



Budget Guide and Manual

A tool to help both internal users and
external readers of the City's budget
document



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Budget Guide Overview

Budget Guide Overview

OVERVIEW

This overview is designed to assist the reader in the use and comprehension of the City of San Milwaukie's budget document which serves as a policy document, a financial plan, an operations guide and a communications device for the City. It is the foundation for the City's allocation of resources toward service delivery plans providing quality services, targeted investments, and continued improvements. It also encapsulates incremental changes addressing service requirements and builds upon initiatives funded in prior years while establishing new direction for program. The budget document is also used to evaluate the effectiveness of City programs and services while providing extensive information on municipal operations.

BUDGET SECTIONS

The budget document is arranged in three general sections and brief description of each section is as follows:

1. Introduction, Message, and General Sections
 - a. City Manager's Budget Message
 - b. City Overview
 - c. Budget Process
 - d. Goals & Priorities
 - e. Financial Policies
 - f. Demographics & Financial Trends
 - g. Personnel

2. Budgets
 - a. Budget Overview
 - b. Budget Detail
 - c. Performance Measures

3. Appendix
 - a. Motions
 - b. Resolutions
 - c. Five Year Financial Forecasts
 - d. Capital Improvement Plan projects
 - e. Fund Reorganization

City Manager's Budget Message – By state law, the budget officer of the City (which is the City Manager in Milwaukie's case) prepares a balanced and proposed budget for the Budget Committee to review. This section includes the City Manager's budget message delivering his proposed budget summarizing the proposed financial plan for the coming budget period.

The budget message is the City Manager's message to the Budget Committee highlighting significant funding changes in the proposed budget from the prior period. The executive summary describes the policies affecting the budget, and presents a summary of the revenues the City will collect, the funds the City will spend, and program changes that have been proposed for service delivery.

The budget message provides the reader with a synopsis of the proposed budget.

City Overview – This section of the budget provides a general overview of the City.

Budget Process – This section summarizes the budget process, how Local Budget Law in the State of Oregon works, and general information on the method of accounting used.

Goals & Priorities – This section shows the high-level goals and priorities that Council has adopted for the coming year that were utilized in developing the proposed budget.

Financial Policies – This section summarizes the financial policies of the City to include policies on reserve levels which are used as targets in developing the proposed budget. A goal of this section is to educate the user on the City of Milwaukie's financial and budget policies

Demographics & Financial Trends – This section highlights the overall demographics of the City and various financial trends.

Personnel – Personnel costs make up the largest portion of the City budget. This section lists all City employee's by position and full-time equivalent (FTE) count.

Budget Overview – This section contains an overall summary of all budgets rolled up city wide. These schedules typically show the prior two budget period actuals, the current year estimate, and the projected budgets for the coming budget period.

Budget Detail – This section contains the detailed budgets by Fund and by Department. They are arranged by the General Fund and its underlying Departments first, then Special Revenue Funds, and then Enterprise Funds.

Appendix – This section is designed to assist the user in locating information within the document or in obtaining additional information. It contains relevant resolutions, Five Year Forecasts, capital improvement projects and a glossary of terms and definitions.

Index of Budget Terms

Index of Budget Terms

Actual – Actual, as used in the fund summaries, revenue summaries and department and division summaries within the budget document, represents the actual financial results. This category is presented on a budgetary basis, and thus excludes full-accrual audit items such as depreciation and amortization.

Ad Valorem Tax – A tax based on the assessed value of a property.

Adopted Budget – Adopted, as used in the fund summaries and department and division summaries within the budget document, represents the final budget approved by the City Council. The adopted budget becomes effective July 1st. Subsequent to adoption; Council may make changes throughout the year.

Approved Budget – Approved, as used in the fund summaries, revenue summaries, represents the proposed budget modified for any changes made by the Budget Committee.

Appropriations – Legal authorization granted by the City Council to spend public funds. Appropriations within each category may not be exceeded.

Assessed Valuation (AV) – The assessed value (AV) set on taxable property as a basis for levying property taxes. A tax initiative passed in 1997 that reduced AV below real market value and set a 3% maximum annual growth rate in the AV, exclusive of certain improvements.

Assets – Resources having a monetary value and that are owned or held by an entity.

Audit – An annual financial report prepared by an independent auditing firm. A comprehensive audit document contains a summary statement of the scope of the audit, explanatory comments concerning any exceptions to generally accepted auditing standards, explanatory comments concerning verification procedures, financial statements and schedules, statistical information, supplemental comments, and any finding or recommendations.

Base Budget – Cost of continuing the existing levels of service in the current budget year. Also referred to as a Status Quo budget.

Beginning Fund Balance – The beginning fund balance is the residual fund balances representing unused funds brought forward from the previous financial year (ending fund balance).

Bond or Bond Issue – Bonds are debt instruments that require repayment of a specified principal amount on a certain date (maturity date), together with interest at a stated rate or calculated variable rate of interest.

Bond Fund – Established to account for bond proceeds to be used only for approved bond projects.

Budget – A budget is a financial operational plan including an estimate of proposed expenditures and the means of financing them. Used without any modifier, the term usually indicates a financial plan for a certain period of time, typically one or two years. In practice, the term budget is used in two ways. Sometimes it designates the financial plan presented for adoption and other times it designates the plan finally approved. It is usually necessary to specify whether the budget under consideration is preliminary and proposed, or whether the appropriating body has approved it.

Budget Calendar – The schedule of key dates which a government follows to prepare and adopt the budget.

Budget Committee – A group comprised of the elected officials plus an equal number of citizens for the purpose of reviewing the proposed budget and recommending changes leading to an approved budget.

Budget Document – A written report showing a government's comprehensive financial plan for a specified period, typically one or two years that includes both capital and operations.

Budget Message – Written explanation of the budget as proposed by the City Manager including the City's financial priorities, policies, and target goals for the coming budget period.

Budget Review Board (BRB) – is an advisory board appointed by the City Council consisting of the five citizen members of the budget committee. The board was established to provide the Council the citizen member's expertise developed during the budget process during the year when the budget committee was not in session.

Budgetary Basis – Budgets are adopted on a basis consistent with Generally Accepted Accounting Principles (GAAP), with the exception that neither depreciation nor amortization is budgeted for proprietary funds and bond principal in the enterprise funds is subject to appropriation.

Capital Budget – The portion of the City budget slated for projects, major repairs, and improvements or additions to the City's capital assets (streets, sidewalks, roads, sewers, storm water, and buildings).

Capital Expenditures – The City defines a capital expenditure as using the following three criteria: (1) relatively high monetary value (equal or greater than \$10,000 per item), (2) long asset life (equal to or greater than 5 years useful life), and (3) results in the creation of a fixed asset, or the revitalization of a fixed asset.

Capital Improvement – A term defined in the ORS 310.410 (10) to include land, structures, facilities, machinery, equipment, or furnishings having a useful life of longer than one year.

Capital Improvement Plan (CIP) – The CIP is a schedule of capital projects including estimated cost and timing. There is a separate CIP for each major infrastructure system in the City, e.g., water, streets, sidewalks, storm water, wastewater, information technology, City facilities and vehicles.

Capital Improvement Project – Any project having improvements of significant value and having a useful life of five years or more. Capital projects include the purchase of land, design, engineering and construction of buildings, and infrastructure items such as streets, bridges, drainage, street lighting, water and sewer systems and master planning.

Capital Outlay – Includes the purchase of land, the purchase or construction of buildings, structures, and facilities of all types, plus machinery and equipment. It includes expenditures that result in the acquisition or addition of a capital asset or increase the capacity, efficiency, span of life, or economy of operating as an existing capital asset. For an item to qualify as a capital outlay expenditure it must meet all of the following requirements: (1) have an estimated useful life of more than one year; (2) have a cost of \$10,000 or more per item; and (3) be a betterment or improvement. Replacement of a capital item is classified as capital outlay under the same code as the original purchase. Replacement or repair parts are classified under materials and services.

Cash Management – Management of cash necessary to pay for government services while investing temporary cash excesses in order to earn investment income. Includes forecasting inflows and outflows of cash, mobilizing cash to improve its availability for investment, establishing and maintaining banking relationships, and investing funds in accordance with the City's investment policy objectives.

Category level – for budget control purposes, categories include personal services, materials and services, capital outlay, debt service, transfers, contingency, reserves and unappropriated.

Charges for Service – Includes a wide variety of fees charged for services provided to the public and other agencies.

Comprehensive Annual Financial Report (CAFR) – The annual audit document publishing the City's financial results including notes, statistics, and the auditor's opinion and comments.

Comprehensive Plan – An official statement of the goals, objectives and physical plan for the development of the city. Contains a narrative of goals, objectives and policies that describe the desired form, nature and rate of city development.

Consumer Price Index (CPI) – A statistical description of price levels provided by the U.S. Department of Labor. The index is used as a measure of the increase in the cost of living (i.e., economic inflation).

Contingency – A budgetary reserve set aside for emergencies or unforeseen expenditures not otherwise budgeted. Contingency may be appropriated for a specific purpose by the City Council upon the approval of a resolution. The City can separate contingencies into those that are designated for specific purposes and undesignated (also see Designated Contingency and Unappropriated Ending Fund Balance).

Cost Center - an organizational budget/operating unit within each City division or department.

Debt Coverage Ratio (DCR) – represents the ratio of “net revenues” available to pay scheduled debt service. A ratio of 1.0 reflects “net revenues” equal to scheduled debt service. A ratio greater than 1.0 reflects “net revenues” in excess of scheduled debt services and a ratio less than 1.0 indicates “net revenue” is less than scheduled debt service.

Debt Service – Principal and Interest on outstanding bonds due and payable during the fiscal year.

Debt Service Fund – Established to account for the accumulation of resources and for the payment of general obligation debt that have been approved by the voters. It would exclude Enterprise Fund debt and contractual obligations accounted for in other individual funds.

Department – The combination of divisions of the City headed by a general manager with a specific and unique set of goals and objectives (i.e., Police, Finance, HR, Fleet, etc.).

Division – A functional unit within a department consisting of one or more cost centers engaged in activities supporting the unit’s mission and objectives.

Divisional level – for budget control purposes, divisional level would include water, street, storm water, and wastewater divisions within the public works department. Other divisions may include the police field services, police administration, and police support services within the police department.

Depreciation – Expiration in the service life of capital assets attributable to wear and tear, deterioration, action of physical elements, inadequacy or obsolescence.

Designated Contingency – Amounts set aside for anticipated non-recurring cash flow needs. Includes items such as moving and remodeling, major building repairs, emergency management and capital project or equipment purchases.

Employee Benefits – Contributions made by a government to meet commitments or obligations for employee-related expenses. Included is the government’s share of costs for social security and the various pension, medical and life insurance plans.

Encumbrance – Amount of money committed and set aside, but not yet expended, for the purchases of goods or services.

Ending Fund Balance – The residual non-restricted funds that are spendable or available for appropriation after the end of the fiscal year, or during the fiscal year, if a state of emergency is declared by the City Manager.

Enterprise Funds – Established to account for operations, including debt service that are financed and operated similarly to private businesses – where the intent is the service is self-sufficient, with all costs supported predominantly by user charges.

Estimated – A projection of the revenue or expenditure, as appropriate, to be recognized during the current fiscal period.

Expenditures – Represents decreases in net financial resources. They include current operating expenses, which require the current or future use of net current assets, debt service, and capital outlay.

Fees – Charges for specific services in connection with providing a service, permitting an activity or imposing fines.

Fiscal Management – A government’s directive with respect to revenues, spending, reserves and debt management as these relate to governmental services, programs and capital investment. Financial policy provides an agreed upon set of principles for the planning and programming of governmental budgets and its funding.

Fiscal Year – A twelve-month period designated as the operating year for accounting and budgeting purposes in an organization. The City of Milwaukie’s fiscal year is July 1 through June 30.

Five Year Financial Forecast – An estimation of revenues and expenses required by the City to operate for the next five year period.

Franchise Fee – Charged to all utilities operating within the City and is a reimbursement to the General Fund for the utility’s use of City streets and right-of-ways.

Full-Time Equivalent (FTE) – A calculation used to convert part-time hours to equivalent full-time positions. Full-time employee salaries are based on 2,080 hours per year. The full-time equivalent of a part-time employee is calculated by dividing the number of hours budgeted by 2,080.

Fund – A fiscal and accounting entity with a self-balancing set of accounts. Records cash and other financial resources together with all related liabilities and residual equities or balances and changes therein. These are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Fund Accounting – an accounting system emphasizing *accountability* rather than *profitability*, used by non-profit organizations and governments. In this system, a *fund* is a self-balancing set of accounts, segregated for specific purposes in accordance with laws and regulations or special restrictions and limitations.

Fund Balance – The net ending balance of a Fund’s financial resources that are spendable or available for appropriation.

General Fund – Primary operating fund of the City. It exists to account for the resources devoted to finance the services traditionally associated with local government.

