



## **AGENDA**

### **SHERWOOD BUDGET COMMITTEE**

**February 16, 2017 6:00 pm**

**Sherwood City Hall  
22560 SW Pine Street  
Sherwood, OR 97140**

### **BUDGET COMMITTEE MEETING**

1. **CALL TO ORDER –Andy McConnell, Chair**
2. **ROLL CALL – Katie Henry, Finance Director**
3. **APPROVE NOVEMBER 15, 2016 CITY OF SHERWOOD BUDGET COMMITTEE MINUTES**
4. **NEW BUSINESS**
  - A. **2016 Audit Report Review – Tim Gillette & Dan Miley of TKW – Exhibit A**
  - B. **2016 Budget to Actual Reports through January 2017 – Katie Henry**
  - C. **Review of Community Development fees and potential changes – Julia Hajduk – Exhibit B**
5. **FINANCE DEPARTMENTAL UPDATES:**
  - A. **Financial Software Conversion**
  - B. **Audit Firm RFP**
6. **ADJOURN**



## **SHERWOOD BUDGET COMMITTEE MEETING**

### **November 15, 2016 Minutes**

**1. CALL TO ORDER** – Chair Andy McConnell, called to order the regular meeting of the SHERWOOD BUDGET COMMITTEE MEETING at 6:04 pm on November 15, 2016.

**2. Roll Call – Katie Henry**

**3. COMMITTEE MEMBERS AND COUNCIL PRESENT:** Council President Harris, Councilor Brouse, Councilor King, Councilor Kuiper, Chair Andy McConnell, Vice Chair Meerta Meyer, Amy Kutzkey, Paul Mayer

**COMMITTEE MEMBERS LATE:** Kurt Studer arrived at 6:05 pm, Councilor Brouse arrived at 6:15 pm, Andy Jensen arrived at 6:35 pm and left at 7:30 pm.

**COMMITTEE MEMBERS ABSENT:** Mayor Clark, Councilor Robinson, Susan Claus

**CITY STAFF PRESENT:** City Manager Joe Gall, Assistant City Manager Tom Pessemier, Finance Director Katie Henry, Administrative Assistant II Jean Macaulay

**4. APPROVE MAY 12, 2016 CITY OF SHERWOOD BUDGET COMMITTEE MINUTES**  
**APPROVE MAY 19, 2016 CITY OF SHERWOOD BUDGET COMMITTEE MINUTES**  
**APPROVE MAY 26, 2016 CITY OF SHERWOOD BUDGET COMMITTEE MINUTES**  
**APPROVE MAY 26, 2016 CITY OF SHERWOOD URA BUDGET COMMITTEE MINUTES**

**Meerta Meyer** motioned to approve all minutes as provided, Seconded by **Paul Mayer**. Minutes approved by all in attendance at the time of approval, Councilor Brouse and Andy Jenkins were not present at that time.

**5. INTRODUCE NEW FINANCE DIRECTOR, KATIE HENRY**

Joe Gall introduced Katie Henry the new Finance Director for the City of Sherwood. Katie Henry shared her previous experience in various Finance positions in the State of Washington.

**6. NEW BUSINESS**



**A. Prepare the Budget Committee Annual Report for City Council (Exhibit A) –**

**Katie Henry** – Katie reviewed the report from the previous year, the Committee identified that the goals from the previous year were met:

The goals achieved by this year's committee are:

- A. Reviewed and proposed changes to the Financial Policies
- B. Explored the biennial budget process and sought community support through the electoral process.
- C. Increased transparency by providing project and program level detail in the budget process

The goals for the upcoming year are:

- A. Exploration of the City's contribution to and participation in community events, both cash and in kind.
- B. Review financial audit findings and discuss resolution.
- C. Explore a 5 year plan for both revenue and expenses to help identify key projects and provide more context for citizen involvement.

**B. Year to Date Financial Update through October (Exhibit B) – Katie Henry**

Katie reviewed the Year to Date Financials chart, Exhibit B. With 33% of the year completed, the percent of expenditures is 31%, right on target of where we want to be. On the Revenue side we are at 9%, we anticipate the big influx of property tax between November 15<sup>th</sup> and November 30<sup>th</sup> from the County. Meerta Meyer asked can we comingle funds within the same bank account. Katie answered yes as long as you account for the funds separately.

**C. 2016 Budget to Actual Reports (Exhibit C) – Katie Henry**

Katie reviewed the Budget to Actuals Reports, Exhibit C. This is what was adopted in the Budget. On the revenue side you will see we brought in \$372,900 more than what we budgeted to bring in. On the expenditure side we spent \$1,007,029 less than we had anticipated. We projected to spend down our fund balance by \$1,000,000, we actually went up by about \$400,000. There are several reasons why: one is careful management from our staff, we budgeted \$500,000 in contingency and did not use it. There were also savings in Public Works' project management. Kurt Studer asked would those expenses be incurred down the road. Katie replied some of them will be, like resurfacing of roads etc. Joe Gall gave an example: we had the water main break on Willow, causing the road and pavement to go up, Craig Sheldon said this is over the \$25,000 we have budgeted for this type of event, this one is probably going to be in the \$100,000 range. Council will have to move some money around in January to take care of that project. Councilor Henderson and Joe Gall asked where we are at percentage wise with the 20% "Rainy Day Fund" goal. Katie replied we are at 27%.

Katie reviewed the Debt Service fund's negative ending balance. This fund accounts for property taxes received on the tax bond levies and then the payment of the debt. The way in which it was budgeted did not take into account any delinquent property taxes. In order to make the fund whole we need to transfer funds from the General Fund to the Debt Service fund. She intends on including that in the supplemental budget proposal in January.

