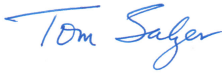


To: Clackamas County SWCD Budget Committee
From: Tom Salzer 
Date: March 30, 2012
Re: FY 2012-2013 Budget Message



Structure of this memo

This memorandum is broken into several sections to help Budget Committee members understand the basis for the budget proposed for fiscal year 2012-2013 by the Clackamas County Soil and Water Conservation District. This document is a supplement to the proposed budget.

Section 1: Budget Committee and Budget Message

This section discusses the Budget Committee, including who is on the Committee this year. An overview of the steps to be taken is provided. We also talk about why we have a budget message and what must be included.

Section 2: Context

Section 2 provides background information about the District, land uses in Clackamas County, and existing District programs.

Section 3: Performance

How did we do implementing the budget adopted for fiscal year 2011-2012? In Section 3, we discuss initiatives that were funded in that budget, as well as uptake of new District programs.

Section 4: Economic Conditions and Management

Section 4 describes the economic conditions faced by the District as the proposed budget was being developed, and discusses management strategies for dealing with those conditions.

Section 5: Budget Scenario for Fiscal Year 2012-2013

A simplified budget structure is described in Section 5 in which we consolidate all activities into three funds. We propose new initiatives and describe the basis for assumptions in the proposed budget. More detailed descriptions of each fund are presented.

Section 1: Budget Committee and Budget Message

The Budget Committee

Oregon Revised Statute chapter 294 requires public taxing entities to prepare a budget consistent with Oregon Local Budget Law.

The Clackamas County Soil and Water Conservation District (the District) is a special district of the State of Oregon and a local unit of government, formed under the authority of Oregon Revised Statute chapter 568, and with the powers and duties described in that law. In 2006, Clackamas County voters granted a permanent property tax rate limit to the District, making the District a public taxing entity that must comply with Oregon Local Budget Law.

The District must establish a Budget Committee and must hold at least one public meeting to review and approve the upcoming year's budget. The Budget Committee consists of the District's governing body and an equal number of local citizens. Committee members for this year are shown in Figure 1.

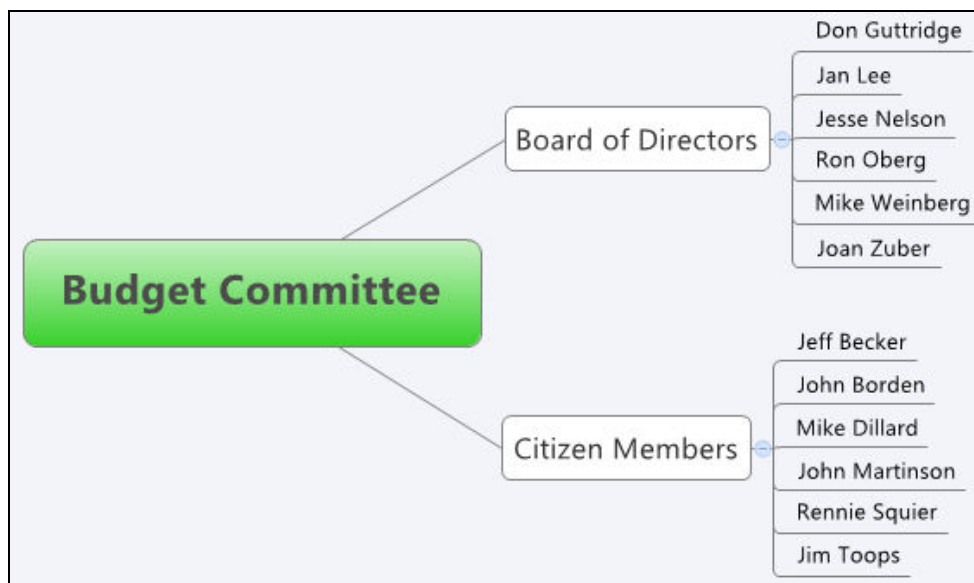


Figure 1: Composition of the Budget Committee

Mr. Borden and Mr. Martinson are serving the third year in their three-year terms on the Committee. Ms. Squier was appointed to fill the last year of a vacant three-year term. The other citizen representatives on the Committee are in their first year of three-year terms.

The role of the Budget Committee is to review the proposed budget submitted by the Budget Officer, and either approve it as proposed or modify it. The Committee elects a presiding officer to help the Committee reach an affirmative vote in approving the budget.

Following approval by the Committee, the District's Board of Directors adopts the final budget, appropriates funds, and determines the total amount or rate of property tax to be levied for the upcoming fiscal year. The Board of Directors may modify the budget approved by the Budget Committee. Funding sources available to the District are not limited to the local tax

levy. The District also obtains funds through grants, contracts, and intergovernmental agreements, and is authorized to accept donations and sell products.

About the Budget Message

A cornerstone of the public budgeting process is communicating the annual budget to the Budget Committee and public. The budget message provides an analysis of significant changes from the previous budget and identifies significant new initiatives and changes in District programs and operations. The budget message also communicates how the District will continue to implement the District's Master Plan in the coming fiscal year.

According to ORS 294.403:

A budget message shall be prepared by or under the direction of the executive officer of the municipal corporation or, where no executive officer exists, by or under the direction of the presiding officer of the governing body. The budget message shall be delivered at a meeting of the budget committee as provided in ORS 294.426 (1). The budget message shall:

- 1. Explain the budget document;*
- 2. Contain a brief description of the proposed financial policies of the municipal corporation for the ensuing year or ensuing budget period;*
- 3. Describe in connection with the financial policies of the municipal corporation, the important features of the budget document;*
- 4. Set forth the reason for salient changes from the previous year or budget period in appropriation and revenue items;*
- 5. Explain the major changes in financial policy; and*
- 6. Set forth any change contemplated in the municipal corporation's basis of accounting and explain the reasons for the change and the effect of the change on the operations of the municipal corporation.*

What is a budget?

A budget is a financial plan containing estimates of revenues and expenditures for one fiscal year.

The District prepares the proposed budget several months before the end of the current fiscal year. We can predict contractual costs such as our office lease, but we don't know costs that are somewhat outside our control. For example, fuel costs may increase between now and June 30, 2012 (the end of our fiscal year), and to control that cost we could reduce vehicle usage, but that directly impacts the quality of service we provide our customers. How much we spend between now and the end of the current fiscal year will affect our remaining cash balance, which becomes part of the total resources available to the District at the start of the new fiscal year on July 1, 2012.

The District has utilized a team approach with multiple cross-checks to provide the most reliable estimates for the proposed budget. The team approach also assures that we build capacity to continue crafting sound budgets in the future.

Section 2: Context

About the Clackamas County Soil and Water Conservation District

Governance

The District is governed by a seven-member Board of Directors. Individual directors are elected by citizens. The District boundary is identical to that of Clackamas County, Oregon. Five directors are elected to represent specific zones in the District, and two directors are elected “at large,” meaning they do not represent a particular zone.

The District office is located in Oregon City in an attempt to balance easy access by the majority of Clackamas County citizens with proximity to active farming areas.

District staff

Currently, the District employs twelve people in two fundamental areas of work: district administration, and delivery of conservation services. At the time of this budget message, the District also employs a college student on a part-time basis to assist in delivering service to the public.

The majority of the District’s employees are engaged in providing conservation services to the public, with specialized skills addressing large and small farms, streams and the health of streamside vegetation, conservation in the urban environment, wildlife needs, outreach and education services, and invasive plant species.

Three employees provide management and administration of the organization: a contracts specialist, a financial administrator, and a district manager. (Our outreach and education coordinator also functions as the assistant district manager, providing backup and continuity to the overall District program.)

All staff work occurs under the day-to-day supervision of a district manager who reports to the Board of Directors.

How much land?

The District covers all of Clackamas County, with a total area of 1,879 square miles. Land covers 1,868 square miles and surface water covers 11 square miles. The 11 square miles of water exists as wetlands, ponds, lakes, creeks, streams, and rivers.

The eastern part of the District is bounded by the Cascade Mountains where luxuriant forests help to capture snow and rain. Water is an abundant resource, but it is not evenly distributed, with some areas receiving far more than other regions. Some places end up with too much water and some have too little.

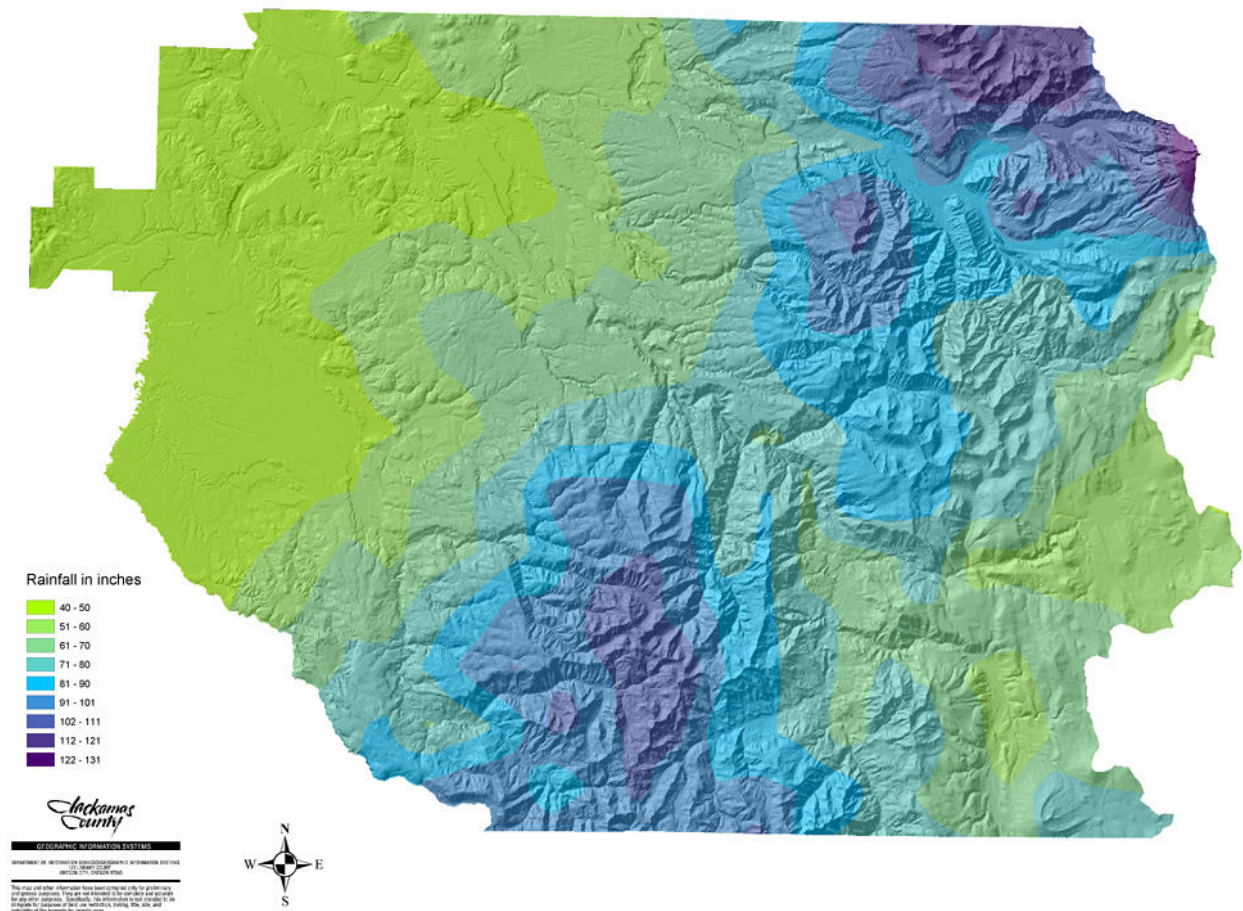


Figure 2: Average rainfall in Clackamas County

Agricultural land

The District is in one of the most favorable farming locations in the United States: the Willamette River Valley. The combination of rich, deep soil with a moderate climate makes it possible for farmers to produce a diverse array of food crops, livestock, nursery products, and Christmas trees.