General Long-term Debt – Represents any unmatured debt not considered to be a fund liability. General Obligation Bonds (G.O. Bonds) are secured by the full faith and credit of the issuer. G.O. bonds issued by local units of government are secured by a pledge of the issuer’s property taxing power. Usually issued to pay for general capital improvements such as parks and City facilities.

Government Finance Officers Association (GFOA) – is the national finance officers organization whose purpose is to enhance and promote the professional management of governments for the public benefit by identifying and developing financial policies and best practices and promoting their use through education, training, facilitation of member networking, and leadership.

Grant – A contribution by one government unit to another. The contribution is usually made to aid in the support of a specified function (i.e., library, transit or capital projects). Infrastructure Public domain capital assets such as roads, bridges, streets, sidewalks and similar assets that are immovable.

Indirect Charges – Administrative and overhead costs that are incurred in one area, but charged to another. These charges are budgeted as interfund transfers.

Indirect Cost Allocation – Funding transferred from one fund to another for specific administrative functions, which benefit those funds.

Interfund Transfers – Appropriation category used in the City’s budget resolution which includes amounts distributed from one fund to pay for services provided by another fund. Transfers from the other funds are appropriated as expenditures.

Intergovernmental Revenues – Levied by one government but shared on a predetermined basis with another government or class of governments.

Levy – Gross amount of property taxes imposed on the assessed value of taxable property. The net amount received by a government will be less than the gross levy as a result of delinquent or uncollectible payments or early payment discounts. Budgets are developed on the basis of the projected amount of property taxes receivable.

Line Item Budget – References the individual account lines of budget, where proposed appropriations are based on individual objects of expense within a department or program.

Local Budget Law – Oregon Revised Statutes (ORS) Chapter 294 dictates local budgeting practices governed by Local Budget Law which regulates the roles, authorities, and process.

Local Improvement District – Consists of a group property owners desiring improvements to their property. Bonds can be issued to finance these improvements, which are repaid by assessments on their property. Local Improvement District debt is paid for by a compulsory levy (special assessment) made against affected properties to spread out the cost of a specific capital improvement or service deemed to benefit primarily those properties.

Local Option Levy – Under Measure 50, local governments and special districts were given the ability to ask voters for temporary authority to increase taxes through approval of a local option levy. The maximum length of time for a local option levy is 10 years for capital purposes or 5 years for operations. A local option levy must be approved by a majority of voters.

Materials and Services – Expendable items purchased for delivery of city services. This classification includes supplies, dues, printing, repairs, small tools acquisitions, and contract services that are not of a capital nature.

Measure 5 – A constitutional limit on property taxes passed by voters in the State of Oregon in November 1990. The new law sets maximum tax rates on individual properties of no more than \$5 per real market value for education taxing districts and \$10 for general government taxing districts.

Measure 47/50 – A 1997 voter approved initiative which rolled back assessed values to 90 percent of their levels in fiscal year FY 1995-96 and limits future annual increases to three percent, except for major improvements. Property tax rates are now considered permanent and not subject to change. Voters may approve local initiatives above permanent rates provided a majority of voters approves.

Mission – Defines the primary purpose of the City and is intended to guide all organizational decisions, policies and activities (internal and external) on a daily basis.

Non-Operating Budget – Part of the budget composed of the following categories: debt service, interfund transfers, capital outlay, contingencies, and unappropriated ending fund balances.

Objective – A target to be accomplished in specific, well-defined and measurable terms, and that is achievable within a specific time frame.

Operating Budget – The plan for current expenditures and the proposed means of financing them. The annual operating budget is the primary means by which most of the financing, acquisition, spending and service delivery activities of a government are controlled. On the expenditure side, it is the part of the budget composed of personal services and materials and services.

Operating Revenue – Funds that the government receives as income to pay for ongoing operations. It includes such items as taxes, fees from specific services, interest earnings and grant revenues. Operating revenues are used to pay for day-to-day services.

Ordinance – A formal legislative enactment by the governing body of a municipality. If it is not in conflict with any higher form of law, such as a state statute or a constitutional provision, it represents the full force and effect of the law within the boundaries of the municipality to which it applies.

Oregon Revised Statutes (ORS) – Oregon’s compilation of state laws including rules of civil procedure.

Outstanding Debt – The balance due at any given time resulting from the borrowing of money or from the purchase of goods and services.

Performance Measure – Data collected to determine how the effectiveness or efficiency of a department, program, or activity is doing in achieving its objectives.

Permanent Tax Rate – Under Measure 47/50, each taxing district such as school districts, city governments, counties, and special districts were assigned a permanent tax rate maximum in fiscal year 1997-98. This permanent tax rate applies to property taxes for core operations. The permanent tax rate for the City of Milwaukie was set at \$6.5379 per \$1,000 of assessed value, reduced each year by CCSD’s tax rate.

Personal Services – Includes the compensation paid to employees plus the City’s contribution for employee benefits such as retirement, social security, health and dental insurance, and workers’ compensation costs.

Program level – for budget control purposes, programs may include library services, community services, administration, finance, human resources, etc.

Property Tax – Based off of the assessed value of property (which in Oregon is much lower than the real market value) times the permanent tax rate and are used as the source of monies to pay general obligation debt and core city services.

Project Manager – The individual responsible for budgeting, managing, and coordinating projects seeing them through to completion.

Proposed Budget – Combines the operating, non-operating, and reserve estimates prepared by the City Manager, then presented to the community and the Citizens Budget Committee for their review, approval, and recommendation to City Council.

Real Market Value (RMV) – The estimated value of property as if it were sold. Within the City, the average real market value exceeds the assessed value by just about one third. This disparity is the result of voter approved tax Measure 47/ 50 passed in 1997.

Resolution – A special or temporary order of a legislative body requiring City Council action. See also Ordinance.

Resources – Represents the total of all revenues, transfers, and beginning fund balances.

Revenues – Funds received by the City from either taxes, fees, and other sources such as grants and interest income.

Revenue Bonds – Bonds payable from a pledged source of revenue such as water revenues, which does not also pledge the taxing authority of the City. Pledged revenues may be derived from operation of the financed projects, grants, utility revenues, or other specified revenue streams.

Special Assessment – A compulsory levy made against certain properties to spread out the cost of a capital improvement or service deemed to be beneficial to said properties.

Special Assessment Bond – A bond issue payable from the payments on special assessments imposed against properties that have been specially benefited by the construction of public improvements such as sidewalks, streets, or sewer systems.

Special Revenue Funds – Established to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

Supplemental Budget – Additional appropriations established to meet needs not anticipated at the time the budget was originally adopted. A supplemental budget cannot increase the tax levy.

Systems Development Charges (SDCs) – Charges paid by developers and builders to fund expansion of infrastructure systems necessary due to increased usage. Such charges are

collected for water, sewer, surface water, streets and parks and are paid by developers and builders as part of the permit process.

Taxes – Compulsory charges levied by taxing districts for the purpose of financing services performed for the common benefit. This term does not include specific charges made against particular persons or property for current or permanent benefits such as special assessments. Neither does the term include charges for services rendered only to those paying such charges, such as water service.

Tax Levy – The total amount of property taxes needed to pay for basic government operations as well as sufficient amounts to pay for principal and interest on voter-approved bond issues.

Tax Rate – The amount of tax levied for each \$1,000 of assessed valuation, which in Oregon, represents about two-thirds of a properties real market value .

Tax Revenue – Represents the funds received from the calculation of the tax rate times all of the property's assessed values.

Transfers – The authorized exchange of cash or other resources between funds that is appropriated along with the other expenditures with the adopted budget.

Trust Funds – Established to administer resources received and held by the City as the trustee or agent for others. Uses of these funds facilitate the discharge of responsibility placed upon the City by virtue of law or other similar authority.

Unappropriated Ending Fund Balance – Represents the portion of the ending fund balance that is not appropriated to be spent in the current year. It must be segregated for future use and is not available for current appropriation or expenditure, except in the event when the City Manager declares an emergency.

User Fees – Charges for services to the specific entity who directly benefits. Often referred to as Charges for Service.

City Overview

City Overview

About

The City of Milwaukie, located within miles of downtown Portland, offers a small town feel with easy access to Portland and regional activities and services. Within the City, residents regularly engage in city activities as board members, volunteers or simply as participants in a myriad of events organized by local residents and organizations. The City's estimated population is 20,920.

Known as the "Dogwood City of the West," Milwaukie's economy is linked with that of the entire Portland Metropolitan area. The downtown area of Milwaukie is undergoing a revival in which new apartments and retail space are under construction and a riverfront park is being developed. Milwaukie is home to Dark Horse Comics International Headquarters, as well as Bob's Red Mill, a modern-day gristmill and natural foods company. There are also two business industrial districts (North Industrial and Milwaukie Business/Industrial) within city limits.

Named as one of the 50 best places to raise a family, Milwaukie provides a clean environment, good transportation, schools and health care, and many cultural opportunities. The Sunday Farmers' Market, Art a la Carte on the first Friday of the month, and the on-going poetry series are just a few of the many cultural offerings in the City. Nearby recreational excitement includes whitewater kayaking on the Clackamas River, fishing, hiking or mountain biking in one of the more than 100 parks in Clackamas County.

Form of Government

The City of Milwaukie has a Council- Manager form of government. The five elected members of City Council act as representatives concentrating on policy issues that are responsive to the community's needs. All powers of the City of Milwaukie are vested in the council except as otherwise specifically provided in the City of Milwaukie Charter of 1975. The Mayor and City Councilors are elected at-large and serve staggered four-year terms. The Mayor presides at official meetings and work sessions. The City Manager is hired to serve and advise the Council and the community in carrying out the Council's policies.

The Milwaukie City Council meets the first and third Tuesday of each month at City Hall. Council meetings are televised live on cable channel 30 and are at various times during the week on online the day after the meetings at <http://cityofmilwaukie.org>.

Services

The City's administration is committed to professionalism, efficiency, and customer service. The City operates its own police department, municipal court, water, wastewater, and stormwater utilities; and provides street operations, planning, building inspections, engineering, community development and library services.

The Clackamas County Fire District #1 provides fire and emergency services and North Clackamas Parks and Recreation District provides parks and recreation services to the community. Milwaukie is within Clackamas County, which is headed by five commissioners and based in Oregon City. Milwaukie is also part of METRO, the tri-county urban services district based in Portland.

History

Milwaukie was founded in 1848 as a rival to the upriver Oregon City by Lot Whitcomb, who named it after Milwaukee, Wisconsin. Some accounts also state that the Oregon Milwaukie used an alternate spelling to prevent confusion at the post office.

Settling on a donated land claim, Lot Whitcomb built a sawmill anticipating that the location (the head of navigation on the Willamette River) would become a source of lumber for the California gold rush. With a partner, he also built a gristmill, and provided flour to the California gold fields. Milwaukie post office was established in 1850, with Whitcomb as the first postmaster.

On November 21, 1850, the first issue of a local newspaper, the Western Star, was published and on January 25, 1851, Lot Whitcomb's stern wheel steamship, the Lot Whitcomb, made its first trip. Milwaukie became a "Port of Delivery" by Congressional Appointment in April of 1851 and in November of 1869 the railroad reached the City. Milwaukie's first circulating library was started in 1889 by Alfred Lewelling.

The City, then also known as the Dogwood City of the West, was incorporated in 1903 in an effort to thwart the ever-present hazard of powder houses built along the railroad and to rectify the miserable conditions of streets and the town site. The original petition, signed by a number of townspeople in 1901 began the actions, and resulted in city status on February 4, 1903. In 1944, after lengthy study of city government forms, the citizens voted for the Council-Manager type of government. Milwaukie was one of the first of Willamette Valley cities to establish an adequate sewage disposal plant and system.

In the year 1950, one hundred years from its founding, Milwaukie was a city of little more than 5,000 people. Within the few intervening years, by orderly annexation and growth, its area and population had increased rapidly.

Budget Process

Budget Process

Budgeting in the City of Milwaukie

The City of Milwaukie prepares and adopts a budget in accordance with its city charter and ORS 294.305 through 294.565. The budget is presented in fund and department categories for a set period of time. Over-expenditures in any category are prohibited and unexpended budget appropriations lapse at fiscal year-end.

Under the City's expenditure limitation, total expenditures cannot exceed the appropriation budget. The budget can be amended during the fiscal year through adoption of a supplemental budget. Supplemental budgets are adopted using public hearings and shall not extend beyond the end of the fiscal year during which they are submitted.

The City Manager has responsibility for management of the overall City budget and maintaining budgetary control at the approved appropriation level. Ongoing review and monitoring of revenues and expenditures is performed by the Finance Department and the respective operating department directors.

Budget Amendments

The budget may be amended during the fiscal year through adoption of a supplemental budget. Supplemental budgets are adopted through the similar process used for the regular budget (including the use of public hearings but excluding Budget Committee meetings) and shall not extend beyond the end of the fiscal year during which they are submitted. Supplemental budgets cannot be used to authorize a tax levy.

