



BUDGET MESSAGE

April 23, 2012

Office of the County Manager
800 Exchange Street, Suite 410
Astoria, OR 97103

Dear Budget Committee Members:

INTRODUCTION

The Clatsop County's Proposed Budget for Fiscal Year (FY) 2012/13 that provides Public Safety \$14,929,200, Health and Human Services - \$3,596,600, Land Use and Transportation - \$9,834,200, Culture and Recreation - \$2,863,300, and a variety of other services needed to support our community is transmitted for your review. The overall Proposed Budget of is prepared in accordance with the Board of Commissioner's Adopted Budget Policies and Clatsop County's Long-Term Financial Plan (LTFP). The Proposed FY 2012/13 Budget is \$5,301,492 less than the FY 2011/12 Adopted Budget, representing an 8.8 Percent decrease. The majority of this decrease is in Materials & Supplies; Other Charges; and Debt Service. The Proposed FY 2012/13 General Fund Budget is \$563,400 less than FY 2011/12 Adopted Budget, representing a 3.0 percent decrease.

The combination of almost no development activity, limited property tax revenue growth and costs increasing more rapidly than available revenue have been aligned and requires that the County trim some general fund positions and continue to save money during the fiscal year.

Development activity has almost stopped and the need for related County services is much less than last year. The proposed budget reduces positions related to providing services to the development community. For example, in one service area there has been a steady decline of activity in the past ten years that amounts to almost 100%.

Local government revenues from property taxes are limited to a maximum of 3% per year plus the addition of new construction. Property values are relatively stable and staff is estimating a 2% increase in property tax revenue including new construction which is historically low.

The consumer price index is projected to increase 3.5% and the County by union contract includes a 3.5% increase in compensation for County employees. Prices are increasing making it more difficult for the County to support basic services, but as an employer the County must be competitive in order to recruit and retain good employees.

The proposed budget is balanced and presented for the Budget Committee to review.

CLATSOP COUNTY STRATEGIC PLAN

The Board of County Commissioners held a retreat on February 29, 2012. The Board reviewed, discussed and made changes to the Draft Strategic Plan and set priorities based on the priorities recommended by the Planning Commission. The Strategic Plan was adopted by the Board on March 28, 2012 and it provides a template for priorities and projects during the coming year. The County staff will be pursuing the following projects and programs that are currently underway:

| <u>Projects</u> | <u>Department</u> |
|--|--------------------------|
| Projects Underway | |
| <i>Sheriff's Office</i> | |
| Remodel and Expand Jail | Sheriff's Office |
| <i>Planning</i> | |
| Ocean Planning | Planning |
| Tsunami Evacuation route planning and development | Planning |
| <i>Public Works</i> | |
| Update Transportation System Plan | Public Works |
| Camp Rilea to Surf Pines Improvement Plan | Public Works |
| Westport Ferry Access | Public Works |
| Westport Boat Landing | Public Works |
| Westport Ferry Landing | Public Works |
| Westport Park Development | Public Works |
| Highway 101 Flooding | Public Works |
| Ensign Lane Extension | Public Works |
| Levee/Dike Certification process | Public Works |
| <i>Public Health</i> | |
| DEQ Septic Permitting | Public Health |
| Public Health Accreditation | Public Health |
| Coordinated Care Organization | Public Health |
| <i>Building and Grounds</i> | |
| Historic Courthouse Landscaping | Building and Grounds |
| <i>Emergency Management</i> | |
| Emergency Communications wing development | Emergency Management |
| Warning Siren System | Emergency Management |
| Communication Site Improvements (OWIN) | Emergency Management |
| Japanese Tsunami Debris Identification and Removal | Emergency Management |
| <i>Fair</i> | |
| Fairgrounds Lower Field Wetland Mitigation | Fair |
| <i>County Manager</i> | |
| North Coast Business Park Marketing | County Manager |
| Fisheries and Estuary County Coalition | County Manager |
| <i>Juvenile</i> | |
| Early Childhood Learning Council organization | Juvenile Department |

Many of these programs and projects are funded by grants or as is the case with many of the Westport projects require agencies or businesses to collaborate in order to complete funding or

decision making processes prior to proceeding. The projects underway list is not intended to prevent pursuing the prioritized projects if there are opportunities.

The Board's prioritized projects are as follows:

Projects Prioritized by Board

Planning Projects

| | | |
|----|--|------------------------|
| 1 | County Technology Plan Update | Information Technology |
| 2 | Historic Preservation Program | Planning |
| 3 | Comprehensive Plan Update | Planning |
| 4 | Transmission Line Standards | Planning |
| 5 | Re-establish Citizen Advisory Committees | Planning |
| 6 | Renewable Energy Plan | Planning |
| 7 | Estuary Planning | Planning |
| 8 | Sustainability Plan | Planning |
| 9 | Housing Quality Plan | Planning |
| 10 | Criminal incarceration, rehab. and prevention plan | Sheriff's Office |

Projects

| | | |
|---|---|---------------|
| 1 | Westport Slough Dredging | Public Works |
| 2 | Fire Station Access Development | Public Works |
| 3 | Westport Traffic Calming & Pedestrian Imp. | Public Works |
| 4 | Countywide By-Pass, Truck, Evacuation Route | Public Works |
| 5 | DSL Permitting by County | Public Works |
| 6 | Clatsop Plains Wastewater | Public Health |
| 7 | Environmental Evaluation and Sediment Clean-up Columbia River Estuary | Planning |
| 8 | East County Dock Expansion | Public Works |

Facilities

| | | |
|---|--|----------------|
| 1 | North Coast Business Park Development | County Manager |
| 2 | Recycling Center for Household Hazards Waste | Public Health |
| 3 | Joint Public Works Location | Public Works |

These projects are defined in greater detail in the Strategic Plan which can be found on the County's website or reviewed in the County Manager's Office.

Workload and performance measures are included in the budget document. These provide a County Performance report that can be used to tell the County's service story. They are also used quite extensively during the budget development process to identify areas where service increases or decreases may be needed. These are part of an on-going effort to improve the budget document as a tool to communicate with residents pursuant to the Board's goals.

REVIEW OF PROPOSED BUDGET

Following are some of the issues addressed in the FY 2012/13 Proposed Budget:

All Funds

- The budget continues to reflect the struggling Oregon economy. Oregon economists suggest the worst of the National financial crisis is over and are more optimistic than last year that the Oregon economy is slowly responding. Oregon's economy is generally about one year behind the rest of the Nation.
- State revenues partially or completely support many County services. The State of Oregon budget has leveled out after reductions in some areas of 20% last year. The Board's no backfill with County resources' policy was challenged in this budget. However, staff is not recommending a budget that waives this policy in FY 2012/13.
- Timber revenues remain suppressed due to a combination of market conditions, environmental challenges, and policy leadership by the state. The Budget Policies state that no more than the lowest year of actual timber revenue received over the last 15 years should be retained in the General Fund for operational expenses, not to exceed the amount required to support the current level of General Fund services. This establishes a dollar amount the County can reasonably expect to receive and helps to avoid problems if timber revenue comes in at significantly less than budgeted. The lowest annual amount in the past 15 years of actual receipts was \$1,377,354 in FY 1997/98 and the proposed budget reflects this amount to be kept in the General Fund. This is the same amount that was identified in the FY 2010/11 and 2011/12 General Fund budget.
- The increase in combined employer and employee PERS retirement rate to 14.21% for the 2012/13 fiscal year is reflected in the budget. (This percent includes employer rate of 8.21% and the negotiated payment of the employee's share of the rate of 6.00%). The decrease three years ago was due to changes in the investment market and the current rate is not an increase from historical prior years. In 2008/09 the combined employer and employee PERS rate was 14.38%, then the PERS investment earnings increased and the combined employer and employee rate declined during 2009/10 and 2010/11 to 9.59%. Recent increases in the investment funds controlled by the State suggest PERS rates in the future will stabilize at current levels. This rate does not increase employees' benefits.
- PERS unfunded pension obligation continues into the ninth year of a ten-year bond payment schedule. The advantage of bonding the debt was the low interest rate compared to the 8% interest that would be required to amortize the debt with PERS, a savings of \$7,263,417 that the County would have paid over a 25-year repayment period. The FY 2012/13 Budget includes annual bond payments in each organizational unit budget that has personnel. The PERS assessments allocated to each fund to provide the ninth annual payment from the Bond Retirement Fund is \$1,203,000 including interest. The General Fund portion of this payment of \$751,100 will be paid by the bond reserve fund in FY 2012-13 and FY 2013-14. This was previously paid out of Timber Revenues.
- Personnel cost increases. The County partnership with labor requires by contract that the budget include cost of living adjustments of between 2.5% and 4.5% for organized labor and these adjustments are included for non-represented employees. This year the budget estimate for the consumer price index urban as required in the labor contract is 3.5% and this salary adjustment is included in the budget. Health insurance premiums are budgeted

to increase 10%. An increase of 10% is not sustainable and County staff will continue to explore the strategic value to the County of the recently approved National Health Care Plan during the FY. Employees pay 10% of the health insurance premium and the County pays 90%.

As the fiscal year progresses staff plans to carefully monitor County revenue and if the recovery in Oregon provides additional revenue to Clatsop County, there will be adjustments in spending.

Public Safety and Justice The Public Safety and Justice budgets are proposed to remain stable during the fiscal year. Last year's transition of Community Corrections services to a Parole and Probation Office managed by the Sheriff has offered a greater focus on treatment by repurposing those funds to rehabilitation. There has been an increase in the critical mass and opportunities for collaboration and efficiencies. Juvenile Services has formed partnerships with the State to provide additional revenue and less expensive although equally effective incarceration and treatment options for the community's at-risk youth. The reformation of youth offenders through this system is one of the great and continuing service successes provided by the County. State funding for these services appears to be stable for the coming year and the financial crisis has led to strategic decisions to expand the less expensive yet effective models of services provided by Clatsop County government.

District Attorney

- **District Attorney's Office** proposed limited changes for the FY 2012/13. The proposed budget includes additional funding for extra help due to multiple planned parental leaves during the fiscal year. This includes hiring a second year law student to assist with minor court cases. This amount should return to budget levels previously requested (\$10,000) in FY 13/14. The stipend for the District Attorney is proposed to increase to retain the relationship of 10% greater compensation than the second highest paid member of the DA's staff. Personal computer purchases are planned to accommodate laptop use in the courtrooms. A copier is proposed to be replaced according to the replacement schedule.
- **Medical Examiner** proposal is status quo however the Budget Committee should be aware of the challenge the County has had in filling this important position. There is a great variation in the amount counties pay for this service, but staff research has found that Lincoln County and Clatsop County hire this service for about the same amount. The budget reflects the on-going current cost of providing this service.
- **Child Support** collects child support funds from parents who do not pay. The division out performs the state collection efforts. A copier is scheduled to be replaced after 7 years of service.
- **Liquor Enforcement** funds are transferred to support victims support services provided by the county. This is essentially a back-fill of a discretionary program for the county that could be run by the state. Other counties use the funds to purchase equipment to enhance alcohol related enforcement activities like video cameras for police cars and other items.

Sheriff's Office

- **Support Services** civil service fees have reduced due to the economy and not as much work. The fees will be proposed to increase to reflect the actual cost of providing the service.

- **Criminal Division**, the budget reflects the on-going transition of the workforce as older deputies retire and younger deputies are hired. The younger deputies are compensated less, but as a group they generally have more expensive health insurance since many have families. Fuel costs are projected to increase, but overall the budget remains about the same as last year.
- **Corrections Division**, jail bed rental in Tillamook County is projected to continue to cost about \$200,000 and Community Corrections increased this amount by \$150,000 to provide greater sanction opportunities for parole and probation violators. If the jail bond is successful there will be significant changes in this budget in the 2013/14 and 2014/15 fiscal year budgets. Small adjustments were made in the budget to add additional funds for mental health treatment for inmates.
- **Corrections Work Crew** budget includes the work involved in transitioning to a new building at the Fair Grounds that should be completed by June 30, 2012. There is an increase in materials and supplies towards equipment that is in need of repair and replacement. The larger remodeled jail would assist with accountability for criminals sentenced to either serve in jail or on the work crew.
- **Jail Commissary** is proposed in the budget to not change. These are funds from sales of items to the jail population. A portion of these funds are transferred to the Corrections Division to pay for indigent expenses incurred in this budget.
- **Jail Nurse** program is proposed to increase the full time equivalent (FTE) employees from 1.5 to 2.0 which was authorized by the Board of Commissioners on March 28, 2012. The additional .5 Jail Nurse will provide services at the Juvenile Detention Center. This additional .5 FTE cost is offset by the Juvenile Detention Center budget which previously paid the State \$242.00 per hour to provide these services. With the addition of this FTE for the nurse position, the Jail Nurse costs for overtime and extra help will decrease or be eliminated. All services provided for juveniles will be provided at the Juvenile Detention Center.
- **Emergency Communication** The proposed budget reflects savings during 2011/12 and a reduction in costs from the General, Rural Law Enforcement, and State Timber Enforcement funds. The County contracts with Seaside and Astoria for Emergency Community services and manages these funds to support County and Rural Fire District emergency dispatch needs.
- **Marine Patrol**, the proposed budget reflects the Sheriff's efforts to influence the State's allocation of these funds to provide greater equity. State fees and charges provide the funds, and there are questions regarding equitable allocation among counties in Oregon. The Marine Patrol program is back-filled by the County General Fund and Rural Law Enforcement Fund. The Rural Law Advisory Board had a discussion regarding continuing the commitment to provide this service since it could be provided by the State. Efforts should continue to encourage greater equity in the allocation and, if not successful, return the services to the State to provide. The proposed budget reduces the County General Fund and Rural Law support back to the levels of the 2009/10 fiscal year.
- **Drug Task Force** reflects the end of Federal revenue to support the program and maintains a position in this budget. The Criminal Division also allocates a position to drug enforcement activities with the task force. The original notion during the nineteen nineties for these intergovernmental drug task forces was to fund the services by selling the assets seized from the drug dealers. Since the nineties several adverse Court decisions regarding keeping seized funds has limited the financial viability of the task

force concept. Since seizure and Federal funds are no longer available the County should consider rolling these services back into the Sheriff Criminal division as the funds remaining in the fund are spent. Obviously the Sheriff would continue to work with the Police Departments in the County on drug enforcement. Transfers from General Fund, State Timber Enforcement and the Rural Law Enforcement were decreased to this fund this year.

- **Timber Enforcement**, the Oregon Department of Forestry due to suppressed timber production and the subsequent loss of revenue made a decision to no longer pay for a second Deputy to provide enforcement activity in the forest for FY 2010-11. Staff proposes to continue funding one position full time within this budget. This position patrols not only the State Forest land but also the private forest lands in Clatsop County. Staff will need to keep analyzing this position for future years if timber proceeds continue to decline.
- **Parole and Probation** budget reflects repurposing of these services to the Sheriff's Office and closure of the Transition Center as of June 30, 2011. The closure was the subject of studies by the County Manager, Sheriff's Office and an independent consultant during the 2010-11 fiscal year. All studies reached the conclusion that the client population could be served based on a less expensive day reporting model. The proposed budget decreases one position which does not result in a lay-off due to a retirement. The Sheriff does not anticipate a noticeable reduction in service from this lapse of one position due to efficiency improvements; e.g. assigning officers to areas of the County, balancing clients served. The division has implemented evening hours to accommodate the clients who have secured employment, but are required to meet with their probation officer. State funding remains sufficient to not invoke the county's right to return the service to the State this year.

Juvenile Department

- **Juvenile Department**, funding is proposed to remain at levels consistent with the prior year. The Department receives and processes about 470 police reports per year. The Juvenile Department has a 75% success rate defined as no subsequent referral for one year after the intervention. One vehicle is proposed to be replaced based on their high mileage and serviceability to provide transport for the community's youth. The budget reflects no significant changes for the coming fiscal year.
- **Juvenile Detention Center**, revenues are anticipated to increase back to what they were in 2009/10 through contracts with the State of Oregon to house juvenile offenders from other counties in this facility. The County services are competitive with the State and help the County cover the basic costs of providing incarceration of juvenile offenders. The marginal cost of housing 10 or 20 offenders decreases per offender. The County staff is adept at managing these services to be very efficient and of high quality particularly by separating the 'detention kids' from the 'program kids'. A Juvenile Supervisor position was approved during the 2011/12 fiscal year to be funded again in order to provide a lead worker for a staff of six with one supervisor for a total of seven. The State decided to not provide nurse services at the Detention Center and the County increased the Jail Nurse .5 FTE in order to provide this service at the Detention Center. This is addressed in the Jail Nurse budget above. The training and education part of the County services for juveniles is a success story with, at least, two high school graduation ceremonies during the 2011/12 fiscal year.

- **Juvenile Crime Prevention Program** budget reflects minor changes. Juvenile Counselors have been reclassified to Juvenile Counselor II's in order to accommodate the complexity of the work required. Each Counselor has the skills and training to handle simple to complex cases so the entry level skilled employees were no longer appropriate. The State funds this program.

Emergency Management

- **Emergency Services**, the challenge for 2012-13 will be to add on to the Communications Wing at Warrior Hall at Camp Rilea to fully outfit the Emergency Operations Center. The grant requires a match from Clatsop County which is \$167,000 and is included in the Special Projects fund. Oregon Wireless Interoperability Network (OWIN) has agreed to participate in the match funding to make up the remaining match requirement for a total of 50%. This budget reflects part of the personnel costs of the Human Resource Director who is now managing this program. The Federal pass through funding from the State is diminishing due to budget pressures at the Federal level. The budget proposes to use part-time or contracted subject matter experts to assist with training for emergencies during the year. County staff will be gaining experience and evaluating the success of this approach during the fiscal year. The past budget years have seen an increasing commitment by the General Fund to these services and this fiscal year begins the reversal of that commitment. The budget message has an Appendix that discusses allocation of Lodging Tax Revenue from the Arch Cape area to this program.

Health and Human Services - The Public Health budget reflects the restructure adopted by the Board in December of 2009 changing the Health and Human Services Department to the Public Health Department. The budget also continues efforts to clearly allocate costs to the appropriate service element. The National Health Care program includes many provisions that could enhance funding for Public Health Services and the State transition to Coordinate Care Organizations will impact Public Health in ways that are currently not clear. Staff will be monitoring the progress of these initiatives during the coming year.

Prevention and education services related to Public Health are located in several places in the budget including OSU Extension Family and Community Health Program, Juvenile Department Drug and Alcohol Prevention Program, Public Health Chronic Disease and Tobacco Cessation programs. These programs, while focused in three different areas of prevention, collaborate to share resources, communicate consistent messages, and work with the agencies and non-profits in the community.

Public Health Department

- **Community Health, Maternal and Child Health, and Babies First** budget proposes a reduction of one full time equivalent in the Clinic Manager position due to lack of funding for these programs from the State and Federal government. The General Fund contribution remains the same amount in total as last year with a 3% adjustment for inflation to the Public Health Department. These funds are adjusted throughout the budgets depending on needs and lack of revenues. With the reduction of the Clinic Manager, the Director will have to assume these responsibilities. The County must maintain a fully qualified staff and billing system for limited clinical services. Other service providers with a greater critical mass of patients and billing systems may be able

to provide the services more efficiently. With the CCO in the area during the coming years the County will need to evaluate the continued provision of clinical services.

- **Women, Infants and Children (WIC)** services are offered to pregnant, nursing and postpartum women, infants and children under age five. Families must have incomes of less than 185% of the poverty guidelines. The WIC grant matches the caseload and this program is mostly funded by Federal pass through money from the State.
- **Family Planning** reflects the reduction of the Clinic Manager position. There are no significant changes in the services planned to be provided during the coming year.
- **Healthy Communities/Chronic Disease Prevention**, an important focus is tobacco use cessation since as smoking declines general health of the population improves. The budget proposes to continue to focus on tobacco cessation. The grant funds will likely end with the next State biennium.
- **Emergency Preparedness** provides for the integration of public health with the existing local emergency operations plan and improving response procedures to communicable disease. The budget reflects reductions in pass through funds from a Federal grant that is administered by the State.
- **Immunization** provides funding for education and outreach programs. Immunization is a critically important part of providing public health and provides some immunization services, the majority of these services are provided by other service providers in the County. The County's role of education and outreach informs the community to get immunized and the importance of this one action for maintaining the health of the community.
- **Ryan White** grants support the on-going case management activity for clients living with AIDS in the County. No changes are proposed in the budget.
- **Tobacco Prevention and Education** is a priority for the health of the County and the State. No significant budget changes are proposed.
- **Environmental Health** provides community protection from food poisoning and communicable diseases through the licensing, inspection and regulation of the restaurants and public events that serve food. It also organizes the annual Household Hazardous Waste collection program with this budget providing the third collection event during the year. This Household Hazardous Waste program has improved the cash flow in this service area. The program of restaurant inspections, food service licensing, drinking water tests, inspection of day care centers, schools, prisons, and jail are projected to remain consistent with prior year services. The program is supported by fees.

Human Services

- **Commission on Children and Families**, the State is consolidating this service into an Early Learning Council including elimination or repurposing of the State Commission, but the program will continue for at least one more fiscal year. The Proposed Budget reflects flexibility to implement reductions in pass through funds to local agencies.
- **Drug and Alcohol Prevention Program** was transferred between outside contracting agencies in FY 2010-11 and has successfully transitioned to work with the Commission on Children and Families and the Juvenile Department. This division also supports the Health and Human Services Advisory Committee. The workload indicators suggest a marked increase in the number of youth participating in prevention programs from 55 in 2010 to 736 in 2011. The division is assisting with leading the community evaluation of prevention programs and services to youth called 'Connect the Dots'. This program is providing a forum for the discussion or coordinating youth services and programs to

eliminate duplication, reduce costs, and focus local interventions. With limited financial resources the community service providers are committed to working together

- **Mental Health and Developmentally Disabled** are managed by the County Manager's Office with assistance from Finance and Prevention divisions. The County passes funds through from the State to Clatsop Behavioral Health for mental health services and to Columbia Community Mental Health (CCMH) for developmentally disabled services. The County will be contracting the developmentally disabled services with another agency since CCMH has notified the County that they will no longer support these services in Clatsop County effective July 1, 2012.

General Government Direct Services The budget proposes the reduction of two full time equivalent positions and one part time position. One full time and one part time position will be reduced from Assessment and Taxation and one from County Clerk Records. The office area was designed to integrate the two departments, but the economic environment prior to 2008 required keeping the staff numbers up to meet the demand for services. With a reduction in recording, improvements in technology, and potentially some additional efficiencies designed into the work space, the management team supports reducing the staff by 2.6 FTE. These reductions are due to decrease work flow to these activities and the need to reduce the costs to balance the budget.

Board of Commissioners

- **Board of Commissioners** budget includes no proposed changes. The Code of Regulations project was completed during the current year.

Clerk and Elections Department

- **County Clerk Records** proposed budget reflects the elimination of one staff position. Recordings were averaging about 75 per day ten years ago and the numbers have decreased slowly to an average of 35 per day. Due to the reduction in work the proposed budget includes one less position in the Clerk Records budget.
- **County Clerk Elections** is status quo budget with plans for two elections during the fiscal year with the Presidential General election in November and the May Special District election. If a third election is necessary, the budget can be adjusted by the Board.
- **Board of Property Tax Appeals** budget is proposed to maintain the status quo.

Assessment and Taxation Department

- **Assessment and Taxation** proposed budget eliminates one full time and one part time position due to increased efficiencies and decreases in work load. The labor contract requires the elimination of part-time help prior to elimination of a full time position. The total FTE reduction is 1.6 in the proposed budget for this division which consists of a cartographer and part time administrative assistant. Development activity is at an all time low in Clatsop County. The Clerk and Assessment and Taxation staffs will be further integrated to provide counter support.

Animal Control

- **Animal Control**, budget is proposed with few changes other than those required due to increases in costs. Additional contract help is needed to cover kennel cleaning on the

weekends. Closure of the Transition Center eliminated the ability to use offenders for cleaning services. This was an impact that was identified in the three reports on closure.

- **Animal Shelter Donations** budget receives donations and uses them for improvements to the Animal Shelter facilities. This year the budget includes funds to upgrade the HVAC system to provide more efficient energy use and an upgrade for the alarm system used at the facility. Additional funds to replace the gravel play yards and improvements in the kennels are included in this budget.

Land Use, Transportation and Housing The downturn in the economy is reflected in the direct service budgets that provide surveyor services, permit reviews and building inspection services. This budget continues to not fill positions vacated by retirements, resignations and layoffs due to lack of work and low permit revenue. Staff is prepared to increase these services when the economy recovers however this could be a few years. The one exception is the addition of a full time code enforcement position to Community Development. This addition will provide additional time for the Planning Division to work on long-range planning projects as defined in the Strategic Plan.

Community Development Department

- **Community Development Department** budget reflects a focus on current permit processing. The budget includes the addition of .5 FTE planning position. The .5 FTE provided for the code enforcement position will now be shared with the building division in order to provide staff time to work on planning projects identified in the Strategic Plan. Items like ocean planning, estuary planning, transmission line regulation development, Westport community planning, and Clatsop Plains planning are all long-range planning issues that will be stalled without additional support for planning services. The JLUS contract for planning activity at Camp Rilea is anticipated to be completed during the current fiscal year. Additional activity is budgeted to pay for the Oregon LNG application but there is no off-setting revenue since the County's position is likely to be in opposition to the application. This Department is supported by a transfer from the Video Lottery Fund since it is a key to economic development in the County.
- **Building Code Division** fees were increased prior to adoption of the budget, but activity remains light. Building Codes operates out of a self-supporting fund and while the cash balance is anticipated to decrease the amount is minimal and the service should remain viable for a number of years. The additional .50 FTE for the Code Enforcement position mentioned above is included in this budget.

Public Works Department

- **Road Maintenance and Construction** budget includes funds to provide repairs and maintenance of the County's 232 miles of roads, 68 bridges and 3 beach approaches. Most of the construction, non-maintenance work is contracted. The budget includes \$1.295 million in contracted services including small items like miscellaneous trucking for the Astoria District to hydro-seeding to large projects like bridge repairs and Ridge Road widening and paving. Highway 101 flooding project is being managed by the County with pass through dollars from ODOT. The plan is to remove a levee along the river in order to allow the water that floods the highway to spread out thereby reducing the depth of the water flowing on the highway. Westport Ferry design and construction is budgeted this year as well. These and other projects are listed in the budget document. Road Maintenance is supported 60% by the Road District and 40% by gas tax revenues.

- **Roads Equipment Replacement** funds the on-going replacement of vehicles when the economically useful life ends with the County. The replacement schedule provides for purchase of a compactor and loader in the proposed budget. A complete list and explanation is found in the budget document.
- **Bike Paths** budget proposes funding the Ridge Road widening and paving project. The State mandates that 1% of the County's annual gas tax revenue is used on bike paths.
- **Surveyor** budget includes reductions in revenue due to the advance of technology with more surveys and documents available on-line. A slight shift in the surveyor's hours from this activity to Land Corner is proposed for the coming year.
- **Land Corners** fund is status quo except for the shift of the surveyor hours to this fund.

Culture and Recreation

Parks

- **Parks Maintenance** budget includes a minor reduction in revenue estimates related to the algae bloom that limits Cullaby Lake Park use during the summer. Funds are budgeted to determine if there are science based solutions to resolving the toxicity of the bloom. The Parks Land Acquisition fund transfer is proposed to increase this year. This amount is tied to the salary and benefits for the costs of the Natural Resources Manager position to the Parks division. The Division will continue to work on the implementation of the Park Stewardship plan approved by the Board in 2010 and provide technical assistance to the development of the Westport Marina with Marine Board funding.
- **Parks Land Acquisition** fund was developed from the sale of Delaura and Sunset Beach property, and timber salvage sales from the big wind storm of 2007. The proposed budget provides for \$360,000 in capital projects, a contract with a forester to advise the staff, and the transfer to General Fund. The fund balance is decreasing since no new revenue from park property land sales have occurred in the last two years. The Park Master plan provides a section on securing revenue to support the parks land acquisition fund over time. A work item for the staff is to fully develop these proposals and implement an on-going revenue source since at current expenditure levels this fund will not exist in 10 to 12 years at the current rate of spending.

Fair

- **Fair General Operation** budget includes the levy approved by the voters on May 18, 2010. This budget reflects the first time the levy rate of .07 per \$1,000 has been in place (it was previously at .09 per \$1,000). Capital projects include replacement of the bleachers in the arena, repairing some of the old out buildings, parking lot lighting upgrades and work on the pedestrian bridge. This is one of the few Fair operations that is not subsidized by the County General Fund in the State.

Economic Development The projects and policies supporting economic development and renewable energy projects are included in these budget areas. The collaborative effort by the County and cities through CEDR (Clatsop Economic Development Resources) is a great example of working together to support economic development activities. Part of these efforts is the development of renewable energy projects.

- **Video Lottery Fund** budget includes an allocation to continue to pay for the County's participation in CEDR however staff will advise CEDR that this amount will ramp down starting in FY 2013-14 to \$40,000. The proposed budget allocates \$20,000 of the CEDR dues to be paid from the Industrial Development Revolving loan fund for work that will be done specifically with the North Coast Business Park property. The Video Lottery Fund includes the remaining \$40,000 of the dues, for a total of \$60,000. Lottery funds are proposed to be used to fund the County's share of the on-going hydrological study south of Seaside along Highway 101. Finally, Lottery funds provide support to the Planning Department in the amount of about \$200,600. State forecasting shows a slight increase in Oregon lottery proceeds as the economy recovers.
- **CEDC Fisheries** budget receives support from the Bonneville Power Administration (BPA) that has increased over the prior years. The fisheries program is self-supporting, but is threatened by the withdrawal of private sector support due to the on-going need to protect the fishery from an initiative opposing gill-netting. Three initiatives have been filed and one may make it on the ballot in 2012 or 2014. If approved by the voters, it is likely there will be significant changes in the funding for this program from the private sector and possibly BPA. This program provides fish for the Young's Bay fishery and is a vital part of the local economy. No major changes are planned in the proposed budget.
- **Industrial Development Revolving Fund** budget reflects 90% of construction of SE Ensign Lane from 19th Street to Hwy 101A, which the County is obligated to construct by a grant of access agreement with the Oregon Department of Transportation. The project is scheduled to be completed by January 2014. The budget proposes to pay \$20,000 of the CEDR dues from this fund to develop a plan for marketing and operating the industrial and commercial site at the North Coast Business Park. County staff will also be working on development of the North Coast Business Park to provide space for general industrial development, possible consolidation Public Works operations with the Oregon Department of Transportation, and other light industrial development opportunities. These projects depend on the development of the extension of SE Ensign Lane.

General Government Overhead

Central Services Department

- **Finance and Treasury** budget is status quo in the proposed budget.
- **Information Systems** led the lease and installation of Microsoft 2010 office systems during the 2011/12 fiscal year. This year the budget is status quo for information systems.
- **Building and Grounds** budget provides maintenance activities for the 100,489 square feet occupied by County Buildings. It also provides capital project supervision. If the Jail Bond is approved, the staff will be intimately involved in the design, bid and

construction process. The staff will also support the expansion of the Emergency Operations Center at Camp Rilea. The proposed budget is status quo.

County Manager Department

- **County Manager's Office** budget is status quo but may require a change at the adopted level for the oversight of the Developmentally Disabled contract (see Human Services section for more detail). Salary and benefits for the new County Manager is subject to negotiation and contract approval by the Board of Commissioners and could change the budgeted amount. The Assistant County Manager's time is reimbursed in revenue from the Industrial Development Fund to reflect time spent to develop the North Coast Business Park.
- **Employee Relations** budget includes increasing the allocation of the Human Resources Director to Emergency Management to reflect the Director's time spent on that activity. A decrease in contractual services is due to the settlement of contracts and the commensurate need for less legal support for bargaining during the fiscal year.

Miscellaneous

- The Miscellaneous budget provides the location for veteran services funding and other services that are not assignable to other divisions or departments. Consistent with the Board budget policy, the amount to be distributed to non-profit agencies during the 2011/12 fiscal year was increased from \$15,000 to \$30,000; and \$30,000 is included in the proposed Miscellaneous budget. This is an "up to" amount approved by the Board and staff has recommended the same level as in the previous year's budget. Other amounts including the allocation to the Soil and Water Conservation District (\$4,000) and the Historical Society (\$4,000) are not statutorily required but have been a long-standing contribution given to these entities from the County.

Non-Operating

- **General Fund Transfers to Other Funds** Proposed Budget totals \$1,965,100, which is \$532,000 more than FY 2011/12 due to an increase in the timber transfer to Special Projects.
- **General Fund Operating Contingency** has increased by \$16,200 to \$1,679,400 million representing an amount that equals ten percent of the General Fund operating budget (not including timber revenue transfers to Special Projects and Contingency) in compliance with the LTFP. The General Fund has an unappropriated fund balance of \$19,100 going into FY 2013/14 that may be depleted to meet operating expenses in future years.

Capital Projects

- **Special Projects Fund** reflects the County's share (State Forest timber revenues are distributed all of the County property tax districts of which the County is one) of the revenue from trees harvested from the State Forest in Clatsop County according to recent estimates provided by the Department of Forestry. A complete list of the projects and programs paid for by the fund are found in the proposed budget. Highlights include the new emergency operation center expansion at Warrior Hall, copier replacements,

Juvenile Department vehicle, and a small amount for strategic planning in the Public Health Department. If revenue projections increase, the Sheriff's Office proposed new vehicle for the Marine Patrol is recommended to be the first item added back into the budget to purchase during the fiscal year.

Education

- **Law Library** budget has no significant changes proposed for the current year.

Judicial Programs Funded by the State

- **Courthouse Security** funds one-half of the cost of a full time equivalent deputy and small items addressing security issues in the Courthouse. The fund appears at this time to be self-supporting from revenues generated by the Court system. The fund is closely monitored by the Trial Court Administrator and the Presiding Judge to make sure the program continues.
- **Child Custody Mediation** funds a mediation service for parents going through a divorce. It is funded by the Court system and mediation is required either through a private source or through this public mediation service.

Service Districts

- **Rural Law Enforcement District** budget for FY 2012/13 provides funding for Sheriff's Office services for rural areas of the County. It is supported by a property tax levy and timber revenue. The Rural Law Advisory Board met and approved the budget.
- **Road District No. 1** budget for FY 2012/13 allocates resources to the County for road maintenance as discussed in the Road Maintenance part of this budget. The District is governed by the Board of Commissioners. The fund balance decreased as anticipated by approximately \$500,000 to pay for road maintenance services. The fund balance is stable this year.
- **Westport Sewer District** budget expenses reflect the limited funds available to support this treatment system and the reduction is due to the lack of funding for the infiltration study. Rates are proposed to be increased each year in order to address the system needs that are created by State and Federal mandates. The area has significant low to moderate income residents and rate increases could be sensitive to many residents' budgets in the community.
- **4-H and Extension Service Special District** budget includes slight increases in expenses and revenues. The budget reflects the status quo for the coming year. Staff is currently working with OSU staff on amending the agreement to provide for a direct contract relationship with OSU for all services. This will provide greater accountability for the County, greater efficiency for OSU staff, and make the Clatsop County program consistent with other Extension/4H programs in the State.

BUDGET POLICIES

At its regular meeting of January 25, 2012, the Board of County Commissioners initiated Clatsop County's annual budget preparation process with the adoption of the Budget Policies and the Resource Reduction Strategy. The Board's Budget Policies provide direction and guidance to staff in preparing the County's annual budgets and are attached to this budget message.

The Board's Strategic Plan/Resource Reduction Strategy, located in the Statistical Section of the Budget Document, guides staff on how to reduce expenditures in the event of significant loss of discretionary resources. The Plan/Strategy also focuses on whether programs should be funded with discretionary or dedicated resources and outlines the Board's prioritization of services. The Resource Reduction Priorities provide the order in which expenditure reductions should be made in the event of a significant loss of resources based on the prioritization of County services.

Consistent with prior years, the FY 2012/13 Budget Policies state that no more than the lowest year of actual timber revenue received over the last 15 years should be retained in the General Fund for operational expenses, not to exceed the amount required to support the current level of General Fund services. This approach establishes a dollar amount the County can reasonably expect to receive and helps avoid problems if timber revenue comes in at significantly less than budgeted. The lowest annual amount in the past 15 years of actual receipts was \$1,377,354 received in FY 1997/98. This amount will change next year to the amount of \$1,815,758 received in FY 1998/99.

The FY 2012/13 Budget Policies require the transfer of all other timber monies to the Special Projects Fund, where the funds will be used for General Fund capital projects and other one-time expenditures related to the General Fund. This means that items identified as operating expenses are included in the appropriate operating budgets rather than the Special Projects Fund. This shift has been accomplished in the FY 2012/13 budget. Funds are planned to be available to fill the need created in the 2014/15 fiscal year if the Jail Bond is approved by the voters and operational funds are needed to staff the expanded facility. Examples of additional recurring expenses identified in the LTFP include: equipment and supplies with a cost of less than \$5,000, information system hardware and software and annual training. Items that provide organization wide benefits, such as computer hardware and software, are budgeted in the appropriate operating budget and are allocated as part of the Indirect Cost Plan as recommended in the LTFP.

Performance-based budgeting was recommended in the LTFP as a means to help government officials and citizens identify financial and program results, evaluate past resource decisions and facilitate improvements in decision-making about future resource allocation and service delivery. This budget reflects improvements by the Department Directors to use the same format for the performance information that makes the information more visually pleasing and informative.

The Budget Policies continue to provide that the General Fund Stabilization Account be used to meet General Fund financial commitments in any year when the County's timber revenue projection is less than the total amount of current year commitments, including the amount provided to the General Fund for operations as set forth in Section III.B of the Budget Policies and any debt payment obligations. Based on timber revenue projections from the Oregon

Department of Forestry, it will not be necessary for the County to utilize the Stabilization Account in FY 2012/13.

Other key provisions of the Board's Budget Policies include:

- No new staff or programs unless specifically approved by the Board of Commissioners and direction to seek staff and expenditure reductions wherever possible.
- A goal of no increase in materials and supplies expenditures for General Fund departments.
- A goal of holding the General Fund contribution to non-General Fund departments at the current level, subject to the availability of funds.
- Direction to continue to utilize the County's indirect Cost Allocation Plan in an effort to recover the full cost of the County's overhead functions and to identify the impact of any new programs on overhead services.
- Direction to pursue revenue sources to the fullest extent possible for all services as well as total cost identification for fee setting purposes. Direction to review fee schedules annually to ensure this is accomplished.
- Direction that any budget savings achieved during the year (through position vacancies, for example), not be spent on other things, but rather be saved and added to the ending fund balance (which becomes the beginning fund balance for the next fiscal year).
- Direction to not use General Fund discretionary dollars to back-fill any loss in State-shared or federal revenues or increase the County share of programs funded primarily from non-General Fund sources.
- Direction to maintain a General Fund Operating Contingency of at least \$1.2 million and increase the contingency if possible as recommended in the County's long term financial plan.
- Direction that the General Fund Stabilization Account will be used to meet General Fund financial commitments in any year when the County's timber revenue projection is less than the total amount of current year commitments including the amount provided to support General Fund operations and debt payment obligations.
- A goal of maximizing the Board's discretion with regard to use of different revenue sources by, wherever possible, treating any revenue source as discretionary rather than dedicated (examples would be Video Lottery and Lodging tax revenues).
- Direction that, to the extent resources are available, up to \$30,000 in General Fund monies are to be set aside for contributions to outside organizations.

THE ALL-FUNDS BUDGET

The County's Proposed All-Funds Budget for FY 2012/13 totals \$54,801,500. This is \$5,301,492 or 8.8 % decrease from the FY 2011/12 adopted level. A chart showing the comparison of the FY 2012/13 Proposed All Funds Budget and the FY 2011/12 Adopted Budget is shown below:

| ALL FUNDS BUDGET FY 2011/12 vs. FY 2012/13 | | | |
|---|-----------------|------------------|---------------------|
| Resources | Adopted 2011/12 | Proposed 2012/13 | Increase/(Decrease) |
| Beginning Balance | 25,610,600 | 19,793,000 | (5,817,600) |
| Revenue | 36,600,892 | 36,888,000 | 287,108 |
| Total | * 62,211,492 | *56,681,000 | (5,530,492) |
| Expenditures | | | |
| Personnel Services | 19,985,500 | 20,613,600 | 628,100 |
| Materials & Supplies | 10,412,692 | 9,474,100 | (938,592) |
| Other Charges | 6,121,100 | 5,112,300 | (1,008,800) |
| Capital | 5,527,100 | 5,208,400 | (318,700) |
| Debt Service | 3,049,600 | 1,577,200 | (1,472,400) |
| Transfers | 3,887,800 | 3,699,100 | (188,700) |
| Contingency | 11,119,200 | 9,116,800 | (2,002,400) |
| Total | * 60,102,992 | * 54,801,500 | (5,301,492) |

**** Note: Typically the total resources and expenditure will be the same amount. Total resources and expenditures do not match in the Adopted FY 2011/12 and the Proposed FY 2012/13 All-Funds Budgets. This is because of the unappropriated fund balances are intentionally provided in the General Fund, Special Projects Fund, Building Codes Fund, and Jail Commissary Fund.***

Major factors accounting for the difference in revenue and expenditures between last year's FY 2011/12 Adopted Budget and this year's FY 2012/13 Proposed Budget include:

- Personnel Services increased by 3.1% due to Cost of living increases of 3.5% for all employees effective July 1, 2012 and reductions in staff that reduced the increase to 3.1%; the County also anticipates receiving health insurance cost increases of 10%; and these increase were offset by a reduction in FTE of 3.6.
- Materials & Supplies decreased by 9.0% due to an decrease in Contractual Services for Community Development for projects in Westport, the JLUS project at Camp Rilea, and legal costs for Oregon LNG. It is noted that the JLUS project is paid for by a grant from the Federal Government. The Oregon LNG Counsel are by contract to be paid by the project applicants, but Oregon LNG is disputing the terms and conditions of this payment.
- Other Charges decreased by 16.4% as a result of using the Bond reserve funds to make the PERS bond payment for 2012-13. When the initial bonds were sold the Board

authorized setting aside up to 3 years of payments in the Bond Reserve Fund. The final payment on the PERS Bonds will be made in June of 2014.

- Capital projects decreased by 5.8%. This decrease is primarily due to postponing purchases from special Projects for one year to achieve the targeted amount for the General Fund Stabilization account as recommended by the LTFP.
- Debt Service decreased by 48.3% as a result of the one-time payment of \$1,500,000 made on the Courthouse Remodel loan.
- Transfers were decreased by 4.9%; this significant decrease is mainly due to a one time transfer in 2011-12 of \$1,500,000 transfer from the Industrial Development Revolving Fund to Special Projects. This transfer is to reimburse Special Projects for infrastructure that was needed for the North Coast Business Park (water, sewer, gas, and the construction of S.E. 19th street). This transfer was partially offset by an estimated increase in timber revenue to Special Projects of \$573,000 for fiscal year 2012-13.

THE GENERAL FUND BUDGET

The County's Proposed General Fund Budget for FY 2012/13 totals \$19,548,700. This is an increase of \$563,400 or 3.0% compared to the FY 2011/12 Adopted Budget.

| GENERAL FUNDS BUDGET FY 2011/12 vs. FY 2012/13 | | | |
|---|-----------------|------------------|---------------------|
| Resources | Adopted 2011/12 | Proposed 2012/13 | Increase/(Decrease) |
| Beginning Balance | 3,500,000 | 2,794,000 | (706,000) |
| Revenue | 16,107,100 | 16,754,700 | 647,600 |
| Total | *19,607,100 | *19,548,700 | (58,400) |
| Expenditures | | | |
| Personnel Services | 12,367,800 | 12,716,500 | 348,700 |
| Materials & Supplies | 3,425,200 | 3,086,300 | (338,900) |
| Other Charges | 76,900 | 82,300 | 5,400 |
| Capital | 0 | 0 | 0 |
| Transfers | 1,433,100 | 1,965,100 | 532,000 |
| Contingency | 1,663,200 | 1,679,400 | 16,200 |
| Total | *18,966,200 | *19,529,600 | 563,400 |

- *Note: Typically the total resources and expenditure will be the same amount. Total resources and expenditures do not match in the Adopted FY 2011/12 and the Proposed FY 2012/13 General*

Fund Budget. This is because of the unappropriated fund balance is intentionally provided in the General Fund as explained later in this report.

The principal reason for the 3.0% increase in the General Fund Budget from FY 2012/13 to FY 2011/12 is increases of 2.8% in Personnel, 9.8% decrease in Materials & Supplies, a 37.1% increase in Transfers and a 1% increase in Contingency.

