

To: Clackamas SWCD Budget Committee
From: Tom Salzer, General Manager
Date: March 30, 2017
Re: FY 2017-2018 Budget Message



Budget Message Summary

The District is funded by a property tax levy. In 2006, voters authorized a property tax levy to fund our services to Clackamas County constituents.

We are doing the things we promised voters we would do. We are helping people conserve our vital natural resources in many different landscapes in Clackamas County.

We are recognized as a regional leader in conservation. Our work is widely recognized throughout the region by citizens, elected officials, agencies, and partners. Our people participate at all levels in Oregon's conservation delivery system.

Our financial operations are sound and transparent. Audits of the District have been good and our internal controls assure the safety of public funds under our care. We operate transparently and invite public participation.

Budgeting balances revenue and expenditures to meet the District's goals. The budget shows what it costs to operate the District, to deliver services to our constituents, and to invest in long-term conservation actions. It shows how we plan to invest funds in on-the-ground conservation actions that align with the District's conservation priorities.

We face fewer unknowns than the prior budget cycle. The proposed budget for fiscal year 2017-2018 has more certainty about some costs than we had at this time last year.

We maintain staffing to assure high-quality service delivery. Additions to staff were made in fiscal year 2016-2017, and for fiscal year 2017-2018, we maintain this level of staffing.

Loan amounts are nearly identical to the prior year. We include additional loan funds from the Oregon Department of Environmental Quality to support the implementation of conservation practices. The proposed budget includes a septic system repair loan program to fix failing septic systems in the Clackamas River watershed.

We hold the line on other program areas. In other areas of the budget, we maintain support for the technical help we provide and continue to fund financial assistance for important conservation actions.

On behalf of the Clackamas Soil and Water Conservation District, I'm pleased to present a proposed budget for fiscal year 2017-2018 (July 1, 2017 through June 30, 2018).

A handwritten signature in blue ink that reads "Tom Salzer".

Purpose

This budget message is provided to explain the budget proposed for fiscal year 2017-2018, covering the period from July 1, 2017 through June 30, 2018.

Structure of the Budget Message

Sections 1, 2, and 3 of the budget message provide background information to help readers more easily understand the how the District operates. The budget explanation is contained in Section 4. Additional background information about the District is provided in Appendix A.

Abbreviations used throughout this document include: **District** (for Clackamas Soil and Water Conservation District); **FY** (for Fiscal Year); and **ORS** (for Oregon Revised Statute).

Section 1: Budget Processes and Requirements

This section identifies the Budget Officer and talks about why we have a Budget Message, including what must be included in the Message. Budget Committee members and functions are described. An overview of the Committee's duties is provided.

Section 2: Policies and Performance

The District's financial policies and program performance are discussed in Section 2.

Section 3: Economic Conditions and Management

Section 3 describes the economic conditions faced by the District as the proposed budget was being developed, and discusses management approaches for dealing with those conditions.

Section 4: Budget Scenario for Fiscal year 2017-2018

Section 4 is where we provide an overview of programs and describe the basis for assumptions in the proposed budget. More detailed descriptions of each fund are presented, and discussion points to specific pages in the proposed budget.

Appendix

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

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Section 1: Budgeting Processes and Requirements

1.1 The Budget Officer

As a taxing entity subject to Oregon Local Budget Law, the District must appoint a budget officer to prepare (or supervise the preparation of) the budget document, as described in Oregon Revised Statutes (“ORS”) chapter 294.331:

... The budget officer...shall prepare or supervise the preparation of the budget document. The budget officer shall act under the direction of the executive officer of the municipal corporation, or where no executive officer exists, under the direction of the governing body.

In fiscal year 2016-2017 (July 1, 2016 through June 30, 2017), the District’s Board of Directors added the role of Budget Officer to the General Manager’s job description.

Overview

- ✓ Budget Officer appointed
- ✓ This Budget Message communicates the proposed budget
- ✓ Budget Committee established
- ✓ Budget Committee approves (or modifies and approves) proposed budget
- ✓ Board of Directors adopts (or modifies and adopts) approved budget

1.2 The Budget Message

A cornerstone of the public budgeting process is communicating the annual budget to the Budget Committee and to the public. The budget message identifies 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 long-range plan in the coming fiscal year.

According to Oregon Revised States chapter 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.*

1.3 The Budget Committee

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

1.3.1 District is a special district with a voter-approved property tax levy

The Clackamas Soil and Water Conservation District is a special district of the State of Oregon and a local unit of government, formed under the authority of ORS chapter 568, with the powers and duties described in that law. The current district was formed by combining the North Clackamas and South Clackamas district boards on March 22, 1974; the two original districts go back to 1958.

In 2006, Clackamas County voters passed Measure 3-221, granting a permanent property tax rate limit to the District, making the District a public taxing entity subject to Oregon Local Budget Law. The language of Measure 3-221 as approved by voters is shown below:

This permanent rate limit will enable Clackamas Soil and Water Conservation District to provide education and technical assistance to urban and rural residents, farmers, businesses, municipalities, and others to meet rising legal and public expectations for healthy and sustainable management of our land, air and water. The District does not make or enforce regulations.

The permanent rate limit will support current District programs including conservation technical assistance, help for landowners navigating regulations, and cost-share funding for conservation projects to improve the quality of our streams, working lands and natural habitat for fish, wildlife, and people. The District is also responding to citizen demands to implement a countywide weed program focused on education and sustainable control methods.

This measure establishes a permanent rate limit of \$0.05 per \$1,000 assessed valuation. It will cost a property owner a maximum of \$10.00 per year on property valued at \$200,000 and yield an estimated \$1,400,000 to the District. The District may levy a lower rate. This permanent rate is an upper limit that by law can never be raised.

1.3.2 District must establish a Budget Committee

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 registered voters appointed by the governing body.

1.3.3 Budget Committee members

In 2017, the Budget Committee consists of 14 members: seven electors and the seven-member Board of Directors. This group provides wide representation on natural resources issues and opportunities throughout the District.

Name	Board or Elector	Status
Dave Albrecht	Elector	Re-appointed in 2016, in second year of term
John Borden	Elector	Re-appointed in 2016, in second year of term
Jessica Collins	Elector	Appointed in 2017, in first year of term
Steve Fedje	Elector	Re-appointed in 2015, in third year of term
Terry Muilenberg	Elector	Appointed in 2017, in first year of term
Rennie Squier	Elector	Re-appointed in 2016, in second year of term
Jim Toops	Elector	Re-appointed in 2015, in third year of term
Jeff Becker	Board	Serves while a Board member
Roger Fantz	Board	Serves while a Board member
Don Guttridge	Board	Serves while a Board member
Jim Johnson	Board	Serves while a Board member
Jan Lee	Board	Serves while a Board member
Jesse Nelson	Board	Serves while a Board member
Joan Zuber	Board	Serves while a Board member

1.3.4 Term of service for Budget Committee members

Citizen members are appointed by the District's Board of Directors to serve three-year terms. Terms of citizen members are staggered to help provide continuity from year to year and to allow new ideas and perspectives to be included in the Committee's deliberations.

1.3.5 Duties of the Budget Committee

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.

Specifically, the Budget Committee:

1. Receives the budget document.
2. Hears the budget message.
3. Considers public comment.
4. Discusses and revises the budget as needed.
5. Approves the budget.
6. Approves the property taxes to be levied.

All meetings of the Budget Committee are subject to Oregon’s Public Meetings Law (ORS 192.610 through ORS 192.690). A quorum of the Committee is required to conduct business and a majority of the Committee members is required to take action. This year a quorum and simple majority are the same: eight Committee members.

The Committee may request and receive additional information from District officials.

The District anticipates holding two meetings of the Budget Committee in April 2017. The proposed budget and budget message will be presented by the Budget Officer at the first Budget Committee meeting. At the second meeting, any changes requested by the Committee will be presented, and public testimony on the proposed budget will be accepted. The Budget Committee is scheduled to vote on the proposed budget at the second meeting.

1.3.6 Duties of the Board of Directors

Following approval of the budget by the Budget Committee, the District’s Board of Directors will hold a budget hearing on the budget as approved by the Committee. Any person may comment on the approved budget at the hearing.