By transferring appropriations, the City usually has enough flexibility to carry out the programs prescribed in its adopted budget. There will be times, however, when an adopted budget has no authority to make certain expenditures or when revenues are received for which the City had no prior knowledge. In those cases it is possible to use a supplemental budget to authorize expenditures and/or appropriate additional revenues in the current budget period.

Budget Committee

The Budget Committee consists of the governing body plus the Budget Review Board members, comprised of an equal number of legal voters (citizen members of the budget committee) appointed by the City Council.

Accordingly, Milwaukie has ten budget committee members, and the votes of all members are equal. State law (ORS 294.336) mandates a budget committee for all Oregon local governments. The Budget Review Board also meets periodically throughout the year to review budget and financial information. The first review of the budget occurs when the proposed

budget is presented by the city manager to the full committee; at that time, the budget is publicly available, and the committee begins their review of the budget proposed by the city manager. The committee may approve the proposed budget intact, or change part or all of it prior to final approval.

After notices and publications are filed according to local budget law, the budget is forwarded to the council for formal adoption prior to June 30.

Basis of Budgeting

All of the funds are budgeted using the modified accrual basis of accounting in accordance with budgetary accounting practices. In the modified accrual basis of accounting, revenues are recognized when they become measurable and available.

Measurable means that the dollar value of the revenue is known. Available means that it is collectible within the current period or soon enough after the end of the current period to pay off liabilities of the current period.

Significant revenues that are considered to be measurable and available under the modified accrual basis of accounting are property taxes, franchise fees, and assessment lien installments received within approximately 60 days of the end of the fiscal year. Expenditures are recognized when the liability is incurred, except for interest on general long-term obligations which is recorded when due.

Basis of Auditing

The audit, as reported in the audit document, accounts for the City's finances on the basis of generally accepted accounting principles. Generally accepted accounting principles or GAAP is defined as conventions, rules, and procedures necessary to describe accepted accounting practice at a particular time.

The modified accrual basis of accounting, a GAAP-approved method, is also used in the audit for all funds except for the Proprietary Fund Types (i.e., Water, Wastewater and Stormwater Funds). The audit uses the full-accrual method of accounting for the Proprietary Funds. The Audit shows all of the City's funds on both a budgetary and GAAP basis for comparison purposes.

Budgeting in the State of Oregon

Chapter 294.311, paragraph 5 of Oregon State Law, Oregon Revised Statutes (ORS), defines a budget as:

“A plan of financial operation embodying an estimate of expenditures for a given period or purpose and the proposed means of financing the estimated expenditures.”

Local budget law for local governments is set out in ORS 294.305 to 294.565. Chapter 294.321 defines the six major purposes of local budget law:

“To establish standard procedures for the preparation, presentation, administration and appraisal of budgets of municipal corporations;

To provide for a brief description of the programs of a municipal corporation and the fiscal policy which is to accomplish these programs;

To provide for estimation of revenues, expenditures and proposed taxes;

To provide specific methods for obtaining public views in the preparation of fiscal policy;

To provide for the control of revenues and expenditures for the promotion of efficiency and economy in the expenditure of public funds;

To enable the public, taxpayers and investors to be apprised of the financial policies and administration of the municipal corporation in which they are interested.”

Budget Process Phases & Goals

Phase 1

The City's budget officer (city manager) is responsible for presenting a proposed budget that is balanced and reflects the financial plan for funding all the programs and services planned for the budget period. The budget officer must prepare the proposed budget in a format prescribed by the Oregon Department of Revenue, meeting the requirements set out in Statute.

Goals: Council goal setting; balancing the budget; funding programs, services, and goals; strategic financial planning; preparing a clean, concise, and easy-to read budget that communicates well to citizens.

Phase 2

The Budget Committee reviews and approves the budget. The Budget Committee reviews the proposed budget, listens to comments from citizens, considers any changes, and then approves the budget. Special public notices are required before the budget committee's first meeting.

Goals: Accuracy in current year estimates; prudent financial forecasting; analyses, review and consideration; citizen input; and tax rate determination.

Phase 3

The City Council adopts the budget and certifies property taxes to the county tax assessor. This phase includes a special hearing of the governing body and specific public notices, including a summary of the approved budget. Special forms must also be used to notify the county assessor of the local government's property tax levy.

Goals: Transparent budget process; encourage public participation; certify tax rate; formal adoption of funding for City services prior to July 1.

Phase 4

This phase occurs during the budget period when the local government is operating under the adopted budget. This phase includes changes to the adopted budget. Changes to the adopted budget must be made before additional money is spent or for a different purpose than described in the adopted budget.

Goals: Responsible budget management; monitoring and review; reporting to citizens; budget updates and changes.

Fund Accounting

Fund Accounting

To best understand a City budget in the State of Oregon, one should have a basic understanding of the method of budgeting that is required. This methodology is referred to as Fund Accounting where basically the different functions of municipal operations are accounted for in separate, self-balancing Funds.

Fund Accounting – an accounting system emphasizing *accountability* rather than *profitability*, used by non-profit organizations and governments. In this system, a *fund* is a self-balancing set of accounts, segregated for specific purposes in accordance with laws and regulations or special restrictions and limitations.

The label, *fund accounting*, has also been applied to investment accounting, portfolio accounting or securities accounting – all synonyms describing the process of accounting for a portfolio of investments such as securities, commodities and/or real estate held in an investment fund such as a mutual fund or hedge fund. Investment accounting, however, is a different system, unrelated to government and nonprofit fund accounting.

Overview

Nonprofit organizations and government agencies have special requirements to show, in financial statements and reports, how money is spent, rather than how much profit was earned. Unlike profit oriented businesses, which use a single set of self-balancing accounts (or general ledger), nonprofits can have more than one general ledger (or fund), depending on their financial reporting requirements. An accountant for such an entity must be able to produce reports detailing the expenditures and revenues for each of the organization's individual funds, and reports that summarize the organization's financial activities across all of its funds.

A school system, for example, receives a grant from the state to support a new special education initiative, another grant from the federal government for a school lunch program, and an annuity to award teachers working on research projects. At periodic intervals, the school system issues a report to the state about the special education program, a report to a federal agency about the school lunch program, and a report to another authority about the research program. Each of these programs has its own unique reporting requirements, so the school system needs a method to separately identify the related revenues and expenditures. This is done by establishing separate funds, each with its own chart of accounts.

State and local government funds

State and local governments use three broad categories of funds: *governmental* funds, *proprietary* funds and *fiduciary* funds.

Governmental funds include the following:

- *General* fund. This fund is used to account for general operations and activities not requiring the use of other funds.
- *Special revenue* funds are required to account for the use of revenue earmarked by law for a particular purpose. State and federal fuel tax revenues require special revenue funds, because federal and state laws restrict these taxes to transportation uses.
- *Capital projects* funds are used to account for the construction or acquisition of fixed assets, such as buildings, equipment and roads. Depending on its use, a fixed asset may instead be financed by a special revenue fund or a proprietary fund. A capital project fund exists only until completion of the project. Fixed assets acquired and long-term debts incurred by a capital project are assigned to the government's *General Fixed Assets* and *Long-Term Debts*.
- *Debt service* funds are used to account for money that will be used to pay the interest and principal of long-term debts. Bonds used by a government to finance major construction projects, to be paid by tax levies over a period of years, require a debt service fund to account for their repayment. The debts of special assessment and proprietary funds are serviced within those funds, rather than by a separate debt service fund.
- *Special assessment* funds account for public infrastructure improvements financed by special levies against property holders. Sidewalk and alley repairs often rely on special assessments.

Proprietary funds include the following:

- *Internal service* funds are used for operations serving other funds or departments within a government on a cost-reimbursement basis. A printing shop, which takes orders for booklets and forms from other offices and is reimbursed for the cost of each order, would be a suitable application for an internal service fund.
- *Enterprise* funds are used for services provided to the public on a user charge basis, similar to the operation of a commercial enterprise. Water and sewage utilities are common examples of government enterprises.

Fiduciary funds are used to account for assets held in trust by the government for the benefit of individuals or other entities. The employee pension fund, created by the State of Maryland to provide retirement benefits for its employees, is an example of a fiduciary fund. Financial statements may further distinguish fiduciary funds as either *trust* or *agency* funds; a trust fund generally exists for a longer period of time than an agency fund.

Fixed assets and long-term debts

State and local governments have two other groups of self-balancing accounts which are not considered funds: *general fixed assets* and *general long-term debts*. These assets and liabilities belong to the government entity as a whole, rather than any specific fund. Although general fixed assets would be part of government-wide financial statements (reporting the entity as a whole), they are not reported in governmental fund statements. Fixed assets and long-term liabilities assigned to a specific enterprise fund are referred to as *fund fixed assets* and *fund long-term liabilities*.

Basis of accounting

The accrual basis of accounting used by most businesses requires revenue to be recognized when it is earned and expenses to be recognized when the related benefit is received. Revenues may actually be received during a later period, while expenses may be paid during an earlier or later period. (Cash basis accounting, used by some small businesses, recognizes revenue when received and expenses when paid.)

Governmental funds, which are not concerned about profitability, usually rely on a *modified accrual* basis. This involves recognizing revenue when it becomes both available and measurable, rather than when it is earned. *Expenditures*, a term preferred over *expenses* for modified accrual accounting, are recognized when the related liability is incurred. Proprietary funds, used for business-like activities, usually operate on an accrual basis.

Governmental accountants sometimes refer to the accrual basis as "full accrual" to distinguish it from *modified* accrual basis accounting.

The accounting basis applied to fiduciary funds depends upon the needs of a specific fund. If the trust involves a business-like operation, accrual basis accounting would be appropriate to show the fund's profitability. Accrual basis is also appropriate for trust funds using interest and dividends from invested principle amounts to pay for supported programs, because the profitability of those investments would be important.

Financial reporting

State and local governments report the results of their annual operations in a comprehensive annual financial report (CAFR), the equivalent of a business's financial statements. A CAFR includes a single set of government-wide statements, for the government entity as a whole, and individual fund statements. The Governmental Accounting Standards Board establishes standards for CAFR preparation.

Governments do not use the terms *profit* and *loss* to describe the net results of their operations. The difference between revenues and expenditures during a year is either a *surplus* or a *deficit*. Since making a profit is not the purpose of a government, a significant surplus generally means a choice between tax cuts or spending increases. A significant deficit will result in spending cuts or borrowing. Ideally, surpluses and deficits should be small.

Basis of accounting and financial reporting

The *Report of Consolidated Financial Statements*, used for annual financial reporting (i.e. the audit) by nonprofit organizations, is similar to the CAFR used by state and local governments. However, nonprofit organizations use accrual basis accounting for their funds. A nonprofit's financial statements generally include the following:

- *Statement of financial position* or balance sheet. Similar to the balance sheet of a business, this statement lists the value of assets held and debts owed by the organization at the end of the reporting period.
- *Statement of activities* or *statement of support, revenue and expenses*. This statement resembles the income statement of a business, but uses the terms *excess* or *deficit* rather than *profit* or *loss*. It shows the net results, by each fund, of the organization's activities during the fiscal year reported. The excess or deficit is applied as a change in fund balances, rather than an increase or decrease in owner's equity.
- *Statement of functional expenses* distributes each expense of the organization into amounts related to the organization's various functions. These functions are segregated into two broad categories: *program* services and *supporting* services. Program services are the mission-related activities performed by the organization. Non-program supporting services include the costs of fund-raising events, management and general administration.
- *Statement of Cash Flows* identifies the sources of cash flowing into the organization and the uses of cash flowing out during the reported fiscal year.
- Standards for nonprofit financial statements are set by the Financial Accounting Standards Board.

