

**PURPOSE OF SPECIAL MEETING:** To discuss proposed budgets and revenue estimates for fiscal year ending December 31, 2014, including possible increases in utility user rates.

#### **CALL TO ORDER**

Mayor Paul Helenberg called the November 9, 2013 special meeting of the Castle Rock City Council to order at noon, followed by the Pledge of Allegiance. The following councilmembers were present: Ray Teter, Earl Queen, and Ellen Rose. Councilmembers Pingree and Davis were absent.

**Other attendees:** Dave Vorse, Public Works Director; Bob Heuer, Chief of Police; Scott Neves, Sergeant; Ryana Covington, Clerk-Treasurer; Vicki Selander, Librarian; and Lee Kessler, resident.

Mayor Helenberg cautioned that discussion regarding possible layoffs may be included in the proposed budgets. He noted that no discussion regarding positions, names or timing will be allowed; this is a departmental decision and not subject to council discussion.

Covington noted that councilmembers were provided with the following documents;

- Estimated Expenditure Summary report; includes 2011, 2012 actual expenses, 2013 budgeted, 2013 year to date (January-October) and 2014 proposed budget.
- Estimated Revenue Summary report: includes 2011 and 2012 actual revenues, 2013 estimated, 2013 year to date as of October 31, 2013, and 2014 proposed.
- Revenue Comparison report – General Fund Only; comparing January-October revenues for 2012, 2013 and proposed 2014.
- Cash and Investment Activity – preliminary October 2013 report. Covington noted that city council will be approving the expenditures for this month at Tuesday's city council meeting.
- Budget Workshop Summary; outlines 2014 revenue and expenditure proposals for each fund/department, variances over/under 2013 expenditure appropriations, and listed shortfalls between 2014 projected operating revenues and the projected expenditures. Revenue projections do not include estimated beginning fund balances; only those revenues projected to be received during the upcoming fiscal year.
- Outline of current water and sewer utility rates.
- Estimation of General Fund ending fund balance as of December 31, 2103.

#### **Public Works – Dave Vorse**

**Street/Arterial Street Funds:** Vorse recommended combining these two funds. Initially the city was required to separate State revenue distributions and operating expenses between arterial street and residential streets. This is no longer required and he feels there may be a cost savings in combining redundancy of some operating costs (such as street, alley and vehicle maintenance). He gas tax distributions are the only revenue source for both of

these funds. In addition, the Street Fund receives contributions from General Fund to pay for one-third of a position. He noted that revenues for the Arterial Street Fund are only \$13,600 and this barely covers the estimated \$11,500 expense solely for street lighting. Vorse noted that by combining the two funds would not require any additional support from General Fund.

**DOT Spoil Site Fund:** this fund is used to maintain the trails, and anything along the river. Vorse stated that two years ago a \$140,000 interfund loan was made to assist with cash flows during various grant funded improvements. Payments have been made toward this loan, however the term is ending at the end of this year. He recommends council approve a one-year extension to the loan. Currently the fund has a \$99,000 balance, however there is also a position (15% of one employee cost) also included as an operating expense. He recommended paying back \$75,000 of this loan in 2013, which would leave approximately \$20,000 to be repaid in the fourth year. This would allow him to retain a cash flow going into next year.

Vorse stated the main revenue source for this fund is the sale of dredge spoil material. Materials on the east side of the river are getting low, however the city also owns 30 acres on the west side of the river which contains dredge spoil material that the city could sell.

Vorse updated council on the progress for the land swap with Washington State Department of Natural Resources (DNR). Currently DNR has offered the city 17 acres in exchange for unusable land that the city owns. (This city owned land is located within the river). Vorse stated this would not be enough land to meet the city's needs as outlined in the Castle Rock Park Plan. Vorse stated he continues to work with State Representative Ed Orcutt to resolve this issue. Once this is resolved, the city can apply for a mining permit for the entire area.

**Public Works Vehicle Replacement Fund:** Vorse explained the purpose of this fund is to purchase replacement vehicles or equipment needed for the public works facilities. Funding for this comes from an annual \$3,000 contribution from each of the public works funds; Water Fund, Sewer Fund, Regional Water, Regional Sewer and Street Fund. In 2014, he has added a contribution from the Stormwater Fund. This process allows him to purchase equipment or vehicles without having to secure loan funding. To further reduce costs, Vorse stated he purchases from State bids. The \$10,000 expense listed for 2014 is for an emergency generator.

