



City Manager's Office

400 Main Street
Cottage Grove, Oregon 97424

(541)942-5501
Fax (541)942-5125
www.cottagegrove.org
E-mail: citymanager@cottagegrove.org

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Dear Mayor, City Council and Budget Committee:

Attached is the 2020-21 Proposed Budget for your consideration.

As always, the purpose of this budget message is to introduce the Proposed Budget, provide some background information and supply a brief overview of the document and how it will help accomplish City goals in the coming year. I welcome a much more detailed discussion of the budget as the Budget Committee reviews the document.

The 2020-21 Proposed Budget preparation has been the most challenging budget I have ever attempted to compile. It is different from all previous budget processes from the beginning of the preparations to how the Budget Meetings are conducted. The impacts of the coronavirus, the resulting COVID-19 illnesses and the subsequent responses by the Federal, State and local governments and businesses, has created a situation where even the best estimates are totally and completely just guesses. Preparing this Proposed Budget has truly felt like budgeting with a blindfold on.

The timing of the COVID-19 outbreaks, Stay Home orders and economic shut downs came right as we were trying to put together estimates. We have scrambled trying to find accurate estimates of what the impacts the economic shut downs have caused and are continuing to do to our revenues. We have seen a variety of scenarios. Revenue loss estimates range from 12% to over 40%. The duration of the economic losses range from six months to into 2022. Every day brings a different guestimate. Because of this uncertainty, we have taken a number of steps to prepare a flexible budget that will allow some ability to adapt. I believe we have prepared a budget that can work if things go well or if they go bad. We set some basic guiding principles for the creation of this budget:

- Protect our ability to provide the essential services – Police, water, sewer, street operations and the service functions that make sure those services can be provided.
- Assist in jumpstarting our local economy by assisting our local businesses in restarting, having projects that will bring jobs and activity to the community and supporting projects funded with grants and loans.

- Be conservative in our estimates - not too drastic – not too optimistic. Leave some room for potential adjustments during the year.

These principles helped as we made some tough choices and set some priorities. Hopefully, the principles will help us maintain essential services and aid in a faster return to normal.

The 2020-21 Proposed Budget for the City of Cottage Grove is, as required by Oregon Law, a balanced budget. Expenditures for all funds total \$40,265,965 a decrease of \$1,698,005 from the 2019-20 Adopted Budget. The total includes grant and bond funding for projects started in 2019-20 and still under way.

The City's permanent rate continues to be \$7.2087/\$1,000 of assessed value. This Proposed Budget was prepared using the City's full permanent levy amount. The City may levy less than the full rate without jeopardizing future opportunities to levy the full rate. However, the revenue that could be generated cannot be recovered in a future year. The proposed full levy is estimated to generate \$4,663,850 of collectable tax revenue, \$124,140 more than the budgeted property tax revenue in 2019-20. Since we have not heard anything regarding the impact of COVID-19 on assessed values we budgeted only a 2% value increase. We believe this is very conservative and will likely see the full 3% assessed value increase because the assessed value is only 56% of the total Real Market value. Property values would have to take a major reduction to impact the assessed value.

Reductions were estimated in other tax revenue in the General Fund. It is anticipated that delinquent property tax collections will be down about 45% and room tax revenues to be down about 30% in the 2020-21 Budget. We anticipate that the room tax for the current budget year will be below the budgeted amount in the 2019-20 Adopted Budget by about 20%.

To make this Proposed 2020-21 Budget work, several tough decisions had to be made. Some have already been made in the current budget so we can enter the new fiscal year with a little better cash carryover. We issued layoff notices to 20 employees on April 1st (15 part-time and 5 full-time) for layoffs beginning May 2nd. One full-time layoff was rescinded before the layoff date and 7 part-time have returned to work after being off for several weeks. The other laid off positions are the staff at the Library (4 full-time and 6 part-time) and Finance (2 part-time). A number of other vacant positions (summer interns and temporary worker positions in Public Works and Development and Assist. to the City Manager) were frozen and not filled.

The 2020-21 Proposed Budget budgets a reduction in the Library staffing and overall budget by 11%. The reduction allows for a flexible response to revenue shortfalls or closure orders. A slow partial opening could be funded sooner or later a complete reopening could be supported depending on budget and COVID-19 conditions. Current indications lean toward a gradual reopening. But remember this is all a guess.

The other hiring freezes are in place until at least after January. At that time we will have better information and actual revenue collections to be able to decide if the positions would remain empty or be filled.

The 2020-21 Proposed Budget will see the completion of some major infrastructure projects. The most significant will be the completion of the Safe Routes to Schools and Fillmore Storm water project. The Safe Routes to School includes some significant water and wastewater work as well as major storm water work. The construction work should begin shortly in the existing budget and will be carried over into the 2020-21 Budget Year. The \$3,487,237 project will bring money and work into the community that will hopefully assist in the recovery from COVID-19. Additionally, the upgrade project at the Water treatment plant, development of the Wastewater Effluent Retention Pond project, continued interior work at the Armory, various building maintenance projects, manhole lining work and a wealth of other projects will bring the total investment to over \$5 million into the community. These large and small projects will go a long way to assist the restart of our local economy. City Staff is also pursuing other opportunities for grants or State and Federal assistance for infrastructure projects.

City Staff is working with our consultants in preparation of the 2020-25 Utility Rate Plan and draft plan proposes 3% rate increases for water and wastewater operations and improvements. This Proposed Budget is prepared to support a 0% rate increase to aid in the recovery and reduce stress. The proposed 5-year Utility Financial plan that is being prepared will be going before the City Council during the next couple of months. The proposed 3% rate would have resulted in a \$3.12 monthly increase for residential users using 5,000 gallons of water and a typically sized meter.

Staff struggled with this rate increase in light of the COVID-19 crisis. The rate increases would have only generated \$53,100 in the Water Fund, \$44,300 in the Water Reserve Fund, \$48,700 in the Wastewater Fund and \$34,200 in the Wastewater Reserve Fund. The estimated revenue from the increased rates would not have been significant and can be managed. The budget has been prepared with flexibility, we can monitor revenues and then control expenditures, adjustments could be made to the project scope and contingencies or transfers could be reduced.

No other fee or rate increases are proposed in this Budget. During the year the City Council may review and adjust fees or charges but this Budget is not prepared relying on any increased revenues from other fees.

The Building Inspection Fund continues to be a success and the City will be considering a request to provide services to the City of Coburg in addition to Creswell and Veneta which we already serve.

I honestly have to say, I am totally unsure about what the next year will bring. The 2020-21 Budget will have to be closely monitored. We will be closely following revenue trends and the progress of the recovery of the economy. I anticipate that there will need to be adjustments to the budget during the year. However, I am confident that this 2020-21 Proposed Budget provides a basic flexible plan that will be useful as we navigate this uncharted recovery.

As we meet to review this Budget in a virtual environment, please do not feel intimidated by the technology or physical distancing. There is nothing secret about the budget and we want to make this \$40 million budget as easy to understand as possible. If you have any questions, please feel free to call me or the Finance Director. We will get you answers. Please also feel free to ask any questions or express concerns at the Budget Committee meeting.

Thank you to the City Council and members of the Budget Committee for taking your time to participate in the Budget process. We ask a lot of you to review this budget that has taken us a couple of months to create.

Also thank you to staff that helped put this budget together under trying circumstances. Nerves are frazzled, but we got it done.

I look forward to discussing the Proposed Budget and answering questions regarding the Budget document.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard Meyers", with a long, sweeping horizontal line extending to the right.

Richard Meyers
City Manager