Tom Pessemier reviewed the Urban Renewal Operations and discussed the error in calculating the tax increment that we wanted to collect from the County. We only collected about half of the taxes that the Urban Renewal Agency should have. No one in the City is charged additional taxes, their tax bill stays the same. It is proportionately reallocated to the different taxing districts like TVF&R, the State got extra money for the school district, City of Sherwood, Washington County. We chose to continue to do the calculations and get the maximum amount of taxes that we can, this will probably extend the district by about 6 months. Our projections are showing that the URA will be closing down in calendar year 2022.

#### **D. PERS Update – Katie Henry**

Katie discussed that the City will be looking at an average increase of about 3.5% over what it was this year. It's about \$230,000 more for the General Fund, \$85,000 of that is Police. Katie agreed to send the committee the actual PERS rates.

#### **E. Financial Policy Changes in the FY 16-17 Adopted Budget (Exhibit D) – Katie Henry**

Katie reviewed the Financial Policy Changes, Exhibit D. Katie asked the committee if this was an accurate representation of the changes the committee was asking for. If it is we will bring a Resolution to Council to update the Financial Policies. The Committee agreed that it is.

### **7. Finance Departmental Updates:**

#### **A. Financial Software Conversion**

- We have done a lot of revamping on our software update, our goal is still to implement by January 1. Katie has the team working on project and tasks lists to see if it's truly reasonable to do this by that deadline. We are making a plan to see when we can truly implement and have it go smoothly.



## **B. Audit Firm**

- We've worked with TKW for quite a while, the goal would be to go out to bid as soon as this audit is done, hoping to get an RFP out in January. Joe Gall stated this is a Council decision, they will evaluate the options.

## **C. Financial Institution – Banking**

- Possible RFP for banking, we want to make sure that what we have is the best product for the City. Items to review include getting a decent return for any money that has to sit in the bank, purchase cards, and security. We want proposals from several different banks. Hopefully in the spring, it's not urgent but necessary. Joe Gall it's good to see who is out there, it's a staff decision not a council decision.

8. **ADJOURN** – Councilor King motioned to adjourn, Councilor Henderson seconded, meeting adjourned at 7:52 pm

Submitted by: Jean Macaulay, Administrative Assistant      Minutes approved on:



**Talbot, Korvola  
& Warwick, LLP**

Certified Public Accountants  
& Consultants

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City Council  
City of Sherwood, Oregon  
Sherwood, Oregon

Board Members  
Urban Renewal Agency of the City of Sherwood, Oregon  
(A component unit of the City of Sherwood)  
Sherwood, Oregon

This letter is to inform the City Council of the City of Sherwood, Oregon and the Board Members of the Urban Renewal Agency of the City of Sherwood, Oregon, a component unit of the City of Sherwood, Oregon (collectively the City) about significant matters related to the conduct of our audit as of and for the year ended June 30, 2016, so that it can appropriately discharge its oversight responsibility and we comply with our professional responsibilities.

The following summarizes various matters that must be communicated to you under auditing standards generally accepted in the United States of America.

#### **The Respective Responsibilities of the Auditor and Management**

Our responsibility under auditing standards generally accepted in the United States of America has been described to you in our arrangement letter dated May 6, 2016. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.

#### **Overview of the Planned Scope and Timing of the Financial Statement Audit**

We have issued a separate communication dated May 6, 2016, regarding the planned scope and timing of our audit and have discussed with you our identification of, and planned audit response to, significant risks of material misstatement.

#### **Significant Accounting Practices, Including Policies, Estimates and Disclosures**

Under accounting principles generally accepted in the United States of America, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the City. Following is a description of significant accounting policies or their applications that were either initially selected or changed during the year:

#### **GASB Statement No. 72, Fair Value Measurement and Application**

This Statement defines fair value and describes how fair value should be measured, what assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements.

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**McGladrey**



City of Sherwood, Oregon  
Urban Renewal Agency of the City of Sherwood, Oregon  
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### **Significant Accounting Practices, Including Policies, Estimates and Disclosures (Continued)**

We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following describes the significant accounting estimates reflected in the City's June 30, 2016, basic financial statements:

***Allowance for Doubtful Accounts***, as described in Note I.D.2. of the Notes to the Basic Financial Statements, is provided for municipal court and utility fees receivable based on management's consideration of collectability and historical trends.

***Capital Assets and Related Depreciation***, as described in Note I.D.3. of the Notes to the Basic Financial Statements, are recorded at cost or at estimated market value at date of donation for donated assets. Depreciation is charged on a straight-line basis over the estimated useful life of the respective asset.

***Pension Benefits***, as described in Note I.D.6. of the Notes to the Basic Financial Statements, are actuarially determined based on information and assumptions prepared by the Oregon Public Employees Retirement System (OPERS) using information provided by the City to OPERS.

### **Audit Adjustments**

Management corrected a material misstatement that was identified as a result of our audit procedures. See Attachment A.

### **Uncorrected Misstatements**

We identified uncorrected misstatements, detailed in the representation letter in Attachment B, that management has concluded are not individually, or in the aggregate, material to the financial statements. We agree with management's conclusion in that regard.

### **Internal Control Matters**

We have issued a separate communication dated January 26, 2017 regarding certain deficiencies in internal control that we identified during the planning or performance of our audit of the financial statements. See Attachment B.

City of Sherwood, Oregon  
Urban Renewal Agency of the City of Sherwood, Oregon  
Page 3

### **Consultation with Other Accountants**

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

### **Recently Issued Accounting Standards**

#### ***GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions***

This Statement will be effective for the City beginning with its fiscal year ending June 30, 2018. This Statement requires governments to report a liability on the face of the financial statements for the OPEB that they provide and requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information about their OPEB liabilities.

#### ***GASB Statement No. 77, Tax Abatement Disclosures***

This Statement will be effective for the City beginning with its fiscal year ending June 30, 2017. This Statement requires state and local governments, for the first time, to disclose information about tax abatement agreements. It requires governments to disclose information about their own tax abatements separately from information about tax abatements that are entered into by other governments and reduce the reporting government's tax revenues.