**Water-Sewer Fund:** Vorse stated in order to avoid the use of the fund balance; he will need to reduce staffing by two employees. The city has funds to complete 28 street projects. City Council also wants to replace water and sewer lines in those areas prior to the street improvements. Vorse stated funds have been expended this year to identify issues and to replace some water lines using city staff. However in order to budget \$50,000 to \$60,000

for main replacement next year, staff cuts would be required. In addition, council has been funding replacement of meters and this will need to continue to enable radio read capabilities.

Vorse noted that the loan received for the Front Avenue utility replacement project will require a 2% rate increase for both water and sewer services. Staff is recommending this 2% increase, which will add approximately \$28,000 to pay for the 20-year loan. He believes this rate increase would equate to a \$3 - \$5 increase for the average monthly utility bill.

Vorse stated this increase would only cover the existing loan repayment. At an earlier council meeting, City Engineer Mike Johnson outlined results of the newly completed Water System Plan. This plan recommended annual rate increases between 5% to 6% to meet operation needs and also to build reserves for the capital project needs that were identified.

Vorse noted that he has submitted applications for two loans to fund the water and sewer infrastructure upgrades that council wants completed next year. The Drinking Water State Revolving Fund (DWSRF) would be a 20-year loan at 1% to 2% interest rate. However DWSRF requires the city to use contracted services. The other application is to Rural Development. Interest rates are between 3% to 4% and the term could be up to 40 years. Both applications are for \$300,000 and the city hopes to be successful in one of those application requests. If successful, these funds would be used to pay for the water and sewer infrastructure work next year and also complete the remaining meter replacements. Vorse stated council could choose to move forward with the street improvements and not do any utility work, however Vorse felt this would be foolish. If the loan is awarded to the city, Vorse speculated that maybe one of the public works positions could be retained. In answer to Mayor Helenberg's question, Covington stated funding for repayment of either of the proposed loans have not been included in the proposed 2014 budget.

In answer to Mr. Kessler's question, Covington stated reductions from the 2013 Water-Sewer Fund and the 2014 proposed budget include 2013 projects which totaled \$68,082 (water) and \$195,167 (sewer) and proposed 2014 staff reductions. Both of the 2013 utility projects were funded by a loan, with repayment beginning in 2014. The 2% utility rate increase would be solely for repayment of that loan.

**Regional Water and Regional Sewer Funds:** Vorse noted he has reduced operating expenses to bring into alignment with projected revenues.

**Stormwater Fund:** proposed 2014 expenses have been reduced by \$12, 800 from that in the current fiscal year. However there is still a \$6,551 deficit of expenses over proposed revenues. The 2014 proposed budget still includes a \$25,000 contribution into the

Stormwater Capital Fund. The capital fund was developed three years ago to retain funds for infrastructure needs; such as pump replacement/repair or drainage system improvements. Vorse stated council could either reduce the contribution, or increase stormwater rates by 2%.

**Municipal Water Capital fund:** includes funding for four water main improvement projects in 2014; Second Avenue, Shear Street, LaRue Street and Helton Street. The main on Mallory Street can be deferred until 2015 based on the street project schedule. The mayor noted this would improve most of the system in that area. Vorse provided a brief description of those improvements.

Vorse noted that he would like to retain at least one of the two public works positions proposed for reduction in 2014. He added that proposed 2014 reductions in utility related funds also do not allow him to complete preventative maintenance work on the systems. He cited continuing to defer inspection inside of the reservoirs could cost the city more in repairs. This inspection should be done every five years; which would have been in 2013. City council did not include this in the 2013 budget and it will also not be included in the 2014 budget. The city's leak detection program (done every 3 to 5 years) is also being deferred. Not being able to identify problems in the system eventually will lead to higher losses in unaccounted water. Vorse stated he would like to do the reservoir inspection in 2014.

Mayor Helenberg stated the city needs to increase rates by 2% to meet the 2013 loan repayment needs. However he recommends council consider a 3.5% increase in water rates and a 3.5% increase in sewer rates. He noted this is less than the amount recommended in the Water System Plan for capital improvements. Helenberg noted other issues relating to filter basins also need to be addressed. The estimated cost for replacement of the filters is \$250,000 - \$300,000. He feels this increase will help build capital for these projects. He does not know if it will be possible to retain one of the two positions; but it is important to maintain the systems for the public needs.

In answer to Councilmember Teter's question, Vorse stated parts and labor for the utility work proposed for next year would be \$55,000 (water system) and \$20,000 (sewer system). This would be the estimate using city staff to complete the project. If the city is required to contract the work; the cost estimate would triple. In answer to Covington's question, Vorse noted that State law allows cities to use their own staff up to \$65,000 in equivalent labor costs. This limitation does not include materials costs. If a project is expected to exceed \$65,000 in labor costs, then the city must contract the project.