The FY 2012/13 Proposed General Fund Budget includes an unappropriated fund balance of \$19,100. This dollar amount is required to minimize funding shortfalls projected in the General Fund Five-Year Forecast discussed later in this report. The unappropriated fund balance carry-over represents resources that are necessary to offset reductions to the level of services in General Fund Budget through FY 2012/13.

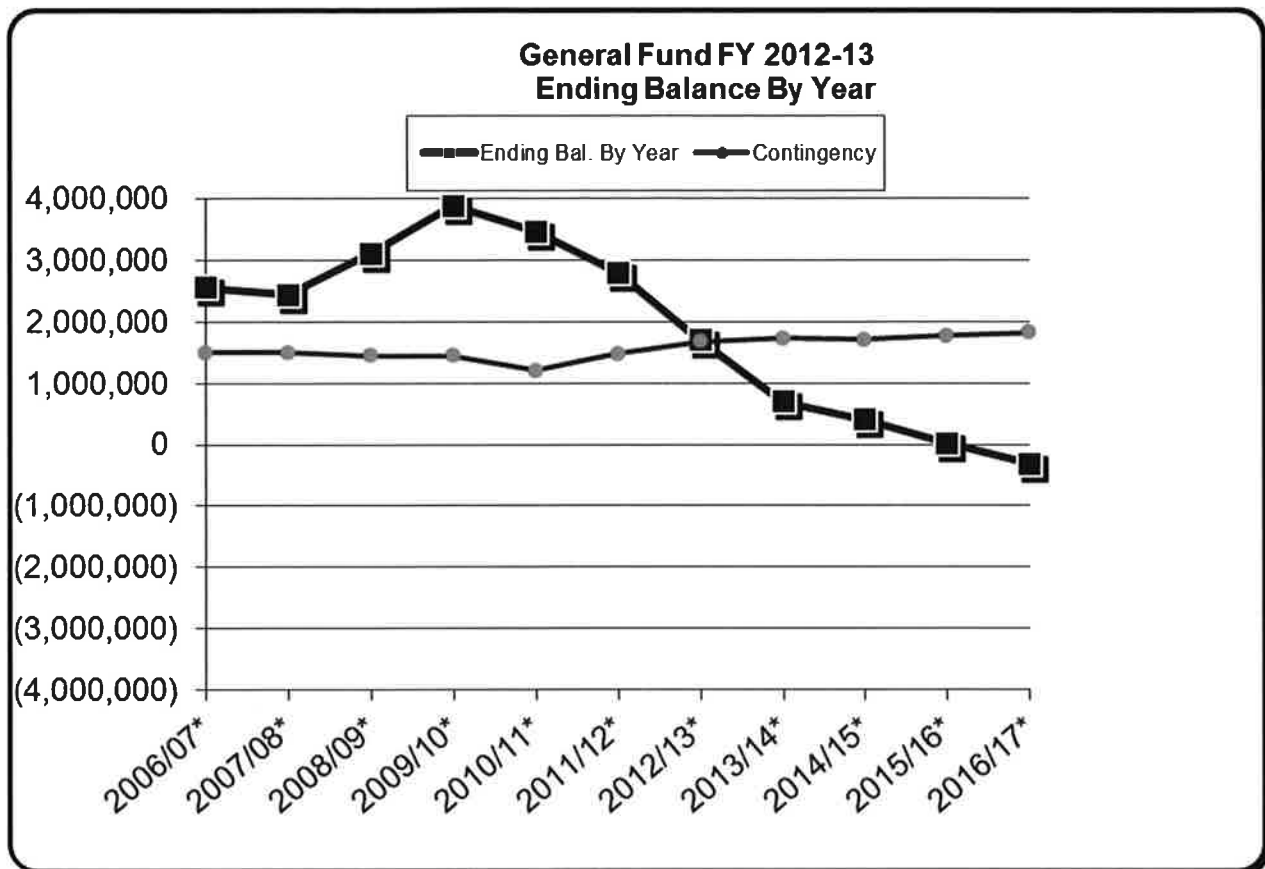
Even with the unappropriated fund balance reserves, the County will spend down its reserves below the level recommended in the LTFP and will need to identify new revenue sources, reduce the proposed level of services, or find additional savings through organizational efficiencies by FY 2013/14.

The following table illustrates changes in the FY 2012/13 General Fund budget from FY 2011/12 Adopted General Fund Budget without the operating contingency and the transfer of the timber revenues to the Special Projects Fund.

| | Adopted 2011/12 | Proposed 2012/13 | Increase/(Decrease) |
|------------------------------|------------------------|-------------------------|----------------------------|
| General Fund Expenditures | *18,966,200 | *19,529,600 | 563,400 |
| Less: | | | |
| Transfer to Special Projects | 460,400 | 1,033,400 | 573,000 |
| Contingency | 1,663,200 | 1,679,400 | 16,200 |
| <i>Adjusted Budget</i> | <i>16,842,600</i> | <i>16,816,800</i> | <i>(25,800)</i> |

The main reasons for this (\$25,800) or 0.2% decrease in the adjusted General Fund budget include:

- Increases in the transfer to Special Projects are because the two remaining years of the bond payment will be paid from the Bond reserve fund.
- Decreases in Materials and Supplies by 9.8% (\$338,900) for FY 2012/13. This decrease is primarily due to contractual services as a reduction to legal fees associated with LNG.
- Increases in Personnel Services (\$348,700) for FY 2012/13 This increase is due to increases in the cost of living for both represented (3.5%) and unrepresented (3.5%) employees and 10% increase to medical insurance. Partially offset by a reduction in FTE of 2.6.



- Increases to contingency of (\$16,200) in keeping with the LTFP of 10% contingency net of timber transfers to Special Projects and Contingency.

As previously noted, the FY 2012/13 General Fund and Special Projects Fund budgets reflect implementation of several financial management recommendations made in the County's LTFP report completed in September 2004. The LTFP makes a number of recommendations to improve Clatsop County's ability to deal with future financial challenges involving the County's General Fund and Special Projects Fund. The recommendations cover budget policies, performance based budgeting, indirect cost allocation, fee setting, revenue diversification, and reserve funding.

The LTFP implementation strategy approved by the Board prioritizes the areas of work, identifies additional work that needs to occur prior to implementation and identifies approaches to implement the recommendations while taking potential impacts into consideration. The timetable allows for the development of additional financial information recommended in the LTFP, including a review of the county's indirect cost allocation plan and fees.

The graph shows the General Fund ending fund balance and forecasts the stabilization of the ending balance using state timber revenue to the level currently provided in the Board's Budget Policies. This includes the current 15-year low amount of \$1,377,400 in state timber revenue and this is the same as FY 2011/12.

Staff has projected that Clatsop County will end FY 2012/13 with approximately \$1.7 million in the General Fund ending fund balance. As noted earlier, \$19,100 of the ending fund balance, in excess of the recommended contingency (\$1.68 million) in the LTFP, has been set aside to support increased costs over the next several years. The LTFP states that the General Fund contingency shall equal 10% of expenditures, minus the contingency and timber revenue transferred to Special Projects. Assuming spending that maintains current staffing and programs provided in the Proposed Budget, and continuing the current policy of timber revenue supporting the General Fund based on providing the lowest of the previous 15 years in timber revenue, the County would maintain the current level of service through FY 2012/13. After FY 2012/13, the County will either need to increase revenues or reduce expenditures to remain in compliance with our LTFP.

The long-term stability of timber revenue receipts is uncertain and changes in state revenues could have a significant impact in the projected ending fund balances. The Stabilization Account, included in the Special Projects Fund as an unappropriated fund balance, is provided in accordance with the Board's Budget Policies to mitigate these potential impacts. The "15-year low" transfer concept is vulnerable to a catastrophic reduction in timber revenue. Therefore, if needed, the stabilization account can provide for the continuity of essential services for only a limited duration.

DISCRETIONARY RESOURCES

Discretionary resources are resources or income that are not dedicated by rule, law or contract for a specific program or purpose, and therefore can be spent at the choice or the discretion of the Budget Committee and Board of Commissioners. The bulk of the County's discretionary resources come from the General Fund beginning balance, property tax levy, indirect charges and timber revenues.

Almost all discretionary revenues are received in the General Fund, though once received they are sometimes transferred to other funds. Not all of the General Fund resources are discretionary. Certain non-General Fund resources (such as Video Lottery money, for example) can be applied flexibly and may be considered discretionary.

In the Budget document, General Fund discretionary resources are identified as the General Fund Subsidy or General Fund Transfer. For FY 2012/13, discretionary resources for all funds will total approximately \$13,512,000

The \$13,512,000 includes timber money set aside in the Special Projects Fund and the General Fund's Operating Contingency. If these were not available, the County's discretionary budget would be approximately \$10,799,200.

CONCLUDING COMMENTS

Included in the Budget Message is an additional section providing an analysis of allocating the Transient Lodging Tax Revenue collected in the Arch Cape area of the County specifically to Emergency Preparedness services in Arch Cape. This work was part of the Board's direction

during the adoption of budget policies. Staff is prepared to adjust the budget on the Budget Committee or Board instructions based on a review of the analysis and subsequent direction.

The budget includes a financial analysis of the budget. It provides the Budget Committee with the general to specific financial information summarized in one section for review. It also discusses how the budget carries out the Board's adopted budget policies and the Long Range Financial Plan. The second section is reserved for a similar evaluation once the budget is adopted. It will include the up-to-date financial data.

Preparation of the annual budget would not be possible without the dedication and commitment of the County Department Heads and staff. We are very appreciative of the professional approach to problem solving and the atmosphere of teamwork that was evident during this process. The effort is reflected in the document.

Finance Director Mike Robison played a key role with history of the process, financial accuracy, carefully thought through ideas and concepts, and also supporting the Directors during the preparation process. Monica Steele provided assistance from Finance by helping the Directors and staff, making adjustments, and keeping the team rolling along through the staff budget meetings. Valerie Crafard, Clerk to the Board, did a great job compiling the budget document and keeping the numerous revisions straight in the binders. Thanks to everyone involved in this project.

This has been the 34th annual budget that retiring County Manager Duane Cole has participated in during his career. The financial times pose challenges and the team at Clatsop County has made it the most interesting and enjoyable budget process so far, but his pottering and drooling have got to stop. His life balance sheet of work versus play is definitely and permanently out of balance. Get that guy out of here!

Finally, thanks to the Board and Budget Committee for the thorough review and careful consideration of the FY 2012/13 Budget.

Respectfully Submitted,



Duane Cole
County Manager



Nicole Williams
Budget Officer
Assistant County Manager

BUDGET MESSAGE SUPPLEMENT ADOPTED BUDGET

- CHANGES FROM THE PROPOSED BUDGET -

This supplement describes the updated budget amounts resulting from changes to the Proposed Budget that were adopted by the Board of County Commissioners.

The County's Adopted All-Funds Budget for FY 2012/13 totals \$54,817,100. This is \$5,285,892 or 8.8% decrease from the FY 2011/12 adopted level. A chart showing the comparison of the FY 2012/13 Adopted All Funds Budget and the FY 2011/12 Adopted Budget is shown below:

| ALL FUNDS BUDGET FY 2011/12vs. FY 2012/13 | | | |
|--|-----------------|-----------------|---------------------|
| Resources | Adopted 2011/12 | Adopted 2012/13 | Increase/(Decrease) |
| Beginning Balance | 25,610,600 | 19,824,700 | (5,785,900) |
| Revenue | 36,600,892 | 36,853,900 | 253,008 |
| Total | 62,211,492* | * 56,678,600 | (5,532,892) |
| Expenditures | | | |
| Personal Services | 19,985,500 | 20,594,200 | 608,700 |
| Materials & Supplies | 10,412,692 | 9,490,600 | (922,092) |
| Other Charges | 6,121,100 | 5,112,300 | (1,008,800) |
| Capital | 5,527,100 | 5,208,400 | (318,700) |
| Debt Service | 3,049,600 | 1,577,200 | (1,472,400) |
| Transfers | 3,887,800 | 3,699,100 | (188,700) |
| Contingency | 11,119,200 | 9,135,300 | (1,983,900) |
| Total | * 60,102,992 | * 54,817,100 | (5,285,892) |

**** Note: Typically the total resources and expenditure will be the same amount. Total resources and expenditures do not match in the Adopted FY 2011/12 and the Adopted FY 2012/13 All-Funds Budgets. This is because of the unappropriated fund balances are intentionally provided in the General Fund, Special Projects Fund, Mental Health Fund and Jail Commissary Fund.***

THE GENERAL FUND BUDGET

The County's Proposed General Fund Budget for FY 2012/13 totals \$19,529,600. This is an increase of \$563,400 or 3.0% compared to the FY 2011/12 Adopted Budget.

| GENERAL FUNDS BUDGET FY 2011/12 vs. FY 2012/13 | | | |
|---|-----------------|-----------------|---------------------|
| Resources | Adopted 2011/12 | Adopted 2012/13 | Increase/(Decrease) |
| Beginning Balance | 3,500,000 | 2,794,000 | (706,000) |
| Revenue | 16,107,100 | 16,754,700 | 647,600 |
| Total | *19,607,100 | *19,548,700 | (58,400) |
| Expenditures | | | |
| Personal Services | 12,367,800 | 12,716,500 | 348,700 |
| Materials & Supplies | 3,425,200 | 3,086,300 | (338,900) |
| Other Charges | 76,900 | 82,300 | 5,400 |
| Capital | 0 | 0 | 0 |
| Transfers | 1,433,100 | 1,965,100 | 532,000 |
| Contingency | 1,663,200 | 1,679,400 | 16,200 |
| Total | *18,966,200 | *19,529,600 | 563,400 |

- Note: Typically the total resources and expenditure will be the same amount. Total resources and expenditures do not match in the Adopted FY 2011/12 and the Adopted FY 2012/13 General Fund Budget. This is because of the unappropriated fund balance is intentionally provided in the General Fund.*

The following table illustrates changes in the FY 2012/13 General Fund budget from FY 2011/12 Adopted General Fund Budget without the operating contingency and the transfer of the timber revenues to the Special Projects Fund.

| | Adopted 2011/12 | Adopted 2012/13 | Increase/(Decrease) |
|------------------------------|-----------------|-----------------|---------------------|
| General Fund Expenditures | *18,966,200 | *19,529,600 | 563,400 |
| Less: | | | |
| Transfer to Special Projects | 460,400 | 1,033,400 | 573,000 |
| Contingency | 1,663,200 | 1,679,400 | 16,200 |
| Adjusted Budget | 16,842,600 | 16,816,800 | (25,800) |

ADOPTED BUDGET

The Proposed Budget was revised by the Board of Commissioners as follows:

Public Safety – Marine Patrol

- The Sheriff's Office concluded negotiations with the State Marine Board on funding levels for FY 2012/13 the result of which was a full 80/20 reimbursement from the State Marine Board for FY 2011/12. The State Marine Board was unable to carry-over reversionary funds into the FY 201/13 due to Board policy. The Sheriff's office conducted a four year revenue/expenditure study and determined that it would be unwise to expand the program (deckhand positions) when State Marine Board funding levels in future years would not support the expansion. The budget has been revised to reduce expenditures by a total of \$20,900, which is a combination of the elimination of the deckhand positions and a reduction of \$1,500 in Materials and Supplies.

Capital Outlay

- The Special Projects fund budget was adjusted by \$18,000 at the approved level of the budget process and voted on by the Budget Committee. This amount (\$18,000) was allocated for Fisheries Public Education to be used to educate the public on the County Fisheries project.

Service Districts – Clatsop County 4H & Extension Special Service District

- OSU notified the district that they would fund the AmeriCorps Hope Volunteer position that was budgeted in the Districts proposed budget for \$5,200. The Adopted budget was revised to move the \$5,200 from Other Charges to Personnel Services, extra help (82-1932) to support the office if the need arises. The total expenditures in this budget will remain unchanged.

Respectfully Submitted,



Nicole Williams
Budget Officer
Interim County Manager



COUNTY MANAGER'S OFFICE

MEMORANDUM

To: Budget Committee

From: Duane Cole, County Manager

Date: April 2012

Subject: Room Tax Revenues Dedicated to Emergency Preparedness

Summary

The Memorandum addresses the following issue: **an analysis to present to the Board and Budget Committee of the geographic source of this revenue and conduct an evaluation on whether these funds should be used to pay for emergency preparedness in specific areas in the County.** The information presented in this Memorandum can be summarized as follows:

- The Arch Cape area generates 84% of the County Room Tax revenue with average revenue of about \$140,000 per year over the last 3 years. Shifting this revenue to other uses would require reducing the budget in other areas.
- The Arch Cape area receives some extraordinary or additional services from the County in the amount of about \$16,500 per year. It costs about \$14,100 per year to bill and collect the Room Tax. The total of extraordinary and administration is about \$30,600.
- Emergency service identified four initial projects that cost a total of \$141,050 in Arch Cape. These projects would require on-going maintenance to be provided by the County. Emergency Services and the Room Tax funds could be used for on-going support.
- It is legal to redirect these funds as out-lined in this Memorandum, but this may require Board action.
- Reductions are difficult to quantify, but \$140,000 equals about 2 full time positions. An incremental reduction of Room Tax as a discretionary revenue could be considered.
- Staff is careful to provide services to the whole County and discussing the assignment of specific funds to each Board District may create service delivery issues.
- The assignment of the Room Tax as a discretionary revenue can be changed by the Board. Long Term Financial Plan categorization of the Room Tax as a discretionary revenue can be reconsidered by the Board.
- Incorporation is an option for Arch Cape. Preliminarily, and assuming the difficult process and politics could be resolved, incorporation of the community would generate funds that could increase services for an urban area of the County.

Based on this information the Board has several policy choices regarding the use of the discretionary Room Tax revenue.

- Allocate the Room Tax collected in Arch Cape to that area for services including emergency preparedness. This would have serious implications for the budget and require additional adjustments likely including lay-offs or at least reassignment of current staff to specific duties related to Arch Cape.
- Allocate the Room Tax collected in Arch Cape to that area over the coming 4 or 5 years. This would ease the shock to the County budget and provide time for the loss in revenue to be absorbed by the larger corporation.
- Do nothing at this time with the Room Tax.
- Determine that incorporation would be a better outcome for Arch Cape and begin working with the community to see that a new City is formed in the County. This would provide funds for Arch Cape services as the next Oregon City. This might be coupled with the slow dedication of room tax funds over time to provide funds to assist with incorporation.
- Determine whether the categorization of Room Taxes in the Long Range Financial Plan is correct and decide whether they should be moved from discretionary funds to nondiscretionary funds. Once this decision is completed the County staff could build these funds into the budget as nondiscretionary and reduce services in some areas while increasing services in Arch Cape.

The staff is willing to proceed based on these or other options the Board may wish to pursue.

Introduction

The Board of County Commissioners at their January 25, 2012 Board meeting adopted the following task for staff to complete and present with the annual budget. This Memorandum serves to comply with the Board's Request.

XII. DISCRETIONARY RESOURCES

- B. Room Tax Revenues: Room tax monies are not legally dedicated to fund particular programs or services. Staff shall do an analysis to present to the Board and Budget Committee of the geographic source of this revenue and conduct an evaluation on whether these funds should be used to pay for emergency preparedness in specific areas in the County.**

Room Tax revenue are considered discretionary revenues by the County. This means that the revenue is placed in the General Fund to pay for services for the whole County. The Budget Policies provide the following:

“Wherever legally possible, revenues are to be treated as discretionary resources, rather than as dedicated to a particular program or service. The goal is to give the Board as much flexibility as possible in allocating resources to local priorities.”

The Room Tax is primarily generated in the County’s jurisdiction (this Memorandum does not include City Room Tax revenue since those revenues belong to the cities) with 84% coming specifically from the Arch Cape and Falcon Cove rural residential communities. This Memorandum focuses on those communities and while the Memorandum refers to Arch Cape, Falcon Cove is intended to be included in all respects in the references to Arch Cape. (See Attached Map)

Room Tax Revenues

Table 1 outlines the source and revenue from Arch Cape and the balance of the County.

Table 1
Room Tax Collected
2009, 2010, 2011

| Quarter | Arch | Other | Total | Percent |
|-----------------------|-------------------|------------------|-------------------|-----------------------|
| <u>Ending</u> | <u>Cape</u> | <u>Areas</u> | <u>Collected</u> | <u>From Arch Cape</u> |
| 3/31/2009 | 11,096.41 | 3,255.52 | 14,351.93 | 77.32% |
| 6/30/2009 | 23,787.17 | 4,870.11 | 28,657.28 | 83.01% |
| 9/30/2009 | 72,087.79 | 16,270.05 | 88,357.84 | 81.59% |
| <u>12/31/2009</u> | <u>19,346.94</u> | <u>3,400.06</u> | <u>22,747.00</u> | <u>85.05%</u> |
| Total | 126,318.31 | 27,795.74 | 154,114.05 | 81.96% |
| 3/31/2010 | 15,626.90 | 2,574.45 | 18,201.35 | 85.86% |
| 6/30/2010 | 30,308.55 | 5,295.36 | 35,603.91 | 85.13% |
| 9/30/2010 | 69,951.54 | 15,368.07 | 85,319.61 | 81.99% |
| <u>12/31/2010</u> | <u>20,225.28</u> | <u>3,371.61</u> | <u>23,596.89</u> | <u>85.71%</u> |
| Total | 136,112.27 | 26,609.49 | 162,721.76 | 83.65% |
| 3/31/2011 | 20,738.20 | 3,234.83 | 23,973.03 | 86.51% |
| 6/30/2011 | 30,284.08 | 5,083.11 | 35,367.19 | 85.63% |
| 9/30/2011 | 71,733.05 | 11,211.69 | 82,944.74 | 86.48% |
| <u>12/31/2011</u> | <u>35,815.60</u> | <u>3,268.56</u> | <u>39,084.16</u> | <u>91.64%</u> |
| Total | 158,570.93 | 22,798.19 | 181,369.12 | 87.43% |
| 3 Year Average | 140,333.84 | 25,734.47 | 166,068.31 | 84% |

Table 1 represents that the County collects an average over the last three years of \$166,000 per year from all areas of the County. The Arch Cape area provides about 84% of the funds or \$140,000 per year with a low in 2009 of \$126,000 and a high in 2011 of \$159,000. The other areas of the County provide about \$26,000 per year. Arch Cape provides 84% of the Room Tax

collected by the County. This revenue is generated from about 65 vacation rentals out of a total of 387 tax lots with residential improvements. The vacation rentals offer space for 657 additional residents if all spaces are filled. The residential population in 2010 of Arch Cape, including Falcon Cove, was 183 residents and there are currently 144 registered voters in the area. (See attached map.)

In order to shift this income to other services including services specific to the Arch Cape community, the County would need to either increase revenues or reduce services in other areas of the budget. The budget assumption included direction to consider shifting these revenues to emergency services for services related specifically to the areas from which the Room Tax was collected.

Emergency Services

The Emergency Services Director, Dean Perez, was tasked with providing a budget request that would be useful during the 2012-13 fiscal year. The EMS team identified four project areas that are described as follows:

Project 1: Coastal Warning Sirens. In order to enhance warning residents and visitors to evacuate beach areas in the event of a distant tsunami or hazardous material event, the plan is to install four (4) all hazard sound and voice emergency notification systems (obtained from the Chemical Stockpile Emergency Preparedness Program) from the Tillamook County line to the Cannon Beach city limits. The sirens would be linked into Cannon Beach's existing warning siren network which is operated and maintained by the Cannon Beach Fire Department. The estimated cost to permit, transport, install and program the sirens is approximately \$25,750. This project would take approximately 60 days complete.

Project 2: Two 40 KW Diesel Generator Sets with fuel tanks. In the event of a power outage, these Generator Sets would provide emergency backup power to the unincorporated areas of Arch Cape and Falcon Cove. In consultation with community leaders, the generators would be placed near high ground assembly areas for Arch Cape and Falcon Cove residents and visitors. The estimated cost to purchase, permit, and enclose both Generator Sets is approximately \$40,800.

Project 3: Four (4) 40 - foot storage containers. Similar to the City of Cannon Beach's storage container program, the plan would be to pre-position four storage containers on the high ground assembly areas for Arch Cape and Falcon Cove residents. In the event of a near or distant tsunami, residents would have access to food, water, and medical equipment that could sustain them for up to one week maybe longer. One 40 foot container can hold personal emergency kits, blankets, food and equipment for approximately 100 people. The estimated cost to purchase, permit, and drop ship four containers would be approximately \$22,000.

Project 4: 10 Emergency Shelter Modular Tents. The plan is to pre-position Emergency Shelter Modular tents in each of the four storage containers located on the high ground assembly areas. In the event of a near or distant tsunami, residents and visitors would have access to temporary shelter. When properly deployed, these modular tents provide extended protection from the cold,

wind and rain and protect against hypothermia. The estimated cost to purchase, ship and store ten Emergency Shelter Modular tents is approximately \$52,500.

Table 2 identifies the cost of each of these projects. The projects would provide capital assets that the County would need to maintain over time. No on-going operational costs were identified after the first year, but staff would need to be paid for and dedicated to assure that all of the equipment is in proper working condition and the items in storage remain fresh and serviceable.

Table 2
Arch Cape
Proposed Projects 2012-13

| | | | |
|----|---|-----------|-------------------|
| 1. | Coastal Warning Sirens | | |
| | · Transportation and Installation of Power Poles | \$ | 8,000.00 |
| | · Permits | \$ | 1,500.00 |
| | · Installation of 4 Poles, Sirens and Programming (labor) | \$ | 16,250.00 |
| | Total: | \$ | 25,750.00 |
| 2. | 2 -40KW Generator Sets @ \$12,000 per Generator Set X 2 | \$ | 24,000.00 |
| | · 250 Gallon Fuel Tank | \$ | 3,600.00 |
| | · Enclosures | \$ | 1,100.00 |
| | · Switch Gear | \$ | 3,000.00 |
| | · Control Panels | \$ | 3,600.00 |
| | · Permits | \$ | 1,000.00 |
| | · Electrician, cable and materials, Labor | \$ | 3,000.00 |
| | · Drop Shipping | \$ | 1,500.00 |
| | Total: | \$ | 40,800.00 |
| 3. | 4- 40 foot Storage Containers @ \$5,500.00 per Container X 4 | \$ | 22,000.00 |
| | · Price includes Drop Shipping | \$ | - |
| | Total: | \$ | 22,000.00 |
| 4. | 10 - Emergency Shelter Modular Tents @ \$5,000.00 per Tent X 10 | \$ | 50,000.00 |
| | Note: Each Tent Shelters 50 people | | |
| | · Drop Shipping | \$ | 2,500.00 |
| | Total: | \$ | 52,500.00 |
| | Grand Total | | |
| | Cost: | \$ | 141,050.00 |

In the years to come the \$140,000 could be used to pay for maintenance and supplement the existing items. In addition, the community might identify additional County services or projects designed to assist the community. For example, a volunteer coordinator working with residents may be one investment that could be useful.

Legal Framework

Is there any legal impediment to changing the Clatsop County Transient Room Tax Ordinance No. 90-7 (as amended by Ordinance No. 04-02) to which short term rentals are subject to pursuant to Ordinance 03-13?

The allocation of a portion of funds collected to a special fund for use in the specific geographic area from which the funds were derived is allowed. This would take some detailed drafting and require a number of decisions by the Board, but it could be done. There is no legal prohibition on doing so.

The board would need to decide what the fund would be used for, with some specificity. The Board would also need to decide how the funds would be applied geographically to the various collection points throughout the County. While most funds are collected from the Arch Cape area, funds are also collected from Westport, the Elderberry Inn, and the Clatsop Plains. The needs in one area may be very different from the needs in another. There also should be some thought given to the precedent created in dedicating funds geographically, for other funding streams (this is considered elsewhere in this Memorandum).

A decision like this may be impacted by ORS 320.350. This statute (Attached to this Memorandum) grandfathers all room tax ordinances in existence on July 1, 2003. Any new ordinances, or increases after that date, must be allocated at least 70% to tourism promotion or tourism-related activities. Since an amendment to allocate the use of the funds from a specific geographical area back to that area is not expected to increase the tax rate, the County will not fall under the statutory requirements of ORS 320.350.

Creation of a new fund does have costs for administration and statutory audits. The County has determined, and its indirect cost allocation plan provides, that the cost to the County of managing each separate fund is 10% of the value of that fund. If all room tax receipts were allocated to dedicated fund, the additional cost to the County would be approximately \$16,600 based on the three year revenue average. Once in a special fund established by ordinance, the funds could not be used for any other purpose without both amending the ordinance and adjusting the budget.

Use of these funds for the purpose outlined the protection of property, lives and providing a place for residents and visitors to safely assemble pending or after a natural disaster, appears to be a use of Room Tax funds consistent with the law establishing the County authority to impose a Room Tax. Additionally, after the investment in Arch Cape is completed Emergency Services could use the funds elsewhere on the Clatsop Coast to address Emergency Services projects.

Reductions

The reductions needed to replace the \$141,050 loss in General Fund resources is difficult to specifically identify. The amount equals a little more than one percent of the General Fund and in those terms it does not seem like a large amount. In the limited proposed 2012-13 fiscal year budget however this reduction would equal about two positions including the materials and services to support those positions. Rather than the shock to the budget of a reduction of this amount all at once, perhaps a first step would be to fund the coastal warning sirens project this year. Then in the ensuing years the current years' project and the next year's project would be funded until the \$141,050 is dedicated to Arch Cape. Table 3 depicts the financial impacts of this scenario.

Table 3
Incremental Reduction of Room Tax

| <u>Project</u> | <u>Year 1</u> | <u>Year 2</u> | <u>Year 3</u> | <u>Year 4</u> |
|------------------------------|---------------|---------------|---------------|------------------|
| Coastal Warning Sirens | \$ 25,750 | | | |
| 2 - 40KW Generator Sets | | \$ 40,800 | | |
| 4 - 40 foot Storage | | | \$ 22,000 | |
| <u>10 Emergency Shelters</u> | | | | <u>\$ 52,500</u> |
| Total Support - Arch Cape | \$ 25,750 | \$ 66,550 | \$ 88,550 | \$ 141,050 |

Fairness of Services

Arch Cape is a rural residential area located in Clatsop County. The County keeps track of some of the services provided to the Arch Cape area since the question of County service levels in this particular rural residential area has been raised in the past. The County's policy is to provide equitable services to all County residents regardless of location while recognizing that certain locations require additional attention in the short-term.

Sheriff's Office Law Enforcement Services

The areas of the County not within cities pay a law enforcement levy. These funds are generated to provide rural law enforcement services. While the General Fund Room Tax discretionary revenue supports the Sheriff's Office, the majority of the support for these services comes from the rural law enforcement levy. Based on a review by the County staff the Arch Cape area receives about \$8,000 per year in services that are not provided to other areas of the County by the Sheriff's Office.

The Sheriff's Office divides the County into several service zones. Arch Cape is in Zone 3 and the Arch Cape area makes up a relatively small portion of the Zone 3 district (which encompasses from the north Seaside City Limit to the County Line on Hwy 101 and out Hwy 26

to Milepost 11). Unlike other zones (even those with resident deputies) the Arch Cape area has a .2 Full Time Equivalent (FTE) deputy assigned to the area. The call volume is low in the area.

In order to be comparable to other areas of the County, the Sheriff's Office would have to provide a deputy specifically assigned to the Westport community instead of the current practice of having services provided by the Zone 1 deputy who also serves all of the communities in Zone 1 including: Clifton/Bradwood, Knappa, Svensen, Brownsmead, Burnside and John Day. For Arch Cape to be treated similar to the other communities in the county would mean they would only receive services from the deputy assigned to the Zone, not the additional .2 FTE deputy specifically assigned to their community.

The Arch Cape area also receives General Fund support in the form of search and rescue, civil service, the jail, the work crew and mandatory investigations (i.e. child abuse, death investigations) no different than any other area in the county.

Emergency Preparedness

The focus of emergency preparedness has been along the coast due to the potential destructive force of a subduction zone earthquake followed by a tidal wave. Through an interview with the Emergency Services Director no inordinate service levels were identified for the Arch Cape area. It is true that services have been more focused in the community this year than in the past, but he thought this was a short-term occurrence related to increased community interest. In addition, there were some issues that needed to be resolved and a willingness by Cannon Beach Rural Fire Protection District to assist the rural area. These short-term projects would not be considered extraordinary since similar services are offered anywhere in the County.

Southwest Coastal Citizen Advisory Committee

The County Comprehensive plan identified citizen involvement groups to represent the rural residential communities located in Clatsop County. These groups were active during the development of the comprehensive plan and then with the planning mission accomplished, most are no longer active. The Southwest Coastal Citizen Advisory Committee served as the Arch Cape comprehensive planning committee, but actually was formed many years ago to provide advice and monitor development in the Arch Cape community. They are the only citizen advisory committee provided specific duties in the Land and Water Development Code that in general includes design review and recommendations to the Director. The County staff's the committee.

Table 4 below outlines the formula used to calculate the costs of providing support for the Southwest Coastal Citizens Advisory Committee and code enforcement services to Arch Cape during the 2011-12 fiscal year.

Table 4
Community Development Services
General Planning and Code Enforcement Support

| | | |
|------------------------|--------------|-------------|
| Personnel | | \$ 352,200 |
| Materials and Services | \$ 372,200 | |
| Contractual | \$ (216,000) | |
| Bradwood | \$ (10,000) | |
| OR -LNG | \$ (115,000) | |
| Subtotal | | \$ 31,200 |
| Total | | \$ 383,400 |
| Full time equivalent | 3.30 | |
| Hours per year | 2,080.00 | |
| Total Department Hours | | 6,864 |
| Per Hour Cost | | \$ 55.86 |
| Hours Spent Arch Cape | | 149 |
| Total Cost | | \$ 8,322.64 |

Code Enforcement

County staff provides code enforcement services and has been involved in discussions with community members regarding the County code, the role of County in enforcement actions, property boundaries, and other neighborhood disputes. Staff indicates there seem to be more phone calls and requests for services from Arch Cape than other areas of the County.

Overhead

The County incurs costs for the billing, collection, and research to identify vacation rentals that have not signed up to pay the Room Tax. While specific hours are not identified by the staff in general the County overhead rate is 10% and County staff believes it is reasonable to estimate the time and materials dedicated to the maintenance of the Room Tax for Arch Cape at \$14,100 average per year based on the prior three years of collections.

County-wide Service Balance

The Room Tax may provide an issue to discuss an important County policy - providing equal services to all County residents. On the one hand it does seem unfair that the residents of Arch Cape tolerate an increase in population from 183 residents to more than 600 on holiday weekends and during the summer, and receive very little extraordinary service from the Room Tax revenues that these visitors generate. On the other hand it could also be argued that Wauna Mill pays about 7% of the County's property taxes (this is approximately \$500,000 of the County's General Fund revenue) and the rural residential community of Westport receives very little extraordinary service from the property tax revenues generated by Wauna Mill.

The discussion of services based on revenues generated from specific geographic areas, might develop into identifying the taxes generated and the services that should be provided in each District. This would lead to a study of matching services to revenues by area to financial management and providing services to five mini-counties.

Summary

Arch Cape uses County Community Development services in the amount of \$8,322.64 more than would be anticipated or expected in other parts of the County. Rural law enforcement and emergency preparedness identified \$8,000 in additional support in the form of a .2 FTE. Based on the cost of overhead of \$14,100, the Community Development services of \$8,322.64, and \$8,000 for Sheriff's Office services, the total cost of services identified is \$30,422.64. Of this amount \$16,322.64 would be considered extraordinary services.

The County Board is elected from districts and each Commissioner has the focus of the voters who elected them, the geographic area of the district, and the whole County. General County issues are the subject to the goodwill framed as a focus of the Board to serve the whole County. The County staff is committed to providing equal services for all County residents.

Long Term Financial Plan Categories

Table 1 indicates that during the past three years there has been significant growth in Room Tax revenue from the Arch Cape community and the balance of the County. Part of this may be more efficient collection by the Assessment and Taxation staff, part of it may be the down-turn in the economy in 2008 that placed more housing in the short-term rental market, part of it may be an increase in the rents being charged, and part of it could be more people electing to have a stay near home vacation thereby increasing the demand. The increase in revenue also suggests greater impacts on the Arch Cape community assuming occupancy has been higher.

The Board could change the policy and determine that the Room Tax is not county-wide discretionary revenue. Room Taxes are generated by tourist activity that brings with them a whole set of problems. Noise, crowding, traffic, are impacts that may or may not be present from other uses. Possibly the Room Tax should be considered a nondiscretionary revenue in the Long Term Financial Plan.

The Long Term Financial Plan was provided to the County on September 13, 2004. The Board may want to revisit the plan and categorize the Room Tax as nondiscretionary revenue and dedicate the Room Tax to certain purposes.

Incorporation

When the County Comprehensive Plan was developed Arch Cape was one of the areas that allowed for a more urbanized development form while remaining in the County. Under the land use planning scheme, areas like Arch Cape will eventually either incorporate or be annexed into a contiguous city in the future. Arch Cape is not contiguous to another City in the County. The concept of incorporation of Arch Cape is an additional way to capture the Room Tax revenues

for use in the Arch Cape area, although incorporation is not an easy process. The authority to incorporate is included in the Oregon Revise Statutes.

“ORS 221.020 Authority to incorporate. The people of an area, no part of which lies in an incorporated city and in which 150 persons reside, may incorporate a city by approving at an election called and held according to ORS 221.031 to 221.061 a proposition provided by those sections for incorporating the city.”

The Arch Cape area has 183 residents (See the Map Attached) and according to the 2010 census this is more than enough to incorporate albeit not without some challenges. There may be some zoning to change, since property must be in certain zones prior to incorporation, to be resolved with the assistance of County Community Development Department. Petitions would need to be collected and an election held. A study of resources and expenses completed and other requirements met. A property tax base would need to be secured and a City Council elected. The community may want to request that the County assist them with preparing the Arch Cape area for incorporation.

The Arch Cape area also has 144 registered voters and with children and unregistered adults it is likely that the small community would meet the minimum of 150 persons required to consider an annexation vote.

A very preliminary financial evaluation based on the assessed value of the Arch Cape Domestic Water District and the Falcon Cove Beach Water District suggests a minimum annual revenue stream of about \$360,000 per year with no increase in the current tax rate paid by residents. A breakdown of the calculations follows in Table 5.

Table 5
Arch Cape/Falcon Cove
City Incorporation Preliminary Revenues

| | Gross | 70 Percent for Tourism | NET |
|--------------------------------------|----------------------|---------------------------|----------------------|
| Arch Cape Water Dist. Assessed Value | \$ 105,363,019 | | \$ 105,363,019 |
| Fal Co Beach Water Dist A. V. | <u>\$ 19,241,116</u> | | <u>\$ 19,241,116</u> |
| Total Assessed Value | \$ 124,604,135 | | \$ 124,604,135 |
| | | | |
| Rural Law Enforcement Tax Rate | \$ 0.7195 | | \$ 0.7195 |
| <u>Road District #1 Tax Rate</u> | <u>\$ 1.0175</u> | | <u>\$ 1.0175</u> |
| Possible City Tax Rate | \$ 1.7370 | | \$ 1.7370 |
| | | | |
| Total Value in Thousands | \$ 124,604.135 | | \$ 124,604.135 |
| Potential City Property Taxes | \$ 216,437.38 | | \$ 216,437.38 |
| <u>Room Tax - 3 year Average</u> | <u>\$ 141,050.00</u> | <u>\$ 98,735.00</u> | <u>\$ 42,315.00</u> |
| Est. Rev. - No Change in Tax Rate | \$ 357,487.38 | | \$ 258,752.38 |

The law would require that 70% of the Room Taxes adopted by the new city be dedicated to tourism promotion activities (See Page 14, (6) for the reference to State Law. This amount is almost \$100,000 per year and would leave a balance of about \$260,000 in revenue to operate the new City.

The assumption is that the City Property Tax rate would equal the amount currently collected for Rural Law District and Road District #1. There would be additional revenue from the State in the form of liquor, cigarettes, and gas taxes that is not shown in this illustration. A Municipal Court might do well in Arch Cape through the generation of revenue based on traffic violations along Highway 101. The new Arch Cape City Council would need to adopt the Room Tax since the County would no longer have the authority to collect the Room Tax within the new Arch Cape City Limits.

Of course there would be requirements for a small city including an annual audit, periodic election of a City Council and commensurate election costs, meeting agendas and general administration. This may cost up to \$100,000 per year depending on the availability of an individual to work part-time. The balance of the funds would be dedicated to basic services including law enforcement, land use planning, street repair and maintenance, and other general municipal services including emergency management. The services could be secured either by hiring staff or contracting with nearby cities or the County.

Attachments:

Oregon Revised Statutes 320 – Room Tax or Lodging Tax
Map of Arch Cape
Arch Cape Emergency Preparedness Project Recommendations
List of Arch Cape Short-Term Rentals
Room Tax Collected

Oregon Revised Statutes
Room or Lodging Tax

320.350 Tax moratorium; exceptions; uses of revenues. (1) A unit of local government that did not impose a local transient lodging tax on July 1, 2003, may not impose a local transient lodging tax on or after July 2, 2003, unless the imposition of the local transient lodging tax was approved on or before July 1, 2003.

(2) A unit of local government that imposed a local transient lodging tax on July 1, 2003, may not increase the rate of the local transient lodging tax on or after July 2, 2003, to a rate that is greater than the rate in effect on July 1, 2003, unless the increase was approved on or before July 1, 2003.

(3) A unit of local government that imposed a local transient lodging tax on July 1, 2003, may not decrease the percentage of total local transient lodging tax revenues that are actually expended to fund tourism promotion or tourism-related facilities on or after July 2, 2003. A unit of local government that agreed, on or before July 1, 2003, to increase the percentage of total local transient lodging tax revenues that are to be expended to fund tourism promotion or tourism-related facilities, must increase the percentage as agreed.

(4) Notwithstanding subsections (1) and (2) of this section, a unit of local government that is financing debt with local transient lodging tax revenues on November 26, 2003, must continue to finance the debt until the retirement of the debt, including any refinancing of that debt. If the tax is not otherwise permitted under subsection (1) or (2) of this section, at the time of the debt retirement:

(a) The local transient lodging tax revenue that financed the debt shall be used as provided in subsection (5) of this section; or

(b) The unit of local government shall thereafter eliminate the new tax or increase in tax otherwise described in subsection (1) or (2) of this section.

(5) Subsections (1) and (2) of this section do not apply to a new or increased local transient lodging tax if all of the net revenue from the new or increased tax, following reductions attributed to collection reimbursement charges, is used consistently with subsection (6) of this section to:

(a) Fund tourism promotion or tourism-related facilities;

(b) Fund city or county services; or

(c) Finance or refinance the debt of tourism-related facilities and pay reasonable administrative costs incurred in financing or refinancing that debt, provided that:

(A) The net revenue may be used for administrative costs only if the unit of local government provides a collection reimbursement charge; and

(B) Upon retirement of the debt, the unit of local government reduces the tax by the amount by which the tax was increased to finance or refinance the debt.

(6) At least 70 percent of net revenue from a new or increased local transient lodging tax shall be used for the purposes described in subsection (5)(a) or (c) of this section. No more than 30 percent of net revenue from a new or increased local transient lodging tax may be used for the purpose described in subsection (5)(b) of this section. [2003 c.818 §11]



COUNTY MANAGER'S OFFICE

MEMORANDUM

To: Budget Committee

From: Duane Cole, County Manager

Date: April 2012

Subject: Room Tax Revenues Dedicated to Emergency Preparedness

Summary

The Memorandum addresses the following issue: **an analysis to present to the Board and Budget Committee of the geographic source of this revenue and conduct an evaluation on whether these funds should be used to pay for emergency preparedness in specific areas in the County.** The information presented in this Memorandum can be summarized as follows:

- The Arch Cape area generates 84% of the County Room Tax revenue with average revenue of about \$140,000 per year over the last 3 years. Shifting this revenue to other uses would require reducing the budget in other areas.
- The Arch Cape area receives some extraordinary or additional services from the County in the amount of about \$16,500 per year. It costs about \$14,100 per year to bill and collect the Room Tax. The total of extraordinary and administration is about \$30,600.
- Emergency service identified four initial projects that cost a total of \$141,050 in Arch Cape. These projects would require on-going maintenance to be provided by the County. Emergency Services and the Room Tax funds could be used for on-going support.
- It is legal to redirect these funds as out-lined in this Memorandum, but this may require Board action.
- Reductions are difficult to quantify, but \$140,000 equals about 2 full time positions. An incremental reduction of Room Tax as a discretionary revenue could be considered.
- Staff is careful to provide services to the whole County and discussing the assignment of specific funds to each Board District may create service delivery issues.
- The assignment of the Room Tax as a discretionary revenue can be changed by the Board. Long Term Financial Plan categorization of the Room Tax as a discretionary revenue can be reconsidered by the Board.
- Incorporation is an option for Arch Cape. Preliminarily, and assuming the difficult process and politics could be resolved, incorporation of the community would generate funds that could increase services for an urban area of the County.