After the hearing, the Board of Directors can change the budget estimates and the tax levy approved by the Budget Committee. However, if the Board increases the tax by any amount, or if the Board increases expenditures in any fund by 10% or more, the District must republish the amended budget summary and hold another budget hearing.

The deadline for the Board of Directors to enact a resolution that adopts the budget, makes appropriations, imposes tax levies, and categorizes each tax is June 30, 2017.

1.4 Budgeting

Oregon Revised Statute chapter 294 requires public taxing entities to prepare a budget consistent with Oregon Local Budget Law. The budget is a one-year financial plan that balances resources and needs to help accomplish the District’s mission and goals. Appropriations identified in the adopted budget are spending limits.

1.4.1 What are funds?

The budget is prepared by fund. Each fund in the budget must balance, i.e., resources and requirements must match.

The District has three kinds of funds: general fund, special revenue fund, and reserve fund.

The Oregon Department of Revenue describes a general fund as shown below:

The purpose of a general fund is to record financial transactions relating to all activities for which specific types of funds are not required. It is the general operating fund for the local government. Most local governments have a general fund. Many small districts have only a general fund.

The Oregon Department of Revenue describes a special revenue fund as shown below:

Special revenue funds should be set up for dedicated local option tax levies, specific purpose grants and other revenues when required by statute, charter provision, or the terms of a grant. The number of such funds depends upon the activities of the local government and how it is funded...The general requirement is that dedicated revenues must be used for the specific purpose authorized, and separate funds should be established for them (ORS 311.350).

The Oregon Department of Revenue describes a reserve fund as shown below:

A local government may set up a reserve fund to accumulate money for financing the cost of any service, project, property or equipment that the district can legally perform or acquire (ORS 294.346, renumbered from 294.525). Under Local Budget Law, a reserve fund is a way to save money from year to year. Expenditures can be appropriated and made directly from a reserve fund.

The resolution or ordinance creating a reserve fund should state the purpose for which the money in the fund can be spent. At least every 10 years after the establishment of a reserve fund, the governing body must review the fund to decide if it should be continued or abolished. Any unexpended or unobligated balance left in the fund when it is abolished can be transferred to the general fund or any other fund designated by the governing body.

Money in a reserve fund can only be used for the purpose for which the fund was established. Expenditures for that purpose may be budgeted and appropriated directly from the reserve fund. Transfers may not be made from a reserve fund unless the fund that receives the transfer uses the money for a purpose consistent with the purpose of the reserve fund. Interfund loans can be made from a reserve fund under ORS 294.468 (renumbered from 294.460).

1.4.2 Organization of the District's funds

The District has established five funds:

1. General Fund
2. Conservation Grants Fund
3. Conservation Loans Fund
4. Working Lands Legacy Fund
5. Building Reserve Fund

GENERAL FUND

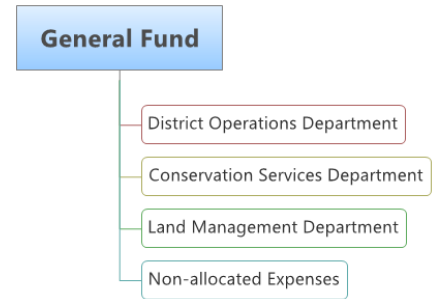
Three organizational units or departments exist within the General Fund:

1. District Operations Department
2. Conservation Services Department
3. Land Management Department

The Non-allocated Expenses portion of the General Fund is used to show special payments not allocated to departments, and transfers from the General Fund to other funds.

General Fund money is the least restricted resource in the budget.

Generally speaking, the highest level of activity occurs in the General Fund, followed by the two conservation funds (the Conservation Grants Fund and the Conservation Loans Fund).

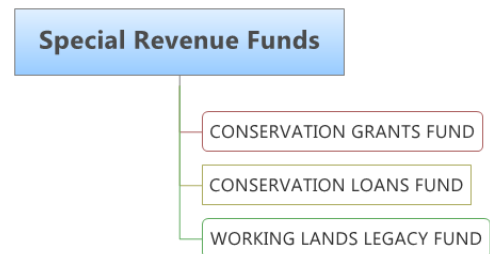


SPECIAL REVENUE FUNDS

Prior to FY 2016-2017, the District's Conservation Fund was focused on grants and loans to cooperators. At the direction of the Board of Directors, loans were moved to their own fund in FY 2016-2017 to provide more transparency in the way the District shows loan-related revenue and expenditures.

Thus, the District now has three special revenue funds:

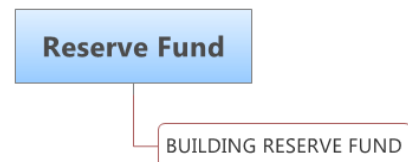
1. Conservation Grants Fund
2. Conservation Loans Fund
3. Working Lands Legacy Fund



RESERVE FUND

The Building Reserve Fund is a reserve fund.

For FY 2017-2018 we expect more activity in the Building Reserve Fund as the District moves forward with the construction of a new office and meeting facility named the Conservation Resource Center.



Section 2: Policies and Performance

2.1 Policies

2.1.1 Basis for budgeting is modified accrual

Before July 1, 2014, the District operated on a modified cash basis. Cash basis means revenue is recorded when received and expenses are recorded when money is spent.

On July 1, 2014, the District changed from the modified cash basis of accounting to the modified accrual basis of accounting under generally accepted accounting principles (GAAP) as applied to government units. Under the accrual method of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied and grants are recognized as revenue when all eligibility requirements have been met.

On July 1, 2015, the District changed from budgeting on a cash basis to a modified accrual basis. This aligned the District's budgeting method with the method used for accounting. Using the modified accrual method allows greater transparency with regard to the District's loan programs and debt.

2.1.2 Funds held in approved institutions

All District funds are held in qualified public depositories approved by the Oregon State Treasury. For FY 2016-2017, those institutions were:

- Citizens Bank
- Oregon State Treasury's Local Government Investment Pool (LGIP)
- Wells Fargo

In general, long-term savings are held in LGIP accounts, while short-term operating capital is held in bank accounts.

At the time this budget message was written, the District owned one property at 22055 S. Beaver Creek Road, Beaver Creek, Oregon.

Overview

- ✓ *Accounting and budgeting changed to modified accrual basis*
- ✓ *Accounting and fiscal controls are robust*
- ✓ *Services and programs expanded*
- ✓ *Staffing levels maintained*
- ✓ *Our partnerships remain healthy and productive*

2.1.3 Expenditures monitored

Expenditures follow a three-step process:

1. The Board of Directors authorizes the kinds of expenditures in the adopted budget.
2. The Board of Directors authorizes specific expenditures or delegates that authority to the General Manager.
3. All expenditures and supporting documents are reviewed and approved by the General Manager prior to spending money.

Expenditures are also reviewed by accounting staff when recording transactions in the District's accounting software, and when filing documentation in support of each transaction.

The General Manager, Fiscal Administrator, and Board Treasurer regularly monitor accounts and compare expenditures to limits authorized in the budget. Each month, the Board of Directors reviews and approves expenditures to make certain that expenditures are necessary and appropriate. Periodically during the fiscal year the Board of Directors reviews a budget-to-actual report.

2.1.4 District audited, internal controls robust

The District is audited by a Certified Public Accountant / Certified Municipal Auditor once each year. Audits of the District have been issued without qualifying statements. The District uses a sound system of internal controls to protect the resources entrusted to the care of the District. In our control system no one person can perform all financial functions.

2.1.5 Transparency

Like many local governments, the District regularly publishes the agenda for public meetings. The District posts approved meeting minutes online. The District also posts the list of expenditures authorized by the Board of Directors so that citizens can see where public funds are being spent. Audits are also published annually.

To help citizens stay informed about the activities of their soil and water conservation district, the District's utilizes newspapers and a website (<https://conservationdistrict.org>) to provide information to the public. In addition, information is regularly communicated through social media services including Facebook and Twitter.

2.2 Program and service changes

Over the past several years, the District has expanded services and programs to the level of investment allowed by the revenue received by the District. Thus, the number of people receiving service is now about the same as in prior years, and the same is true for investments in on-the-ground conservation actions. The budget proposed for FY 2017-2018 maintains a strong position to support providing high-quality technical assistance to landowners. Financial

assistance options for landowners remain in place to help them implement conservation practices that align with the District's conservation priorities.