Budget Calendar

Budget Calendar

<u>Description</u>	<u>Parties</u>	<u>Proposed Date</u>	<u>Latest Date</u>
Council approval of CIP	Council, City Mgr, dept heads	End of Dec	End of Jan
Estimate current year-end revenue and expenditures (ORS 294.361 and 294.352)	Dept heads	End of Jan	Mid-Feb
Review December financials, preliminary year-end estimates, five-year financial projections and budget process with Budget Committee	Dept heads	End of Jan	Mid-Feb
Council Goal Setting	Council with City Mgr	Dec	End of Jan
Requested budget prepared and provided to finance	Dept heads	End of Feb	Mid-Mar
Updates to five-year financial plan, e.g., staffing and other assumptions provided to finance director	Dept heads	End of Feb	Mid-Mar
Dept meetings with City Manager and Finance Director	Dept heads, staff and City Mgr	Mid-Mar	End of Mar
Budget narratives completed	Dept heads	Early April	End of April
Update year-end revenue and expenditure estimates	Dept heads	Monthly	Monthly
Publish "Notice of Budget Committee Meeting" (ORS 294.401)	Finance Dir	Xx days before meeting	Xx days before meeting
Publish "Second Notice of Budget Committee Meeting" (ORS 294.401)	Finance Dir	Xx days before meeting	Xx days before meeting
Provide Proposed Budget (ORS 294.396) and Five-Year Financial Projections to Budget Committee	Finance Dir	End of April	Mid-May
First Budget Committee meeting (ORS 294.401)	Budget Committee, City Mgr and	1 st Council meeting in May	2 nd Council meeting in May

dept heads			
Additional Budget Committee meetings (ORS 294.406)	Budget Committee, City Mgr and dept heads	Week following 1 st Council meeting in May	Week following 2 nd Council meeting in May
Budget Committee approves budget (ORS 294.406)	Budget Committee	Mid-May	End of May
Publish "Notice of Budget Hearing" (ORS 294.413, 416, 418)	Finance Dir	Xx days before meeting	Xx days before meeting
City Council holds public hearing; adopts budget; levies taxes (ORS 294.430, 435)	City Council	1 st Council meeting in June	June 30
Adopted Budget goes into effect	City-wide	July 1	July 1
Adopted Budget submitted to County Assessor and Department of Revenue (ORS 294.555)	Finance Dir	July 1	July 15

Financial Policies

Financial Polices

Purpose

The City of Milwaukie is committed to responsible fiscal management through financial integrity, prudent stewardship of public assets, planning, accountability and full disclosure. The broad purpose of the Fiscal Policies is to enable the City to achieve and maintain a long-term stable and positive financial condition. These policies are adopted by the City Council as the basic framework for overall financial management of the City, to guide day-to-day and long-range fiscal planning and decision making, and to achieve the following general financial goals:

1. Provide an adequate financial base to sustain the desired level of municipal services to maintain the social wellbeing and physical conditions of the City.
2. Deliver cost effective and efficient services to citizens.
3. Provide and maintain essential public facilities, utilities, and capital equipment.
4. Protect and enhance the City's credit rating so as to obtain the lowest cost of borrowing and assure taxpayers and the financial community that the City is well managed and financially sound.
5. Provide the financial stability needed to navigate through economic downturns, adjust to changes in the service requirements of the community and respond to other changes as they affect the City's residents and businesses.
6. Adhere to the highest standards of financial management and reporting practices as set by the Government Finance Officers Association, the Governmental Accounting Standards Board and other professional standards.
7. Fully comply with finance related legal mandates, laws and regulations.

To achieve these goals, fiscal policies generally cover areas of revenue management, operating and capital budgeting, financial planning and forecasting, investment and asset management, debt management, accounting and financial reporting, reserves and internal controls. These policies are reviewed annually by management, the Budget Review Board, and City Council and amended as necessary, as part of the budget process.

Revenue Policies

1. The City will strive for and maintain diversified and stable revenue sources to prevent undue or unbalanced reliance on any one source of funds. Revenue diversity will also reduce risk to the City from short-term fluctuations in any one revenue source.
2. One-time revenues will be used only for one-time expenditures. The City will minimize using temporary revenues to fund continuing programs and services.
3. The City will maximize the use of service and user charges in lieu of ad valorem taxes and subsidies from other City funds, for services that can be identified and where costs are directly related to the level of service provided. The Council may establish fees at

less than “full cost recovery” when deemed in the public interest. The City will periodically and systematically review user fees and charges to take into account the effects of additional service costs and inflation.

4. Unless prohibited by law, City fees may be deferred or waived by the City Manager or City Council action when it can be demonstrated that a direct public benefit will be obtained. In addition, the City Council may direct that City fees, e.g., system development charges, building permit fees, planning fees, be paid on behalf of applicants and City Council’s action will include a determination of the source of funds to pay such fees. Fees that are deferred or waived by the City Manager exceeding \$1,000 will be communicated to the Council.
5. All fees, charges or assessments that are deferred for later payment will be evidenced by a written promissory note or agreement. The City may charge periodic interest, processing fees and additional interest and penalties for delinquencies as appropriate.
6. Water, Wastewater and Stormwater funds will be self-supporting through user fees. Utility rates will be established to fully recover costs, including operation, administration, replacement of assets, capital expansion, with consideration given to return on investment and existing and or anticipated debt to insure a debt coverage ratio of no less than 1.50.
7. Fee adjustments will be based on five-year financial plans that will be reviewed and updated annually.
8. The City Manager shall approve all grant applications before their submission. Additionally, all potential grants that require matching funds, on-going resource requirements, or include new or additional continuing compliance requirements shall be evaluated and considered before submittal of the application. The City Council will be provided the evaluation with the request for their acceptance of the grant.
9. Revenues will be estimated realistically and prudently. Revenues of a volatile nature will be estimated conservatively. The City will estimate its revenues by an objective, analytical process using best practices as defined by the Government Finance Officers Association.

Budget Policies

1. The City will prepare an annual budget with the participation of all departments that incorporates GFOA recommendations relative to budgeting for results and outcomes.
 - a. Determine how much money is available. The budget should be built on expected revenues. This includes base revenues, any new revenue sources, and the potential use of fund balance.
 - b. Prioritize results. The results or outcomes that matter most to citizens should be defined. Elected leaders should determine what programs are most important to their constituents.
 - c. Allocate resources among high priority results. The allocations should be made in a fair and objective manner.
 - d. Conduct analysis to determine what strategies, programs, and activities will best achieve desired results.
 - e. Budget available dollars to the most significant programs and activities. The objective is to maximize the benefit of the available resources.
 - f. Set measures of annual progress, monitor, and close the feedback loop. These measures should spell out the expected results and outcomes and how they will be measured.
 - g. Check what actually happened. This involves using performance measures to compare actual versus budgeted results.
 - h. Communicate performance results. Internal and external stakeholders should be informed of the results in an understandable format.
2. All budgetary procedures will conform to existing state regulations. Oregon budget law requires each local government to prepare a balanced budget and Oregon Administrative Rules state: 1) the budget must be constructed in such a manner that the total resources in a fund equal the total of expenditures and requirements for that fund, and 2) the total of all resources of the entity must equal the total of all expenditures and all requirements for the entity.
3. The budget process will be coordinated so that major policy issues and department goals and objectives are identified and incorporated into the budget. Additionally, the Budget Review Board as established by its charge, shall review the budget of selected departments and/or City functions and shall make recommendations on service levels and the appropriate budget resources necessary to achieve that service level, consistent with its Council approved annual work plan to the full Budget Committee.
4. A cost allocation plan will be developed and incorporated into the City budget. The cost allocation plan will be the basis for distribution of general government and internal service costs to other funds and capital projects.
5. The City Council shall adopt the budget at the fund, departmental or program level as a total dollar amount for all appropriations except contingency, unappropriated ending fund balance and reserves, which shall be stated separately.

6. At a minimum, a mid-year review process will be conducted by the City Manager in order to address any necessary adjustments to the adopted budget.
7. The City will submit the Adopted Budget Document to the Government Finance Officer's Association (GFOA) to obtain the Award for Distinguished Budget Presentation.
8. A budget calendar will be prepared detailing the key elements in the development of the budget. (Please see exhibit 1).

Expenditure Control Policies

1. Expenditures will be controlled through appropriate internal controls and procedures. Management must ensure expenditures comply with the legally adopted budget. Each Department or Division Manager or Director will be responsible for the administration of his/her department/division budget. This includes accomplishing the goals and objectives incorporated into the budget and monitoring each department/division budget for compliance with spending limitations.
2. The City Manager will administer expenditure control at the category level and program or divisional level. Additionally, the City Manager may give authorization to mandate this level of control down to any line item level. Expenditures anticipated to be in excess of these levels require approval of the City Manager, or Finance Director. Any increase in a budget category anticipated to exceed \$50,000 will require City Council approval.
3. All purchases of goods and services must comply with the City's Purchasing Policies, guidelines and procedures and with State laws and regulations.
4. All compensation planning and collective bargaining will include analyses of total cost of compensation, which includes analysis of salary increases, health benefits, pension contributions, and other fringe benefits. The City will only propose operating personnel costs that can be supported by continuing operating revenues.
5. City staff are to make every effort to control expenditures to ensure City services and programs provided to its citizens and taxpayers are cost effective and efficient. Expenditures that will reduce future costs will be encouraged.

Capital Improvement Investment Policies

1. A five-year Capital Improvement Program (CIP) encompassing all City facilities, including utilities infrastructure, buildings and major equipment and vehicles, shall be prepared and updated annually. A public process will be utilized to consider public testimony on the CIP, including review and approval of the CIP by the Citizens Utility Advisory Board (CUAB), Budget Review Board, and the City Council. The five-year CIP will be incorporated into the City's budget and long-range financial planning processes and as such its annual review and approval is anticipated to occur approximately six months, i.e., prior to December 31, prior to the beginning of the subsequent fiscal year. (Please see exhibit 1, Budget Calendar).
2. Projects included in the CIP shall describe the need for the project, the scope of work, total cost estimates, future operating and maintenance costs and how the project and future operations and maintenance will be funded.
3. An objective process, e.g., a rating matrix that includes but is not limited to neighborhood association support for projects within or directly or indirectly impacting a neighborhood association, public safety considerations, engineering, operations, connectivity, inter-departmental and or inter-governmental commitments or requirements, and funding availability, will be established to evaluate and rank CIP projects with respect to each utility and to the overall needs of the City. The ranking of projects will be used to allocate resources to ensure projects are completed effectively and efficiently.
4. Changes to the CIP such as addition of new projects, significant change to the scope of the project or reprioritization of projects will require City Manager or City Council approval.
5. The City will maintain its physical assets at a level adequate to protect the City's capital investment and to minimize future operating maintenance and replacement costs. The City recognizes that deferred maintenance increases future capital costs, thus placing a burden on future residents. Therefore, the CIP will include an orderly and systemic replacement of capital facilities and equipment.
6. The City will establish and fund infrastructure and building reserves adequate to sustain each utility and the City's building facilities. The City will also establish major repairs and replacement reserves to provide stable funding of major repairs and replacements. The reserves will be included and identified as separate components of fund balance in the various funds.
7. The City will utilize "pay-as-you-go" funding for capital improvement expenditures considered recurring, operating or maintenance in nature whenever possible. The City may also utilize "pay-as-you-go" funding for capital improvements when current revenues and adequate fund balances are available or when issuing debt would

adversely affect the City's credit rating or debt terms are unfavorable relative to the benefits derived from the capital improvement.

8. The City will consider the use of debt financing for capital projects and equipment under the following circumstances:
 - a. When the use of debt will result in total project cost savings that exceed borrowing costs.
 - b. When the project's useful life will exceed the terms of the financing.
 - c. When resources are deemed sufficient and reliable to service the long-term debt.
 - d. When market conditions present favorable interest rates for City financing.
 - e. When the issuance of debt will not adversely affect the City's credit rating.

Financial Planning Policies

1. The Finance Department, collaborating with other departments, will prepare a long-term financial plan for each fund to promote responsible planning for the use of resources. The long-term financial plan will include projected revenues, expenditures and reserve balances for the next five years.
2. The City's financial plan should be strategic, reflecting the City Council and community priorities for service while providing resources that fund desired service levels.
3. Long-term projections of revenues and expenditures will be based upon disclosed assumptions, and prepared consistent with best practices established by the Government Finance Officers Association.
4. The five-year financial plan will be integral to the development of the annual budget and will be included in the proposed budget presented to the Budget Committee. (Please see exhibit 1, Budget Calendar).

Economic Development Funding Policies

1. The City may utilize economic development incentives to encourage value-added development and accrue public benefits to the City of Milwaukie. Public benefits may include but are not limited to, the following:
 - a. A benefit that materially enhances the financial position of the City by increasing its employment base or assessed valuation.
 - b. A contribution to the basic infrastructure of the City that is greater than that which would be required of the development alone.
 - c. A benefit that increases access to other public services.
2. Economic development incentives may include formation of improvement or redevelopment districts, reimbursement, deferral of certain fees and charges, use of

discount lease rates or other forms of financial incentives. All such incentives will be evaluated as to the costs, risks and level of benefit as well as the financial impact of such incentives on the City's operating and capital budgets.

3. The fiscal impact evaluation will be presented to City Council along with the City Manager's recommendation. The City Council shall make the final decision concerning proposed economic development incentives including any repayment of incentives if performance requirements are not met.
4. Funding for economic development incentives must be identified before approval of all such incentives.
5. A development incentive shall not be provided if the development does not provide sufficient public benefit or if the cost and risks to the City will have a materially adverse impact on the City's finances or operations.

Pension and Retirement Funding Policies

1. All current pension liabilities shall be funded on an annual basis.
2. In addition to providing pension benefits, the City provides certain health and dental care benefits for retired employees. Funding the liability for future retiree benefits will be determined by City Council action.

