GLADSTONE URBAN RENEWAL

IN CLACKAMAS COUNTY, OREGON

BUDGET ESTIMATES FOR THE YEAR 2014 – 2015

MEETINGS:

Budget Committee – June 3, 2014 - 7:30 p.m

Public Hearing - June 24, 2014 - 7:30 p.m.

Council/Agency Adoption and
Appropriation of Funds – June 24, 2014 – 7:30 p.m.

GLADSTONE URBAN RENEWAL

2014-15 BUDGET
TABLE OF CONTENTS

SECTION 1 BUDGET MESSAGE 1-2

SECTION 2 FINANCIAL ANALYSIS 1-5

SECTION 3 LINE ITEM BUDGET

Line Item Details 1-2

SECTION 1

BUDGET MESSAGE

Gladstone Urban Renewal Agency
Budget Message
Fiscal Year 2014-15

The purpose of the budget message is to summarize proposed urban renewal budgets as required by Oregon budget law. Budgets, when adopted, should represent consensus on the best method to allocate limited resources to help attain goals and fund services including capital improvements. A budget shows past revenues and expenses including inter-fund loans and debt from previous decisions, indicates appropriations for the current fiscal year, and serves as a future financial plan including proposed appropriations in capital reserve funds for next year and beyond. Probably the most important policy issues for the Budget Committee are summarized as follows:

New Library

Following the November 2012 election in which a ballot measure to authorize the construction of a new library failed the Urban Renewal Agency (URA) transfer to the Library Capital Fund ($7.5 million) and debt service appropriations ($530,000) associated with the library project were eliminated for fiscal year (FY) 2013-14.

City Council will be considering a new plan for a library in June 2014. There a possibility for a small URA component to the financing depending what comes out of the City Council discussion. There is no appropriated expenditure in the FY 2014-15 budget for library construction.

City Hall – Police Department

City Council is currently working with citizens, consultants and city staff in order to plan city hall – police department building improvements or new construction. There is a $843,278 capital expenditure appropriation in the City of Gladstone's State Revenue Sharing Fund earmarked for this project. Urban Renewal funds could also be used for such a project. If the project was to upgrade the current building a boundary amendment along with an urban renewal plan amendment would be necessary. If the project is to construct a new facility the location would determine if a boundary amendment is necessary. The new construction would require a plan amendment. Currently City Council is waiting for information from infrastructure master plans before making a decision.

Infrastructure Projects

Projects under consideration for fiscal year 2014-15 include:

- Maintenance and repairs to sewer lines related to the Portland Ave. Clackamas Blvd. sewer overflow issue
- Portland Ave. streetscape
- Union Avenue/ E. Berkeley Street restoration of Union Ave. starting at the intersection of E. Clarendon and ending at E. Berkeley and E. Berkeley to 82nd Drive. $65,000
- Princeton Avenue curb and sidewalk installation overlay to E. Arlington Street. $40,000
- Storms drain improvements – E. Arlington at 82nd Drive. $15,000
- Water main installation on First Street from Columbia Avenue to Yale Avenue at E. Arlington Street. $140,000
- Traffic signal at E. Gloucester at Oatfield Road. $150,000
- Pedestrian signal or traffic signal at Ridgegate Drive and Oatfield Road. $60,000 to $150,000

Staff is continuing to analyze other needed infrastructure projects as information from masterplans for water and stormwater becomes available. These masterplans are scheduled to be complete in August 2014.

Line Item Budget

The total amount of proposed URA budget for fiscal year (FY) 2014-15 is $4,401,097 compared to $3,568,893 for FY 2013-14.

Respectfully submitted

Peter J. Boyce, Budget Officer

SECTION 2

FINANCIAL ANALYSIS

Gladstone Urban Renewal Agency
Financial Analysis
FY 2014-15

PURPOSE

The primary purpose of a budget process is to ensure the most proper and effective allocation of the city's limited resources. It is through this process that the budget serves as the single most important policy document. The budget is the city's financial plan, similar to the Comprehensive Plan for land use. A clear and concise budget document may allow interested taxpayers to better understand the purposes for which their tax dollars are spent. Meetings of the Budget Committee should provide opportunity for public input on city services and funding as intended by state budget law.

The availability and allocation of money during formulation of the budget process generally determines the extent to which the city can provide services and attain its goals.

ALLOCATION OF PROPERTY TAX REVENUE COUNTYWIDE

The average tax dollar in Clackamas County was allocated as follows:

Schools K-12	40.60 %
County	18.77 %
Cities	13.27 %
Fire Districts	11.15 %
Urban Renewal	3.16 %
Community College	4.03 %
Miscellaneous (Port, Tri Met, Vector, Cemetery, Water, Parks and Lighting)	1.91 %
Education Services	2.13 %
Services (Metro, Extension Office and Sewer)	4.98 %
TOTAL	100%

As indicated above, 13.05% of property taxes currently collected in Clackamas County are allocated to cities. Figures from Clackamas County based on 2013-14 data.