Farming activity occurs on 285 square miles of land, or 15 percent of the total area of land available in the District. In general, public lands are higher elevation landscapes not suitable for farming activities. It comes as no surprise that most farming activity is centered on fertile valley bottoms and nearby prairies.

Farming often involves disturbing soil for field preparation, weed control, planting, and harvesting. Clearly, farming is a major land disturbing activity, and with land disturbance comes increased potential for soil erosion, loss of native plant communities, invasion of weeds, and impacts to water quality.

Clackamas County also has more farms than any other county in Oregon, with 3,989 farms reported in the 2007 Census of Agriculture. The District contains about ten percent of the total

number of farms statewide. Yet, the average size of a Clackamas County farm is only 46 acres, which is about one-tenth of the average size across the state.

Approximately one-quarter of farms in the District irrigate land. About one-quarter of the farms in the District are owned by women.

Farms in the District are important to the local, regional, and statewide economy, generating more total farm sales than any other county in Oregon except for Marion County.

Urban land

Based on the 2010 U.S. Census, the District holds 375,922 people, or nearly ten percent of Oregon's total population. Most people live in the northwestern part of Clackamas County.

2000 Census Population Density

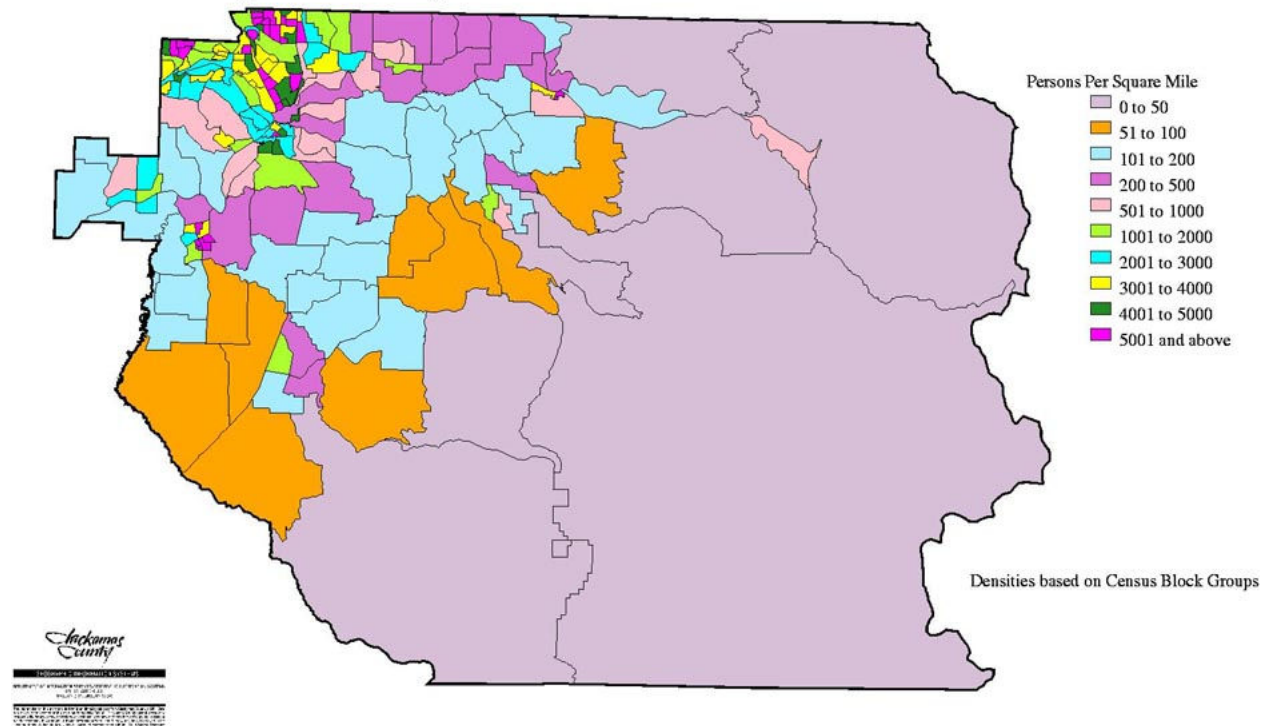


Figure 3: Population density in Clackamas County

Conditions in the urban environment challenge us in helping landowners conserve natural resources. In and around cities, native soil profiles have been disturbed through the building of roads, businesses, and homes. Our traditional conservation practices are based on having native soil profiles, and may not always work as expected in urban conditions. Some conservation practices suitable for urban landscapes are quite expensive compared to working on farm and forest land. Urban areas also present many more potential users of our services in a smaller area, compared to delivering services in our farming and forestry-based communities.

Forest land

Forested land covers a large portion of the District. Figure 4 shows the distribution of public lands in Clackamas County, and in general, public lands are forested lands. In addition, private forest land occurs in a north-south strip between public lands to the east and farms to the west.

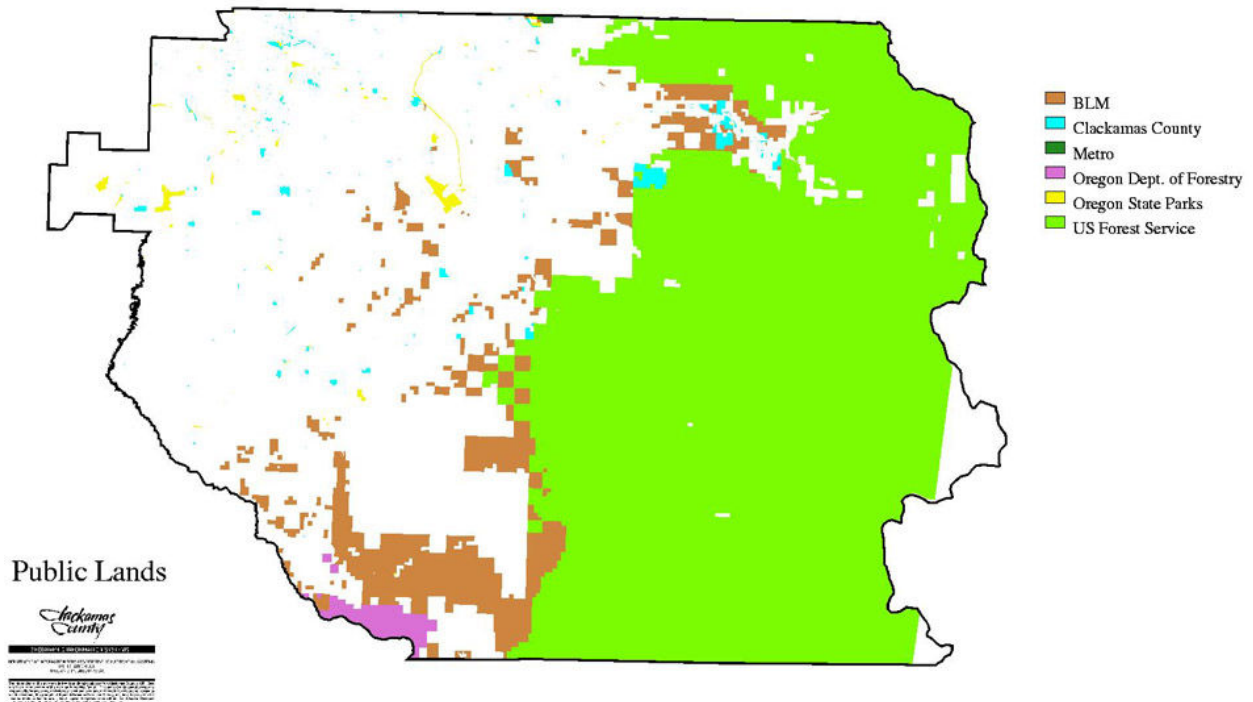


Figure 4: Public lands in Clackamas County

District Programs

Protecting water quality in a non-regulatory, collaborative manner is a core mission of the District. With so much land draining to such a small total area of water, small changes in land-based practices can dramatically affect water quality.

Many of the District's core conservation programs revolve around land disturbance. Whenever land is disturbed, the potential increases for soil erosion, disruption of native plant communities, and invasion of foreign species. Whether in the forest, on the farm, or in an urban area, land disturbance is a central factor in determining the activities and support available through the District.

The District's conservation professionals are focused on conservation activities that roughly reflect the gross characteristics of the wide range of land uses on private lands in Clackamas County:

- Four employees are focused on working with farms and fields.
- Two employees deal primarily with invasive plants.
- One employee concentrates on streamside plant communities.
- One employee is focused on conserving resources in the urban environment.

In addition to college-level education in various natural resource fields, and training in conservation planning systems, some of our staff have received training in wildlife conservation and rainwater harvesting. One staff member is certified by Oregon State University as an Oregon Master Naturalist. All staff work in a cross-functional manner, meaning they work not only within their core area but also extend their knowledge, skills, and abilities to other staff members when needed to address diverse natural resource needs and landowner interests on specific parcels of land.

The distribution of District staff skills outlined above occurred in response to the kinds of requests for help received by the District, in combination with the guidelines presented in the District's Master Plan that was developed in 2008, and based on direction from the District's elected Board of Directors. Changes in these skills sets are likely to occur in the future as the District continues to shape how it responds to evolving natural resource conditions and shifting community needs.

Section 3: Performance

Cost control

Budget-to-actual reports demonstrate the District has been able to effectively manage the rising cost of operating the District during fiscal year 2011-2012. This was accomplished while simultaneously increasing the number of people receiving service from the District and increasing the amount of funds invested in on-the-ground conservation actions.

At the end of February 2012, the District was 67% through the 2011-2012 fiscal year. At that time, revenue received was 94% of budget, and based on past patterns of property tax disbursements from Clackamas County, we expect to reach 100% of our budgeted revenue.

At the end of February 2012, personnel costs were 54% of the budgeted appropriation. Expenses for Materials and Services were 37% of budget. Capital outlays were 36% of budget.

Status of initiatives funded in the 2011-2012 fiscal year

Last year, the District budgeted for expansion of certain District programs and activities. Our goals were to increase service at a reasonable cost, and provide more financial assistance to individuals and organizations.

Several advances were implemented in fiscal year 2011-2012, including:

- **More transparency.** The District's new website gives visitors an opportunity to subscribe to site news. Social media channels are being used to reach non-traditional audiences. The District posts minutes of meetings, keeps local news media informed of our actions, and publicly posts the monthly accounts payable list when approved.
- **More presence in communities.** Along with the usual number of workshops, the District also presented at many other venues and partnered with more organizations. The District's booth at the 2011 County Fair received a record turnout.
- **More invested.** The District invested substantially more toward on-the-ground conservation actions in fiscal year 2011-2012.

How did we do in our efforts to increase financial support to landowners and partners? The following numbers illustrate the recent growth in our commitments of local tax dollars toward direct conservation actions:

- \$56,418 committed in fiscal year 2009-2010
- \$120,778 committed in fiscal year 2010-2011
- \$277,922 committed to date in fiscal year 2011-2012

Following adoption of the final budget, the District added part-time staff to better address invasive weed issues. The District also implemented a paid internship program to provide seasonal support to District staff and provide additional education to college students.

