

May 14, 2025

Mayor and City Council
Budget Committee Members

The proposed budget for the fiscal year of July 1, 2025, through June 30, 2026, is respectfully submitted for your review and consideration. Total appropriations for all funds combined in the proposed budget are about \$6.9 million, about \$2.4 million less than the current fiscal year as follows:

	FY 2024-25	FY 2025-26	\$ Change	% Change
Personnel	\$ 637,712.00	\$ 679,182.00	\$ 41,470.00	6.5%
Materials & Services	\$ 1,181,289.00	\$ 1,166,275.00	\$ (15,014.00)	-1.3%
Capital Outlay	\$ 6,360,716.00	\$ 4,025,000.00	\$ (2,335,716.00)	-36.7%
Debt Service	\$ 520,778.00	\$ 541,758.00	\$ 20,980.00	4.0%
Transfers	\$ 68,800.00	\$ 0.00	\$ (68,800.00)	-100%
Contingency	\$ 550,000.00	\$ 550,000.00	\$ -	0.0%
Totals	\$ 9,319,295.00	\$ 6,962,215.00	\$ (2,357,080.00)	-25.3%

The most drastic changes when comparing total budget appropriations can be attributed to one-time project funding and its associated transfer into future annual debt obligations. For example, the decline in Capital Outlay is mainly due to Water Fund projects. The USDA water treatment plant project in the current budget was \$1.8 million. As a majority of the work is completed and we get closer to the finish line, the remaining expenditures are relatively small. There is approximately \$1 million in remaining work to be completed and paid at the time of this draft with significantly more work likely to be completed before the end of Fiscal Year 24-25. Further, the ARPA Waterlines project (an expenditure of just under \$2 million) will be completed in Fiscal Year 24-25.

The change in Materials & Services is accounts for rising costs, but also sees a reduction because of our deferral of street maintenance to combine projects in next fiscal year. There are no transfers planned for the upcoming Fiscal Year. Some Contingency funding in FY 2024-25 will be used to cover unexpected maintenance operations related to the sewer treatment system, particularly an overhaul of the two air blowers and a new HVAC system for the Public Works Office, but the proposed budget refills those contingency funds in the coming year by lowering the unappropriated ending fund balance.

Budget Highlights

Personnel Services

Personnel Services accounts for the City Administrator, City Recorder, City Clerk, Public Works Superintendent, and two Utility Workers, and four part-time positions: Librarian I (450 hours), Librarian II (450 hours), Librarian III (250 hours) and Public Works Seasonal (600 hours). The proposed budget includes a 5% COLA for the full-time positions and assumes 3% step increases for eligible employees. It also includes medical insurance provided to the full-time positions through the LIUNA Union, of which the monthly premium of \$1,280 per covered employee will not change. Fiscal Year 2025-26 is the last year of the current Collective Bargaining Agreement. The City will enter negotiations towards the end of the upcoming fiscal year. This agreement governs COLA's, as well as other personnel policies, for the City's employees which are members of the union. Union positions include our two Utility Workers and the City Clerk. The PERS contribution rates for the upcoming biennium for the City of Amity are as follows:

	<u>7/1/23 – 6/30/25</u>	<u>7/1/25 – 6/30/27</u>
Tier 1/Tier 2	19.48%	21.63%
OPSRP	13.42%	16.09%

In addition to the above, the city pays 6% of the employees' payroll to the IAP (Individual Account Program) managed by PERS. The next change to the PERS employer contribution rates will go into effect July 1, 2027.

General Fund

Law Enforcement

The City is assuming a new law enforcement services agreement with the Yamhill County Sheriff's Office that continues the same level of services with two full time deputies assigned to Amity. This year, the contract cost has increased to \$428,020. This is \$90,781 or 26.9% more than the current contract, priced at \$337,238. The increase includes a more detailed breakdown of the costs that the Yamhill County Sheriff's Office incurs when providing law enforcement services to the City of Amity, including salaries, administration, training, vehicle maintenance, and equipment. The increased Public Safety expense has put an additional strain on the City's General Fund.