2.2.1 Technical assistance

Technical assistance consists of advice and planning help provided by District employees. Assistance includes farm visits by conservation planners, site visits by WeedWise program staff, and the development of conservation plans for better natural resource management.

The District's focus on team-oriented service delivery has helped the District provide timely, consistent, high-quality conservation services to landowners.

At the beginning of FY 2013-2014, the District deployed a new database application – the Conservation Activity Tracking System (CATS) – to improve the process of conservation planning and allow more complete tracking of the needs and status of each customer. CATS has been continuously improved since then. In FY 2015-2016 the District began to integrate the WeedWise program database into CATS to help make service to customers more timely and seamless. Major strides were achieved in integrating these two systems in FY 2016-2017.

2.2.2 Financial assistance

The District is sometimes able to provide financial help to landowners who wish to implement conservation practices. Financial help can be in the form of a grant or a loan, or a combination of both.

LOANS

The District continues to build a loan fund to help landowners implement conservation practices. The Conservation Loans Fund is intended to become a self-sustaining revolving account. The District's goal is for the fund to become a stable long-term resource.

Please note that few soil and water conservation districts provide loan to cooperating landowners. The use of this tool to help cooperators implement conservation practices sets Clackamas Soil and Water Conservation District apart from other SWCDs.

A loan can be a helpful tool for landowners, particularly in two situations:

1. **When conservation costs cannot be deducted** – A loan is generally not considered to be taxable income, whereas a grant may result in additional tax liability. For landowners not operating a commercial enterprise on their land, they may not have enough deductions to offset the tax liability created by receiving a grant. Thus, loans may be particularly attractive to residential homeowners and non-commercial agricultural operators.
2. **When sufficient landowner cash is not available to fully fund the project** – When a landowner prefers not to front the full cost of the project and then wait for partial reimbursement from the District, a loan can help move the project to implementation. When the District combines a grant and a loan, the District can cover 100% of the up-

front project cost with the landowner's sharing provided as a loan. Combining a grant with a loan has been well received by a number of customers.

GRANTS

Small grants of up to \$2,500 continue to be made available for some water quality practices and for treating priority invasive weeds. These small grants require less formal conservation planning work, decrease District overhead, and speed the implementation of practices.

In addition, some projects may qualify for a larger grant from the District. External funding is often sought for larger projects, usually in the form of grants such as those provided through the Oregon Watershed Enhancement Board.

2.2.3 Reaching customers

The District continues to work proactively to reach specific communities facing high-priority conservation issues.

In FY 2015-2016 the District increased program staffing for outreach and education. As a result, the District has been represented at more events and meetings than in prior years. The District also invested more time and energy to drive increased engagement through social media channels, including targeting key messages to specific zip codes.

These efforts are resulting in a more visible profile of the District, more public engagement, and greater understanding of what we do to help our communities and creatures thrive.

2.3 Performance

The District experienced a productive and eventful year. Our regular work involves providing advice to private landowners who wish to work with us. At their invitation, we evaluate their situation and work with them to develop action plans to improve the protection of natural resources and to improve the quantity and quality of the resources under their stewardship.

2.3.1 Conservation priorities

Our top conservation priorities for the July 1, 2016 through June 30, 2017 time period centered around:

- Water quality
- Water quantity
- Wildlife habitat
- Invasive species management
- Soil health
- Working lands

2.3.2 Conservation practices implemented

In calendar year 2016, conservation planning staff fielded calls from 150 constituents and made 191 site visits. In addition to individual conservation plans created in the normal course of business, many conservation practices were implemented, including:

- Animal trails and walkways: 300 feet
- Fence: 560 feet
- Heavy use area protection: 5,200 square feet
- Irrigation system, microirrigation: 46 acres
- Irrigation water conveyance (low pressure pipeline): 20,660 feet
- Irrigation water management: 46 acres
- Pipeline: 500 feet
- Riparian forest buffer: 0.4 acre
- Roof runoff structure: 1
- Tree and shrub establishment: 48 acres
- Underground outlet: 50 feet
- Watering facility: 2

2.3.3 Invasive species management

A major emphasis of the District's overall program involves invasive species. We teach others about the damage caused by invasive plants and we train people to identify these invaders. We visit many properties throughout the year and we treat (or have contractors treat) outbreaks of targeted invasive weeds.

A staffing increase made in FY 2014-2015 expanded the District's participation in invasive species activities and initiatives in the region and has continued to help the District increase the level of service provided to constituents.

WeedWise program performance for calendar year 2016 demonstrates continued success in our work to manage invasive weeds:

- Targeted mailings were sent to 834 households regarding garlic mustard, spurge laurel, knotweed, and policeman's helmet. An addition 796 landowner interactions were made including phone calls, site visits, and office visits.
- 3,389 acres were surveyed for invasive plants on 541 properties.
- 2,712 gross acres were treated for invasive plants on 260 properties.
- Staff tracked 38,490 mapped weed observations
- The District targeted 78 weed species as priorities for rapid response and early detection efforts.
- The WeedWise program has 1,146 cooperating landowners.

- The gross acreage of cooperating landowners totals 31,437 acres.

2.3.4 Outreach and education activities

Helping our landowners and resource stewards to conserve water, improve habitat, and guard against invasive weeds requires constant outreach and education work. We lead by demonstrating practices, we reach people by direct mailings and participating in a wide range of events and activities, and we teach using workshops and outreach events.

In calendar year 2016, we focused outreach efforts on the following conservation issues:

- **Preservation of farmland** – The Board wrote a letter in support of farmland to the Clackamas County Commissioners. The core of that letter includes this statement:

"Considering the highest and best use of land must also include the long-term value of generations of future farm production and the impacts on the character and economics of our local communities. The remarkable character of Clackamas County will be lost if we cannot assure the long-term coexistence of agriculture, population growth, and development. The only way to accomplish this is to protect farmland and to focus non-farm land uses on land less suitable for farming."

- **Conserving oak habitats** – The District contacted landowners in an area near Molalla where significant opportunities exist to protect and restore oak. The District worked with regional partners on developing strategies for oak conservation, and asked the Natural Resources Conservation Service to designate additional resources for the conservation of oak habitats in Clackamas County.
- **Important of beneficial insects emphasized** – Beneficial insects help control crop pests, and that can mean less pesticide need be used to achieve adequate control of pests. We worked with producers to provide better habitat for beneficial insects. The District also developed and publicized more information on beneficial insects, and developed a "beetle bank" display that was shown at several events. Soil health information was often interwoven in information about beneficial insects.
- **Pesticide reduction efforts continued** – Improving the efficiency of sprayers through nozzle replacements, calibration, and maintenance means that farmers, nursery growers, and Christmas Tree growers can save money by using less pesticide. The District also provides windsocks to growers to help avoid drift from wind. These approaches also reduce the amount of pesticides reaching surface water. Pesticide reduction work has become a more significant part of the District's portfolio.
- **Advertising expanded** – The District advertised in a number of publications, and added the East County Gazette to that list. Recently, the District began contributing content to the Forest Tree Leader, the newsletter for the Clackamas County Farm Forestry Association.

- **More tabling at events** – Tabling at a number of events increased, providing more visibility to the District and increasing our contact with constituents.

We used property tax revenue for all of these activities, but some costs were offset by grants received from other entities. In several instances the District also completed conservation projects using a portion of fines levied by the Oregon Department of Environmental Quality.

2.4 Financial and Operations Performance

2.4.1 Operating costs controlled

The District effectively managed expenditures within the limits established by the adopted budget. A higher end-of-year cash balance is projected, and this comes about partly due to effective control of spending.

2.4.2 Financial assistance continued

In FY 2016-2017, the District continued to invest in conservation actions and programs. (Costs related to District employees and operations are not included in Conservation Grants Fund and Conservation Loans Fund expenditures.)

Last year, the District utilized a competitive procurement process that led to establishing contracts with 11 well-qualified vegetation management vendors. These five-year contracts help assure rapid and effective treatment of targeted weeds. Our conservation planners also use these contractors to help restore native vegetation on project sites.