Cash Management and Investment Policies

1. The Finance Director or their designee shall invest all City funds according to four criteria, in order of their importance: (1) legality, (2) safety, (3) liquidity, and (4) yield.
2. The City shall maintain and comply with a written Investment Policy that has been approved by City Council.
3. The City will consolidate or pool cash balances from various funds for investment purposes and will allocate investment earnings to each participating fund.
4. The City's investment securities will be protected through third party custodial safekeeping.
5. Quarterly investment reports summarizing investment holdings and compliance with the City's Investment Policy will be prepared and posted on the City's website.

Accounting and Financial Reporting Policies

1. The City will comply with the following accounting and reporting standards:
 - a. Generally Accepted Accounting Principles (GAAP) developed by Governmental Accounting Standards Board,
 - b. Government Accounting, Auditing and Financial Reporting standards prescribed by the Government Finance Officer's Association (GFOA),
 - c. Government Accounting Standards, issued by the Comptroller General of the United States,
 - d. Oregon Revised Statutes relating to Municipal finance, and
 - e. U.S. Office of Management and Budget (OMB) Circular A-133,
2. Monthly financial reports comparing actual to budgeted expenditures will be prepared timely by the Finance Department and posted on the City's website. Reports will be distributed to City Management and the City Council. Significant budget to actual variances will be identified and explained. If an additional appropriation is anticipated, such shall be noted.
3. A system of internal controls and procedures will be maintained to provide reasonable assurance of the safeguarding of assets and proper recording of financial transactions and compliance with applicable laws and regulations.
4. In accordance with State law, a comprehensive financial audit including an audit of federal grants will be performed annually by an independent public accounting firm with the objective of expressing an opinion on the City's financial statements and assessing the accounting principals used and evaluating the internal controls in place.
5. The City will prepare its financial statements and maintain its accounting and internal control systems in accordance with applicable standards with the goal of obtaining an unqualified opinion from its auditors.
6. The City will prepare a Comprehensive Annual Financial Report (CAFR) and submit its CAFR to the GFOA's "Certificate of Achievement for Excellence in Financial Reporting" program.
7. Upon request, all departments will provide notice of all significant events and financial and related matters to the Finance Director for the City's annual disclosures to the municipal markets as required by SEC Regulation 15-C-2-12. Full disclosure will be provided in the financial statements and bond representations. Significant events include delinquencies and defaults related to the City's bonds, adverse tax opinions or events affecting the tax exempt status of bonds, the release, substitutions or sale of property securing repayment of bonds and other events having a significant impact on the City's finances and outstanding bonds. The Finance Director will notify all Nationally Recognized Municipal Securities Information Repositories of these significant events.

8. The City's asset capitalization policy is to capitalize and depreciate assets greater than \$10,000 with a useful life beyond one year. Capital assets costing less than \$10,000 or having a useful life of one year or less will be treated as operating expenditures.

Debt Management Policies

1. The Finance Director will structure all debt issuances and oversee the on-going management of all City debt. Debt includes general obligation bonds, lease purchase obligations, revenue bonds, special assessment obligations, promissory notes, equipment financing agreements and any other contractual arrangements that obligate the City to make future principal and interest payments.
2. No debt shall be issued for which the City has not identified specific revenue sufficient for repayment. The Finance Director shall prepare an analysis of the source of repayment prior to issuance of any debt.
3. The City will not use long-term debt to fund current operations, to balance the budget or to fund projects that can be funded from current resources, unless the use of debt is otherwise determined to be in the best interest of the City.
4. The City may utilize short-term debt or inter-fund loans as permitted, to cover temporary cash flow deficiencies due to timing of cash flows, such as may result from delay in receipting grant proceeds or other revenues and delay in issuance of long-term debt.
5. When issuing long-term debt, the City will ensure that the debt is soundly financed by:
 - a. Incurring debt only when necessary for capital improvements too large to be financed from current available resources,
 - b. Insuring that capital projects financed through long-term debt shall be financed for a period not to exceed the useful life of the project,
 - c. Determining that the benefits of the project financed exceed the cost of financing including interest costs,
 - d. Analyzing the source of repayment, debt coverage ratios and the impact of debt service on annual fixed costs prior to issuance of long-term debt.
6. All bond issuances, promissory notes, and capital leases will be authorized by resolution of the City Council.
7. The City will consider establishing a credit rating when issuing debt in the capital markets and once established maintain or enhance the credit rating.

Reserve Policies

1. The City will maintain sufficient contingency and reserves in each fund for the ability to:
 - a. Maintain a positive fund balance at all times
 - b. Mitigate short-term volatility in revenues
 - c. Mitigate short-term economic downturns (two years or less)
 - d. Absorb unanticipated operating needs that arise during the fiscal year but were not anticipated during the budget process
 - e. Sustain City services in the event of an emergency
 - f. Meet operating cash flow requirements before the collection of property taxes, grant proceeds and other operating revenues
 - g. Absorb unexpected claims or litigation settlements
 - h. Meet major facility and equipment repair and replacement needs
 - i. Meet requirements for debt reserves

2. Reserve amounts for individual funds:
 - a. General Fund - General Fund undesignated reserves are desired to be sufficient to meet expenditure requirements without the use of short-term borrowing. This is anticipated to be approximately twenty-five percent (25%) of General Fund operating expenditures.
 - b. Building Inspection Fund – Building Inspection Fund undesignated reserves are desired to be at least fifty percent (50%, approximately six months) of the operating budget to provide operational stability given the volatility of the revenue sources for this fund.
 - c. Water, Wastewater and Stormwater Funds – The City desires to maintain undesignated operating reserves of at least twenty five percent (25%, or three months) of the operating budget for its utility funds. Additionally, a major capital repair and replacement reserve and capital improvement reserve, are desired to be created and maintained in each fund.
 - d. All other funds –undesignated reserves of at least seventeen percent (17%, or two months) of the operating budget in all other operating funds unless it can be demonstrated that less than 17% is adequate to meet the needs of the each fund are desired.

2. The City may use reserves on a one-time or temporary basis for purposes described above. In the event that reserve funds are presently or decrease to levels below the levels desired by this policy, the City will develop a plan to restore reserves to the desired levels.

Definition of Terms

Budget Review Board (BRB) – is an advisory board appointed by the City Council consisting of the five citizen members of the budget committee. The board was established to provide the Council the citizen member’s expertise developed during the budget process during the year when the budget committee was not in session.

Government Finance Officers Association (GFOA) – is the national finance officers organization whose purpose is to enhance and promote the professional management of governments for the public benefit by identifying and developing financial policies and best practices and promoting their use through education, training, facilitation of member networking, and leadership.

Category level – for budget control purposes, categories include personal services, materials and services, capital outlay, debt service, transfers, contingency, reserves and unappropriated.

Program level – for budget control purposes, programs may include library services, community services, administration, finance, human resources, etc.

Divisional level – for budget control purposes, divisional level would include water, street, storm water, and wastewater divisions within the public works department. Other divisions may include the police field services, police administration, and police support services within the police department.

Capital Improvement Plan (CIP) – The CIP is a schedule of capital projects including estimated cost and timing. There is a separate CIP for each major infrastructure system in the City, e.g., water, streets, sidewalks, storm water, wastewater, information technology, City facilities and vehicles.

Debt Coverage Ratio (DCR) – represents the ratio of “net revenues” available to pay scheduled debt service. A ratio of 1.0 reflects “net revenues” equal to scheduled debt service. A ratio greater than 1.0 reflects “net revenues” in excess of scheduled debt services and a ratio less than 1.0 indicates “net revenue” is less than scheduled debt service.

Oregon Revised Statutes (ORS) – Oregon’s compilation of state laws including rules of civil procedure.

Council Goals & Priorities

Council Goals & Priorities

The Milwaukie City Council meets annually to develop City Council goals. Goals were specifically developed for the immediate fiscal year in Spring 2011. In some cases, goals will continue through 2012.

1. Identify where the \$5 million for light rail comes from by August 30, 2011.
2. Pursue economic development initiatives that:
 - promote small business investment and development that capitalize on making Milwaukie a unique destination
 - promote development of neighborhood-centered commercial centers, including 20-minute walking neighborhoods
 - promote downtown as a special place
 - identify facilities in the City to attract destination events and activities
 - continue to explore the opportunity to bring minor league baseball and secure the ODOT property.
3. Complete a fair wastewater agreement with Clackamas County Service District #1.
4. Develop Riverfront Park by Jan. 1, 2013.
5. Review Public Facilities Study and provide direction for implementation.
6. Develop a plan for consideration of Ledding Library expansion options.
7. Improve collaboration between Council, Boards, Commissions, Committees, and Neighborhood District Associations.
8. Develop the station building with the Light rail line so the building is in place when the Light Rail line opens in Milwaukie.
9. Bring forward cost and scope information to complete Master Plans for Kronberg and Balfour Parks and complete the plan for Kronberg Park by the time light rail opens.

The remaining eleven goals will be prioritized in approximately six months. They are listed in the order that they appear on the earlier draft goal list:

1. Cultivate other avenues of two-way communication between City and citizens.
2. Review the City's boundaries - negotiate with Happy Valley in establishing Milwaukie's eastern border.
3. Council play a greater role in regional bodies.
4. Make the Kellogg Plant a good neighbor.
5. Gather more information on Tree City USA designation and assess current greening efforts.
6. Allocate resources within the Capital Improvement Plan to improve livability in the neighborhoods.
7. Complete Kellogg for Coho Project by Jan. 1, 2016.
8. Develop an intra-city transportation system to coordinate with Light Rail.
9. Move from a reactive to proactive Code Enforcement Program in the City.
10. Address emergency preparedness by developing and implementing a plan of what the City does to prepare and respond to an emergency while assisting City residents to become sufficiently prepared.
11. Decide how the City will care for City parks, open space, median strips and other public area that are the responsibility of the City.

Demographics and Financial Trends

Demographics & Financial Trends

General Economic Information

Milwaukie is located in northwestern Oregon, in the Portland metropolitan area north of Oregon City, in Clackamas County. Clackamas, Multnomah, and Washington Counties are among the five counties that comprise the Portland-Vancouver Primary Metropolitan Statistical Area. The City's economy is linked with that of the metropolitan area, which is based on manufacturing, national and international trade, and service industries.

Population

The City's population historically grew steadily, but in recent years has leveled off. Currently, the city's population is estimated at 20,920. The Portland State Population Research Center estimated zero population growth in Milwaukie between 2009 and 2010.

Consumer Price Index

The Bureau of Labor Statistics for the U.S. Department of Labor tracks the Consumer Price Index (CPI) for most U.S. cities. The CPI is a leading economic indicator that measures inflation, which is central to assessing the cost of living and whether living standards are rising or falling. Percentage growth in wages, products, and services climbed to more than five percent in 1990. Currently, Portland's annual growth rate is about 1.25 percent.

Revenue Trends & Assumptions

The purpose of this section is to describe the City's major revenue sources, explain the underlying assumptions for the revenue estimates, and discuss significant revenue trends. Throughout this budget document, there are revenue trend graphs for the City in total as well as for each of the major fund types. The revenue sources and assumptions used in this budget are summarized below: Of the available revenues anticipated in 2012, 91 percent of the total is represented by five revenue categories: Fees & Charges, Property Taxes, Transfers, Intergovernmental and Franchise Fee revenues. These revenue sources are described in greater detail in the subsequent pages:

Fees & Charges (32%)

Charges for water, waste water, storm water, and street maintenance are charged to all users in the City of Milwaukie. The fees for water, sewer, waster water, storm water, and street maintenance are established through the City fees and charges resolution; this resolution is updated each year. The City Council approves utility rates based on costs to provide services.

Property Taxes (20%)

Milwaukie's permanent tax rate is applied to the projected taxable assessed value of property to generate revenues to support core City operations. The City assumes a 94 percent collection rate for property tax revenue, so the budgeted total amount of property taxes is approximately 94 percent of the total calculated property tax revenue. Taxable assessed values of existing property are limited to an increase of three percent per year; value added to a community via new construction increases the assessed value over the three percent growth rate limited by Measure 50.

The City passed Ordinance No. 1958 in February 2008 following the annexation Ballot Measure 3-166 where the voters authorized the annexation of fire services into Clackamas County Fire District No. 1 (CCFD). This Ordinance reduces the City's permanent tax rate of \$6.5379 per \$1,000 of assessed value by the permanent rate of the Fire District, equating to \$2.4012 offset by their annual bonded debt rate until then existing bonds are paid off in fiscal year 2014-15. Accordingly, the actual property tax rate levied by the City is its permanent tax rate of \$6.5379 less CCFD's permanent rate of \$2.4012 and less CCFD's bonded debt rate.

Intergovernmental (15%)

State revenues are distributed to cities based on state statute, which defines formulas incorporating population and per capita income. The League of Oregon Cities provides the source data for State Revenue Sharing projections. Pursuant to ORS 221.770, the City of Milwaukie must elect to receive its proportionate share of the revenues to be apportioned to the cities by the State of Oregon for the fiscal year. Further, ORS 221.760 provides that cities located in a county having more than 100,000 inhabitants according to the most recent federal decennial census, can disburse state shared revenue funds only if the city provides four or more of the following services: police protection; fire protection; street construction, maintenance, and lighting; sanitary sewer; storm sewers; planning, zoning, and subdivision control; one or more utility services.

