

***KLAMATH FALLS
URBAN RENEWAL AGENCY
2011-2012
ADOPTED ANNUAL BUDGET***

Budget Message

Members of the City Council, in your capacity as the Urban Renewal Board, Citizen Members of the Budget Committee, and Citizens of Klamath Falls, Oregon:

In accordance with local budget law and the City Charter, I submit the Urban Renewal Agency budget estimates for fiscal year 2011-2012 ("FY 11-12") for your review and approval. The Klamath Falls Urban Renewal Agency consists of three separate districts – the Downtown Urban Renewal District, the Lakefront Urban Renewal District and the Town Center Urban Renewal District. The combined total budget for the three Urban Renewal Districts for FY 11-12 is \$2,308,250, including contingency, broken down as follows: Downtown, \$1,276,225; Lakefront, \$ 129,675; and Town Center, \$ 902,350. These amounts reflect a projected 1.6% increase in tax revenues.

An Urban Renewal Agency is funded by property taxes collected on the incremental value of properties located within each Urban Renewal District. "Incremental Value" is a term used to describe the increase in the assessed value of properties within an Urban Renewal District after it is formed. The value of the properties in a district are "frozen" at the time the district is formed, and taxes assessed on the increased value of the properties over time are distributed to the district to implement the Urban Renewal Plan by funding projects identified in the plan. As property values increase or decrease in the City's three Districts, revenues to the Districts will adjust correspondingly.

Property values in the Downtown Urban Renewal District have generally been increasing and the amount of incremental tax revenues have gone up. The proposed budget projects an increase of 1.6% in tax revenues. The District has rented all but one of the office spaces in the remodeled area of the "South Portal" building, and has a new tenant as of May 1st in the unremodeled portion of the building. The rents being charged are about \$5,277 per month, and the building expenses (utilities, garbage, janitorial services, repairs, etc.) are approximately \$2,200 per month, for net revenues of about \$3,000 per month. At this time, we project that the Downtown District will reach its financial borrowing cap as designated in the Plan (\$8,400,000) during the 2011-2012 fiscal year. Currently the Downtown Urban Renewal Advisory Committee is discussing whether or not they will approach other taxing entities regarding extending the District or allowing it to terminate. While there are a number of worthwhile projects that could improve the Downtown core even more, the City would need to convince other taxing entities to forego receipt of additional taxes they would receive based on the growth of assessed values in the District since its creation in 1989. Based on an estimated assessed value growth of \$50,607,210 as of July 2010, termination of the Downtown District *could* generate as much as \$145,000 in revenues for Fire District No. 1 (\$2.8822/\$1,000), \$24,000 for BTS (\$.4822/\$1,000), \$88,000 for Klamath County (\$1.7632/\$1,000) and \$275,418 (\$5.4423/\$1,000) for the City. These numbers are, of course, subject to modification due to compression and other complexities of Oregon property tax law. Renewal of the District has been complicated by amendments to Urban Renewal law in 2009. The new law requires the written concurrence of the affected taxing districts that impose 75% or more of the permanent taxes in the area; limits the amount of amendments to 20%, plus the inflation index, from 1999 to the amendment date; and eliminates a "special levy" amount the District currently enjoys, estimated at about \$317,000 this fiscal year (FY 2010/2011).

The Lakefront Urban Renewal District is projected to collect about \$108,725 in property taxes during FY 11-12. The Lakefront District was created in 2001, and has a financial borrowing cap as designated in the Renewal Plan of \$7,050,000. With the completion by the developer of the necessary infrastructure and the sale of many of the lots, we anticipate that development of the properties will begin soon after the economic downturn has reversed. Under the Renewal Plan and the development agreement, the District is required to reimburse the developer for many of the infrastructure improvements once the revenues are sufficient to do so.

The City's newest Urban Renewal District, the Town Center Urban Renewal District created in 2005, has reached a lull in its completion. The developers were not able to complete the development as originally planned, and the properties have been taken over by the project lender, Evergreen Environmental Development Corp., an affiliate of Sterling Savings Bank. Although the demolition of the old Thunderbird building has been completed, there has not been adequate business interest or funding available to place new commercial buildings on that site. The Town Center District is anticipating tax increment revenues of approximately \$172,150. They have a financial borrowing cap as designated in the Renewal Plan of \$2,953,000.

Respectfully Submitted,

Rick Whitlock
City Manager

Transmittal Letter

To the Urban Renewal Budget Committee, Mayor, Council, City Manager, and the Citizens of Klamath Falls:

This transmittal letter includes additional information not found elsewhere in the budget. The intent is to provide readers of the budget document with a clear understanding of budget policies, accounting techniques, and various undertakings.