Most investments in conservation actions made by the District have been funded from the District's Conservation Grants Fund. Recent history shows a high level of investment each year:

- \$657,405 in FY 2013-2014
- \$713,112 in FY 2014-2015
- \$626,619 in FY 2015-2016
- \$867,786 budgeted in FY 2016-2017

Beginning in FY 2015-2016, these investments included making loans to landowners. In FY 2016-2017, loans made up \$134,000 of the total budgeted for conservation practice implementation. Those loans now reside in a separate fund. Subtracting that amount leaves \$733,786 budgeted for implementing conservation actions, more than in recent years.

The current year (FY 2016-2017) budget anticipates total tax revenue of \$2,119,195. The \$867,786 budgeted for to be returned to the community in the form of conservation implementation costs represents 41% of the District's tax revenue.

2.4.3 Staff vacancies filled in FY 2016-2017

Vacancies occurred in FY 2015-2016 and in FY 2016-2017. These vacancies were filled in FY 2016-2017. Having trained, experienced staff is key to providing the technical assistance needed by constituents. Management considers the District to be fully staffed at this time.

2.4.4 Partnerships maintained

The District provides funding to several organizations – particularly watershed councils and farmers markets – whose work helps to advance the District’s conservation goals. Watershed councils pursue actions that directly improve watershed health and water quality. Farmers markets support local farmers who are directly responsible for management of productive, high-value agricultural land in Clackamas County. When we help partners with work that addresses the District’s conservation goals, everyone wins.

In calendar year 2016, the District continued to work with the Confederated Tribes of Warm Springs, the Confederated Tribes of Grand Ronde, and the Confederated Tribes of Siletz Indians. The District’s long-term land preservation goals often align with natural resource and cultural goals of our tribal partners.

The District also helped the Sandy River Basin Watershed Council fund a large project on the Sandy River. This project reconnects the river to the floodplain to help reduce flooding and property damage downstream and to provide more fish habitat.

The District’s directors and employees participate in a wide variety of other organizations interested in natural resources.

Section 3: Economic Conditions and Management

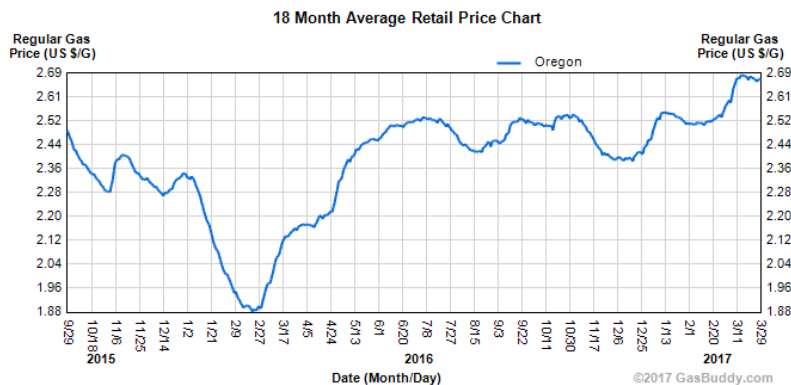
3.1 Economic Conditions

3.1.1 Property values

During FY 2016-2017, the economy became less unsettled than it has been in recent years. Over the past four years, the assessed valuation of real property in Clackamas County has rebounded. Property tax revenue has been increasing by more than three percent annually as home sales and new construction activity have increased.

3.1.2 Fuel cost

During the prior year we saw fuel costs decrease, but this trend reversed in FY 2016-2017. The cost of fuel affects most goods and services procured by the District.



Overview

- ✓ Economy more stable
- ✓ Costs are rising
- ✓ Manage costs and debt
- ✓ Seek higher earnings on investments
- ✓ Provide assistance to cooperators
- ✓ Use contractors when indicated
- ✓ Build sustainable loan fund
- ✓ Invest in working lands
- ✓ Maintain WeedWise program/services

3.1.3 Employee benefit costs

In FY 2015-2016, employee benefit costs remained level for the first half of the fiscal year (July through December 2015) and then rose about 10 percent for the second half of the year (January through June 2016).

On January 1, 2017, premiums for medical and dental insurance again went up. Plans were modified such that deductibles faced by employees were increased, and some benefits were reduced. These factors contribute to higher costs for both the District and for employees.

3.1.4 Revenue is limited

For a tax-based public entity such as the District, opportunities to increase revenue are limited. The District's permanent tax rate is capped at five cents per thousand dollars (5¢/\$1,000) of assessed property value. To provide the maximum level of service possible, the District assesses the full tax of five cents per thousand.

Investment of money is also limited by state law, with restrictions favoring safety over earnings. The District continues to seek safe opportunities to increase earnings on investments.

3.1.5 Cost of money is increasing

The cost of money the District expects to borrow for construction of the Conservation Resource Center is increasing. The slowly rising prime rate means that the District's interest rate on construction debt will be higher.

Other loans already received by the District are on terms very favorable to District. Interest rates are low, and for one large loan, a principal forgiveness clause means the District will not have to repay the entire loan proceeds.

3.1.6 Rising costs vs. limited revenues

The District seeks to balance rising costs against a capped revenue stream that is increasing slowly. On average, inflation has been low for several years. Growth in property tax revenue has been greater than inflation.

3.2 Management Responses to Economic Conditions

3.2.1 Growth in property values

The Budget Officer predicts that the value of assessed real property will continue to increase. The Oregon State Constitution limits the annual increase in assessed property value for a property to three percent. Tax revenue received by the District has increased at more than three percent a year for the past several years because of a rebound in property values, property sales, and new construction in Clackamas County. More recently, it has increased by more than four percent.

Based on local economic conditions, historical growth, and an upward trend in property valuation, the Budget Officer utilized a projected rate of growth in tax revenue of 4.5 percent in developing the FY 2017-2018 proposed budget.

3.2.2 Manage costs

Managers watch expenditures and continually seek more efficient ways to improve service, promote safety, and reduce cost. Management's challenge is to improve services while managing costs so that costs remain less than the expected growth in revenues.

When fuel prices rise, the cost of goods and services often rise. Management seeks competitive prices and free or low-cost delivery options whenever possible. Controlling costs is key to maintaining services within the limits of revenues and appropriations. The District believes that normal attrition and careful management will allow adequate control of operating costs for the foreseeable future.

Staffing is the District's greatest single cost center but it is also the primary vehicle for providing conservation help to constituents. Providing technical assistance to customers is a commitment made to voters in the very first sentence of Measure 3-221:

This permanent rate limit will enable Clackamas Soil and Water Conservation District to provide education and technical assistance to urban and rural residents, farmers, businesses, municipalities, and others to meet rising legal and public expectations for healthy and sustainable management of our land, air and water.

At the time this budget message is being written, the District projects that employee benefit costs will remain approximately level, primarily because the large group the District participates in has tended to buffer large swings in cost. The nationwide conversation about health care is unlikely to significantly impact the District in FY 2017-2018.

To help control the cost of benefits, the District adopted an "opt out" policy on January 1, 2017. This policy allows employees who have health care coverage elsewhere to decline coverage in the District's medical insurance plan, thus saving money for both the District and for the employee. Two employees currently opt out of District coverage.

3.2.3 Manage long-term debt and cost of money

Long-term debt will increase due to providing more loan funding to landowners and due to borrowing to finance the construction of the District's new Conservation Resource Center.

The long-term debt associated with making loans to landowners represents money that will come back to be used again by other customers. One of two loans from the Oregon Department of Environmental Quality was negotiated to include a principal forgiveness clause. The District expects to have to repay less than the amount borrowed.

With lending rates slowly increasing, management is focused on securing long-term funding for the construction of the Conservation Resource Center sooner rather than later.

3.2.4 Seek higher earnings on investments

For the first half of the current fiscal year, the District earned approximately one percent interest on deposits in the Oregon State Treasury Local Government Investment Pool (LGIP). This is less than the rate of inflation.

Oregon Revised Statutes chapter 294.035 discusses limitations on investments of public funds by local governments. The District continues to seek investment vehicles available to Oregon local governments that provide safety and interest growth greater than inflation.