### **Management Representations**

See Attachment B for a copy of the management representation letter.

### **Closing**

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to the City.

This report is intended solely for the information and use of the City Council, Board Members of the Sherwood Urban Renewal Agency and management and is not intended to be, and should not be, used by anyone other than these specified parties.

*Talbot, Kervola & Warwick, LLP*

Lake Oswego, Oregon  
January 26, 2017



**ATTACHMENT A  
AUDIT ADJUSTMENTS**

Description	Increase/(Decrease)				
	Assets	Liabilities	Net position/ Fund balance	Revenue	Expenditures/ Expenses
General Fund					
To adjust franchise fee revenue for overpayment of privilege tax fees and to record other liabilities in 6/30/16.	\$ -	\$ 78,687	\$ 78,687	\$ 78,687	\$ -

**ATTACHMENT B  
WRITTEN COMMUNICATIONS  
BETWEEN MANAGEMENT AND OUR FIRM**

- Management Representation Letter
- SAS 115 Letter Communicating Material Weaknesses





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Sherwood, OR 97140  
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January 26, 2017

Talbot, Korvola & Warwick, LLP  
4800 Meadows Road, Suite 200  
Lake Oswego, OR 97035

**Mayor**  
Krisanna Clark

**Council President**  
Jennifer Harris

**Councilors**  
Sean Garland  
Dan King  
Jennifer Kuiper  
Sally Robinson  
Kim Young

**City Manager**  
Joseph Gall, ICMA-CM

**Assistant City Manager**  
Tom Pessemier

This representation letter is provided in connection with your audit of the basic financial statements of the City of Sherwood, Oregon and the Urban Renewal Agency of the City of Sherwood, Oregon, a component unit of the City of Sherwood, Oregon (collectively the City), as of and for the year ended June 30, 2016 for the purpose of expressing opinions on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

We confirm, to the best of our knowledge and belief, that as of January 26, 2017:

*Financial Statements*

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated May 6, 2016, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.
2. We acknowledge our responsibility for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and reflect our judgment based on our knowledge and experience about past and current events, and our assumptions about conditions we expect to exist and courses of action we expect to take.
5. Related-party transactions, including those with component units for which the City is accountable, and interfund transactions, including interfund accounts and advances receivable and payable, sale and purchase transactions, and interfund transfers, have been recorded in accordance with the economic substance of the transaction and appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
6. All events subsequent to the date of the financial statements, and for which U.S. GAAP requires adjustment or disclosure, have been adjusted or disclosed.
7. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.

8. We have no direct or indirect legal or moral obligation for any debt of any organization, public or private, that is not disclosed in the financial statements.
9. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance. In connection therewith, we specifically represent that we are responsible for determining that we are not subject to the requirements of the Single Audit Act because we have not received, expended or otherwise been the beneficiary of the required amount of federal awards during the period of this audit.
10. We have informed you of all uncorrected misstatements.

As of and for the year ended June 30, 2016, we believe that the effects of the uncorrected misstatements aggregated by you and summarized below are immaterial, both individually and in the aggregate, to the opinion units of the basic financial statements. For purposes of this representation, we consider items to be material, regardless of their size, if they involve the misstatement or omission of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

Description	Increase/(Decrease)				
	Assets	Liabilities	Net Position/ Fund Balance	Revenue	Expenditures / Expenses
City:					
Governmental Activities:					
To record capital leases	\$ 72,525	\$ 65,431	\$ 2,134	\$ -	\$ (4,960)
Street Operations Fund:					
To reverse prior year expenditure for street lights	-	-	(11,033)	-	(11,033)
To accrue current expenditure for street lights	-	12,372	-	-	12,372
Water Fund:					
To reverse prior year expenditure for damage reimbursement	-	-	(4,363)	-	(4,363)

#### Information Provided

11. We have provided you with:
  - a. Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters;
  - b. Additional information that you have requested from us for the purpose of the audit;
  - c. Unrestricted access to persons within the City from whom you determined it necessary to obtain audit evidence; and
  - d. Minutes of the meetings of the governing board and committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.
12. All transactions have been recorded in the accounting records and are reflected in the financial statements.



13. We have disclosed to you the results of our assessment of risk that the financial statements may be materially misstated as a result of fraud.
14. We have no knowledge of allegations of fraud or suspected fraud affecting the City's financial statements involving:
  - a. Management.
  - b. Employees who have significant roles in internal control.
  - c. Others where the fraud could have a material effect on the financial statements.
15. We have no knowledge of any allegations of fraud or suspected fraud affecting the City's financial statements received in communications from employees, former employees, analysts, regulators, or others.
16. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations whose effects were considered when preparing financial statements.
17. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements.
18. We have disclosed to you the identity of the City's related parties and all the related-party relationships and transactions of which we are aware.
19. We have informed you of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the City's ability to record, process, summarize and report financial data.
20. We are aware of no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
21. During the course of your audit, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

*Supplementary Information*

22. With respect to Other Supplementary Information presented in relation to the financial statements as a whole:
  - a. We acknowledge our responsibility for the presentation of such information.
  - b. We believe such information, including its form and content, is fairly presented in accordance with U.S. GAAP.
  - c. The methods of measurement or presentation have not changed from those used in the prior period.



- d. When Other Supplementary Information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the Other Supplementary Information no later than the date of issuance of the Other Supplementary Information and the auditor's report thereon.
23. With respect to Required Supplementary Information (Management's Discussion and Analysis, and budgetary information for the General and major special revenue funds, Schedule of the Proportionate Share of the Net Pension Liability (Asset) and Schedule of Plan Contributions), as listed in the Table of Contents, presented as required by the Governmental Accounting Standards Board to supplement the basic financial statements:
- a. We acknowledge our responsibility for the presentation of such information.
  - b. We believe such information is measured and presented in accordance with guidelines prescribed by U.S. GAAP.
  - c. The methods of measurement or presentation have not changed from those used in the prior period.
24. We agree with the restatements of the previously issued financial statements discussed in the Note V to the Basic Financial Statements to correct the accounting for compensated absences, revenue accruals, capital assets and depreciation and other immaterial corrections. In that regard,
- a. The restatements correct errors in those financial statements.
  - b. We were not aware of the errors when those financial statements were issued.
  - c. We are not aware of any other errors in those financial statements.
  - d. We do not believe it is necessary to recall those financial statements and all users of those financial statements will receive a copy of the current year's financial statements and independent auditor's report.