The District purchased a water quality testing meter and probe, allowing fast, low-cost collection of basic water quality parameters. Data collected will help in assessing water quality before, during, and after conservation project work.

The District also increased the level of financial support provided to organizations that address goals important to the District’s conservation mission. Funding for watershed councils was increased because many of their activities directly benefit water quality in their service areas within the District. We increased funding for farmers markets because well-managed farm land preserves agriculturally important soils, reduces erosion, and controls the spread of invasive weeds.

Last year, the District grouped some expenditures into a new fund we called the Conservation Implementation Fund. District management proposed new strategies to increase uptake of District programs and assistance. Our customers are responding. The Conservation Implementation Fund is used only for direct financial support for on-the-ground conservation actions. Usage of this fund is increasing. The District is encouraged by this upward trend.

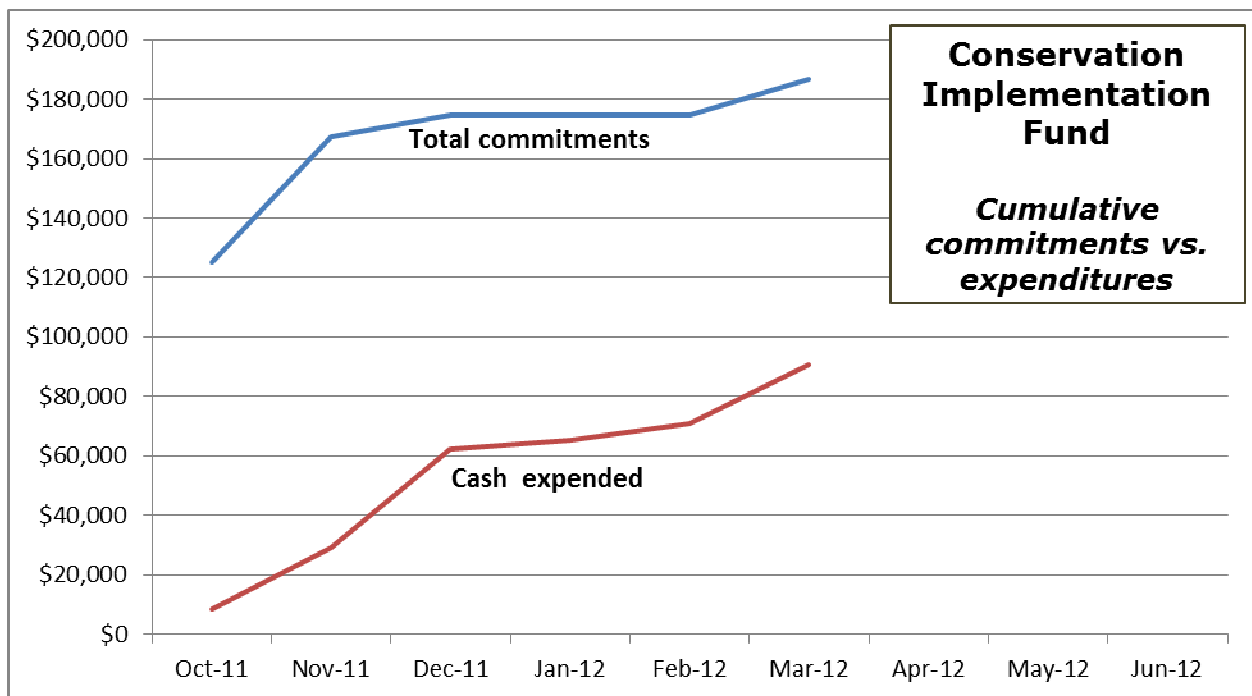


Figure 5: Uptake in Conservation Implementation Fund

The District completed a public procurement process to contract for services to manage targeted invasive plants. Six contracts for vegetation management services were executed at up to \$50,000 per contract, with all contracts expiring on December 31, 2013. Contractors treat occurrences of invasive weeds at the direction of the District. A new financial support program was initiated that provides 100% funding to private landowners for noxious weed control, up to \$2,500 per parcel, if the landowner agrees to use our licensed, bonded contractors. These contractors are licensed to apply pesticides, providing additional assurance that water quality will be adequately protected when pesticides are applied.

The District successfully competed for a low-interest loan of \$250,000 from the Oregon Department of Environmental Quality. The District negotiated a 30% loan forgiveness clause that will apply when we complete the contract. The loan program continues to be developed, with likely markets being irrigators using leaking, inefficient delivery systems and homeowners with failing on-site septic systems.

The District established an equipment replacement fund to provide resources for future capital equipment purchases.

The District also launched two community-based conservation projects, one on Milk Creek (a tributary of the Molalla River) to address streambank protection and improve habitat for salmonid species, and the other near Wilsonville to address excessive erosion of highly productive farmland.

Section 4: Economic Conditions and Management

Economic Conditions

The District is not immune from the economic factors that have affected our region, state, and country. Costs for services, fuel, and goods have risen. Personnel costs – primarily in the area of health care benefits for employees – have also risen.

At the same time, growth in the assessed valuation of real property in Clackamas County has rebounded slowly. Costs are rising faster than the District's tax base is growing.

In a private business, rising costs may be offset by increasing sales. For a tax-based entity like the District, opportunities to increase revenue are limited. The District's permanent tax rate is capped at five cents per thousand dollars of assessed value (5¢/\$1,000). Increasing the District's investment in seeking grants could increase revenue. Unfortunately, the same economic conditions that affect us have also caused many funders to reduce the amount or availability of grant funds, and competition for this shrinking pool of funds has increased.

Thus, the District is caught in a slowly developing financial squeeze consisting of rising costs, relatively flat revenue, and reduced availability of external grant funds. Reducing costs would be a normal short-term response to these conditions. We believe strong management can continue to hold the line on most costs. Over the long term, the District proposes investments to reduce ongoing costs and improve service delivery.

Assumptions

Revenue assumptions used in the fiscal year 2012-2013 proposed budget include an estimation of the assessed valuation of property. Communication with the Assessor's Office on March 29, 2012 indicate an estimated assessed valuation for fiscal year 2012-2013 of \$36,362,510,548 for property subject to the District's permanent tax rate.

The Assessor projects growth in assessed value between 1.75% and 2.25%. For this proposed budget, we use the more conservative rate of 1.75%.

The Assessor projects very little loss due to Measure 5 tax compression, so we assume a slightly higher loss than projected of \$2,000.

The Assessor estimates about 6% of taxes will be uncollectable, so we use that rate.

For expenses, the District assumes the following rates in crafting the proposed budget for fiscal year 2012-2013:

- 10% increase in health and dental insurance premiums
- 3% COLA

For each of the past two fiscal years, health and dental insurance premiums increased about ten percent, on average. Insurers will tell the District about rate changes in fall 2012, and those changes will take effect in January 2013.

Cost of living adjustment (COLA)

Determining a cost-of-living adjustment (COLA) for a specific region is difficult. The consumer price index (CPI) is sometimes incorrectly used as a COLA. CPI is based on retail pricing for goods and services, and such purchases generally are made using after-tax dollars. Since a COLA is applied before the eroding effect of taxation on usable income, a COLA must be greater than the CPI.

The Local Government Personnel Institute (LGPI) publishes a set of Portland-Salem CPI numbers, called CPI-U Portland and CPI-W Portland, twice a year. (CPI-U is a newer index, reflecting the buying habits of all urban households. CPI-W is a revision of “old” CPI, reflecting the buying habits of urban wage earners and clerical workers.) For both numbers, the calculations show rising CPI values: CPI-U Portland was 2.6% for the first half of calendar year 2011 and 3.1% for the second half; CPI-W Portland was 2.7% for the first half and 3.3% for the second half. The annual averages are 2.9% for CPI-U Portland and 3.0% for CPI-W Portland.

On the date of this budget message, the information available from the U.S. Social Security Administration indicated a 3.6% COLA for social security recipients.

While we can't predict future pricing, the rising cost of fuel affects most goods and services consumed by District employees. For this proposed budget, we propose a minimum value of 3.0% for the COLA applied to employee salaries.

Management Approaches in Response to Economic Conditions

How may short-term costs be managed?

- **Reduce staffing.** The District may choose to not fill some positions when they become vacant. At this time, the District is anticipating that normal attrition will be sufficient to reduce staffing costs over the next several years.
- **Use seasonal employees.** Rather than hire full-time staff, the District may shift some seasonal workload to short-term project positions. Unlike a regular employee, costs for contractors and project employees are time limited.
- **Prioritize conservation work.** The Local Priorities Program is a new initiative proposed in the new budget. The program is designed to use local stakeholders to help the District determine where the most important conservation work should be accomplished, and what specific actions will be most beneficial. By prioritizing the District's conservation work, work that provides less significant benefits can be delayed in favor of actions that are most beneficial.

How may services be increased?

- **Prioritize conservation work.** While the Local Priorities Program would not eliminate “walk in” customers, this new program would shift us toward becoming more proactive in addressing conditions in defined geographical areas. Traditionally, the District worked fenceline-to-fenceline with a single landowner, not always recognizing that the

issues faced by one landowner may also affect neighboring landowners. Reaching out to a neighborhood about natural resource issues and potential conservation actions was initiated in fiscal year 2011-2012 with heartening results. The Local Priorities Program formalizes this approach in a systematic way that is substantially driven by stakeholders and facilitated by the District.

- **Separate the planning process from implementation.** Using contractors for the implementation phase of conservation work means the District's conservation planners can focus on helping people select the best conservation actions for their land and water resources. Planners would be active during the planning phase, and at final inspection, but would not be making several trips to the same property during the construction phase. This will reduce the total amount of time spent assisting any one landowner, which means more landowners can be assisted.
- **Add another vehicle to the fleet.** Planners provide service at homes, businesses, and farms in Clackamas County. As explained later in this document, the District would be more efficient with the addition of a vehicle.
- **Hire an administrative assistant.** Adding an administrative position is less costly than hiring a planner. An administrative assistant will perform many of the clerical duties being performed by more costly planners. This will allow planners to assist more customers. The District anticipates substantially more activity in the area of public procurement, documentation of records relating to conservation actions, project permitting, and stakeholder involvement. Many of these activities can be accomplished by a clerical person at lower cost compared to hiring a conservation planner.

Long-term investments

- **Accelerate investment toward a District-owned office.** Over the next five years, the District will expend more than \$400,000 in office lease payments. We could move to a less expensive office setting. However, the annual cost to house a dozen employees and provide meeting facilities in leased commercial space will continue to be roughly equivalent to the cost of up to two employees. One long-term goal is to construct a District-owned office, meeting, and conservation education facility. Increasing the amount saved in the Building Reserve Fund will reduce spending on lease costs by allowing the District to obtain or construct a facility sooner. We anticipate that a District-owned facility would cost significantly less to maintain and operate than leasing office space. Some partners may choose to lease space from the District, generating some revenue to offset operating costs.
- **Gather meaningful data.** As grant funds have become more difficult to obtain, it seems likely that data-driven funding requests are more likely to be funded in the future. The District proposes investing more heavily in water quality testing equipment and activities. The combination of before, during, and after testing related to conservation actions, with stakeholder-driven conservation priorities, is anticipated to help the District produce much more competitive grant applications.

Section 5: Budget Scenario for Fiscal Year 2012-2013

The District's budget for fiscal year 2012-2013 (July 1, 2012 through June 30, 2013) reflects the continued commitment of the District to implement core components of the Master Plan, adopt new program strategies consistent with the Master Plan, and perform tasks and activities as directed by the elected Board of Directors.

Last year, the District presented three budget scenarios: reduced services, maintenance level, and expanded services. The budget adopted for fiscal year 2011-2012 allowed us to expand programs and services.