3.2.5 Provide some services through contractors

Rather than hire staff for some tasks and functions, the District will continue to utilize contractors for some activities. For example:

- The District obtains the services of an engineering technician through an intergovernmental agreement with another special purpose district, thus making this resource available to District constituents.
- We contract with an engineer for the review of some conservation designs.
- Invasive weed treatments are primarily delivered through contractors.
- The District provides partial support to the Backyard Habitat Certification Program as a way to help implement conservation actions within some urban areas.
- We also occasionally utilize a contractor to assist with grant writing.

These mechanisms allow the District to provide substantially more services without hiring additional staff.

3.2.6 Build self-sustaining loan fund

The District has access to funds from the Department of Environmental Quality, awarded for us to address water quality and water quantity issues using loans. Loan repayments from landowners are used to fund new loans to other landowners, thus recycling these dollars for conservation activities.

Near the close of FY 2016-2017, the District will launch a septic system repair loan program in the Clackamas River watershed to protect water quality and habitat. This pilot program is intended to become a revolving loan fund. If warranted, the District may consider expanding this program in future years to other vulnerable parts of Clackamas County.

To date, no borrower has defaulted on loan payments. Some borrowers have repaid their loans early.

3.2.7 Invest in working lands

Measure 3-221 stated: *"The permanent rate limit will support current District programs including conservation technical assistance, help for landowners navigating regulations, and cost-share funding for conservation projects to improve the quality of our streams, working lands and natural habitat for fish, wildlife, and people."*

Conserving working lands is a key focus of the District's priorities. Farms, fields, and forests that are at risk of permanent loss or that provide unique, critical habitats represent focal points for our working lands strategy. Preserving our best agricultural soils is an important aspect of this effort.

Donations to the District are tax deductible if made for a public purpose. The District can accept bequests. Staff continues to work toward establishing a programmatic approach to assist in accepting donations and bequests of land. Lands received by gift or bequest could be

preserved, improved, leased, harvested, or sold, depending on the wishes of the parties involved and the characteristics of individual parcels. In some cases, it may be advisable to preserve all or part of such working lands with easements.

In FY 2016-2017 we increased our outreach efforts around the topic of conserving working lands, and we expect to continue this focus in FY 2017-2018.

In FY 2016-2017, the District was awarded funding to acquire more than 80 acres of forested land along a mile of the Molalla River. This acquisition, if completed successfully, will come with an endowment intended to fund management activities on the property in perpetuity. The acquisition is expected to conclude by September 30, 2017.

Also in FY 2016-2017, the District's Board of Directors voted to hold a conservation easement on a forested property near Colton, Oregon. We won't learn if the grant application for this easements will be funded until September, 2017. As with the Molalla River property, the District would receive an endowment to cover the cost of monitoring the easement and developing annual reports.

The District began reaching out to residents near Molalla to assess public interest in conserving oak habitats. We expect that a few requests to hold conservation easements may arise from this work.

3.2.8 Maintain the WeedWise program

Measure 3-221 stated: *"The District is also responding to citizen demands to implement a countywide weed program focused on education and sustainable control methods."*

Control and management of invasive species continues through the District's WeedWise program. The District remains strongly committed to helping constituents control invasive weeds.

Multi-year grant funding also helps to support an expansion of the District's work on invasive species in the Clackamas River watershed.

3.2.9 Maintain financial assistance to constituents

Providing financial assistance was also described in Measure 3-221: *"The permanent rate limit will support current District programs including conservation technical assistance, help for landowners navigating regulations, and cost-share funding for conservation projects to improve the quality of our streams, working lands and natural habitat for fish, wildlife, and people."*

While assuring continued technical assistance to constituents is our top priority, providing incentives to help people implement practices that protect public resources is also an important way to help conserve natural resources.

Section 4: Budget Scenario for Fiscal year 2017-2018

The District's budget for fiscal year 2017-2018 (July 1, 2017 through June 30, 2018) reflects the continued commitment of the District to implement core components of the District's annual and five-year conservation priorities adopted by the Board of Directors. The latest annual plan developed within a five-year context is available on the District's website.

To aid you in connecting Section 4 items with the proposed budget, we point out individual page numbers in the proposed budget in this format: page 1.

4.1 Priorities Addressed by Five Funds

The proposed budget is structured around five funds:

- General Fund
- Conservation Grants Fund
- Conservation Loans Fund
- Working Lands Legacy Fund
- Building Reserve Fund

4.1.1 Top priorities

PRIORITY #1: CONSERVE KEY NATURAL RESOURCES

The District's top priority is to implement policies and programs that lead to the conservation of natural resources in Clackamas County. In particular, the District focuses on:

- Water quality
- Water quantity
- Wildlife habitat
- Invasive species
- Working lands

Many of these focal points blend together. For example, improving the efficiency of irrigation systems often helps to improve water quality. Restoring habitat along streambanks also benefits water quality. Controlling invasive species benefits wildlife by creating better habitat.

Due to the continuing loss and fragmentation of working lands in Clackamas County, the District works to protect against the loss of our best farms, fields, and forests. This may occur through acquiring land, holding conservation easements, and educating constituents and decision makers.

PRIORITY #2: MAINTAIN SERVICE TO CONSTITUENTS

The District strives to deliver timely, consistent, professional service to residents of Clackamas County. We work cooperatively with willing landowners to conserve natural resources for use today and for future generations. Staff work is funded from the General Fund.

We provide assistance in two forms: technical advice and consultation, and when warranted and available, financial assistance to help with implementing conservation practices that protect or improve natural resources. Technical assistance costs are funded entirely from the General Fund. Financial assistance to implement practices comes from the Conservation Grants Fund and/or the Conservation Loans Fund.

PRIORITY #3: BUILD A PERMANENT FACILITY

Our third highest priority is constructing a central office and meeting space (the Conservation Resource Center) that will better serve the needs of our organization and our customers for the foreseeable future. The Building Reserve Fund is the savings account for this priority.

4.1.2 General Fund

The District is a service organization. Clackamas County voters approved a permanent tax levy in 2006 to ensure that District services would be provided without interruption. First and foremost, the District seeks to improve the quantity and quality of technical assistance provided to the public. The budget reflects this commitment to service delivery.

According to the Oregon Department of Revenue:

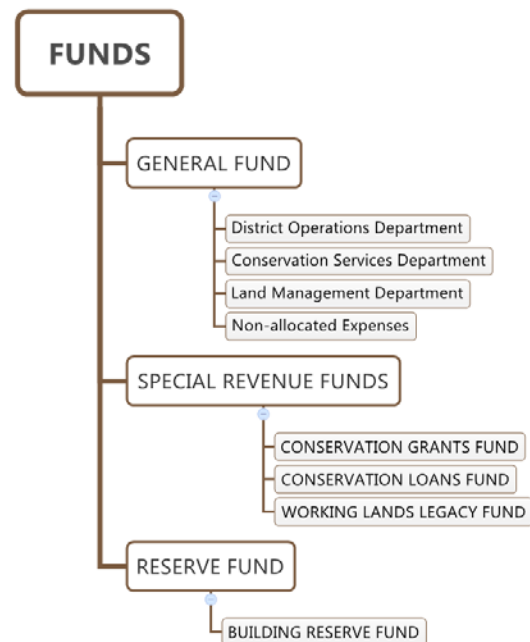
"A general fund contains the estimates of the revenues and expenditures needed to run the daily operations of the local government such as wages, supplies, rent, and utilities."

Resources can be thought of as the income and cash available to a fund. Requirements can be thought of as maximum expenditures made from a fund.

Resources for the General Fund are shown on [page 1](#) of the proposed budget. Requirements (expenditures) are summarized in two different ways on [page 2](#) and on [page 3](#).

Within the General Fund are three departments: District Operations ([page 4](#)), Conservation Services ([page 5](#)), and Land Management ([page 6](#)). A fourth detail sheet in the budget shows expenditures that are not allocated to any department ([page 7](#)).

- The District Operations Department includes the cost of operating the District, supporting our work as a public entity, publicizing and holding meetings of the Board of



Directors, maintaining an office and associated infrastructure, maintaining proper control and stewardship of public funds, and other administrative costs. Four full-time-equivalent ("FTE") positions are budgeted in the District Operations department.

