCC. The study concurred with findings of a 2008 Association of Public Communications Official (APCO) analysis which recommended a minimum of 21 dispatchers. The ESCI study also recommended and the 911 User Group approved, exploring formation of a County Service District. To continue current service levels, the CRCC requires financial support to implement new technologies, to increase staffing levels, and to adequately train employees. Workload and calls for service continue to increase, while funding remains inadequate to appropriately staff the Center and in the past five years positions have been eliminated and unfunded. This will result in diminished customer service through delays in response and reduced operational efficiency.

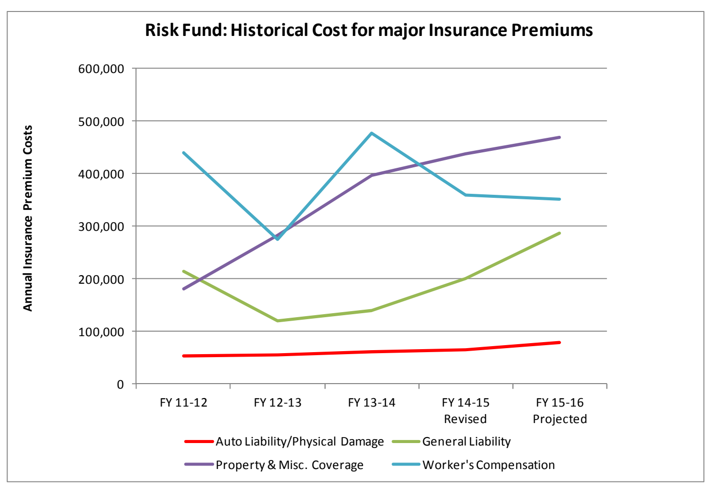
OSU Game Day Parking – For many years, fans had been parking in Avery and Pioneer Parks for OSU home football games. This increased use on OSU home game days created additional work for City staff, primarily in the collection of garbage on the following day. Parks and Recreation (P&R) staff viewed this as an impact to City infrastructure that was not directly associated with a City program. In 2006, P&R began charging $10 per parking space in Avery and Pioneer parks for OSU home football games, and in 2010 increased it to $15 per parking space, now generating over $36,000 in annual revenue from OSU football game day parking. Total revenue generated since the inception of the parking program in 2006 is over $250,000. P&R contracts with a non-profit (Mary's River Lodge) to manage the program and collect the parking fees, reducing program costs and maximizing its net revenues. Their multiple volunteers staff the entrances of the five monitored lots, collect parking fees and hand out passes. Mary's River Lodge retains 25% of the total proceeds and remits 75% back to P&R. P&R only spends about $2,200 each year for staff to paint parking lines prior to game day, provide portable lights for the Pioneer Park lot and port-a-potties; costs are not calculated for the additional garbage cleanup since this work would be required regardless of the OSU game day parking program.



Legal Services – The City Manager's Office (CMO) manages the invoices for legal services provided by the City Attorney's Office (CAO) and labor attorney. Off retainer services provided by CAO are trending high this year, and have already exceeded the total amount spent in FY13-14, with the majority of services acquired this year related to land use issues. While CAO costs are paid for from CMO's budget in the Administrative Services Fund, the use of such services by other departments will influence their future year internal service charge allocations. Labor legal service expenditures are also trending high due to a number of union labor issues, and the chart shows the YTD costs incurred by bargaining unit. These services provided by the City's labor attorney are usually charged directly to the impacted department's budget, so the costs portrayed here are spread among various fund/department budgets throughout the City.