This year, the District presents a single proposed budget scenario that continues our evolution toward utilizing functional teams to accomplish important, measurable conservation outcomes, and toward increasing conservation investments on the landscape, in a way that gets the most important work done first.

Resetting the organization is reflected in the budget

For fiscal year 2012-2013, the District is resetting the organization to reflect our team-oriented approach to providing conservation services and operating the District. The proposed budget reflects this change, and this will lead to a budget document that is easier for citizens to understand. The District values public involvement and providing a clearer, simpler budget will help improve feedback and engagement within the District's service area.

However, this year the budget package looks even more complex than before. The new budget proposes eliminating individual conservation programs and creating two new departments. Since we must show the history for the old programs, the individual program pages must still be included in the new proposed budget. The District shows those pages with history as required but does not allocate expenditures for fiscal year 2012-2013 for the old programs.

Because the new departments have no history, no historical expenditures are shown for them. Notes have been added to the bottom of some budget sheets to help budget users grasp this transition from many programs to two departments. There is history at the highest levels such as Personnel Services, Materials and Services, and Capital Outlay, allowing easy year-to-year comparisons.

Once this simplified structure "catches up" with budget history in a few years, the old pages will no longer be part of the budget and there will be significantly fewer pages in the budget document.

New simplified structure uses three funds

The proposed budget reflects a simplified structure that revolves around three funds: General Fund, Conservation Fund, and Building Reserve Fund. These are illustrated in Figure 6.

The General Fund covers the operation of the District and the provision of conservation services to others. Several programs and functions are consolidated to form two new

departments within the General Fund. The equipment fund from fiscal year 2011-2012 is eliminated and a capital equipment fund is established within the General Fund.

The Conservation Fund is a special revenue fund focused on the financial assistance we provide to others. This is a new fund.

The Building Reserve Fund is a restricted account where we are saving for a facility that will allow the District to provide better service to our customers. This fund currently exists.

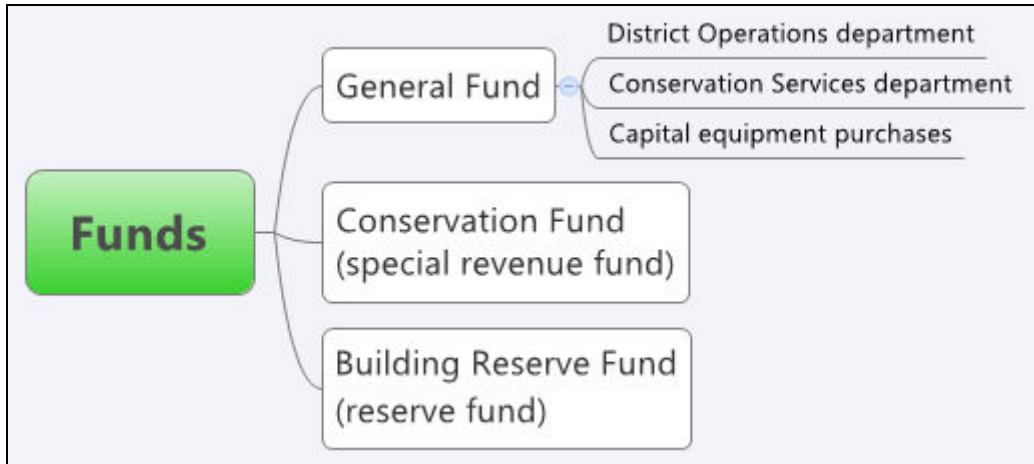


Figure 6: High-level structure of proposed budget

Staff functions consolidated into two departments

A core purpose of having individual programs is to track costs by functional areas. The District's conservation professionals operate in ad-hoc cross-functional teams in which groups of employees help in developing and implementing conservation solutions. Lines between programs are blurred. Costs tracked by individual programs don't actually reflect the true cost of each program. If cost tracking doesn't reflect true costs incurred, it is misleading to track costs in this manner, and it takes extra administrative effort to do so.

The District proposes the elimination of individual conservation programs, replacing them with a consolidated Conservation Services department.

Similarly, administrative functions would be combined to form a separate District Operations department. By separating administrative functions from conservation services, the proposed budget makes it clearer how much money is being spent to maintain the organization and comply with laws and regulations, as compared to the cost of providing conservation services to the public.

Figure 7 shows how the two new departments are formed from the array of old programs and significant District functions, and how both departments are part of the General Fund.

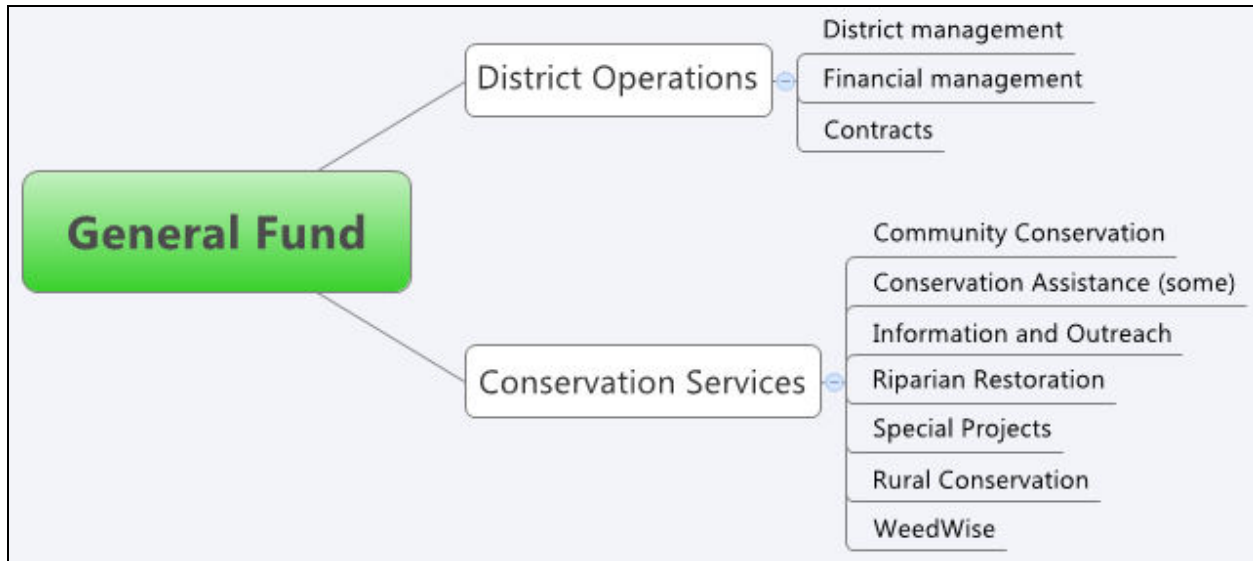


Figure 7: Old programs roll up into two new departments

Special revenue fund for implementation dollars

The District proposes the revising the Conservation Implementation Fund as a special revenue fund called the Conservation Fund. This fund will receive funds restricted to specific projects, and expenditures from the fund will go to implement on-the-ground conservation actions, provide support to partners to advance our conservation mission, and provide conservation loans. Staff costs and district operational costs are not included in the Conservation Fund.

In the budget for fiscal year 2011-2012, implementation funds from separate programs were pooled together to form a single Conservation Implementation Fund. Not all “on the ground” financial support was included in the Conservation Implementation Fund. In retrospect, it is not clear whether this fund was established as a special revenue fund. The District proposes formally establishing this fund as a special revenue fund to be called the Conservation Fund.

The new Conservation Fund would incorporate all “on the ground” financial assistance provided to District customers, as well as grants made to other organizations in support of programs that help advance the District’s mission.

Figure 8 illustrates the various individual programs, grants, and services that make up the new Conservation Fund.

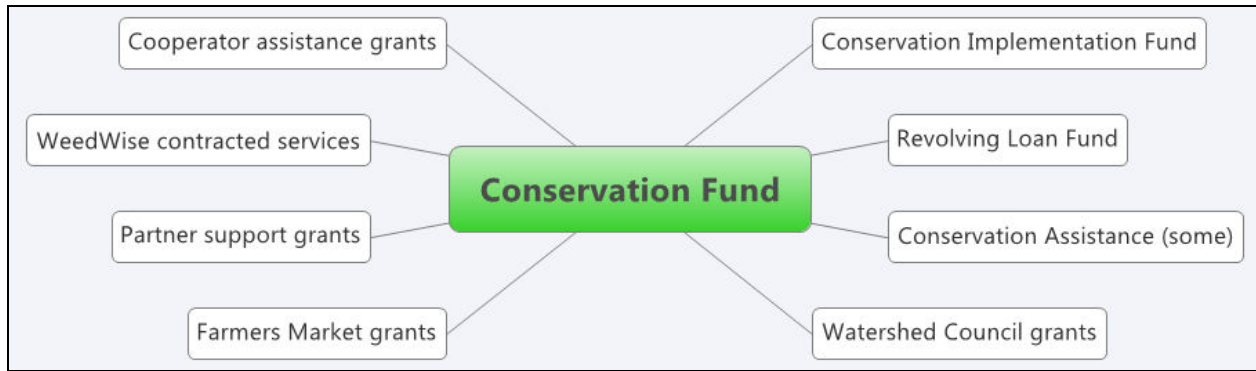


Figure 8: Old programs and actions roll up into the Conservation Fund

A simple way to view this change is to look at how the General Fund is used as compared to the Conservation Fund. The General Fund is focused on costs spent internally for the operation of the organization and the delivery of services. The Conservation Fund is externally focused, investing in conservation actions on private land and in support of organizations to implement conservation projects and programs that support the District’s mission.

It makes sense to create the Conservation Fund as a special revenue fund because some grant funds the District receives are restricted to specific projects and uses, so those revenue sources should not be mixed into our General Fund. By using a special revenue fund for these restricted purposes, the District will be able to carryover funds that are committed to future actions, as well as show restricted revenues flowing into the fund.

New initiatives and improvements for fiscal year 2012-2013

1 – Expand the District’s water quality testing program

We propose the purchase of additional water testing equipment. Grant funders favor proposals that can quantitatively demonstrate positive benefits from project implementation. More austere economic conditions have decreased the amount of grant funds generally available, and have stimulated increased competition for those limited funds. To effectively compete for grant funds, the District proposes to perform more water quality testing. We would add a nutrient sensor to the water quality probe, purchase a flow meter, purchase and install staff gauges on select bridges and crossings in active project areas, and purchase additional HOBOT brand ambient monitoring devices.

2 – Purchase another vehicle

The purpose of the District’s conservation staff is to provide help at the homes, businesses, and farms of our customers. Nine staff are assigned to the Conservation Services department, and along with the three employees in the District Operations department, these 12 people share the use of three District-owned vehicles.

To reduce the potential exposure of staff to pesticides, one vehicle will be assigned for use primarily by staff working with treatment of invasive species. This change will reduce the availability of District-owned vehicles to two for our remaining ten employees. Having only

two vehicles available for ten people limits our ability to provide services in a manner convenient for our customers.

The District proposes purchasing a passenger vehicle with all-wheel drive that can seat at least four people and has sufficient capacity to carry water quality testing equipment and water samples. This will increase the pool of vehicles available for ten staff from two vehicles to three. This vehicle can be used for regular water testing, business travel to large cities, workshop support, and other general business purposes.

The equipment fund established last year will be transferred into the General Fund for fiscal year 2012-2013, and that amount is sufficient for this capital purchase.

3 – Initiate a systematic method of determining conservation priorities

A fundamental tenet of achieving conservation success is to do the most important work first. The Master Plan presents a strategic vision for the District that has guided program development. It provides a meaningful foundation for developing a more detailed determination of the most important things to do first, and where to do those things.