Based on this information the Board has several policy choices regarding the use of the discretionary Room Tax revenue.

- Allocate the Room Tax collected in Arch Cape to that area for services including emergency preparedness. This would have serious implications for the budget and require additional adjustments likely including lay-offs or at least reassignment of current staff to specific duties related to Arch Cape.
- Allocate the Room Tax collected in Arch Cape to that area over the coming 4 or 5 years. This would ease the shock to the County budget and provide time for the loss in revenue to be absorbed by the larger corporation.
- Do nothing at this time with the Room Tax.
- Determine that incorporation would be a better outcome for Arch Cape and begin working with the community to see that a new City is formed in the County. This would provide funds for Arch Cape services as the next Oregon City. This might be coupled with the slow dedication of room tax funds over time to provide funds to assist with incorporation.
- Determine whether the categorization of Room Taxes in the Long Range Financial Plan is correct and decide whether they should be moved from discretionary funds to nondiscretionary funds. Once this decision is completed the County staff could build these funds into the budget as nondiscretionary and reduce services in some areas while increasing services in Arch Cape.

The staff is willing to proceed based on these or other options the Board may wish to pursue.

Introduction

The Board of County Commissioners at their January 25, 2012 Board meeting adopted the following task for staff to complete and present with the annual budget. This Memorandum serves to comply with the Board's Request.

XII. DISCRETIONARY RESOURCES

- B. Room Tax Revenues: Room tax monies are not legally dedicated to fund particular programs or services. Staff shall do an analysis to present to the Board and Budget Committee of the geographic source of this revenue and conduct an evaluation on whether these funds should be used to pay for emergency preparedness in specific areas in the County.**

Room Tax revenue are considered discretionary revenues by the County. This means that the revenue is placed in the General Fund to pay for services for the whole County. The Budget Policies provide the following:

“Wherever legally possible, revenues are to be treated as discretionary resources, rather than as dedicated to a particular program or service. The goal is to give the Board as much flexibility as possible in allocating resources to local priorities.”

The Room Tax is primarily generated in the County’s jurisdiction (this Memorandum does not include City Room Tax revenue since those revenues belong to the cities) with 84% coming specifically from the Arch Cape and Falcon Cove rural residential communities. This Memorandum focuses on those communities and while the Memorandum refers to Arch Cape, Falcon Cove is intended to be included in all respects in the references to Arch Cape. (See Attached Map)

Room Tax Revenues

Table 1 outlines the source and revenue from Arch Cape and the balance of the County.

Table 1
Room Tax Collected
2009, 2010, 2011

| Quarter | Arch | Other | Total | Percent |
|-----------------------|-------------------|------------------|-------------------|-----------------------|
| <u>Ending</u> | <u>Cape</u> | <u>Areas</u> | <u>Collected</u> | <u>From Arch Cape</u> |
| 3/31/2009 | 11,096.41 | 3,255.52 | 14,351.93 | 77.32% |
| 6/30/2009 | 23,787.17 | 4,870.11 | 28,657.28 | 83.01% |
| 9/30/2009 | 72,087.79 | 16,270.05 | 88,357.84 | 81.59% |
| <u>12/31/2009</u> | <u>19,346.94</u> | <u>3,400.06</u> | <u>22,747.00</u> | <u>85.05%</u> |
| Total | 126,318.31 | 27,795.74 | 154,114.05 | 81.96% |
| 3/31/2010 | 15,626.90 | 2,574.45 | 18,201.35 | 85.86% |
| 6/30/2010 | 30,308.55 | 5,295.36 | 35,603.91 | 85.13% |
| 9/30/2010 | 69,951.54 | 15,368.07 | 85,319.61 | 81.99% |
| <u>12/31/2010</u> | <u>20,225.28</u> | <u>3,371.61</u> | <u>23,596.89</u> | <u>85.71%</u> |
| Total | 136,112.27 | 26,609.49 | 162,721.76 | 83.65% |
| 3/31/2011 | 20,738.20 | 3,234.83 | 23,973.03 | 86.51% |
| 6/30/2011 | 30,284.08 | 5,083.11 | 35,367.19 | 85.63% |
| 9/30/2011 | 71,733.05 | 11,211.69 | 82,944.74 | 86.48% |
| <u>12/31/2011</u> | <u>35,815.60</u> | <u>3,268.56</u> | <u>39,084.16</u> | <u>91.64%</u> |
| Total | 158,570.93 | 22,798.19 | 181,369.12 | 87.43% |
| 3 Year Average | 140,333.84 | 25,734.47 | 166,068.31 | 84% |

Table 1 represents that the County collects an average over the last three years of \$166,000 per year from all areas of the County. The Arch Cape area provides about 84% of the funds or \$140,000 per year with a low in 2009 of \$126,000 and a high in 2011 of \$159,000. The other areas of the County provide about \$26,000 per year. Arch Cape provides 84% of the Room Tax

collected by the County. This revenue is generated from about 65 vacation rentals out of a total of 387 tax lots with residential improvements. The vacation rentals offer space for 657 additional residents if all spaces are filled. The residential population in 2010 of Arch Cape, including Falcon Cove, was 183 residents and there are currently 144 registered voters in the area. (See attached map.)

In order to shift this income to other services including services specific to the Arch Cape community, the County would need to either increase revenues or reduce services in other areas of the budget. The budget assumption included direction to consider shifting these revenues to emergency services for services related specifically to the areas from which the Room Tax was collected.

Emergency Services

The Emergency Services Director, Dean Perez, was tasked with providing a budget request that would be useful during the 2012-13 fiscal year. The EMS team identified four project areas that are described as follows:

Project 1: Coastal Warning Sirens. In order to enhance warning residents and visitors to evacuate beach areas in the event of a distant tsunami or hazardous material event, the plan is to install four (4) all hazard sound and voice emergency notification systems (obtained from the Chemical Stockpile Emergency Preparedness Program) from the Tillamook County line to the Cannon Beach city limits. The sirens would be linked into Cannon Beach's existing warning siren network which is operated and maintained by the Cannon Beach Fire Department. The estimated cost to permit, transport, install and program the sirens is approximately \$25,750. This project would take approximately 60 days complete.

Project 2: Two 40 KW Diesel Generator Sets with fuel tanks. In the event of a power outage, these Generator Sets would provide emergency backup power to the unincorporated areas of Arch Cape and Falcon Cove. In consultation with community leaders, the generators would be placed near high ground assembly areas for Arch Cape and Falcon Cove residents and visitors. The estimated cost to purchase, permit, and enclose both Generator Sets is approximately \$40,800.

Project 3: Four (4) 40 - foot storage containers. Similar to the City of Cannon Beach's storage container program, the plan would be to pre-position four storage containers on the high ground assembly areas for Arch Cape and Falcon Cove residents. In the event of a near or distant tsunami, residents would have access to food, water, and medical equipment that could sustain them for up to one week maybe longer. One 40 foot container can hold personal emergency kits, blankets, food and equipment for approximately 100 people. The estimated cost to purchase, permit, and drop ship four containers would be approximately \$22,000.

Project 4: 10 Emergency Shelter Modular Tents. The plan is to pre-position Emergency Shelter Modular tents in each of the four storage containers located on the high ground assembly areas. In the event of a near or distant tsunami, residents and visitors would have access to temporary shelter. When properly deployed, these modular tents provide extended protection from the cold,

wind and rain and protect against hypothermia. The estimated cost to purchase, ship and store ten Emergency Shelter Modular tents is approximately \$52,500.

Table 2 identifies the cost of each of these projects. The projects would provide capital assets that the County would need to maintain over time. No on-going operational costs were identified after the first year, but staff would need to be paid for and dedicated to assure that all of the equipment is in proper working condition and the items in storage remain fresh and serviceable.

Table 2
Arch Cape
Proposed Projects 2012-13

| | | | |
|----|---|-----------|-------------------|
| 1. | Coastal Warning Sirens | | |
| | · Transportation and Installation of Power Poles | \$ | 8,000.00 |
| | · Permits | \$ | 1,500.00 |
| | · Installation of 4 Poles, Sirens and Programming (labor) | \$ | 16,250.00 |
| | Total: | \$ | 25,750.00 |
| 2. | 2 -40KW Generator Sets @ \$12,000 per Generator Set X 2 | \$ | 24,000.00 |
| | · 250 Gallon Fuel Tank | \$ | 3,600.00 |
| | · Enclosures | \$ | 1,100.00 |
| | · Switch Gear | \$ | 3,000.00 |
| | · Control Panels | \$ | 3,600.00 |
| | · Permits | \$ | 1,000.00 |
| | · Electrician, cable and materials, Labor | \$ | 3,000.00 |
| | · Drop Shipping | \$ | 1,500.00 |
| | Total: | \$ | 40,800.00 |
| 3. | 4- 40 foot Storage Containers @ \$5,500.00 per Container X 4 | \$ | 22,000.00 |
| | · Price includes Drop Shipping | \$ | - |
| | Total: | \$ | 22,000.00 |
| 4. | 10 - Emergency Shelter Modular Tents @ \$5,000.00 per Tent X 10 | \$ | 50,000.00 |
| | Note: Each Tent Shelters 50 people | | |
| | · Drop Shipping | \$ | 2,500.00 |
| | Total: | \$ | 52,500.00 |
| | Grand Total | | |
| | Cost: | \$ | 141,050.00 |

In the years to come the \$140,000 could be used to pay for maintenance and supplement the existing items. In addition, the community might identify additional County services or projects designed to assist the community. For example, a volunteer coordinator working with residents may be one investment that could be useful.

Legal Framework

Is there any legal impediment to changing the Clatsop County Transient Room Tax Ordinance No. 90-7 (as amended by Ordinance No. 04-02) to which short term rentals are subject to pursuant to Ordinance 03-13?

The allocation of a portion of funds collected to a special fund for use in the specific geographic area from which the funds were derived is allowed. This would take some detailed drafting and require a number of decisions by the Board, but it could be done. There is no legal prohibition on doing so.

The board would need to decide what the fund would be used for, with some specificity. The Board would also need to decide how the funds would be applied geographically to the various collection points throughout the County. While most funds are collected from the Arch Cape area, funds are also collected from Westport, the Elderberry Inn, and the Clatsop Plains. The needs in one area may be very different from the needs in another. There also should be some thought given to the precedent created in dedicating funds geographically, for other funding streams (this is considered elsewhere in this Memorandum).

A decision like this may be impacted by ORS 320.350. This statute (Attached to this Memorandum) grandfathers all room tax ordinances in existence on July 1, 2003. Any new ordinances, or increases after that date, must be allocated at least 70% to tourism promotion or tourism-related activities. Since an amendment to allocate the use of the funds from a specific geographical area back to that area is not expected to increase the tax rate, the County will not fall under the statutory requirements of ORS 320.350.

Creation of a new fund does have costs for administration and statutory audits. The County has determined, and its indirect cost allocation plan provides, that the cost to the County of managing each separate fund is 10% of the value of that fund. If all room tax receipts were allocated to dedicated fund, the additional cost to the County would be approximately \$16,600 based on the three year revenue average. Once in a special fund established by ordinance, the funds could not be used for any other purpose without both amending the ordinance and adjusting the budget.

Use of these funds for the purpose outlined the protection of property, lives and providing a place for residents and visitors to safely assemble pending or after a natural disaster, appears to be a use of Room Tax funds consistent with the law establishing the County authority to impose a Room Tax. Additionally, after the investment in Arch Cape is completed Emergency Services could use the funds elsewhere on the Clatsop Coast to address Emergency Services projects.

Reductions

The reductions needed to replace the \$141,050 loss in General Fund resources is difficult to specifically identify. The amount equals a little more than one percent of the General Fund and in those terms it does not seem like a large amount. In the limited proposed 2012-13 fiscal year budget however this reduction would equal about two positions including the materials and services to support those positions. Rather than the shock to the budget of a reduction of this amount all at once, perhaps a first step would be to fund the coastal warning sirens project this year. Then in the ensuing years the current years' project and the next year's project would be funded until the \$141,050 is dedicated to Arch Cape. Table 3 depicts the financial impacts of this scenario.

Table 3
Incremental Reduction of Room Tax

| <u>Project</u> | <u>Year 1</u> | <u>Year 2</u> | <u>Year 3</u> | <u>Year 4</u> |
|------------------------------|---------------|---------------|---------------|------------------|
| Coastal Warning Sirens | \$ 25,750 | | | |
| 2 - 40KW Generator Sets | | \$ 40,800 | | |
| 4 - 40 foot Storage | | | \$ 22,000 | |
| <u>10 Emergency Shelters</u> | | | | <u>\$ 52,500</u> |
| Total Support - Arch Cape | \$ 25,750 | \$ 66,550 | \$ 88,550 | \$ 141,050 |

Fairness of Services

Arch Cape is a rural residential area located in Clatsop County. The County keeps track of some of the services provided to the Arch Cape area since the question of County service levels in this particular rural residential area has been raised in the past. The County's policy is to provide equitable services to all County residents regardless of location while recognizing that certain locations require additional attention in the short-term.

Sheriff's Office Law Enforcement Services

The areas of the County not within cities pay a law enforcement levy. These funds are generated to provide rural law enforcement services. While the General Fund Room Tax discretionary revenue supports the Sheriff's Office, the majority of the support for these services comes from the rural law enforcement levy. Based on a review by the County staff the Arch Cape area receives about \$8,000 per year in services that are not provided to other areas of the County by the Sheriff's Office.

The Sheriff's Office divides the County into several service zones. Arch Cape is in Zone 3 and the Arch Cape area makes up a relatively small portion of the Zone 3 district (which encompasses from the north Seaside City Limit to the County Line on Hwy 101 and out Hwy 26

to Milepost 11). Unlike other zones (even those with resident deputies) the Arch Cape area has a .2 Full Time Equivalent (FTE) deputy assigned to the area. The call volume is low in the area.

In order to be comparable to other areas of the County, the Sheriff's Office would have to provide a deputy specifically assigned to the Westport community instead of the current practice of having services provided by the Zone 1 deputy who also serves all of the communities in Zone 1 including: Clifton/Bradwood, Knappa, Svensen, Brownsmead, Burnside and John Day. For Arch Cape to be treated similar to the other communities in the county would mean they would only receive services from the deputy assigned to the Zone, not the additional .2 FTE deputy specifically assigned to their community.

The Arch Cape area also receives General Fund support in the form of search and rescue, civil service, the jail, the work crew and mandatory investigations (i.e. child abuse, death investigations) no different than any other area in the county.

Emergency Preparedness

The focus of emergency preparedness has been along the coast due to the potential destructive force of a subduction zone earthquake followed by a tidal wave. Through an interview with the Emergency Services Director no inordinate service levels were identified for the Arch Cape area. It is true that services have been more focused in the community this year than in the past, but he thought this was a short-term occurrence related to increased community interest. In addition, there were some issues that needed to be resolved and a willingness by Cannon Beach Rural Fire Protection District to assist the rural area. These short-term projects would not be considered extraordinary since similar services are offered anywhere in the County.

Southwest Coastal Citizen Advisory Committee

The County Comprehensive plan identified citizen involvement groups to represent the rural residential communities located in Clatsop County. These groups were active during the development of the comprehensive plan and then with the planning mission accomplished, most are no longer active. The Southwest Coastal Citizen Advisory Committee served as the Arch Cape comprehensive planning committee, but actually was formed many years ago to provide advice and monitor development in the Arch Cape community. They are the only citizen advisory committee provided specific duties in the Land and Water Development Code that in general includes design review and recommendations to the Director. The County staff's the committee.

Table 4 below outlines the formula used to calculate the costs of providing support for the Southwest Coastal Citizens Advisory Committee and code enforcement services to Arch Cape during the 2011-12 fiscal year.

Table 4
Community Development Services
General Planning and Code Enforcement Support

| | | |
|------------------------|--------------|-------------|
| Personnel | | \$ 352,200 |
| Materials and Services | \$ 372,200 | |
| Contractual | \$ (216,000) | |
| Bradwood | \$ (10,000) | |
| OR -LNG | \$ (115,000) | |
| Subtotal | | \$ 31,200 |
| Total | | \$ 383,400 |
| Full time equivalent | 3.30 | |
| Hours per year | 2,080.00 | |
| Total Department Hours | | 6,864 |
| Per Hour Cost | | \$ 55.86 |
| Hours Spent Arch Cape | | 149 |
| Total Cost | | \$ 8,322.64 |

Code Enforcement

County staff provides code enforcement services and has been involved in discussions with community members regarding the County code, the role of County in enforcement actions, property boundaries, and other neighborhood disputes. Staff indicates there seem to be more phone calls and requests for services from Arch Cape than other areas of the County.

Overhead

The County incurs costs for the billing, collection, and research to identify vacation rentals that have not signed up to pay the Room Tax. While specific hours are not identified by the staff in general the County overhead rate is 10% and County staff believes it is reasonable to estimate the time and materials dedicated to the maintenance of the Room Tax for Arch Cape at \$14,100 average per year based on the prior three years of collections.

County-wide Service Balance

The Room Tax may provide an issue to discuss an important County policy - providing equal services to all County residents. On the one hand it does seem unfair that the residents of Arch Cape tolerate an increase in population from 183 residents to more than 600 on holiday weekends and during the summer, and receive very little extraordinary service from the Room Tax revenues that these visitors generate. On the other hand it could also be argued that Wauna Mill pays about 7% of the County's property taxes (this is approximately \$500,000 of the County's General Fund revenue) and the rural residential community of Westport receives very little extraordinary service from the property tax revenues generated by Wauna Mill.

The discussion of services based on revenues generated from specific geographic areas, might develop into identifying the taxes generated and the services that should be provided in each District. This would lead to a study of matching services to revenues by area to financial management and providing services to five mini-counties.

Summary

Arch Cape uses County Community Development services in the amount of \$8,322.64 more than would be anticipated or expected in other parts of the County. Rural law enforcement and emergency preparedness identified \$8,000 in additional support in the form of a .2 FTE. Based on the cost of overhead of \$14,100, the Community Development services of \$8,322.64, and \$8,000 for Sheriff's Office services, the total cost of services identified is \$30,422.64. Of this amount \$16,322.64 would be considered extraordinary services.

The County Board is elected from districts and each Commissioner has the focus of the voters who elected them, the geographic area of the district, and the whole County. General County issues are the subject to the goodwill framed as a focus of the Board to serve the whole County. The County staff is committed to providing equal services for all County residents.

Long Term Financial Plan Categories

Table 1 indicates that during the past three years there has been significant growth in Room Tax revenue from the Arch Cape community and the balance of the County. Part of this may be more efficient collection by the Assessment and Taxation staff, part of it may be the down-turn in the economy in 2008 that placed more housing in the short-term rental market, part of it may be an increase in the rents being charged, and part of it could be more people electing to have a stay near home vacation thereby increasing the demand. The increase in revenue also suggests greater impacts on the Arch Cape community assuming occupancy has been higher.

The Board could change the policy and determine that the Room Tax is not county-wide discretionary revenue. Room Taxes are generated by tourist activity that brings with them a whole set of problems. Noise, crowding, traffic, are impacts that may or may not be present from other uses. Possibly the Room Tax should be considered a nondiscretionary revenue in the Long Term Financial Plan.

The Long Term Financial Plan was provided to the County on September 13, 2004. The Board may want to revisit the plan and categorize the Room Tax as nondiscretionary revenue and dedicate the Room Tax to certain purposes.

Incorporation

When the County Comprehensive Plan was developed Arch Cape was one of the areas that allowed for a more urbanized development form while remaining in the County. Under the land use planning scheme, areas like Arch Cape will eventually either incorporate or be annexed into a contiguous city in the future. Arch Cape is not contiguous to another City in the County. The concept of incorporation of Arch Cape is an additional way to capture the Room Tax revenues

for use in the Arch Cape area, although incorporation is not an easy process. The authority to incorporate is included in the Oregon Revise Statutes.

“ORS 221.020 Authority to incorporate. The people of an area, no part of which lies in an incorporated city and in which 150 persons reside, may incorporate a city by approving at an election called and held according to ORS 221.031 to 221.061 a proposition provided by those sections for incorporating the city.”

The Arch Cape area has 183 residents (See the Map Attached) and according to the 2010 census this is more than enough to incorporate albeit not without some challenges. There may be some zoning to change, since property must be in certain zones prior to incorporation, to be resolved with the assistance of County Community Development Department. Petitions would need to be collected and an election held. A study of resources and expenses completed and other requirements met. A property tax base would need to be secured and a City Council elected. The community may want to request that the County assist them with preparing the Arch Cape area for incorporation.

The Arch Cape area also has 144 registered voters and with children and unregistered adults it is likely that the small community would meet the minimum of 150 persons required to consider an annexation vote.

A very preliminary financial evaluation based on the assessed value of the Arch Cape Domestic Water District and the Falcon Cove Beach Water District suggests a minimum annual revenue stream of about \$360,000 per year with no increase in the current tax rate paid by residents. A breakdown of the calculations follows in Table 5.

Table 5
Arch Cape/Falcon Cove
City Incorporation Preliminary Revenues

| | Gross | 70 Percent for Tourism | NET |
|--------------------------------------|----------------------|---------------------------|----------------------|
| Arch Cape Water Dist. Assessed Value | \$ 105,363,019 | | \$ 105,363,019 |
| Fal Co Beach Water Dist A. V. | <u>\$ 19,241,116</u> | | <u>\$ 19,241,116</u> |
| Total Assessed Value | \$ 124,604,135 | | \$ 124,604,135 |
| | | | |
| Rural Law Enforcement Tax Rate | \$ 0.7195 | | \$ 0.7195 |
| <u>Road District #1 Tax Rate</u> | <u>\$ 1.0175</u> | | <u>\$ 1.0175</u> |
| Possible City Tax Rate | \$ 1.7370 | | \$ 1.7370 |
| | | | |
| Total Value in Thousands | \$ 124,604.135 | | \$ 124,604.135 |
| Potential City Property Taxes | \$ 216,437.38 | | \$ 216,437.38 |
| <u>Room Tax - 3 year Average</u> | <u>\$ 141,050.00</u> | <u>\$ 98,735.00</u> | <u>\$ 42,315.00</u> |
| Est. Rev. - No Change in Tax Rate | \$ 357,487.38 | | \$ 258,752.38 |

The law would require that 70% of the Room Taxes adopted by the new city be dedicated to tourism promotion activities (See Page 14, (6) for the reference to State Law. This amount is almost \$100,000 per year and would leave a balance of about \$260,000 in revenue to operate the new City.

The assumption is that the City Property Tax rate would equal the amount currently collected for Rural Law District and Road District #1. There would be additional revenue from the State in the form of liquor, cigarettes, and gas taxes that is not shown in this illustration. A Municipal Court might do well in Arch Cape through the generation of revenue based on traffic violations along Highway 101. The new Arch Cape City Council would need to adopt the Room Tax since the County would no longer have the authority to collect the Room Tax within the new Arch Cape City Limits.

Of course there would be requirements for a small city including an annual audit, periodic election of a City Council and commensurate election costs, meeting agendas and general administration. This may cost up to \$100,000 per year depending on the availability of an individual to work part-time. The balance of the funds would be dedicated to basic services including law enforcement, land use planning, street repair and maintenance, and other general municipal services including emergency management. The services could be secured either by hiring staff or contracting with nearby cities or the County.

Attachments:

Oregon Revised Statutes 320 – Room Tax or Lodging Tax
Map of Arch Cape
Arch Cape Emergency Preparedness Project Recommendations
List of Arch Cape Short-Term Rentals
Room Tax Collected

Oregon Revised Statutes
Room or Lodging Tax

320.350 Tax moratorium; exceptions; uses of revenues. (1) A unit of local government that did not impose a local transient lodging tax on July 1, 2003, may not impose a local transient lodging tax on or after July 2, 2003, unless the imposition of the local transient lodging tax was approved on or before July 1, 2003.

(2) A unit of local government that imposed a local transient lodging tax on July 1, 2003, may not increase the rate of the local transient lodging tax on or after July 2, 2003, to a rate that is greater than the rate in effect on July 1, 2003, unless the increase was approved on or before July 1, 2003.

(3) A unit of local government that imposed a local transient lodging tax on July 1, 2003, may not decrease the percentage of total local transient lodging tax revenues that are actually expended to fund tourism promotion or tourism-related facilities on or after July 2, 2003. A unit of local government that agreed, on or before July 1, 2003, to increase the percentage of total local transient lodging tax revenues that are to be expended to fund tourism promotion or tourism-related facilities, must increase the percentage as agreed.

(4) Notwithstanding subsections (1) and (2) of this section, a unit of local government that is financing debt with local transient lodging tax revenues on November 26, 2003, must continue to finance the debt until the retirement of the debt, including any refinancing of that debt. If the tax is not otherwise permitted under subsection (1) or (2) of this section, at the time of the debt retirement:

(a) The local transient lodging tax revenue that financed the debt shall be used as provided in subsection (5) of this section; or

(b) The unit of local government shall thereafter eliminate the new tax or increase in tax otherwise described in subsection (1) or (2) of this section.

(5) Subsections (1) and (2) of this section do not apply to a new or increased local transient lodging tax if all of the net revenue from the new or increased tax, following reductions attributed to collection reimbursement charges, is used consistently with subsection (6) of this section to:

(a) Fund tourism promotion or tourism-related facilities;

(b) Fund city or county services; or

(c) Finance or refinance the debt of tourism-related facilities and pay reasonable administrative costs incurred in financing or refinancing that debt, provided that:

(A) The net revenue may be used for administrative costs only if the unit of local government provides a collection reimbursement charge; and

(B) Upon retirement of the debt, the unit of local government reduces the tax by the amount by which the tax was increased to finance or refinance the debt.

(6) At least 70 percent of net revenue from a new or increased local transient lodging tax shall be used for the purposes described in subsection (5)(a) or (c) of this section. No more than 30 percent of net revenue from a new or increased local transient lodging tax may be used for the purpose described in subsection (5)(b) of this section. [2003 c.818 §11]



COUNTY MANAGER'S OFFICE

MEMORANDUM

To: Budget Committee

From: Duane Cole, County Manager

Date: April 2012

Subject: Room Tax Revenues Dedicated to Emergency Preparedness

Summary

The Memorandum addresses the following issue: **an analysis to present to the Board and Budget Committee of the geographic source of this revenue and conduct an evaluation on whether these funds should be used to pay for emergency preparedness in specific areas in the County.** The information presented in this Memorandum can be summarized as follows:

- The Arch Cape area generates 84% of the County Room Tax revenue with average revenue of about \$140,000 per year over the last 3 years. Shifting this revenue to other uses would require reducing the budget in other areas.
- The Arch Cape area receives some extraordinary or additional services from the County in the amount of about \$16,500 per year. It costs about \$14,100 per year to bill and collect the Room Tax. The total of extraordinary and administration is about \$30,600.
- Emergency service identified four initial projects that cost a total of \$141,050 in Arch Cape. These projects would require on-going maintenance to be provided by the County. Emergency Services and the Room Tax funds could be used for on-going support.
- It is legal to redirect these funds as out-lined in this Memorandum, but this may require Board action.
- Reductions are difficult to quantify, but \$140,000 equals about 2 full time positions. An incremental reduction of Room Tax as a discretionary revenue could be considered.
- Staff is careful to provide services to the whole County and discussing the assignment of specific funds to each Board District may create service delivery issues.
- The assignment of the Room Tax as a discretionary revenue can be changed by the Board. Long Term Financial Plan categorization of the Room Tax as a discretionary revenue can be reconsidered by the Board.
- Incorporation is an option for Arch Cape. Preliminarily, and assuming the difficult process and politics could be resolved, incorporation of the community would generate funds that could increase services for an urban area of the County.

Based on this information the Board has several policy choices regarding the use of the discretionary Room Tax revenue.

- Allocate the Room Tax collected in Arch Cape to that area for services including emergency preparedness. This would have serious implications for the budget and require additional adjustments likely including lay-offs or at least reassignment of current staff to specific duties related to Arch Cape.
- Allocate the Room Tax collected in Arch Cape to that area over the coming 4 or 5 years. This would ease the shock to the County budget and provide time for the loss in revenue to be absorbed by the larger corporation.
- Do nothing at this time with the Room Tax.
- Determine that incorporation would be a better outcome for Arch Cape and begin working with the community to see that a new City is formed in the County. This would provide funds for Arch Cape services as the next Oregon City. This might be coupled with the slow dedication of room tax funds over time to provide funds to assist with incorporation.
- Determine whether the categorization of Room Taxes in the Long Range Financial Plan is correct and decide whether they should be moved from discretionary funds to nondiscretionary funds. Once this decision is completed the County staff could build these funds into the budget as nondiscretionary and reduce services in some areas while increasing services in Arch Cape.

The staff is willing to proceed based on these or other options the Board may wish to pursue.

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| 9/30/2009 | 72,087.79 | 16,270.05 | 88,357.84 | 81.59% |
| <u>12/31/2009</u> | <u>19,346.94</u> | <u>3,400.06</u> | <u>22,747.00</u> | <u>85.05%</u> |
| Total | 126,318.31 | 27,795.74 | 154,114.05 | 81.96% |
| 3/31/2010 | 15,626.90 | 2,574.45 | 18,201.35 | 85.86% |
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| 9/30/2010 | 69,951.54 | 15,368.07 | 85,319.61 | 81.99% |
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| Total | 136,112.27 | 26,609.49 | 162,721.76 | 83.65% |
| 3/31/2011 | 20,738.20 | 3,234.83 | 23,973.03 | 86.51% |
| 6/30/2011 | 30,284.08 | 5,083.11 | 35,367.19 | 85.63% |
| 9/30/2011 | 71,733.05 | 11,211.69 | 82,944.74 | 86.48% |
| <u>12/31/2011</u> | <u>35,815.60</u> | <u>3,268.56</u> | <u>39,084.16</u> | <u>91.64%</u> |
| Total | 158,570.93 | 22,798.19 | 181,369.12 | 87.43% |
| 3 Year Average | 140,333.84 | 25,734.47 | 166,068.31 | 84% |

Table 1 represents that the County collects an average over the last three years of \$166,000 per year from all areas of the County. The Arch Cape area provides about 84% of the funds or \$140,000 per year with a low in 2009 of \$126,000 and a high in 2011 of \$159,000. The other areas of the County provide about \$26,000 per year. Arch Cape provides 84% of the Room Tax

collected by the County. This revenue is generated from about 65 vacation rentals out of a total of 387 tax lots with residential improvements. The vacation rentals offer space for 657 additional residents if all spaces are filled. The residential population in 2010 of Arch Cape, including Falcon Cove, was 183 residents and there are currently 144 registered voters in the area. (See attached map.)

In order to shift this income to other services including services specific to the Arch Cape community, the County would need to either increase revenues or reduce services in other areas of the budget. The budget assumption included direction to consider shifting these revenues to emergency services for services related specifically to the areas from which the Room Tax was collected.

Emergency Services

The Emergency Services Director, Dean Perez, was tasked with providing a budget request that would be useful during the 2012-13 fiscal year. The EMS team identified four project areas that are described as follows:

Project 1: Coastal Warning Sirens. In order to enhance warning residents and visitors to evacuate beach areas in the event of a distant tsunami or hazardous material event, the plan is to install four (4) all hazard sound and voice emergency notification systems (obtained from the Chemical Stockpile Emergency Preparedness Program) from the Tillamook County line to the Cannon Beach city limits. The sirens would be linked into Cannon Beach's existing warning siren network which is operated and maintained by the Cannon Beach Fire Department. The estimated cost to permit, transport, install and program the sirens is approximately \$25,750. This project would take approximately 60 days complete.

Project 2: Two 40 KW Diesel Generator Sets with fuel tanks. In the event of a power outage, these Generator Sets would provide emergency backup power to the unincorporated areas of Arch Cape and Falcon Cove. In consultation with community leaders, the generators would be placed near high ground assembly areas for Arch Cape and Falcon Cove residents and visitors. The estimated cost to purchase, permit, and enclose both Generator Sets is approximately \$40,800.

Project 3: Four (4) 40 - foot storage containers. Similar to the City of Cannon Beach's storage container program, the plan would be to pre-position four storage containers on the high ground assembly areas for Arch Cape and Falcon Cove residents. In the event of a near or distant tsunami, residents would have access to food, water, and medical equipment that could sustain them for up to one week maybe longer. One 40 foot container can hold personal emergency kits, blankets, food and equipment for approximately 100 people. The estimated cost to purchase, permit, and drop ship four containers would be approximately \$22,000.

Project 4: 10 Emergency Shelter Modular Tents. The plan is to pre-position Emergency Shelter Modular tents in each of the four storage containers located on the high ground assembly areas. In the event of a near or distant tsunami, residents and visitors would have access to temporary shelter. When properly deployed, these modular tents provide extended protection from the cold,

wind and rain and protect against hypothermia. The estimated cost to purchase, ship and store ten Emergency Shelter Modular tents is approximately \$52,500.

Table 2 identifies the cost of each of these projects. The projects would provide capital assets that the County would need to maintain over time. No on-going operational costs were identified after the first year, but staff would need to be paid for and dedicated to assure that all of the equipment is in proper working condition and the items in storage remain fresh and serviceable.

Table 2
Arch Cape
Proposed Projects 2012-13

| | | | |
|----|---|-----------|-------------------|
| 1. | Coastal Warning Sirens | | |
| | · Transportation and Installation of Power Poles | \$ | 8,000.00 |
| | · Permits | \$ | 1,500.00 |
| | · Installation of 4 Poles, Sirens and Programming (labor) | \$ | 16,250.00 |
| | Total: | \$ | 25,750.00 |
| 2. | 2 -40KW Generator Sets @ \$12,000 per Generator Set X 2 | \$ | 24,000.00 |
| | · 250 Gallon Fuel Tank | \$ | 3,600.00 |
| | · Enclosures | \$ | 1,100.00 |
| | · Switch Gear | \$ | 3,000.00 |
| | · Control Panels | \$ | 3,600.00 |
| | · Permits | \$ | 1,000.00 |
| | · Electrician, cable and materials, Labor | \$ | 3,000.00 |
| | · Drop Shipping | \$ | 1,500.00 |
| | Total: | \$ | 40,800.00 |
| 3. | 4- 40 foot Storage Containers @ \$5,500.00 per Container X 4 | \$ | 22,000.00 |
| | · Price includes Drop Shipping | \$ | - |
| | Total: | \$ | 22,000.00 |
| 4. | 10 - Emergency Shelter Modular Tents @ \$5,000.00 per Tent X 10 | \$ | 50,000.00 |
| | Note: Each Tent Shelters 50 people | | |
| | · Drop Shipping | \$ | 2,500.00 |
| | Total: | \$ | 52,500.00 |
| | Grand Total | | |
| | Cost: | \$ | 141,050.00 |

In the years to come the \$140,000 could be used to pay for maintenance and supplement the existing items. In addition, the community might identify additional County services or projects designed to assist the community. For example, a volunteer coordinator working with residents may be one investment that could be useful.

Legal Framework

Is there any legal impediment to changing the Clatsop County Transient Room Tax Ordinance No. 90-7 (as amended by Ordinance No. 04-02) to which short term rentals are subject to pursuant to Ordinance 03-13?

The allocation of a portion of funds collected to a special fund for use in the specific geographic area from which the funds were derived is allowed. This would take some detailed drafting and require a number of decisions by the Board, but it could be done. There is no legal prohibition on doing so.

The board would need to decide what the fund would be used for, with some specificity. The Board would also need to decide how the funds would be applied geographically to the various collection points throughout the County. While most funds are collected from the Arch Cape area, funds are also collected from Westport, the Elderberry Inn, and the Clatsop Plains. The needs in one area may be very different from the needs in another. There also should be some thought given to the precedent created in dedicating funds geographically, for other funding streams (this is considered elsewhere in this Memorandum).

A decision like this may be impacted by ORS 320.350. This statute (Attached to this Memorandum) grandfathers all room tax ordinances in existence on July 1, 2003. Any new ordinances, or increases after that date, must be allocated at least 70% to tourism promotion or tourism-related activities. Since an amendment to allocate the use of the funds from a specific geographical area back to that area is not expected to increase the tax rate, the County will not fall under the statutory requirements of ORS 320.350.

Creation of a new fund does have costs for administration and statutory audits. The County has determined, and its indirect cost allocation plan provides, that the cost to the County of managing each separate fund is 10% of the value of that fund. If all room tax receipts were allocated to dedicated fund, the additional cost to the County would be approximately \$16,600 based on the three year revenue average. Once in a special fund established by ordinance, the funds could not be used for any other purpose without both amending the ordinance and adjusting the budget.

Use of these funds for the purpose outlined the protection of property, lives and providing a place for residents and visitors to safely assemble pending or after a natural disaster, appears to be a use of Room Tax funds consistent with the law establishing the County authority to impose a Room Tax. Additionally, after the investment in Arch Cape is completed Emergency Services could use the funds elsewhere on the Clatsop Coast to address Emergency Services projects.

Reductions

The reductions needed to replace the \$141,050 loss in General Fund resources is difficult to specifically identify. The amount equals a little more than one percent of the General Fund and in those terms it does not seem like a large amount. In the limited proposed 2012-13 fiscal year budget however this reduction would equal about two positions including the materials and services to support those positions. Rather than the shock to the budget of a reduction of this amount all at once, perhaps a first step would be to fund the coastal warning sirens project this year. Then in the ensuing years the current years' project and the next year's project would be funded until the \$141,050 is dedicated to Arch Cape. Table 3 depicts the financial impacts of this scenario.

Table 3
Incremental Reduction of Room Tax

| <u>Project</u> | <u>Year 1</u> | <u>Year 2</u> | <u>Year 3</u> | <u>Year 4</u> |
|------------------------------|---------------|---------------|---------------|------------------|
| Coastal Warning Sirens | \$ 25,750 | | | |
| 2 - 40KW Generator Sets | | \$ 40,800 | | |
| 4 - 40 foot Storage | | | \$ 22,000 | |
| <u>10 Emergency Shelters</u> | | | | <u>\$ 52,500</u> |
| Total Support - Arch Cape | \$ 25,750 | \$ 66,550 | \$ 88,550 | \$ 141,050 |

Fairness of Services

Arch Cape is a rural residential area located in Clatsop County. The County keeps track of some of the services provided to the Arch Cape area since the question of County service levels in this particular rural residential area has been raised in the past. The County's policy is to provide equitable services to all County residents regardless of location while recognizing that certain locations require additional attention in the short-term.

Sheriff's Office Law Enforcement Services

The areas of the County not within cities pay a law enforcement levy. These funds are generated to provide rural law enforcement services. While the General Fund Room Tax discretionary revenue supports the Sheriff's Office, the majority of the support for these services comes from the rural law enforcement levy. Based on a review by the County staff the Arch Cape area receives about \$8,000 per year in services that are not provided to other areas of the County by the Sheriff's Office.

The Sheriff's Office divides the County into several service zones. Arch Cape is in Zone 3 and the Arch Cape area makes up a relatively small portion of the Zone 3 district (which encompasses from the north Seaside City Limit to the County Line on Hwy 101 and out Hwy 26

to Milepost 11). Unlike other zones (even those with resident deputies) the Arch Cape area has a .2 Full Time Equivalent (FTE) deputy assigned to the area. The call volume is low in the area.

In order to be comparable to other areas of the County, the Sheriff's Office would have to provide a deputy specifically assigned to the Westport community instead of the current practice of having services provided by the Zone 1 deputy who also serves all of the communities in Zone 1 including: Clifton/Bradwood, Knappa, Svensen, Brownsmead, Burnside and John Day. For Arch Cape to be treated similar to the other communities in the county would mean they would only receive services from the deputy assigned to the Zone, not the additional .2 FTE deputy specifically assigned to their community.

The Arch Cape area also receives General Fund support in the form of search and rescue, civil service, the jail, the work crew and mandatory investigations (i.e. child abuse, death investigations) no different than any other area in the county.

Emergency Preparedness

The focus of emergency preparedness has been along the coast due to the potential destructive force of a subduction zone earthquake followed by a tidal wave. Through an interview with the Emergency Services Director no inordinate service levels were identified for the Arch Cape area. It is true that services have been more focused in the community this year than in the past, but he thought this was a short-term occurrence related to increased community interest. In addition, there were some issues that needed to be resolved and a willingness by Cannon Beach Rural Fire Protection District to assist the rural area. These short-term projects would not be considered extraordinary since similar services are offered anywhere in the County.

Southwest Coastal Citizen Advisory Committee

The County Comprehensive plan identified citizen involvement groups to represent the rural residential communities located in Clatsop County. These groups were active during the development of the comprehensive plan and then with the planning mission accomplished, most are no longer active. The Southwest Coastal Citizen Advisory Committee served as the Arch Cape comprehensive planning committee, but actually was formed many years ago to provide advice and monitor development in the Arch Cape community. They are the only citizen advisory committee provided specific duties in the Land and Water Development Code that in general includes design review and recommendations to the Director. The County staff's the committee.

Table 4 below outlines the formula used to calculate the costs of providing support for the Southwest Coastal Citizens Advisory Committee and code enforcement services to Arch Cape during the 2011-12 fiscal year.

Table 4
Community Development Services
General Planning and Code Enforcement Support

| | | |
|------------------------|--------------|-------------|
| Personnel | | \$ 352,200 |
| Materials and Services | \$ 372,200 | |
| Contractual | \$ (216,000) | |
| Bradwood | \$ (10,000) | |
| OR -LNG | \$ (115,000) | |
| Subtotal | | \$ 31,200 |
| Total | | \$ 383,400 |
| Full time equivalent | 3.30 | |
| Hours per year | 2,080.00 | |
| Total Department Hours | | 6,864 |
| Per Hour Cost | | \$ 55.86 |
| Hours Spent Arch Cape | | 149 |
| Total Cost | | \$ 8,322.64 |

Code Enforcement

County staff provides code enforcement services and has been involved in discussions with community members regarding the County code, the role of County in enforcement actions, property boundaries, and other neighborhood disputes. Staff indicates there seem to be more phone calls and requests for services from Arch Cape than other areas of the County.

Overhead

The County incurs costs for the billing, collection, and research to identify vacation rentals that have not signed up to pay the Room Tax. While specific hours are not identified by the staff in general the County overhead rate is 10% and County staff believes it is reasonable to estimate the time and materials dedicated to the maintenance of the Room Tax for Arch Cape at \$14,100 average per year based on the prior three years of collections.

County-wide Service Balance

The Room Tax may provide an issue to discuss an important County policy - providing equal services to all County residents. On the one hand it does seem unfair that the residents of Arch Cape tolerate an increase in population from 183 residents to more than 600 on holiday weekends and during the summer, and receive very little extraordinary service from the Room Tax revenues that these visitors generate. On the other hand it could also be argued that Wauna Mill pays about 7% of the County's property taxes (this is approximately \$500,000 of the County's General Fund revenue) and the rural residential community of Westport receives very little extraordinary service from the property tax revenues generated by Wauna Mill.

The discussion of services based on revenues generated from specific geographic areas, might develop into identifying the taxes generated and the services that should be provided in each District. This would lead to a study of matching services to revenues by area to financial management and providing services to five mini-counties.

Summary

Arch Cape uses County Community Development services in the amount of \$8,322.64 more than would be anticipated or expected in other parts of the County. Rural law enforcement and emergency preparedness identified \$8,000 in additional support in the form of a .2 FTE. Based on the cost of overhead of \$14,100, the Community Development services of \$8,322.64, and \$8,000 for Sheriff's Office services, the total cost of services identified is \$30,422.64. Of this amount \$16,322.64 would be considered extraordinary services.

The County Board is elected from districts and each Commissioner has the focus of the voters who elected them, the geographic area of the district, and the whole County. General County issues are the subject to the goodwill framed as a focus of the Board to serve the whole County. The County staff is committed to providing equal services for all County residents.

Long Term Financial Plan Categories

Table 1 indicates that during the past three years there has been significant growth in Room Tax revenue from the Arch Cape community and the balance of the County. Part of this may be more efficient collection by the Assessment and Taxation staff, part of it may be the down-turn in the economy in 2008 that placed more housing in the short-term rental market, part of it may be an increase in the rents being charged, and part of it could be more people electing to have a stay near home vacation thereby increasing the demand. The increase in revenue also suggests greater impacts on the Arch Cape community assuming occupancy has been higher.

The Board could change the policy and determine that the Room Tax is not county-wide discretionary revenue. Room Taxes are generated by tourist activity that brings with them a whole set of problems. Noise, crowding, traffic, are impacts that may or may not be present from other uses. Possibly the Room Tax should be considered a nondiscretionary revenue in the Long Term Financial Plan.

The Long Term Financial Plan was provided to the County on September 13, 2004. The Board may want to revisit the plan and categorize the Room Tax as nondiscretionary revenue and dedicate the Room Tax to certain purposes.