City of Sherwood, Oregon



Katie Henry, Finance Director





**Talbot, Korvola  
& Warwick, LLP**

Certified Public Accountants  
& Consultants

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City Council  
City of Sherwood, Oregon  
Sherwood, Oregon

Board Members  
Urban Renewal Agency of the City of Sherwood, Oregon  
(A component unit of the City of Sherwood)  
Sherwood, Oregon

In planning and performing our audit of the financial statements of the City of Sherwood, Oregon (the City) and the Urban Renewal Agency of the City of Sherwood, Oregon, a component unit of the City of Sherwood, Oregon (the Agency) as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in the City's internal control to be material weaknesses:

Lack of adequate control activities resulted in the recording of sale of land in the incorrect fund, capital assets additions being recorded in the incorrect fund, improper cutoff on payroll related capital asset additions, improper accounting treatment of capital leases, and management not being able to detect and correct errors on a timely basis. The lack of adequate control activities led to material adjusting journal entries and restatements of prior capital asset balances for the City and Agency.

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 **McGladrey**

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Urban Renewal Agency of the City of Sherwood, Oregon  
Page 2

Additionally, there were journal entries related to the transferring of balances from the closed URA Capital Fund to the URA Operations Fund without documentation of proper approval.

Lack of adequate control activities resulted in unbilled utility revenue not recorded in prior years. This lead to a restatement of prior year accounts receivable balances in the Water, Sewer, and Storm Funds.

This communication is intended solely for the information and use of management, the City Council, the Board Members of the Urban Renewal Agency, and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Talbot, Kervola & Warwick, LLP*

Lake Oswego, Oregon  
January 26, 2017





## MEMORANDUM

*Home of the Tualatin River National Wildlife Refuge*

City of Sherwood  
22560 SW Pine St.  
Sherwood, OR 97140  
Tel 503-625-5522  
Fax 503-625-5524  
www.sherwoodoregon.gov

To: Katie Henry, Finance Director  
From: Julia Hajduk, Community Development Director  
Date: February 14, 2017

**Mayor**  
Krisanna Clark

RE: Community Development fees and charges - Background

**Council President**  
Jennifer Harris

The purpose of this memo is to outline issues and questions that the Community Development Department (CDD) has as we begin preparation of our FY2017-18 budget. Specifically, we want to begin highlighting some fees we are going to propose be increased, some fees that are not covering the costs of providing the service and recommendations on how we are planning to address these issues in the upcoming budget process.

**Councilors**  
Sean Garland  
Dan King  
Jennifer Kuiper  
Sally Robinson  
Kim Young

**City Manager**  
Joseph Gall, ICMA-CM

**Assistant City Manager**  
Tom Pessemier

There are 3 departments under CDD:

- Planning – Planning provides long range and current planning as well the city reception desk and business licensing. Fees for service are collected for current planning and business licensing.
- Engineering – Engineering does both private development and capital projects. Capital projects are funded through other funding sources with a portion of the overhead being charged to the general fund. Private development projects are generally paid for through the plan review and inspection fees.
- Building – The building department take in, reviews and issues permits for new construction or improvements within residential, commercial and industrial buildings. In addition, by law, the building department is supposed to be self-sufficient and additional revenues generated are not permitted to subsidize the general fund. The intent is that during good years the building department “banks” additional revenue as reserve for years when revenues are less than expected. Over the last ten years building department revenues have not been adequate to cover all expenses. The overall balance in the department at the end of FY16 was about \$300,000 in the red. In addition, the building department reduced staff from 6.5 FTE to 2.5 FTE since 2008.

As you may be aware, we have not increased fees in a significant number of years (Planning has not made significant changes to the fees since 2009, building since 2008 and Engineering since 2006). Part of the reason for not proposing fee increases was the downturn in the economy



and, initially, our fees were much higher than many other neighboring cities. However, over the last several years, other cities have raised fees to better cover costs of providing service while ours have remain unchanged.

#### Planning and Engineering fees

It is our understanding that, in general, development is supposed to pay for itself. As a result, the Community Development Department charges fees for service to compensate for the staff time spent reviewing development related projects. However, there is also quite a bit of time spent providing services not directly related to development. This includes answering questions at the counter, on the phone and via email, attending meetings to ensure coordination with local and regional partners, long range planning, maintaining records, etc. For that reason, it is understood that there is still a general fund element to the Community Development Department budget. In addition, there are some permits required of residents that are not necessarily related to "development" and that, if charged the cost it took to process, would be disproportionate to the action requiring a permit. Attachment 1 to this memo provides greater detail and description on the following fees that do not, and we believe, should not be expected to fully recover the costs of providing service:

- Street tree removal permits
- Pre-application conferences
- Addressing
- Erosion control permits
- Right of way permits

While we do not believe that these fees can necessarily cover the full cost of providing the service, additional discussion is needed on the proper amount that should be covered. Staff has not had a detailed fee conversation with the Council and budget committee in many years therefore we want to highlight these fees to ensure that there is concurrence with our understanding that these fees should continue to be subsidized. In a very simple and quick review of cost recovery for site plans and subdivisions, it appears that the City is only recovering approximately 50% of the staff time being spent to process, track and follow up on projects. It is strongly recommended that the City allocate funds in next year's budget to have a consultant conduct a detailed fee study to evaluate the planning and engineering fees in the Community Development department.