Park Improvements

The City was awarded a grant from the Oregon Parks and Recreation Department to rehabilitate the walking path within the City Park. The path has been improved with a compacted gravel trail, that includes benches and drainage improvements. Currently, there are no further improvements planned for the Amity City Park. The next goal is to update the City's Parks and Recreation Master Plan, pending a grant from the Oregon Parks and Recreation Department.

Tourism

The proposed budget tracks a beginning and ending fund balance for the City's tourism fund. The city has an established Transient Lodging Tax of 7 percent. By law, 70 percent of the tax revenue must be used for tourism promotion, while the remaining 30 percent is unrestricted. While the Transient Lodging Tax hasn't historically generated much more than \$5,000 or \$6,000, these balances track the 70 percent of revenue that's restricted in use for tourism promotion. The City may also begin to see an increase in this tax revenue as the Council adopted standards allowing Short-term rentals within City limits, and staff have seen a few recent inquiries.

Shared Expenses

The City of Amity designates expenses that benefit the City as an organization or that provide benefit to all of the City's funds as "shared expenses." For example, the expense for the City attorney is generally shared because the attorney may be assisting on various projects that include easements for water lines, contracts for street repairs, and ordinances or resolutions for City Council. In these cases, the shared expense is allocated to the City's various funds using percentages based on a rough approximation of time. The current allocation is 50 percent to the general fund, 25 percent to the water fund, 20 percent to the sewer fund, and 5 percent to the street fund.

In the proposed budget, there is a significant increase for property and liability insurance. The City's new Water Treatment Plant structures have been included in the needed coverage, beginning July 1st of 2025. These new structures were a large investment for the City of Amity and so have a significant impact on the City's property insurance premiums.

Street Fund

Outlook

In May of 2023, the City of Amity contracted a consultant to perform a thorough inventory of the City's streets and the condition of the pavement. The consultant then prepared three budget scenarios to represent various levels of funding and the recommended repair and maintenance priorities at each funding level. Those budget scenarios demonstrated a significant need for increased revenues in order to make significant improvements. The City of Amity has a street fee of \$2.00 per month per household that is charged on the monthly utility bills. Because this fee isn't set to adjust with inflation over time, it has slowly lost relevance. It currently generates approximately \$18,000 each year.

Beginning in January of 2025, a 3% local sales tax was imposed on marijuana sales within the City limits. Currently, there is just one retail location. The City has an agreement in place with the Department of Revenue to collect that tax on the City's behalf, but the City has not yet received the first quarterly payment and so has struggled to estimate how much revenue the City may receive over the course of a year.

SCA Grant Project

Amity was awarded a \$205,000 grant from the Special City Allotment (SCA) program managed by ODOT. The SCA is funded annually from a portion of state gas taxes, from which cities under the population of 5,000 may apply for up to \$250,000 in funding for street and/or sidewalk improvement projects. Amity's current project includes major street repairs in the area of Enos and Stanley Street. The City recently

received bids for the project and awarded the contract to the low bidder for a price of \$99,000. With engineering costs at \$7,000 there are grant funds remaining to include additional work in the vicinity. The proposed budget includes an appropriation of \$195,000 for this project. It is anticipated that this project will be completed prior to the end of 2025 so the City is eligible to apply for a new SCA grant in the 2026 grant cycle.

Maintenance Projects

The current budget included a steep increase in repair and maintenance funding. This is to cover a planned slurry seal project that was completed during the summer of 2024. During Fiscal Year 2025-26, street maintenance expenses are proposed to be reduced in order to save money for another possible maintenance project in fiscal year 2026-27.