Incorporation

When the County Comprehensive Plan was developed Arch Cape was one of the areas that allowed for a more urbanized development form while remaining in the County. Under the land use planning scheme, areas like Arch Cape will eventually either incorporate or be annexed into a contiguous city in the future. Arch Cape is not contiguous to another City in the County. The concept of incorporation of Arch Cape is an additional way to capture the Room Tax revenues

for use in the Arch Cape area, although incorporation is not an easy process. The authority to incorporate is included in the Oregon Revise Statutes.

“ORS 221.020 Authority to incorporate. The people of an area, no part of which lies in an incorporated city and in which 150 persons reside, may incorporate a city by approving at an election called and held according to ORS 221.031 to 221.061 a proposition provided by those sections for incorporating the city.”

The Arch Cape area has 183 residents (See the Map Attached) and according to the 2010 census this is more than enough to incorporate albeit not without some challenges. There may be some zoning to change, since property must be in certain zones prior to incorporation, to be resolved with the assistance of County Community Development Department. Petitions would need to be collected and an election held. A study of resources and expenses completed and other requirements met. A property tax base would need to be secured and a City Council elected. The community may want to request that the County assist them with preparing the Arch Cape area for incorporation.

The Arch Cape area also has 144 registered voters and with children and unregistered adults it is likely that the small community would meet the minimum of 150 persons required to consider an annexation vote.

A very preliminary financial evaluation based on the assessed value of the Arch Cape Domestic Water District and the Falcon Cove Beach Water District suggests a minimum annual revenue stream of about \$360,000 per year with no increase in the current tax rate paid by residents. A breakdown of the calculations follows in Table 5.

Table 5
Arch Cape/Falcon Cove
City Incorporation Preliminary Revenues

| | Gross | 70 Percent for Tourism | NET |
|--------------------------------------|----------------------|---------------------------|----------------------|
| Arch Cape Water Dist. Assessed Value | \$ 105,363,019 | | \$ 105,363,019 |
| Fal Co Beach Water Dist A. V. | <u>\$ 19,241,116</u> | | <u>\$ 19,241,116</u> |
| Total Assessed Value | \$ 124,604,135 | | \$ 124,604,135 |
| | | | |
| Rural Law Enforcement Tax Rate | \$ 0.7195 | | \$ 0.7195 |
| <u>Road District #1 Tax Rate</u> | <u>\$ 1.0175</u> | | <u>\$ 1.0175</u> |
| Possible City Tax Rate | \$ 1.7370 | | \$ 1.7370 |
| | | | |
| Total Value in Thousands | \$ 124,604.135 | | \$ 124,604.135 |
| Potential City Property Taxes | \$ 216,437.38 | | \$ 216,437.38 |
| <u>Room Tax - 3 year Average</u> | <u>\$ 141,050.00</u> | <u>\$ 98,735.00</u> | <u>\$ 42,315.00</u> |
| Est. Rev. - No Change in Tax Rate | \$ 357,487.38 | | \$ 258,752.38 |

The law would require that 70% of the Room Taxes adopted by the new city be dedicated to tourism promotion activities (See Page 14, (6) for the reference to State Law. This amount is almost \$100,000 per year and would leave a balance of about \$260,000 in revenue to operate the new City.

The assumption is that the City Property Tax rate would equal the amount currently collected for Rural Law District and Road District #1. There would be additional revenue from the State in the form of liquor, cigarettes, and gas taxes that is not shown in this illustration. A Municipal Court might do well in Arch Cape through the generation of revenue based on traffic violations along Highway 101. The new Arch Cape City Council would need to adopt the Room Tax since the County would no longer have the authority to collect the Room Tax within the new Arch Cape City Limits.

Of course there would be requirements for a small city including an annual audit, periodic election of a City Council and commensurate election costs, meeting agendas and general administration. This may cost up to \$100,000 per year depending on the availability of an individual to work part-time. The balance of the funds would be dedicated to basic services including law enforcement, land use planning, street repair and maintenance, and other general municipal services including emergency management. The services could be secured either by hiring staff or contracting with nearby cities or the County.

Attachments:

Oregon Revised Statutes 320 – Room Tax or Lodging Tax
Map of Arch Cape
Arch Cape Emergency Preparedness Project Recommendations
List of Arch Cape Short-Term Rentals
Room Tax Collected

Oregon Revised Statutes
Room or Lodging Tax

320.350 Tax moratorium; exceptions; uses of revenues. (1) A unit of local government that did not impose a local transient lodging tax on July 1, 2003, may not impose a local transient lodging tax on or after July 2, 2003, unless the imposition of the local transient lodging tax was approved on or before July 1, 2003.

(2) A unit of local government that imposed a local transient lodging tax on July 1, 2003, may not increase the rate of the local transient lodging tax on or after July 2, 2003, to a rate that is greater than the rate in effect on July 1, 2003, unless the increase was approved on or before July 1, 2003.

(3) A unit of local government that imposed a local transient lodging tax on July 1, 2003, may not decrease the percentage of total local transient lodging tax revenues that are actually expended to fund tourism promotion or tourism-related facilities on or after July 2, 2003. A unit of local government that agreed, on or before July 1, 2003, to increase the percentage of total local transient lodging tax revenues that are to be expended to fund tourism promotion or tourism-related facilities, must increase the percentage as agreed.

(4) Notwithstanding subsections (1) and (2) of this section, a unit of local government that is financing debt with local transient lodging tax revenues on November 26, 2003, must continue to finance the debt until the retirement of the debt, including any refinancing of that debt. If the tax is not otherwise permitted under subsection (1) or (2) of this section, at the time of the debt retirement:

(a) The local transient lodging tax revenue that financed the debt shall be used as provided in subsection (5) of this section; or

(b) The unit of local government shall thereafter eliminate the new tax or increase in tax otherwise described in subsection (1) or (2) of this section.

(5) Subsections (1) and (2) of this section do not apply to a new or increased local transient lodging tax if all of the net revenue from the new or increased tax, following reductions attributed to collection reimbursement charges, is used consistently with subsection (6) of this section to:

(a) Fund tourism promotion or tourism-related facilities;

(b) Fund city or county services; or

(c) Finance or refinance the debt of tourism-related facilities and pay reasonable administrative costs incurred in financing or refinancing that debt, provided that:

(A) The net revenue may be used for administrative costs only if the unit of local government provides a collection reimbursement charge; and

(B) Upon retirement of the debt, the unit of local government reduces the tax by the amount by which the tax was increased to finance or refinance the debt.

(6) At least 70 percent of net revenue from a new or increased local transient lodging tax shall be used for the purposes described in subsection (5)(a) or (c) of this section. No more than 30 percent of net revenue from a new or increased local transient lodging tax may be used for the purpose described in subsection (5)(b) of this section. [2003 c.818 §11]



COUNTY MANAGER'S OFFICE

MEMORANDUM

To: Budget Committee

From: Duane Cole, County Manager

Date: April 2012

Subject: Room Tax Revenues Dedicated to Emergency Preparedness

Summary

The Memorandum addresses the following issue: **an analysis to present to the Board and Budget Committee of the geographic source of this revenue and conduct an evaluation on whether these funds should be used to pay for emergency preparedness in specific areas in the County.** The information presented in this Memorandum can be summarized as follows:

- The Arch Cape area generates 84% of the County Room Tax revenue with average revenue of about \$140,000 per year over the last 3 years. Shifting this revenue to other uses would require reducing the budget in other areas.
- The Arch Cape area receives some extraordinary or additional services from the County in the amount of about \$16,500 per year. It costs about \$14,100 per year to bill and collect the Room Tax. The total of extraordinary and administration is about \$30,600.
- Emergency service identified four initial projects that cost a total of \$141,050 in Arch Cape. These projects would require on-going maintenance to be provided by the County. Emergency Services and the Room Tax funds could be used for on-going support.
- It is legal to redirect these funds as out-lined in this Memorandum, but this may require Board action.
- Reductions are difficult to quantify, but \$140,000 equals about 2 full time positions. An incremental reduction of Room Tax as a discretionary revenue could be considered.
- Staff is careful to provide services to the whole County and discussing the assignment of specific funds to each Board District may create service delivery issues.
- The assignment of the Room Tax as a discretionary revenue can be changed by the Board. Long Term Financial Plan categorization of the Room Tax as a discretionary revenue can be reconsidered by the Board.
- Incorporation is an option for Arch Cape. Preliminarily, and assuming the difficult process and politics could be resolved, incorporation of the community would generate funds that could increase services for an urban area of the County.

Based on this information the Board has several policy choices regarding the use of the discretionary Room Tax revenue.

- Allocate the Room Tax collected in Arch Cape to that area for services including emergency preparedness. This would have serious implications for the budget and require additional adjustments likely including lay-offs or at least reassignment of current staff to specific duties related to Arch Cape.
- Allocate the Room Tax collected in Arch Cape to that area over the coming 4 or 5 years. This would ease the shock to the County budget and provide time for the loss in revenue to be absorbed by the larger corporation.
- Do nothing at this time with the Room Tax.
- Determine that incorporation would be a better outcome for Arch Cape and begin working with the community to see that a new City is formed in the County. This would provide funds for Arch Cape services as the next Oregon City. This might be coupled with the slow dedication of room tax funds over time to provide funds to assist with incorporation.
- Determine whether the categorization of Room Taxes in the Long Range Financial Plan is correct and decide whether they should be moved from discretionary funds to nondiscretionary funds. Once this decision is completed the County staff could build these funds into the budget as nondiscretionary and reduce services in some areas while increasing services in Arch Cape.

The staff is willing to proceed based on these or other options the Board may wish to pursue.

Introduction

The Board of County Commissioners at their January 25, 2012 Board meeting adopted the following task for staff to complete and present with the annual budget. This Memorandum serves to comply with the Board's Request.

XII. DISCRETIONARY RESOURCES

- B. Room Tax Revenues: Room tax monies are not legally dedicated to fund particular programs or services. Staff shall do an analysis to present to the Board and Budget Committee of the geographic source of this revenue and conduct an evaluation on whether these funds should be used to pay for emergency preparedness in specific areas in the County.**

Room Tax revenue are considered discretionary revenues by the County. This means that the revenue is placed in the General Fund to pay for services for the whole County. The Budget Policies provide the following:

“Wherever legally possible, revenues are to be treated as discretionary resources, rather than as dedicated to a particular program or service. The goal is to give the Board as much flexibility as possible in allocating resources to local priorities.”

The Room Tax is primarily generated in the County’s jurisdiction (this Memorandum does not include City Room Tax revenue since those revenues belong to the cities) with 84% coming specifically from the Arch Cape and Falcon Cove rural residential communities. This Memorandum focuses on those communities and while the Memorandum refers to Arch Cape, Falcon Cove is intended to be included in all respects in the references to Arch Cape. (See Attached Map)

Room Tax Revenues

Table 1 outlines the source and revenue from Arch Cape and the balance of the County.

Table 1
Room Tax Collected
2009, 2010, 2011

| Quarter | Arch | Other | Total | Percent |
|-----------------------|-------------------|------------------|-------------------|-----------------------|
| <u>Ending</u> | <u>Cape</u> | <u>Areas</u> | <u>Collected</u> | <u>From Arch Cape</u> |
| 3/31/2009 | 11,096.41 | 3,255.52 | 14,351.93 | 77.32% |
| 6/30/2009 | 23,787.17 | 4,870.11 | 28,657.28 | 83.01% |
| 9/30/2009 | 72,087.79 | 16,270.05 | 88,357.84 | 81.59% |
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| 9/30/2011 | 71,733.05 | 11,211.69 | 82,944.74 | 86.48% |
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| Total | 158,570.93 | 22,798.19 | 181,369.12 | 87.43% |
| 3 Year Average | 140,333.84 | 25,734.47 | 166,068.31 | 84% |

Table 1 represents that the County collects an average over the last three years of \$166,000 per year from all areas of the County. The Arch Cape area provides about 84% of the funds or \$140,000 per year with a low in 2009 of \$126,000 and a high in 2011 of \$159,000. The other areas of the County provide about \$26,000 per year. Arch Cape provides 84% of the Room Tax

collected by the County. This revenue is generated from about 65 vacation rentals out of a total of 387 tax lots with residential improvements. The vacation rentals offer space for 657 additional residents if all spaces are filled. The residential population in 2010 of Arch Cape, including Falcon Cove, was 183 residents and there are currently 144 registered voters in the area. (See attached map.)

In order to shift this income to other services including services specific to the Arch Cape community, the County would need to either increase revenues or reduce services in other areas of the budget. The budget assumption included direction to consider shifting these revenues to emergency services for services related specifically to the areas from which the Room Tax was collected.

Emergency Services

The Emergency Services Director, Dean Perez, was tasked with providing a budget request that would be useful during the 2012-13 fiscal year. The EMS team identified four project areas that are described as follows:

Project 1: Coastal Warning Sirens. In order to enhance warning residents and visitors to evacuate beach areas in the event of a distant tsunami or hazardous material event, the plan is to install four (4) all hazard sound and voice emergency notification systems (obtained from the Chemical Stockpile Emergency Preparedness Program) from the Tillamook County line to the Cannon Beach city limits. The sirens would be linked into Cannon Beach's existing warning siren network which is operated and maintained by the Cannon Beach Fire Department. The estimated cost to permit, transport, install and program the sirens is approximately \$25,750. This project would take approximately 60 days complete.

Project 2: Two 40 KW Diesel Generator Sets with fuel tanks. In the event of a power outage, these Generator Sets would provide emergency backup power to the unincorporated areas of Arch Cape and Falcon Cove. In consultation with community leaders, the generators would be placed near high ground assembly areas for Arch Cape and Falcon Cove residents and visitors. The estimated cost to purchase, permit, and enclose both Generator Sets is approximately \$40,800.

Project 3: Four (4) 40 - foot storage containers. Similar to the City of Cannon Beach's storage container program, the plan would be to pre-position four storage containers on the high ground assembly areas for Arch Cape and Falcon Cove residents. In the event of a near or distant tsunami, residents would have access to food, water, and medical equipment that could sustain them for up to one week maybe longer. One 40 foot container can hold personal emergency kits, blankets, food and equipment for approximately 100 people. The estimated cost to purchase, permit, and drop ship four containers would be approximately \$22,000.

Project 4: 10 Emergency Shelter Modular Tents. The plan is to pre-position Emergency Shelter Modular tents in each of the four storage containers located on the high ground assembly areas. In the event of a near or distant tsunami, residents and visitors would have access to temporary shelter. When properly deployed, these modular tents provide extended protection from the cold,

wind and rain and protect against hypothermia. The estimated cost to purchase, ship and store ten Emergency Shelter Modular tents is approximately \$52,500.

Table 2 identifies the cost of each of these projects. The projects would provide capital assets that the County would need to maintain over time. No on-going operational costs were identified after the first year, but staff would need to be paid for and dedicated to assure that all of the equipment is in proper working condition and the items in storage remain fresh and serviceable.

Table 2
Arch Cape
Proposed Projects 2012-13

| | | | |
|----|---|-----------|-------------------|
| 1. | Coastal Warning Sirens | | |
| | · Transportation and Installation of Power Poles | \$ | 8,000.00 |
| | · Permits | \$ | 1,500.00 |
| | · Installation of 4 Poles, Sirens and Programming (labor) | \$ | 16,250.00 |
| | Total: | \$ | 25,750.00 |
| 2. | 2 -40KW Generator Sets @ \$12,000 per Generator Set X 2 | \$ | 24,000.00 |
| | · 250 Gallon Fuel Tank | \$ | 3,600.00 |
| | · Enclosures | \$ | 1,100.00 |
| | · Switch Gear | \$ | 3,000.00 |
| | · Control Panels | \$ | 3,600.00 |
| | · Permits | \$ | 1,000.00 |
| | · Electrician, cable and materials, Labor | \$ | 3,000.00 |
| | · Drop Shipping | \$ | 1,500.00 |
| | Total: | \$ | 40,800.00 |
| 3. | 4- 40 foot Storage Containers @ \$5,500.00 per Container X 4 | \$ | 22,000.00 |
| | · Price includes Drop Shipping | \$ | - |
| | Total: | \$ | 22,000.00 |
| 4. | 10 - Emergency Shelter Modular Tents @ \$5,000.00 per Tent X 10 | \$ | 50,000.00 |
| | Note: Each Tent Shelters 50 people | | |
| | · Drop Shipping | \$ | 2,500.00 |
| | Total: | \$ | 52,500.00 |
| | Grand Total | | |
| | Cost: | \$ | 141,050.00 |

In the years to come the \$140,000 could be used to pay for maintenance and supplement the existing items. In addition, the community might identify additional County services or projects designed to assist the community. For example, a volunteer coordinator working with residents may be one investment that could be useful.

Legal Framework

Is there any legal impediment to changing the Clatsop County Transient Room Tax Ordinance No. 90-7 (as amended by Ordinance No. 04-02) to which short term rentals are subject to pursuant to Ordinance 03-13?

The allocation of a portion of funds collected to a special fund for use in the specific geographic area from which the funds were derived is allowed. This would take some detailed drafting and require a number of decisions by the Board, but it could be done. There is no legal prohibition on doing so.

The board would need to decide what the fund would be used for, with some specificity. The Board would also need to decide how the funds would be applied geographically to the various collection points throughout the County. While most funds are collected from the Arch Cape area, funds are also collected from Westport, the Elderberry Inn, and the Clatsop Plains. The needs in one area may be very different from the needs in another. There also should be some thought given to the precedent created in dedicating funds geographically, for other funding streams (this is considered elsewhere in this Memorandum).

A decision like this may be impacted by ORS 320.350. This statute (Attached to this Memorandum) grandfathers all room tax ordinances in existence on July 1, 2003. Any new ordinances, or increases after that date, must be allocated at least 70% to tourism promotion or tourism-related activities. Since an amendment to allocate the use of the funds from a specific geographical area back to that area is not expected to increase the tax rate, the County will not fall under the statutory requirements of ORS 320.350.

Creation of a new fund does have costs for administration and statutory audits. The County has determined, and its indirect cost allocation plan provides, that the cost to the County of managing each separate fund is 10% of the value of that fund. If all room tax receipts were allocated to dedicated fund, the additional cost to the County would be approximately \$16,600 based on the three year revenue average. Once in a special fund established by ordinance, the funds could not be used for any other purpose without both amending the ordinance and adjusting the budget.

Use of these funds for the purpose outlined the protection of property, lives and providing a place for residents and visitors to safely assemble pending or after a natural disaster, appears to be a use of Room Tax funds consistent with the law establishing the County authority to impose a Room Tax. Additionally, after the investment in Arch Cape is completed Emergency Services could use the funds elsewhere on the Clatsop Coast to address Emergency Services projects.

Reductions

The reductions needed to replace the \$141,050 loss in General Fund resources is difficult to specifically identify. The amount equals a little more than one percent of the General Fund and in those terms it does not seem like a large amount. In the limited proposed 2012-13 fiscal year budget however this reduction would equal about two positions including the materials and services to support those positions. Rather than the shock to the budget of a reduction of this amount all at once, perhaps a first step would be to fund the coastal warning sirens project this year. Then in the ensuing years the current years' project and the next year's project would be funded until the \$141,050 is dedicated to Arch Cape. Table 3 depicts the financial impacts of this scenario.

Table 3
Incremental Reduction of Room Tax

| <u>Project</u> | <u>Year 1</u> | <u>Year 2</u> | <u>Year 3</u> | <u>Year 4</u> |
|------------------------------|---------------|---------------|---------------|------------------|
| Coastal Warning Sirens | \$ 25,750 | | | |
| 2 - 40KW Generator Sets | | \$ 40,800 | | |
| 4 - 40 foot Storage | | | \$ 22,000 | |
| <u>10 Emergency Shelters</u> | | | | <u>\$ 52,500</u> |
| Total Support - Arch Cape | \$ 25,750 | \$ 66,550 | \$ 88,550 | \$ 141,050 |

Fairness of Services

Arch Cape is a rural residential area located in Clatsop County. The County keeps track of some of the services provided to the Arch Cape area since the question of County service levels in this particular rural residential area has been raised in the past. The County's policy is to provide equitable services to all County residents regardless of location while recognizing that certain locations require additional attention in the short-term.

Sheriff's Office Law Enforcement Services

The areas of the County not within cities pay a law enforcement levy. These funds are generated to provide rural law enforcement services. While the General Fund Room Tax discretionary revenue supports the Sheriff's Office, the majority of the support for these services comes from the rural law enforcement levy. Based on a review by the County staff the Arch Cape area receives about \$8,000 per year in services that are not provided to other areas of the County by the Sheriff's Office.

The Sheriff's Office divides the County into several service zones. Arch Cape is in Zone 3 and the Arch Cape area makes up a relatively small portion of the Zone 3 district (which encompasses from the north Seaside City Limit to the County Line on Hwy 101 and out Hwy 26

to Milepost 11). Unlike other zones (even those with resident deputies) the Arch Cape area has a .2 Full Time Equivalent (FTE) deputy assigned to the area. The call volume is low in the area.

In order to be comparable to other areas of the County, the Sheriff's Office would have to provide a deputy specifically assigned to the Westport community instead of the current practice of having services provided by the Zone 1 deputy who also serves all of the communities in Zone 1 including: Clifton/Bradwood, Knappa, Svensen, Brownsmead, Burnside and John Day. For Arch Cape to be treated similar to the other communities in the county would mean they would only receive services from the deputy assigned to the Zone, not the additional .2 FTE deputy specifically assigned to their community.

The Arch Cape area also receives General Fund support in the form of search and rescue, civil service, the jail, the work crew and mandatory investigations (i.e. child abuse, death investigations) no different than any other area in the county.

Emergency Preparedness

The focus of emergency preparedness has been along the coast due to the potential destructive force of a subduction zone earthquake followed by a tidal wave. Through an interview with the Emergency Services Director no inordinate service levels were identified for the Arch Cape area. It is true that services have been more focused in the community this year than in the past, but he thought this was a short-term occurrence related to increased community interest. In addition, there were some issues that needed to be resolved and a willingness by Cannon Beach Rural Fire Protection District to assist the rural area. These short-term projects would not be considered extraordinary since similar services are offered anywhere in the County.

Southwest Coastal Citizen Advisory Committee

The County Comprehensive plan identified citizen involvement groups to represent the rural residential communities located in Clatsop County. These groups were active during the development of the comprehensive plan and then with the planning mission accomplished, most are no longer active. The Southwest Coastal Citizen Advisory Committee served as the Arch Cape comprehensive planning committee, but actually was formed many years ago to provide advice and monitor development in the Arch Cape community. They are the only citizen advisory committee provided specific duties in the Land and Water Development Code that in general includes design review and recommendations to the Director. The County staff's the committee.

Table 4 below outlines the formula used to calculate the costs of providing support for the Southwest Coastal Citizens Advisory Committee and code enforcement services to Arch Cape during the 2011-12 fiscal year.

Table 4
Community Development Services
General Planning and Code Enforcement Support

| | | |
|------------------------|--------------|-------------|
| Personnel | | \$ 352,200 |
| Materials and Services | \$ 372,200 | |
| Contractual | \$ (216,000) | |
| Bradwood | \$ (10,000) | |
| OR -LNG | \$ (115,000) | |
| Subtotal | | \$ 31,200 |
| Total | | \$ 383,400 |
| Full time equivalent | 3.30 | |
| Hours per year | 2,080.00 | |
| Total Department Hours | | 6,864 |
| Per Hour Cost | | \$ 55.86 |
| Hours Spent Arch Cape | | 149 |
| Total Cost | | \$ 8,322.64 |

Code Enforcement

County staff provides code enforcement services and has been involved in discussions with community members regarding the County code, the role of County in enforcement actions, property boundaries, and other neighborhood disputes. Staff indicates there seem to be more phone calls and requests for services from Arch Cape than other areas of the County.

Overhead

The County incurs costs for the billing, collection, and research to identify vacation rentals that have not signed up to pay the Room Tax. While specific hours are not identified by the staff in general the County overhead rate is 10% and County staff believes it is reasonable to estimate the time and materials dedicated to the maintenance of the Room Tax for Arch Cape at \$14,100 average per year based on the prior three years of collections.

County-wide Service Balance

The Room Tax may provide an issue to discuss an important County policy - providing equal services to all County residents. On the one hand it does seem unfair that the residents of Arch Cape tolerate an increase in population from 183 residents to more than 600 on holiday weekends and during the summer, and receive very little extraordinary service from the Room Tax revenues that these visitors generate. On the other hand it could also be argued that Wauna Mill pays about 7% of the County's property taxes (this is approximately \$500,000 of the County's General Fund revenue) and the rural residential community of Westport receives very little extraordinary service from the property tax revenues generated by Wauna Mill.

The discussion of services based on revenues generated from specific geographic areas, might develop into identifying the taxes generated and the services that should be provided in each District. This would lead to a study of matching services to revenues by area to financial management and providing services to five mini-counties.

Summary

Arch Cape uses County Community Development services in the amount of \$8,322.64 more than would be anticipated or expected in other parts of the County. Rural law enforcement and emergency preparedness identified \$8,000 in additional support in the form of a .2 FTE. Based on the cost of overhead of \$14,100, the Community Development services of \$8,322.64, and \$8,000 for Sheriff's Office services, the total cost of services identified is \$30,422.64. Of this amount \$16,322.64 would be considered extraordinary services.

The County Board is elected from districts and each Commissioner has the focus of the voters who elected them, the geographic area of the district, and the whole County. General County issues are the subject to the goodwill framed as a focus of the Board to serve the whole County. The County staff is committed to providing equal services for all County residents.

Long Term Financial Plan Categories

Table 1 indicates that during the past three years there has been significant growth in Room Tax revenue from the Arch Cape community and the balance of the County. Part of this may be more efficient collection by the Assessment and Taxation staff, part of it may be the down-turn in the economy in 2008 that placed more housing in the short-term rental market, part of it may be an increase in the rents being charged, and part of it could be more people electing to have a stay near home vacation thereby increasing the demand. The increase in revenue also suggests greater impacts on the Arch Cape community assuming occupancy has been higher.

The Board could change the policy and determine that the Room Tax is not county-wide discretionary revenue. Room Taxes are generated by tourist activity that brings with them a whole set of problems. Noise, crowding, traffic, are impacts that may or may not be present from other uses. Possibly the Room Tax should be considered a nondiscretionary revenue in the Long Term Financial Plan.

The Long Term Financial Plan was provided to the County on September 13, 2004. The Board may want to revisit the plan and categorize the Room Tax as nondiscretionary revenue and dedicate the Room Tax to certain purposes.

Incorporation

When the County Comprehensive Plan was developed Arch Cape was one of the areas that allowed for a more urbanized development form while remaining in the County. Under the land use planning scheme, areas like Arch Cape will eventually either incorporate or be annexed into a contiguous city in the future. Arch Cape is not contiguous to another City in the County. The concept of incorporation of Arch Cape is an additional way to capture the Room Tax revenues

for use in the Arch Cape area, although incorporation is not an easy process. The authority to incorporate is included in the Oregon Revise Statutes.

“ORS 221.020 Authority to incorporate. The people of an area, no part of which lies in an incorporated city and in which 150 persons reside, may incorporate a city by approving at an election called and held according to ORS 221.031 to 221.061 a proposition provided by those sections for incorporating the city.”

The Arch Cape area has 183 residents (See the Map Attached) and according to the 2010 census this is more than enough to incorporate albeit not without some challenges. There may be some zoning to change, since property must be in certain zones prior to incorporation, to be resolved with the assistance of County Community Development Department. Petitions would need to be collected and an election held. A study of resources and expenses completed and other requirements met. A property tax base would need to be secured and a City Council elected. The community may want to request that the County assist them with preparing the Arch Cape area for incorporation.

The Arch Cape area also has 144 registered voters and with children and unregistered adults it is likely that the small community would meet the minimum of 150 persons required to consider an annexation vote.

A very preliminary financial evaluation based on the assessed value of the Arch Cape Domestic Water District and the Falcon Cove Beach Water District suggests a minimum annual revenue stream of about \$360,000 per year with no increase in the current tax rate paid by residents. A breakdown of the calculations follows in Table 5.

Table 5
Arch Cape/Falcon Cove
City Incorporation Preliminary Revenues

| | Gross | 70 Percent for Tourism | NET |
|--------------------------------------|----------------------|---------------------------|----------------------|
| Arch Cape Water Dist. Assessed Value | \$ 105,363,019 | | \$ 105,363,019 |
| Fal Co Beach Water Dist A. V. | <u>\$ 19,241,116</u> | | <u>\$ 19,241,116</u> |
| Total Assessed Value | \$ 124,604,135 | | \$ 124,604,135 |
| | | | |
| Rural Law Enforcement Tax Rate | \$ 0.7195 | | \$ 0.7195 |
| <u>Road District #1 Tax Rate</u> | <u>\$ 1.0175</u> | | <u>\$ 1.0175</u> |
| Possible City Tax Rate | \$ 1.7370 | | \$ 1.7370 |
| | | | |
| Total Value in Thousands | \$ 124,604.135 | | \$ 124,604.135 |
| Potential City Property Taxes | \$ 216,437.38 | | \$ 216,437.38 |
| <u>Room Tax - 3 year Average</u> | <u>\$ 141,050.00</u> | <u>\$ 98,735.00</u> | <u>\$ 42,315.00</u> |
| Est. Rev. - No Change in Tax Rate | \$ 357,487.38 | | \$ 258,752.38 |

The law would require that 70% of the Room Taxes adopted by the new city be dedicated to tourism promotion activities (See Page 14, (6) for the reference to State Law. This amount is almost \$100,000 per year and would leave a balance of about \$260,000 in revenue to operate the new City.

The assumption is that the City Property Tax rate would equal the amount currently collected for Rural Law District and Road District #1. There would be additional revenue from the State in the form of liquor, cigarettes, and gas taxes that is not shown in this illustration. A Municipal Court might do well in Arch Cape through the generation of revenue based on traffic violations along Highway 101. The new Arch Cape City Council would need to adopt the Room Tax since the County would no longer have the authority to collect the Room Tax within the new Arch Cape City Limits.

Of course there would be requirements for a small city including an annual audit, periodic election of a City Council and commensurate election costs, meeting agendas and general administration. This may cost up to \$100,000 per year depending on the availability of an individual to work part-time. The balance of the funds would be dedicated to basic services including law enforcement, land use planning, street repair and maintenance, and other general municipal services including emergency management. The services could be secured either by hiring staff or contracting with nearby cities or the County.

Attachments:

Oregon Revised Statutes 320 – Room Tax or Lodging Tax
Map of Arch Cape
Arch Cape Emergency Preparedness Project Recommendations
List of Arch Cape Short-Term Rentals
Room Tax Collected

Oregon Revised Statutes
Room or Lodging Tax

320.350 Tax moratorium; exceptions; uses of revenues. (1) A unit of local government that did not impose a local transient lodging tax on July 1, 2003, may not impose a local transient lodging tax on or after July 2, 2003, unless the imposition of the local transient lodging tax was approved on or before July 1, 2003.

(2) A unit of local government that imposed a local transient lodging tax on July 1, 2003, may not increase the rate of the local transient lodging tax on or after July 2, 2003, to a rate that is greater than the rate in effect on July 1, 2003, unless the increase was approved on or before July 1, 2003.

(3) A unit of local government that imposed a local transient lodging tax on July 1, 2003, may not decrease the percentage of total local transient lodging tax revenues that are actually expended to fund tourism promotion or tourism-related facilities on or after July 2, 2003. A unit of local government that agreed, on or before July 1, 2003, to increase the percentage of total local transient lodging tax revenues that are to be expended to fund tourism promotion or tourism-related facilities, must increase the percentage as agreed.

(4) Notwithstanding subsections (1) and (2) of this section, a unit of local government that is financing debt with local transient lodging tax revenues on November 26, 2003, must continue to finance the debt until the retirement of the debt, including any refinancing of that debt. If the tax is not otherwise permitted under subsection (1) or (2) of this section, at the time of the debt retirement:

(a) The local transient lodging tax revenue that financed the debt shall be used as provided in subsection (5) of this section; or

(b) The unit of local government shall thereafter eliminate the new tax or increase in tax otherwise described in subsection (1) or (2) of this section.

(5) Subsections (1) and (2) of this section do not apply to a new or increased local transient lodging tax if all of the net revenue from the new or increased tax, following reductions attributed to collection reimbursement charges, is used consistently with subsection (6) of this section to:

(a) Fund tourism promotion or tourism-related facilities;

(b) Fund city or county services; or

(c) Finance or refinance the debt of tourism-related facilities and pay reasonable administrative costs incurred in financing or refinancing that debt, provided that:

(A) The net revenue may be used for administrative costs only if the unit of local government provides a collection reimbursement charge; and

(B) Upon retirement of the debt, the unit of local government reduces the tax by the amount by which the tax was increased to finance or refinance the debt.

(6) At least 70 percent of net revenue from a new or increased local transient lodging tax shall be used for the purposes described in subsection (5)(a) or (c) of this section. No more than 30 percent of net revenue from a new or increased local transient lodging tax may be used for the purpose described in subsection (5)(b) of this section. [2003 c.818 §11]



COUNTY MANAGER'S OFFICE

MEMORANDUM

To: Budget Committee

From: Duane Cole, County Manager

Date: April 2012

Subject: Room Tax Revenues Dedicated to Emergency Preparedness

Summary

The Memorandum addresses the following issue: **an analysis to present to the Board and Budget Committee of the geographic source of this revenue and conduct an evaluation on whether these funds should be used to pay for emergency preparedness in specific areas in the County.** The information presented in this Memorandum can be summarized as follows:

- The Arch Cape area generates 84% of the County Room Tax revenue with average revenue of about \$140,000 per year over the last 3 years. Shifting this revenue to other uses would require reducing the budget in other areas.
- The Arch Cape area receives some extraordinary or additional services from the County in the amount of about \$16,500 per year. It costs about \$14,100 per year to bill and collect the Room Tax. The total of extraordinary and administration is about \$30,600.
- Emergency service identified four initial projects that cost a total of \$141,050 in Arch Cape. These projects would require on-going maintenance to be provided by the County. Emergency Services and the Room Tax funds could be used for on-going support.
- It is legal to redirect these funds as out-lined in this Memorandum, but this may require Board action.
- Reductions are difficult to quantify, but \$140,000 equals about 2 full time positions. An incremental reduction of Room Tax as a discretionary revenue could be considered.
- Staff is careful to provide services to the whole County and discussing the assignment of specific funds to each Board District may create service delivery issues.
- The assignment of the Room Tax as a discretionary revenue can be changed by the Board. Long Term Financial Plan categorization of the Room Tax as a discretionary revenue can be reconsidered by the Board.
- Incorporation is an option for Arch Cape. Preliminarily, and assuming the difficult process and politics could be resolved, incorporation of the community would generate funds that could increase services for an urban area of the County.

Based on this information the Board has several policy choices regarding the use of the discretionary Room Tax revenue.

- Allocate the Room Tax collected in Arch Cape to that area for services including emergency preparedness. This would have serious implications for the budget and require additional adjustments likely including lay-offs or at least reassignment of current staff to specific duties related to Arch Cape.
- Allocate the Room Tax collected in Arch Cape to that area over the coming 4 or 5 years. This would ease the shock to the County budget and provide time for the loss in revenue to be absorbed by the larger corporation.
- Do nothing at this time with the Room Tax.
- Determine that incorporation would be a better outcome for Arch Cape and begin working with the community to see that a new City is formed in the County. This would provide funds for Arch Cape services as the next Oregon City. This might be coupled with the slow dedication of room tax funds over time to provide funds to assist with incorporation.
- Determine whether the categorization of Room Taxes in the Long Range Financial Plan is correct and decide whether they should be moved from discretionary funds to nondiscretionary funds. Once this decision is completed the County staff could build these funds into the budget as nondiscretionary and reduce services in some areas while increasing services in Arch Cape.

The staff is willing to proceed based on these or other options the Board may wish to pursue.

Introduction

The Board of County Commissioners at their January 25, 2012 Board meeting adopted the following task for staff to complete and present with the annual budget. This Memorandum serves to comply with the Board's Request.

XII. DISCRETIONARY RESOURCES

- B. Room Tax Revenues: Room tax monies are not legally dedicated to fund particular programs or services. Staff shall do an analysis to present to the Board and Budget Committee of the geographic source of this revenue and conduct an evaluation on whether these funds should be used to pay for emergency preparedness in specific areas in the County.**

Room Tax revenue are considered discretionary revenues by the County. This means that the revenue is placed in the General Fund to pay for services for the whole County. The Budget Policies provide the following:

“Wherever legally possible, revenues are to be treated as discretionary resources, rather than as dedicated to a particular program or service. The goal is to give the Board as much flexibility as possible in allocating resources to local priorities.”

The Room Tax is primarily generated in the County’s jurisdiction (this Memorandum does not include City Room Tax revenue since those revenues belong to the cities) with 84% coming specifically from the Arch Cape and Falcon Cove rural residential communities. This Memorandum focuses on those communities and while the Memorandum refers to Arch Cape, Falcon Cove is intended to be included in all respects in the references to Arch Cape. (See Attached Map)

Room Tax Revenues

Table 1 outlines the source and revenue from Arch Cape and the balance of the County.

Table 1
Room Tax Collected
2009, 2010, 2011

| Quarter | Arch | Other | Total | Percent |
|-----------------------|-------------------|------------------|-------------------|-----------------------|
| <u>Ending</u> | <u>Cape</u> | <u>Areas</u> | <u>Collected</u> | <u>From Arch Cape</u> |
| 3/31/2009 | 11,096.41 | 3,255.52 | 14,351.93 | 77.32% |
| 6/30/2009 | 23,787.17 | 4,870.11 | 28,657.28 | 83.01% |
| 9/30/2009 | 72,087.79 | 16,270.05 | 88,357.84 | 81.59% |
| <u>12/31/2009</u> | <u>19,346.94</u> | <u>3,400.06</u> | <u>22,747.00</u> | <u>85.05%</u> |
| Total | 126,318.31 | 27,795.74 | 154,114.05 | 81.96% |
| 3/31/2010 | 15,626.90 | 2,574.45 | 18,201.35 | 85.86% |
| 6/30/2010 | 30,308.55 | 5,295.36 | 35,603.91 | 85.13% |
| 9/30/2010 | 69,951.54 | 15,368.07 | 85,319.61 | 81.99% |
| <u>12/31/2010</u> | <u>20,225.28</u> | <u>3,371.61</u> | <u>23,596.89</u> | <u>85.71%</u> |
| Total | 136,112.27 | 26,609.49 | 162,721.76 | 83.65% |
| 3/31/2011 | 20,738.20 | 3,234.83 | 23,973.03 | 86.51% |
| 6/30/2011 | 30,284.08 | 5,083.11 | 35,367.19 | 85.63% |
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In order to shift this income to other services including services specific to the Arch Cape community, the County would need to either increase revenues or reduce services in other areas of the budget. The budget assumption included direction to consider shifting these revenues to emergency services for services related specifically to the areas from which the Room Tax was collected.

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The Emergency Services Director, Dean Perez, was tasked with providing a budget request that would be useful during the 2012-13 fiscal year. The EMS team identified four project areas that are described as follows:

Project 1: Coastal Warning Sirens. In order to enhance warning residents and visitors to evacuate beach areas in the event of a distant tsunami or hazardous material event, the plan is to install four (4) all hazard sound and voice emergency notification systems (obtained from the Chemical Stockpile Emergency Preparedness Program) from the Tillamook County line to the Cannon Beach city limits. The sirens would be linked into Cannon Beach's existing warning siren network which is operated and maintained by the Cannon Beach Fire Department. The estimated cost to permit, transport, install and program the sirens is approximately \$25,750. This project would take approximately 60 days complete.

Project 2: Two 40 KW Diesel Generator Sets with fuel tanks. In the event of a power outage, these Generator Sets would provide emergency backup power to the unincorporated areas of Arch Cape and Falcon Cove. In consultation with community leaders, the generators would be placed near high ground assembly areas for Arch Cape and Falcon Cove residents and visitors. The estimated cost to purchase, permit, and enclose both Generator Sets is approximately \$40,800.

Project 3: Four (4) 40 - foot storage containers. Similar to the City of Cannon Beach's storage container program, the plan would be to pre-position four storage containers on the high ground assembly areas for Arch Cape and Falcon Cove residents. In the event of a near or distant tsunami, residents would have access to food, water, and medical equipment that could sustain them for up to one week maybe longer. One 40 foot container can hold personal emergency kits, blankets, food and equipment for approximately 100 people. The estimated cost to purchase, permit, and drop ship four containers would be approximately \$22,000.

Project 4: 10 Emergency Shelter Modular Tents. The plan is to pre-position Emergency Shelter Modular tents in each of the four storage containers located on the high ground assembly areas. In the event of a near or distant tsunami, residents and visitors would have access to temporary shelter. When properly deployed, these modular tents provide extended protection from the cold,

wind and rain and protect against hypothermia. The estimated cost to purchase, ship and store ten Emergency Shelter Modular tents is approximately \$52,500.

Table 2 identifies the cost of each of these projects. The projects would provide capital assets that the County would need to maintain over time. No on-going operational costs were identified after the first year, but staff would need to be paid for and dedicated to assure that all of the equipment is in proper working condition and the items in storage remain fresh and serviceable.

Table 2
Arch Cape
Proposed Projects 2012-13

| | | | |
|----|---|-----------|-------------------|
| 1. | Coastal Warning Sirens | | |
| | · Transportation and Installation of Power Poles | \$ | 8,000.00 |
| | · Permits | \$ | 1,500.00 |
| | · Installation of 4 Poles, Sirens and Programming (labor) | \$ | 16,250.00 |
| | Total: | \$ | 25,750.00 |
| 2. | 2 -40KW Generator Sets @ \$12,000 per Generator Set X 2 | \$ | 24,000.00 |
| | · 250 Gallon Fuel Tank | \$ | 3,600.00 |
| | · Enclosures | \$ | 1,100.00 |
| | · Switch Gear | \$ | 3,000.00 |
| | · Control Panels | \$ | 3,600.00 |
| | · Permits | \$ | 1,000.00 |
| | · Electrician, cable and materials, Labor | \$ | 3,000.00 |
| | · Drop Shipping | \$ | 1,500.00 |
| | Total: | \$ | 40,800.00 |
| 3. | 4- 40 foot Storage Containers @ \$5,500.00 per Container X 4 | \$ | 22,000.00 |
| | · Price includes Drop Shipping | \$ | - |
| | Total: | \$ | 22,000.00 |
| 4. | 10 - Emergency Shelter Modular Tents @ \$5,000.00 per Tent X 10 | \$ | 50,000.00 |
| | Note: Each Tent Shelters 50 people | | |
| | · Drop Shipping | \$ | 2,500.00 |
| | Total: | \$ | 52,500.00 |
| | Grand Total | | |
| | Cost: | \$ | 141,050.00 |

In the years to come the \$140,000 could be used to pay for maintenance and supplement the existing items. In addition, the community might identify additional County services or projects designed to assist the community. For example, a volunteer coordinator working with residents may be one investment that could be useful.

Legal Framework

Is there any legal impediment to changing the Clatsop County Transient Room Tax Ordinance No. 90-7 (as amended by Ordinance No. 04-02) to which short term rentals are subject to pursuant to Ordinance 03-13?

The allocation of a portion of funds collected to a special fund for use in the specific geographic area from which the funds were derived is allowed. This would take some detailed drafting and require a number of decisions by the Board, but it could be done. There is no legal prohibition on doing so.

The board would need to decide what the fund would be used for, with some specificity. The Board would also need to decide how the funds would be applied geographically to the various collection points throughout the County. While most funds are collected from the Arch Cape area, funds are also collected from Westport, the Elderberry Inn, and the Clatsop Plains. The needs in one area may be very different from the needs in another. There also should be some thought given to the precedent created in dedicating funds geographically, for other funding streams (this is considered elsewhere in this Memorandum).

A decision like this may be impacted by ORS 320.350. This statute (Attached to this Memorandum) grandfathers all room tax ordinances in existence on July 1, 2003. Any new ordinances, or increases after that date, must be allocated at least 70% to tourism promotion or tourism-related activities. Since an amendment to allocate the use of the funds from a specific geographical area back to that area is not expected to increase the tax rate, the County will not fall under the statutory requirements of ORS 320.350.

Creation of a new fund does have costs for administration and statutory audits. The County has determined, and its indirect cost allocation plan provides, that the cost to the County of managing each separate fund is 10% of the value of that fund. If all room tax receipts were allocated to dedicated fund, the additional cost to the County would be approximately \$16,600 based on the three year revenue average. Once in a special fund established by ordinance, the funds could not be used for any other purpose without both amending the ordinance and adjusting the budget.

Use of these funds for the purpose outlined the protection of property, lives and providing a place for residents and visitors to safely assemble pending or after a natural disaster, appears to be a use of Room Tax funds consistent with the law establishing the County authority to impose a Room Tax. Additionally, after the investment in Arch Cape is completed Emergency Services could use the funds elsewhere on the Clatsop Coast to address Emergency Services projects.