#### Building permit fees

In addition to the comprehensive fee study that is recommended, we are recommending that the building department fees be raised this year prior to the detailed study. As noted previously, the building department is required by state law to be self-sufficient and is not permitted to provide subsidy to the general fund. However, the building department has not raised fees since 2008. During years when the revenues did not come in as expected, the



building department has operated in the red. While it is acceptable for the general fund to support the building department, this is not best practices and has resulted in the building department being understaffed and underfunded. In comparing Sherwood's building fees against that of neighboring jurisdictions, it is clear that we are well below our neighbors. Attachment 2 shows how Sherwood's building permit fees compare to neighboring jurisdictions. An increase in fees by 15% would only get us in the middle of comparable city's fees. The City has 1.5 building permit technicians (intake permits, route, issue, etc.) and 1 building official who does all residential plan review and all building inspections. The city contracts out plan review for commercial and industrial development and plumbing review and inspections. With the anticipated increase in residential and non-residential development over the coming years, it is clear that additional support will be needed. Without the increased fees there is concern that we would not be able to add a position that would be sustainable from year to year.

Recommendations:

- Assume a 15% increase in building department fees and begin process required by State Building Codes to propose fee increases for July 1, 2017
- Allocate \$10,000 in proposed budget for Engineering and Planning fee study for consideration of fee increases for FY18-19
  - Begin thinking about policy direction on which fees within Community Development are to be 100% cost recovery.
- Consider creating a Building Fund, as do many other cities in Oregon, to more accurately track and report on building department revenues, expenses, and fund balance.

Attachment 1 –  
Discussion of fees

Street tree removal permits – The City has determined that street trees should be planted and retained and has provided a process in the code where someone can request approval to remove trees if they are causing damage, are dying, etc. There is a notice requirement and, generally, the trees must be replaced. This requires a staff person to spend time addressing initial questions from the property owner, taking in the permit, going out to the property to post notice near the tree, preparing the permit once the required time period has passed, going back out to the site to remove the sign and following up within 6 months to ensure that the tree has been replaced. On average, staff spends approximately 2.5 hours on a tree removal permit, however the tree removal permit fee is \$25 for the first tree and \$10 for any additional tree. Most permits are between \$25 and \$35. To fully recover the cost of processing a street tree removal permit, we would need to charge approximately \$145 per tree.

Right of Way permits

Right of way permits are intended to protect public health and safety and to insure the integrity of existing streets and other public right-of-way (ROW). They are required for all work in the public ROW that is performed by individuals, contractors, and all utilities. While all work in the ROW requires a permit, permit fees and bonds are waived for the following types of work.

- A. Development work permitted under a valid compliance agreement;
- B. Sidewalk or driveway repair (less than twenty (20) lineal feet);
- C. Relocation or replacement of mailbox;
- D. Ditch cleaning that does not involve regrading;
- E. Weep-hole repair;
- F. Curb repair or replacement (less than twenty (20) lineal feet);
- G. Lawn sprinkler system installation or repair;
- H. Street tree pruning or planting;
- I. Planter strip landscape maintenance;
- J. Minor improvements valued less than five hundred dollars (\$500.00) as approved by the city engineer.

As a result, the City is only collecting about 1/3 of what it actually costs to review the right of way permit and inspect and enforce compliance to ensure that the work is completed in a way that maintains the quality and integrity of the infrastructure.



### Addressing

The City manages the local addressing system. When a new lot is created or new addressable space created, an address must be assigned. Assigning the address requires determining the appropriate address to ensure that future addresses can be assigned in the proper order, tracking the address in the GIS system as well as our Infor system (building permits and utility billing software system) and coordination with the County, post office and emergency service providers to ensure that they have been informed of the new address.

### Pre-application conferences

Pre-application conferences are strongly recommended prior to submitting a land use application. The applicant submits plans for what they are interested in doing approximately 2 weeks prior to the meeting. Staff reviews the proposal and prepares notes to discuss with the applicant. They then meet with the applicant in an hour meeting. Additional follow up response to questions raised at the meeting often occurs as well. Present at the meeting is always a representative from planning and engineering. As needed, outside agency staff are also present including staff from TVF&R, ODOT and Washington County.

While this is clearly very labor intensive, we believe that it saves money and time in the long run because the applicant is well informed about the process and issues prior to submitting their application.

The pre-application conference is \$400. On average we are only covering 30% of the cost of providing the pre-application, however if we were to require the fee to cover 100% of the cost, we believe that the fee would be so high it would discourage people from holding a pre-application conference and we would be spending more time and energy on poorly submitted and planned projects.