Capital Projects

The Downtown Urban Renewal Project is currently reviewing small projects to complete with the little remaining tax increment available as it nears its end. We anticipate the Project will reach its maximum indebtedness of \$8,400,000 during the 2011/2012 fiscal year. The Lakefront Urban Renewal Project remains at a standstill. Infrastructure has been completed and is awaiting new development once the economy turns around. The Town Center Urban Renewal Project has had some renewed interest from developers. A large department store is viewing the anchor tenant site for a possible location. Another operation is looking at the vacant corner for potential development. The City is looking forward to a fully occupied shopping site.

Fund Balance Policy

The City's fund balance policy is to maintain a minimum contingency of ten percent, The Downtown Urban Renewal Fund maintains a fund balance of \$16,000 as the District nears its end. The Lakefront Urban Renewal Fund has a contingency of \$3,675 and the Town Center Fund maintains no balance.

Personnel Update

City staff continues to provide needed services for the Districts. They have no staff of their own but rely on the decisions of a committee of citizens in conjunction with City staff.

Basis of Accounting

The City and the Districts utilize fund accounting to report on financial position along with the results of operation. The Districts are accounted for as special revenue funds, which use the modified accrual basis of accounting for budgetary purposes and full accrual for their financial statements. Under the modified accrual basis, revenues are recognized when earned, not when received and expenditures are recorded when the liability is incurred, not when the cash disbursement takes place.

Budgetary control is maintained through the use of appropriations, which include the categories of Personal Services, Materials & Services, Capital Outlay, Debt Service, and Contingency. Monthly budget reports and meetings throughout the fiscal year allow for review of the Downtown District by committee members. Finally, approval for expenditures in excess of \$20,000, require City Council approval.

Conclusion

The Districts continue to pursue their goals. City staff looks forward to the challenges ahead, with a desire to provide the best professional service possible to the citizens of Klamath Falls.

Phyllis Shidler
Finance Director

FY 2011-2012 SCHEDULE OF URBAN RENEWAL BUDGET EVENTS

- | | |
|---|--|
| May 11th and May 25th 2011 | Notice of Budget Committee Meeting published twice in the Herald & News, separated by no less than 5 days with first publication being no later than 30 days prior to the meeting and the final publication being no earlier than 5 days prior to the meeting. |
| May 25th, 2011 | Proposed Budget distributed to Budget Committee Members and a copy available for Public to view. |
| June 1st, 2011 | Budget Committee Meeting, City Hall 9:00 a.m. |
| June 22nd, 2011 | Notice and Summary of 2011-2012 Approved Budget Published in the Herald and News (5-30 day notice). |
| June 27st, 2011 | City Council Public Hearing to adopt Budget for fiscal year 2011-2012. |

THE BUDGET PROCESS

1. Appoint Budget Officer. As designated in the City's Charter, The budget officer is the City Manager. **ORS 294.331**

2. Prepare Proposed Budget. The budget is prepared under the direction of the City Manager. **ORS 294.331**

3. Publish Notice of Budget Committee Meeting. The notice of budget committee meeting is published twice in the Herald and News separated by no less than 5 days with the first publication being no later than 30 days prior to the meeting and the final publication being no earlier than 5 days prior to the first meeting. **ORS 294.401**

4. Budget Committee Meets. When the proposed budget is provided to the budget committee member, it then becomes a public record and a copy is available for public inspection at City Hall (500 Klamath Ave). The proposed document can be distributed at any point prior to the first meeting. The budget message, which is delivered at the first meeting, explains the proposed budget and significant changes in the City's financial position. The budget committee may meet as many times as necessary to go through the budget and make any revisions they deem appropriate. Budget committee meetings are open to the public. **ORS 294.401**

5. Budget Committee Approves Budget and Authorizes the Levy of taxes. When the budget committee is satisfied with the proposed budget, including any revisions it is then approved. **ORS 294.406**

6. Budget Summary & Notice of Budget Hearing Published. After the budget has been approved by the budget committee, a budget hearing must be held and a summary of the budget must be published in the Herald and News 5 to 30 days prior to the scheduled hearing date. **ORS 294.421**

7. Budget Hearing. The purpose of the budget hearing is to listen to citizens' testimony on the budget approved by the budget committee. **ORS 294.430**

8. Adopt Budget, Make Appropriations & Levy Tax. The resolution to formally adopt the budget must occur no later than June 30. This resolution, when signed, gives the City the authority to spend the funds appropriated in the adopted budget beginning with the new fiscal year (July 1) **ORS 294.555**

9. File Budget & Certify Levy. The City must deliver two copies of the adopted budget to the County Assessor for filing and certification of the tax levy by July 15. **ORS 294.555**

When the above steps are completed and the new fiscal year has begun, the City is limited to spending only the amounts appropriated in the adopted budget. If it becomes necessary to exceed those amounts, the City will either need to make appropriation transfers or prepare a supplemental budget.