Reductions

The reductions needed to replace the \$141,050 loss in General Fund resources is difficult to specifically identify. The amount equals a little more than one percent of the General Fund and in those terms it does not seem like a large amount. In the limited proposed 2012-13 fiscal year budget however this reduction would equal about two positions including the materials and services to support those positions. Rather than the shock to the budget of a reduction of this amount all at once, perhaps a first step would be to fund the coastal warning sirens project this year. Then in the ensuing years the current years' project and the next year's project would be funded until the \$141,050 is dedicated to Arch Cape. Table 3 depicts the financial impacts of this scenario.

Table 3
Incremental Reduction of Room Tax

| <u>Project</u> | <u>Year 1</u> | <u>Year 2</u> | <u>Year 3</u> | <u>Year 4</u> |
|------------------------------|---------------|---------------|---------------|------------------|
| Coastal Warning Sirens | \$ 25,750 | | | |
| 2 - 40KW Generator Sets | | \$ 40,800 | | |
| 4 - 40 foot Storage | | | \$ 22,000 | |
| <u>10 Emergency Shelters</u> | | | | <u>\$ 52,500</u> |
| Total Support - Arch Cape | \$ 25,750 | \$ 66,550 | \$ 88,550 | \$ 141,050 |

Fairness of Services

Arch Cape is a rural residential area located in Clatsop County. The County keeps track of some of the services provided to the Arch Cape area since the question of County service levels in this particular rural residential area has been raised in the past. The County's policy is to provide equitable services to all County residents regardless of location while recognizing that certain locations require additional attention in the short-term.

Sheriff's Office Law Enforcement Services

The areas of the County not within cities pay a law enforcement levy. These funds are generated to provide rural law enforcement services. While the General Fund Room Tax discretionary revenue supports the Sheriff's Office, the majority of the support for these services comes from the rural law enforcement levy. Based on a review by the County staff the Arch Cape area receives about \$8,000 per year in services that are not provided to other areas of the County by the Sheriff's Office.

The Sheriff's Office divides the County into several service zones. Arch Cape is in Zone 3 and the Arch Cape area makes up a relatively small portion of the Zone 3 district (which encompasses from the north Seaside City Limit to the County Line on Hwy 101 and out Hwy 26

to Milepost 11). Unlike other zones (even those with resident deputies) the Arch Cape area has a .2 Full Time Equivalent (FTE) deputy assigned to the area. The call volume is low in the area.

In order to be comparable to other areas of the County, the Sheriff's Office would have to provide a deputy specifically assigned to the Westport community instead of the current practice of having services provided by the Zone 1 deputy who also serves all of the communities in Zone 1 including: Clifton/Bradwood, Knappa, Svensen, Brownsmead, Burnside and John Day. For Arch Cape to be treated similar to the other communities in the county would mean they would only receive services from the deputy assigned to the Zone, not the additional .2 FTE deputy specifically assigned to their community.

The Arch Cape area also receives General Fund support in the form of search and rescue, civil service, the jail, the work crew and mandatory investigations (i.e. child abuse, death investigations) no different than any other area in the county.

Emergency Preparedness

The focus of emergency preparedness has been along the coast due to the potential destructive force of a subduction zone earthquake followed by a tidal wave. Through an interview with the Emergency Services Director no inordinate service levels were identified for the Arch Cape area. It is true that services have been more focused in the community this year than in the past, but he thought this was a short-term occurrence related to increased community interest. In addition, there were some issues that needed to be resolved and a willingness by Cannon Beach Rural Fire Protection District to assist the rural area. These short-term projects would not be considered extraordinary since similar services are offered anywhere in the County.

Southwest Coastal Citizen Advisory Committee

The County Comprehensive plan identified citizen involvement groups to represent the rural residential communities located in Clatsop County. These groups were active during the development of the comprehensive plan and then with the planning mission accomplished, most are no longer active. The Southwest Coastal Citizen Advisory Committee served as the Arch Cape comprehensive planning committee, but actually was formed many years ago to provide advice and monitor development in the Arch Cape community. They are the only citizen advisory committee provided specific duties in the Land and Water Development Code that in general includes design review and recommendations to the Director. The County staff's the committee.

Table 4 below outlines the formula used to calculate the costs of providing support for the Southwest Coastal Citizens Advisory Committee and code enforcement services to Arch Cape during the 2011-12 fiscal year.

Table 4
Community Development Services
General Planning and Code Enforcement Support

| | | |
|------------------------|--------------|-------------|
| Personnel | | \$ 352,200 |
| Materials and Services | \$ 372,200 | |
| Contractual | \$ (216,000) | |
| Bradwood | \$ (10,000) | |
| OR -LNG | \$ (115,000) | |
| Subtotal | | \$ 31,200 |
| Total | | \$ 383,400 |
| Full time equivalent | 3.30 | |
| Hours per year | 2,080.00 | |
| Total Department Hours | | 6,864 |
| Per Hour Cost | | \$ 55.86 |
| Hours Spent Arch Cape | | 149 |
| Total Cost | | \$ 8,322.64 |

Code Enforcement

County staff provides code enforcement services and has been involved in discussions with community members regarding the County code, the role of County in enforcement actions, property boundaries, and other neighborhood disputes. Staff indicates there seem to be more phone calls and requests for services from Arch Cape than other areas of the County.

Overhead

The County incurs costs for the billing, collection, and research to identify vacation rentals that have not signed up to pay the Room Tax. While specific hours are not identified by the staff in general the County overhead rate is 10% and County staff believes it is reasonable to estimate the time and materials dedicated to the maintenance of the Room Tax for Arch Cape at \$14,100 average per year based on the prior three years of collections.

County-wide Service Balance

The Room Tax may provide an issue to discuss an important County policy - providing equal services to all County residents. On the one hand it does seem unfair that the residents of Arch Cape tolerate an increase in population from 183 residents to more than 600 on holiday weekends and during the summer, and receive very little extraordinary service from the Room Tax revenues that these visitors generate. On the other hand it could also be argued that Wauna Mill pays about 7% of the County's property taxes (this is approximately \$500,000 of the County's General Fund revenue) and the rural residential community of Westport receives very little extraordinary service from the property tax revenues generated by Wauna Mill.

The discussion of services based on revenues generated from specific geographic areas, might develop into identifying the taxes generated and the services that should be provided in each District. This would lead to a study of matching services to revenues by area to financial management and providing services to five mini-counties.

Summary

Arch Cape uses County Community Development services in the amount of \$8,322.64 more than would be anticipated or expected in other parts of the County. Rural law enforcement and emergency preparedness identified \$8,000 in additional support in the form of a .2 FTE. Based on the cost of overhead of \$14,100, the Community Development services of \$8,322.64, and \$8,000 for Sheriff's Office services, the total cost of services identified is \$30,422.64. Of this amount \$16,322.64 would be considered extraordinary services.

The County Board is elected from districts and each Commissioner has the focus of the voters who elected them, the geographic area of the district, and the whole County. General County issues are the subject to the goodwill framed as a focus of the Board to serve the whole County. The County staff is committed to providing equal services for all County residents.

Long Term Financial Plan Categories

Table 1 indicates that during the past three years there has been significant growth in Room Tax revenue from the Arch Cape community and the balance of the County. Part of this may be more efficient collection by the Assessment and Taxation staff, part of it may be the down-turn in the economy in 2008 that placed more housing in the short-term rental market, part of it may be an increase in the rents being charged, and part of it could be more people electing to have a stay near home vacation thereby increasing the demand. The increase in revenue also suggests greater impacts on the Arch Cape community assuming occupancy has been higher.

The Board could change the policy and determine that the Room Tax is not county-wide discretionary revenue. Room Taxes are generated by tourist activity that brings with them a whole set of problems. Noise, crowding, traffic, are impacts that may or may not be present from other uses. Possibly the Room Tax should be considered a nondiscretionary revenue in the Long Term Financial Plan.

The Long Term Financial Plan was provided to the County on September 13, 2004. The Board may want to revisit the plan and categorize the Room Tax as nondiscretionary revenue and dedicate the Room Tax to certain purposes.

Incorporation

When the County Comprehensive Plan was developed Arch Cape was one of the areas that allowed for a more urbanized development form while remaining in the County. Under the land use planning scheme, areas like Arch Cape will eventually either incorporate or be annexed into a contiguous city in the future. Arch Cape is not contiguous to another City in the County. The concept of incorporation of Arch Cape is an additional way to capture the Room Tax revenues

for use in the Arch Cape area, although incorporation is not an easy process. The authority to incorporate is included in the Oregon Revise Statutes.

“ORS 221.020 Authority to incorporate. The people of an area, no part of which lies in an incorporated city and in which 150 persons reside, may incorporate a city by approving at an election called and held according to ORS 221.031 to 221.061 a proposition provided by those sections for incorporating the city.”

The Arch Cape area has 183 residents (See the Map Attached) and according to the 2010 census this is more than enough to incorporate albeit not without some challenges. There may be some zoning to change, since property must be in certain zones prior to incorporation, to be resolved with the assistance of County Community Development Department. Petitions would need to be collected and an election held. A study of resources and expenses completed and other requirements met. A property tax base would need to be secured and a City Council elected. The community may want to request that the County assist them with preparing the Arch Cape area for incorporation.

The Arch Cape area also has 144 registered voters and with children and unregistered adults it is likely that the small community would meet the minimum of 150 persons required to consider an annexation vote.

A very preliminary financial evaluation based on the assessed value of the Arch Cape Domestic Water District and the Falcon Cove Beach Water District suggests a minimum annual revenue stream of about \$360,000 per year with no increase in the current tax rate paid by residents. A breakdown of the calculations follows in Table 5.

Table 5
Arch Cape/Falcon Cove
City Incorporation Preliminary Revenues

| | Gross | 70 Percent for Tourism | NET |
|--------------------------------------|----------------------|---------------------------|----------------------|
| Arch Cape Water Dist. Assessed Value | \$ 105,363,019 | | \$ 105,363,019 |
| Fal Co Beach Water Dist A. V. | <u>\$ 19,241,116</u> | | <u>\$ 19,241,116</u> |
| Total Assessed Value | \$ 124,604,135 | | \$ 124,604,135 |
| | | | |
| Rural Law Enforcement Tax Rate | \$ 0.7195 | | \$ 0.7195 |
| <u>Road District #1 Tax Rate</u> | <u>\$ 1.0175</u> | | <u>\$ 1.0175</u> |
| Possible City Tax Rate | \$ 1.7370 | | \$ 1.7370 |
| | | | |
| Total Value in Thousands | \$ 124,604.135 | | \$ 124,604.135 |
| Potential City Property Taxes | \$ 216,437.38 | | \$ 216,437.38 |
| <u>Room Tax - 3 year Average</u> | <u>\$ 141,050.00</u> | <u>\$ 98,735.00</u> | <u>\$ 42,315.00</u> |
| Est. Rev. - No Change in Tax Rate | \$ 357,487.38 | | \$ 258,752.38 |

The law would require that 70% of the Room Taxes adopted by the new city be dedicated to tourism promotion activities (See Page 14, (6) for the reference to State Law. This amount is almost \$100,000 per year and would leave a balance of about \$260,000 in revenue to operate the new City.

The assumption is that the City Property Tax rate would equal the amount currently collected for Rural Law District and Road District #1. There would be additional revenue from the State in the form of liquor, cigarettes, and gas taxes that is not shown in this illustration. A Municipal Court might do well in Arch Cape through the generation of revenue based on traffic violations along Highway 101. The new Arch Cape City Council would need to adopt the Room Tax since the County would no longer have the authority to collect the Room Tax within the new Arch Cape City Limits.

Of course there would be requirements for a small city including an annual audit, periodic election of a City Council and commensurate election costs, meeting agendas and general administration. This may cost up to \$100,000 per year depending on the availability of an individual to work part-time. The balance of the funds would be dedicated to basic services including law enforcement, land use planning, street repair and maintenance, and other general municipal services including emergency management. The services could be secured either by hiring staff or contracting with nearby cities or the County.

Attachments:

Oregon Revised Statutes 320 – Room Tax or Lodging Tax
Map of Arch Cape
Arch Cape Emergency Preparedness Project Recommendations
List of Arch Cape Short-Term Rentals
Room Tax Collected

Oregon Revised Statutes
Room or Lodging Tax

320.350 Tax moratorium; exceptions; uses of revenues. (1) A unit of local government that did not impose a local transient lodging tax on July 1, 2003, may not impose a local transient lodging tax on or after July 2, 2003, unless the imposition of the local transient lodging tax was approved on or before July 1, 2003.

(2) A unit of local government that imposed a local transient lodging tax on July 1, 2003, may not increase the rate of the local transient lodging tax on or after July 2, 2003, to a rate that is greater than the rate in effect on July 1, 2003, unless the increase was approved on or before July 1, 2003.

(3) A unit of local government that imposed a local transient lodging tax on July 1, 2003, may not decrease the percentage of total local transient lodging tax revenues that are actually expended to fund tourism promotion or tourism-related facilities on or after July 2, 2003. A unit of local government that agreed, on or before July 1, 2003, to increase the percentage of total local transient lodging tax revenues that are to be expended to fund tourism promotion or tourism-related facilities, must increase the percentage as agreed.

(4) Notwithstanding subsections (1) and (2) of this section, a unit of local government that is financing debt with local transient lodging tax revenues on November 26, 2003, must continue to finance the debt until the retirement of the debt, including any refinancing of that debt. If the tax is not otherwise permitted under subsection (1) or (2) of this section, at the time of the debt retirement:

(a) The local transient lodging tax revenue that financed the debt shall be used as provided in subsection (5) of this section; or

(b) The unit of local government shall thereafter eliminate the new tax or increase in tax otherwise described in subsection (1) or (2) of this section.

(5) Subsections (1) and (2) of this section do not apply to a new or increased local transient lodging tax if all of the net revenue from the new or increased tax, following reductions attributed to collection reimbursement charges, is used consistently with subsection (6) of this section to:

(a) Fund tourism promotion or tourism-related facilities;

(b) Fund city or county services; or

(c) Finance or refinance the debt of tourism-related facilities and pay reasonable administrative costs incurred in financing or refinancing that debt, provided that:

(A) The net revenue may be used for administrative costs only if the unit of local government provides a collection reimbursement charge; and

(B) Upon retirement of the debt, the unit of local government reduces the tax by the amount by which the tax was increased to finance or refinance the debt.

(6) At least 70 percent of net revenue from a new or increased local transient lodging tax shall be used for the purposes described in subsection (5)(a) or (c) of this section. No more than 30 percent of net revenue from a new or increased local transient lodging tax may be used for the purpose described in subsection (5)(b) of this section. [2003 c.818 §11]



COUNTY MANAGER'S OFFICE

MEMORANDUM

To: Budget Committee

From: Duane Cole, County Manager

Date: April 2012

Subject: Room Tax Revenues Dedicated to Emergency Preparedness

Summary

The Memorandum addresses the following issue: **an analysis to present to the Board and Budget Committee of the geographic source of this revenue and conduct an evaluation on whether these funds should be used to pay for emergency preparedness in specific areas in the County.** The information presented in this Memorandum can be summarized as follows:

- The Arch Cape area generates 84% of the County Room Tax revenue with average revenue of about \$140,000 per year over the last 3 years. Shifting this revenue to other uses would require reducing the budget in other areas.
- The Arch Cape area receives some extraordinary or additional services from the County in the amount of about \$16,500 per year. It costs about \$14,100 per year to bill and collect the Room Tax. The total of extraordinary and administration is about \$30,600.
- Emergency service identified four initial projects that cost a total of \$141,050 in Arch Cape. These projects would require on-going maintenance to be provided by the County. Emergency Services and the Room Tax funds could be used for on-going support.
- It is legal to redirect these funds as out-lined in this Memorandum, but this may require Board action.
- Reductions are difficult to quantify, but \$140,000 equals about 2 full time positions. An incremental reduction of Room Tax as a discretionary revenue could be considered.
- Staff is careful to provide services to the whole County and discussing the assignment of specific funds to each Board District may create service delivery issues.
- The assignment of the Room Tax as a discretionary revenue can be changed by the Board. Long Term Financial Plan categorization of the Room Tax as a discretionary revenue can be reconsidered by the Board.
- Incorporation is an option for Arch Cape. Preliminarily, and assuming the difficult process and politics could be resolved, incorporation of the community would generate funds that could increase services for an urban area of the County.

Based on this information the Board has several policy choices regarding the use of the discretionary Room Tax revenue.

- Allocate the Room Tax collected in Arch Cape to that area for services including emergency preparedness. This would have serious implications for the budget and require additional adjustments likely including lay-offs or at least reassignment of current staff to specific duties related to Arch Cape.
- Allocate the Room Tax collected in Arch Cape to that area over the coming 4 or 5 years. This would ease the shock to the County budget and provide time for the loss in revenue to be absorbed by the larger corporation.
- Do nothing at this time with the Room Tax.
- Determine that incorporation would be a better outcome for Arch Cape and begin working with the community to see that a new City is formed in the County. This would provide funds for Arch Cape services as the next Oregon City. This might be coupled with the slow dedication of room tax funds over time to provide funds to assist with incorporation.
- Determine whether the categorization of Room Taxes in the Long Range Financial Plan is correct and decide whether they should be moved from discretionary funds to nondiscretionary funds. Once this decision is completed the County staff could build these funds into the budget as nondiscretionary and reduce services in some areas while increasing services in Arch Cape.

The staff is willing to proceed based on these or other options the Board may wish to pursue.

Introduction

The Board of County Commissioners at their January 25, 2012 Board meeting adopted the following task for staff to complete and present with the annual budget. This Memorandum serves to comply with the Board's Request.

XII. DISCRETIONARY RESOURCES

- B. Room Tax Revenues: Room tax monies are not legally dedicated to fund particular programs or services. Staff shall do an analysis to present to the Board and Budget Committee of the geographic source of this revenue and conduct an evaluation on whether these funds should be used to pay for emergency preparedness in specific areas in the County.**

Room Tax revenue are considered discretionary revenues by the County. This means that the revenue is placed in the General Fund to pay for services for the whole County. The Budget Policies provide the following:

“Wherever legally possible, revenues are to be treated as discretionary resources, rather than as dedicated to a particular program or service. The goal is to give the Board as much flexibility as possible in allocating resources to local priorities.”

The Room Tax is primarily generated in the County’s jurisdiction (this Memorandum does not include City Room Tax revenue since those revenues belong to the cities) with 84% coming specifically from the Arch Cape and Falcon Cove rural residential communities. This Memorandum focuses on those communities and while the Memorandum refers to Arch Cape, Falcon Cove is intended to be included in all respects in the references to Arch Cape. (See Attached Map)

Room Tax Revenues

Table 1 outlines the source and revenue from Arch Cape and the balance of the County.

Table 1
Room Tax Collected
2009, 2010, 2011

| Quarter | Arch | Other | Total | Percent |
|-----------------------|-------------------|------------------|-------------------|-----------------------|
| <u>Ending</u> | <u>Cape</u> | <u>Areas</u> | <u>Collected</u> | <u>From Arch Cape</u> |
| 3/31/2009 | 11,096.41 | 3,255.52 | 14,351.93 | 77.32% |
| 6/30/2009 | 23,787.17 | 4,870.11 | 28,657.28 | 83.01% |
| 9/30/2009 | 72,087.79 | 16,270.05 | 88,357.84 | 81.59% |
| <u>12/31/2009</u> | <u>19,346.94</u> | <u>3,400.06</u> | <u>22,747.00</u> | <u>85.05%</u> |
| Total | 126,318.31 | 27,795.74 | 154,114.05 | 81.96% |
| 3/31/2010 | 15,626.90 | 2,574.45 | 18,201.35 | 85.86% |
| 6/30/2010 | 30,308.55 | 5,295.36 | 35,603.91 | 85.13% |
| 9/30/2010 | 69,951.54 | 15,368.07 | 85,319.61 | 81.99% |
| <u>12/31/2010</u> | <u>20,225.28</u> | <u>3,371.61</u> | <u>23,596.89</u> | <u>85.71%</u> |
| Total | 136,112.27 | 26,609.49 | 162,721.76 | 83.65% |
| 3/31/2011 | 20,738.20 | 3,234.83 | 23,973.03 | 86.51% |
| 6/30/2011 | 30,284.08 | 5,083.11 | 35,367.19 | 85.63% |
| 9/30/2011 | 71,733.05 | 11,211.69 | 82,944.74 | 86.48% |
| <u>12/31/2011</u> | <u>35,815.60</u> | <u>3,268.56</u> | <u>39,084.16</u> | <u>91.64%</u> |
| Total | 158,570.93 | 22,798.19 | 181,369.12 | 87.43% |
| 3 Year Average | 140,333.84 | 25,734.47 | 166,068.31 | 84% |

Table 1 represents that the County collects an average over the last three years of \$166,000 per year from all areas of the County. The Arch Cape area provides about 84% of the funds or \$140,000 per year with a low in 2009 of \$126,000 and a high in 2011 of \$159,000. The other areas of the County provide about \$26,000 per year. Arch Cape provides 84% of the Room Tax

collected by the County. This revenue is generated from about 65 vacation rentals out of a total of 387 tax lots with residential improvements. The vacation rentals offer space for 657 additional residents if all spaces are filled. The residential population in 2010 of Arch Cape, including Falcon Cove, was 183 residents and there are currently 144 registered voters in the area. (See attached map.)

In order to shift this income to other services including services specific to the Arch Cape community, the County would need to either increase revenues or reduce services in other areas of the budget. The budget assumption included direction to consider shifting these revenues to emergency services for services related specifically to the areas from which the Room Tax was collected.

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The Emergency Services Director, Dean Perez, was tasked with providing a budget request that would be useful during the 2012-13 fiscal year. The EMS team identified four project areas that are described as follows:

Project 1: Coastal Warning Sirens. In order to enhance warning residents and visitors to evacuate beach areas in the event of a distant tsunami or hazardous material event, the plan is to install four (4) all hazard sound and voice emergency notification systems (obtained from the Chemical Stockpile Emergency Preparedness Program) from the Tillamook County line to the Cannon Beach city limits. The sirens would be linked into Cannon Beach's existing warning siren network which is operated and maintained by the Cannon Beach Fire Department. The estimated cost to permit, transport, install and program the sirens is approximately \$25,750. This project would take approximately 60 days complete.

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wind and rain and protect against hypothermia. The estimated cost to purchase, ship and store ten Emergency Shelter Modular tents is approximately \$52,500.

Table 2 identifies the cost of each of these projects. The projects would provide capital assets that the County would need to maintain over time. No on-going operational costs were identified after the first year, but staff would need to be paid for and dedicated to assure that all of the equipment is in proper working condition and the items in storage remain fresh and serviceable.

Table 2
Arch Cape
Proposed Projects 2012-13

| | | | |
|----|---|-----------|-------------------|
| 1. | Coastal Warning Sirens | | |
| | · Transportation and Installation of Power Poles | \$ | 8,000.00 |
| | · Permits | \$ | 1,500.00 |
| | · Installation of 4 Poles, Sirens and Programming (labor) | \$ | 16,250.00 |
| | Total: | \$ | 25,750.00 |
| 2. | 2 -40KW Generator Sets @ \$12,000 per Generator Set X 2 | \$ | 24,000.00 |
| | · 250 Gallon Fuel Tank | \$ | 3,600.00 |
| | · Enclosures | \$ | 1,100.00 |
| | · Switch Gear | \$ | 3,000.00 |
| | · Control Panels | \$ | 3,600.00 |
| | · Permits | \$ | 1,000.00 |
| | · Electrician, cable and materials, Labor | \$ | 3,000.00 |
| | · Drop Shipping | \$ | 1,500.00 |
| | Total: | \$ | 40,800.00 |
| 3. | 4- 40 foot Storage Containers @ \$5,500.00 per Container X 4 | \$ | 22,000.00 |
| | · Price includes Drop Shipping | \$ | - |
| | Total: | \$ | 22,000.00 |
| 4. | 10 - Emergency Shelter Modular Tents @ \$5,000.00 per Tent X 10 | \$ | 50,000.00 |
| | Note: Each Tent Shelters 50 people | | |
| | · Drop Shipping | \$ | 2,500.00 |
| | Total: | \$ | 52,500.00 |
| | Grand Total | | |
| | Cost: | \$ | 141,050.00 |

In the years to come the \$140,000 could be used to pay for maintenance and supplement the existing items. In addition, the community might identify additional County services or projects designed to assist the community. For example, a volunteer coordinator working with residents may be one investment that could be useful.

Legal Framework

Is there any legal impediment to changing the Clatsop County Transient Room Tax Ordinance No. 90-7 (as amended by Ordinance No. 04-02) to which short term rentals are subject to pursuant to Ordinance 03-13?

The allocation of a portion of funds collected to a special fund for use in the specific geographic area from which the funds were derived is allowed. This would take some detailed drafting and require a number of decisions by the Board, but it could be done. There is no legal prohibition on doing so.

The board would need to decide what the fund would be used for, with some specificity. The Board would also need to decide how the funds would be applied geographically to the various collection points throughout the County. While most funds are collected from the Arch Cape area, funds are also collected from Westport, the Elderberry Inn, and the Clatsop Plains. The needs in one area may be very different from the needs in another. There also should be some thought given to the precedent created in dedicating funds geographically, for other funding streams (this is considered elsewhere in this Memorandum).

A decision like this may be impacted by ORS 320.350. This statute (Attached to this Memorandum) grandfathers all room tax ordinances in existence on July 1, 2003. Any new ordinances, or increases after that date, must be allocated at least 70% to tourism promotion or tourism-related activities. Since an amendment to allocate the use of the funds from a specific geographical area back to that area is not expected to increase the tax rate, the County will not fall under the statutory requirements of ORS 320.350.

Creation of a new fund does have costs for administration and statutory audits. The County has determined, and its indirect cost allocation plan provides, that the cost to the County of managing each separate fund is 10% of the value of that fund. If all room tax receipts were allocated to dedicated fund, the additional cost to the County would be approximately \$16,600 based on the three year revenue average. Once in a special fund established by ordinance, the funds could not be used for any other purpose without both amending the ordinance and adjusting the budget.

Use of these funds for the purpose outlined the protection of property, lives and providing a place for residents and visitors to safely assemble pending or after a natural disaster, appears to be a use of Room Tax funds consistent with the law establishing the County authority to impose a Room Tax. Additionally, after the investment in Arch Cape is completed Emergency Services could use the funds elsewhere on the Clatsop Coast to address Emergency Services projects.

Reductions

The reductions needed to replace the \$141,050 loss in General Fund resources is difficult to specifically identify. The amount equals a little more than one percent of the General Fund and in those terms it does not seem like a large amount. In the limited proposed 2012-13 fiscal year budget however this reduction would equal about two positions including the materials and services to support those positions. Rather than the shock to the budget of a reduction of this amount all at once, perhaps a first step would be to fund the coastal warning sirens project this year. Then in the ensuing years the current years' project and the next year's project would be funded until the \$141,050 is dedicated to Arch Cape. Table 3 depicts the financial impacts of this scenario.

Table 3
Incremental Reduction of Room Tax

| <u>Project</u> | <u>Year 1</u> | <u>Year 2</u> | <u>Year 3</u> | <u>Year 4</u> |
|------------------------------|---------------|---------------|---------------|------------------|
| Coastal Warning Sirens | \$ 25,750 | | | |
| 2 - 40KW Generator Sets | | \$ 40,800 | | |
| 4 - 40 foot Storage | | | \$ 22,000 | |
| <u>10 Emergency Shelters</u> | | | | <u>\$ 52,500</u> |
| Total Support - Arch Cape | \$ 25,750 | \$ 66,550 | \$ 88,550 | \$ 141,050 |

Fairness of Services

Arch Cape is a rural residential area located in Clatsop County. The County keeps track of some of the services provided to the Arch Cape area since the question of County service levels in this particular rural residential area has been raised in the past. The County's policy is to provide equitable services to all County residents regardless of location while recognizing that certain locations require additional attention in the short-term.

Sheriff's Office Law Enforcement Services

The areas of the County not within cities pay a law enforcement levy. These funds are generated to provide rural law enforcement services. While the General Fund Room Tax discretionary revenue supports the Sheriff's Office, the majority of the support for these services comes from the rural law enforcement levy. Based on a review by the County staff the Arch Cape area receives about \$8,000 per year in services that are not provided to other areas of the County by the Sheriff's Office.

The Sheriff's Office divides the County into several service zones. Arch Cape is in Zone 3 and the Arch Cape area makes up a relatively small portion of the Zone 3 district (which encompasses from the north Seaside City Limit to the County Line on Hwy 101 and out Hwy 26

to Milepost 11). Unlike other zones (even those with resident deputies) the Arch Cape area has a .2 Full Time Equivalent (FTE) deputy assigned to the area. The call volume is low in the area.

In order to be comparable to other areas of the County, the Sheriff's Office would have to provide a deputy specifically assigned to the Westport community instead of the current practice of having services provided by the Zone 1 deputy who also serves all of the communities in Zone 1 including: Clifton/Bradwood, Knappa, Svensen, Brownsmead, Burnside and John Day. For Arch Cape to be treated similar to the other communities in the county would mean they would only receive services from the deputy assigned to the Zone, not the additional .2 FTE deputy specifically assigned to their community.

The Arch Cape area also receives General Fund support in the form of search and rescue, civil service, the jail, the work crew and mandatory investigations (i.e. child abuse, death investigations) no different than any other area in the county.

Emergency Preparedness

The focus of emergency preparedness has been along the coast due to the potential destructive force of a subduction zone earthquake followed by a tidal wave. Through an interview with the Emergency Services Director no inordinate service levels were identified for the Arch Cape area. It is true that services have been more focused in the community this year than in the past, but he thought this was a short-term occurrence related to increased community interest. In addition, there were some issues that needed to be resolved and a willingness by Cannon Beach Rural Fire Protection District to assist the rural area. These short-term projects would not be considered extraordinary since similar services are offered anywhere in the County.

Southwest Coastal Citizen Advisory Committee

The County Comprehensive plan identified citizen involvement groups to represent the rural residential communities located in Clatsop County. These groups were active during the development of the comprehensive plan and then with the planning mission accomplished, most are no longer active. The Southwest Coastal Citizen Advisory Committee served as the Arch Cape comprehensive planning committee, but actually was formed many years ago to provide advice and monitor development in the Arch Cape community. They are the only citizen advisory committee provided specific duties in the Land and Water Development Code that in general includes design review and recommendations to the Director. The County staff's the committee.

Table 4 below outlines the formula used to calculate the costs of providing support for the Southwest Coastal Citizens Advisory Committee and code enforcement services to Arch Cape during the 2011-12 fiscal year.

Table 4
Community Development Services
General Planning and Code Enforcement Support

| | | |
|------------------------|--------------|-------------|
| Personnel | | \$ 352,200 |
| Materials and Services | \$ 372,200 | |
| Contractual | \$ (216,000) | |
| Bradwood | \$ (10,000) | |
| OR -LNG | \$ (115,000) | |
| Subtotal | | \$ 31,200 |
| Total | | \$ 383,400 |
| Full time equivalent | 3.30 | |
| Hours per year | 2,080.00 | |
| Total Department Hours | | 6,864 |
| Per Hour Cost | | \$ 55.86 |
| Hours Spent Arch Cape | | 149 |
| Total Cost | | \$ 8,322.64 |

Code Enforcement

County staff provides code enforcement services and has been involved in discussions with community members regarding the County code, the role of County in enforcement actions, property boundaries, and other neighborhood disputes. Staff indicates there seem to be more phone calls and requests for services from Arch Cape than other areas of the County.

Overhead

The County incurs costs for the billing, collection, and research to identify vacation rentals that have not signed up to pay the Room Tax. While specific hours are not identified by the staff in general the County overhead rate is 10% and County staff believes it is reasonable to estimate the time and materials dedicated to the maintenance of the Room Tax for Arch Cape at \$14,100 average per year based on the prior three years of collections.

County-wide Service Balance

The Room Tax may provide an issue to discuss an important County policy - providing equal services to all County residents. On the one hand it does seem unfair that the residents of Arch Cape tolerate an increase in population from 183 residents to more than 600 on holiday weekends and during the summer, and receive very little extraordinary service from the Room Tax revenues that these visitors generate. On the other hand it could also be argued that Wauna Mill pays about 7% of the County's property taxes (this is approximately \$500,000 of the County's General Fund revenue) and the rural residential community of Westport receives very little extraordinary service from the property tax revenues generated by Wauna Mill.

The discussion of services based on revenues generated from specific geographic areas, might develop into identifying the taxes generated and the services that should be provided in each District. This would lead to a study of matching services to revenues by area to financial management and providing services to five mini-counties.

Summary

Arch Cape uses County Community Development services in the amount of \$8,322.64 more than would be anticipated or expected in other parts of the County. Rural law enforcement and emergency preparedness identified \$8,000 in additional support in the form of a .2 FTE. Based on the cost of overhead of \$14,100, the Community Development services of \$8,322.64, and \$8,000 for Sheriff's Office services, the total cost of services identified is \$30,422.64. Of this amount \$16,322.64 would be considered extraordinary services.

The County Board is elected from districts and each Commissioner has the focus of the voters who elected them, the geographic area of the district, and the whole County. General County issues are the subject to the goodwill framed as a focus of the Board to serve the whole County. The County staff is committed to providing equal services for all County residents.

Long Term Financial Plan Categories

Table 1 indicates that during the past three years there has been significant growth in Room Tax revenue from the Arch Cape community and the balance of the County. Part of this may be more efficient collection by the Assessment and Taxation staff, part of it may be the down-turn in the economy in 2008 that placed more housing in the short-term rental market, part of it may be an increase in the rents being charged, and part of it could be more people electing to have a stay near home vacation thereby increasing the demand. The increase in revenue also suggests greater impacts on the Arch Cape community assuming occupancy has been higher.

The Board could change the policy and determine that the Room Tax is not county-wide discretionary revenue. Room Taxes are generated by tourist activity that brings with them a whole set of problems. Noise, crowding, traffic, are impacts that may or may not be present from other uses. Possibly the Room Tax should be considered a nondiscretionary revenue in the Long Term Financial Plan.

The Long Term Financial Plan was provided to the County on September 13, 2004. The Board may want to revisit the plan and categorize the Room Tax as nondiscretionary revenue and dedicate the Room Tax to certain purposes.

Incorporation

When the County Comprehensive Plan was developed Arch Cape was one of the areas that allowed for a more urbanized development form while remaining in the County. Under the land use planning scheme, areas like Arch Cape will eventually either incorporate or be annexed into a contiguous city in the future. Arch Cape is not contiguous to another City in the County. The concept of incorporation of Arch Cape is an additional way to capture the Room Tax revenues

for use in the Arch Cape area, although incorporation is not an easy process. The authority to incorporate is included in the Oregon Revise Statutes.

“ORS 221.020 Authority to incorporate. The people of an area, no part of which lies in an incorporated city and in which 150 persons reside, may incorporate a city by approving at an election called and held according to ORS 221.031 to 221.061 a proposition provided by those sections for incorporating the city.”

The Arch Cape area has 183 residents (See the Map Attached) and according to the 2010 census this is more than enough to incorporate albeit not without some challenges. There may be some zoning to change, since property must be in certain zones prior to incorporation, to be resolved with the assistance of County Community Development Department. Petitions would need to be collected and an election held. A study of resources and expenses completed and other requirements met. A property tax base would need to be secured and a City Council elected. The community may want to request that the County assist them with preparing the Arch Cape area for incorporation.

The Arch Cape area also has 144 registered voters and with children and unregistered adults it is likely that the small community would meet the minimum of 150 persons required to consider an annexation vote.

A very preliminary financial evaluation based on the assessed value of the Arch Cape Domestic Water District and the Falcon Cove Beach Water District suggests a minimum annual revenue stream of about \$360,000 per year with no increase in the current tax rate paid by residents. A breakdown of the calculations follows in Table 5.

Table 5
Arch Cape/Falcon Cove
City Incorporation Preliminary Revenues

| | Gross | 70 Percent for Tourism | NET |
|--------------------------------------|----------------------|---------------------------|----------------------|
| Arch Cape Water Dist. Assessed Value | \$ 105,363,019 | | \$ 105,363,019 |
| Fal Co Beach Water Dist A. V. | <u>\$ 19,241,116</u> | | <u>\$ 19,241,116</u> |
| Total Assessed Value | \$ 124,604,135 | | \$ 124,604,135 |
| | | | |
| Rural Law Enforcement Tax Rate | \$ 0.7195 | | \$ 0.7195 |
| <u>Road District #1 Tax Rate</u> | <u>\$ 1.0175</u> | | <u>\$ 1.0175</u> |
| Possible City Tax Rate | \$ 1.7370 | | \$ 1.7370 |
| | | | |
| Total Value in Thousands | \$ 124,604.135 | | \$ 124,604.135 |
| Potential City Property Taxes | \$ 216,437.38 | | \$ 216,437.38 |
| <u>Room Tax - 3 year Average</u> | <u>\$ 141,050.00</u> | <u>\$ 98,735.00</u> | <u>\$ 42,315.00</u> |
| Est. Rev. - No Change in Tax Rate | \$ 357,487.38 | | \$ 258,752.38 |

The law would require that 70% of the Room Taxes adopted by the new city be dedicated to tourism promotion activities (See Page 14, (6) for the reference to State Law. This amount is almost \$100,000 per year and would leave a balance of about \$260,000 in revenue to operate the new City.

The assumption is that the City Property Tax rate would equal the amount currently collected for Rural Law District and Road District #1. There would be additional revenue from the State in the form of liquor, cigarettes, and gas taxes that is not shown in this illustration. A Municipal Court might do well in Arch Cape through the generation of revenue based on traffic violations along Highway 101. The new Arch Cape City Council would need to adopt the Room Tax since the County would no longer have the authority to collect the Room Tax within the new Arch Cape City Limits.

Of course there would be requirements for a small city including an annual audit, periodic election of a City Council and commensurate election costs, meeting agendas and general administration. This may cost up to \$100,000 per year depending on the availability of an individual to work part-time. The balance of the funds would be dedicated to basic services including law enforcement, land use planning, street repair and maintenance, and other general municipal services including emergency management. The services could be secured either by hiring staff or contracting with nearby cities or the County.

Attachments:

Oregon Revised Statutes 320 – Room Tax or Lodging Tax
Map of Arch Cape
Arch Cape Emergency Preparedness Project Recommendations
List of Arch Cape Short-Term Rentals
Room Tax Collected

Oregon Revised Statutes
Room or Lodging Tax

320.350 Tax moratorium; exceptions; uses of revenues. (1) A unit of local government that did not impose a local transient lodging tax on July 1, 2003, may not impose a local transient lodging tax on or after July 2, 2003, unless the imposition of the local transient lodging tax was approved on or before July 1, 2003.

(2) A unit of local government that imposed a local transient lodging tax on July 1, 2003, may not increase the rate of the local transient lodging tax on or after July 2, 2003, to a rate that is greater than the rate in effect on July 1, 2003, unless the increase was approved on or before July 1, 2003.

(3) A unit of local government that imposed a local transient lodging tax on July 1, 2003, may not decrease the percentage of total local transient lodging tax revenues that are actually expended to fund tourism promotion or tourism-related facilities on or after July 2, 2003. A unit of local government that agreed, on or before July 1, 2003, to increase the percentage of total local transient lodging tax revenues that are to be expended to fund tourism promotion or tourism-related facilities, must increase the percentage as agreed.

(4) Notwithstanding subsections (1) and (2) of this section, a unit of local government that is financing debt with local transient lodging tax revenues on November 26, 2003, must continue to finance the debt until the retirement of the debt, including any refinancing of that debt. If the tax is not otherwise permitted under subsection (1) or (2) of this section, at the time of the debt retirement:

(a) The local transient lodging tax revenue that financed the debt shall be used as provided in subsection (5) of this section; or

(b) The unit of local government shall thereafter eliminate the new tax or increase in tax otherwise described in subsection (1) or (2) of this section.

(5) Subsections (1) and (2) of this section do not apply to a new or increased local transient lodging tax if all of the net revenue from the new or increased tax, following reductions attributed to collection reimbursement charges, is used consistently with subsection (6) of this section to:

(a) Fund tourism promotion or tourism-related facilities;

(b) Fund city or county services; or

(c) Finance or refinance the debt of tourism-related facilities and pay reasonable administrative costs incurred in financing or refinancing that debt, provided that:

(A) The net revenue may be used for administrative costs only if the unit of local government provides a collection reimbursement charge; and

(B) Upon retirement of the debt, the unit of local government reduces the tax by the amount by which the tax was increased to finance or refinance the debt.

(6) At least 70 percent of net revenue from a new or increased local transient lodging tax shall be used for the purposes described in subsection (5)(a) or (c) of this section. No more than 30 percent of net revenue from a new or increased local transient lodging tax may be used for the purpose described in subsection (5)(b) of this section. [2003 c.818 §11]



COUNTY MANAGER'S OFFICE

MEMORANDUM

To: Budget Committee

From: Duane Cole, County Manager

Date: April 2012

Subject: Room Tax Revenues Dedicated to Emergency Preparedness

Summary

The Memorandum addresses the following issue: **an analysis to present to the Board and Budget Committee of the geographic source of this revenue and conduct an evaluation on whether these funds should be used to pay for emergency preparedness in specific areas in the County.** The information presented in this Memorandum can be summarized as follows:

- The Arch Cape area generates 84% of the County Room Tax revenue with average revenue of about \$140,000 per year over the last 3 years. Shifting this revenue to other uses would require reducing the budget in other areas.
- The Arch Cape area receives some extraordinary or additional services from the County in the amount of about \$16,500 per year. It costs about \$14,100 per year to bill and collect the Room Tax. The total of extraordinary and administration is about \$30,600.
- Emergency service identified four initial projects that cost a total of \$141,050 in Arch Cape. These projects would require on-going maintenance to be provided by the County. Emergency Services and the Room Tax funds could be used for on-going support.
- It is legal to redirect these funds as out-lined in this Memorandum, but this may require Board action.
- Reductions are difficult to quantify, but \$140,000 equals about 2 full time positions. An incremental reduction of Room Tax as a discretionary revenue could be considered.
- Staff is careful to provide services to the whole County and discussing the assignment of specific funds to each Board District may create service delivery issues.
- The assignment of the Room Tax as a discretionary revenue can be changed by the Board. Long Term Financial Plan categorization of the Room Tax as a discretionary revenue can be reconsidered by the Board.
- Incorporation is an option for Arch Cape. Preliminarily, and assuming the difficult process and politics could be resolved, incorporation of the community would generate funds that could increase services for an urban area of the County.

Based on this information the Board has several policy choices regarding the use of the discretionary Room Tax revenue.

- Allocate the Room Tax collected in Arch Cape to that area for services including emergency preparedness. This would have serious implications for the budget and require additional adjustments likely including lay-offs or at least reassignment of current staff to specific duties related to Arch Cape.
- Allocate the Room Tax collected in Arch Cape to that area over the coming 4 or 5 years. This would ease the shock to the County budget and provide time for the loss in revenue to be absorbed by the larger corporation.
- Do nothing at this time with the Room Tax.
- Determine that incorporation would be a better outcome for Arch Cape and begin working with the community to see that a new City is formed in the County. This would provide funds for Arch Cape services as the next Oregon City. This might be coupled with the slow dedication of room tax funds over time to provide funds to assist with incorporation.
- Determine whether the categorization of Room Taxes in the Long Range Financial Plan is correct and decide whether they should be moved from discretionary funds to nondiscretionary funds. Once this decision is completed the County staff could build these funds into the budget as nondiscretionary and reduce services in some areas while increasing services in Arch Cape.

The staff is willing to proceed based on these or other options the Board may wish to pursue.

Introduction

The Board of County Commissioners at their January 25, 2012 Board meeting adopted the following task for staff to complete and present with the annual budget. This Memorandum serves to comply with the Board's Request.

XII. DISCRETIONARY RESOURCES

- B. Room Tax Revenues: Room tax monies are not legally dedicated to fund particular programs or services. Staff shall do an analysis to present to the Board and Budget Committee of the geographic source of this revenue and conduct an evaluation on whether these funds should be used to pay for emergency preparedness in specific areas in the County.**

Room Tax revenue are considered discretionary revenues by the County. This means that the revenue is placed in the General Fund to pay for services for the whole County. The Budget Policies provide the following:

“Wherever legally possible, revenues are to be treated as discretionary resources, rather than as dedicated to a particular program or service. The goal is to give the Board as much flexibility as possible in allocating resources to local priorities.”