TAX COMPRESSION UNDER MEASURE 5

In November 1990 voters statewide approved a tax limitation measure commonly referred to as Ballot Measure 5 (M-5). This amendment to the Oregon Constitution limits the total tax rate for non-school purposes to a maximum $10.00 per $1,000 AV. The limit does not apply to any rates for voter approved bonded debt. Levy amounts derived from non-school tax rates that exceed $10.00/$1,000 AV are reduced through "compression," with the amount of tax revenue for each taxing jurisdiction reduced proportionate to its relative levy authority. M-50 requires that revenue from local option levies be compressed before any compression of revenue derived from permanent tax rates. If there is more than one local option levy in a tax code area, then each levy would be compressed equally before permanent tax rates are reduced. Total non-school tax rates for determining compression under M-5 are based on real market values (RMV) and therefore these tax rates are different than M-50 rates applied to MAV. Clackamas County Department of Taxation and Assessment does not keep record of M-5 rates as they need to be calculated individually based on a property's real market value divided by taxes imposed.

In Gladstone, significant tax compression is unlikely for fiscal year 2015 due to annual increases in AV that occurred prior to M-50 thereby reducing the total non-school tax rate. The probability of compression was further reduced by M-50's roll back in AV and limit on tax rates and property taxes. With that said, the real estate market has continued its decline reducing the gap between market value and AV. Most of the decrease in the total non-school tax rate was due to the city's rate of $6.32 in 1991-92 being reduced to $4.82/$1,000 AV after M-50. Gladstone voters subsequently approved local option levies increasing the city's "adjusted" tax rate to $5.47/$1,000 AV and increasing the total non-school "adjusted" tax rate to $9.26/$1,000 AV.

TAX SYSTEM PRIOR TO MEASURE 50

Prior to M-50, tax rates were determined by a city's total assessed value and the amount of taxes levied. The greater a city's total AV relative to its budget requirements, the lower the city's tax rate. Contrary to common belief, AV from new development did not increase the city's tax base and property tax revenue. Instead, taxes paid by owners of several million dollars in new construction each year before 1997-98 slightly reduced Gladstone's tax rate and the amount of taxes paid by other city taxpayers, subject to "the 6% increase". The Oregon Constitution allowed local governments to increase their tax base a maximum 6% annually without voter approval. This levy based system gave taxing jurisdictions financial stability relative to inflation. The system favored communities such as Gladstone where annual service demands and population were growing slowly. In 1980, Gladstone voters approved a new city tax base. Primarily to compensate for inflation, during the 18 years prior to M-50, the city raised its tax base 6% annually increasing its property tax revenue an average of $95,000 per year.

MEASURE 50 AND ASSESSED VALUES

M-50 changed the Oregon property tax system from a levy based system to a rate based system and virtually eliminated tax bases. The measure rolled back AV's to 90 percent of their 1995-96 levels and established 1997-98 as the "base year" for MAV. M-50 rolled back the city's total AV by $86 million. M-50 gave the largest roll back of AV and therefore tax reduction to property owners whose market value grew the most from 1995-96 to 1997-98. During that time, AV's grew substantially more in Gladstone compared to many other communities due to Gladstone's location in the Portland Metropolitan area and market demand for housing that was relatively affordable.

M-50 allows MAV on individual properties to increase a maximum 3% a year plus the value from qualifying improvements generally consisting of new construction, major remodeling, subdivisions of land, changes in special assessments or exemptions and zone changes when there's a change in land use. Qualifying improvements after 1998 are assessed at the ratio of MAV to net market value. Qualifying improvements must be assessed for tax purposes before January 1st to be listed on the tax rolls for assessment purposes during the following fiscal year. As a result of the provision for qualifying improvements, M-50 favors communities with significant increases in value from new construction compared to mature communities with limited vacant land for development such as Gladstone. Tax revenue from qualifying improvements will be especially important during periods of high inflation.

Excluding qualifying improvements, Gladstone's URA MAV may increase 3% for 2014-15. This is due to MAV not only including the value of real property, but also including the value of personal property and public utilities. About 98% of Gladstone's MAV is comprised of real property value. Utility value includes, for example, the infrastructure owned by Northwest Natural Gas. Personal property for assessment purposes is based on calculation of centrally assessed tangible and intangible values from business depreciation and replacement of equipment, software, etc. Mobile homes are also personal property that often depreciates in value. Changes in the amount of MAV for utilities and personnel property are different compared to real property.