Vorse stated if the city received the Rural Development loan, city staff could be used, which would reduce the cost of the project. This would more than offset the higher interest rate. He noted the Rural Development loan application also includes work to complete updating

the remaining meters to radio read capabilities. Approximately 300 meters remain to be updated. Updating the meters to radio read will automate the process of reading meters and save staff time. In addition, an upgraded utility system will be installed in the finance office next week. This utility system will replace the existing DOS based system that has been in place for over 25 years. Vorse stated the issue with the filters would affect the Regional Water Fund. This fund has only two customers; the city and Cowlitz County. Decisions made by the Regional Utility Board relating to rates will eventually affect city utility customers.

Mayor Helenberg noted that increases in utility rates have created numerous customer complaints; however it is important to create reserves to meet equipment cost needs. He also suggested a 2% increase in the stormwater rates. It was noted that the biggest impact of this increase would be to businesses.

Vorse stated to meet the current year loan obligations; water and sewer rates would need to increase a minimum of 2%. A 2% increase in stormwater rates would allow the city to continue to build a reserve for future equipment needs relating to stormwater infrastructure.

Mayor Helenberg noted that the 2% increase in water and sewer rates would only provide additional revenue to meet the loan repayment needs; and not provide capacity for system improvement needs. He suggested council consider support of a 3.5% increase in both water and sewer rates and a 2% increase in stormwater rates. Councilmembers compared the current rates for the average customer use (400 cubic feet – 500 cubic feet monthly use) to a 3.5% increase. Councilmember Teter noted that monthly increases for customers in this range would be approximately \$4.50 for their total bill. Councilmember Queen cautioned that any increase needs to be as low as possible. Councilmembers discussed rates in relationship to other nearby cities and to recent new construction impacts within the city limits. Also discussed were foreclosure rates in the city and collection percentages for property tax revenues. It was noted that while residential property tax values decreased, commercial properties saw a dramatic increase in their valuations. Property valuations are determined by Cowlitz County Assessor's office.

In 2013, city council increased sewer rates by a flat \$5.00 per month. Councilmember Teter stated he supports a increases to be by percentage, instead of a flat rate; he felt this is fairer to the customers. Mr. Kessler stated rate increases are a hard sell when customers do not see any increase in their personal wage. The city will need to explain to customers that costs are still climbing and there are equipment needs to be addressed.

Helenberg noted the Water System Plan calls for an annual rate increase of 5%; city councilmembers need to be prepared to again look at rates next year.

By consensus, Councilmembers Rose, Teter and Queen stated they would support rate increases of 3.5% for water, 3.5% for sewer and 2% for stormwater. Vorse stated he would have more information on the Rural Development loan application at the end of November. If one is offered to the city, Vorse will bring this back for council consideration and acceptance.

Vorse stated that his proposed budgets do not include funding for two positions. At some point, he needs to notify those affected employees and asked for council direction. Chief Heuer cautioned that any proposed layoffs would need to be bargained with the union before any layoffs are implemented.

Covington cautioned that if the city received any future loans, the city will need to assure that adequate funds are available for repayment. This may be an additional impact on if the city is able to retain one of the two positions slated for reduction in force.

**Library Fund:** Librarian Vicki Selander reported that voters have secured adequate funding for library services by approving an excess levy. Staffing levels and hours of operations are expected to be restored.

**General Fund (Finance Office):** Covington stated that her 2014 proposed budget will be \$75 less than in 2013. Staff in her office are currently negotiating their collective bargaining contract with city leaders. Covington stated since this matter has not been settled, her proposed budget includes a 3% increase in wages. Covington retained funding for additional employee training on the new financial, cash management and utility program systems to help staff become more proficient on program capabilities. At the end of November, staff will begin outsourcing the utility billing, and cash receipting processes will also change. These upgrades are expected to reduce redundancy in several areas of operation. In addition, Covington hopes to be able to implement a better cross-training system within her office.

**General Fund (Police Department):** Chief Heuer reported issues with two vehicles. There is an issue with the timing chain in Officer Worley's vehicle; estimated cost to repair is \$2,509. And there is a transmission issue with the vehicle that Sgt Neves drives; estimated repair cost of \$3,600. Heuer stated he currently has \$4,500 remaining in this year's vehicle maintenance line item.

Heuer noted that General Fund requests exceed 2014 estimated revenues by \$43,774. He does not see any areas within his budget that he feels comfortable in cutting. Heuer stated he has been attending meetings relating to finalization of the jail contract. He noted that the county wants to eliminate the cap on contract increases. If the contract settles at a 5% increase, Castle Rock would pay an additional \$2500 for jail costs in 2014. The chief noted that incarceration numbers for Castle Rock have been stable, drunk driving arrests

have slowed, and there is a possibility of decriminalizing suspended license convictions and mandatory days in jail. Based on this information, the chief felt a \$3,000 reduction in cost allocation for Board of Prisoners would be appropriate (amended allocation would be \$28,000 for 2014).