The Room Tax is primarily generated in the County’s jurisdiction (this Memorandum does not include City Room Tax revenue since those revenues belong to the cities) with 84% coming specifically from the Arch Cape and Falcon Cove rural residential communities. This Memorandum focuses on those communities and while the Memorandum refers to Arch Cape, Falcon Cove is intended to be included in all respects in the references to Arch Cape. (See Attached Map)

Room Tax Revenues

Table 1 outlines the source and revenue from Arch Cape and the balance of the County.

Table 1
Room Tax Collected
2009, 2010, 2011

| Quarter | Arch | Other | Total | Percent |
|-----------------------|-------------------|------------------|-------------------|-----------------------|
| <u>Ending</u> | <u>Cape</u> | <u>Areas</u> | <u>Collected</u> | <u>From Arch Cape</u> |
| 3/31/2009 | 11,096.41 | 3,255.52 | 14,351.93 | 77.32% |
| 6/30/2009 | 23,787.17 | 4,870.11 | 28,657.28 | 83.01% |
| 9/30/2009 | 72,087.79 | 16,270.05 | 88,357.84 | 81.59% |
| <u>12/31/2009</u> | <u>19,346.94</u> | <u>3,400.06</u> | <u>22,747.00</u> | <u>85.05%</u> |
| Total | 126,318.31 | 27,795.74 | 154,114.05 | 81.96% |
| 3/31/2010 | 15,626.90 | 2,574.45 | 18,201.35 | 85.86% |
| 6/30/2010 | 30,308.55 | 5,295.36 | 35,603.91 | 85.13% |
| 9/30/2010 | 69,951.54 | 15,368.07 | 85,319.61 | 81.99% |
| <u>12/31/2010</u> | <u>20,225.28</u> | <u>3,371.61</u> | <u>23,596.89</u> | <u>85.71%</u> |
| Total | 136,112.27 | 26,609.49 | 162,721.76 | 83.65% |
| 3/31/2011 | 20,738.20 | 3,234.83 | 23,973.03 | 86.51% |
| 6/30/2011 | 30,284.08 | 5,083.11 | 35,367.19 | 85.63% |
| 9/30/2011 | 71,733.05 | 11,211.69 | 82,944.74 | 86.48% |
| <u>12/31/2011</u> | <u>35,815.60</u> | <u>3,268.56</u> | <u>39,084.16</u> | <u>91.64%</u> |
| Total | 158,570.93 | 22,798.19 | 181,369.12 | 87.43% |
| 3 Year Average | 140,333.84 | 25,734.47 | 166,068.31 | 84% |

Table 1 represents that the County collects an average over the last three years of \$166,000 per year from all areas of the County. The Arch Cape area provides about 84% of the funds or \$140,000 per year with a low in 2009 of \$126,000 and a high in 2011 of \$159,000. The other areas of the County provide about \$26,000 per year. Arch Cape provides 84% of the Room Tax

collected by the County. This revenue is generated from about 65 vacation rentals out of a total of 387 tax lots with residential improvements. The vacation rentals offer space for 657 additional residents if all spaces are filled. The residential population in 2010 of Arch Cape, including Falcon Cove, was 183 residents and there are currently 144 registered voters in the area. (See attached map.)

In order to shift this income to other services including services specific to the Arch Cape community, the County would need to either increase revenues or reduce services in other areas of the budget. The budget assumption included direction to consider shifting these revenues to emergency services for services related specifically to the areas from which the Room Tax was collected.

Emergency Services

The Emergency Services Director, Dean Perez, was tasked with providing a budget request that would be useful during the 2012-13 fiscal year. The EMS team identified four project areas that are described as follows:

Project 1: Coastal Warning Sirens. In order to enhance warning residents and visitors to evacuate beach areas in the event of a distant tsunami or hazardous material event, the plan is to install four (4) all hazard sound and voice emergency notification systems (obtained from the Chemical Stockpile Emergency Preparedness Program) from the Tillamook County line to the Cannon Beach city limits. The sirens would be linked into Cannon Beach's existing warning siren network which is operated and maintained by the Cannon Beach Fire Department. The estimated cost to permit, transport, install and program the sirens is approximately \$25,750. This project would take approximately 60 days complete.

Project 2: Two 40 KW Diesel Generator Sets with fuel tanks. In the event of a power outage, these Generator Sets would provide emergency backup power to the unincorporated areas of Arch Cape and Falcon Cove. In consultation with community leaders, the generators would be placed near high ground assembly areas for Arch Cape and Falcon Cove residents and visitors. The estimated cost to purchase, permit, and enclose both Generator Sets is approximately \$40,800.

Project 3: Four (4) 40 - foot storage containers. Similar to the City of Cannon Beach's storage container program, the plan would be to pre-position four storage containers on the high ground assembly areas for Arch Cape and Falcon Cove residents. In the event of a near or distant tsunami, residents would have access to food, water, and medical equipment that could sustain them for up to one week maybe longer. One 40 foot container can hold personal emergency kits, blankets, food and equipment for approximately 100 people. The estimated cost to purchase, permit, and drop ship four containers would be approximately \$22,000.

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| | · Enclosures | \$ | 1,100.00 |
| | · Switch Gear | \$ | 3,000.00 |
| | · Control Panels | \$ | 3,600.00 |
| | · Permits | \$ | 1,000.00 |
| | · Electrician, cable and materials, Labor | \$ | 3,000.00 |
| | · Drop Shipping | \$ | 1,500.00 |
| | Total: | \$ | 40,800.00 |
| 3. | 4- 40 foot Storage Containers @ \$5,500.00 per Container X 4 | \$ | 22,000.00 |
| | · Price includes Drop Shipping | \$ | - |
| | Total: | \$ | 22,000.00 |
| 4. | 10 - Emergency Shelter Modular Tents @ \$5,000.00 per Tent X 10 | \$ | 50,000.00 |
| | Note: Each Tent Shelters 50 people | | |
| | · Drop Shipping | \$ | 2,500.00 |
| | Total: | \$ | 52,500.00 |
| | Grand Total | | |
| | Cost: | \$ | 141,050.00 |

In the years to come the \$140,000 could be used to pay for maintenance and supplement the existing items. In addition, the community might identify additional County services or projects designed to assist the community. For example, a volunteer coordinator working with residents may be one investment that could be useful.

Legal Framework

Is there any legal impediment to changing the Clatsop County Transient Room Tax Ordinance No. 90-7 (as amended by Ordinance No. 04-02) to which short term rentals are subject to pursuant to Ordinance 03-13?

The allocation of a portion of funds collected to a special fund for use in the specific geographic area from which the funds were derived is allowed. This would take some detailed drafting and require a number of decisions by the Board, but it could be done. There is no legal prohibition on doing so.

The board would need to decide what the fund would be used for, with some specificity. The Board would also need to decide how the funds would be applied geographically to the various collection points throughout the County. While most funds are collected from the Arch Cape area, funds are also collected from Westport, the Elderberry Inn, and the Clatsop Plains. The needs in one area may be very different from the needs in another. There also should be some thought given to the precedent created in dedicating funds geographically, for other funding streams (this is considered elsewhere in this Memorandum).

A decision like this may be impacted by ORS 320.350. This statute (Attached to this Memorandum) grandfathers all room tax ordinances in existence on July 1, 2003. Any new ordinances, or increases after that date, must be allocated at least 70% to tourism promotion or tourism-related activities. Since an amendment to allocate the use of the funds from a specific geographical area back to that area is not expected to increase the tax rate, the County will not fall under the statutory requirements of ORS 320.350.

Creation of a new fund does have costs for administration and statutory audits. The County has determined, and its indirect cost allocation plan provides, that the cost to the County of managing each separate fund is 10% of the value of that fund. If all room tax receipts were allocated to dedicated fund, the additional cost to the County would be approximately \$16,600 based on the three year revenue average. Once in a special fund established by ordinance, the funds could not be used for any other purpose without both amending the ordinance and adjusting the budget.

Use of these funds for the purpose outlined the protection of property, lives and providing a place for residents and visitors to safely assemble pending or after a natural disaster, appears to be a use of Room Tax funds consistent with the law establishing the County authority to impose a Room Tax. Additionally, after the investment in Arch Cape is completed Emergency Services could use the funds elsewhere on the Clatsop Coast to address Emergency Services projects.

Reductions

The reductions needed to replace the \$141,050 loss in General Fund resources is difficult to specifically identify. The amount equals a little more than one percent of the General Fund and in those terms it does not seem like a large amount. In the limited proposed 2012-13 fiscal year budget however this reduction would equal about two positions including the materials and services to support those positions. Rather than the shock to the budget of a reduction of this amount all at once, perhaps a first step would be to fund the coastal warning sirens project this year. Then in the ensuing years the current years' project and the next year's project would be funded until the \$141,050 is dedicated to Arch Cape. Table 3 depicts the financial impacts of this scenario.

Table 3
Incremental Reduction of Room Tax

| <u>Project</u> | <u>Year 1</u> | <u>Year 2</u> | <u>Year 3</u> | <u>Year 4</u> |
|------------------------------|---------------|---------------|---------------|------------------|
| Coastal Warning Sirens | \$ 25,750 | | | |
| 2 - 40KW Generator Sets | | \$ 40,800 | | |
| 4 - 40 foot Storage | | | \$ 22,000 | |
| <u>10 Emergency Shelters</u> | | | | <u>\$ 52,500</u> |
| Total Support - Arch Cape | \$ 25,750 | \$ 66,550 | \$ 88,550 | \$ 141,050 |

Fairness of Services

Arch Cape is a rural residential area located in Clatsop County. The County keeps track of some of the services provided to the Arch Cape area since the question of County service levels in this particular rural residential area has been raised in the past. The County's policy is to provide equitable services to all County residents regardless of location while recognizing that certain locations require additional attention in the short-term.

Sheriff's Office Law Enforcement Services

The areas of the County not within cities pay a law enforcement levy. These funds are generated to provide rural law enforcement services. While the General Fund Room Tax discretionary revenue supports the Sheriff's Office, the majority of the support for these services comes from the rural law enforcement levy. Based on a review by the County staff the Arch Cape area receives about \$8,000 per year in services that are not provided to other areas of the County by the Sheriff's Office.

The Sheriff's Office divides the County into several service zones. Arch Cape is in Zone 3 and the Arch Cape area makes up a relatively small portion of the Zone 3 district (which encompasses from the north Seaside City Limit to the County Line on Hwy 101 and out Hwy 26

to Milepost 11). Unlike other zones (even those with resident deputies) the Arch Cape area has a .2 Full Time Equivalent (FTE) deputy assigned to the area. The call volume is low in the area.

In order to be comparable to other areas of the County, the Sheriff's Office would have to provide a deputy specifically assigned to the Westport community instead of the current practice of having services provided by the Zone 1 deputy who also serves all of the communities in Zone 1 including: Clifton/Bradwood, Knappa, Svensen, Brownsmead, Burnside and John Day. For Arch Cape to be treated similar to the other communities in the county would mean they would only receive services from the deputy assigned to the Zone, not the additional .2 FTE deputy specifically assigned to their community.

The Arch Cape area also receives General Fund support in the form of search and rescue, civil service, the jail, the work crew and mandatory investigations (i.e. child abuse, death investigations) no different than any other area in the county.

Emergency Preparedness

The focus of emergency preparedness has been along the coast due to the potential destructive force of a subduction zone earthquake followed by a tidal wave. Through an interview with the Emergency Services Director no inordinate service levels were identified for the Arch Cape area. It is true that services have been more focused in the community this year than in the past, but he thought this was a short-term occurrence related to increased community interest. In addition, there were some issues that needed to be resolved and a willingness by Cannon Beach Rural Fire Protection District to assist the rural area. These short-term projects would not be considered extraordinary since similar services are offered anywhere in the County.

Southwest Coastal Citizen Advisory Committee

The County Comprehensive plan identified citizen involvement groups to represent the rural residential communities located in Clatsop County. These groups were active during the development of the comprehensive plan and then with the planning mission accomplished, most are no longer active. The Southwest Coastal Citizen Advisory Committee served as the Arch Cape comprehensive planning committee, but actually was formed many years ago to provide advice and monitor development in the Arch Cape community. They are the only citizen advisory committee provided specific duties in the Land and Water Development Code that in general includes design review and recommendations to the Director. The County staff's the committee.

Table 4 below outlines the formula used to calculate the costs of providing support for the Southwest Coastal Citizens Advisory Committee and code enforcement services to Arch Cape during the 2011-12 fiscal year.

Table 4
Community Development Services
General Planning and Code Enforcement Support

| | | |
|------------------------|--------------|-------------|
| Personnel | | \$ 352,200 |
| Materials and Services | \$ 372,200 | |
| Contractual | \$ (216,000) | |
| Bradwood | \$ (10,000) | |
| OR -LNG | \$ (115,000) | |
| Subtotal | | \$ 31,200 |
| Total | | \$ 383,400 |
| Full time equivalent | 3.30 | |
| Hours per year | 2,080.00 | |
| Total Department Hours | | 6,864 |
| Per Hour Cost | | \$ 55.86 |
| Hours Spent Arch Cape | | 149 |
| Total Cost | | \$ 8,322.64 |

Code Enforcement

County staff provides code enforcement services and has been involved in discussions with community members regarding the County code, the role of County in enforcement actions, property boundaries, and other neighborhood disputes. Staff indicates there seem to be more phone calls and requests for services from Arch Cape than other areas of the County.

Overhead

The County incurs costs for the billing, collection, and research to identify vacation rentals that have not signed up to pay the Room Tax. While specific hours are not identified by the staff in general the County overhead rate is 10% and County staff believes it is reasonable to estimate the time and materials dedicated to the maintenance of the Room Tax for Arch Cape at \$14,100 average per year based on the prior three years of collections.

County-wide Service Balance

The Room Tax may provide an issue to discuss an important County policy - providing equal services to all County residents. On the one hand it does seem unfair that the residents of Arch Cape tolerate an increase in population from 183 residents to more than 600 on holiday weekends and during the summer, and receive very little extraordinary service from the Room Tax revenues that these visitors generate. On the other hand it could also be argued that Wauna Mill pays about 7% of the County's property taxes (this is approximately \$500,000 of the County's General Fund revenue) and the rural residential community of Westport receives very little extraordinary service from the property tax revenues generated by Wauna Mill.

The discussion of services based on revenues generated from specific geographic areas, might develop into identifying the taxes generated and the services that should be provided in each District. This would lead to a study of matching services to revenues by area to financial management and providing services to five mini-counties.

Summary

Arch Cape uses County Community Development services in the amount of \$8,322.64 more than would be anticipated or expected in other parts of the County. Rural law enforcement and emergency preparedness identified \$8,000 in additional support in the form of a .2 FTE. Based on the cost of overhead of \$14,100, the Community Development services of \$8,322.64, and \$8,000 for Sheriff's Office services, the total cost of services identified is \$30,422.64. Of this amount \$16,322.64 would be considered extraordinary services.

The County Board is elected from districts and each Commissioner has the focus of the voters who elected them, the geographic area of the district, and the whole County. General County issues are the subject to the goodwill framed as a focus of the Board to serve the whole County. The County staff is committed to providing equal services for all County residents.

Long Term Financial Plan Categories

Table 1 indicates that during the past three years there has been significant growth in Room Tax revenue from the Arch Cape community and the balance of the County. Part of this may be more efficient collection by the Assessment and Taxation staff, part of it may be the down-turn in the economy in 2008 that placed more housing in the short-term rental market, part of it may be an increase in the rents being charged, and part of it could be more people electing to have a stay near home vacation thereby increasing the demand. The increase in revenue also suggests greater impacts on the Arch Cape community assuming occupancy has been higher.

The Board could change the policy and determine that the Room Tax is not county-wide discretionary revenue. Room Taxes are generated by tourist activity that brings with them a whole set of problems. Noise, crowding, traffic, are impacts that may or may not be present from other uses. Possibly the Room Tax should be considered a nondiscretionary revenue in the Long Term Financial Plan.

The Long Term Financial Plan was provided to the County on September 13, 2004. The Board may want to revisit the plan and categorize the Room Tax as nondiscretionary revenue and dedicate the Room Tax to certain purposes.

Incorporation

When the County Comprehensive Plan was developed Arch Cape was one of the areas that allowed for a more urbanized development form while remaining in the County. Under the land use planning scheme, areas like Arch Cape will eventually either incorporate or be annexed into a contiguous city in the future. Arch Cape is not contiguous to another City in the County. The concept of incorporation of Arch Cape is an additional way to capture the Room Tax revenues

for use in the Arch Cape area, although incorporation is not an easy process. The authority to incorporate is included in the Oregon Revise Statutes.

“ORS 221.020 Authority to incorporate. The people of an area, no part of which lies in an incorporated city and in which 150 persons reside, may incorporate a city by approving at an election called and held according to ORS 221.031 to 221.061 a proposition provided by those sections for incorporating the city.”

The Arch Cape area has 183 residents (See the Map Attached) and according to the 2010 census this is more than enough to incorporate albeit not without some challenges. There may be some zoning to change, since property must be in certain zones prior to incorporation, to be resolved with the assistance of County Community Development Department. Petitions would need to be collected and an election held. A study of resources and expenses completed and other requirements met. A property tax base would need to be secured and a City Council elected. The community may want to request that the County assist them with preparing the Arch Cape area for incorporation.

The Arch Cape area also has 144 registered voters and with children and unregistered adults it is likely that the small community would meet the minimum of 150 persons required to consider an annexation vote.

A very preliminary financial evaluation based on the assessed value of the Arch Cape Domestic Water District and the Falcon Cove Beach Water District suggests a minimum annual revenue stream of about \$360,000 per year with no increase in the current tax rate paid by residents. A breakdown of the calculations follows in Table 5.

Table 5
Arch Cape/Falcon Cove
City Incorporation Preliminary Revenues

| | Gross | 70 Percent for Tourism | NET |
|--------------------------------------|----------------------|---------------------------|----------------------|
| Arch Cape Water Dist. Assessed Value | \$ 105,363,019 | | \$ 105,363,019 |
| Fal Co Beach Water Dist A. V. | <u>\$ 19,241,116</u> | | <u>\$ 19,241,116</u> |
| Total Assessed Value | \$ 124,604,135 | | \$ 124,604,135 |
| | | | |
| Rural Law Enforcement Tax Rate | \$ 0.7195 | | \$ 0.7195 |
| <u>Road District #1 Tax Rate</u> | <u>\$ 1.0175</u> | | <u>\$ 1.0175</u> |
| Possible City Tax Rate | \$ 1.7370 | | \$ 1.7370 |
| | | | |
| Total Value in Thousands | \$ 124,604.135 | | \$ 124,604.135 |
| Potential City Property Taxes | \$ 216,437.38 | | \$ 216,437.38 |
| <u>Room Tax - 3 year Average</u> | <u>\$ 141,050.00</u> | <u>\$ 98,735.00</u> | <u>\$ 42,315.00</u> |
| Est. Rev. - No Change in Tax Rate | \$ 357,487.38 | | \$ 258,752.38 |

The law would require that 70% of the Room Taxes adopted by the new city be dedicated to tourism promotion activities (See Page 14, (6) for the reference to State Law. This amount is almost \$100,000 per year and would leave a balance of about \$260,000 in revenue to operate the new City.

The assumption is that the City Property Tax rate would equal the amount currently collected for Rural Law District and Road District #1. There would be additional revenue from the State in the form of liquor, cigarettes, and gas taxes that is not shown in this illustration. A Municipal Court might do well in Arch Cape through the generation of revenue based on traffic violations along Highway 101. The new Arch Cape City Council would need to adopt the Room Tax since the County would no longer have the authority to collect the Room Tax within the new Arch Cape City Limits.

Of course there would be requirements for a small city including an annual audit, periodic election of a City Council and commensurate election costs, meeting agendas and general administration. This may cost up to \$100,000 per year depending on the availability of an individual to work part-time. The balance of the funds would be dedicated to basic services including law enforcement, land use planning, street repair and maintenance, and other general municipal services including emergency management. The services could be secured either by hiring staff or contracting with nearby cities or the County.

Attachments:

Oregon Revised Statutes 320 – Room Tax or Lodging Tax
Map of Arch Cape
Arch Cape Emergency Preparedness Project Recommendations
List of Arch Cape Short-Term Rentals
Room Tax Collected

Oregon Revised Statutes
Room or Lodging Tax

320.350 Tax moratorium; exceptions; uses of revenues. (1) A unit of local government that did not impose a local transient lodging tax on July 1, 2003, may not impose a local transient lodging tax on or after July 2, 2003, unless the imposition of the local transient lodging tax was approved on or before July 1, 2003.

(2) A unit of local government that imposed a local transient lodging tax on July 1, 2003, may not increase the rate of the local transient lodging tax on or after July 2, 2003, to a rate that is greater than the rate in effect on July 1, 2003, unless the increase was approved on or before July 1, 2003.

(3) A unit of local government that imposed a local transient lodging tax on July 1, 2003, may not decrease the percentage of total local transient lodging tax revenues that are actually expended to fund tourism promotion or tourism-related facilities on or after July 2, 2003. A unit of local government that agreed, on or before July 1, 2003, to increase the percentage of total local transient lodging tax revenues that are to be expended to fund tourism promotion or tourism-related facilities, must increase the percentage as agreed.

(4) Notwithstanding subsections (1) and (2) of this section, a unit of local government that is financing debt with local transient lodging tax revenues on November 26, 2003, must continue to finance the debt until the retirement of the debt, including any refinancing of that debt. If the tax is not otherwise permitted under subsection (1) or (2) of this section, at the time of the debt retirement:

(a) The local transient lodging tax revenue that financed the debt shall be used as provided in subsection (5) of this section; or

(b) The unit of local government shall thereafter eliminate the new tax or increase in tax otherwise described in subsection (1) or (2) of this section.

(5) Subsections (1) and (2) of this section do not apply to a new or increased local transient lodging tax if all of the net revenue from the new or increased tax, following reductions attributed to collection reimbursement charges, is used consistently with subsection (6) of this section to:

(a) Fund tourism promotion or tourism-related facilities;

(b) Fund city or county services; or

(c) Finance or refinance the debt of tourism-related facilities and pay reasonable administrative costs incurred in financing or refinancing that debt, provided that:

(A) The net revenue may be used for administrative costs only if the unit of local government provides a collection reimbursement charge; and

(B) Upon retirement of the debt, the unit of local government reduces the tax by the amount by which the tax was increased to finance or refinance the debt.

(6) At least 70 percent of net revenue from a new or increased local transient lodging tax shall be used for the purposes described in subsection (5)(a) or (c) of this section. No more than 30 percent of net revenue from a new or increased local transient lodging tax may be used for the purpose described in subsection (5)(b) of this section. [2003 c.818 §11]



COUNTY MANAGER'S OFFICE

MEMORANDUM

To: Budget Committee

From: Duane Cole, County Manager

Date: April 2012

Subject: Room Tax Revenues Dedicated to Emergency Preparedness

Summary

The Memorandum addresses the following issue: **an analysis to present to the Board and Budget Committee of the geographic source of this revenue and conduct an evaluation on whether these funds should be used to pay for emergency preparedness in specific areas in the County.** The information presented in this Memorandum can be summarized as follows:

- The Arch Cape area generates 84% of the County Room Tax revenue with average revenue of about \$140,000 per year over the last 3 years. Shifting this revenue to other uses would require reducing the budget in other areas.
- The Arch Cape area receives some extraordinary or additional services from the County in the amount of about \$16,500 per year. It costs about \$14,100 per year to bill and collect the Room Tax. The total of extraordinary and administration is about \$30,600.
- Emergency service identified four initial projects that cost a total of \$141,050 in Arch Cape. These projects would require on-going maintenance to be provided by the County. Emergency Services and the Room Tax funds could be used for on-going support.
- It is legal to redirect these funds as out-lined in this Memorandum, but this may require Board action.
- Reductions are difficult to quantify, but \$140,000 equals about 2 full time positions. An incremental reduction of Room Tax as a discretionary revenue could be considered.
- Staff is careful to provide services to the whole County and discussing the assignment of specific funds to each Board District may create service delivery issues.
- The assignment of the Room Tax as a discretionary revenue can be changed by the Board. Long Term Financial Plan categorization of the Room Tax as a discretionary revenue can be reconsidered by the Board.
- Incorporation is an option for Arch Cape. Preliminarily, and assuming the difficult process and politics could be resolved, incorporation of the community would generate funds that could increase services for an urban area of the County.

Based on this information the Board has several policy choices regarding the use of the discretionary Room Tax revenue.

- Allocate the Room Tax collected in Arch Cape to that area for services including emergency preparedness. This would have serious implications for the budget and require additional adjustments likely including lay-offs or at least reassignment of current staff to specific duties related to Arch Cape.
- Allocate the Room Tax collected in Arch Cape to that area over the coming 4 or 5 years. This would ease the shock to the County budget and provide time for the loss in revenue to be absorbed by the larger corporation.
- Do nothing at this time with the Room Tax.
- Determine that incorporation would be a better outcome for Arch Cape and begin working with the community to see that a new City is formed in the County. This would provide funds for Arch Cape services as the next Oregon City. This might be coupled with the slow dedication of room tax funds over time to provide funds to assist with incorporation.
- Determine whether the categorization of Room Taxes in the Long Range Financial Plan is correct and decide whether they should be moved from discretionary funds to nondiscretionary funds. Once this decision is completed the County staff could build these funds into the budget as nondiscretionary and reduce services in some areas while increasing services in Arch Cape.

The staff is willing to proceed based on these or other options the Board may wish to pursue.

Introduction

The Board of County Commissioners at their January 25, 2012 Board meeting adopted the following task for staff to complete and present with the annual budget. This Memorandum serves to comply with the Board's Request.

XII. DISCRETIONARY RESOURCES

- B. Room Tax Revenues: Room tax monies are not legally dedicated to fund particular programs or services. Staff shall do an analysis to present to the Board and Budget Committee of the geographic source of this revenue and conduct an evaluation on whether these funds should be used to pay for emergency preparedness in specific areas in the County.**

Room Tax revenue are considered discretionary revenues by the County. This means that the revenue is placed in the General Fund to pay for services for the whole County. The Budget Policies provide the following:

“Wherever legally possible, revenues are to be treated as discretionary resources, rather than as dedicated to a particular program or service. The goal is to give the Board as much flexibility as possible in allocating resources to local priorities.”

The Room Tax is primarily generated in the County’s jurisdiction (this Memorandum does not include City Room Tax revenue since those revenues belong to the cities) with 84% coming specifically from the Arch Cape and Falcon Cove rural residential communities. This Memorandum focuses on those communities and while the Memorandum refers to Arch Cape, Falcon Cove is intended to be included in all respects in the references to Arch Cape. (See Attached Map)

Room Tax Revenues

Table 1 outlines the source and revenue from Arch Cape and the balance of the County.

Table 1
Room Tax Collected
2009, 2010, 2011

| Quarter | Arch | Other | Total | Percent |
|-----------------------|-------------------|------------------|-------------------|-----------------------|
| <u>Ending</u> | <u>Cape</u> | <u>Areas</u> | <u>Collected</u> | <u>From Arch Cape</u> |
| 3/31/2009 | 11,096.41 | 3,255.52 | 14,351.93 | 77.32% |
| 6/30/2009 | 23,787.17 | 4,870.11 | 28,657.28 | 83.01% |
| 9/30/2009 | 72,087.79 | 16,270.05 | 88,357.84 | 81.59% |
| <u>12/31/2009</u> | <u>19,346.94</u> | <u>3,400.06</u> | <u>22,747.00</u> | <u>85.05%</u> |
| Total | 126,318.31 | 27,795.74 | 154,114.05 | 81.96% |
| 3/31/2010 | 15,626.90 | 2,574.45 | 18,201.35 | 85.86% |
| 6/30/2010 | 30,308.55 | 5,295.36 | 35,603.91 | 85.13% |
| 9/30/2010 | 69,951.54 | 15,368.07 | 85,319.61 | 81.99% |
| <u>12/31/2010</u> | <u>20,225.28</u> | <u>3,371.61</u> | <u>23,596.89</u> | <u>85.71%</u> |
| Total | 136,112.27 | 26,609.49 | 162,721.76 | 83.65% |
| 3/31/2011 | 20,738.20 | 3,234.83 | 23,973.03 | 86.51% |
| 6/30/2011 | 30,284.08 | 5,083.11 | 35,367.19 | 85.63% |
| 9/30/2011 | 71,733.05 | 11,211.69 | 82,944.74 | 86.48% |
| <u>12/31/2011</u> | <u>35,815.60</u> | <u>3,268.56</u> | <u>39,084.16</u> | <u>91.64%</u> |
| Total | 158,570.93 | 22,798.19 | 181,369.12 | 87.43% |
| 3 Year Average | 140,333.84 | 25,734.47 | 166,068.31 | 84% |

Table 1 represents that the County collects an average over the last three years of \$166,000 per year from all areas of the County. The Arch Cape area provides about 84% of the funds or \$140,000 per year with a low in 2009 of \$126,000 and a high in 2011 of \$159,000. The other areas of the County provide about \$26,000 per year. Arch Cape provides 84% of the Room Tax

collected by the County. This revenue is generated from about 65 vacation rentals out of a total of 387 tax lots with residential improvements. The vacation rentals offer space for 657 additional residents if all spaces are filled. The residential population in 2010 of Arch Cape, including Falcon Cove, was 183 residents and there are currently 144 registered voters in the area. (See attached map.)

In order to shift this income to other services including services specific to the Arch Cape community, the County would need to either increase revenues or reduce services in other areas of the budget. The budget assumption included direction to consider shifting these revenues to emergency services for services related specifically to the areas from which the Room Tax was collected.

Emergency Services

The Emergency Services Director, Dean Perez, was tasked with providing a budget request that would be useful during the 2012-13 fiscal year. The EMS team identified four project areas that are described as follows:

Project 1: Coastal Warning Sirens. In order to enhance warning residents and visitors to evacuate beach areas in the event of a distant tsunami or hazardous material event, the plan is to install four (4) all hazard sound and voice emergency notification systems (obtained from the Chemical Stockpile Emergency Preparedness Program) from the Tillamook County line to the Cannon Beach city limits. The sirens would be linked into Cannon Beach's existing warning siren network which is operated and maintained by the Cannon Beach Fire Department. The estimated cost to permit, transport, install and program the sirens is approximately \$25,750. This project would take approximately 60 days complete.

Project 2: Two 40 KW Diesel Generator Sets with fuel tanks. In the event of a power outage, these Generator Sets would provide emergency backup power to the unincorporated areas of Arch Cape and Falcon Cove. In consultation with community leaders, the generators would be placed near high ground assembly areas for Arch Cape and Falcon Cove residents and visitors. The estimated cost to purchase, permit, and enclose both Generator Sets is approximately \$40,800.

Project 3: Four (4) 40 - foot storage containers. Similar to the City of Cannon Beach's storage container program, the plan would be to pre-position four storage containers on the high ground assembly areas for Arch Cape and Falcon Cove residents. In the event of a near or distant tsunami, residents would have access to food, water, and medical equipment that could sustain them for up to one week maybe longer. One 40 foot container can hold personal emergency kits, blankets, food and equipment for approximately 100 people. The estimated cost to purchase, permit, and drop ship four containers would be approximately \$22,000.

Project 4: 10 Emergency Shelter Modular Tents. The plan is to pre-position Emergency Shelter Modular tents in each of the four storage containers located on the high ground assembly areas. In the event of a near or distant tsunami, residents and visitors would have access to temporary shelter. When properly deployed, these modular tents provide extended protection from the cold,

wind and rain and protect against hypothermia. The estimated cost to purchase, ship and store ten Emergency Shelter Modular tents is approximately \$52,500.

Table 2 identifies the cost of each of these projects. The projects would provide capital assets that the County would need to maintain over time. No on-going operational costs were identified after the first year, but staff would need to be paid for and dedicated to assure that all of the equipment is in proper working condition and the items in storage remain fresh and serviceable.

Table 2
Arch Cape
Proposed Projects 2012-13

| | | | |
|----|---|-----------|-------------------|
| 1. | Coastal Warning Sirens | | |
| | · Transportation and Installation of Power Poles | \$ | 8,000.00 |
| | · Permits | \$ | 1,500.00 |
| | · Installation of 4 Poles, Sirens and Programming (labor) | \$ | 16,250.00 |
| | Total: | \$ | 25,750.00 |
| 2. | 2 -40KW Generator Sets @ \$12,000 per Generator Set X 2 | \$ | 24,000.00 |
| | · 250 Gallon Fuel Tank | \$ | 3,600.00 |
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Legal Framework

Is there any legal impediment to changing the Clatsop County Transient Room Tax Ordinance No. 90-7 (as amended by Ordinance No. 04-02) to which short term rentals are subject to pursuant to Ordinance 03-13?

The allocation of a portion of funds collected to a special fund for use in the specific geographic area from which the funds were derived is allowed. This would take some detailed drafting and require a number of decisions by the Board, but it could be done. There is no legal prohibition on doing so.

The board would need to decide what the fund would be used for, with some specificity. The Board would also need to decide how the funds would be applied geographically to the various collection points throughout the County. While most funds are collected from the Arch Cape area, funds are also collected from Westport, the Elderberry Inn, and the Clatsop Plains. The needs in one area may be very different from the needs in another. There also should be some thought given to the precedent created in dedicating funds geographically, for other funding streams (this is considered elsewhere in this Memorandum).

A decision like this may be impacted by ORS 320.350. This statute (Attached to this Memorandum) grandfathers all room tax ordinances in existence on July 1, 2003. Any new ordinances, or increases after that date, must be allocated at least 70% to tourism promotion or tourism-related activities. Since an amendment to allocate the use of the funds from a specific geographical area back to that area is not expected to increase the tax rate, the County will not fall under the statutory requirements of ORS 320.350.

Creation of a new fund does have costs for administration and statutory audits. The County has determined, and its indirect cost allocation plan provides, that the cost to the County of managing each separate fund is 10% of the value of that fund. If all room tax receipts were allocated to dedicated fund, the additional cost to the County would be approximately \$16,600 based on the three year revenue average. Once in a special fund established by ordinance, the funds could not be used for any other purpose without both amending the ordinance and adjusting the budget.

Use of these funds for the purpose outlined the protection of property, lives and providing a place for residents and visitors to safely assemble pending or after a natural disaster, appears to be a use of Room Tax funds consistent with the law establishing the County authority to impose a Room Tax. Additionally, after the investment in Arch Cape is completed Emergency Services could use the funds elsewhere on the Clatsop Coast to address Emergency Services projects.

Reductions

The reductions needed to replace the \$141,050 loss in General Fund resources is difficult to specifically identify. The amount equals a little more than one percent of the General Fund and in those terms it does not seem like a large amount. In the limited proposed 2012-13 fiscal year budget however this reduction would equal about two positions including the materials and services to support those positions. Rather than the shock to the budget of a reduction of this amount all at once, perhaps a first step would be to fund the coastal warning sirens project this year. Then in the ensuing years the current years' project and the next year's project would be funded until the \$141,050 is dedicated to Arch Cape. Table 3 depicts the financial impacts of this scenario.

Table 3
Incremental Reduction of Room Tax

| <u>Project</u> | <u>Year 1</u> | <u>Year 2</u> | <u>Year 3</u> | <u>Year 4</u> |
|------------------------------|---------------|---------------|---------------|------------------|
| Coastal Warning Sirens | \$ 25,750 | | | |
| 2 - 40KW Generator Sets | | \$ 40,800 | | |
| 4 - 40 foot Storage | | | \$ 22,000 | |
| <u>10 Emergency Shelters</u> | | | | <u>\$ 52,500</u> |
| Total Support - Arch Cape | \$ 25,750 | \$ 66,550 | \$ 88,550 | \$ 141,050 |

Fairness of Services

Arch Cape is a rural residential area located in Clatsop County. The County keeps track of some of the services provided to the Arch Cape area since the question of County service levels in this particular rural residential area has been raised in the past. The County's policy is to provide equitable services to all County residents regardless of location while recognizing that certain locations require additional attention in the short-term.

Sheriff's Office Law Enforcement Services

The areas of the County not within cities pay a law enforcement levy. These funds are generated to provide rural law enforcement services. While the General Fund Room Tax discretionary revenue supports the Sheriff's Office, the majority of the support for these services comes from the rural law enforcement levy. Based on a review by the County staff the Arch Cape area receives about \$8,000 per year in services that are not provided to other areas of the County by the Sheriff's Office.

The Sheriff's Office divides the County into several service zones. Arch Cape is in Zone 3 and the Arch Cape area makes up a relatively small portion of the Zone 3 district (which encompasses from the north Seaside City Limit to the County Line on Hwy 101 and out Hwy 26

to Milepost 11). Unlike other zones (even those with resident deputies) the Arch Cape area has a .2 Full Time Equivalent (FTE) deputy assigned to the area. The call volume is low in the area.

In order to be comparable to other areas of the County, the Sheriff's Office would have to provide a deputy specifically assigned to the Westport community instead of the current practice of having services provided by the Zone 1 deputy who also serves all of the communities in Zone 1 including: Clifton/Bradwood, Knappa, Svensen, Brownsmead, Burnside and John Day. For Arch Cape to be treated similar to the other communities in the county would mean they would only receive services from the deputy assigned to the Zone, not the additional .2 FTE deputy specifically assigned to their community.

The Arch Cape area also receives General Fund support in the form of search and rescue, civil service, the jail, the work crew and mandatory investigations (i.e. child abuse, death investigations) no different than any other area in the county.

Emergency Preparedness

The focus of emergency preparedness has been along the coast due to the potential destructive force of a subduction zone earthquake followed by a tidal wave. Through an interview with the Emergency Services Director no inordinate service levels were identified for the Arch Cape area. It is true that services have been more focused in the community this year than in the past, but he thought this was a short-term occurrence related to increased community interest. In addition, there were some issues that needed to be resolved and a willingness by Cannon Beach Rural Fire Protection District to assist the rural area. These short-term projects would not be considered extraordinary since similar services are offered anywhere in the County.

Southwest Coastal Citizen Advisory Committee

The County Comprehensive plan identified citizen involvement groups to represent the rural residential communities located in Clatsop County. These groups were active during the development of the comprehensive plan and then with the planning mission accomplished, most are no longer active. The Southwest Coastal Citizen Advisory Committee served as the Arch Cape comprehensive planning committee, but actually was formed many years ago to provide advice and monitor development in the Arch Cape community. They are the only citizen advisory committee provided specific duties in the Land and Water Development Code that in general includes design review and recommendations to the Director. The County staff's the committee.

Table 4 below outlines the formula used to calculate the costs of providing support for the Southwest Coastal Citizens Advisory Committee and code enforcement services to Arch Cape during the 2011-12 fiscal year.

Table 4
Community Development Services
General Planning and Code Enforcement Support

| | | |
|------------------------|--------------|-------------|
| Personnel | | \$ 352,200 |
| Materials and Services | \$ 372,200 | |
| Contractual | \$ (216,000) | |
| Bradwood | \$ (10,000) | |
| OR -LNG | \$ (115,000) | |
| Subtotal | | \$ 31,200 |
| Total | | \$ 383,400 |
| Full time equivalent | 3.30 | |
| Hours per year | 2,080.00 | |
| Total Department Hours | | 6,864 |
| Per Hour Cost | | \$ 55.86 |
| Hours Spent Arch Cape | | 149 |
| Total Cost | | \$ 8,322.64 |

Code Enforcement

County staff provides code enforcement services and has been involved in discussions with community members regarding the County code, the role of County in enforcement actions, property boundaries, and other neighborhood disputes. Staff indicates there seem to be more phone calls and requests for services from Arch Cape than other areas of the County.

Overhead

The County incurs costs for the billing, collection, and research to identify vacation rentals that have not signed up to pay the Room Tax. While specific hours are not identified by the staff in general the County overhead rate is 10% and County staff believes it is reasonable to estimate the time and materials dedicated to the maintenance of the Room Tax for Arch Cape at \$14,100 average per year based on the prior three years of collections.

County-wide Service Balance

The Room Tax may provide an issue to discuss an important County policy - providing equal services to all County residents. On the one hand it does seem unfair that the residents of Arch Cape tolerate an increase in population from 183 residents to more than 600 on holiday weekends and during the summer, and receive very little extraordinary service from the Room Tax revenues that these visitors generate. On the other hand it could also be argued that Wauna Mill pays about 7% of the County's property taxes (this is approximately \$500,000 of the County's General Fund revenue) and the rural residential community of Westport receives very little extraordinary service from the property tax revenues generated by Wauna Mill.

The discussion of services based on revenues generated from specific geographic areas, might develop into identifying the taxes generated and the services that should be provided in each District. This would lead to a study of matching services to revenues by area to financial management and providing services to five mini-counties.

Summary

Arch Cape uses County Community Development services in the amount of \$8,322.64 more than would be anticipated or expected in other parts of the County. Rural law enforcement and emergency preparedness identified \$8,000 in additional support in the form of a .2 FTE. Based on the cost of overhead of \$14,100, the Community Development services of \$8,322.64, and \$8,000 for Sheriff's Office services, the total cost of services identified is \$30,422.64. Of this amount \$16,322.64 would be considered extraordinary services.

The County Board is elected from districts and each Commissioner has the focus of the voters who elected them, the geographic area of the district, and the whole County. General County issues are the subject to the goodwill framed as a focus of the Board to serve the whole County. The County staff is committed to providing equal services for all County residents.

Long Term Financial Plan Categories

Table 1 indicates that during the past three years there has been significant growth in Room Tax revenue from the Arch Cape community and the balance of the County. Part of this may be more efficient collection by the Assessment and Taxation staff, part of it may be the down-turn in the economy in 2008 that placed more housing in the short-term rental market, part of it may be an increase in the rents being charged, and part of it could be more people electing to have a stay near home vacation thereby increasing the demand. The increase in revenue also suggests greater impacts on the Arch Cape community assuming occupancy has been higher.

The Board could change the policy and determine that the Room Tax is not county-wide discretionary revenue. Room Taxes are generated by tourist activity that brings with them a whole set of problems. Noise, crowding, traffic, are impacts that may or may not be present from other uses. Possibly the Room Tax should be considered a nondiscretionary revenue in the Long Term Financial Plan.

The Long Term Financial Plan was provided to the County on September 13, 2004. The Board may want to revisit the plan and categorize the Room Tax as nondiscretionary revenue and dedicate the Room Tax to certain purposes.

Incorporation

When the County Comprehensive Plan was developed Arch Cape was one of the areas that allowed for a more urbanized development form while remaining in the County. Under the land use planning scheme, areas like Arch Cape will eventually either incorporate or be annexed into a contiguous city in the future. Arch Cape is not contiguous to another City in the County. The concept of incorporation of Arch Cape is an additional way to capture the Room Tax revenues

for use in the Arch Cape area, although incorporation is not an easy process. The authority to incorporate is included in the Oregon Revise Statutes.

“ORS 221.020 Authority to incorporate. The people of an area, no part of which lies in an incorporated city and in which 150 persons reside, may incorporate a city by approving at an election called and held according to ORS 221.031 to 221.061 a proposition provided by those sections for incorporating the city.”

The Arch Cape area has 183 residents (See the Map Attached) and according to the 2010 census this is more than enough to incorporate albeit not without some challenges. There may be some zoning to change, since property must be in certain zones prior to incorporation, to be resolved with the assistance of County Community Development Department. Petitions would need to be collected and an election held. A study of resources and expenses completed and other requirements met. A property tax base would need to be secured and a City Council elected. The community may want to request that the County assist them with preparing the Arch Cape area for incorporation.

The Arch Cape area also has 144 registered voters and with children and unregistered adults it is likely that the small community would meet the minimum of 150 persons required to consider an annexation vote.

A very preliminary financial evaluation based on the assessed value of the Arch Cape Domestic Water District and the Falcon Cove Beach Water District suggests a minimum annual revenue stream of about \$360,000 per year with no increase in the current tax rate paid by residents. A breakdown of the calculations follows in Table 5.

Table 5
Arch Cape/Falcon Cove
City Incorporation Preliminary Revenues

| | Gross | 70 Percent for Tourism | NET |
|--------------------------------------|----------------------|---------------------------|----------------------|
| Arch Cape Water Dist. Assessed Value | \$ 105,363,019 | | \$ 105,363,019 |
| Fal Co Beach Water Dist A. V. | <u>\$ 19,241,116</u> | | <u>\$ 19,241,116</u> |
| Total Assessed Value | \$ 124,604,135 | | \$ 124,604,135 |
| | | | |
| Rural Law Enforcement Tax Rate | \$ 0.7195 | | \$ 0.7195 |
| <u>Road District #1 Tax Rate</u> | <u>\$ 1.0175</u> | | <u>\$ 1.0175</u> |
| Possible City Tax Rate | \$ 1.7370 | | \$ 1.7370 |
| | | | |
| Total Value in Thousands | \$ 124,604.135 | | \$ 124,604.135 |
| Potential City Property Taxes | \$ 216,437.38 | | \$ 216,437.38 |
| <u>Room Tax - 3 year Average</u> | <u>\$ 141,050.00</u> | <u>\$ 98,735.00</u> | <u>\$ 42,315.00</u> |
| Est. Rev. - No Change in Tax Rate | \$ 357,487.38 | | \$ 258,752.38 |

The law would require that 70% of the Room Taxes adopted by the new city be dedicated to tourism promotion activities (See Page 14, (6) for the reference to State Law. This amount is almost \$100,000 per year and would leave a balance of about \$260,000 in revenue to operate the new City.