TRANSFERS - Appropriation transfers are enacted by a Resolution and can only be made within the same fund or from the general fund to another fund. Transfers can now be made from any fund to any other if authorized by resolution.

SUPPLEMENTAL BUDGETS – The City may amend the current budget by adopting a supplemental budget at a regular public meeting which was published not less than 5 days prior if the expenditures being adjusted are less than 10% of the annual budget of the fund being adjusted. If the expenditures are greater than 10%, the supplemental budget must be published and a special hearing held. **ORS 294.480**

The final phase of the budget process is an audit of the previous fiscal year. The auditor examines the financial records and activities of the City and prepares an audit report. The audit report includes financial statements and the auditor's opinion of the financial statements. The report also contains the auditor's comments on the City's compliance with legal requirements.

City of Klamath Falls
REVENUE SOURCES
Description and Assumption

RESOURCES

NET WORKING CAPITAL - Cash, investments and receivables net of payables carried forward from previous year.

TAXES - Taxes are assessed based on the incremental value attached to each individual's property within each project. With market values in the District's areas decreasing, the tax proceeds are only increasing at a very slow rate.

INTEREST INCOME – The City is pursuing its investment policy whereby we are investing with local banks and credit unions. Given the current market, rates remain less than 1% for most investments. We are also scrutinizing cash balances daily, resulting in the movement of surplus money into better paying income accounts. This decrease reflects the lowering of interest rates.

OTHER FINANCING SOURCES – This represents the proceeds from debt which will be used for capital projects and will be repaid from tax revenues.

City of Klamath Falls

Description of Budgeted Categories

Budget Category

Description with actual examples and/or definition

FUND

An independent accounting entity with its own self-balancing set of accounts. More specifically a “fund” is like a small company or business that is separated from, and only indirectly related to, the other funds of the City.

REQUIREMENTS

MATERIALS & SERVICES

Costs such as Utilities, Parts & Supplies, Professional Services, Training Education, Insurance, Postage, Small Tools & Equipment, Internal Service Charges, Repairs & Maintenance etc.

CAPITAL OUTLAY

Acquisition or construction of buildings, improvements and land with a cost of \$5,000 or more and a life expectancy of three or more years.

DEBT SERVICES

Dollars set aside for repayment of principal and interest obligations.

TRANSFERS OUT &
TRANSFERS IN

Amounts distributed from one fund to finance activities in another fund shown as an expenditure in the originating fund and as a revenue in the receiving fund.

CONTINGENCY

Dollars set aside for unforeseen expenditures/expenses. Available only after legislative action.

UNAPPROPRIATED

Dollars that cannot be spent or appropriated until the following budget year, except in an emergency situation created by civil disturbance or natural disaster.

CITY OF KLAMATH FALLS

Downtown Urban Renewal Fund

The fund accounts for revenues and expenditures associated with the Downtown Urban Renewal District.

Estimated Revenue: \$ 1,276,225

Appropriated: \$ 1,260,225

Contingency: \$ 16,000

**BUDGET SUMMARY
ADOPTED BUDGET
Fiscal Year 2011-2012**

DOWNTOWN URBAN RENEWAL FUND #205

FY 2009 Actual	FY 2010 Actual	FY 2011 Budget	Category	Fiscal Year 2012			Financial Plan FY 2013	Financial Plan FY 2014
				Proposed	Approved	Adopted		
		30,000	Net Working Capital	85,650	85,650	85,650	16,000	1,850
20,562	27,995	18,500	Taxes Previously Levied	28,675	28,675	28,675	29,250	29,850
58,546	181,986		Intergovernmental					
32,625	19,983	35,375	Charges for Services	63,325	63,325	63,325	63,325	64,600
8,239	5,230	2,900	Investment Income	2,375	2,375	2,375	2,050	1,950
50	430		Miscellaneous Revenues					
1,140,000	648,000	325,600	Other Financing Source	375,650	375,650	375,650	29,250	29,850
1,260,022	883,624	412,375	Total Resources Except Taxes	555,675	555,675	555,675	139,875	128,100
		714,400	Taxes Necessary to Balance	720,550	720,550	720,550		
670,432	694,868		Taxes Collected In Year Levied					
1,930,454	1,578,492	1,126,775	Total Resources	1,276,225	1,276,225	1,276,225	139,875	128,100
			REQUIREMENTS					
203,605	170,919	135,075	Materials & Services	140,000	140,000	140,000	47,275	48,225
1,015,289	782,000	219,000	Capital Outlay	371,000	371,000	371,000	51,000	46,000
693,086	715,999	739,175	Debt Service	749,225	749,225	749,225	39,750	31,350
		33,525	Contingency	16,000	16,000	16,000	1,850	2,525
1,911,980	1,668,918	1,126,775	Total Requirements	1,276,225	1,276,225	1,276,225	139,875	128,100

COMMENTS: The Downtown Urban Renewal district is winding down. There is \$371,000 budgeted in Capital Outlay awaiting identification of a project by the Downtown Urban Renewal Committee and City Council. This budget anticipates the end of the district in fiscal year 2011-2012 with the final property tax collections paying off all long term debt. The carryover of funds to fiscal year 2013 will pay for the final auditing and filing fees of the district. The remodeled portion of the South Portal building is fully occupied with not-for-profit entities and we have just received a new tenant in the old portion of the building. Currently the rents are self-supporting.