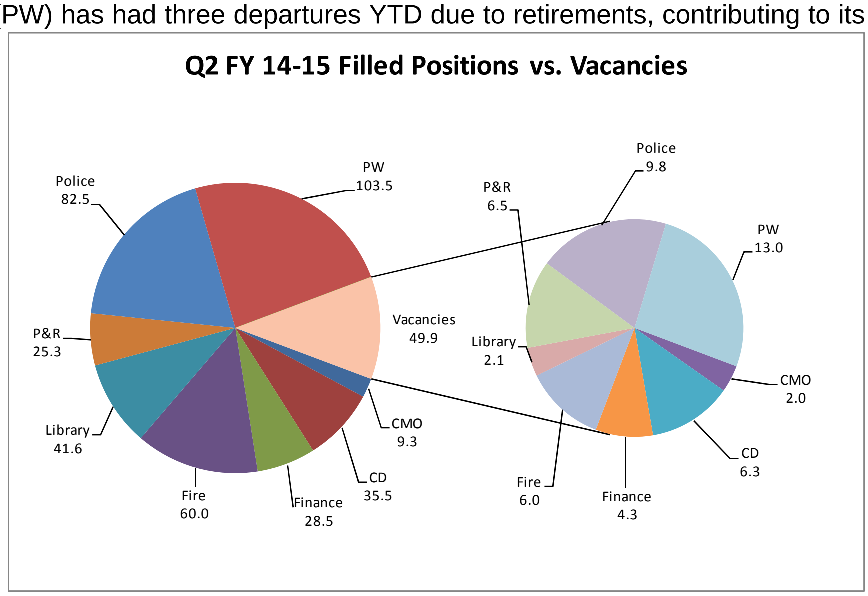
Risk Management – In January 2014, the City conducted an on-site property appraisal for all City-owned properties. As a result of this appraisal, property values were adjusted upwards about 30% increasing annual property liability premiums by $30,000. Due to the number of claims reported over the last several years, primarily related to three significant water line breaks, property insurance costs are also trending up by 30%. Both Automobile and General Liability premiums are based on loss history, combined with deductible levels. Auto physical damage has trended up by about 10%. As technology and related security becomes more complex and sophisticated, the City has increased cyber liability coverage through Travelers Insurance to provide for up to $1 million related to protection from outside threats, for an annual premium of $18,000. Premium increases for worker's compensation are currently anticipated to remain relatively flat going forward, although volatility of claims year over year can cause this to vary significantly and unexpectedly. Ultimately, insurance premiums for the foreseeable future will likely be higher and thus will have a budget impact on most departments.



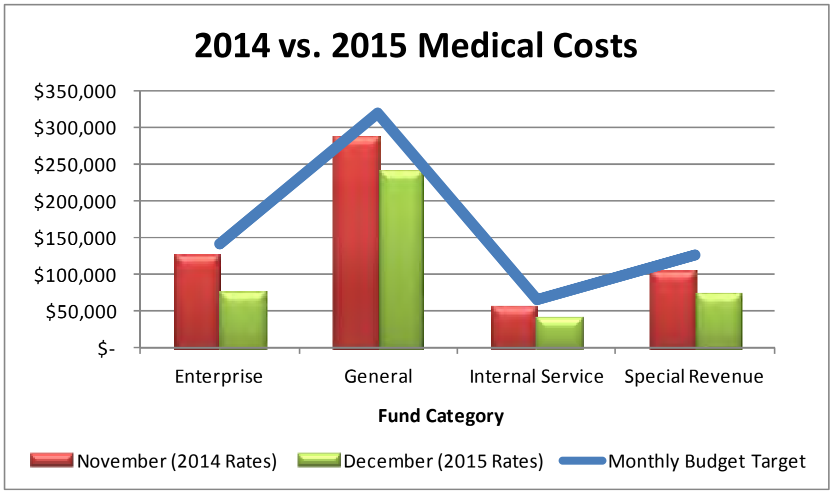
Library Satisfaction Survey – The Library has contracted with Orange Boy, Inc. to assist in gathering, analyzing and interpreting data about library users and the community to be used in developing a new strategic plan. In early December 2014, an email survey was sent to all library cardholders asking them about their use of the library. There was an excellent response rate to the survey with approximately 3,800 people participating. Although the data is still being analyzed for decisions regarding a Library strategic plan, preliminary results show that 91.5% of respondents gave Library customer service a "4" or "5" on a scale of 1-5 (with 5 being the highest); and 83% of respondents gave the Library's collection either a "4" or "5". Further analysis of the survey results will help inform budget decisions for the FY 15-16 budget as well as future year's budget.