The assumption is that the City Property Tax rate would equal the amount currently collected for Rural Law District and Road District #1. There would be additional revenue from the State in the form of liquor, cigarettes, and gas taxes that is not shown in this illustration. A Municipal Court might do well in Arch Cape through the generation of revenue based on traffic violations along Highway 101. The new Arch Cape City Council would need to adopt the Room Tax since the County would no longer have the authority to collect the Room Tax within the new Arch Cape City Limits.

Of course there would be requirements for a small city including an annual audit, periodic election of a City Council and commensurate election costs, meeting agendas and general administration. This may cost up to \$100,000 per year depending on the availability of an individual to work part-time. The balance of the funds would be dedicated to basic services including law enforcement, land use planning, street repair and maintenance, and other general municipal services including emergency management. The services could be secured either by hiring staff or contracting with nearby cities or the County.

Attachments:

Oregon Revised Statutes 320 – Room Tax or Lodging Tax
Map of Arch Cape
Arch Cape Emergency Preparedness Project Recommendations
List of Arch Cape Short-Term Rentals
Room Tax Collected

Oregon Revised Statutes
Room or Lodging Tax

320.350 Tax moratorium; exceptions; uses of revenues. (1) A unit of local government that did not impose a local transient lodging tax on July 1, 2003, may not impose a local transient lodging tax on or after July 2, 2003, unless the imposition of the local transient lodging tax was approved on or before July 1, 2003.

(2) A unit of local government that imposed a local transient lodging tax on July 1, 2003, may not increase the rate of the local transient lodging tax on or after July 2, 2003, to a rate that is greater than the rate in effect on July 1, 2003, unless the increase was approved on or before July 1, 2003.

(3) A unit of local government that imposed a local transient lodging tax on July 1, 2003, may not decrease the percentage of total local transient lodging tax revenues that are actually expended to fund tourism promotion or tourism-related facilities on or after July 2, 2003. A unit of local government that agreed, on or before July 1, 2003, to increase the percentage of total local transient lodging tax revenues that are to be expended to fund tourism promotion or tourism-related facilities, must increase the percentage as agreed.

(4) Notwithstanding subsections (1) and (2) of this section, a unit of local government that is financing debt with local transient lodging tax revenues on November 26, 2003, must continue to finance the debt until the retirement of the debt, including any refinancing of that debt. If the tax is not otherwise permitted under subsection (1) or (2) of this section, at the time of the debt retirement:

(a) The local transient lodging tax revenue that financed the debt shall be used as provided in subsection (5) of this section; or

(b) The unit of local government shall thereafter eliminate the new tax or increase in tax otherwise described in subsection (1) or (2) of this section.

(5) Subsections (1) and (2) of this section do not apply to a new or increased local transient lodging tax if all of the net revenue from the new or increased tax, following reductions attributed to collection reimbursement charges, is used consistently with subsection (6) of this section to:

(a) Fund tourism promotion or tourism-related facilities;

(b) Fund city or county services; or

(c) Finance or refinance the debt of tourism-related facilities and pay reasonable administrative costs incurred in financing or refinancing that debt, provided that:

(A) The net revenue may be used for administrative costs only if the unit of local government provides a collection reimbursement charge; and

(B) Upon retirement of the debt, the unit of local government reduces the tax by the amount by which the tax was increased to finance or refinance the debt.

(6) At least 70 percent of net revenue from a new or increased local transient lodging tax shall be used for the purposes described in subsection (5)(a) or (c) of this section. No more than 30 percent of net revenue from a new or increased local transient lodging tax may be used for the purpose described in subsection (5)(b) of this section. [2003 c.818 §11]



COUNTY MANAGER'S OFFICE

MEMORANDUM

To: Budget Committee

From: Duane Cole, County Manager

Date: April 2012

Subject: Room Tax Revenues Dedicated to Emergency Preparedness

Summary

The Memorandum addresses the following issue: **an analysis to present to the Board and Budget Committee of the geographic source of this revenue and conduct an evaluation on whether these funds should be used to pay for emergency preparedness in specific areas in the County.** The information presented in this Memorandum can be summarized as follows:

- The Arch Cape area generates 84% of the County Room Tax revenue with average revenue of about \$140,000 per year over the last 3 years. Shifting this revenue to other uses would require reducing the budget in other areas.
- The Arch Cape area receives some extraordinary or additional services from the County in the amount of about \$16,500 per year. It costs about \$14,100 per year to bill and collect the Room Tax. The total of extraordinary and administration is about \$30,600.
- Emergency service identified four initial projects that cost a total of \$141,050 in Arch Cape. These projects would require on-going maintenance to be provided by the County. Emergency Services and the Room Tax funds could be used for on-going support.
- It is legal to redirect these funds as out-lined in this Memorandum, but this may require Board action.
- Reductions are difficult to quantify, but \$140,000 equals about 2 full time positions. An incremental reduction of Room Tax as a discretionary revenue could be considered.
- Staff is careful to provide services to the whole County and discussing the assignment of specific funds to each Board District may create service delivery issues.
- The assignment of the Room Tax as a discretionary revenue can be changed by the Board. Long Term Financial Plan categorization of the Room Tax as a discretionary revenue can be reconsidered by the Board.
- Incorporation is an option for Arch Cape. Preliminarily, and assuming the difficult process and politics could be resolved, incorporation of the community would generate funds that could increase services for an urban area of the County.

Based on this information the Board has several policy choices regarding the use of the discretionary Room Tax revenue.

- Allocate the Room Tax collected in Arch Cape to that area for services including emergency preparedness. This would have serious implications for the budget and require additional adjustments likely including lay-offs or at least reassignment of current staff to specific duties related to Arch Cape.
- Allocate the Room Tax collected in Arch Cape to that area over the coming 4 or 5 years. This would ease the shock to the County budget and provide time for the loss in revenue to be absorbed by the larger corporation.
- Do nothing at this time with the Room Tax.
- Determine that incorporation would be a better outcome for Arch Cape and begin working with the community to see that a new City is formed in the County. This would provide funds for Arch Cape services as the next Oregon City. This might be coupled with the slow dedication of room tax funds over time to provide funds to assist with incorporation.
- Determine whether the categorization of Room Taxes in the Long Range Financial Plan is correct and decide whether they should be moved from discretionary funds to nondiscretionary funds. Once this decision is completed the County staff could build these funds into the budget as nondiscretionary and reduce services in some areas while increasing services in Arch Cape.

The staff is willing to proceed based on these or other options the Board may wish to pursue.

Introduction

The Board of County Commissioners at their January 25, 2012 Board meeting adopted the following task for staff to complete and present with the annual budget. This Memorandum serves to comply with the Board's Request.

XII. DISCRETIONARY RESOURCES

- B. Room Tax Revenues: Room tax monies are not legally dedicated to fund particular programs or services. Staff shall do an analysis to present to the Board and Budget Committee of the geographic source of this revenue and conduct an evaluation on whether these funds should be used to pay for emergency preparedness in specific areas in the County.**

Room Tax revenue are considered discretionary revenues by the County. This means that the revenue is placed in the General Fund to pay for services for the whole County. The Budget Policies provide the following:

“Wherever legally possible, revenues are to be treated as discretionary resources, rather than as dedicated to a particular program or service. The goal is to give the Board as much flexibility as possible in allocating resources to local priorities.”

The Room Tax is primarily generated in the County’s jurisdiction (this Memorandum does not include City Room Tax revenue since those revenues belong to the cities) with 84% coming specifically from the Arch Cape and Falcon Cove rural residential communities. This Memorandum focuses on those communities and while the Memorandum refers to Arch Cape, Falcon Cove is intended to be included in all respects in the references to Arch Cape. (See Attached Map)

Room Tax Revenues

Table 1 outlines the source and revenue from Arch Cape and the balance of the County.

Table 1
Room Tax Collected
2009, 2010, 2011

| Quarter | Arch | Other | Total | Percent |
|-----------------------|-------------------|------------------|-------------------|-----------------------|
| <u>Ending</u> | <u>Cape</u> | <u>Areas</u> | <u>Collected</u> | <u>From Arch Cape</u> |
| 3/31/2009 | 11,096.41 | 3,255.52 | 14,351.93 | 77.32% |
| 6/30/2009 | 23,787.17 | 4,870.11 | 28,657.28 | 83.01% |
| 9/30/2009 | 72,087.79 | 16,270.05 | 88,357.84 | 81.59% |
| <u>12/31/2009</u> | <u>19,346.94</u> | <u>3,400.06</u> | <u>22,747.00</u> | <u>85.05%</u> |
| Total | 126,318.31 | 27,795.74 | 154,114.05 | 81.96% |
| 3/31/2010 | 15,626.90 | 2,574.45 | 18,201.35 | 85.86% |
| 6/30/2010 | 30,308.55 | 5,295.36 | 35,603.91 | 85.13% |
| 9/30/2010 | 69,951.54 | 15,368.07 | 85,319.61 | 81.99% |
| <u>12/31/2010</u> | <u>20,225.28</u> | <u>3,371.61</u> | <u>23,596.89</u> | <u>85.71%</u> |
| Total | 136,112.27 | 26,609.49 | 162,721.76 | 83.65% |
| 3/31/2011 | 20,738.20 | 3,234.83 | 23,973.03 | 86.51% |
| 6/30/2011 | 30,284.08 | 5,083.11 | 35,367.19 | 85.63% |
| 9/30/2011 | 71,733.05 | 11,211.69 | 82,944.74 | 86.48% |
| <u>12/31/2011</u> | <u>35,815.60</u> | <u>3,268.56</u> | <u>39,084.16</u> | <u>91.64%</u> |
| Total | 158,570.93 | 22,798.19 | 181,369.12 | 87.43% |
| 3 Year Average | 140,333.84 | 25,734.47 | 166,068.31 | 84% |

Table 1 represents that the County collects an average over the last three years of \$166,000 per year from all areas of the County. The Arch Cape area provides about 84% of the funds or \$140,000 per year with a low in 2009 of \$126,000 and a high in 2011 of \$159,000. The other areas of the County provide about \$26,000 per year. Arch Cape provides 84% of the Room Tax

collected by the County. This revenue is generated from about 65 vacation rentals out of a total of 387 tax lots with residential improvements. The vacation rentals offer space for 657 additional residents if all spaces are filled. The residential population in 2010 of Arch Cape, including Falcon Cove, was 183 residents and there are currently 144 registered voters in the area. (See attached map.)

In order to shift this income to other services including services specific to the Arch Cape community, the County would need to either increase revenues or reduce services in other areas of the budget. The budget assumption included direction to consider shifting these revenues to emergency services for services related specifically to the areas from which the Room Tax was collected.

Emergency Services

The Emergency Services Director, Dean Perez, was tasked with providing a budget request that would be useful during the 2012-13 fiscal year. The EMS team identified four project areas that are described as follows:

Project 1: Coastal Warning Sirens. In order to enhance warning residents and visitors to evacuate beach areas in the event of a distant tsunami or hazardous material event, the plan is to install four (4) all hazard sound and voice emergency notification systems (obtained from the Chemical Stockpile Emergency Preparedness Program) from the Tillamook County line to the Cannon Beach city limits. The sirens would be linked into Cannon Beach's existing warning siren network which is operated and maintained by the Cannon Beach Fire Department. The estimated cost to permit, transport, install and program the sirens is approximately \$25,750. This project would take approximately 60 days complete.

Project 2: Two 40 KW Diesel Generator Sets with fuel tanks. In the event of a power outage, these Generator Sets would provide emergency backup power to the unincorporated areas of Arch Cape and Falcon Cove. In consultation with community leaders, the generators would be placed near high ground assembly areas for Arch Cape and Falcon Cove residents and visitors. The estimated cost to purchase, permit, and enclose both Generator Sets is approximately \$40,800.

Project 3: Four (4) 40 - foot storage containers. Similar to the City of Cannon Beach's storage container program, the plan would be to pre-position four storage containers on the high ground assembly areas for Arch Cape and Falcon Cove residents. In the event of a near or distant tsunami, residents would have access to food, water, and medical equipment that could sustain them for up to one week maybe longer. One 40 foot container can hold personal emergency kits, blankets, food and equipment for approximately 100 people. The estimated cost to purchase, permit, and drop ship four containers would be approximately \$22,000.

Project 4: 10 Emergency Shelter Modular Tents. The plan is to pre-position Emergency Shelter Modular tents in each of the four storage containers located on the high ground assembly areas. In the event of a near or distant tsunami, residents and visitors would have access to temporary shelter. When properly deployed, these modular tents provide extended protection from the cold,

wind and rain and protect against hypothermia. The estimated cost to purchase, ship and store ten Emergency Shelter Modular tents is approximately \$52,500.

Table 2 identifies the cost of each of these projects. The projects would provide capital assets that the County would need to maintain over time. No on-going operational costs were identified after the first year, but staff would need to be paid for and dedicated to assure that all of the equipment is in proper working condition and the items in storage remain fresh and serviceable.

Table 2
Arch Cape
Proposed Projects 2012-13

| | | | |
|----|---|-----------|-------------------|
| 1. | Coastal Warning Sirens | | |
| | · Transportation and Installation of Power Poles | \$ | 8,000.00 |
| | · Permits | \$ | 1,500.00 |
| | · Installation of 4 Poles, Sirens and Programming (labor) | \$ | 16,250.00 |
| | Total: | \$ | 25,750.00 |
| 2. | 2 -40KW Generator Sets @ \$12,000 per Generator Set X 2 | \$ | 24,000.00 |
| | · 250 Gallon Fuel Tank | \$ | 3,600.00 |
| | · Enclosures | \$ | 1,100.00 |
| | · Switch Gear | \$ | 3,000.00 |
| | · Control Panels | \$ | 3,600.00 |
| | · Permits | \$ | 1,000.00 |
| | · Electrician, cable and materials, Labor | \$ | 3,000.00 |
| | · Drop Shipping | \$ | 1,500.00 |
| | Total: | \$ | 40,800.00 |
| 3. | 4- 40 foot Storage Containers @ \$5,500.00 per Container X 4 | \$ | 22,000.00 |
| | · Price includes Drop Shipping | \$ | - |
| | Total: | \$ | 22,000.00 |
| 4. | 10 - Emergency Shelter Modular Tents @ \$5,000.00 per Tent X 10 | \$ | 50,000.00 |
| | Note: Each Tent Shelters 50 people | | |
| | · Drop Shipping | \$ | 2,500.00 |
| | Total: | \$ | 52,500.00 |
| | Grand Total | | |
| | Cost: | \$ | 141,050.00 |

In the years to come the \$140,000 could be used to pay for maintenance and supplement the existing items. In addition, the community might identify additional County services or projects designed to assist the community. For example, a volunteer coordinator working with residents may be one investment that could be useful.

Legal Framework

Is there any legal impediment to changing the Clatsop County Transient Room Tax Ordinance No. 90-7 (as amended by Ordinance No. 04-02) to which short term rentals are subject to pursuant to Ordinance 03-13?

The allocation of a portion of funds collected to a special fund for use in the specific geographic area from which the funds were derived is allowed. This would take some detailed drafting and require a number of decisions by the Board, but it could be done. There is no legal prohibition on doing so.

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A decision like this may be impacted by ORS 320.350. This statute (Attached to this Memorandum) grandfathers all room tax ordinances in existence on July 1, 2003. Any new ordinances, or increases after that date, must be allocated at least 70% to tourism promotion or tourism-related activities. Since an amendment to allocate the use of the funds from a specific geographical area back to that area is not expected to increase the tax rate, the County will not fall under the statutory requirements of ORS 320.350.

Creation of a new fund does have costs for administration and statutory audits. The County has determined, and its indirect cost allocation plan provides, that the cost to the County of managing each separate fund is 10% of the value of that fund. If all room tax receipts were allocated to dedicated fund, the additional cost to the County would be approximately \$16,600 based on the three year revenue average. Once in a special fund established by ordinance, the funds could not be used for any other purpose without both amending the ordinance and adjusting the budget.

Use of these funds for the purpose outlined the protection of property, lives and providing a place for residents and visitors to safely assemble pending or after a natural disaster, appears to be a use of Room Tax funds consistent with the law establishing the County authority to impose a Room Tax. Additionally, after the investment in Arch Cape is completed Emergency Services could use the funds elsewhere on the Clatsop Coast to address Emergency Services projects.

Reductions

The reductions needed to replace the \$141,050 loss in General Fund resources is difficult to specifically identify. The amount equals a little more than one percent of the General Fund and in those terms it does not seem like a large amount. In the limited proposed 2012-13 fiscal year budget however this reduction would equal about two positions including the materials and services to support those positions. Rather than the shock to the budget of a reduction of this amount all at once, perhaps a first step would be to fund the coastal warning sirens project this year. Then in the ensuing years the current years' project and the next year's project would be funded until the \$141,050 is dedicated to Arch Cape. Table 3 depicts the financial impacts of this scenario.

Table 3
Incremental Reduction of Room Tax

| <u>Project</u> | <u>Year 1</u> | <u>Year 2</u> | <u>Year 3</u> | <u>Year 4</u> |
|------------------------------|---------------|---------------|---------------|------------------|
| Coastal Warning Sirens | \$ 25,750 | | | |
| 2 - 40KW Generator Sets | | \$ 40,800 | | |
| 4 - 40 foot Storage | | | \$ 22,000 | |
| <u>10 Emergency Shelters</u> | | | | <u>\$ 52,500</u> |
| Total Support - Arch Cape | \$ 25,750 | \$ 66,550 | \$ 88,550 | \$ 141,050 |

Fairness of Services

Arch Cape is a rural residential area located in Clatsop County. The County keeps track of some of the services provided to the Arch Cape area since the question of County service levels in this particular rural residential area has been raised in the past. The County's policy is to provide equitable services to all County residents regardless of location while recognizing that certain locations require additional attention in the short-term.

Sheriff's Office Law Enforcement Services

The areas of the County not within cities pay a law enforcement levy. These funds are generated to provide rural law enforcement services. While the General Fund Room Tax discretionary revenue supports the Sheriff's Office, the majority of the support for these services comes from the rural law enforcement levy. Based on a review by the County staff the Arch Cape area receives about \$8,000 per year in services that are not provided to other areas of the County by the Sheriff's Office.

The Sheriff's Office divides the County into several service zones. Arch Cape is in Zone 3 and the Arch Cape area makes up a relatively small portion of the Zone 3 district (which encompasses from the north Seaside City Limit to the County Line on Hwy 101 and out Hwy 26

to Milepost 11). Unlike other zones (even those with resident deputies) the Arch Cape area has a .2 Full Time Equivalent (FTE) deputy assigned to the area. The call volume is low in the area.

In order to be comparable to other areas of the County, the Sheriff's Office would have to provide a deputy specifically assigned to the Westport community instead of the current practice of having services provided by the Zone 1 deputy who also serves all of the communities in Zone 1 including: Clifton/Bradwood, Knappa, Svensen, Brownsmead, Burnside and John Day. For Arch Cape to be treated similar to the other communities in the county would mean they would only receive services from the deputy assigned to the Zone, not the additional .2 FTE deputy specifically assigned to their community.

The Arch Cape area also receives General Fund support in the form of search and rescue, civil service, the jail, the work crew and mandatory investigations (i.e. child abuse, death investigations) no different than any other area in the county.

Emergency Preparedness

The focus of emergency preparedness has been along the coast due to the potential destructive force of a subduction zone earthquake followed by a tidal wave. Through an interview with the Emergency Services Director no inordinate service levels were identified for the Arch Cape area. It is true that services have been more focused in the community this year than in the past, but he thought this was a short-term occurrence related to increased community interest. In addition, there were some issues that needed to be resolved and a willingness by Cannon Beach Rural Fire Protection District to assist the rural area. These short-term projects would not be considered extraordinary since similar services are offered anywhere in the County.

Southwest Coastal Citizen Advisory Committee

The County Comprehensive plan identified citizen involvement groups to represent the rural residential communities located in Clatsop County. These groups were active during the development of the comprehensive plan and then with the planning mission accomplished, most are no longer active. The Southwest Coastal Citizen Advisory Committee served as the Arch Cape comprehensive planning committee, but actually was formed many years ago to provide advice and monitor development in the Arch Cape community. They are the only citizen advisory committee provided specific duties in the Land and Water Development Code that in general includes design review and recommendations to the Director. The County staff's the committee.

Table 4 below outlines the formula used to calculate the costs of providing support for the Southwest Coastal Citizens Advisory Committee and code enforcement services to Arch Cape during the 2011-12 fiscal year.

Table 4
Community Development Services
General Planning and Code Enforcement Support

| | | |
|------------------------|--------------|-------------|
| Personnel | | \$ 352,200 |
| Materials and Services | \$ 372,200 | |
| Contractual | \$ (216,000) | |
| Bradwood | \$ (10,000) | |
| OR -LNG | \$ (115,000) | |
| Subtotal | | \$ 31,200 |
| Total | | \$ 383,400 |
| Full time equivalent | 3.30 | |
| Hours per year | 2,080.00 | |
| Total Department Hours | | 6,864 |
| Per Hour Cost | | \$ 55.86 |
| Hours Spent Arch Cape | | 149 |
| Total Cost | | \$ 8,322.64 |

Code Enforcement

County staff provides code enforcement services and has been involved in discussions with community members regarding the County code, the role of County in enforcement actions, property boundaries, and other neighborhood disputes. Staff indicates there seem to be more phone calls and requests for services from Arch Cape than other areas of the County.

Overhead

The County incurs costs for the billing, collection, and research to identify vacation rentals that have not signed up to pay the Room Tax. While specific hours are not identified by the staff in general the County overhead rate is 10% and County staff believes it is reasonable to estimate the time and materials dedicated to the maintenance of the Room Tax for Arch Cape at \$14,100 average per year based on the prior three years of collections.

County-wide Service Balance

The Room Tax may provide an issue to discuss an important County policy - providing equal services to all County residents. On the one hand it does seem unfair that the residents of Arch Cape tolerate an increase in population from 183 residents to more than 600 on holiday weekends and during the summer, and receive very little extraordinary service from the Room Tax revenues that these visitors generate. On the other hand it could also be argued that Wauna Mill pays about 7% of the County's property taxes (this is approximately \$500,000 of the County's General Fund revenue) and the rural residential community of Westport receives very little extraordinary service from the property tax revenues generated by Wauna Mill.

The discussion of services based on revenues generated from specific geographic areas, might develop into identifying the taxes generated and the services that should be provided in each District. This would lead to a study of matching services to revenues by area to financial management and providing services to five mini-counties.

Summary

Arch Cape uses County Community Development services in the amount of \$8,322.64 more than would be anticipated or expected in other parts of the County. Rural law enforcement and emergency preparedness identified \$8,000 in additional support in the form of a .2 FTE. Based on the cost of overhead of \$14,100, the Community Development services of \$8,322.64, and \$8,000 for Sheriff's Office services, the total cost of services identified is \$30,422.64. Of this amount \$16,322.64 would be considered extraordinary services.

The County Board is elected from districts and each Commissioner has the focus of the voters who elected them, the geographic area of the district, and the whole County. General County issues are the subject to the goodwill framed as a focus of the Board to serve the whole County. The County staff is committed to providing equal services for all County residents.

Long Term Financial Plan Categories

Table 1 indicates that during the past three years there has been significant growth in Room Tax revenue from the Arch Cape community and the balance of the County. Part of this may be more efficient collection by the Assessment and Taxation staff, part of it may be the down-turn in the economy in 2008 that placed more housing in the short-term rental market, part of it may be an increase in the rents being charged, and part of it could be more people electing to have a stay near home vacation thereby increasing the demand. The increase in revenue also suggests greater impacts on the Arch Cape community assuming occupancy has been higher.

The Board could change the policy and determine that the Room Tax is not county-wide discretionary revenue. Room Taxes are generated by tourist activity that brings with them a whole set of problems. Noise, crowding, traffic, are impacts that may or may not be present from other uses. Possibly the Room Tax should be considered a nondiscretionary revenue in the Long Term Financial Plan.

The Long Term Financial Plan was provided to the County on September 13, 2004. The Board may want to revisit the plan and categorize the Room Tax as nondiscretionary revenue and dedicate the Room Tax to certain purposes.

Incorporation

When the County Comprehensive Plan was developed Arch Cape was one of the areas that allowed for a more urbanized development form while remaining in the County. Under the land use planning scheme, areas like Arch Cape will eventually either incorporate or be annexed into a contiguous city in the future. Arch Cape is not contiguous to another City in the County. The concept of incorporation of Arch Cape is an additional way to capture the Room Tax revenues

for use in the Arch Cape area, although incorporation is not an easy process. The authority to incorporate is included in the Oregon Revise Statutes.

“ORS 221.020 Authority to incorporate. The people of an area, no part of which lies in an incorporated city and in which 150 persons reside, may incorporate a city by approving at an election called and held according to ORS 221.031 to 221.061 a proposition provided by those sections for incorporating the city.”

The Arch Cape area has 183 residents (See the Map Attached) and according to the 2010 census this is more than enough to incorporate albeit not without some challenges. There may be some zoning to change, since property must be in certain zones prior to incorporation, to be resolved with the assistance of County Community Development Department. Petitions would need to be collected and an election held. A study of resources and expenses completed and other requirements met. A property tax base would need to be secured and a City Council elected. The community may want to request that the County assist them with preparing the Arch Cape area for incorporation.

The Arch Cape area also has 144 registered voters and with children and unregistered adults it is likely that the small community would meet the minimum of 150 persons required to consider an annexation vote.

A very preliminary financial evaluation based on the assessed value of the Arch Cape Domestic Water District and the Falcon Cove Beach Water District suggests a minimum annual revenue stream of about \$360,000 per year with no increase in the current tax rate paid by residents. A breakdown of the calculations follows in Table 5.

Table 5
Arch Cape/Falcon Cove
City Incorporation Preliminary Revenues

| | Gross | 70 Percent for Tourism | NET |
|--------------------------------------|----------------------|---------------------------|----------------------|
| Arch Cape Water Dist. Assessed Value | \$ 105,363,019 | | \$ 105,363,019 |
| Fal Co Beach Water Dist A. V. | <u>\$ 19,241,116</u> | | <u>\$ 19,241,116</u> |
| Total Assessed Value | \$ 124,604,135 | | \$ 124,604,135 |
| | | | |
| Rural Law Enforcement Tax Rate | \$ 0.7195 | | \$ 0.7195 |
| <u>Road District #1 Tax Rate</u> | <u>\$ 1.0175</u> | | <u>\$ 1.0175</u> |
| Possible City Tax Rate | \$ 1.7370 | | \$ 1.7370 |
| | | | |
| Total Value in Thousands | \$ 124,604.135 | | \$ 124,604.135 |
| Potential City Property Taxes | \$ 216,437.38 | | \$ 216,437.38 |
| <u>Room Tax - 3 year Average</u> | <u>\$ 141,050.00</u> | <u>\$ 98,735.00</u> | <u>\$ 42,315.00</u> |
| Est. Rev. - No Change in Tax Rate | \$ 357,487.38 | | \$ 258,752.38 |

The law would require that 70% of the Room Taxes adopted by the new city be dedicated to tourism promotion activities (See Page 14, (6) for the reference to State Law. This amount is almost \$100,000 per year and would leave a balance of about \$260,000 in revenue to operate the new City.

The assumption is that the City Property Tax rate would equal the amount currently collected for Rural Law District and Road District #1. There would be additional revenue from the State in the form of liquor, cigarettes, and gas taxes that is not shown in this illustration. A Municipal Court might do well in Arch Cape through the generation of revenue based on traffic violations along Highway 101. The new Arch Cape City Council would need to adopt the Room Tax since the County would no longer have the authority to collect the Room Tax within the new Arch Cape City Limits.

Of course there would be requirements for a small city including an annual audit, periodic election of a City Council and commensurate election costs, meeting agendas and general administration. This may cost up to \$100,000 per year depending on the availability of an individual to work part-time. The balance of the funds would be dedicated to basic services including law enforcement, land use planning, street repair and maintenance, and other general municipal services including emergency management. The services could be secured either by hiring staff or contracting with nearby cities or the County.

Attachments:

Oregon Revised Statutes 320 – Room Tax or Lodging Tax
Map of Arch Cape
Arch Cape Emergency Preparedness Project Recommendations
List of Arch Cape Short-Term Rentals
Room Tax Collected

Oregon Revised Statutes
Room or Lodging Tax

320.350 Tax moratorium; exceptions; uses of revenues. (1) A unit of local government that did not impose a local transient lodging tax on July 1, 2003, may not impose a local transient lodging tax on or after July 2, 2003, unless the imposition of the local transient lodging tax was approved on or before July 1, 2003.

(2) A unit of local government that imposed a local transient lodging tax on July 1, 2003, may not increase the rate of the local transient lodging tax on or after July 2, 2003, to a rate that is greater than the rate in effect on July 1, 2003, unless the increase was approved on or before July 1, 2003.

(3) A unit of local government that imposed a local transient lodging tax on July 1, 2003, may not decrease the percentage of total local transient lodging tax revenues that are actually expended to fund tourism promotion or tourism-related facilities on or after July 2, 2003. A unit of local government that agreed, on or before July 1, 2003, to increase the percentage of total local transient lodging tax revenues that are to be expended to fund tourism promotion or tourism-related facilities, must increase the percentage as agreed.

(4) Notwithstanding subsections (1) and (2) of this section, a unit of local government that is financing debt with local transient lodging tax revenues on November 26, 2003, must continue to finance the debt until the retirement of the debt, including any refinancing of that debt. If the tax is not otherwise permitted under subsection (1) or (2) of this section, at the time of the debt retirement:

(a) The local transient lodging tax revenue that financed the debt shall be used as provided in subsection (5) of this section; or

(b) The unit of local government shall thereafter eliminate the new tax or increase in tax otherwise described in subsection (1) or (2) of this section.

(5) Subsections (1) and (2) of this section do not apply to a new or increased local transient lodging tax if all of the net revenue from the new or increased tax, following reductions attributed to collection reimbursement charges, is used consistently with subsection (6) of this section to:

(a) Fund tourism promotion or tourism-related facilities;

(b) Fund city or county services; or

(c) Finance or refinance the debt of tourism-related facilities and pay reasonable administrative costs incurred in financing or refinancing that debt, provided that:

(A) The net revenue may be used for administrative costs only if the unit of local government provides a collection reimbursement charge; and

(B) Upon retirement of the debt, the unit of local government reduces the tax by the amount by which the tax was increased to finance or refinance the debt.

(6) At least 70 percent of net revenue from a new or increased local transient lodging tax shall be used for the purposes described in subsection (5)(a) or (c) of this section. No more than 30 percent of net revenue from a new or increased local transient lodging tax may be used for the purpose described in subsection (5)(b) of this section. [2003 c.818 §11]



COUNTY MANAGER'S OFFICE

MEMORANDUM

To: Budget Committee

From: Duane Cole, County Manager

Date: April 2012

Subject: Room Tax Revenues Dedicated to Emergency Preparedness

Summary

The Memorandum addresses the following issue: **an analysis to present to the Board and Budget Committee of the geographic source of this revenue and conduct an evaluation on whether these funds should be used to pay for emergency preparedness in specific areas in the County.** The information presented in this Memorandum can be summarized as follows:

- The Arch Cape area generates 84% of the County Room Tax revenue with average revenue of about \$140,000 per year over the last 3 years. Shifting this revenue to other uses would require reducing the budget in other areas.
- The Arch Cape area receives some extraordinary or additional services from the County in the amount of about \$16,500 per year. It costs about \$14,100 per year to bill and collect the Room Tax. The total of extraordinary and administration is about \$30,600.
- Emergency service identified four initial projects that cost a total of \$141,050 in Arch Cape. These projects would require on-going maintenance to be provided by the County. Emergency Services and the Room Tax funds could be used for on-going support.
- It is legal to redirect these funds as out-lined in this Memorandum, but this may require Board action.
- Reductions are difficult to quantify, but \$140,000 equals about 2 full time positions. An incremental reduction of Room Tax as a discretionary revenue could be considered.
- Staff is careful to provide services to the whole County and discussing the assignment of specific funds to each Board District may create service delivery issues.
- The assignment of the Room Tax as a discretionary revenue can be changed by the Board. Long Term Financial Plan categorization of the Room Tax as a discretionary revenue can be reconsidered by the Board.
- Incorporation is an option for Arch Cape. Preliminarily, and assuming the difficult process and politics could be resolved, incorporation of the community would generate funds that could increase services for an urban area of the County.

Based on this information the Board has several policy choices regarding the use of the discretionary Room Tax revenue.

- Allocate the Room Tax collected in Arch Cape to that area for services including emergency preparedness. This would have serious implications for the budget and require additional adjustments likely including lay-offs or at least reassignment of current staff to specific duties related to Arch Cape.
- Allocate the Room Tax collected in Arch Cape to that area over the coming 4 or 5 years. This would ease the shock to the County budget and provide time for the loss in revenue to be absorbed by the larger corporation.
- Do nothing at this time with the Room Tax.
- Determine that incorporation would be a better outcome for Arch Cape and begin working with the community to see that a new City is formed in the County. This would provide funds for Arch Cape services as the next Oregon City. This might be coupled with the slow dedication of room tax funds over time to provide funds to assist with incorporation.
- Determine whether the categorization of Room Taxes in the Long Range Financial Plan is correct and decide whether they should be moved from discretionary funds to nondiscretionary funds. Once this decision is completed the County staff could build these funds into the budget as nondiscretionary and reduce services in some areas while increasing services in Arch Cape.

The staff is willing to proceed based on these or other options the Board may wish to pursue.

Introduction

The Board of County Commissioners at their January 25, 2012 Board meeting adopted the following task for staff to complete and present with the annual budget. This Memorandum serves to comply with the Board's Request.

XII. DISCRETIONARY RESOURCES

- B. Room Tax Revenues: Room tax monies are not legally dedicated to fund particular programs or services. Staff shall do an analysis to present to the Board and Budget Committee of the geographic source of this revenue and conduct an evaluation on whether these funds should be used to pay for emergency preparedness in specific areas in the County.**

Room Tax revenue are considered discretionary revenues by the County. This means that the revenue is placed in the General Fund to pay for services for the whole County. The Budget Policies provide the following:

“Wherever legally possible, revenues are to be treated as discretionary resources, rather than as dedicated to a particular program or service. The goal is to give the Board as much flexibility as possible in allocating resources to local priorities.”

The Room Tax is primarily generated in the County’s jurisdiction (this Memorandum does not include City Room Tax revenue since those revenues belong to the cities) with 84% coming specifically from the Arch Cape and Falcon Cove rural residential communities. This Memorandum focuses on those communities and while the Memorandum refers to Arch Cape, Falcon Cove is intended to be included in all respects in the references to Arch Cape. (See Attached Map)

Room Tax Revenues

Table 1 outlines the source and revenue from Arch Cape and the balance of the County.

Table 1
Room Tax Collected
2009, 2010, 2011

| Quarter | Arch | Other | Total | Percent |
|-----------------------|-------------------|------------------|-------------------|-----------------------|
| <u>Ending</u> | <u>Cape</u> | <u>Areas</u> | <u>Collected</u> | <u>From Arch Cape</u> |
| 3/31/2009 | 11,096.41 | 3,255.52 | 14,351.93 | 77.32% |
| 6/30/2009 | 23,787.17 | 4,870.11 | 28,657.28 | 83.01% |
| 9/30/2009 | 72,087.79 | 16,270.05 | 88,357.84 | 81.59% |
| <u>12/31/2009</u> | <u>19,346.94</u> | <u>3,400.06</u> | <u>22,747.00</u> | <u>85.05%</u> |
| Total | 126,318.31 | 27,795.74 | 154,114.05 | 81.96% |
| 3/31/2010 | 15,626.90 | 2,574.45 | 18,201.35 | 85.86% |
| 6/30/2010 | 30,308.55 | 5,295.36 | 35,603.91 | 85.13% |
| 9/30/2010 | 69,951.54 | 15,368.07 | 85,319.61 | 81.99% |
| <u>12/31/2010</u> | <u>20,225.28</u> | <u>3,371.61</u> | <u>23,596.89</u> | <u>85.71%</u> |
| Total | 136,112.27 | 26,609.49 | 162,721.76 | 83.65% |
| 3/31/2011 | 20,738.20 | 3,234.83 | 23,973.03 | 86.51% |
| 6/30/2011 | 30,284.08 | 5,083.11 | 35,367.19 | 85.63% |
| 9/30/2011 | 71,733.05 | 11,211.69 | 82,944.74 | 86.48% |
| <u>12/31/2011</u> | <u>35,815.60</u> | <u>3,268.56</u> | <u>39,084.16</u> | <u>91.64%</u> |
| Total | 158,570.93 | 22,798.19 | 181,369.12 | 87.43% |
| 3 Year Average | 140,333.84 | 25,734.47 | 166,068.31 | 84% |

Table 1 represents that the County collects an average over the last three years of \$166,000 per year from all areas of the County. The Arch Cape area provides about 84% of the funds or \$140,000 per year with a low in 2009 of \$126,000 and a high in 2011 of \$159,000. The other areas of the County provide about \$26,000 per year. Arch Cape provides 84% of the Room Tax

collected by the County. This revenue is generated from about 65 vacation rentals out of a total of 387 tax lots with residential improvements. The vacation rentals offer space for 657 additional residents if all spaces are filled. The residential population in 2010 of Arch Cape, including Falcon Cove, was 183 residents and there are currently 144 registered voters in the area. (See attached map.)

In order to shift this income to other services including services specific to the Arch Cape community, the County would need to either increase revenues or reduce services in other areas of the budget. The budget assumption included direction to consider shifting these revenues to emergency services for services related specifically to the areas from which the Room Tax was collected.

Emergency Services

The Emergency Services Director, Dean Perez, was tasked with providing a budget request that would be useful during the 2012-13 fiscal year. The EMS team identified four project areas that are described as follows:

Project 1: Coastal Warning Sirens. In order to enhance warning residents and visitors to evacuate beach areas in the event of a distant tsunami or hazardous material event, the plan is to install four (4) all hazard sound and voice emergency notification systems (obtained from the Chemical Stockpile Emergency Preparedness Program) from the Tillamook County line to the Cannon Beach city limits. The sirens would be linked into Cannon Beach's existing warning siren network which is operated and maintained by the Cannon Beach Fire Department. The estimated cost to permit, transport, install and program the sirens is approximately \$25,750. This project would take approximately 60 days complete.

Project 2: Two 40 KW Diesel Generator Sets with fuel tanks. In the event of a power outage, these Generator Sets would provide emergency backup power to the unincorporated areas of Arch Cape and Falcon Cove. In consultation with community leaders, the generators would be placed near high ground assembly areas for Arch Cape and Falcon Cove residents and visitors. The estimated cost to purchase, permit, and enclose both Generator Sets is approximately \$40,800.

Project 3: Four (4) 40 - foot storage containers. Similar to the City of Cannon Beach's storage container program, the plan would be to pre-position four storage containers on the high ground assembly areas for Arch Cape and Falcon Cove residents. In the event of a near or distant tsunami, residents would have access to food, water, and medical equipment that could sustain them for up to one week maybe longer. One 40 foot container can hold personal emergency kits, blankets, food and equipment for approximately 100 people. The estimated cost to purchase, permit, and drop ship four containers would be approximately \$22,000.

Project 4: 10 Emergency Shelter Modular Tents. The plan is to pre-position Emergency Shelter Modular tents in each of the four storage containers located on the high ground assembly areas. In the event of a near or distant tsunami, residents and visitors would have access to temporary shelter. When properly deployed, these modular tents provide extended protection from the cold,

wind and rain and protect against hypothermia. The estimated cost to purchase, ship and store ten Emergency Shelter Modular tents is approximately \$52,500.

Table 2 identifies the cost of each of these projects. The projects would provide capital assets that the County would need to maintain over time. No on-going operational costs were identified after the first year, but staff would need to be paid for and dedicated to assure that all of the equipment is in proper working condition and the items in storage remain fresh and serviceable.

Table 2
Arch Cape
Proposed Projects 2012-13

| | | | |
|----|---|-----------|-------------------|
| 1. | Coastal Warning Sirens | | |
| | · Transportation and Installation of Power Poles | \$ | 8,000.00 |
| | · Permits | \$ | 1,500.00 |
| | · Installation of 4 Poles, Sirens and Programming (labor) | \$ | 16,250.00 |
| | Total: | \$ | 25,750.00 |
| 2. | 2 -40KW Generator Sets @ \$12,000 per Generator Set X 2 | \$ | 24,000.00 |
| | · 250 Gallon Fuel Tank | \$ | 3,600.00 |
| | · Enclosures | \$ | 1,100.00 |
| | · Switch Gear | \$ | 3,000.00 |
| | · Control Panels | \$ | 3,600.00 |
| | · Permits | \$ | 1,000.00 |
| | · Electrician, cable and materials, Labor | \$ | 3,000.00 |
| | · Drop Shipping | \$ | 1,500.00 |
| | Total: | \$ | 40,800.00 |
| 3. | 4- 40 foot Storage Containers @ \$5,500.00 per Container X 4 | \$ | 22,000.00 |
| | · Price includes Drop Shipping | \$ | - |
| | Total: | \$ | 22,000.00 |
| 4. | 10 - Emergency Shelter Modular Tents @ \$5,000.00 per Tent X 10 | \$ | 50,000.00 |
| | Note: Each Tent Shelters 50 people | | |
| | · Drop Shipping | \$ | 2,500.00 |
| | Total: | \$ | 52,500.00 |
| | Grand Total | | |
| | Cost: | \$ | 141,050.00 |

In the years to come the \$140,000 could be used to pay for maintenance and supplement the existing items. In addition, the community might identify additional County services or projects designed to assist the community. For example, a volunteer coordinator working with residents may be one investment that could be useful.

Legal Framework

Is there any legal impediment to changing the Clatsop County Transient Room Tax Ordinance No. 90-7 (as amended by Ordinance No. 04-02) to which short term rentals are subject to pursuant to Ordinance 03-13?

The allocation of a portion of funds collected to a special fund for use in the specific geographic area from which the funds were derived is allowed. This would take some detailed drafting and require a number of decisions by the Board, but it could be done. There is no legal prohibition on doing so.

The board would need to decide what the fund would be used for, with some specificity. The Board would also need to decide how the funds would be applied geographically to the various collection points throughout the County. While most funds are collected from the Arch Cape area, funds are also collected from Westport, the Elderberry Inn, and the Clatsop Plains. The needs in one area may be very different from the needs in another. There also should be some thought given to the precedent created in dedicating funds geographically, for other funding streams (this is considered elsewhere in this Memorandum).

A decision like this may be impacted by ORS 320.350. This statute (Attached to this Memorandum) grandfathers all room tax ordinances in existence on July 1, 2003. Any new ordinances, or increases after that date, must be allocated at least 70% to tourism promotion or tourism-related activities. Since an amendment to allocate the use of the funds from a specific geographical area back to that area is not expected to increase the tax rate, the County will not fall under the statutory requirements of ORS 320.350.

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The reductions needed to replace the \$141,050 loss in General Fund resources is difficult to specifically identify. The amount equals a little more than one percent of the General Fund and in those terms it does not seem like a large amount. In the limited proposed 2012-13 fiscal year budget however this reduction would equal about two positions including the materials and services to support those positions. Rather than the shock to the budget of a reduction of this amount all at once, perhaps a first step would be to fund the coastal warning sirens project this year. Then in the ensuing years the current years' project and the next year's project would be funded until the \$141,050 is dedicated to Arch Cape. Table 3 depicts the financial impacts of this scenario.

Table 3
Incremental Reduction of Room Tax

| <u>Project</u> | <u>Year 1</u> | <u>Year 2</u> | <u>Year 3</u> | <u>Year 4</u> |
|------------------------------|---------------|---------------|---------------|------------------|
| Coastal Warning Sirens | \$ 25,750 | | | |
| 2 - 40KW Generator Sets | | \$ 40,800 | | |
| 4 - 40 foot Storage | | | \$ 22,000 | |
| <u>10 Emergency Shelters</u> | | | | <u>\$ 52,500</u> |
| Total Support - Arch Cape | \$ 25,750 | \$ 66,550 | \$ 88,550 | \$ 141,050 |

Fairness of Services

Arch Cape is a rural residential area located in Clatsop County. The County keeps track of some of the services provided to the Arch Cape area since the question of County service levels in this particular rural residential area has been raised in the past. The County's policy is to provide equitable services to all County residents regardless of location while recognizing that certain locations require additional attention in the short-term.