House Bill 4134: Oak Ave Improvements for Affordable Housing

In the 2024 legislative session, Representative Elmer secured \$1,500,000 in funding for the City of Amity for street improvements to better serve the planned affordable housing development at the South end of Oak Ave. The City was granted this funding to both improve the facilities and remove some of the burden that had previously been placed on the developer of the planned housing development. The City has approximately 2 years to complete the proposed improvements. The City’s Engineers have begun the design process. Construction is anticipated for next summer.

Water Fund

Outlook

The City’s water fund has seen some rate increases over recent years, but to fully cover the expected costs of maintenance and debt service, further increases will need to be considered by the City Council. Revenues from water fees are estimated at about \$720,000 this year. To maintain the current level of water system maintenance and cover the new debt service, revenues would need to be increased by approximately \$100,000 each year. The fund has a limited balance that can act as a cushion, short term, but as this enterprise fund is expected to be self-sufficient and supported by user revenues, further adjustments in user rates will become necessary.

Water Treatment Plant Improvements

This project involves construction of a new water intake, new transmission line, and water treatment plant improvements. This \$11.9 million project is being financed with a combination of grants and loans as follows:

CDBG Grant	\$2,129,242
Rural Development Loan 1	1,635,000
Rural Development Grant 1	1,793,611
Rural Development Loan 2	4,838,000
Rural Development Grant 2	1,500,000
City of Amity Water Revenue	<u>22,000</u>
Total Project Funding	\$11,917,853

The CDBG Grant and City Water Revenues have already been applied to the project. Per the Rural Development loan program, the City issued bonds in the 23-24 fiscal year for \$6,473,000 to repay the two Bond Anticipation Notes issued the prior year. Loan 1 for \$1,635,000, 2.75% fixed, 40-year term was issued in December 2023 and Loan 2 for \$4,838,000, 2.00% fixed, 40-year term was issued in February 2024.¹ At this point, the City has completely expended the first Rural Development Grant of \$1,793,611 and has begun to utilize the second grant of \$1,500,000. In total, there is approximately \$1,800,000 remaining in the treatment plant project. Completion was originally anticipated for April or May of 2024, but the project has experienced various delays (the most significant delay is an essential electrical component that didn't arrive until August or September of 2024) and is now expected to be completed by middle of 2025.

Water Line Replacement

The City of Amity received a \$2 million grant from the Coronavirus State Fiscal Recovery Fund in Fiscal Year 2021-22. The grant provided for replacement of approximately 1,000 linear feet of water transmission line from the reservoir to the main water distribution main, and replacement of approximately one mile of the water transmission line on Goucher Street, including the replacement of four fire hydrants. Favorable bid results allowed the City to utilize excess funding to re-pave Goucher Street. This project will be completed by the end of Fiscal Year 2025-26.

Safe Drinking Water Revolving Loan Fund

The city entered into an agreement with ODOT for the relocation of the city water line attached to the Salt Creek Bridge which was to be replaced with a new structure. The city paid a deposit of \$954,800 to ODOT that was based on the estimated costs for the water line work. The funding for that deposit came from two sources. The City first secured a loan from the Safe Drinking Water Revolving Loan Fund of \$1.2 million. After the loan funding was secured, Yamhill County also provided the city with a grant of \$600,000 to put toward the deposit. Due to favorable bid pricing, the final costs for the City's portion of the project came to \$618,000, resulting in a refund of approximately \$336,000. Between the refund, and the previously unused loan funding, the City has a little over \$1,000,000 available in loan funding at a term of 1% interest over 30 years. With Business Oregon's approval, the Amity City Council felt that it would be best to utilize the available funding to further improve the City's water system. The proposed project continuation would replace 1800 feet of existing waterlines with new 10" waterlines in the areas of Woodland Way, Stanley Ave, 5th and 6th streets. The City has also requested \$500,000 in additional funding from the State Legislature to allow the City to replace waterlines under the railroad in 4th, 5th, and 6th streets while the project is in the area.