- The Conservation Services Department represents costs associated with providing services to customers and partners. Conservation planning, invasive weed management, urban conservation, and educational activities are all part of this department. We include 11.4 FTEs in the Conservation Services department.
- The Land Management Department captures the costs to manage and service conservation easements and lands held by the District. Equipment Rental Program expenses are included in this department because that equipment is directly related to managing land.

4.1.3 Conservation Grants Fund

The Conservation Fund was established in fiscal year 2012-2013 as the primary vehicle for the District to fund conservation actions on private lands and to support programs that align with the District's mission. In FY 2016-2017, this fund was renamed the Conservation Grants Fund, and conservation loans were moved to a separate fund to more clearly show loan activities.

The Conservation Grants Fund ([page 8](#)) is a special revenue fund focused on the grants the District provides to others. 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. According to ORS 294.311(39), a special revenue fund is "*...a fund properly authorized and used to finance particular activities from the receipts of specific taxes or other revenues.*"

The General Fund is primarily focused on costs spent internally for the operation of the organization and the delivery of services. The Conservation Grants Fund is externally focused, investing in on-the-ground conservation actions, and supporting organizations with conservation projects and programs that support the District's mission.

Anticipated investments from the Conservation Grants Fund echo the conservation priorities of the District. The District's top priorities are: water quality and water quantity; wildlife habitat; invasive weed management; soil health; and working lands. In many cases, activities in one category will also yield benefits in other categories.

4.1.4 Conservation Loans Fund

In FY 2016-2017, the District created the Conservation Loans Fund ([page 9](#)) to more clearly show loan-based activities of the District. Loan activities continue to grow with more loan funds being made available for a wider variety of purposes. Loans, and combinations of grants and loans, are popular with some customers.

Loans for traditional conservation actions such as building a manure composting facility continue to be offered. For FY 2017-2018, the District proposes to offer loans to repair or replace failing septic systems in the Clackamas River watershed. Failing septic systems

threaten people, pets, and wildlife, and can significantly impact water quality. The Clackamas River is the primary source of drinking water for more than 300,000 people.

The sources of loan funds are: (a) repayments of earlier loans; (b) interest earned; and (c) new funds provided by the Oregon Department of Environmental Quality.

4.1.5 Working Lands Legacy Fund

The Working Lands Legacy Fund ([page 10](#)) is a special revenue fund used to save money for the long-term conservation of farms, fields, and forests that are at risk of permanent loss, as well as the wildlife habitat components associated with such lands. This fund is focused primarily on acquiring land and easements.

4.1.6 Building Reserve Fund

The Building Reserve Fund ([page 11](#)) is a reserve fund in which the District saves money toward acquiring property or for acquiring or building a facility that will allow the District to provide better service to our customers. ORS 294.346 says, in part: "*Any municipal corporation, by ordinance or resolution of its governing body, may establish one or more reserve funds to hold moneys to be accumulated and expended for the purposes specified in ORS 280.050...*"

Money in the Building Reserve Fund may be appropriated and spent for any purposes that were established when the Fund was formed. Those purposes are: leasing, acquiring, construction, remodeling, or making capital improvements to property of the District.

4.2 Initiatives for Fiscal Year 2017-2018

The District's proposed initiatives for fiscal year 2017-2018 are summarized in section 3.2 as management's response to economic conditions.

4.3 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.

4.3.1 Tax rate proposed in budget

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.

For FY 2017-2018, the proposed budget uses a tax levy rate of five cents per thousand dollars of assessed valuation (5.0¢/\$1,000) which is the maximum levy rate allowed for the District. This is the same rate levied by the District for the past several years.

4.3.2 Method for estimating of tax revenues for 2017-2018 budget

As this budget message is being written, no new information has been received from the Clackamas County Assessor regarding estimates for FY 2017-2018. Previous communications from the Assessor indicate an expectation that the District will receive more tax-based revenue than we had budgeted for FY 2016-2017.

For FY 2017-2018, we project tax revenue at 5.0% greater than the FY 2016-2017 expected revenue.

4.4 Budget Detail Sheets

Budget documents are provided to the Budget Committee and to the public for their review. The District is required to submit the final budget on standardized budget forms provided by the Oregon Department of Revenue.

The proposed budget for fiscal year 2017-2018 is categorized by a General Fund containing three departments plus a sheet for unallocated expenses, three special revenue funds (the Conservation Grants Fund, Conservation Loans Fund, and Working Lands Legacy Fund) to hold resources for restricted purposes, and a reserve fund (the Building 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 section and a requirements section, and the totals for both sections must balance for each fund. Budgets include a variety of categories and line items specific to the needs of each fund. Some funds also have worksheets that provide somewhat more detail about resources and/or requirements for a particular fund.

4.5 Recent Programs Shown

We are required to show programs and funds from the past few budget years, even when those programs or funds have been eliminated or superseded. This helps show enough history to identify changes between budget cycles. Prior budget years are shown in three columns on the left side of each budget sheet.

4.6 General Fund

The primary source of revenue for the General Fund is the District's permanent taxing authority established when voters passed Measure 3-221 in the 2006 General Election. Other anticipated revenue sources include grants and contracts from federal and state entities, and from partners. Interest earned from General Fund money is revenue to the General Fund.

Within the General Fund are three departments (Oregon Local Budget Law uses the term "organizational units," and our usage of departments means the same thing) and a page for unallocated expenditures. In general, the District Operations Department, Conservation Services Department, and Land Management Department cover the regular activities of the District.

(Financial assistance to help with installing or implementing conservation practices on property owned or managed by others is shown in the Conservation Fund. Revenues and expenses to support the long-term conservation of working lands are shown in the Working Lands Legacy Fund.)

Expenses not allocated to a department are shown on a fourth sheet described as “Not Allocated to Any Department.” This fourth page shows transfers from the General Fund to other funds.

4.6.1 Resources

The LB-20 Resources page of the General Fund on [page 1](#) of the proposed budget begins with the projected working capital carry-over from FY 2016-2017. This is an estimated figure that may change between now and July 1, 2017.

4.6.2 Other resources

Other revenue comes from interest income, a variety of grants and contracts, and from support from partners.

From time to time, the District may apply for grants to support our work with constituents. In recent years the District invested significant time in seeking grants, and received awards totaling more than \$1.5 million. In FY 2017-2018 we are performing work required by those grant awards.

4.6.3 Requirements

The detailed department pages (District Operations Department, Conservation Services Department, and Land Management Department) and the Non-allocated Expenditures page are combined into a program-based summary shown on [page 2](#) of the proposed budget. These same expenditures are rolled up by line category for a different view of proposed expenditures on [page 3](#) of the proposed budget.

Pages 4 through 7 of the proposed budget are essentially worksheets for each organizational unit (department) in the General Fund:

- [Page 4](#) – District Operations Department
- [Page 5](#) – Conservation Services Department
- [Page 6](#) – Land Management Department
- [Page 7](#) – Not Allocated to Any Department

Categories for requirements in General Fund departments include:

- Personnel services
- Materials and services
- Capital outlay

In addition, the “Not Allocated to Any Department” sheet also includes:

- Debt service
- Special payments
- Interfund transfers
- Operating contingency
- Unappropriated ending fund balance
- Reserved for future expenditure

4.6.4 Personnel services

On [page 2](#) and [page 3](#) the totals for personnel costs are summarized. For FY 2017-2018, the District proposes to employ 16 people working 15.4 full-time equivalent hours. (A full time equivalent, or FTE, is 2,080 hours worked in a year.) The maximum appropriation for Personnel Services, which includes gross wages, benefits, and payroll liabilities, is budgeted at \$1,505,210 for fiscal year 2017-2018. Costs increase primarily due to cost of living adjustments and merit raises.

The District’s health insurance plan is managed by Clackamas County under an intergovernmental agreement. Benefits (and costs) are aligned with those of Clackamas County employees. In recent years, medical and dental insurance plan costs have increased annually. The District pays 90% of the premiums for the plans selected by employees, and employees pay 10% of the premiums.