Transfers From Other Funds (15%)

Transfers From Other Funds occur when revenues are transferred between funds; revenue is received by a fund providing an internal service from a fund receiving the service, where the cost of the service is shown as an expense. All City services that receive reimbursement charge revenue are consolidated into the General Fund. The amounts that other funds are charged for the reimbursement costs and based on individual metrics identified for each City service. The City calculates inter-fund reimbursement charges when services are provided to another fund. The cost of these services is based on a cost allocation methodology, which assumes that the services provided have value, and that value is shown as a reimbursement amount.

Franchise Fees (9%)

The City of Milwaukie receives franchise fees for the use of public rights of way within the city for utility, solid waste, and recycling collection, and similar purchases. Fees are paid for the right to this access.

Expenditure Trends & Assumptions

The purpose of this section is to describe the City's major expenses, explain the underlying assumptions for the expense estimates, and discuss significant trends. The City of Milwaukie budget includes five requirement categories: Personal Services; Materials & Services; Debt Service; Transfers; and Capital Outlay:

Major Requirements

Seventy percent of total requirements are represented by Personal Services (41 percent) and Materials & Services (29 percent). These requirements relate to the people who provide City services and the materials they need to complete their job requirements. Citywide, budgeted requirements are expected to increase for inflation going forward.

Personal Services (41%)

Citywide, Personal Services budgeted requirements increases from fiscal year 2011 to fiscal year 2012 are attributable primarily to increasing benefits costs.

Materials & Services (29%)

Citywide, Materials & Services budgeted requirements increases over the prior fiscal year are largely an inflationary cost increase over the budget period.

Transfers to Other Funds (14%)

Budgeted transfers represent transfers to account for the support services costs of General Fund departments.

Capital Outlay (11%)

The fiscal year 2012 Capital Outlay budget is relatively the same level from fiscal year 2011.

Debt Service (5%)

Fiscal year 2012 Debt Service requirements are also relatively the same from fiscal year 2011.

Summary of Long Term Financial Planning Processes

The City of Milwaukie prepared a Financial Forecast prior to the development of the budget. The five year model takes into account projected increases and decreases in revenues and expenditures. This information is shared during budget deliberations. Financial forecasts are key to strategizing, studying different financial outcomes, modeling demographic trends, anticipating changes in revenue streams, and forecasting utility rates.

Performance Measures

Performance Measures

We feel that citizens appreciate having an understanding of the drivers of the financial limitations facing the community and of the service levels that they want.

During the past year, the focus on the citywide performance measures effort has been the continued collection of data and improved development on reported measures. The reporting of performance measures help the City:

- Communicate levels of activity by municipal function to its citizens;
- Make performance-informed decisions on how to lead and manage through difficult times;
- Build opportunities for service improvements through collaboration and cooperation between groups with shared roles and missions;
- Demonstrate that city government is making a difference in the lives of its citizens, customers and stakeholders in a way that customers can understand and value.

Key Elements of Performance Measuring

Performance measuring is a process, not a document. The three distinguishing elements of performance measuring are:

- Identification of results to be achieved;
- Strategies for achieving the results; and
- Activities that are being funded because decision makers believe they provide the best value for the public achieving identified results.

To support these elements, the process should incorporate, at minimum:

- A primary focus on the needs of the community. Internal organizational requirements should be funded based on their connection to meeting community needs.
- Decision-making processes informed by evidence related to results, strategies, targets, and the effectiveness of program and service options.
- Reliable performance measures and targets, both at the community needs or organization-wide level and at the program or service level. Measures and targets should help users understand whether performance in the area being measured is getting better, staying the same, or getting worse.
- Regular review of performance measures and evaluation of results.

Organization of this Performance Measure Section

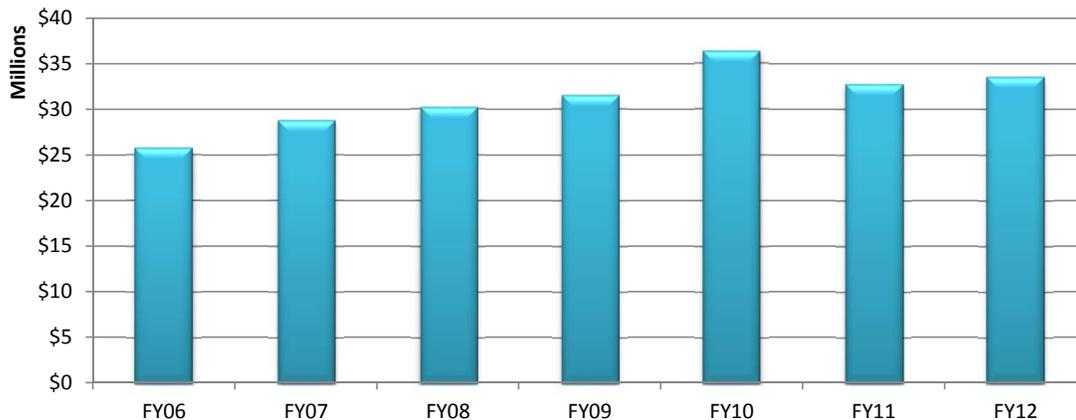
The section starts off with two tables: one for the reporting on full-time equivalent (FTE) employee positions included in the budget and one for the operating costs of each department (expressed in 1,000s). Operating costs of each department are then provided on a “per capita” basis as a function of the City’s population. This information provides the foundation for many of the measures that follow, which are organized by department representing each functional operation offered by the City to the citizens of Milwaukie.

Governmental budget processes result in spending plans that show how resources will be allocated in the coming budget period. Thinking of a budget purely as a spending plan, however, only reveals part of the picture. Performance measuring identifies critical issues and needs, sets performance targets, and aligns spending with objectives by identifying and articulating links between funded activities or programs and the desired results.

Performance Measures

Total Annual Expenditures (in '000s)	FY06	FY07	FY08	FY09	FY10	Projected	
						FY11	FY12
General Fund							
Community Services	\$ 606	\$ 771	\$ 699	\$ 1,006	\$ 903	\$ 647	\$ 908
Code Enforcement	197	203	209	275	238	177	196
Public Access Studio	65	73	100	53	70	87	112
Police Administration	322	360	361	376	454	444	505
Police Field Services	5,217	5,156	5,756	6,470	6,602	4,669	5,397
Police Support Services	388	383	419	440	414	290	349
Planning Services	466	549	736	829	802	519	579
Municipal Court	29	33	55	40	157	363	395
City Council	44	51	49	55	50	42	51
City Manager	229	264	285	562	584	440	524
City Attorney	291	186	203	386	300	-	-
Human Resources	251	265	282	308	285	298	356
Finance	405	433	402	478	527	677	759
Records and Info Mgmt	507	540	578	673	639	385	408
Information Systems Tech	749	823	872	943	950	1,281	1,043
Community Dev & PW Admin	780	894	1,255	1,415	1,582	1,145	1,481
Engineering Services	664	706	675	735	799	529	617
Fleet Services	1,406	1,744	2,161	1,964	2,060	1,145	780
Facility Management	963	1,132	1,264	1,523	1,396	1,025	1,174
Non-Departmental	662	1,700	1,647	327	241	1,440	1,056
	14,241	16,266	18,008	18,858	19,053	15,603	16,690
Library Fund	1,640	1,611	1,811	1,995	2,246	2,161	2,343
Building Inspections Fund	304	307	322	360	268	223	252
Transportation Fund	1,895	2,431	2,572	2,387	2,862	2,910	2,760
Water Fund	2,548	2,522	2,368	2,833	2,597	2,496	2,596
Wastewater Fund	3,049	3,642	3,644	3,375	7,291	7,736	6,660
Stormwater Fund	1,570	1,471	1,322	1,368	1,576	1,527	1,823
Systems Development Charges Fund	499	519	177	383	499	123	454
	\$25,746	\$28,769	\$30,224	\$31,559	\$36,392	\$32,779	\$33,578

Total Expenditures City-Wide

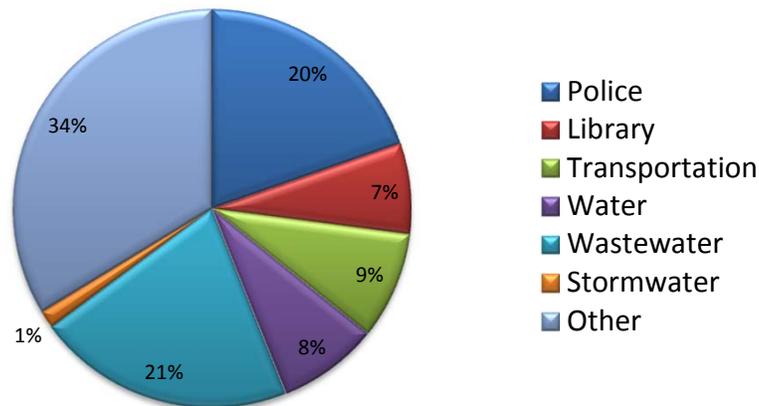


Performance Measures

Population	FY06	FY07	FY08	FY09	FY10	Projected	
						FY11	FY12
City of Milwaukie population	20,835	20,920	20,915	20,920	20,930	20,940	20,950

Monthly Expenditures per Capita	FY06	FY07	FY08	FY09	FY10	Projected	
						FY11	FY12
General Fund							
Community Services	\$ 2.42	\$ 3.07	\$ 2.79	\$ 4.01	\$ 3.60	\$ 2.57	\$ 3.61
Code Enforcement	0.79	0.81	0.83	1.10	0.95	0.70	0.78
Public Access Studio	0.26	0.29	0.40	0.21	0.28	0.35	0.45
Police Administration	1.29	1.43	1.44	1.50	1.81	1.77	2.01
Police Field Services	20.87	20.54	22.93	25.77	26.29	18.58	21.47
Police Support Services	1.55	1.53	1.67	1.75	1.65	1.15	1.39
Planning Services	1.86	2.19	2.93	3.30	3.19	2.07	2.30
Municipal Court	0.12	0.13	0.22	0.16	0.63	1.44	1.57
City Council	0.18	0.20	0.20	0.22	0.20	0.17	0.20
City Manager	0.92	1.05	1.14	2.24	2.33	1.75	2.08
City Attorney	1.16	0.74	0.81	1.54	1.19	-	-
Human Resources	1.00	1.06	1.12	1.23	1.13	1.19	1.42
Finance	1.62	1.72	1.60	1.90	2.10	2.69	3.02
Records and Info Mgmt	2.03	2.15	2.30	2.68	2.54	1.53	1.62
Information Systems Tech	3.00	3.28	3.47	3.76	3.78	5.10	4.15
Community Dev & PW Admin	3.12	3.56	5.00	5.64	6.30	4.56	5.89
Engineering Services	2.66	2.81	2.69	2.93	3.18	2.11	2.45
Fleet Services	5.62	6.95	8.61	7.82	8.20	4.56	3.10
Facility Management	3.85	4.51	5.04	6.07	5.56	4.08	4.67
Non-Departmental	2.65	6.77	6.56	1.30	0.96	5.73	4.20
	56.96	64.79	71.75	75.12	75.86	62.09	66.39
Library Fund	6.56	6.42	7.22	7.95	8.94	8.60	9.32
Building Inspections Fund	1.22	1.22	1.28	1.43	1.07	0.89	1.00
Transportation Fund	7.58	9.68	10.25	9.51	11.40	11.58	10.98
Water Fund	10.19	10.05	9.44	11.29	10.34	9.93	10.33
Wastewater Fund	12.20	14.51	14.52	13.44	29.03	30.79	26.49
Stormwater Fund	2.00	2.07	0.71	1.53	1.99	0.49	1.81
	\$ 96.70	\$ 108.74	\$ 115.16	\$ 120.26	\$ 138.62	\$ 124.37	\$ 126.31

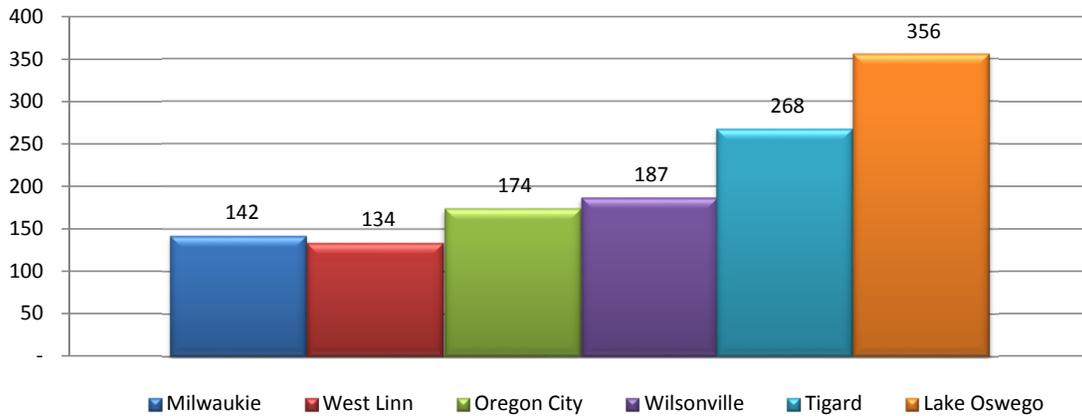
Where Does the Money Go?