CITY OF KLAMATH FALLS

Lakefront Urban Renewal Fund

The Lakefront Urban Renewal District encompasses the old Modoc Mill site and the future Timber Mill Shores development.

Estimated Revenue: \$ 129,675

Appropriated: \$ 126,000

Contingency: \$ 3,675

**BUDGET SUMMARY
ADOPTED BUDGET
Fiscal Year 2011-2012**

LAKEFRONT URBAN RENEWAL FUND #206

			Fiscal Year 2012					
FY 2009 Actual	FY 2010 Actual	FY 2011 Budget	Category	Proposed	Approved	Adopted	Financial Plan FY 2013	Financial Plan FY 2014
		29,800	Net Working Capital	15,500	15,500	15,500	3,675	5,075
2,517	4,138	2,675	Taxes Previously Levied	5,000	5,000	5,000	5,025	5,050
1,182	767		Investment Income	450	450	450	475	475
			Other Financing Source					
3,699	4,905	32,475	Total Resources Except Taxes	20,950	20,950	20,950	9,175	10,600
		118,500	Taxes Necessary to Balance	108,725	108,725	108,725	110,900	113,650
101,009	106,458		Taxes Collected In Year Levied					
104,708	111,363	150,975	Total Resources	129,675	129,675	129,675	120,075	124,250
			REQUIREMENTS					
		15,000	Materials & Services	12,275	12,275	12,275		
101,968	107,074	132,175	Debt Service	113,725	113,725	113,725	115,925	118,700
		3,800	Contingency	3,675	3,675	3,675	4,150	5,550
101,968	107,074	150,975	Total Requirements	129,675	129,675	129,675	120,075	124,250

COMMENTS: The Lakefront Urban Renewal District was initially established with \$7,000,000 in projects designed to create a riverfront mixed use area comprised of offices, retail shops and condominiums. Given the economic downturn they are still awaiting the first development company to break ground. This District is poised and ready to go with infrastructure in place when economic growth resumes. We anticipate that taxes received in the 2012-2013 fiscal year will begin payments to the developer for infrastructure they have previously installed.

CITY OF KLAMATH FALLS

Town Center Urban Renewal Fund

**The Town Center Urban Renewal District encompasses the old Klamath Mall site
and future Town Center development.**

Estimated Revenue: \$ 902,350

Appropriated: \$ 902,350

Contingency: \$ 0

**BUDGET SUMMARY
ADOPTED BUDGET
Fiscal Year 2011-2012**

TOWN CENTER URBAN RENEWAL FUND #207

FY 2009 Actual	FY 2010 Actual	FY 2011 Budget	Category	Fiscal Year 2012			Financial Plan FY 2012	Financial Plan FY 2013
				Proposed	Approved	Adopted		
		51,350	Net Working Capital					
3,335	6,628	4,625	Taxes Previously Levied	5,200	5,200	5,200	5,300	5,450
			Charges for Services					
1,144	1,043	300	Investment Income					
		725,000	Other Financing Source	725,000	725,000	725,000	725,000	725,000
4,479	7,671	781,275	Total Resources Except Taxes	730,200	730,200	730,200	730,300	730,450
		241,350	Taxes Necessary to Balance	172,150	172,150	172,150	175,600	180,000
194,864	216,828		Taxes Collected In Year Levied					
199,343	224,499	1,022,625	Total Resources	902,350	902,350	902,350	905,900	910,450
			REQUIREMENTS					
		725,000	Materials & Services	725,000	725,000	725,000	725,000	725,000
200,054	213,836	246,050	Debt Service	177,350	177,350	177,350	180,900	185,450
		51,575	Contingency					
200,054	213,836	1,022,625	Total Requirements	902,350	902,350	902,350	905,900	910,450

COMMENTS: The Town Center Urban Renewal District was established to revitalize the old Klamath Mall Shopping Center. The developers remodeled the Gottschalks building and completed a new Sherm's Thunderbird Market before the project went into foreclosure. The District has remained stagnant due to the downturn in the economy. There have been several developers looking at different aspects of the project and we hope there will be new activity at the site. We have budgeted the final payout in hopes that the project will be completed during any one of the years presented.