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 second quarter of this fiscal year. Public Works (PW) has had three departures YTD due to retirements, contributing to its 13 vacant positions at the end of Q2, which accounts for 11% of their total authorized FTE. The nearly 50 FTE in City-wide vacancies is about 11% of total FY 14-15 authorized FTE. This increase over 43 FTE vacancies in Q1 is primarily due to Park Seasonals ending their annual employment period. Total vacancies are also up from about 43 FTE in Q2 of last year, mainly due to the new positions funded by the 2013 Operating Levy that are still in the recruitment phase, but that are expected to be fully staffed by the end of FY 14/15. Other notable vacancies include those associated with the Residential Parking District initiative which was voted down in November 2014, thus, those FTE will not be filled; and the departure of the City Manager incumbent in August 2014. The latter departure has put recruitment on hold for the Public Information Officer, in the City Manager's Office, pending the hiring of a new City Manager, who is anticipated to be onboard in the fourth quarter. 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.

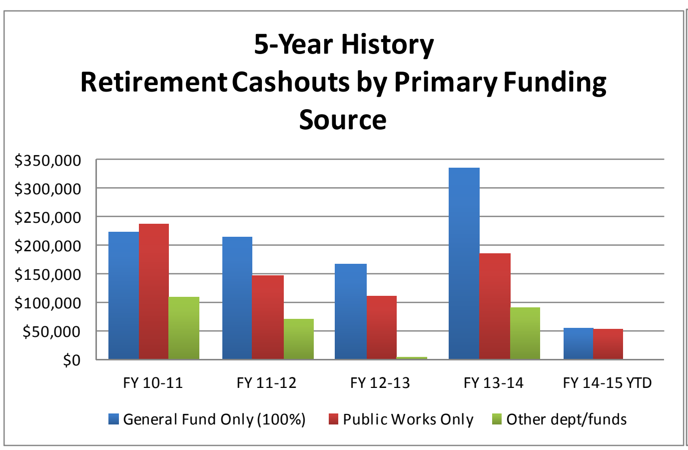


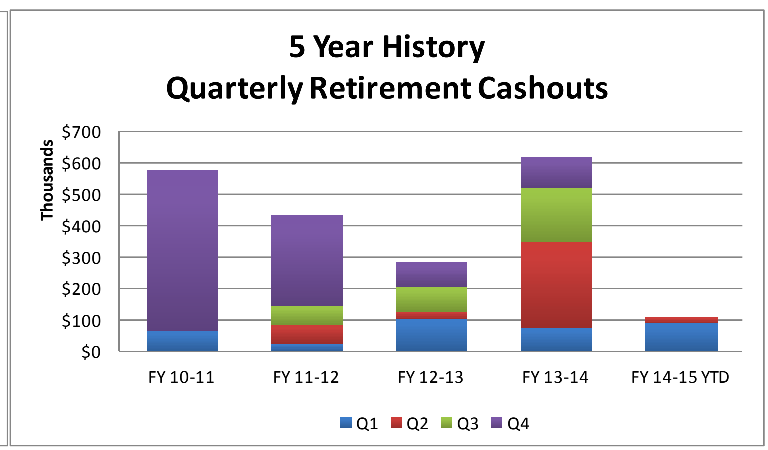
Healthcare – FY 14-15 department budgets held medical costs flat at 2014 rates since premiums for 2015 were not yet known. Any rate increases were to be absorbed within each department's budget. Fortunately for results in FY 14-15, most department budgets will not be as negatively impacted due to significant plan changes for AFSCME and Exempt units who moved to a single High Deductible Health Plan (HDHP), and lower increases in the other bargaining units' plan premiums (which saw only a 3-4% increase, for CRCCA and IAFF, and stayed flat for CPOA). Moving to a single health plan across over 300 FTE served to streamline administration functions and also reduced costs significantly compared to the 2014 HMO (in which a majority of AFSCME participants were enrolled) and even slightly less than the other two previously available plans which went away for both units. The graph below illustrates the impact to the various fund types when comparing actual November medical costs (based on 2014 premium rates) and December medical costs (based on new 2015 premium rates). The bars reflect the totals paid in November 2014 vs. December 2014 for 2015 coverage. The



line portrays one twelfth of the FY 14-15 Adopted Budget, depicting the monthly budget target amount. Enterprise funds are the Utilities and Airport Funds and Special Revenue Funds are those governmental funds which have a significant dedicated revenue stream (such as Development Services, Transit and 9-1-1). It is important to note that while all funds are reflecting significant monthly premium savings, both compared to 2014 rates and the monthly budget target, a large portion of the FY 14-15 savings realized in the latter half of the year will be offset by lump sum City-paid Health Savings or Retirement Account (HSA or HRA as selected by the employee) contributions for all HDHP participants and an upfront medical stipend for AFSCME members (both of which are paid in January), vs. the monthly HRA contributions which were made for the smaller group who were previously on the CDHP plan. The City will pay these two once-annual upfront expenses in January, for the entire 2015 calendar year, and the monthly premium savings for the latter seven months of the fiscal year is expected to more than offset these payments.