In two of the past three fiscal years, medical and dental insurance premiums increased about 10%, on average. We anticipate relatively little increase in premiums for FY 2017-2018.

4.6.5 Cost of living adjustment (COLA)

The District’s Board of Directors uses a consumer price index (CPI) figure developed by the Local Government Personnel Institute as the basis for considering a cost-of-living adjustment (COLA) to be applied to employee wages. Specifically, the Board of Directors uses the CPI-W rate calculated for the Portland-Salem area as the basis for a COLA.

For calendar year 2016, the calculated CPI-W Portland rate was 1.7%. We use this 2016 rate in calculating the cost-of-living adjustment for personnel in FY 2017-2018.

	CPI-U Portland			CPI-W Portland		
	2016	2015	2014	2016	2015	2014
1st half	1.7%	1.3%	2.6%	1.2%	0.6%	2.4%
2nd half	2.6%	1.1%	2.3%	2.2%	0.3%	2.1%
Annual	2.1%	1.2%	2.4%	1.7%	0.4%	2.3%

4.6.6 Merit raises

To provide recognition of exemplary service and assure uninterrupted service to District customers, an average of four percent of base wages is included for merit raises. One-time performance awards are also included at an average of \$2,500 per employee.

The District also provides performance bonuses in recognition of superior performance. The General Manager reviews recommendations with the Personnel Committee before proposing performance bonuses to the Board of Directors for approval.

Not all employees may receive merit raises or performance awards in any given year. The amount in the budget is a spending limit, and the District may choose to spend less.

4.6.7 Materials and Services

Materials and Services is the broad expense category that supports District operational and program requirements. The proposed budget increases the amount available for materials and services, primarily due to increases in contracted services, the District's office lease, dues and subscriptions, and staff training. The cost for dues and subscriptions includes software licenses.

In FY 2016-2017, the District filled vacant positions. Higher training costs were projected in FY 2016-2017 but it took longer than expected to fill vacancies. Those higher training costs are carried over to FY 2017-2018.

4.6.8 Capital outlay

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

DISTRICT OPERATIONS DEPARTMENT

Page 4 – No capital purchases are anticipated in FY 2017-2018 for the District Operations Department.

CONSERVATION SERVICES DEPARTMENT

Page 5 – Up to \$3,000 in office equipment is budgeted for the Conservation Services Department, primarily to address ergonomics in employee workspaces.

LAND MANAGEMENT DEPARTMENT

Page 6 – Up to \$10,000 is budgeted for purchase of a BCS-brand two-wheeled tractor and/or a utility trailer for use at the District's farm and for the District's Equipment Rental Program.

4.6.9 Debt service

Debt Service is no longer included in the General Fund. Instead it is described in the Conservation Loans Fund on [page 9](#), and in the Building Reserve Fund on [page 11](#).

4.6.10 Transferred to other funds

In order to allocate resources from the General Fund that are needed by another fund (such as a special fund or a reserve fund), a transfer of money is budgeted from the General Fund to the receiving fund. The transfer is shown as a requirement of the General Fund.

Interfund transfers are detailed on the "Not Allocated to Any Department" sheet on [page 7](#).

4.6.11 Contingency

The Contingency category is supported by Oregon Local 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. We don't expect to need contingency funds so we do not include any funds set aside for this purpose.

4.6.12 Unappropriated ending fund balance

For the General Fund, this item is shown on [page 7](#) and denotes the amount of money the District needs to cover expenses after the new fiscal year ends, and before substantial tax revenue is received. This period is from July 1, 2018 (after the end of FY 2017-2018) until tax revenue is received in November 2018. It is called "unappropriated" because we cannot appropriate funds beyond the end of the fiscal year, but we know we will need to have those additional funds to meet expenses for the July-through-November 2018 period.

The unappropriated ending fund balance for a given fiscal year is carried forward as a Resource (cash on hand or working capital) to begin the following fiscal year.

4.7 Conservation Grants Fund

The Conservation Grants Fund on [page 8](#) is a special revenue fund focused on the financial assistance we provide to others. As a fund, resources must balance requirements.

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.*"

Some grants received by the District can only be used for restricted purposes. Rather than mix those revenues into the District's General Fund, the District uses a special revenue fund named the Conservation Grants Fund to hold these resources.

Expenditures from the Conservation Grants Fund are investments in conservation actions. Examples include installing conservation practices and making special payments to support

the work of other organizations that help the District achieve its mission. Grants and cost-sharing awards to landowners are paid out on a reimbursement basis after the work is completed to the District's standards.

The District makes commitments to complete conservation projects. Sometimes those commitments extend into future years. In general, we capture those commitments in the Unappropriated Ending Fund Balance item for the July-to-November-2018 period, and remaining funds are kept in the General Fund until needed in the Conservation Grants Fund.

Since we don't keep a high balance in the Conservation Grants Fund, we show no interest earned. Funds are kept in the District's main savings account until needed.

4.8 Conservation Loans Fund

In FY 2016-2017, the District budgeted a transfer of \$134,000 from the Conservation Grants Fund to the Conservation Loans Fund to capture loan repayments made by borrowers since the start of the District's loan program. This is shown in the Resources section on [page 9](#).

For FY 2017-2018, we project a beginning fund balance of \$176,714 on July 1, 2017.

Additional resources are shown from the Oregon Department of Environmental Quality (DEQ) and from repayments expected during FY 2017-2018 from borrowers.

In FY 2017-2018, the District must begin repaying the first loan received from the Oregon Department of Environmental Quality. Payments total \$19,217 in FY 2017-2018.

Please note the "Reserved for Future Expenditure" amount of \$125,000. This represents the bulk of the \$134,000 carried over from borrower repayments. Unlike funds provided directly by Oregon DEQ, the \$125,000 is largely unrestricted in how the District may choose to use it in making loans. We anticipate that most borrowers will qualify for the more restrictive DEQ loan funds, so we set aside the less restricted money for future use.

4.9 Working Lands Legacy Fund

As the District looks to the past, we see a pattern of encroachment on good farmland, fields, and forests. Looking toward the future, we see a need to help assure the continued availability of our best working lands. These lands form the core of the character we associate with Clackamas County, and they provide substantial economic contributions. Healthy working lands also filter the water that feeds our rivers and groundwater supplies, and help to provide healthy habitat for fish and wildlife.

To support the long-term conservation of working lands in Clackamas County, the District established the Working Lands Legacy Fund in FY 2014-2015.

Shown on [page 10](#) of the proposed budget, we anticipate relatively little activity in FY 2017-2018. An exception is the \$129,000 projected to be received as a grant. This money is essentially an endowment intended for the perpetual care of a property the District is in the process of acquiring on the Molalla River. These funds are sequestered in the "Reserves for

Future Expenditure" line item. The District's plan is to preserve this endowment and use interest earnings for normal care and maintenance of the acquired property. Donated services from community members will help the District avoid depletion of the endowment.

Extraordinary actions may require the use of the District's tax-based revenue. In a future year, the District anticipates performing a selective harvest to advance the seral stage of the forest; any revenue from that harvest will be added to the endowment.

Other expenditures shown are largely related to the Molalla River property acquisition.

4.10 Building Reserve Fund

The Building Reserve Fund is where the District saves money toward acquiring property and/or building a facility that will allow the District to provide better service to our customers.

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 or construct a building for its use in future years instead of renting office space.

The Building Reserve Fund is was reviewed by the Board of Directors in March 2017; the Board voted to renew the fund for another 10 years.

Resources and requirements for FY 2017-2018 are shown on [page 11](#) of the proposed budget.

Resources (revenue) are a combination of funds carried over (working capital), transfers from the General Fund, interest, and a loan. The loan is for the construction of a new, permanent office and meeting facility (the Conservation Resource Center) on the District's property in Beavercreek, Oregon.

In the Requirements (expenditures) section, most of the loan proceeds are used for capital outlay and for materials and services related to building the new facility. Two semi-annual loan payments are anticipated in FY 2017-2018.

The construction of the Conservation Resource Center will place an unusual financial burden on the District because we will be occupying our leased office space while the new Center is being constructed. That means we will be paying for our regular lease and related utilities of nearly \$100,000 (see line 15 on [page 3](#)) while we are also beginning to repay \$230,000 against the loan (see line 19 on [page 11](#)).