The estimated 3% increase in MAV allowed by M-50 plus value from qualifying improvements allowed the URA's net MAV to increase about 3%.

MEASURE 50's PERMANENT TAX RATES AND REVENUE

M-50 established "permanent tax rates," which exclude any additional rates for local option levies and bonded debt. The Oregon tax system became relatively simple because permanent tax rates do not change from year to year, and MAV cannot grow more than 3 percent a year beginning in 1998-99, excluding value from qualifying improvements, annexation, etc. as described previously.

The State Department of Revenue used local government's AV and levy authority in 1996-97 to calculate their permanent tax rates including Gladstone's permanent rate of $4.8174/$1,000 MAV. Gladstone's permanent rate and future levy authority were maximized by electing to increase the tax base 6% each year since 1980. However, the City's permanent rate would have been greater if serial levies were in place when M-50 was approved since levy rates were "rolled" into permanent rate calculations. For example, a county wide library levy intended to reduce tax inequity was rolled into Clackamas County's permanent rate. The approximately $5.8 million in "increment" MAV that was captured by Gladstone urban renewal when the City's permanent tax rate was determined caused the rate to be about 6¢ greater than it would have been without urban renewal.

RATE ADJUSTMENTS FOR URBAN RENEWAL

In 2001, the Oregon Supreme Court ruled in Shilo Inn vs. Multnomah County that all urban renewal dollars from "division of tax" that are raised and previously collected in the Education and Bond category of the property tax bill be moved to the General Government category and subject to the M-5 limit of $10.00/$1,000 of RMV. Adjusted rates apply if a county or city such as Gladstone has adopted an urban renewal plan and collects revenue from division of tax; otherwise permanent rates apply. The next table shows permanent tax rates in Gladstone established by M-50 and rates that have been adjusted to accommodate division of tax. Taxes levied for division of tax now appear on all tax statements citywide. Property owners pay the same amount of taxes regardless of whether urban renewal receives revenue from division of

tax. Division of tax only affects how property tax revenue is distributed among taxing jurisdictions, except for local school districts that apparently receive money through a State school funding formula equal to that not raised locally.

Gladstone Non-School M-50 Tax Rates/$1000 AV * FY 2010-11		
Taxing District	Permanent Rate	Adjusted Rate
City of Gladstone	4.8174	4.4736
Clackamas County	2.4042	2.2326
Clackamas County Soil Conservation	N/A	0.0456
Vector Control (County)	0.0065	0.0061
County Extension &4-H	N/A	0.0465
County Library	0.3974	0.3692
Port of Portland	.0701	0.0652

* The difference between the total permanent rate and the total adjusted rate is due in part to local option levies and urban renewal not having permanent rates. Taxes for urban renewal reduce rates for all other taxing jurisdictions including rates, not shown above, for schools and bonded debt.

REVENUE SOURCES, excluding cash reserve

The URA has two sources of revenue, property taxes and interest. For FY 2012-13 the URA received $839,306 in property taxes (including delinquent taxes paid) and earned $13,553 in interest for a total of $852,859 of revenue.

RECENT EXPENDITURES

The URA made expenditures in the amount of $47320 in FY 2013-14 for sewerline work and audit expense in the amount of $3,640.

CASH FLOW

Positive cash flow is the amount that total revenue exceeds total expenditure and negative cash flow occurs when expenses exceed revenues. For the past several years expenditures from the URA Fund have been limited due to the now eliminated library project and now possible construction or building improvements for the City Hall/Police Station. Once the Urban Renewal Board decides which course of action to take it will free up funds for other projects. This course of events has lead to a large positive cash flow for the URA Fund. At the end of April 2014 the URA Fund has a cash balance of $3,507,853.68 and a positive cash flow.

CASH RESERVE

Positive cash flow creates cash reserve and negative cash flow reduces cash reserve. The URA's financial condition can be determined in part by evaluating cash flow's affect on cash reserve.

Somewhat contrary to incurring debt, increasing the amount of cash reserve strengthens the URA's financial condition and its ability to optimize services at minimum cost. Interest income from accumulating a greater amount of cash reserve creates greater efficiency. If cash reserve is depleted, then the URA would need to incur cost to borrow money until sufficient property tax revenue is received each December.

In the past virtually all of the cash reserve is appropriated as potential expenditures. However, expending all budgeted funds within one year would be similar to deficit spending with potential expenditures exceeding revenues. Cash reserve is virtually identical to personal savings; it is a finite amount and cannot serve as a long term revenue source for funding long term expense including the hiring of more employees. In future years, the extent of positive cash flow will determine how fast cash reserve is replenished to fund future capital projects.