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 were on track to be in line with this average; however, Q2 only saw two retirements with a relatively small accrual cashout, bringing the YTD trend significantly down. 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 Public Works is fairly even with General Fund retirement payouts so far in FY 14-15, but has been at a somewhat lower annual volume than the General Fund (i.e. Police, Fire, Library and P&R) other than in FY 10-11.





With nearly 24% 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 still potential for the latter half of FY 14-15, as well as future years, to be subject to large vacation and sick leave accrual payouts. And the numbers above do not include longstanding employees who leave to go work elsewhere and also have accumulated significant accruals for which they are eligible to be paid out. 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 in order to assess the level of impact on each budget by fund and department, this year and into the future.

CAPITAL IMPROVEMENT PROJECTS QUARTERLY UPDATE ON SIGNIFICANT ACTIVITY

Project	CIP Doc Pg:	Adopted Budget:	Amended:	YTD Expended:
Airport Improvements – Cargo Access	1	**$112,850**	**$112,850**	**$39,991**

This project constructs a new access road from Airport Place to the cargo apron. The environmental assessment and cultural resources study are both nearing completion. Design work has been initiated and construction is scheduled for the summer of 2015 with completion in December 2015.

Project	CIP Doc Pg:	Adopted Budget:	Amended:	YTD Expended:
Fire Department Facilities Relocation	7	**$3,501,500**	**$4,077,000**	**$1,344,883**

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. A full faith and credit debt issuance was completed 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. During the second quarter, City Council approved a resolution increasing the budget by $575,500 for the additional proceeds above the FY 14/15 adopted project budget. Construction is approximately 50% complete. The contractor continues to pour the concrete driving surface and the tower has been completed up to the fourth floor with two floors remaining. The project is anticipated to be completed by mid-March with the contractual completion date in early May.

Project	CIP Doc Pg:	Adopted Budget:	Amended:	YTD Expended:
Park Improvements – Existing	22	**$696,000**	**$696,000**	**$16,977**

This project provides for a variety of improvements at the following existing City parks: Willamette Park, Franklin Park and Arnold Park playground upgrades, and MLK/Walnut Park. Lighting was installed at Walnut Barn during the second quarter to enable use longer into the day and longer into the season. Other park improvements have yet to be initiated.

Project	CIP Doc Pg:	Adopted Budget:	Amended:	YTD Expended
15th Street/Washington Way Improvements	41	**$3,081,320**	**$3,081,320**	**$1,937,903**

This project combines the planned reconstruction of 15th 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 15th Street/Washington Way, and reconstruction of a 20-inch water line. City staff has managed design and construction of this expanded scope in collaboration with OSU through an IGA. Construction has been completed with the installation of the railroad equipment being installed at the end of October, 2014 and the traffic signal is fully operational. Final work completion approval and warranty initiation is pending final punch-list inspection.

Project	CIP Doc Pg:	Adopted Budget:	Amended:	YTD Expended:
Reiman Avenue Bridge	66	**$250,000**	**$250,000**	**$196,700**

This project provides for the emergency replacement of the Reiman Avenue Bridge as approved by Council on February 18, 2014. Inspection of the bridge after a semi-truck hit the edge of it last spring identified structural deficiencies that need to be repaired as soon as possible in order to re-open it for access to a food processing plant. Design was completed in FY 13/14. Construction was completed during the second quarter and the bridge has been re-opened for commercial truck delivery access.

Project	CIP Doc Pg:	Adopted Budget:	Amended:	YTD Expended:
Sanitary Sewer Line Rehabilitation	87	**$801,750**	**$801,750**	**$588,637**

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 was identified between 12th and Dixon Streets from Garfield to Grant Avenue. The additional work was completed in November with sufficient remaining budget from the original scope and through a change order with the original contractor based on their original unit prices.