During planning discussions, the District's Board of Directors looked 50 years forward. The Board realized that leasing costs for an office and meeting space would continue to rise. Management projects that the current office space will cost approximately the same amount as the loan payment in about 15 years; after that time, it will be less costly to own and operate the Conservation Resource Center than it would be to lease space. Over the long term, this investment will allow more revenue to be used to assist constituents and conserve natural resources. We may also have extra space that can be rented to a partner, thus offsetting some of the loan repayment, utilities, and maintenance costs.

Appendix A: About the Clackamas County SWCD

A.1 Governed by Seven-Member Board of Directors

The District is governed by a seven-member Board of Directors. Individual directors are publicly elected in county-wide elections administered by Clackamas County. 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 boundary is identical to that of Clackamas County, Oregon. 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.

A.2 Assistance Provided by Technical and Professional Staff

The District has 15.4 full-time equivalent (FTE) positions. These people work to assure the proper management and administration of the District, to educate and inform our constituents, and to provide conservation services to our customers.

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.

Four employees provide management and administration of the organization: a contracts specialist, a financial administrator, and administrative assistant, and a general manager. All work occurs under the supervision of a general manager who reports to the Board of Directors.

A.3 Some Work is Contracted

The District also utilizes specialized contractors to provide additional service. For example, vegetation management contractors are used to treat invasive species, and an engineering technician is utilized a few days a week to assist District staff in serving customer needs.

A.4 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.

A.5 Ten Feet of Precipitation in Mountains, Four Feet in Lowlands

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 too little.

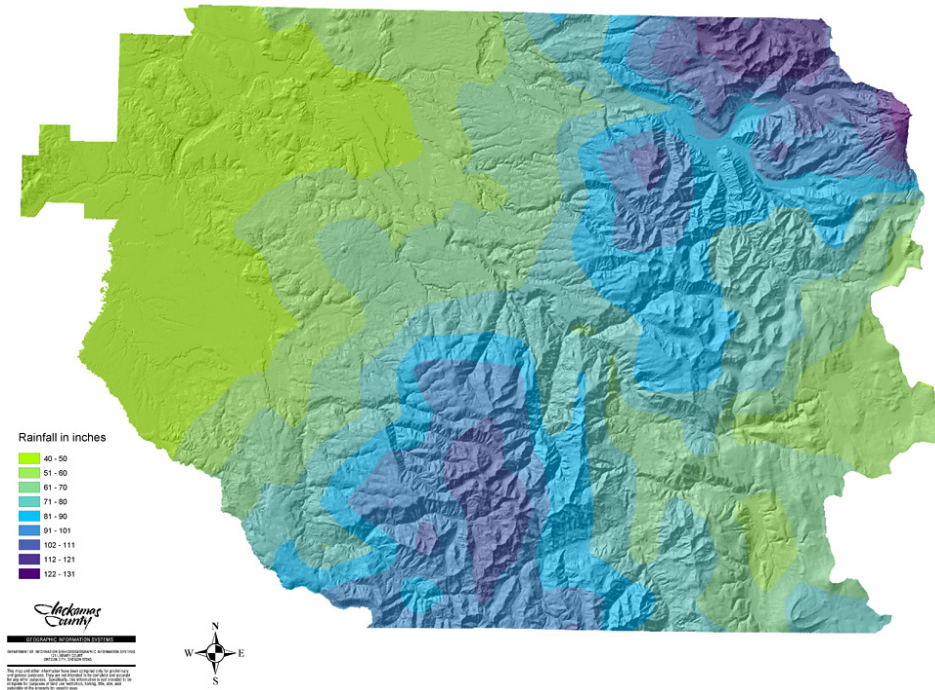


Figure 1: Average rainfall in Clackamas County

A.6 More Farms Than Any Other County in Oregon

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.

The 2007 Census of Agriculture was updated in 2012 and results are now available. In 2007, Clackamas County had more farms than any other county in Oregon with 3,989 farms reported. In 2012, we still have more farms than any county but the number has dropped to 3,745 on 162,667 acres. Our average farm size continues to be the smallest in Oregon.

The District contains more than ten percent of the total number of farms statewide. However, the average size of a Clackamas County farm is only 43 acres, which is less than 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.

A.7 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.

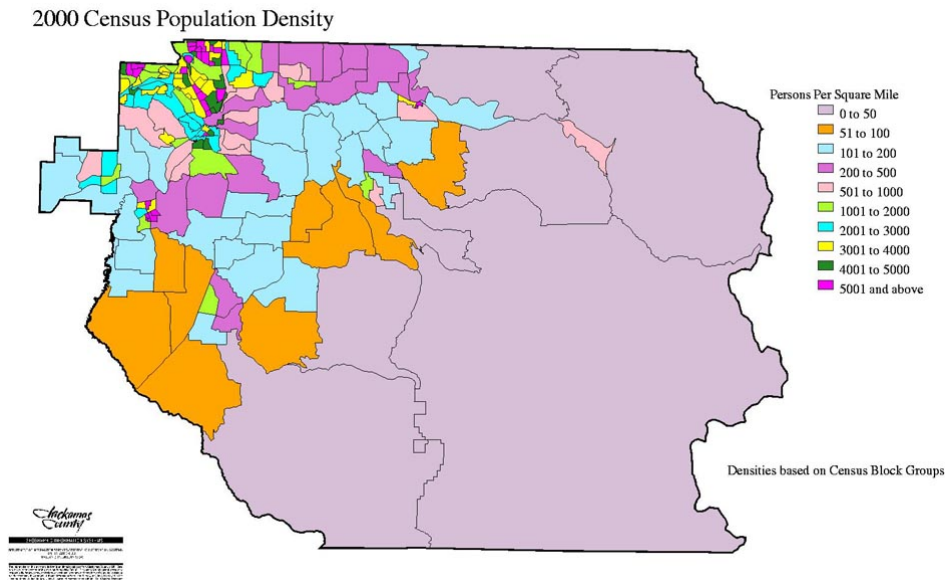


Figure 3: Population density in Clackamas County

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.

A.8 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.

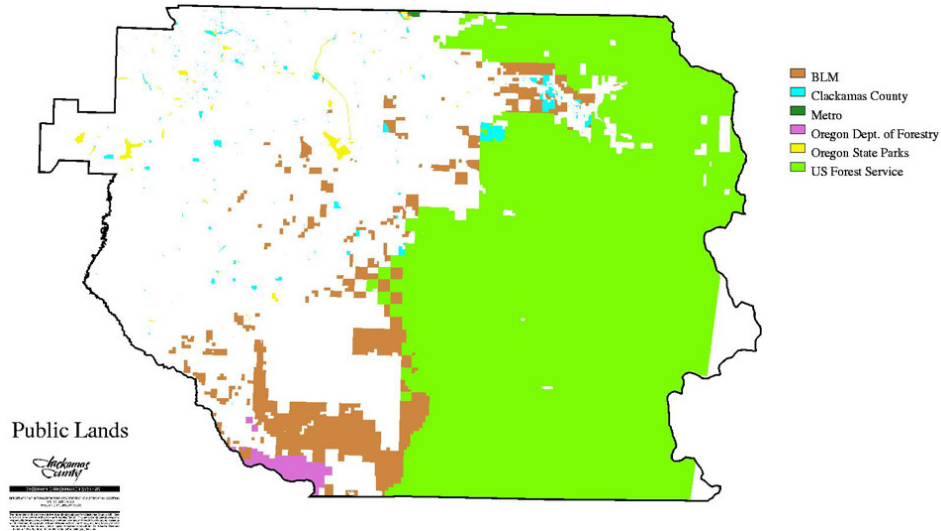


Figure 4: Public lands in Clackamas County

A.9 District Programs

We help people use natural resources responsibly so that those resources are available for current and future generations. Protecting water quality in a non-regulatory, collaborative manner is a core mission of the District. With so much land draining to so little 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.

In addition to college-level education in various natural resource fields, and training in conservation planning systems, some staff received training in wildlife conservation and rainwater harvesting. Two employees are certified by NRCS as conservation planners. 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, the District’s five-year plan, 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.