With the diversity of landscapes, land uses, and people in Clackamas County, the District proposes launching a systematic, stakeholder-driven process to help determine the most important conservation actions to be taken. The District is calling this the Local Priorities Program, with stakeholders in watersheds forming Priority Advisory Committees, or PACs.

The role of each advisory committee will be to advise the District on the most important conservation actions that could be taken to resolve issues that impair the quantity or quality of natural resources in the watershed. Meetings of advisory committees would be facilitated by District staff.

The scale of each watershed would be at the 5th field Hydrologic Unit Code level, as shown in Figure 9.

(“Hydrologic unit” really means watershed. Defining a watershed depends on the scale you are using. For example, the Columbia River watershed contains the smaller Willamette River watershed, and the Willamette River watershed contains the smaller Clackamas River watershed. The United States Geological Survey has created a system that describes watersheds at different scales, in which the United States is divided and subdivided into successively smaller hydrologic units. This is a standardized system used by many agencies, including our United States Department of Agriculture partners and our State of Oregon partners.)

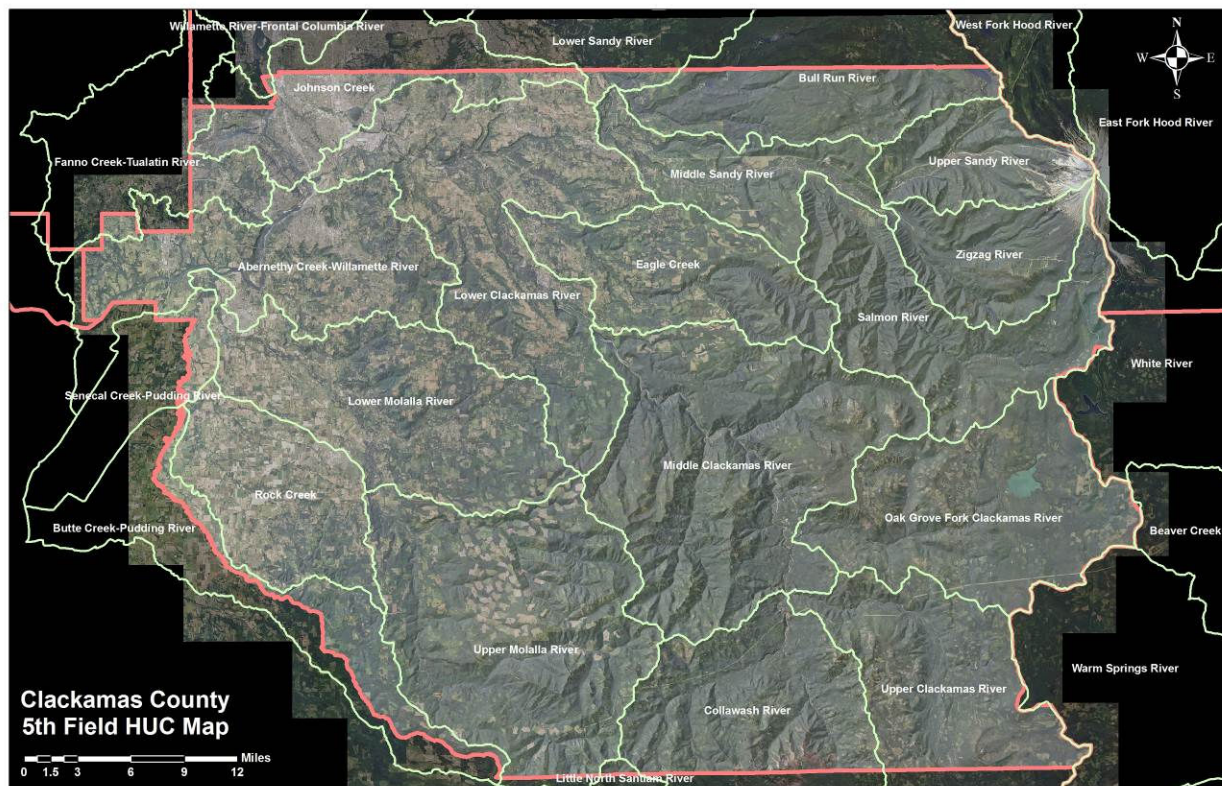


Figure 9: 5th Field HUCs in Clackamas County

The major portions of 16 watersheds at the 5th field HUC level occur inside the District, and several partial watersheds occur along the borders of the District. (For purposes of discussion, we assume the District would work with up to 18 watersheds.)

Each watershed would have a separate Priority Advisory Committee (PAC) consisting of interested stakeholders. Watershed councils are important partners to the District and their participation will be crucial to the success of this program. By more closely integrating the priority actions to be taken by the District with the work being done by watershed councils, duplication of effort can be avoided and the work of partners can be leveraged to the advantage of all.

The District anticipates holding initial meetings with at least two PACs each year, with each committee making recommendations on priority conservation actions by one year, followed by two years of program delivery and implementation. The District would select the sequence of watersheds to be addressed by meeting with watershed council representatives.

Each committee would be kept informed of conservation actions taken by the District. After two years of program delivery, the committee would meet to review progress, decide again on the most important conservation actions, and submit recommendations to the District.

The District anticipates increased costs for printing, mailing, temporary meeting facilities, and fuel in support of the Priority Advisory Committees.

The District is not aware of any other soil and water conservation district utilizing this limiting factors methodology to engage stakeholders in determining the most important actions to implement, across an entire district landscape, with an adaptive management component that periodically refreshes the recommended priority actions.

4 – Hire an administrative assistant

The proposal to use a systematic, stakeholder-driven process to determine the most important conservation actions does not require the hiring of additional technical professionals. However, the additional work required to engage stakeholders would impact the amount of time available for technical professionals to provide service to customers.

The District proposes hiring a full-time administrative assistant to help organize meetings, coordinate mailings, and provide a consistent presence to callers and visitors while our professional staff are working “in the field” with customers. This position would also provide general support to both new departments.

5 – Accelerate the Building Reserve Fund

The Building Reserve Fund established in 2006 continues in the proposed budget. This fund acts as a restricted savings account to help the District develop a more effective conservation education presence to the community, as well as provide a District office facility and a meeting facility available for use by the public. The Building Reserve Fund has a designated life of ten years and must be reviewed by 2017.

The District proposes increasing the amount contributed to the Building Reserve Fund to hasten the construction of a District facility. Currently, the District’s lease costs about \$80,000 a year. (If our office partners go through a reduction, it is likely the District would need to pick up the cost of the additional office space.) The current office space is in good condition but parking is inconvenient for our customers with few spaces available.

At the end of February 2012, the Building Reserve Fund balance was \$378,446.93. These funds are reserved for a obtaining or building a District facility. The District contributed \$120,000 to the Building Reserve Fund in fiscal year 2011-2012. At this rate of contribution, the Building Reserve Fund would reach approximately \$1,000,000 by June 30, 2017. The District proposes increasing this amount to \$200,000 a year for the next three fiscal years. With interest earnings, the District projects a Building Reserve Fund balance of about \$1,000,000 by June 30, 2015, effectively reducing the time to reach the \$1,000,000 level by two years.

For the next three fiscal years, the District will expend at least \$240,000 in lease payments. Over five fiscal years, the total spent on lease payments would be at least \$400,000. Increasing the contribution to the Building Reserve Fund is intended to allow the District to minimize the cost of leasing commercial office space and develop a facility that supports more effective service delivery.

Tax rate determination and amount to levy

Current law allows taxing districts to establish their property tax revenue for a given budget period by either requesting a specific dollar amount or by certifying a rate to be levied. If a specific dollar amount is requested, the maximum the district can receive for that budget period is that dollar amount, even if new growth exceeds expectations and the assessed value of real property rises. If the district certifies a rate, the district is allowed to receive the total amount generated by that rate.

The District's permanent rate limit was established by voters in 2006 at five cents per thousand (5¢/\$1,000) of assessed value of property in Clackamas County. The law allows a maximum of 3% growth in assessed value in the county, not including new construction. Therefore, the District may receive an increase in property collections by a maximum of 3%, plus the value of new construction multiplied by the permanent rate, as determined by the Clackamas County Assessor.

For fiscal year 2012-2013, I recommend a levy rate of four-and-six-tenths of a cent per thousand dollars of assessed valuation (4.6¢/\$1,000), which is one-tenth of a cent greater than the levy rate for the 2011-2012 fiscal year, and is four-tenths of a cent less than the maximum levy rate allowed for the District.

Method for estimating of tax revenues for 2012-2013 budget

The District assumes an increase of assessed property values of no more than 1.75 percent (1.75%) in 2012-2013 over assessed valuations for 2011-2012. This increase is a conservative value; the Clackamas County Assessor estimates the overall property value increase will be between 1.75% and 2.25%.

The actual assessed value of property subject to the District's tax levy is \$36,362,510,548 for fiscal year 2011-2012.

Any excess of property tax revenue over the District's budgeted projections will be invested in the State Treasurer's Local government Investment Pool in safe investments, to ensure their availability in future budget years.

Assessed value, actual, 2011-2012 =	\$36,362,510,548
Assumed growth rate =	1.75%
Assessed value, projected, 2012-2013 =	\$36,998,854,483
District tax levy rate =	4.6¢/\$1,000 of valuation
Gross tax revenue to District =	\$1,701,947
Loss due to Measure 5 compression =	\$2,000
Gross revenue after compression =	\$1,699,947
Rate for uncollectible taxes =	6.0%
Net anticipated tax revenue to District =	\$1,597,950

Budget detail sheets

Budget documents are provided to the Budget Committee and public for their review.

The proposed budget for fiscal year 2012-2013 is categorized by a General Fund containing two departments, one special revenue fund to hold resources for implementing conservation actions, and a reserve fund established to help the District develop a permanent, sustainable conservation education and office center.

All funds have a budget that includes a resources (revenue) section and a requirements (expenditures) section, and the totals for both sections must balance. This budget data is organized using the following Local Budget (LB) forms:

- General Fund: LB-20 form (resources) and LB-30 form (requirements)
- Conservation Fund: an LB-10 form listing that fund's resources and requirements on the same page
- Building Reserve Fund: an LB-11 form listing resources and requirements

Budgets include a variety of categories and line items specific to the needs of each fund. The following is an overview for each fund type with recommendations for their budgets.

General Fund

The General Fund accounts for the normal activities associated with operating the District and its programs. The purpose of the General Fund is to account for all revenues and expenditures occurring within the fiscal year, except for cases in which a separate fund is needed to facilitate proper accounting.

The primary source of revenue for the General Fund is the District's permanent taxing authority established by voters in the 2006 General Election. Other anticipated revenue sources include grants and contracts from federal, state, and local entities, as well as interest earned from funds in the District's accounts.

Within the General Fund are two departments (Oregon Local Budget Law uses the term "organizational units," and our usage of departments means the same thing). The District Operations department and Conservation Services department cover all of the District's activities except the direct cost of financial assistance to install or implement conservation practices on property owned or managed by others.

Each of the two departments has an identical structure for resources (revenue) and requirements (expenditures). Categories for requirements include:

- Personnel Services
- Materials and Services
- Capital Outlay
- Operating Contingency

- Transfers to Other Funds
- Unappropriated Ending Fund Balance

Resources

The LB-20 Resources page (page 1) of the General Fund begins with the projected cash carry-over from FY 2011-2012, estimated to be \$1,721,080. This figure is made up of:

- The unappropriated ending fund balance projected in the fiscal year 2011-2012 budget
- Income the District did not anticipate receiving
- Money budgeted in the General Fund but not spent

Other resources

Other revenue comes from a variety of grants and contracts, as well as District-earned income, and interest generated from investment accounts.