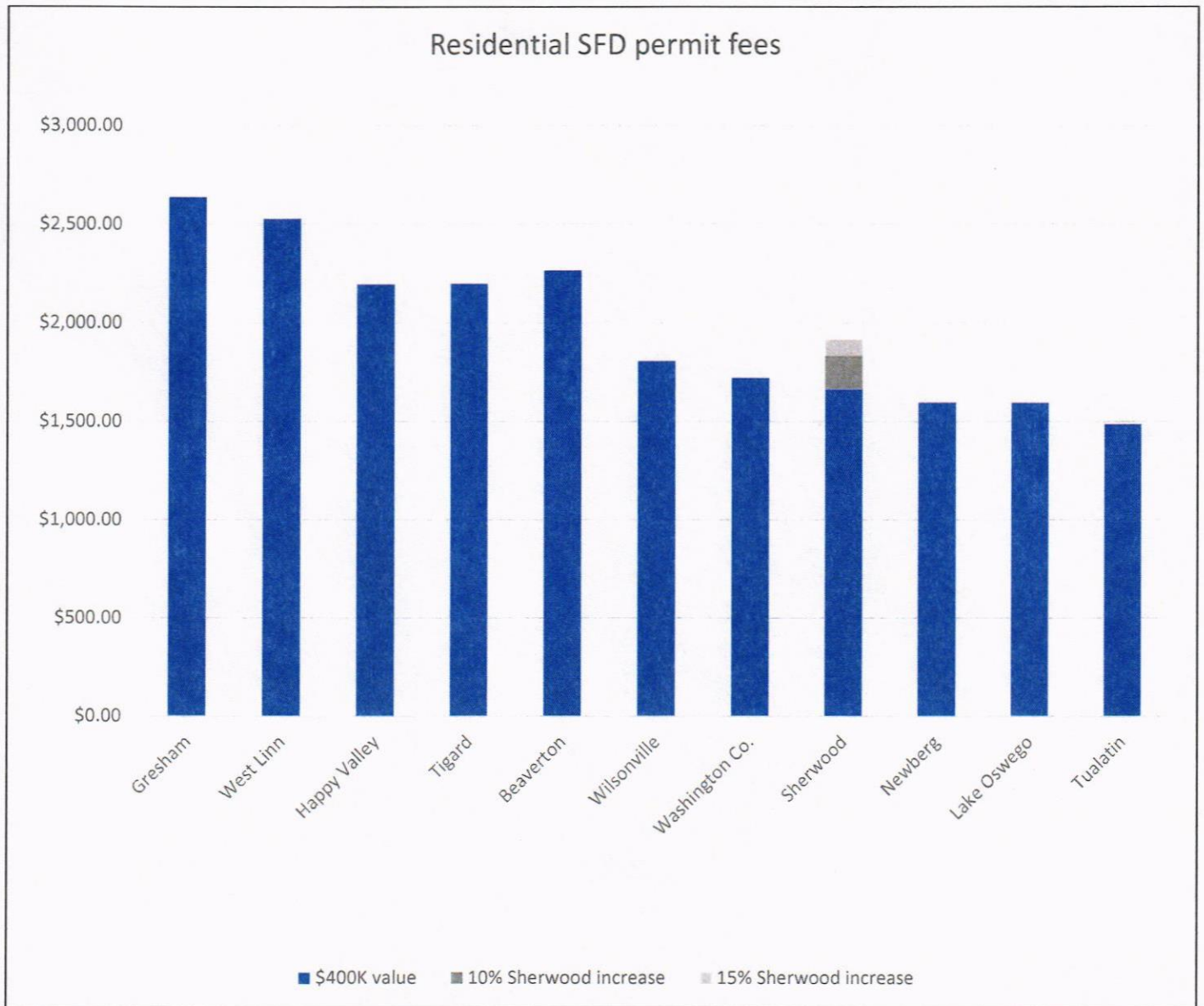
### Erosion Control and Inspection

As a partner with Clean Water Services on the Storm water Management program, we are responsible for ensuring that erosion control related to construction is handled in accordance with strict water quality regulations set for the Tualatin River drainage area by the Oregon Department of Environmental Quality (DEQ). Our current charges for erosion control inspection is \$200 for projects less than 1 acre and \$200 plus \$50 per additional acre (or fraction thereof) for sites greater than 1 acre.

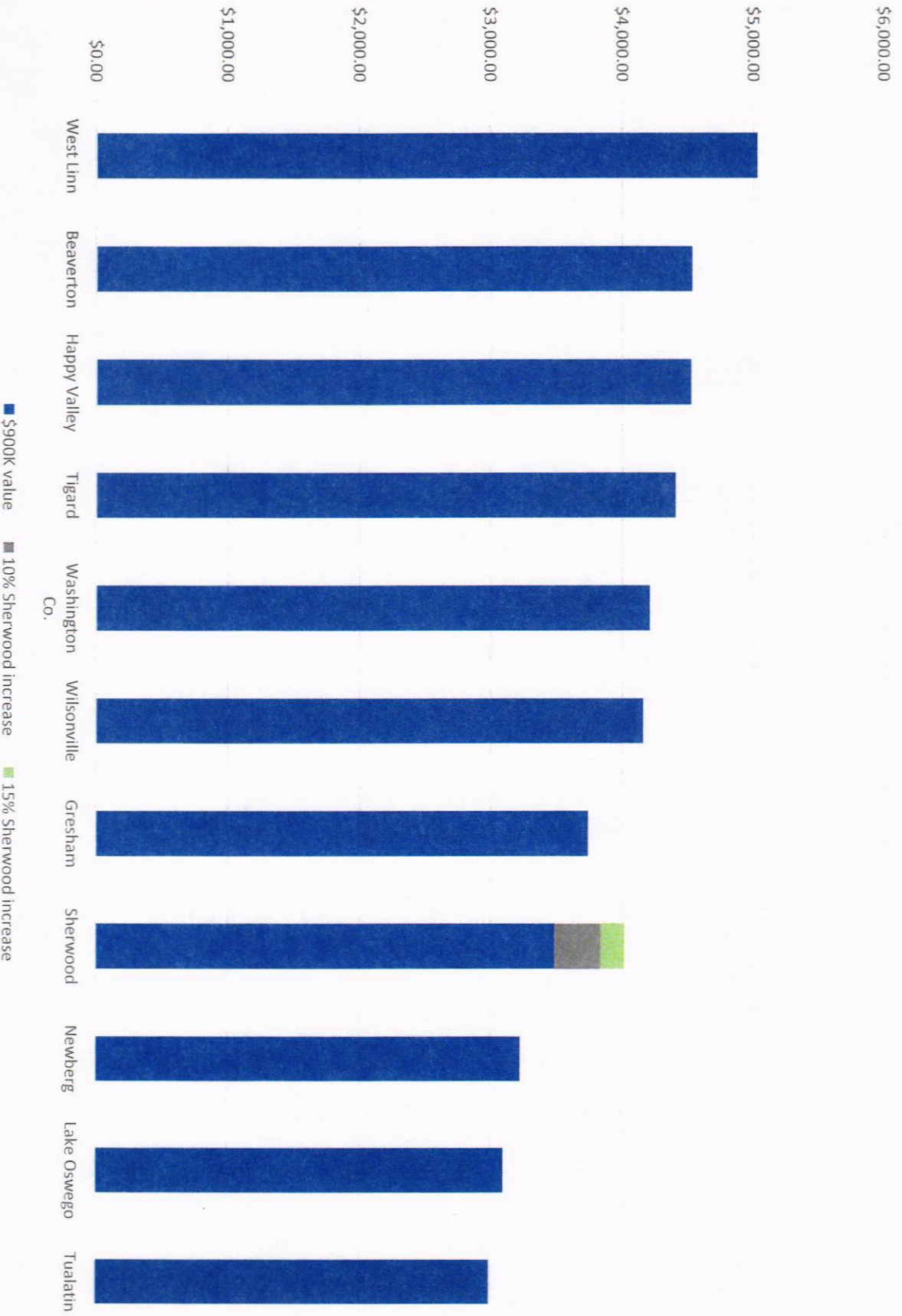
Per our agreement with CWS, inspectors are required to check on a monthly basis to ensure that proper erosion control measures are in place. When they are not, they must follow up with the contractor to educate and, ultimately if needed, to enforce compliance. Inspectors also must prepare monthly reports to CWS.