VALUES REFLECTED IN BUDGET DOCUMENT

In summary, the intent of this budget document is to reflect an "open book" financial policy and to help formulate organizational values, which are important since they influence behavior including expenditure decisions. The effectiveness of organizational values depends on the degree that they are known and generally accepted, especially by those who make or influence expenditure decisions.

SECTION 3

LINE ITEM BUDGET

URBAN RENEWAL DISTRICT/EXPENDITURES

#2022010 City Staff/Planning Reimbursement – Legal counsel for Urban Renewal advised that urban renewal can reimburse the City for staff expense in accord with an agreement between the Agency and City that specifies a specific reimbursement amount, and advised that Urban Renewal can pay for planning and design costs for projects not presently located in the renewal boundary if the projects relate to urban renewal planning.

#2022025 Insurance - The city's insurance provider, CCIS, advised that the amount of funds for urban renewal insurance should be determined by calculating the urban renewal budget as a percentage of the city's budget and applying this percentage to the total insurance premium. This percentage is about 10% currently.

#2023010 Urban Renewal Project Reserve - This is currently the balancing line item for the Urban Renewal Fund. A reserve is requested since the Renewal Agency has not yet prioritized possible projects.

FORM
LB-31

DETAILED REQUIREMENTS
GLADSTONE
URBAN RENEWAL DISTRICT

	Historical Data						Budget for Next Year 2014-15			
	Actual		Adopted Budget	REQUIREMENTS DESCRIPTION	Number of Employ-ees	Range*				
	Second Preceding Year 2011-12	First Preceding Year 2012-13	This Year 2013-14				Proposed by Budget Officer	Approved by Budget Committee	Adopted by Governing Body	
1				MATERIALS AND SERVICES						1
2	23,551	22,628	20,000	2022000 Engineering and Inspection			20,000	20,000		2
3	305	3,213	30,000	2022005 Consulting Services			30,000	30,000		3
4	-	15,000	15,000	2022010 City Staff/PlanningReimbusement			15,000	15,000		4
5	773	26	1,000	2022015 Meeting Materials,Supplies, Adv.			1,000	1,000		5
6	-	-	3,000	2022025 Insurance			3,000	3,000		6
7	3,573	6,039	7,300	2022030 Audit			7,300	7,300		7
8	28,202	46,906	76,300	TOTAL MATERIALS AND SERVICES			76,300	76,300		8
9										9
10				CAPITAL OUTLAY						10
11	107,776	68,055	3,492,593	2023010 Urban Renewal Project Reserve			4,324,797	4,324,797		11
12	107,776	68,055	3,492,593	TOTAL CAPITAL OUTLAY			4,324,797	4,324,797		12
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31	135,978	114,961		Ending balance (prior years)						31
32			-	UNAPPROPRIATED ENDING FUND BALANCE						32
33	-	-	3,568,893	TOTAL URBAN RENEWAL REQUIREMENTS	0		4,401,097	4,401,097	-	33

150-504-031 (Rev 12/09)

URBAN RENEWAL DISTRICT RESOURCES

TAXES NECESSARY TO BALANCE BUDGET - the increase in maximum revenue can be determined by estimating the percentage increase in increment captured within the district multiplied by current amount of maximum revenue. The amount of revenue derived from the division of tax is determined by taking the estimated increment value including any increase in value for each tax code area multiplied by its M-50 tax rate. The remaining amount of maximum revenue is equal to the urban renewal levy. The levy amount divided by the city's MAV equals the urban renewal levy rate.

FORM
LB-20

RESOURCES
GLADSTONE
URBAN RENEWAL DISTRICT

	Historical Data				Budget for Next Year 2014-15			
	Actual		Adopted Budget This Year 2013-14	RESOURCE DESCRIPTION	Proposed By Budget Officer	Approved By Budget Committee	Adopted By Governing Body	
	Second Preceding Year 2011-12	First Preceding Year 2012-13						
1	1,971,472	2,705,622	2,705,321	Available Cash On Hand* (cash basis)	3,507,853	3,507,853		1
2	17,099	19,286	16,000	Previously Levied Taxes Estimated to be Received	16,000	16,000		2
3	8,482	13,553	8,500	Interest	13,000	13,000		3
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29	1,997,053	2,738,461	2,729,821	Total resources, except taxes to be levied	3,536,853	3,536,853		29
30			839,072	Taxes estimated to be received	864,244	864,244		30
31	805,938	820,020		Taxes collected in year levied				31
32	2,802,991	3,558,481	3,568,893	TOTAL URBAN RENEWAL RESOURCES	4,401,097	4,401,097	-	32