The Equipment Reserve Fund established by the District when the fiscal year 2011-2012 budget was adopted appears to be a General Fund account. In other words, it was not set up as a special revenue fund. For fiscal year 2012-2013, we dissolve the Equipment Reserve Fund and show those funds transferring into the General Fund. You'll see notes at the bottom of pages 8 and 8W (W means worksheet) that explain this transfer.

Requirements (Expenditures)

The LB-30 Requirements page (page 3) of the General Fund identifies the budgetary needs for:

- Personnel Services
- Materials and Services
- Capital Outlay
- Transfers to Other Funds
- Operating Contingency
- Unappropriated Ending Fund Balance

These expenditure categories are consistent with Oregon's Local Budget Law.

Normally, you would see history for the prior two years plus the adopted budget for the current fiscal year. However, as noted previously in this document, we have "reset" the organization by closing the many individual programs and creating two departments: District Operations and Conservation Services.

Since those are new departments, there is no history to report. It will be useful to look at the totals on page 3 for each of the categories shown above as there is history at the "rolled up" level. Those totals will help you see the evolution of costs for operating the district, purchasing Materials and Services, etc.

You may also wish to review Form LB-30 (page 4) that shows the summary of expenditures by object classification. That form "ignores" the new departmental structure, so there is history that you will find very helpful.

Personnel Services

The budget for salaries and wages reflects 13 employees. All positions except one are full-time staff. One employee works on a ¾-time basis.

Last year, we reported: "...there have been some small savings realized with the vacancies of the District Manager, Special Projects Manager, and Office Coordinator positions."

Restructuring occurred in calendar year 2011 to improve efficiency, resulting in the elimination of one position; that position was not filled because it was eliminated. Another employee separated voluntarily and there was a lag of several months before that position was filled. These conditions helped the District spend less than what was budgeted for Personnel Services.

Some of those savings are offset in the proposed budget by adding one full-time position to the District Operations department. Personnel Services in the proposed budget is about two percent higher than the budget adopted for fiscal year 2011-2012. The proposed budget contemplates a 10-percent increase in health care insurance premiums, a three-percent cost-of-living-adjustment, and some merit raises.

Materials and Services

Materials and Services is the broad expense category that supports District operational and programming requirements, excluding personnel costs.

You'll see the materials and services proposed in the budget total less than in prior years. New management has worked to reduce spending. Investments in our own computer network and phone system have helped reduce costs.

Capital Outlay

Capital Outlay typically describes larger purchases of \$1,000 or more with a useful life beyond one year. Purchases generally become listed as assets of the District. The District maintains an inventory of such assets. Capital outlay requirements are divided into office equipment, field equipment, and vehicles.

Capital expenditures contemplated in the proposed budget include a new vehicle to expand our fleet (allowing staff to provide more service to customers) and new tables for the District conference room. As both new departments will share in the use of these assets, the expenditures are proportionately allocated to the departments.

Transfers to Other Funds

With the creation of a special revenue fund called the Conservation Fund comes the need to "seed" the fund with money. We transfer \$528,570 from the General Fund for that purpose.

Also shown is a \$200,000 transfer to the Building Reserve Fund to continue saving for a more efficient, effective office and meeting facility.

Operating Contingency

The Operating Contingency category is supported by Public Budget Law to manage for unforeseen or unexpected operating situations. Contingency funds can be used to cover shortfalls in any of the General Fund budget categories described above.

The proposed \$60,000 operating contingency is quite small considering the overall size of the proposed budget. Our results in controlling costs suggest that we do not need a substantial operating contingency, so the budget proposes a reasonable – but not extravagant – amount.

Unappropriated Ending Fund Balance

The Unappropriated Ending Fund Balance (UEFB) deserves special attention. It is the money necessary to fund District operations after the end of fiscal year 2012-2013, until the District receives the majority of its income through property taxes in November and December of 2013.

The UEFB is called “unappropriated” because the District can only appropriate funds during the fiscal year. However, with a fiscal year that ends in June and starts in July, the District does not receive significant revenue from property taxes until November and December. The cost to operate the District for six months is what the UEFB is for. Of course, it cannot be spent until it is appropriated in the following budget for fiscal year 2013-2014.

In the 2011-2012 budget, the unappropriated ending fund balance was adopted as \$1,200,000. Savings in personnel costs and in materials and services allowed the District to spend less than was budgeted.

We anticipate receiving the largest infusion of tax property revenue in November 2012, so we are budgeting in anticipation of the UEFB only having to carry the District for five months, not six.

The UEFB also covers a portion of commitments (real and anticipated) for expenditures from the Conservation Fund for implementing conservation actions. We have projected less than one-half of the Conservation Fund because the past year of history shows that actual program uptake by customers may lag expectations.

Special Revenue Fund (“Conservation Fund”)

The Oregon Department of Revenue says, “A special revenue fund accounts for money that must be used for a specific purpose. You must set up a special revenue fund when required by law, or by other agreement. If you receive a special purpose grant or impose a special purpose local option tax, you probably need a special revenue fund.”

The District receives grants that can only be used for restricted purposes. Rather than mix those revenues into the District’s General Fund, the District will use a special revenue fund named the Conservation Fund to hold these resources.

Similarly, expenditures from the Conservation Fund are investments in conservation actions by or for others. Examples include installing conservation practices, supporting the programs of

other organizations that help the District achieve its mission, and making conservation action loans.

You'll find the Conservation Fund described on Form LB-10 (page 7) in the proposed budget. This fund is the Conservation Implementation Fund created last year, renamed as the Conservation Fund, and created as a special revenue fund.

To seed the fund, we transfer the Conservation Implementation Fund (which is technically in our General Fund at the present time) into the new Conservation Fund. Grants we expect to receive have restrictions on how those funds may be used, thus we show those grants as additional resources for this fund.

We also project receiving about \$70,000 in reimbursements from the Oregon Department of Environmental Quality for conservation loans we make. (You'll see the conservation loans listed on page 7 in the Requirements section, which means money we plan to spend. Therefore, the income (resources) and expenditures (requirements) for conservation loans cancel out with \$70,000 coming in and \$70,000 going out.

Toward the bottom of page 7 is a line described as "reserved for future expenditure." Some project commitments made by the District extend beyond fiscal year 2012-2013, and to be sure we have sufficient funds to honor those commitments, they are shown in the Requirements section.

Special Fund ("Equipment Reserve Fund")

On page 8 you'll find the Equipment Reserve Fund. We believe this fund was not properly established as a special fund. After conferring with Department of Revenue staff, we conclude it is simpler to include these funds in the General Fund by adding a line on the General Fund forms.

We show a proposed appropriation for the equipment reserve fund but as noted those resources are transferred to the General Fund. In future years, the sheets for the Equipment Reserve Fund will no longer be actively used.

Reserve Fund ("Building Reserve Fund")

The Oregon Department of Revenue says, "A reserve fund accumulates money to pay for any service, property, or equipment that your local government can legally perform or acquire. It functions as a savings account. A resolution or ordinance of the governing body is needed to set up a reserve fund. The reserve fund must have a specific purpose, such as the purchase and repair of road maintenance equipment. Once money is placed in a reserve fund, it can only be spent for the specific purpose of the fund. Purchases are made directly out of the reserve fund. At least every 10 years, the governing body must review the fund and declare whether or not the fund is still needed."

Established in 2007, the District's Building Reserve Fund is used to accrue monies for the benefit of leasing, acquiring, constructing, remodeling or making capital improvements to real property of the District. This reserve fund may enable the District to purchase a building for its

use in future years instead of paying approximately \$80,000 per year in lease payments per our current lease agreement. The Building Reserve Fund is due to be reviewed by 2017.

You'll find the Building Reserve Fund on page 9. We anticipate a starting balance of \$378,447 and show an additional \$200,000 transferred in from the General Fund, plus \$1,800 earned as interest.

BUDGET MESSAGE SUMMARY

The Clackamas County Soil and Water Conservation District has grown substantially since receiving support from voters to fund the District through a property tax levy. Since 2002, the District has grown from a staff of three and a budget of \$140,000 to a staff of 12 and a budget of \$3 million.

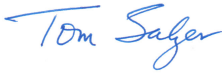
In recent years, audits have been clean. Our internal control systems are functioning well, according to auditors. The District has achieved a new level of transparency and accountability in the way it conducts business on behalf of the citizens of Clackamas County.

Our service delivery has increase in quantity and improved in quality. New programs make it faster and easier to implement some conservation actions such as quickly responding to new occurrences of invasive weeds and installing fencing to keep livestock out of surface water. We are helping more people, and we're doing the things we promised voters we would do.

The combination of dedicated professional staff, solid management, and a deeply engaged Board of Directors assures continued improvement in the services we provide.

Economic conditions have slowed our growth in the area of obtaining grant funding to leverage local taxpayer dollars. The District believes that continuing the current strategy of seeking more stakeholder involvement, prioritizing conservation actions, and developing data to support the effectiveness of those conservation actions are steps that will substantially improve future grant applications.

The budget proposed for fiscal year 2012-2013 supports the continued improvement of service delivery to our customers, expanded involvement by stakeholders, and more efficient implementation of meaningful conservation actions.

To: Clackamas County SWCD Budget Committee
From: Tom Salzer 
Date: April 13, 2012
Re: FY 2012-2013 Budget Message: Addendum #1



Update to original Budget Message

This memorandum is an addendum to the original Budget Message dated March 30, 2012. At the April 4, 2012 meeting of the Budget Committee, several requests for additional information were made. Responses to those questions are contained in this update. We are providing this information as soon as possible after the April 4th meeting so Committee members have time to digest the responses and perhaps develop new questions or requests.

Please send your additional questions to me at tsalzer@conservationdistrict.org and we'll work on developing responses before the next Budget Committee meeting on May 2, 2012.

There are two sections in this addendum. Section A covers questions and issues raised by the Budget Committee. Section B covers issues that surfaced after the first meeting of the Budget Committee.

Also, I'll include a version of the proposed budget that incorporates all of your requests. The updated budget sheets show the changes in an orange or goldenrod color. I am not including all of the old sheets because they did not change.

What were those requests posed by the Budget Committee?

- Increase the tax levy rate to allow more to go into the Building Reserve Fund. We used 4.9¢/\$1,000 of assessed value for the rate.
- Increase contractor services for the Conservation Services department.
- Add explanatory text to "contractor services" for the District Operations department, Conservation Services department, and Conservation Fund.
- Show history for line items in the new District Operations and Conservation Services departments.

Answers to other questions and issues are presented in this addendum.

Section A: Issues raised by Budget Committee

A.1 – What is the effect of a 5¢/\$1,000 tax levy rate?

Below we illustrate the impact of tax levy rates higher than the 4.6¢/\$1,000 rate proposed in the budget. The anticipated taxes are the net taxes after deducting for estimated compression losses and subtracting uncollectible taxes at a 6.0% rate as used in the proposed budget.

For context, we present the effects of different rates against the rate currently imposed for fiscal year 2011-2012, and against the rate proposed for fiscal year 2012-2013.

Rate →	4.5¢ (actual rate for FY 2011-2012)	4.6¢ (rate proposed for FY 2012-2013)	4.75¢	5.0¢
Anticipated taxes →	\$1,563,172	\$1,597,950	\$1,650,119	\$1,737,066
Change from 4.5¢ rate →	\$0	\$34,778	\$86,947	\$173,894
Change from 4.6¢ rate →	(\$34,778)	\$0	\$52,169	\$139,116

The proposed budget was balanced at the 4.6¢/\$1,000 levy rate. If the Committee chooses to change requirements (expenses) or resources (income), the budget must be rebalanced. To rebalance the budget, the choices are one or both of these actions: (1) decrease requirements (expenses) in other areas, and (2) increase resources (income).