Over the last 3 years, the fees generated only covered approximately 40% of the time it actually takes to conduct the erosion control inspections and necessary follow up.





# Commercial Building permit fees





# Year To Date Financials Through January 2017 (58.3% of year)

Fund	Beginning Balance	Revenues and other sources			Expenditures and other uses			Ending Balance
Budget (includes contingency)								
		Budget		YTD Actual	% Collected	contingency)		
						YTD Actual	% Expended	
Administration		9,131,925		6,497,210	71%	2,555,409	1,679,423	66%
Community Development		909,236		309,280	34%	1,513,406	839,265	55%
Police		78,082		55,290	71%	3,582,698	1,984,167	55%
Community Services		1,265,294		908,487	72%	1,895,863	1,036,145	55%
Public Works		431,184		80,451	19%	2,493,105	1,123,712	45%
Debt Service						136,796	137,166	100%
Transfers						45,000	-	0%
Contingency						287,201		0%
Total General Fund	\$ 3,161,686	\$ 11,815,721	\$ 7,850,718		66%	\$ 12,509,478	\$ 6,799,878	\$ 4,212,526
Debt Service	(33,640)	938,050	892,375		95%	891,300	262,375	29%
Streets operating	2,166,298	1,735,065	1,014,836		58%	2,198,162	945,956	43%
Streets capital	2,666,521	717,785	327,688		46%	926,412	172,559	19%
General construction	1,524,412	656,253	147,251		22%	1,575,788	757,255	48%
Water	9,533,034	5,601,997	3,612,602		64%	5,558,779	2,513,435	45%
Sanitary	3,227,588	756,654	390,154		52%	1,013,263	350,233	35%
Storm	3,069,420	1,943,458	1,040,325		54%	1,939,289	622,391	32%
Telecom	279,214	470,060	220,714		47%	427,232	98,500	23%
URA	1,384,041	3,990,015	3,531,761		89%	3,636,763	2,513,588	69%
Total City Wide	\$ 26,978,574	\$ 28,625,058	\$ 19,028,424		66%	\$ 30,676,466	\$ 15,036,170	\$ 30,970,828

February 16, 2017

# ATTENDANCE SHEET

NAME \_\_\_\_\_

## ADDRESS

**PHONE**[illegible]





## **SHERWOOD BUDGET COMMITTEE MEETING**

**February 16, 2017 Minutes**

**1. CALL TO ORDER** – Chair Andy McConnell, called to order the regular meeting of the SHERWOOD BUDGET COMMITTEE MEETING at 6:05 pm on February 16, 2017.

**\*\*The committee members present discussed that we did not have a quorum for this meeting and agreed to hold a "Finance Committee" meeting in lieu of the Budget Committee.\*\***

**2. Roll Call – Katie Henry**

**3. COMMITTEE MEMBERS AND COUNCIL PRESENT:** Mayor Clark, Councilor Kuiper, Councilor Young, Councilor Garland, Chair Andy McConnell, Paul Mayer, Andy Jensen

**COMMITTEE MEMBERS LATE ARRIVAL/EARLY DEPARTURE:** Susan Claus arrived at 7:10 pm, Councilor Kuiper left prior to 7:00 pm, Mayor Clark left at 7:10 pm

**COMMITTEE MEMBERS ABSENT:** Councilor Robinson, Council President Harris, Councilor King, Vice Chair Meyer, Amy Kutzkey, Kurt Studer

**CITY STAFF PRESENT:** City Manager Joe Gall, Finance Director Katie Henry, Community Development Director Julia Hajduk, Administrative Assistant II Jean Macaulay

**4. APPROVE NOVEMBER 16, 2016 CITY OF SHERWOOD BUDGET COMMITTEE MINUTES**

The minutes were not approved as there was not a quorum, this will be revisited at the next Budget Committee meeting with a quorum.

**5. NEW BUSINESS:**

**A. 2016 Audit Report Review – Tim Gillette & Dan Miley of TKW**

Tim Gillette of TKW reviewed the Independent Auditor's Report from the Certified Annual Financial Report (CAFR). Katie Henry clarified the statement of net position as a full accrual statement not the balance sheet. Chair Andy McConnell asked which things are broken down in the Governmental vs Proprietary funds. Tim explained that proprietary are things like water/sewer etc and governmental would be Police, Admin etc.



Dan Miley of TKW reviewed the SAS 114 and 115 Letter of Exhibit A and discussed the material findings. Chair McConnell asked what we need to do to fix these controls. Katie stated we have not yet changed internal control processes. We hope to have new controls in place by the end of the fiscal year. Our plan is to go over the controls, review for weaknesses and with our new financial system determine what we need to do to strengthen those areas. It's a long process and needs to be done methodically. Councilor Garland asked who will be doing the review. Katie stated it will start with her, the leadership team, Joe and then the auditors will be an integral part of the process. Katie mentioned that several of those items she found during her review.