Full Time Equivalent (FTEs)

Full Time Equivalent (FTEs)	FY06	FY07	FY08	FY09	FY10	Projected	
						FY11	FY12
General Fund							
Community Services	3.00	3.00	3.00	3.00	2.90	2.90	3.00
Code Enforcement	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Police Administration	2.00	2.00	2.00	3.00	3.00	3.00	3.00
Police Field Services	33.50	31.00	34.50	35.50	34.50	34.50	34.50
Police Support Services	4.00	4.00	4.50	4.50	4.00	4.00	4.50
Planning Services	3.00	4.00	5.00	5.00	5.00	5.00	5.00
Municipal Court	-	-	-	3.00	3.00	3.00	3.00
City Council	-	-	-	-	-	-	-
City Manager	1.00	1.00	1.00	1.00	1.50	2.00	2.00
Human Resources	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Finance	5.00	4.00	4.00	4.00	5.30	5.30	6.00
Records and Info Mgmt	6.50	6.50	7.00	5.00	4.00	4.00	3.50
Information Systems Tech	4.00	4.00	5.00	4.00	4.00	4.00	4.00
Community Dev & PW Admin	6.50	7.47	10.72	11.75	12.00	12.00	12.00
Engineering Services	5.00	5.00	5.00	5.00	5.50	5.50	5.50
Fleet Services	5.25	6.00	5.50	6.75	6.00	5.50	3.00
Facility Management	1.75	2.00	1.50	2.00	2.67	2.67	2.67
	84.50	83.97	92.72	97.50	97.37	97.37	95.67
Library Fund	13.47	13.98	14.16	19.25	18.89	18.89	19.76
Building Inspections Fund	2.00	2.20	2.00	2.00	2.00	2.00	2.00
Transportation Fund	6.00	6.00	5.50	5.50	6.30	6.30	6.30
Water Fund	6.34	6.34	5.84	5.84	6.30	6.30	7.30
Wastewater Fund	4.83	4.83	5.33	5.33	5.00	5.00	5.00
Stormwater Fund	5.83	5.83	5.33	5.33	5.80	5.80	5.80
	122.97	123.15	130.88	140.75	141.66	141.66	141.83

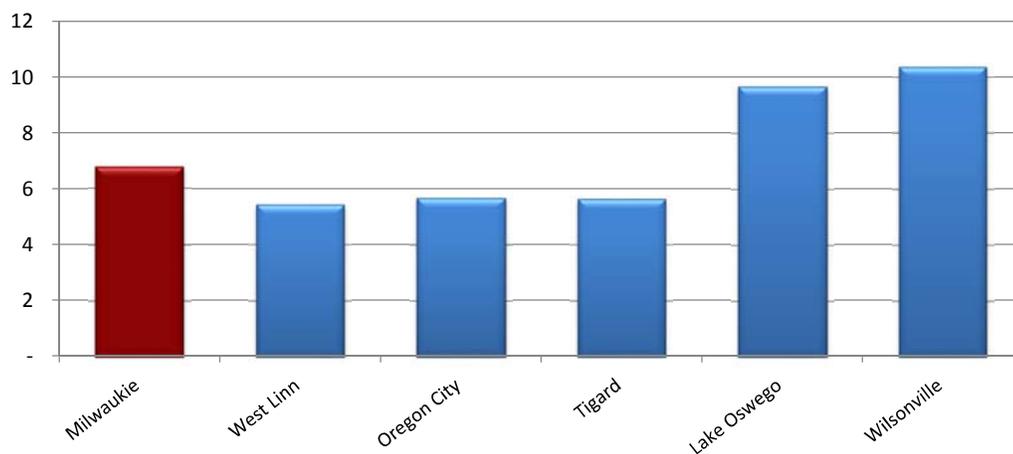
Full Time Equivalents (FTEs) by City



Full Time Equivalents (FTEs) by City

	Full Time Equivalents (FTEs) by City					
	Milwaukie	West Linn	Oregon City	Wilsonville	Tigard	Lake Oswego
Service Departments						
Building Inspections	2.00	4.00	7.96	5.10	6.24	7.20
Code Enforcement	2.00	-	5.64	-	-	-
Engineering	5.50	5.00	3.15	10.00	13.40	19.50
Library	19.76	16.63	13.51	16.26	45.80	35.70
Municipal Court	3.00	3.50	4.00	2.00	3.50	3.50
Parks and Recreation	-	22.40	30.52	7.00	10.00	57.70
Planning	5.00	6.50	-	7.50	8.56	18.30
Public Safety - Police	42.00	35.00	46.00	18.00	90.10	69.00
Utility - Streets/Transportation	6.30	5.00	8.55	3.75	7.00	4.80
Utility - Water	7.30	5.00	12.50	11.58	14.00	18.70
Utility - Sewer/Wastewater and Storm	10.80	5.00	17.15	14.00	12.25	14.20
	103.66	108.03	148.98	95.19	210.85	248.60
Support Departments						
City Attorney	-	-	-	3.00	-	4.00
City Manager's Office	2.00	2.80	2.00	6.00	5.00	10.50
City Recorder	3.50	2.00	2.00	-	3.25	1.00
Comm Dev / PW Administration	12.00	5.00	5.16	13.00	13.75	1.50
Community Services	3.00	-	-	8.00	3.05	2.00
Economic Development	-	-	1.00	-	-	4.00
Facilities Management	2.67	1.00	-	4.25	4.00	3.00
Finance and Risk Management	6.00	6.50	12.44	8.90	9.60	13.70
Fleet/Vehicle Maintenance	3.00	2.00	-	7.00	2.60	3.00
Human Resources	2.00	2.50	2.19	2.85	5.00	3.00
Information Technology	4.00	3.00	0.50	3.00	10.50	9.50
	38.17	24.80	25.29	56.00	56.75	55.20
Common Full Time Equivalents (FTEs)	141.83	132.83	174.27	151.19	267.60	303.80
Unique Services						
Transit/Bus Service	-	-	-	35.69	-	-
City Fire Department	-	-	-	-	-	52.00
Total unique services:	-	-	-	35.69	-	52.00
Full Time Equivalents (FTEs)	141.83	132.83	174.27	186.88	267.60	355.80
Population	20,920	24,500	30,710	18,020	47,595	36,755
FTE per Capita (per 1,000 of Population)	6.78	5.42	5.67	10.37	5.62	9.68

Full Time Equivalents (FTEs) per Capita (per 1,000 Population)



Transfers

Transfers

Relevant Definitions

Fund – A fiscal and accounting entity with a self-balancing set of accounts. Records cash and other financial resources together with all related liabilities and residual equities or balances and changes therein. These are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Fund Accounting – an accounting system emphasizing *accountability* rather than *profitability*, used by non-profit organizations and governments. In this system, a *fund* is a self-balancing set of accounts, segregated for specific purposes in accordance with laws and regulations or special restrictions and limitations.

Transfers – The authorized exchange of cash or other resources between funds that is appropriated along with the other expenditures with the adopted budget. Transfers are necessary in a Fund Accounting system in order to balance each Fund on its own. It is a system used to allocate indirect costs that other Funds (i.e. General Fund) pay for on behalf of a particular Fund's operations.

Activity-Based Costing (ABC) – a transfer costing model that identifies overhead and/or indirect activities (i.e., the departments within the General Fund) in an organization and assigns the cost of each activity to the other departments according to the actual consumption and utilization for the purposes of allocation.

Discussion

In the private sector, the ABC methodology assigns an organization's indirect costs through activities to the products and services provided to its customers. It is generally used as a tool for understanding product and customer cost and profitability. As such, ABC has predominantly been used to support strategic decisions such as pricing, outsourcing, identification and measurement of process improvement initiatives.

In the governmental sector, the ABC methodology can be utilized in a similar manner to allocate indirect costs gathered in the General Fund or other Internal Service Funds, and charge the various other Funds as a more efficient way to determine each Fund's reimbursement transfer that is due to the General Fund. For example, using the ABC methodology, one might allocate the costs of the HR Department in the General Fund out to the other funds based upon the number of FTEs that each of these other Funds are home to. FTEs may be used to in this case under the theory that HR Department costs are more of a function of personnel issues that drive their costs, rather than simply based upon relative budget size as other traditional allocation methods have used.

The City of Milwaukie adopted the ABC methodology to support its transfer system with the FY 2011-12 budget period. This system of transfers as represented in the attached summarized spreadsheet, allocates the City's indirect overhead costs incurred within the General Fund to the other seven (7) Funds that are outside of the General Fund, so that, (1) all Funds can be balanced on their own and (2) the financial activity within each Fund is a true reflection of all direct costs as well as indirect costs of the function.

City of Milwaukee - Finance Department
Activity Based Costing (ABC) Allocation of Transfers

Activity-Based Costing (ABC) is a costing model that identifies overhead and/or indirect activities (i.e., the department within the General Fund) in an organization and assigns the cost of each activity to the other departments according to the actual consumption and utilization for the purposes of allocation.

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This spreadsheet shows the City of Milwaukee's allocation of General Fund's costs in such a way that utilizes the ABC methodology allocating the City's indirect overhead costs to other Funds based upon criteria which best drives these costs.

General Fund budgets	Description of Cost Driver used to allocate	General Fund's portion of costs			Total recalibrated transfers to General			Library			Building Inspections			Transportation			Water			Wastewater			Stormwater		
		Cost Driver	Unallocated cost		Cost Driver	Allocated cost		Cost Driver	Allocated cost		Cost Driver	Allocated cost		Cost Driver	Allocated cost		Cost Driver	Allocated cost		Cost Driver	Allocated cost		Cost Driver	Allocated cost	
General Fund - Community Services	\$ 834 No. of FTEs	97	69%	573	44	31%	260	18.89	13%	111	2	1%	12	6.3	4%	37	6.3	4%	37	5	4%	29	5.8	4%	34
General Fund - Code Enforcement	189 No. of FTEs	97	69%	130	44	31%	59	18.89	13%	25	2	1%	3	6.3	4%	8	6.3	4%	8	5	4%	7	5.8	4%	8
General Fund - Public Access Studio	112 No. of FTEs	97	69%	77	44	31%	36	18.89	13%	15	2	1%	2	6.3	4%	5	6.3	4%	5	5	4%	4	5.8	4%	5
General Fund - Police Administration	379 No. of FTEs	97	100%	379																					
General Fund - Police Field Services	5,763 No. of FTEs	97	100%	5,763																					
General Fund - Police Support Services	326 No. of FTEs	97	100%	326																					
General Fund - Planning	569 No. of FTEs	97	79%	451	25	21%	117	-	0%	-	2	2%	9	6.3	5%	29	6.3	5%	29	5	4%	23	5.8	5%	27
General Fund - Municipal Court	399 No. of FTEs	97	79%	316	25	21%	81	-	0%	-	2	2%	6	6.3	5%	20	6.3	5%	20	5	4%	16	5.8	5%	19
General Fund - City Council	51 No. of FTEs	97	69%	35	44	31%	16	18.89	13%	7	2	1%	1	6.3	4%	2	6.3	4%	2	5	4%	2	5.8	4%	2
General Fund - City Manager	610 No. of FTEs	97	69%	419	44	31%	191	18.89	13%	81	2	1%	9	6.3	4%	27	6.3	4%	27	5	4%	22	5.8	4%	25
General Fund - Human Resources	310 No. of FTEs	97	69%	213	44	31%	97	18.89	13%	41	2	1%	4	6.3	4%	14	6.3	4%	14	5	4%	11	5.8	4%	13
General Fund - Finance	761 Total Budget	21,898	55%	417	18,093	45%	345	2,000	5%	38	325	1%	6	3,941	10%	75	2,655	7%	51	6,130	15%	117	3,042	8%	58
General Fund - Records and Info Mgmt	427 No. of FTEs	97	69%	293	44	31%	133	18.89	13%	57	2	1%	6	6.3	4%	19	6.3	4%	19	5	4%	15	5.8	4%	17
General Fund - Info. Systems & Tech	1,049 No. of Computers	199	78%	822	55	22%	229	28	11%	116	4	2%	17	6	2%	25	7	3%	29	5	2%	21	5	2%	21
General Fund - Community Development	1,308 Functions served	3	30%	392	7	70%	917	-	0%	-	-	0%	-	2	20%	262	2	20%	262	2	20%	262	1	10%	131
General Fund - Engineering	763 Functions served	1	20%	153	4	80%	612	-	0%	-	-	0%	-	1	20%	153	1	20%	153	1	20%	153	1	20%	153
General Fund - Fleet Services	672 No. of Veh/Equip	71	50%	334	72	50%	339	-	0%	-	2	1%	9	23	16%	108	18	13%	85	11	8%	52	18	13%	85
General Fund - Facilities Management	1,131 Sq ft ('000)	54	78%	881	15	22%	250	12	17%	196	0.37	1%	6	0.68	1%	11	0.93	1%	15	0.68	1%	11	0.68	1%	11
General Fund - Non-Departmental	867 Claims areas	1	33%	284	2	67%	582	0.05	2%	14	-	0%	-	0.50	16%	142	0.50	16%	142	0.50	16%	142	0.50	16%	142
	<u>\$ 16,520</u>			<u>12,258</u>			<u>4,264</u>			<u>701</u>			<u>90</u>			<u>937</u>			<u>898</u>			<u>887</u>			<u>751</u>
	Misc adjustment to actual			-			(64)			30			(64)			23			42			79			46
	Recalibrated Transfer amount			<u>12,258</u>			<u>4,200</u>			<u>731</u>			<u>26</u>			<u>960</u>			<u>940</u>			<u>966</u>			<u>797</u>

Fund Reorganization

The Great Reorg of 2011
[pursuant to GASB Pronouncement No. 54]

Fund
No.