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

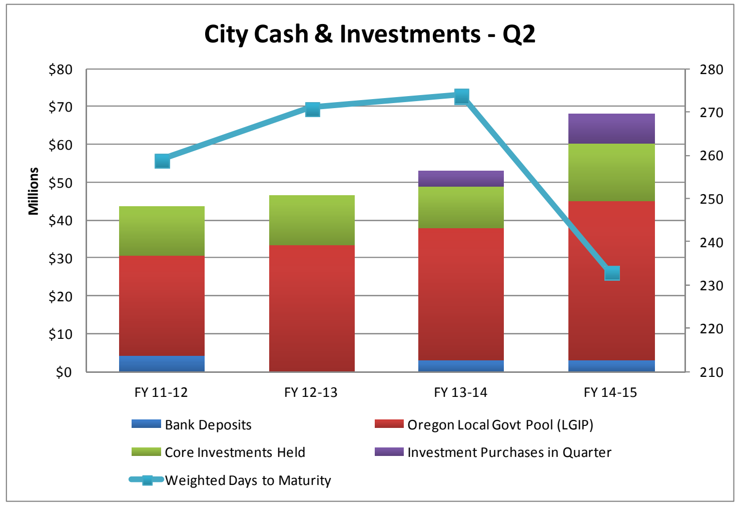
Design work has been initiated for six sewer lines that have been identified for construction in FY 15/16.

Project	CIP Doc Pg:	Adopted Budget:	Amended:	YTD Expended:
WWRP Secondary Clarifier	95	**$8,255,000**	**$8,255,000**	**$119,926**

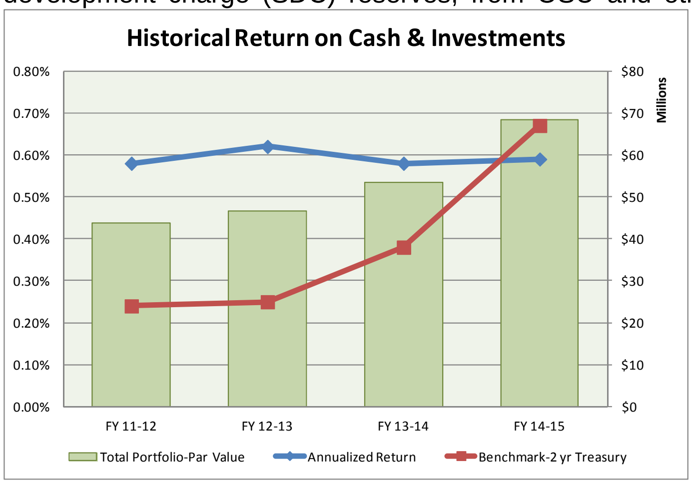
This project designs and constructs a new secondary clarifier at the Wastewater Reclamation Plant (WWRP). The new clarifier will accommodate increased flows due to community growth. The design is in progress and advertisement for bids is anticipated in the winter of 2015.

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 second quarter, which historically holds the highest portfolio balances since the majority of annual property taxes are received in November and December of each fiscal year. These graphs illustrate that total holdings have successively grown over the past three fiscal years, 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, and bond proceeds from a debt issuance to finance several capital construction projects, both of which have restricted purpose spending.