Dan Miley mentioned the new GASB statements that will affect the City in upcoming years. GASB 75 has to do with accounting and financial reporting for post-employment benefits other than pensions. The auditors clarified that for a city like ours this usually has to do with medical benefits which Joe indicated is mainly COBRA. Paul Mayer asked how big of a liability will the COBRA be. Joe responded not that large, most of the time when people leave here they are going to another job, we haven't had many retire.

Joe discussed that TKW had a 5 year contract and the Council extended it for 1 year last year. We are getting ready to send out a Request for Proposal (RFP) for auditors. TKW has been a solid auditing firm and we expect them to put in a bid for the RFP. Andy Jensen asked if there is a certain standard that we won't go below. Joe stated the previous Council chose to pay a higher fee in return for better quality. The Council chooses the audit firm.

#### **B. 2016 Budget to Actual Reports through January 2017 – Katie Henry**

Katie reviewed the budget to actual report through January 2017. Paul Mayer asked if due to the weather this winter we had any unexpected expenditures and whether or not the crosswalk by Wal-Mart will be completed this fiscal year. Joe replied, yes we've had a lot of unforeseen water main breaks and so forth and yes that is slated to be done this year.

#### **C. Review of Community Development fees and potential changes – Julia Hajduk**

Julia Hajduk, Community Development Director (CDD) discussed the CDD fees and the fact that the fees haven't had a detailed analysis of the fees. The philosophy has been that development should pay for itself. When the economy had the downturn we kept fees pretty flat, now that things are getting better we are getting inundated and yet the revenues are not changing so we are looking at the fees more closely. What we are proposing for next year is to put in the budget a fee study where we look in detail at all



of our fees and how much time is involved both the staff costs and overhead, mainly for planning and engineering.

Andy Jenson asked if the study would evaluate the process itself to determine if it's efficient and not just the fee that goes with it. Julia responded that would be a good conversation in the process.

Councilor Young asked if we're not covering our costs with the fees then is the city subsidizing. Julia responded yes, we do not generate the revenue to fully fund our department. We are going to be discussing some small fee increases in this budget, mostly the building department.

Joe discussed Exhibit B and that the Planning department hasn't made any fee changes since 2009, Building 2008 and Engineering 2006. At one point we were high compared to other cities and now we are low. The Council has stated that we need to do this on a predictable and regular basis. Building should be in its own fund not combined with other for transparency purposes.

Paul asked if this would only be increases on new construction, not anything under way now. Julia replied yes, the fees are assessed when you apply for your permits.

Julia stated the main thing she wanted to convey to the budget committee is that we know we're not collecting enough to cover our costs. We need to do a fee study in order to properly set the fees while knowing that there will be some fees that will not fully cover 100% of our costs, even once we know what those costs are.

Andy Jensen asked if this is a onetime review of the fees or a process that should be done every few years. Julia replied that once we know where we are at and we can implement an annual percentage increase that would be good, part of the problem is we haven't done that.

Katie stated that you can do an in depth review one time and then each year have a review to update if necessary. We need to do the study because it hasn't been done, the reviewing of the process to make sure it's being done efficiently and then the annual review.

Councilor Garland stated from a financial standpoint this is something that should be looked at regularly.

Susan Claus asked if the Urban Renewal District paid all of their full fees, were they lowered or any fee forgiveness. Julia responded they paid their full fees. Katie clarified we are only talking about building permits, we very clearly track our costs. We don't want someone buying "a" and



paying for "b". Julia stated legally we cannot use building funds for anything else. We want to make sure that we are collecting what we should be collecting and then what that amount is.

Councilor Young asked if our costs are not being covered are we tacking on any extra fees to cover on other items like the comp plan etc. Julia responded no.

Andy Jenson asked if there is a differentiation between a home builder vs a homeowner making a change to their property, like building a new home vs adding an outlet to an existing home.

Julia explained the fee schedule is based on the value, a percentage. Katie responded the increase we are discussing is a percent increase, the dollar amount is fairly small for those smaller permits. Joe stated we need to be prepared to answer those types of questions from citizens. We should bring examples of small projects and large development as well.

Susan stated if the measurement is percentage value, when we're talking about hours spent by staff, maybe that's not the right way to do it for the commercial. Julia responded we can take a look at that. However, the current method is the typical way of fee setting for commercial projection. If we use a different method we would need to be able to substantiate how we got to that cost. Joe stated with the development we have on the horizon, the school district, Mandle subdivision, Langers, The Springs, we will have to look at whether we have appropriate staffing levels in the Building department whether it be on call services or not we still have to pay for that. Chair McConnell stated it's important to have more committee members to discuss this issue.

## **6. FINANCIAL DEPARTMENTAL UPDATES:**

### **A. Financial Software Conversion**

Katie updated on the software conversion, we have fully transitioned over in that we are using Navigator only. We've had some issues with the reporting piece not being set up, it will take a lot of time to write the reports. All of the account numbers were changed so that requires us to rewrite the reports. We are still determining the cost to benefit on which reports we should send out to the consultant to do, which ones should we do in house etc. We are having the consultant get us a quote on the reports necessary for the budget book so that we can give you the same amount of information as last year.

Joe discussed that we are looking at using OpenGov more in the future for internal and external reporting.

### **B. Audit Firm RFP**

This was discussed earlier by Joe that Katie has put together an RFP and it is currently being reviewed by Legal.

## **7. ADJOURN**

The meeting was not adjourned as we did not have a quorum, the meeting ended at 7:38 pm.

Submitted by: Jean Macaulay, Administrative Assistant      Minutes approved on: 5/11/2017

Budget Committee Minutes

February 16, 2017

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