Chief Heuer asked if it is necessary to budget \$10,000 for land use code updates when that line item is not expended. Covington noted that the Planning Department budget is usually almost fully expended for the past few years. Therefore any unused amount allocated for land use code updates is used for other planning needs. Last year the issue of medical marijuana took up a great portion of the planner's time. Covington stated she just met with the COG Director regarding estimated planning costs for the remainder of this year. Due to issues with recreational marijuana zoning, it is anticipated that their budget will be fully expended by year end. Mayor Helenberg noted next year the city also needs to re-evaluate the adopted zoning fees.

**Local Criminal Justice Fund:** Chief Heuer noted that this year, revenue from this fund was used to support one police officer position. Source for this fund comes from a voter-approved 1/10<sup>th</sup> of 1% sales tax to support law enforcement activities. Typically these funds are used for purchasing police vehicles. Heuer noted vehicles are purchased through a three year loan program, with annual payments of approximately \$17,000. Mayor Helenberg noted that he would like to see the police vehicles on a five year replacement plan. Sgt. Neves noted that mileage on patrol vehicles does not give a true picture when assessing wear on the car. The chief stated he will need to assess if it is better to spend funds to fix the two vehicles, or if it is better to purchase a new vehicle in 2014.

Covington asked why the chief did not include purchase of a new vehicle in the 2014 budget. The only expenditure listed for the Local Criminal Justice Fund is \$3400 for computer related expenses. Neves stated the \$3400 includes annual operating expenses for computers (such as air cards within the vehicles).

In answer to Selander's question, Covington stated there is a Police Vehicle Replacement Fund available, however Chief Heuer does use the Local Criminal Justice Fund instead. Covington stated funding for the Police Vehicle Replacement Fund originated from General Fund contributions and the Local Criminal Justice Fund affords a more stable revenue source.

In answer to council's question, Covington stated Chief Heuer used criminal justice funds to support one patrol position required by the COPS grant to be retained for one year following the end of the grant funding. This requirement has now been met. Chief Heuer stated the Criminal Justice Fund receives its revenue source from state shared revenues to support law enforcement programs.

Vorse asked if any of the voter-approved mental health tax, is available for law enforcement. Heuer stated the city does not receive any of those funds; proceeds from the tax are used to support treatment facilities. Heuer stated it would have been good if local schools could benefit from the mental health tax funds.

Council also discussed impacts on diversion of liquor tax revenues and State projected revenues for recreational marijuana.

Covington stated State shared revenue projections for liquor tax and liquor profit distributions have been amended to reflect new estimations recently received from the State.

Chief Heuer suggested city council could re-evaluate the use of the Local Criminal Justice funds in 2014 if final revenue proceeds exceed projections in that fund. The chief stated he still has the older patrol vehicle available for his use, if the need arises.

Kessler stated at the last council meeting, city council approved a study of the Third Avenue/Roake Street intersection to ascertain if it qualifies for a four-way stop. He asked if any study was conducted on this intersection as part of the Safe Routes To School grant funded sidewalk project. Vorse answered that no study was done of the intersection because the grant was focused on sidewalks and education. Signage will be placed on Roake notifying drivers they are in a school zone and could face penalties for exceeding limits. Councilmember Queen noted there has been an improvement at that intersection when the bush was trimmed. Vorse stated the bush was on private property and was trimmed when the property owner was notified of issues at that intersection.

Covington explained General Fund balances as of October 31<sup>st</sup>. Council reviewed projections for additional revenues and expenditures estimated for the General Fund. She noted that year-to-date revenues from property taxes are lagging as compared with amount received in prior years for the same time period (59% collection rate as compared to 77% collection rate in 2012). However yesterday the city received an additional \$75,000 in tax revenues from the county. If property tax revenues continue for November and December, the projected ending balance for General Fund should be approximately \$199,887.

Covington noted the following projected current year revenue shortfalls (as compared with the 2013 budgeted estimate):

- Utility Tax- natural gas: will receive approximately \$1400 less than projected
- Utility Tax – telephone; revenues received are only 52% of projected. Covington noted that telecommunication companies are difficult to track and only are required to pay if their service is provided within our city limits. Covington noted that revenues were also down last year.