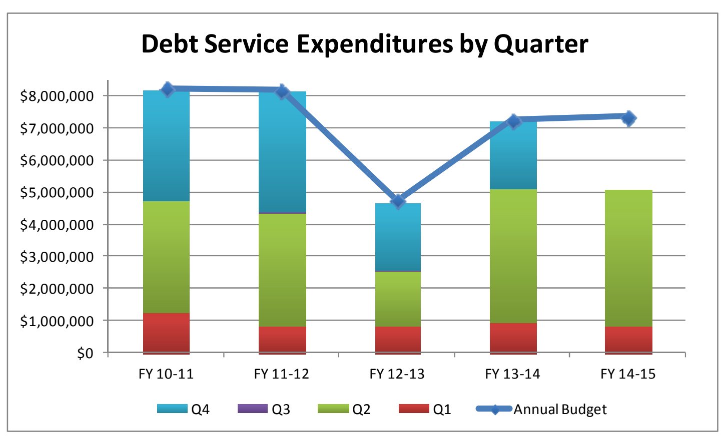


Together with the City's investment advisory firm, Government Portfolio Advisors (GPA), City staff maintain a strategically laddered portfolio, term-wise (see graph above showing maturities averaging less than 18 months, per policy), in order to gain some market return without undue risk. The graph to the left shows that the City has successively outperformed the benchmark 2-year Treasury note rates over the past few years; however, the most recent quarter end saw a spike of the benchmark 2-year Treasury note to 0.67%, exceeding the City's portfolio performance by 0.08%. In recent weeks it has fallen again by over 20 basis points (b.p.).

The City's target core portfolio was raised to $20 million by ASC based on the increasing reserve balances noted above. In that regard a second quarter purchase of a $2MM Government Agency at 1.025% was made. It should be noted that the second quarter influx of property taxes caused the LGIP maximum to be exceeded at the end of November through early December. In order to bring the City's State Pool balances back into compliance, but also maintain needed liquidity for the summer months, about $3 million of purchases were made at a 1 year or less maturity, thereby not achieving returns as high as the LGIP. These purchases consisted of a $2 million 1-year CD from the local OSU Federal Credit Union (at 0.3%) and $1 million of an 8-month Government Agency (at 0.21%). While both are excellent returns for that term relative to other opportunities, they are well below the LGIP's 0.5% return and contributed to the drop in average days to maturity as seen in the top graph.

NON-OPERATING EXPENDITURES – DEBT SERVICE QUARTERLY UPDATE

Q2 and Q3 are typically the highest level of debt service payments for GO Bonds, in order to match higher cashflows-in from property tax receipts. The significant total debt reduction shown in the graph to the right in FY 12-13 is due to three refunded utility-backed loans. A new debt issuance of $3.9M in full faith and credit bonds was sold in September 2015 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 in Q3.



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	2nd 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%	5.85%	5.69%
	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)	2,869 (1.38 FTE)	9,011 (4.33 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	50 or .88/thou	89 or 1.57/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%	0%	0%
		Percent of average annual water bill to median household income ($69,400). (4)	0.33%	<0.45%	0.43%	0.43%
		Percent of average annual wastewater bill to median household income ($69,400).(4)	0.46%	<0.65%	0.58%	0.58%
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%	14%	14%
	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	2nd 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	33	69
	Conserve resources by reducing fuel and paper use.	Percentage of permits issued online (mechanical, electrical, and plumbing).(7)	52%	35%	55%	54%
	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. (8)	$5.67	<$34.40	$0.47	$10.76
	Achieve above national average use of 18 items checked out per user each year for comparable sized libraries.	Circulation per registered borrower.(9)	36.8	>35.0	9.43	19.15
	Increase the utilization percentage of Parks & Recreation granted scholarships.	Percent of total scholarship value expended.(10)	47%	47%	68%	36%
	Increase community usage of on-line police reporting system by 10%.	Number of police reports made through the on-line system.	689	758	213	393
	Remain below national average of 10% annual water loss in the distribution system.	Percent of water loss in the distribution system. (11)	4.89%	<10.00%	<5.50%	<3.78%
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%	2.9%	3.3%

1. During the first half of FY 14-15, 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 89 accidents, or 1.57 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 56,535 (December 2014).
4. These are annual measures calculated in the second quarter; there were no utility rate increases for FY14-15.
5. Of the 696 applicants in the second quarter, 95 indicated they are a minority; and 160 of 1,184 YTD.
6. Year-to-date, there has been two 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; 1,704 permits issued online in first half FY 14-15.
8. Q1 was restated as $10.29 due to the 2014 City of Corvallis population being available (56,535), bringing YTD down to $10.76.
9. Circulation per registered borrower (i.e., number of items checked out divided by number of people with library cards) has reached 54.7% of the target as of Q2. Also, 19.15 items per borrower is more than 100% of the national annual average.
10. 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. Q2 awards were $32,100, of which utilization was $21,938 (or 68%), now reaching nearly 81% of the cap.
11. This measure reports on three months' of data, with the third month's data usually being collected after quarterly reports are submitted which results in future quarter updates.