A.2 – Can the District change the fiscal year used for budgeting?

“Fiscal year” is defined in Oregon Revised Statute Chapter 294, Section 311 as follows:

“Fiscal year” means for municipal corporations with the power to impose ad valorem property taxes, the fiscal year commencing on July 1 and closing on June 30, and for all other municipal corporations, an accounting period of 12 months ending on the last day of any month.

The Clackamas County Soil and Water Conservation District is a municipal corporation by definition, and has the power to impose ad valorem property taxes as defined in ORS 568.806 through the results of the General Election held in November 2006.

I conclude that we are not allowed to change the fiscal year we use for budgeting.

A.3 – Provide details on financial support given to landowners and partners, as described on page 9 of the Budget Message.

In Section 3 (Performance) of the Budget Message, we reported these summary-level expenditures:

- \$56,418 committed in fiscal year 2009-2010
- \$120,778 committed in fiscal year 2010-2011
- \$277,922 committed to date in fiscal year 2011-2012

Details, as requested by the Budget Committee, are shown for each fiscal year in the tables below, beginning with fiscal year 2009-2010. “C/S” means the expense was part of a cost-sharing arrangement in which the landowner contributed toward the total cost of the work. We have removed the identities of the recipients to protect privacy.

In the current fiscal year, we implemented a small grants program that pays 100% of the cost of implementing conservation practices that protect water quality or control targeted invasive species, up to \$2,500. So far this fiscal year, we have provided financial assistance to about twice as many private landowners as we did in the previous fiscal year. It seems likely that our

small grants offering has been influential in increasing the number of conservation actions we help implement.

Fiscal year 2009-2010	
Description	Amount
C/S w/ private landowner: riparian restoration	2,245.00
C/S w/ private landowner: aquatic weed control in a pond	553.00
Watershed Council general support (split among 4 watershed councils)	27,500.00
Watershed Councils/others: project support & matching funds for grant applications	16,120.00
Farmers Market general support (1 farmers market)	10,000.00
CCSWCD funds committed in FY 2009-2010	\$56,418.00

Fiscal year 2010-2011	
Description	Amount
C/S w/ private landowner: livestock riparian use exclusion fence	1,537.50
C/S w/ public landowner: riparian restoration	10,000.00
C/S w/ private landowner: riparian forest buffer	10,000.00
C/S w/ private landowner: riparian & upland restoration	10,000.00
C/S w/ private landowner: riparian restoration	9,500.00
C/S w/ private landowner: aerated manure composting facility	7,430.00
C/S w/ private landowner: riparian restoration	10,000.00
Weed control contractor (1 contract)	1,810.52
Watershed Council general support (split among 7 watershed councils, 1 watershed org)	46,500.00
Farmers Market general support (split between 2 farmers markets)	10,000.00
Sponsorships of partner events, etc.	4,000.00
CCSWCD funds committed in FY 2010-2011	\$120,778.02

Fiscal year 2011-2012 (in progress)	
Description	Amount
Youth corps crew: seasonal weed control	3,950.00
C/S w/ private landowner: livestock heavy use area, rainwater mgmt, fence	8,200.00
C/S w/ private landowner: livestock heavy use area, fence, improve pasture	9,000.00
C/S w/ private landowner: pond aerator	4,000.00
C/S w/ private landowner: heavy use area, water trough, weed control	1,500.00
C/S w/ private landowner: pasture cross-fencing, weed control	600.00
C/S w/ nonprofit org: weed control, plant native plants	9,000.00
C/S w/ private landowner: install drip irrigation system	4,500.00
Grant to private landowner: manure transfer pipeline, irrigation improvements	30,000.00
Grant to nonprofit org: deepen pond & provide access for fire dept. apparatus	20,187.00
Grant to public landowner: pasture prep, weed control, buffers	10,000.00
Grant to private landowner: rainwater harvesting/plant nutrient research	12,350.00
Grant to nonprofit organization: youth service learning, restoration work	3,000.00
Grant to nonprofit org: rain garden adjoining parking lot	2,800.00
Grant to public landowner: place large wood in stream, improve fish habitat	10,000.00
Milk Creek project: cultural resource assessment, permits	5,182.24
WQ grant to private landowner: barn gutters; direct roof water to pasture	1,740.00
WQ grant to private landowner: livestock riparian use exclusion fence	500.00
WQ grant to private landowner: rainwater harvest & livestock watering facility	2,500.00
WQ grant to private landowner: plant native trees on slope to prevent erosion	2,500.00
WQ grant to private landowner: pond aquatic weed control, WQ management	1,200.00
Watershed Council general support (split among 10 watershed councils)	69,500.00
Watershed Councils/others: project support & matching funds for grant applications	22,000.00
Farmers Market general support (split among 9 farmers markets)	33,500.00
Clackamas HS: materials to build wood duck boxes	353.00
Sponsorships of partner events, etc.	2,000.00
Pesticide round-up event (DEQ)	7,500.00
Canby HS: SalmonWatch field trip	359.86
Weed control contractors focused on Early Detection/Rapid Response: 6 contracts run from 9/2011 to 12/2013. Each contract is not to exceed \$50,000.	Waiting for invoices
CCSWCD funds committed in FY 2010-2011 and future years	\$277,922.10

A.4 – Provide expenditure history for the new District Operations and Conservation Services departments.

The two new departments – District Operations and Conservation Services – have no history because they are new. However, the District has been making expenditures for these activities so we will be able to provide comparative numbers for the Budget Committee.

We need additional time to develop those comparisons. Rather than wait, I'm publishing this addendum now. The comparisons will follow when we get them completed.

We will make our best attempt to regroup past expenditures into the new departmental format to aid the Committee, but note that the expenditures shown for line items will not be audited numbers. They can't be, because those departments did not exist when we were audited.

A.5 – Why is there a substantial increase from the FY 2011-2012 Conservation Implementation Fund budget to the proposed amount for the FY 2012-2013 Conservation Fund?

Committee members questioned the proposed increase in the Conservation Implementation Fund (formerly part of the General Fund, proposed to become a special revenue fund named the Conservation Fund). The budgeted amount in fiscal year 2011-12 was \$385,324, increasing to \$737,387 in fiscal year 2012-13, a net increase of \$352,063. The increase is due to these factors:

- **Increase of \$138,430:** Milk Creek In-stream and Riparian Habitat Enhancement Project grants and CCSWCD funding to be spent during FY 2012-13.
- **Increase of \$35,000:** Increased use of the professional weed control contractors with whom we have contracts for Early Detection/Rapid Response weed control work.
- **Increase of \$30,000:** Expenditures for project-related engineering, design, and cultural resource assessment work.
- **Increase of \$40,387:** Estimate of Oregon Watershed Enhancement Board Small Grants to the District (revenue and expenditures). This source of funding was not listed in the former Conservation Investment Fund.
- **Increase of \$63,570:** Listed at the bottom of the Conservation Fund sheet as carry-over funds in order to meet our obligations for FY 2013-14 related to multi-year projects and agreements.
- **Increase of \$120,000:** As in fiscal year 2011-2012, we budgeted the same amount for financial support of watershed councils and farmers markets for fiscal year 2012-2013. In FY 2011-12, this support was provided as part of the General Fund budget. In FY 2012-13, this cost moves to the Conservation Fund budget.

- **Decrease of \$55,324:** At first glance, this looks like a reduction in our financial assistance to cooperators as compared to FY 2011-12. However, the proposed amount for FY 12-13 is about \$40,000 more than the District awarded in cost-share and grant funds to cooperators in FY 2011-12. The proposed figure is more in line with our past expenditure level and still allows for growth in this item.
- **Decrease of \$20,000:** Conservation loan revenue and expenditures for FY 2012-13: \$70,000 from our DEQ agreement, used for making \$70,000 in loans to cooperators. The loan program has taken longer to start up than we anticipated, so we have budgeted less than we did in FY 2011-12.

A.6 – Standardize the data source for COLA.

The consensus of the Budget Committee was to use the annual consumer price index for urban and clerical workers for Portland as the starting point for discussions about cost-of-living adjustments (COLAs) for employees. The source of this number is the Local Government Personnel Institute (see <http://www.lgpi.org> for their website).

Portland-Salem, OR-WA

	CPI-U Portland			CPI-W Portland		
	2011	2010	2009	2011	2010	2009
1st half	2.6%	1.6%	-0.2%	2.7%	2.5%	-0.7%
2nd half	3.1%	0.9%	0.5%	3.3%	1.2%	0.7%
Annual	2.9%			3.0%		

Specifically, we will use the CPI-W for Portland. LGPI defines CPI-W: “CPI-W is the revision of the “old CPI,” reflecting the buying habits of urban wage earners and clerical workers.”

So as we prepare the budget in March and April 2012, we are using the annual CPI-W Portland rate of 3.0% as the baseline for COLA. As noted in the Budget Message, COLA is a pre-tax rate and CPI is an after-tax reflection of buying power.

A.7 – Can the Committee set a maximum COLA rate, allowing the Board of Directors to implement a lower rate?

We requested clarification on this point with the Oregon Department of Revenue, and the response we received is helpful:

“The budget committee can give advice, but doesn’t have the final say. It would be appropriate for the board to take note of the advice because one of the purposes of the Local Budget Law is to encourage public participation in the budgeting process. The budget committee is a key part of that public input. But at the end of the day, the responsibility and final decision-making is with the board.”

This means the Budget Committee can advise a higher COLA than proposed, and the Board of Directors should consider that input.

A.8 – What is the plan for the Building Reserve Fund?

The Building Committee will meet a few days before the next meeting of the Budget Committee to discuss this issue. What I can tell you is that no defined plan exists at this time to use the resources being set aside in the Building Reserve Fund. When it was established, the goal was simply to begin saving for a District facility. Now that we have a significant amount in the Fund, the Budget Committee's request for more information is very timely.

(The newly formed Building Committee consists of District Vice-Chair Don Guttridge, District Associate Director Jim Toops, and District Manager Tom Salzer.)

A "wish list" has been generated by District staff for such a facility. The Building Committee will review that list.

In the fiscal year 2007-2008 budget message, the District's budget officer wrote:

"In connection with the District leadership role in the County's Green Ribbon Committee and the development of a Center for Agriculture, Natural Resources and Sustainability, the District will be in a position to secure an equity interest or partnership position with other local stakeholder organizations in the development and construction of this planned 'one stop' Center. It would be in the District's best interest [to] set up and fund a Building Reserve at the onset of this current budget to begin saving money for this purpose."

The fund was established in 2007, and as a reserve fund, state law requires that it be revisited by the District within ten years (by 2017).

Since there is some confusion about this fund, let's go back to the original resolution adopting the Building Reserve Fund on June 19, 2007:

BE IT RESOLVED that the Clackamas County Soil and Water Conservation District, Board of Directors, hereby approves the establishment, in accordance with provisions of ORS 280.040-280.140, a Building Reserve Fund as a part of the 2007-2008 budget.

BE IT RESOLVED that the sum of \$50,000 will be transferred from the General Fund to establish this Building Reserve Fund for the purpose of buying, building or leasing a District facility. Transfers will take place at the renewal of each fiscal year for FIVE years (2007-2012), at which time the Building Reserve Fund will be reviewed to be continued or abolished.