- Liquor Excise Tax – city received the last distribution for the year. Total revenue received is 71% of the projected income.
- Riverview Apartment – In Lieu of taxes – projected revenues for 2013 was \$3300. These apartments accept subsidized tenants and the population base determines if taxes are due.
- Municipal Court revenues – city has received only 58% of the projected revenue.

Councilmembers discussed collection rates for property taxes. Covington noted that many properties have gone into foreclosure and the county does not collect for delinquent property taxes until after four years of non-payment. This affects the city's revenue stream if the city budgets for the full projected ad valorem assessment amount. Councilmembers disagreed, citing that once properties have been sold at auction, the taxes need to be paid and the city will eventually receive their portion.

Councilmembers and staff made the following amendments to the 2014 General Fund projections:

- reduce the budget by \$3,000 for jail costs (board of prisoners)
- Councilmember Teter suggested the 2014 projection for property tax revenues be increased an additional \$3,774. After discussion, the amended estimate is changed to \$349,774.
- Councilmember Teter stated he would also be comfortable increasing the Sales and Use tax projection an additional \$10,000; to a total of \$360,000.

Mayor Helenberg noted the city needs to find funds for a new patrol vehicle. He also noted that projects such as replacement of the City Hall roof have been deferred for a few years. In answer to Kessler's question, Vorse stated the roof was last done in 1985. Kessler suggested that using city forces would keep the cost of replacement down; if adequate personnel are available. Vorse stated that REET funds could be used for this project, however currently city council has committed those funds for the street projects in 2014.

- Heuer suggested \$3,000 could be reduced from the District Court fee; for a total of \$13,000
- Heuer also suggested a \$20,000 transfer from the Local Criminal Justice Fund to the General Fund. Covington asked about funding for a new patrol vehicle. Heuer outlined his available funds and stated in a worse-case scenario, he could drive the 1999 patrol vehicle. Covington voiced concern this would undermine the chief's ability to purchase a new patrol vehicle.
- reduce the overtime allocation in the police department by \$4,000; for a total allocation of \$38,820. Chief Heuer voiced concern over this reduction, citing the need to cover shifts due to vacations, or absences. Mayor Helenberg suggested at the end of next year, a budgetary amendment could be passed if additional funds are needed and if revenue funds are available.

In response to a question from Mr. Kessler, Vorse explained that the city coordinates the purchase of fuel with Cowlitz County. This qualifies the city for certain tax exemptions and allows for a better bulk rate.

**Exhibit Hall Fund:** Covington noted that the Exhibit Hall is funded from tourism tax dollars. Over the last two years, revenues have not been adequate enough to sustain operations, including the part-time director's position. Several service organizations, such as the Exhibit Hall Society, Chamber of Commerce, Castle Rock Lions Club and individuals have donated money to sustain operations. Mayor Helenberg stated the lodging tax is not stable enough to sustain at the city's current level of support. He recommends offering the Exhibit Hall Society the option to fund the director's position. The city would only fund the liability insurance, telephone/Internet connection and the interlocal Big Idea project contribution in 2014.

Covington clarified that the city owns the building, however the Exhibit Hall Society, (a non-profit organization) holds various exhibits and functions in the building and also serves as volunteer hosts. In exchange, this organization pays the heating costs, utilities and maintains the interior exhibits. If the city does not fund the director's position, Covington suggested the city consider developing an agreement with the Exhibit Hall Society to outline insurance requirements, use of the building and responsibilities in case of any loss. Covington noted that she is unsure of what (if any) exhibits are city-owned and this should also be established.

The city's annual contribution to the Big Idea agreement is \$1279. Next year it is the city's turn to receive up to \$69,000 to promote a tourism-related activity. These funds are distributed by the county on a reimbursable basis. Mayor Helenberg advised city council that the State Auditor has asked for legal clarification that the Big Idea joint venture is allowed use of the tourism tax dollars as outlined in State law. He stated that Cowlitz County is currently seeking legal review to answer this question.

The mayor noted that several recommendations for the use of this money have received. He noted that careful planning may result in receiving matching funds, possibly from county Rural Development proceeds. A meeting has been scheduled this Tuesday to discuss possible projects. Bill Davis, Chamber president, will oversee the meeting.

Vorse stated the Kelso visitor's center received county rural development funds to upgrade their facility. Covington cautioned that tourism dollars need to be used for tourism related activities. If the city no longer has a tourism director, the Exhibit Hall Society board would need to continue to serve as the tourism visitor center in order to use the Big Idea funds for upgrade of the building. Helenberg stated he would take this under advisement when evaluating Big Idea projects.

**ADJOURNMENT**

There being no further business, Mayor Helenberg adjourned the meeting at 3:00 p.m.

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Mayor Paul Helenberg

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Clerk-Treasurer