1. **GENERAL FUND**

Library Services Department → Moved to Library Fund
Community Services Department
Code Enforcement Department
Public Access Studio Department
Police Administration Department
Police Field Services Department
Police Support Services Department
Planning Services Department
Municipal Court Department

City Council Department
City Manager's Department
Human Resources Department
Finance Department
Records and Information Management Dept.
Information Systems Technology Department

} Moved here - previously budgeted
in Administrative Services Fund

Community Development & Public Works Admin
Engineering Services Department
Fleet Services Department
Facilities Management Department
Nondepartmental

} Moved here - previously budgeted
in separate Internal Services
Funds

2. **LIBRARY FUND**

3. **BUILDING INSPECTIONS FUND**

4. **TRANSPORTATION FUND**

Street/Surface Maintenance Program ↑
State Gas Tax
Street Capital and Reserve
Bike Path

Combined into one dedicated Fund

- 5. **WATER FUND**
Water
Water Reserve and Capital ↑ Combined into one dedicated Fund

- 6. **WASTEWATER FUND**
Wastewater
Wastewater Reserve and Capital ↑ Combined into one dedicated Fund

- 7. **STORMWATER FUND**
Stormwater
Stormwater Reserve and Capital ↑ Combined into one dedicated Fund

- 8. **SYSTEMS DEVELOPMENT CHARGES FUND**
Transportation SDCs
Water SDCs
Wastewater SDCs
Stormwater SDCs ↑ Combined into one dedicated Fund

CLOSED on 6/30/11

- Public Safety Debt Service Fund (paid off 20yr debt)
- Pension Debt Service Fund (merged into Non-Departmental)
- Administrative Services Fund (moved under General Fund)
- Internal Services Funds (moved under General Fund)
- Fleet Services Reserve Fund (merged into Fleet Services)
- Knutson Pioneer Cemetery Fund (merged into Non-Departmental)
- Library Endowment Fund (merged into Library Services)
- Forfeiture Fund (merged into Police Field Services)

CLOSED IN FY 2009-10

- Computer Reserve Fund (merged into IST Dept)
- Neighborhood Grants Fund (merged into Non-Department)
- Street Capital and Reserve (merged into State Gas Fund)

White Paper on Biennial Budgeting

White Paper on Biennial Budgeting

Executive Summary

The number of local governments adopting biennial budgeting has increased over the past 20 years. In so doing, many of these governments have improved their financial, budget, and strategic planning practices and processes. These governments also have improved the linkage between their various management and financial policy documents and the budget document. Additionally, these governments have benefited from a reduction in staff time allocated to budget development by placing a greater emphasis on achieving longer-term goals and objectives.

Background on Biennial Budgeting

Vice President Al Gore's *National Performance Review* endorses a national biennial budget to eliminate "busy work" that prevents "evaluating programs and meeting customer needs."

The State of Oregon budgets on a two-year basis, focusing on long-term financial planning. The 2001 Oregon Legislature revised Local Budget Law to allow local taxing districts to budget either on a one-year (fiscal year) or a two-year (biennial) budget period. Since 2002, counties, cities and other agencies have had the ability to match the State's two-year budget period if they prefer and many have moved in that direction. Cities that are currently budgeting on a two-year basis include the City of Ashland, City of Medford, City of Vancouver, City of Sandy, City of West Linn, and City of Bend, while others have indicated their intent to move to biennial budgeting such as the City of Oregon City.

Historically, the City of Milwaukie has budgeted on a fiscal year basis, focusing on just one year at a time. During the FY 2012 budget process, the City completed its first Five Year Financial Forecast, made possible by an intensive fund and account reorganization. This Five Year Financial Forecast is indicative of the City's move towards a long-term financial focus. Additionally, the City is working to improve overall transparency and communication value that can be captured through narratives and other departmental and city-wide information in a budget document.

Benefits and Drawbacks of Biennial Budgeting

Biennial budgeting offers many benefits but is also accompanied by drawbacks. Some contend that the effort may outweigh the benefits but as a whole, converting to biennial budget offers efficiencies in the long-range financial planning process.

Benefits:

- Credit agencies look very favorably during an upgrade request on agencies that plan longer term with five-year projections and two-year budgets.
- Biennial budgeting is said to be more conducive to long-term planning, program review, and evaluation as more time is available.
- Streamlines committed resources to every two years instead of every year.
- Allows the Budget Committee to dig into issues during the years they don't have to help craft the budget while still preserving the ability to offer annual updates on budget estimates and annual reports as requested by City Council.
- Allows the City Finance Department to concentrate on other improvements in City finances during the years where the budget process does not need to be done.
- Promotes sustainability in government with less frequent use of paper and other resources including printing and advertising costs.
- Allows project flexibility in project timing within the biennium period.

Drawbacks:

- Conversion work must be performed in the first year including updating budget templates to accommodate the two-year model, updating annual financial reports to allow for the biennial budget model, changing Budget Committee member terms to 4 years, and Council committing to the biennial budget model.
- Unstable local economies and/or revenue streams may present difficulties in forecasting and reacting to changing trends.
- Some believe that the longer the budget period, the less opportunity exists to influence and provide input into the City finances.

- Tax rates approved during the budget adoption process cannot be increased during the biennium period (although a permanent rate system in Oregon, this often is a moot point).
- Creates a greater need for Budget Committee to meet periodically, hold hearings, and adjust budgets for changing circumstances.

Debt Service and New Bond Proceeds

With the longer two-year period of time involved with biennial budgeting, what happens to new debt service and bond proceeds that may be sold when they were not anticipated during the budget preparation? Just like with annual budgets, if new bonds are approved by voters and sold during the budget period (whether annual or biennial), debt service need not be budgeted during the same period. Also, if new bonds are approved and proceeds expended during the same budget period (whether annual or biennial), expenditure of the proceeds need not be budgeted either.

Sample Budget Documents

How would the budget document change with biennial budgeting and will annual numbers still be available for trend review? Like annual budgets, biennial budgets have a similar layout and sections to include:

- City Manager's (Budget Officer's) message
- Budget process, calendar, and basis of accounting
- Appropriation limitation and categories by Fund and Department
- Financial and reserve policies
- Departmental measures, accomplishments, plans, and goals
- Revenue and expenditure analysis and assumptions
- Longer-term financial forecasts

In regards to the concern of whether annual numbers will no longer be available for review, the budget document can reflect both annual and biennial amounts. Below is an example of what this would look like in the first biennium:

FISCAL YEAR FORMAT:

	Actual	Actual	Budget	Estimate	FY 2013		
	FY 2010	FY 2011	FY 2012	FY 2012	Proposed	Approved	Adopted
Requirements							
Personal Services	\$ 12,064	\$ 12,567	\$ 14,000	\$ 13,671	\$ 14,500		
Materials & Services	8,292	8,637	10,000	9,823	10,500		
Debt Service	1,911	1,991	1,575	1,519	1,600		
Operations before other items	22,267	23,195	25,575	25,013	26,600		

BIENNIUM FORMAT (1st Biennium):

	Actual	Actual	Budget	Estimate	Proposed Biennial Budget		
	FY 2010	FY 2011	FY 2012	FY 2012	FY 2013	FY 2014	Total
Requirements							
Personal Services	\$ 12,064	\$ 12,567	\$ 14,000	\$ 13,671	\$ 14,500	\$ 15,000	\$ 29,500
Materials & Services	8,292	8,637	10,000	9,823	10,500	10,700	21,200
Debt Service - Series 2000	1,911	1,991	1,575	1,519	1,600	1,700	3,300
Operations before other items	22,267	23,195	25,575	25,013	26,600	27,400	54,000

BIENNIUM FORMAT (2nd Biennium):

	Actual	Actual	BN 2014			Budget	BN 2016			
			Actual	Estimate	Total		BN 2014	Proposed Biennial Budget		
								FY 2015	FY 2016	Total
Requirements										
Personal Services	\$ 12,567	\$ 13,671	\$ 14,218	\$ 14,787	\$ 29,004	\$ 29,500	\$ 15,378	\$ 15,993	\$ 31,371	
Materials & Services	8,637	9,823	10,216	10,625	20,840	21,000	11,050	11,492	22,541	
Debt Service	1,991	1,519	1,580	1,643	3,223	3,300	1,709	1,777	3,486	
Operations before other items	23,195	25,013	26,014	27,054	53,068	53,800	28,136	29,262	57,398	

Sample Quarterly Report

Quarterly reports can also be formatted to continue illustrating fiscal year amounts for annual trending purposes while still showing comparison against biennial budget totals. Below is an example of how a quarterly budget-to-actual financial report can be formatted using biennial budget totals:

SAMPLE FORMAT OF QUARTERLY REPORT:

General Fund									
Actual (by Fiscal Year)					Actual	Budget			
	FY 2008	FY 2009	FY 2010	FY 2011	2010-2011 Biennium	2010-2011 Biennium	Variance	%	
Expenditures									
City Council	\$ 64,176	\$ 39,985	\$ 55,448	\$ 51,428	\$ 106,876	\$ 110,000	\$ 3,124	3%	
City Administration	816,235	761,952	916,256	981,962	1,898,218	1,900,000	1,782	0%	
Human Resources	248,267	280,612	333,165	343,181	676,346	705,000	28,654	4%	
Finance	907,778	847,320	944,439	848,497	1,792,936	1,850,000	57,064	3%	
Information Technology	828,590	973,819	740,381	850,391	1,590,772	1,605,000	14,228	1%	

An Elected Official's Guide to Multi-Year Budgeting

During the FY 2012 budget process, these guides were provided to members of Milwaukie's Budget Committee. They address in further detail the issues surrounding multi-year budgeting in a manner that is accessible to elected officials and budget committee members. They also examine key issues that arise and perceptions that may exist when considering changing to a biennial budget process.

Next Steps

The City Manager will present the next proposed budget to the Budget Committee in Spring 2012. If the Council/Budget Committee now provides the City Manager with direction to move forward with the change to Biennial Budgeting, the process will consist of:

- City Manager prepares and presents a 2013-2014 Biennial Budget to the Budget Committee in Spring 2012 for their review and deliberation.

- Documentation and explanations related to the switch to biennial budgeting will be included in the proposed budget document.
- Sometime prior to the final adoption of the Biennial Budget, Council will change Budget Committee member's terms from 3 to 4 years, ideally staggering expiration years.
- Staff will convert formats for the comprehensive annual financial report and quarterly budget reports.
- Remaining annual responsibilities will continue to include holding periodic Budget Committee meetings to review quarterly departmental and project results.
- As with annual budgets, and only when necessary, the biennial budget may need to be updated periodically through supplemental adjustments.
- Each year Council will continue to certify that the City qualifies for State Revenue Sharing Funds.
- Every other year with the process beginning with Spring 2012, the Budget Committee will review and approve the Biennial Budget with the Council adopting thereafter.
- The City Council, Budget Committee and City Staff will continue to analyze the Biennial Budget process to ensure that it is working to the City's benefit.

Conclusion

The number of local governments adopting biennial budgeting has increased over the past 20 years. In doing so, many of these governments have improved their financial, budget, and strategic planning practices and processes. These governments also have improved the linkage between their various management and financial policy documents and the budget document. Additionally, these governments have benefited from a reduction in staff time allocated to budget development by placing a greater emphasis on achieving longer-term goals and objectives.

Through the combined experience of the Finance Department staff, biennial budgeting has been successfully implemented in two cities in Oregon. Staff has found it to be very beneficial not only in time savings but in the long-term focus of the organization and its departments. We continue to look for ways to grasp efficiencies while ensuring the effectiveness of operations.

Additional Information

- Biennial Budgeting Handout from the Oregon Department of Revenue