Note that while the budget message issued in 2007 talks about an equity interest or partnership position with others, the Board of Directors adopted language that provides more flexibility to the District to buy, build, or lease a facility.

While a reserve fund must be reviewed within ten years of establishment, the original resolution establishing the Building Reserve Fund in 2007 calls for reviewing it at five years. We'll correct this in the proposed budget and include it in the set of actions proposed for final adoption by the Board of Directors.

How much space do we lease now?

Our lease is for 2,680 square feet. Our federal partners lease 3,969 square feet. Three cubicles (about 150 square feet each) plus reception space are included in the federal lease, and this space is provided at no charge to the District in return for helping our federal partners with their programs.

The District currently has 13 employees. The USDA Natural Resources Conservation Service has three full-time employees and a part-time volunteer. The USDA Farm Service Agency houses two employees. Thus, the 6,649 square feet being leased houses 19 people, including two meeting rooms, storage rooms, and other common space.

How much does commercial office space cost?

A quick review of commercial office space rates shows a range of \$15 to \$30/square foot in the West Linn, Oregon City, and Wilsonville areas. Our existing lease is at the high end of the range at about \$30/square foot.

How much space do we need?

In a very general sense, the District would wish to have a meeting space of at least 1,300 square feet that could be subdivided with temporary partitions into at least two smaller meeting rooms.

Also assume room for 20 employees and partners at approximately 120 square feet per person, for a total of another 2,400 square feet. Common areas (including reception, storage, bathrooms and a combined kitchen-dining area) could easily add another 2,000 square feet.

Let's round up these figures to $1,500 + 2,400 + 2,000 = 5,900$ square feet for a conservation education center with office space sufficient for the District and our core partners. (This space is not far off from the size of the space currently leased by us and by our federal partners.) We would also need a pole barn or garage to store rental equipment and District vehicles.

For very rough, conceptual planning purposes, let's say we need about 6,000 square feet of office, meeting, and common space. This does not include parking, nor does it include storage for District equipment and vehicles.

Offsetting costs

We have some opportunities to offset operating costs, especially if we build a facility. Active solar heating, solar and wind power generation, natural lighting, and earth sheltering can help reduce and offset the cost of heating and cooling.

Some newer offerings from solar power companies would allow us to lease a system that would supplement our daily electrical usage and sell our surplus generated power, offsetting some operating cost.

We do not know the future of our federal partners. Assuming the federal budget continues to shrink, it is possible at least one of those partners will relocate their office to a regional center. While we hope our federal partners would choose to relocate with us, and to rent office space from us, we can't count on that in our planning.

An alternative to housing our federal partners (who would pay rent) may be to house a watershed council or other conservation-oriented organization.

A.9 – Provide better descriptions for “contracted services” in the General Fund and Conservation Fund.

“Contracted services” in the General Fund occur in two departments:

- In the District Operations department, contracted services includes costs for legal services, our required annual audit, third-party payroll processing services, and QuickBooks software support
- In the Conservation Services department, contracted services includes seasonal contractors to assist the District in providing services to cooperators, general (not project-specific) engineering and design work, professional meeting facilitation services, and some community outreach costs

“Contracted services” in the Conservation Fund includes project-specific costs:

- Early Detection Rapid Response (EDRR) weed control contract work
- Engineering as part of a project
- Design/consultation as part of a project
- Cultural resources inventory/assessment as part of a project

We have added short descriptions to the budget sheets.

A.10 – Increase the tax levy rate.

See item A.1 above for a general presentation of the impact of raising the proposed levy rate. For the revised scenario to be presented to the Budget Committee on May 2nd, we used a levy rate of 4.9¢/\$1,000. This will have an impact on the unappropriated ending fund balance, but we have not adjusted this in the revised scenario we are developing.

A.11 – Increase contracted services in the Conservation Services department.

We added \$29,000 to the contracted services line item in the Conservation Services department, as requested.

A.12 – Increase the investment in the Building Reserve Fund.

We added \$75,337 to the transfer from the General Fund to the Building Reserve Fund. This figure was arrived at by taking the extra tax revenue at a 4.9¢/\$1,000 levy rate (\$104,337), subtracting the \$29,000 that was added to contracted services per item A.10 above, with the balance going to the Building Reserve Fund.

A.13 – How many customers are waiting for service from the District?

This question arose in response to a suggestion to hire more conservation planners.

A preliminary snapshot of workload from four of the District's planners shows three basic categories of customers: those we are actively working with, those we are waiting for, and those who are waiting for us. Among four conservation planners we are working with 59 people. (A fifth planner is unavailable, out on leave).

Our WeedWise program is somewhat outside this box in that they are pursuing a mass mailing targeting Spurge laurel control. The return rate on the mailer is approaching 40%, an unprecedented response. We estimate that up to 100 customers may be added to our workload through this outreach effort. Fortunately, most of the work can be accomplished through contracts the District already has in place with qualified, licensed contractors.

People we are actively working with

These are customers we are helping with conservation planning and implementing their conservation plan or practice plan.

There is no "easy button" for conservation planning and implementation. Every customer presents a unique set of site conditions and needs. We don't offer "cookie cutter" solutions: we tailor the solution to fit each unique situation.

Some of our activities include:

- performing site visits, often multiple visits to one property
- determining the needs of the landowner
- performing assessments of site conditions
- selecting the best conservation actions for the situation
- negotiating with the landowner on which actions to implement
- developing designs and assembling proper specifications and standards
- developing funding scenarios
- working with the landowner to reach agreement on funding packages
- finalizing funding and documenting actions/choices
- approval of funding
- implementation (often includes seeking contractors)
- assistance during implementation
- final inspection
- final documentation review
- providing reimbursement to the landowner, including Board action

Among four planners, we have 36 active customers.

People we are waiting for

Sometimes people aren't ready to make a decision, or they need to work on their part of the financing, or they need to obtain permits. We have to wait until the right time of year to construct some practices or treat weeds. Even though we've done the planning work and we're ready to proceed, they may not be ready, able, or willing to proceed.

Among four planners, we are waiting on 15 customers.

People who are waiting for us

For a variety of reasons, people may be waiting for us. Our workload tends to cycle according to the season, and at present it is increasing as people begin emerging from their winter caves and enjoying springtime in and around the Willamette Valley. New customers typically wait one to two weeks until we can get a planner out to visit with them.

Weed treatment is highly seasonal, so some people waiting for us are really waiting for the correct combination of weather and plant growth.

The planning process is highly interactive, and landowners are presented with a multitude of options and ideas. Sometimes a landowner changes his or her mind about some aspect of the project, and then the process loops back to the beginning of the planning stage to accommodate the desired changes. This iterative process is very time consuming, but ultimately results in conservation practices acceptable to the landowner and the District.

At present, eight customers are waiting for us. Two of these are new customers waiting for an initial site visit.

In summary, out of 59 total customers:

- We are actively helping 36 customers (61%).
- We are waiting for 15 customers (25%).
- Eight customers (14%) are waiting for us.

To reduce the amount of time planning staff spend in assisting landowners with actual implementation, the District plans to use licensed contractors to help landowners install conservation practices. This strategy assures that installed practices will be constructed to our design specifications and allow existing staff to assist more people.

Section B: Issues occurring after the meeting

B.1 – Value growth estimates received after meeting

The day after the first Budget Committee meeting, we received value growth estimates for fiscal year 2012-2013 from the Clackamas County Assessor.

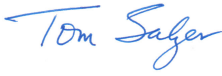
Prior verbal conversations with the Assessor's staff indicated the estimated growth in assessed value was 1.75% to 2.25%, and we used the 1.75% rate in the proposed budget. The letter received from the Assessor on April 5 indicates the growth is estimated at 1.5% to 2.0%.

The impact of changing the growth rate from 1.75% in the proposed budget to the most conservative estimate of 1.5% is a net reduction in income of \$4,187 if we levy a tax of 4.9 cents as suggested by the Budget Committee.

The actual Measure 5 tax compression "loss" for fiscal year 2011-2012 was \$1,035.15. In the proposed budget, we estimated compression loss at \$2,000.

I recommend retaining the 1.75% growth estimate as used in the proposed budget. The impact of adjusting this rate is relatively small, and the 1.75% rate is the middle value between the lower and upper values estimated by the Assessor.

I recommend retaining the \$2,000 compression loss used in the proposed budget. This is more conservative than actual experience, but the impact on net tax revenue is negligible.

To: Clackamas County SWCD Budget Committee
From: Tom Salzer 
Date: April 29, 2012
Re: FY 2012-2013 Budget Message: Addendum #2



Second update to original Budget Message

This memorandum is in response to the Budget Committee's request for more information about the intended use of the Building Reserve Fund.

History

As noted in Addendum #1, the Building Reserve Fund was established in 2007, and as a reserve fund, state law requires that it be revisited by the District within ten years (by 2017). However, the original resolution adopted by the Board of Directors on June 19, 2007 states, in part: *"Transfers will take place at the renewal of each fiscal year for FIVE years (2007-2012), at which time the Building Reserve Fund will be reviewed to be continued or abolished."*

Purpose

In the June 19, 2007 resolution, the Board of Directors chose to *"...establish this Building Reserve Fund for the purpose of buying, building or leasing a District facility."*

Building Committee

The District's Building Committee consists of District Vice-Chair Don Guttridge, District Associate Director Jim Toops, and District Manager Tom Salzer. We met for the first time on Friday, April 27, 2012.

Recommendations of the Building Committee

#1 – Continue the Building Reserve Fund

Owning our business facility is a long-term strategy to support focusing more public funds on conservation actions and in providing service within Clackamas County. "Long term" means 30 years.

At our current lease rate, we would spend at least \$3 million in leasing costs over 30 years of occupancy.

The Building Committee concluded that the long-term cost of leasing office space at our present lease rate may not be in the public interest, compared to the cost of ownership and maintenance. However, additional work is required determine how much might be saved through ownership as compared to leasing.

#2 – Look for less expensive office space

Since our lease rate is at the high end of the local scale for commercial office space, the Building Committee recommended instituting a search for less expensive space.

Less costly space could be used to reduce our operating costs while we plan, purchase, and remodel or build a facility. However, the Building Committee expressed concern about the additional moving and infrastructure costs if the District used lower cost space on a temporary basis.

#3 – Work with a commercial realtor

A commercial realtor will know what is available that may meet our needs. At this time, the Building Committee believes a commercial realtor would help the District refine the needs of the District. At this time, the Building Committee expressed the following conclusions:

- The location should be between Gladstone and Canby, near a major highway or arterial. The Oregon City area is well situated to provide reasonably central access for our urban and rural customers.
- The site should not be subject to flooding. Access roads should not be subject to flooding, or alternative access routes must exist.
- An existing facility should provide at least 6,000 square feet of office, meeting, and common space, and sufficient parking for customers, Board members, partners, and employees. A large rectangular meeting room (approximately 30 by 40 feet) that can be divided with movable panels to create two meeting rooms is needed. (For comparison, our large conference room is 18 feet wide and 30 feet long.)
- Land without a sufficient existing facility should provide enough space for constructing or remodeling an office facility, parking as described above, and room for demonstration sites and outdoor learning activities.
- While the District cannot predict whether our United States Department of Agriculture partners will move with us, the District should plan to house these partners. Should that not come to fruition, the extra space could be leased to other partners. Our ideal would be to continue to function as a Service Center for conservation customers in Clackamas County.

#4 – Consider carrying debt

The Building Committee encourages the District to evaluate whether to finance the purchase of property and construction of a facility should an ideal site be located. The Committee believes the depressed state of the real estate market may provide an opportunity for the District to spend less now than if the market recovers while the District adds annually to the Building Reserve Fund.