Sewer Fund

Outlook

The City's wastewater treatment plant is beginning to see issues related to deferred maintenance. Recently, the City has been fined by the Oregon Department of Environmental Quality (DEQ) for failing to meet wastewater treatment requirements. The City has also received a new NPDES permit from DEQ,

¹ The annual debt service for the two loans will start in the FY 2024-25 budget as follows: Loan 1 \$67,918 and Loan 2 \$176,878. Also, for the first ten years the city is obligated to set aside an annual amount as a loan reserve in the amounts of \$6,792 and \$17,687 for Loan 1 and Loan 2 respectively.

which includes a number of new treatment requirements that the City will need to work toward meeting. This permit includes an ammonia limit. The City's current treatment process can not generally meet the ammonia requirement. Capital/Treatment improvements will be needed in the next few years to address these and other increasing requirements.

The recent wastewater facilities study identified some of these issues and a priority list of improvements and repairs that need to be made over the next several years. However, the Oregon Department of Environmental Quality has argued against the approach taken in the recent Wastewater Facilities Plan, resulting in a lack of clarity regarding which improvements need to be prioritized in the coming years.

The recent rate increases have helped the outlook for the sewer fund. In FY 2027-28, the city will make the last debt service payment on one of the two OECDD loans freeing up over \$100,000 each year. However, until that time, there will not be much available funding for capital improvements. If it's determined that the wastewater treatment plant needs significant investment sooner, further rate increases will be needed.

I & I Maintenance

Based on the recent wastewater facilities study prepared by the City Engineer, recent budgets have included appropriations for an Inflow and Infiltration (I&I) maintenance program for the sewer collection system. Inflow involves improper connections to the sewer system, for example storm drains, and infiltration involves movement of surface and sub-surface water into the collection system via defects in the collection system. In the current fiscal year, the adopted budget for I&I maintenance was \$40,000. For a variety of reasons, most of this funding went unused. In response, the proposed budget increases the I&I maintenance plan to \$80,000. This may be used to complete video scoping and jetting of the collection system, the development of an I&I plan, and even minor repairs such as lining existing sewer pipes. This is an important first priority as the city works to maximize the utility of the wastewater treatment plant. By reducing the amount of incoming water, the total costs of treatment and storage are greatly reduced.

Planning Loan

The City recently received a planning loan from DEQ's Clean Water State Revolving Fund. The loan included total funding of \$300,000, with \$100,000 of the principal being forgivable upon completion of the planning project. This loan was pursued to fund an ongoing mixing zone study, and a few other planning projects as the City gears up for the necessary capital improvements.

Vehicle Replacement

The proposed budget includes \$40,000; \$20,000 each in the Water Fund and Sewer Fund for Utility Vehicle Replacement. The Public Works Department requires a variety of vehicles and equipment to perform work for the city. They include three pick-up trucks, a dump truck, excavator, riding mower, tractor with attachments, and more. The City was recently awarded a federal grant through the Carbon Reduction Program to purchase new electric utility trucks for use by Public Works. That purchase is anticipated for Fiscal Year 2025-26.

Contingency

In recent years the amount of contingency identified in the adopting budget resolution represented the otherwise unappropriated amount that the budget document identified as ending fund balance. Having an appropriate amount of contingency is important to address unexpected expenses that may result in going over the statutory adopted maximum appropriations. Note: New resources, such as a grant, that require expenditures not accommodated in the budget do not require contingency. Contingency is an appropriation that when required must be redirected to the appropriate expenditure account and must be passed by resolution of the Council. Excess resources not budgeted (or expended) will be identified as ending fund balance (or in next year's budget, beginning fund balance). It is appropriate to show ending fund balances in the operating funds, especially with the General Fund. Until property taxes are received in November, the General Fund typically operates at a deficit. In the Street Fund, Water Fund, and Sewer Fund, the unexpended ending fund balance provides the opportunity to accumulate funds for expenditure of specific capital projects in future years. Based on the aforementioned, the proposed budget shows both amounts for contingency and ending fund balance.

Respectfully submitted,

Nathan Frarck
City Administrator/Budget Officer