Sheriff's Office Law Enforcement Services

The areas of the County not within cities pay a law enforcement levy. These funds are generated to provide rural law enforcement services. While the General Fund Room Tax discretionary revenue supports the Sheriff's Office, the majority of the support for these services comes from the rural law enforcement levy. Based on a review by the County staff the Arch Cape area receives about \$8,000 per year in services that are not provided to other areas of the County by the Sheriff's Office.

The Sheriff's Office divides the County into several service zones. Arch Cape is in Zone 3 and the Arch Cape area makes up a relatively small portion of the Zone 3 district (which encompasses from the north Seaside City Limit to the County Line on Hwy 101 and out Hwy 26

to Milepost 11). Unlike other zones (even those with resident deputies) the Arch Cape area has a .2 Full Time Equivalent (FTE) deputy assigned to the area. The call volume is low in the area.

In order to be comparable to other areas of the County, the Sheriff's Office would have to provide a deputy specifically assigned to the Westport community instead of the current practice of having services provided by the Zone 1 deputy who also serves all of the communities in Zone 1 including: Clifton/Bradwood, Knappa, Svensen, Brownsmead, Burnside and John Day. For Arch Cape to be treated similar to the other communities in the county would mean they would only receive services from the deputy assigned to the Zone, not the additional .2 FTE deputy specifically assigned to their community.

The Arch Cape area also receives General Fund support in the form of search and rescue, civil service, the jail, the work crew and mandatory investigations (i.e. child abuse, death investigations) no different than any other area in the county.

Emergency Preparedness

The focus of emergency preparedness has been along the coast due to the potential destructive force of a subduction zone earthquake followed by a tidal wave. Through an interview with the Emergency Services Director no inordinate service levels were identified for the Arch Cape area. It is true that services have been more focused in the community this year than in the past, but he thought this was a short-term occurrence related to increased community interest. In addition, there were some issues that needed to be resolved and a willingness by Cannon Beach Rural Fire Protection District to assist the rural area. These short-term projects would not be considered extraordinary since similar services are offered anywhere in the County.

Southwest Coastal Citizen Advisory Committee

The County Comprehensive plan identified citizen involvement groups to represent the rural residential communities located in Clatsop County. These groups were active during the development of the comprehensive plan and then with the planning mission accomplished, most are no longer active. The Southwest Coastal Citizen Advisory Committee served as the Arch Cape comprehensive planning committee, but actually was formed many years ago to provide advice and monitor development in the Arch Cape community. They are the only citizen advisory committee provided specific duties in the Land and Water Development Code that in general includes design review and recommendations to the Director. The County staff's the committee.

Table 4 below outlines the formula used to calculate the costs of providing support for the Southwest Coastal Citizens Advisory Committee and code enforcement services to Arch Cape during the 2011-12 fiscal year.

Table 4
Community Development Services
General Planning and Code Enforcement Support

| | | |
|------------------------|--------------|-------------|
| Personnel | | \$ 352,200 |
| Materials and Services | \$ 372,200 | |
| Contractual | \$ (216,000) | |
| Bradwood | \$ (10,000) | |
| OR -LNG | \$ (115,000) | |
| Subtotal | | \$ 31,200 |
| Total | | \$ 383,400 |
| Full time equivalent | 3.30 | |
| Hours per year | 2,080.00 | |
| Total Department Hours | | 6,864 |
| Per Hour Cost | | \$ 55.86 |
| Hours Spent Arch Cape | | 149 |
| Total Cost | | \$ 8,322.64 |

Code Enforcement

County staff provides code enforcement services and has been involved in discussions with community members regarding the County code, the role of County in enforcement actions, property boundaries, and other neighborhood disputes. Staff indicates there seem to be more phone calls and requests for services from Arch Cape than other areas of the County.

Overhead

The County incurs costs for the billing, collection, and research to identify vacation rentals that have not signed up to pay the Room Tax. While specific hours are not identified by the staff in general the County overhead rate is 10% and County staff believes it is reasonable to estimate the time and materials dedicated to the maintenance of the Room Tax for Arch Cape at \$14,100 average per year based on the prior three years of collections.

County-wide Service Balance

The Room Tax may provide an issue to discuss an important County policy - providing equal services to all County residents. On the one hand it does seem unfair that the residents of Arch Cape tolerate an increase in population from 183 residents to more than 600 on holiday weekends and during the summer, and receive very little extraordinary service from the Room Tax revenues that these visitors generate. On the other hand it could also be argued that Wauna Mill pays about 7% of the County's property taxes (this is approximately \$500,000 of the County's General Fund revenue) and the rural residential community of Westport receives very little extraordinary service from the property tax revenues generated by Wauna Mill.

The discussion of services based on revenues generated from specific geographic areas, might develop into identifying the taxes generated and the services that should be provided in each District. This would lead to a study of matching services to revenues by area to financial management and providing services to five mini-counties.

Summary

Arch Cape uses County Community Development services in the amount of \$8,322.64 more than would be anticipated or expected in other parts of the County. Rural law enforcement and emergency preparedness identified \$8,000 in additional support in the form of a .2 FTE. Based on the cost of overhead of \$14,100, the Community Development services of \$8,322.64, and \$8,000 for Sheriff's Office services, the total cost of services identified is \$30,422.64. Of this amount \$16,322.64 would be considered extraordinary services.

The County Board is elected from districts and each Commissioner has the focus of the voters who elected them, the geographic area of the district, and the whole County. General County issues are the subject to the goodwill framed as a focus of the Board to serve the whole County. The County staff is committed to providing equal services for all County residents.

Long Term Financial Plan Categories

Table 1 indicates that during the past three years there has been significant growth in Room Tax revenue from the Arch Cape community and the balance of the County. Part of this may be more efficient collection by the Assessment and Taxation staff, part of it may be the down-turn in the economy in 2008 that placed more housing in the short-term rental market, part of it may be an increase in the rents being charged, and part of it could be more people electing to have a stay near home vacation thereby increasing the demand. The increase in revenue also suggests greater impacts on the Arch Cape community assuming occupancy has been higher.

The Board could change the policy and determine that the Room Tax is not county-wide discretionary revenue. Room Taxes are generated by tourist activity that brings with them a whole set of problems. Noise, crowding, traffic, are impacts that may or may not be present from other uses. Possibly the Room Tax should be considered a nondiscretionary revenue in the Long Term Financial Plan.

The Long Term Financial Plan was provided to the County on September 13, 2004. The Board may want to revisit the plan and categorize the Room Tax as nondiscretionary revenue and dedicate the Room Tax to certain purposes.

Incorporation

When the County Comprehensive Plan was developed Arch Cape was one of the areas that allowed for a more urbanized development form while remaining in the County. Under the land use planning scheme, areas like Arch Cape will eventually either incorporate or be annexed into a contiguous city in the future. Arch Cape is not contiguous to another City in the County. The concept of incorporation of Arch Cape is an additional way to capture the Room Tax revenues

for use in the Arch Cape area, although incorporation is not an easy process. The authority to incorporate is included in the Oregon Revise Statutes.

“ORS 221.020 Authority to incorporate. The people of an area, no part of which lies in an incorporated city and in which 150 persons reside, may incorporate a city by approving at an election called and held according to ORS 221.031 to 221.061 a proposition provided by those sections for incorporating the city.”

The Arch Cape area has 183 residents (See the Map Attached) and according to the 2010 census this is more than enough to incorporate albeit not without some challenges. There may be some zoning to change, since property must be in certain zones prior to incorporation, to be resolved with the assistance of County Community Development Department. Petitions would need to be collected and an election held. A study of resources and expenses completed and other requirements met. A property tax base would need to be secured and a City Council elected. The community may want to request that the County assist them with preparing the Arch Cape area for incorporation.

The Arch Cape area also has 144 registered voters and with children and unregistered adults it is likely that the small community would meet the minimum of 150 persons required to consider an annexation vote.

A very preliminary financial evaluation based on the assessed value of the Arch Cape Domestic Water District and the Falcon Cove Beach Water District suggests a minimum annual revenue stream of about \$360,000 per year with no increase in the current tax rate paid by residents. A breakdown of the calculations follows in Table 5.

Table 5
Arch Cape/Falcon Cove
City Incorporation Preliminary Revenues

| | Gross | 70 Percent for Tourism | NET |
|--------------------------------------|----------------------|---------------------------|----------------------|
| Arch Cape Water Dist. Assessed Value | \$ 105,363,019 | | \$ 105,363,019 |
| Fal Co Beach Water Dist A. V. | <u>\$ 19,241,116</u> | | <u>\$ 19,241,116</u> |
| Total Assessed Value | \$ 124,604,135 | | \$ 124,604,135 |
| | | | |
| Rural Law Enforcement Tax Rate | \$ 0.7195 | | \$ 0.7195 |
| <u>Road District #1 Tax Rate</u> | <u>\$ 1.0175</u> | | <u>\$ 1.0175</u> |
| Possible City Tax Rate | \$ 1.7370 | | \$ 1.7370 |
| | | | |
| Total Value in Thousands | \$ 124,604.135 | | \$ 124,604.135 |
| Potential City Property Taxes | \$ 216,437.38 | | \$ 216,437.38 |
| <u>Room Tax - 3 year Average</u> | <u>\$ 141,050.00</u> | <u>\$ 98,735.00</u> | <u>\$ 42,315.00</u> |
| Est. Rev. - No Change in Tax Rate | \$ 357,487.38 | | \$ 258,752.38 |

The law would require that 70% of the Room Taxes adopted by the new city be dedicated to tourism promotion activities (See Page 14, (6) for the reference to State Law. This amount is almost \$100,000 per year and would leave a balance of about \$260,000 in revenue to operate the new City.

The assumption is that the City Property Tax rate would equal the amount currently collected for Rural Law District and Road District #1. There would be additional revenue from the State in the form of liquor, cigarettes, and gas taxes that is not shown in this illustration. A Municipal Court might do well in Arch Cape through the generation of revenue based on traffic violations along Highway 101. The new Arch Cape City Council would need to adopt the Room Tax since the County would no longer have the authority to collect the Room Tax within the new Arch Cape City Limits.

Of course there would be requirements for a small city including an annual audit, periodic election of a City Council and commensurate election costs, meeting agendas and general administration. This may cost up to \$100,000 per year depending on the availability of an individual to work part-time. The balance of the funds would be dedicated to basic services including law enforcement, land use planning, street repair and maintenance, and other general municipal services including emergency management. The services could be secured either by hiring staff or contracting with nearby cities or the County.

Attachments:

Oregon Revised Statutes 320 – Room Tax or Lodging Tax
Map of Arch Cape
Arch Cape Emergency Preparedness Project Recommendations
List of Arch Cape Short-Term Rentals
Room Tax Collected

Oregon Revised Statutes
Room or Lodging Tax

320.350 Tax moratorium; exceptions; uses of revenues. (1) A unit of local government that did not impose a local transient lodging tax on July 1, 2003, may not impose a local transient lodging tax on or after July 2, 2003, unless the imposition of the local transient lodging tax was approved on or before July 1, 2003.

(2) A unit of local government that imposed a local transient lodging tax on July 1, 2003, may not increase the rate of the local transient lodging tax on or after July 2, 2003, to a rate that is greater than the rate in effect on July 1, 2003, unless the increase was approved on or before July 1, 2003.

(3) A unit of local government that imposed a local transient lodging tax on July 1, 2003, may not decrease the percentage of total local transient lodging tax revenues that are actually expended to fund tourism promotion or tourism-related facilities on or after July 2, 2003. A unit of local government that agreed, on or before July 1, 2003, to increase the percentage of total local transient lodging tax revenues that are to be expended to fund tourism promotion or tourism-related facilities, must increase the percentage as agreed.

(4) Notwithstanding subsections (1) and (2) of this section, a unit of local government that is financing debt with local transient lodging tax revenues on November 26, 2003, must continue to finance the debt until the retirement of the debt, including any refinancing of that debt. If the tax is not otherwise permitted under subsection (1) or (2) of this section, at the time of the debt retirement:

(a) The local transient lodging tax revenue that financed the debt shall be used as provided in subsection (5) of this section; or

(b) The unit of local government shall thereafter eliminate the new tax or increase in tax otherwise described in subsection (1) or (2) of this section.

(5) Subsections (1) and (2) of this section do not apply to a new or increased local transient lodging tax if all of the net revenue from the new or increased tax, following reductions attributed to collection reimbursement charges, is used consistently with subsection (6) of this section to:

(a) Fund tourism promotion or tourism-related facilities;

(b) Fund city or county services; or

(c) Finance or refinance the debt of tourism-related facilities and pay reasonable administrative costs incurred in financing or refinancing that debt, provided that:

(A) The net revenue may be used for administrative costs only if the unit of local government provides a collection reimbursement charge; and

(B) Upon retirement of the debt, the unit of local government reduces the tax by the amount by which the tax was increased to finance or refinance the debt.

(6) At least 70 percent of net revenue from a new or increased local transient lodging tax shall be used for the purposes described in subsection (5)(a) or (c) of this section. No more than 30 percent of net revenue from a new or increased local transient lodging tax may be used for the purpose described in subsection (5)(b) of this section. [2003 c.818 §11]



COUNTY MANAGER'S OFFICE

MEMORANDUM

To: Budget Committee

From: Duane Cole, County Manager

Date: April 2012

Subject: Room Tax Revenues Dedicated to Emergency Preparedness

Summary

The Memorandum addresses the following issue: **an analysis to present to the Board and Budget Committee of the geographic source of this revenue and conduct an evaluation on whether these funds should be used to pay for emergency preparedness in specific areas in the County.** The information presented in this Memorandum can be summarized as follows:

- The Arch Cape area generates 84% of the County Room Tax revenue with average revenue of about \$140,000 per year over the last 3 years. Shifting this revenue to other uses would require reducing the budget in other areas.
- The Arch Cape area receives some extraordinary or additional services from the County in the amount of about \$16,500 per year. It costs about \$14,100 per year to bill and collect the Room Tax. The total of extraordinary and administration is about \$30,600.
- Emergency service identified four initial projects that cost a total of \$141,050 in Arch Cape. These projects would require on-going maintenance to be provided by the County. Emergency Services and the Room Tax funds could be used for on-going support.
- It is legal to redirect these funds as out-lined in this Memorandum, but this may require Board action.
- Reductions are difficult to quantify, but \$140,000 equals about 2 full time positions. An incremental reduction of Room Tax as a discretionary revenue could be considered.
- Staff is careful to provide services to the whole County and discussing the assignment of specific funds to each Board District may create service delivery issues.
- The assignment of the Room Tax as a discretionary revenue can be changed by the Board. Long Term Financial Plan categorization of the Room Tax as a discretionary revenue can be reconsidered by the Board.
- Incorporation is an option for Arch Cape. Preliminarily, and assuming the difficult process and politics could be resolved, incorporation of the community would generate funds that could increase services for an urban area of the County.

Based on this information the Board has several policy choices regarding the use of the discretionary Room Tax revenue.

- Allocate the Room Tax collected in Arch Cape to that area for services including emergency preparedness. This would have serious implications for the budget and require additional adjustments likely including lay-offs or at least reassignment of current staff to specific duties related to Arch Cape.
- Allocate the Room Tax collected in Arch Cape to that area over the coming 4 or 5 years. This would ease the shock to the County budget and provide time for the loss in revenue to be absorbed by the larger corporation.
- Do nothing at this time with the Room Tax.
- Determine that incorporation would be a better outcome for Arch Cape and begin working with the community to see that a new City is formed in the County. This would provide funds for Arch Cape services as the next Oregon City. This might be coupled with the slow dedication of room tax funds over time to provide funds to assist with incorporation.
- Determine whether the categorization of Room Taxes in the Long Range Financial Plan is correct and decide whether they should be moved from discretionary funds to nondiscretionary funds. Once this decision is completed the County staff could build these funds into the budget as nondiscretionary and reduce services in some areas while increasing services in Arch Cape.

The staff is willing to proceed based on these or other options the Board may wish to pursue.

Introduction

The Board of County Commissioners at their January 25, 2012 Board meeting adopted the following task for staff to complete and present with the annual budget. This Memorandum serves to comply with the Board's Request.

XII. DISCRETIONARY RESOURCES

- B. Room Tax Revenues: Room tax monies are not legally dedicated to fund particular programs or services. Staff shall do an analysis to present to the Board and Budget Committee of the geographic source of this revenue and conduct an evaluation on whether these funds should be used to pay for emergency preparedness in specific areas in the County.**

Room Tax revenue are considered discretionary revenues by the County. This means that the revenue is placed in the General Fund to pay for services for the whole County. The Budget Policies provide the following:

“Wherever legally possible, revenues are to be treated as discretionary resources, rather than as dedicated to a particular program or service. The goal is to give the Board as much flexibility as possible in allocating resources to local priorities.”

The Room Tax is primarily generated in the County’s jurisdiction (this Memorandum does not include City Room Tax revenue since those revenues belong to the cities) with 84% coming specifically from the Arch Cape and Falcon Cove rural residential communities. This Memorandum focuses on those communities and while the Memorandum refers to Arch Cape, Falcon Cove is intended to be included in all respects in the references to Arch Cape. (See Attached Map)

Room Tax Revenues

Table 1 outlines the source and revenue from Arch Cape and the balance of the County.

Table 1
Room Tax Collected
2009, 2010, 2011

| Quarter | Arch | Other | Total | Percent |
|-----------------------|-------------------|------------------|-------------------|-----------------------|
| <u>Ending</u> | <u>Cape</u> | <u>Areas</u> | <u>Collected</u> | <u>From Arch Cape</u> |
| 3/31/2009 | 11,096.41 | 3,255.52 | 14,351.93 | 77.32% |
| 6/30/2009 | 23,787.17 | 4,870.11 | 28,657.28 | 83.01% |
| 9/30/2009 | 72,087.79 | 16,270.05 | 88,357.84 | 81.59% |
| <u>12/31/2009</u> | <u>19,346.94</u> | <u>3,400.06</u> | <u>22,747.00</u> | <u>85.05%</u> |
| Total | 126,318.31 | 27,795.74 | 154,114.05 | 81.96% |
| 3/31/2010 | 15,626.90 | 2,574.45 | 18,201.35 | 85.86% |
| 6/30/2010 | 30,308.55 | 5,295.36 | 35,603.91 | 85.13% |
| 9/30/2010 | 69,951.54 | 15,368.07 | 85,319.61 | 81.99% |
| <u>12/31/2010</u> | <u>20,225.28</u> | <u>3,371.61</u> | <u>23,596.89</u> | <u>85.71%</u> |
| Total | 136,112.27 | 26,609.49 | 162,721.76 | 83.65% |
| 3/31/2011 | 20,738.20 | 3,234.83 | 23,973.03 | 86.51% |
| 6/30/2011 | 30,284.08 | 5,083.11 | 35,367.19 | 85.63% |
| 9/30/2011 | 71,733.05 | 11,211.69 | 82,944.74 | 86.48% |
| <u>12/31/2011</u> | <u>35,815.60</u> | <u>3,268.56</u> | <u>39,084.16</u> | <u>91.64%</u> |
| Total | 158,570.93 | 22,798.19 | 181,369.12 | 87.43% |
| 3 Year Average | 140,333.84 | 25,734.47 | 166,068.31 | 84% |

Table 1 represents that the County collects an average over the last three years of \$166,000 per year from all areas of the County. The Arch Cape area provides about 84% of the funds or \$140,000 per year with a low in 2009 of \$126,000 and a high in 2011 of \$159,000. The other areas of the County provide about \$26,000 per year. Arch Cape provides 84% of the Room Tax

collected by the County. This revenue is generated from about 65 vacation rentals out of a total of 387 tax lots with residential improvements. The vacation rentals offer space for 657 additional residents if all spaces are filled. The residential population in 2010 of Arch Cape, including Falcon Cove, was 183 residents and there are currently 144 registered voters in the area. (See attached map.)

In order to shift this income to other services including services specific to the Arch Cape community, the County would need to either increase revenues or reduce services in other areas of the budget. The budget assumption included direction to consider shifting these revenues to emergency services for services related specifically to the areas from which the Room Tax was collected.

Emergency Services

The Emergency Services Director, Dean Perez, was tasked with providing a budget request that would be useful during the 2012-13 fiscal year. The EMS team identified four project areas that are described as follows:

Project 1: Coastal Warning Sirens. In order to enhance warning residents and visitors to evacuate beach areas in the event of a distant tsunami or hazardous material event, the plan is to install four (4) all hazard sound and voice emergency notification systems (obtained from the Chemical Stockpile Emergency Preparedness Program) from the Tillamook County line to the Cannon Beach city limits. The sirens would be linked into Cannon Beach's existing warning siren network which is operated and maintained by the Cannon Beach Fire Department. The estimated cost to permit, transport, install and program the sirens is approximately \$25,750. This project would take approximately 60 days complete.

Project 2: Two 40 KW Diesel Generator Sets with fuel tanks. In the event of a power outage, these Generator Sets would provide emergency backup power to the unincorporated areas of Arch Cape and Falcon Cove. In consultation with community leaders, the generators would be placed near high ground assembly areas for Arch Cape and Falcon Cove residents and visitors. The estimated cost to purchase, permit, and enclose both Generator Sets is approximately \$40,800.

Project 3: Four (4) 40 - foot storage containers. Similar to the City of Cannon Beach's storage container program, the plan would be to pre-position four storage containers on the high ground assembly areas for Arch Cape and Falcon Cove residents. In the event of a near or distant tsunami, residents would have access to food, water, and medical equipment that could sustain them for up to one week maybe longer. One 40 foot container can hold personal emergency kits, blankets, food and equipment for approximately 100 people. The estimated cost to purchase, permit, and drop ship four containers would be approximately \$22,000.

Project 4: 10 Emergency Shelter Modular Tents. The plan is to pre-position Emergency Shelter Modular tents in each of the four storage containers located on the high ground assembly areas. In the event of a near or distant tsunami, residents and visitors would have access to temporary shelter. When properly deployed, these modular tents provide extended protection from the cold,

wind and rain and protect against hypothermia. The estimated cost to purchase, ship and store ten Emergency Shelter Modular tents is approximately \$52,500.

Table 2 identifies the cost of each of these projects. The projects would provide capital assets that the County would need to maintain over time. No on-going operational costs were identified after the first year, but staff would need to be paid for and dedicated to assure that all of the equipment is in proper working condition and the items in storage remain fresh and serviceable.

Table 2
Arch Cape
Proposed Projects 2012-13

| | | | |
|----|---|-----------|-------------------|
| 1. | Coastal Warning Sirens | | |
| | · Transportation and Installation of Power Poles | \$ | 8,000.00 |
| | · Permits | \$ | 1,500.00 |
| | · Installation of 4 Poles, Sirens and Programming (labor) | \$ | 16,250.00 |
| | Total: | \$ | 25,750.00 |
| 2. | 2 -40KW Generator Sets @ \$12,000 per Generator Set X 2 | \$ | 24,000.00 |
| | · 250 Gallon Fuel Tank | \$ | 3,600.00 |
| | · Enclosures | \$ | 1,100.00 |
| | · Switch Gear | \$ | 3,000.00 |
| | · Control Panels | \$ | 3,600.00 |
| | · Permits | \$ | 1,000.00 |
| | · Electrician, cable and materials, Labor | \$ | 3,000.00 |
| | · Drop Shipping | \$ | 1,500.00 |
| | Total: | \$ | 40,800.00 |
| 3. | 4- 40 foot Storage Containers @ \$5,500.00 per Container X 4 | \$ | 22,000.00 |
| | · Price includes Drop Shipping | \$ | - |
| | Total: | \$ | 22,000.00 |
| 4. | 10 - Emergency Shelter Modular Tents @ \$5,000.00 per Tent X 10 | \$ | 50,000.00 |
| | Note: Each Tent Shelters 50 people | | |
| | · Drop Shipping | \$ | 2,500.00 |
| | Total: | \$ | 52,500.00 |
| | Grand Total | | |
| | Cost: | \$ | 141,050.00 |

In the years to come the \$140,000 could be used to pay for maintenance and supplement the existing items. In addition, the community might identify additional County services or projects designed to assist the community. For example, a volunteer coordinator working with residents may be one investment that could be useful.

Legal Framework

Is there any legal impediment to changing the Clatsop County Transient Room Tax Ordinance No. 90-7 (as amended by Ordinance No. 04-02) to which short term rentals are subject to pursuant to Ordinance 03-13?

The allocation of a portion of funds collected to a special fund for use in the specific geographic area from which the funds were derived is allowed. This would take some detailed drafting and require a number of decisions by the Board, but it could be done. There is no legal prohibition on doing so.

The board would need to decide what the fund would be used for, with some specificity. The Board would also need to decide how the funds would be applied geographically to the various collection points throughout the County. While most funds are collected from the Arch Cape area, funds are also collected from Westport, the Elderberry Inn, and the Clatsop Plains. The needs in one area may be very different from the needs in another. There also should be some thought given to the precedent created in dedicating funds geographically, for other funding streams (this is considered elsewhere in this Memorandum).

A decision like this may be impacted by ORS 320.350. This statute (Attached to this Memorandum) grandfathers all room tax ordinances in existence on July 1, 2003. Any new ordinances, or increases after that date, must be allocated at least 70% to tourism promotion or tourism-related activities. Since an amendment to allocate the use of the funds from a specific geographical area back to that area is not expected to increase the tax rate, the County will not fall under the statutory requirements of ORS 320.350.

Creation of a new fund does have costs for administration and statutory audits. The County has determined, and its indirect cost allocation plan provides, that the cost to the County of managing each separate fund is 10% of the value of that fund. If all room tax receipts were allocated to dedicated fund, the additional cost to the County would be approximately \$16,600 based on the three year revenue average. Once in a special fund established by ordinance, the funds could not be used for any other purpose without both amending the ordinance and adjusting the budget.

Use of these funds for the purpose outlined the protection of property, lives and providing a place for residents and visitors to safely assemble pending or after a natural disaster, appears to be a use of Room Tax funds consistent with the law establishing the County authority to impose a Room Tax. Additionally, after the investment in Arch Cape is completed Emergency Services could use the funds elsewhere on the Clatsop Coast to address Emergency Services projects.

Reductions

The reductions needed to replace the \$141,050 loss in General Fund resources is difficult to specifically identify. The amount equals a little more than one percent of the General Fund and in those terms it does not seem like a large amount. In the limited proposed 2012-13 fiscal year budget however this reduction would equal about two positions including the materials and services to support those positions. Rather than the shock to the budget of a reduction of this amount all at once, perhaps a first step would be to fund the coastal warning sirens project this year. Then in the ensuing years the current years' project and the next year's project would be funded until the \$141,050 is dedicated to Arch Cape. Table 3 depicts the financial impacts of this scenario.

Table 3
Incremental Reduction of Room Tax

| <u>Project</u> | <u>Year 1</u> | <u>Year 2</u> | <u>Year 3</u> | <u>Year 4</u> |
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The Sheriff's Office divides the County into several service zones. Arch Cape is in Zone 3 and the Arch Cape area makes up a relatively small portion of the Zone 3 district (which encompasses from the north Seaside City Limit to the County Line on Hwy 101 and out Hwy 26

to Milepost 11). Unlike other zones (even those with resident deputies) the Arch Cape area has a .2 Full Time Equivalent (FTE) deputy assigned to the area. The call volume is low in the area.

In order to be comparable to other areas of the County, the Sheriff's Office would have to provide a deputy specifically assigned to the Westport community instead of the current practice of having services provided by the Zone 1 deputy who also serves all of the communities in Zone 1 including: Clifton/Bradwood, Knappa, Svensen, Brownsmead, Burnside and John Day. For Arch Cape to be treated similar to the other communities in the county would mean they would only receive services from the deputy assigned to the Zone, not the additional .2 FTE deputy specifically assigned to their community.

The Arch Cape area also receives General Fund support in the form of search and rescue, civil service, the jail, the work crew and mandatory investigations (i.e. child abuse, death investigations) no different than any other area in the county.

Emergency Preparedness

The focus of emergency preparedness has been along the coast due to the potential destructive force of a subduction zone earthquake followed by a tidal wave. Through an interview with the Emergency Services Director no inordinate service levels were identified for the Arch Cape area. It is true that services have been more focused in the community this year than in the past, but he thought this was a short-term occurrence related to increased community interest. In addition, there were some issues that needed to be resolved and a willingness by Cannon Beach Rural Fire Protection District to assist the rural area. These short-term projects would not be considered extraordinary since similar services are offered anywhere in the County.

Southwest Coastal Citizen Advisory Committee

The County Comprehensive plan identified citizen involvement groups to represent the rural residential communities located in Clatsop County. These groups were active during the development of the comprehensive plan and then with the planning mission accomplished, most are no longer active. The Southwest Coastal Citizen Advisory Committee served as the Arch Cape comprehensive planning committee, but actually was formed many years ago to provide advice and monitor development in the Arch Cape community. They are the only citizen advisory committee provided specific duties in the Land and Water Development Code that in general includes design review and recommendations to the Director. The County staff's the committee.

Table 4 below outlines the formula used to calculate the costs of providing support for the Southwest Coastal Citizens Advisory Committee and code enforcement services to Arch Cape during the 2011-12 fiscal year.

Table 4
Community Development Services
General Planning and Code Enforcement Support

| | | |
|------------------------|--------------|-------------|
| Personnel | | \$ 352,200 |
| Materials and Services | \$ 372,200 | |
| Contractual | \$ (216,000) | |
| Bradwood | \$ (10,000) | |
| OR -LNG | \$ (115,000) | |
| Subtotal | | \$ 31,200 |
| Total | | \$ 383,400 |
| Full time equivalent | 3.30 | |
| Hours per year | 2,080.00 | |
| Total Department Hours | | 6,864 |
| Per Hour Cost | | \$ 55.86 |
| Hours Spent Arch Cape | | 149 |
| Total Cost | | \$ 8,322.64 |

Code Enforcement

County staff provides code enforcement services and has been involved in discussions with community members regarding the County code, the role of County in enforcement actions, property boundaries, and other neighborhood disputes. Staff indicates there seem to be more phone calls and requests for services from Arch Cape than other areas of the County.

Overhead

The County incurs costs for the billing, collection, and research to identify vacation rentals that have not signed up to pay the Room Tax. While specific hours are not identified by the staff in general the County overhead rate is 10% and County staff believes it is reasonable to estimate the time and materials dedicated to the maintenance of the Room Tax for Arch Cape at \$14,100 average per year based on the prior three years of collections.

County-wide Service Balance

The Room Tax may provide an issue to discuss an important County policy - providing equal services to all County residents. On the one hand it does seem unfair that the residents of Arch Cape tolerate an increase in population from 183 residents to more than 600 on holiday weekends and during the summer, and receive very little extraordinary service from the Room Tax revenues that these visitors generate. On the other hand it could also be argued that Wauna Mill pays about 7% of the County's property taxes (this is approximately \$500,000 of the County's General Fund revenue) and the rural residential community of Westport receives very little extraordinary service from the property tax revenues generated by Wauna Mill.

The discussion of services based on revenues generated from specific geographic areas, might develop into identifying the taxes generated and the services that should be provided in each District. This would lead to a study of matching services to revenues by area to financial management and providing services to five mini-counties.

Summary

Arch Cape uses County Community Development services in the amount of \$8,322.64 more than would be anticipated or expected in other parts of the County. Rural law enforcement and emergency preparedness identified \$8,000 in additional support in the form of a .2 FTE. Based on the cost of overhead of \$14,100, the Community Development services of \$8,322.64, and \$8,000 for Sheriff's Office services, the total cost of services identified is \$30,422.64. Of this amount \$16,322.64 would be considered extraordinary services.

The County Board is elected from districts and each Commissioner has the focus of the voters who elected them, the geographic area of the district, and the whole County. General County issues are the subject to the goodwill framed as a focus of the Board to serve the whole County. The County staff is committed to providing equal services for all County residents.

Long Term Financial Plan Categories

Table 1 indicates that during the past three years there has been significant growth in Room Tax revenue from the Arch Cape community and the balance of the County. Part of this may be more efficient collection by the Assessment and Taxation staff, part of it may be the down-turn in the economy in 2008 that placed more housing in the short-term rental market, part of it may be an increase in the rents being charged, and part of it could be more people electing to have a stay near home vacation thereby increasing the demand. The increase in revenue also suggests greater impacts on the Arch Cape community assuming occupancy has been higher.

The Board could change the policy and determine that the Room Tax is not county-wide discretionary revenue. Room Taxes are generated by tourist activity that brings with them a whole set of problems. Noise, crowding, traffic, are impacts that may or may not be present from other uses. Possibly the Room Tax should be considered a nondiscretionary revenue in the Long Term Financial Plan.

The Long Term Financial Plan was provided to the County on September 13, 2004. The Board may want to revisit the plan and categorize the Room Tax as nondiscretionary revenue and dedicate the Room Tax to certain purposes.

Incorporation

When the County Comprehensive Plan was developed Arch Cape was one of the areas that allowed for a more urbanized development form while remaining in the County. Under the land use planning scheme, areas like Arch Cape will eventually either incorporate or be annexed into a contiguous city in the future. Arch Cape is not contiguous to another City in the County. The concept of incorporation of Arch Cape is an additional way to capture the Room Tax revenues

for use in the Arch Cape area, although incorporation is not an easy process. The authority to incorporate is included in the Oregon Revise Statutes.

“ORS 221.020 Authority to incorporate. The people of an area, no part of which lies in an incorporated city and in which 150 persons reside, may incorporate a city by approving at an election called and held according to ORS 221.031 to 221.061 a proposition provided by those sections for incorporating the city.”

The Arch Cape area has 183 residents (See the Map Attached) and according to the 2010 census this is more than enough to incorporate albeit not without some challenges. There may be some zoning to change, since property must be in certain zones prior to incorporation, to be resolved with the assistance of County Community Development Department. Petitions would need to be collected and an election held. A study of resources and expenses completed and other requirements met. A property tax base would need to be secured and a City Council elected. The community may want to request that the County assist them with preparing the Arch Cape area for incorporation.

The Arch Cape area also has 144 registered voters and with children and unregistered adults it is likely that the small community would meet the minimum of 150 persons required to consider an annexation vote.

A very preliminary financial evaluation based on the assessed value of the Arch Cape Domestic Water District and the Falcon Cove Beach Water District suggests a minimum annual revenue stream of about \$360,000 per year with no increase in the current tax rate paid by residents. A breakdown of the calculations follows in Table 5.

Table 5
Arch Cape/Falcon Cove
City Incorporation Preliminary Revenues

| | Gross | 70 Percent for Tourism | NET |
|--------------------------------------|----------------------|---------------------------|----------------------|
| Arch Cape Water Dist. Assessed Value | \$ 105,363,019 | | \$ 105,363,019 |
| Fal Co Beach Water Dist A. V. | <u>\$ 19,241,116</u> | | <u>\$ 19,241,116</u> |
| Total Assessed Value | \$ 124,604,135 | | \$ 124,604,135 |
| | | | |
| Rural Law Enforcement Tax Rate | \$ 0.7195 | | \$ 0.7195 |
| <u>Road District #1 Tax Rate</u> | <u>\$ 1.0175</u> | | <u>\$ 1.0175</u> |
| Possible City Tax Rate | \$ 1.7370 | | \$ 1.7370 |
| | | | |
| Total Value in Thousands | \$ 124,604.135 | | \$ 124,604.135 |
| Potential City Property Taxes | \$ 216,437.38 | | \$ 216,437.38 |
| <u>Room Tax - 3 year Average</u> | <u>\$ 141,050.00</u> | <u>\$ 98,735.00</u> | <u>\$ 42,315.00</u> |
| Est. Rev. - No Change in Tax Rate | \$ 357,487.38 | | \$ 258,752.38 |

The law would require that 70% of the Room Taxes adopted by the new city be dedicated to tourism promotion activities (See Page 14, (6) for the reference to State Law. This amount is almost \$100,000 per year and would leave a balance of about \$260,000 in revenue to operate the new City.

The assumption is that the City Property Tax rate would equal the amount currently collected for Rural Law District and Road District #1. There would be additional revenue from the State in the form of liquor, cigarettes, and gas taxes that is not shown in this illustration. A Municipal Court might do well in Arch Cape through the generation of revenue based on traffic violations along Highway 101. The new Arch Cape City Council would need to adopt the Room Tax since the County would no longer have the authority to collect the Room Tax within the new Arch Cape City Limits.

Of course there would be requirements for a small city including an annual audit, periodic election of a City Council and commensurate election costs, meeting agendas and general administration. This may cost up to \$100,000 per year depending on the availability of an individual to work part-time. The balance of the funds would be dedicated to basic services including law enforcement, land use planning, street repair and maintenance, and other general municipal services including emergency management. The services could be secured either by hiring staff or contracting with nearby cities or the County.

Attachments:

Oregon Revised Statutes 320 – Room Tax or Lodging Tax
Map of Arch Cape
Arch Cape Emergency Preparedness Project Recommendations
List of Arch Cape Short-Term Rentals
Room Tax Collected

Oregon Revised Statutes
Room or Lodging Tax

320.350 Tax moratorium; exceptions; uses of revenues. (1) A unit of local government that did not impose a local transient lodging tax on July 1, 2003, may not impose a local transient lodging tax on or after July 2, 2003, unless the imposition of the local transient lodging tax was approved on or before July 1, 2003.

(2) A unit of local government that imposed a local transient lodging tax on July 1, 2003, may not increase the rate of the local transient lodging tax on or after July 2, 2003, to a rate that is greater than the rate in effect on July 1, 2003, unless the increase was approved on or before July 1, 2003.

(3) A unit of local government that imposed a local transient lodging tax on July 1, 2003, may not decrease the percentage of total local transient lodging tax revenues that are actually expended to fund tourism promotion or tourism-related facilities on or after July 2, 2003. A unit of local government that agreed, on or before July 1, 2003, to increase the percentage of total local transient lodging tax revenues that are to be expended to fund tourism promotion or tourism-related facilities, must increase the percentage as agreed.

(4) Notwithstanding subsections (1) and (2) of this section, a unit of local government that is financing debt with local transient lodging tax revenues on November 26, 2003, must continue to finance the debt until the retirement of the debt, including any refinancing of that debt. If the tax is not otherwise permitted under subsection (1) or (2) of this section, at the time of the debt retirement:

(a) The local transient lodging tax revenue that financed the debt shall be used as provided in subsection (5) of this section; or

(b) The unit of local government shall thereafter eliminate the new tax or increase in tax otherwise described in subsection (1) or (2) of this section.

(5) Subsections (1) and (2) of this section do not apply to a new or increased local transient lodging tax if all of the net revenue from the new or increased tax, following reductions attributed to collection reimbursement charges, is used consistently with subsection (6) of this section to:

(a) Fund tourism promotion or tourism-related facilities;

(b) Fund city or county services; or

(c) Finance or refinance the debt of tourism-related facilities and pay reasonable administrative costs incurred in financing or refinancing that debt, provided that:

(A) The net revenue may be used for administrative costs only if the unit of local government provides a collection reimbursement charge; and

(B) Upon retirement of the debt, the unit of local government reduces the tax by the amount by which the tax was increased to finance or refinance the debt.

(6) At least 70 percent of net revenue from a new or increased local transient lodging tax shall be used for the purposes described in subsection (5)(a) or (c) of this section. No more than 30 percent of net revenue from a new or increased local transient lodging tax may be used for the purpose described in subsection (5)(b) of this section. [2003 c.818 §11]



COUNTY MANAGER'S OFFICE

MEMORANDUM

To: Budget Committee

From: Duane Cole, County Manager

Date: April 2012

Subject: Room Tax Revenues Dedicated to Emergency Preparedness

Summary

The Memorandum addresses the following issue: **an analysis to present to the Board and Budget Committee of the geographic source of this revenue and conduct an evaluation on whether these funds should be used to pay for emergency preparedness in specific areas in the County.** The information presented in this Memorandum can be summarized as follows:

- The Arch Cape area generates 84% of the County Room Tax revenue with average revenue of about \$140,000 per year over the last 3 years. Shifting this revenue to other uses would require reducing the budget in other areas.
- The Arch Cape area receives some extraordinary or additional services from the County in the amount of about \$16,500 per year. It costs about \$14,100 per year to bill and collect the Room Tax. The total of extraordinary and administration is about \$30,600.
- Emergency service identified four initial projects that cost a total of \$141,050 in Arch Cape. These projects would require on-going maintenance to be provided by the County. Emergency Services and the Room Tax funds could be used for on-going support.
- It is legal to redirect these funds as out-lined in this Memorandum, but this may require Board action.
- Reductions are difficult to quantify, but \$140,000 equals about 2 full time positions. An incremental reduction of Room Tax as a discretionary revenue could be considered.
- Staff is careful to provide services to the whole County and discussing the assignment of specific funds to each Board District may create service delivery issues.
- The assignment of the Room Tax as a discretionary revenue can be changed by the Board. Long Term Financial Plan categorization of the Room Tax as a discretionary revenue can be reconsidered by the Board.
- Incorporation is an option for Arch Cape. Preliminarily, and assuming the difficult process and politics could be resolved, incorporation of the community would generate funds that could increase services for an urban area of the County.

Based on this information the Board has several policy choices regarding the use of the discretionary Room Tax revenue.

- Allocate the Room Tax collected in Arch Cape to that area for services including emergency preparedness. This would have serious implications for the budget and require additional adjustments likely including lay-offs or at least reassignment of current staff to specific duties related to Arch Cape.
- Allocate the Room Tax collected in Arch Cape to that area over the coming 4 or 5 years. This would ease the shock to the County budget and provide time for the loss in revenue to be absorbed by the larger corporation.
- Do nothing at this time with the Room Tax.
- Determine that incorporation would be a better outcome for Arch Cape and begin working with the community to see that a new City is formed in the County. This would provide funds for Arch Cape services as the next Oregon City. This might be coupled with the slow dedication of room tax funds over time to provide funds to assist with incorporation.
- Determine whether the categorization of Room Taxes in the Long Range Financial Plan is correct and decide whether they should be moved from discretionary funds to nondiscretionary funds. Once this decision is completed the County staff could build these funds into the budget as nondiscretionary and reduce services in some areas while increasing services in Arch Cape.

The staff is willing to proceed based on these or other options the Board may wish to pursue.

Introduction

The Board of County Commissioners at their January 25, 2012 Board meeting adopted the following task for staff to complete and present with the annual budget. This Memorandum serves to comply with the Board's Request.

XII. DISCRETIONARY RESOURCES

- B. Room Tax Revenues: Room tax monies are not legally dedicated to fund particular programs or services. Staff shall do an analysis to present to the Board and Budget Committee of the geographic source of this revenue and conduct an evaluation on whether these funds should be used to pay for emergency preparedness in specific areas in the County.**

Room Tax revenue are considered discretionary revenues by the County. This means that the revenue is placed in the General Fund to pay for services for the whole County. The Budget Policies provide the following:

“Wherever legally possible, revenues are to be treated as discretionary resources, rather than as dedicated to a particular program or service. The goal is to give the Board as much flexibility as possible in allocating resources to local priorities.”

The Room Tax is primarily generated in the County’s jurisdiction (this Memorandum does not include City Room Tax revenue since those revenues belong to the cities) with 84% coming specifically from the Arch Cape and Falcon Cove rural residential communities. This Memorandum focuses on those communities and while the Memorandum refers to Arch Cape, Falcon Cove is intended to be included in all respects in the references to Arch Cape. (See Attached Map)

Room Tax Revenues

Table 1 outlines the source and revenue from Arch Cape and the balance of the County.

Table 1
Room Tax Collected
2009, 2010, 2011

| Quarter | Arch | Other | Total | Percent |
|-----------------------|-------------------|------------------|-------------------|-----------------------|
| <u>Ending</u> | <u>Cape</u> | <u>Areas</u> | <u>Collected</u> | <u>From Arch Cape</u> |
| 3/31/2009 | 11,096.41 | 3,255.52 | 14,351.93 | 77.32% |
| 6/30/2009 | 23,787.17 | 4,870.11 | 28,657.28 | 83.01% |
| 9/30/2009 | 72,087.79 | 16,270.05 | 88,357.84 | 81.59% |
| <u>12/31/2009</u> | <u>19,346.94</u> | <u>3,400.06</u> | <u>22,747.00</u> | <u>85.05%</u> |
| Total | 126,318.31 | 27,795.74 | 154,114.05 | 81.96% |
| 3/31/2010 | 15,626.90 | 2,574.45 | 18,201.35 | 85.86% |
| 6/30/2010 | 30,308.55 | 5,295.36 | 35,603.91 | 85.13% |
| 9/30/2010 | 69,951.54 | 15,368.07 | 85,319.61 | 81.99% |
| <u>12/31/2010</u> | <u>20,225.28</u> | <u>3,371.61</u> | <u>23,596.89</u> | <u>85.71%</u> |
| Total | 136,112.27 | 26,609.49 | 162,721.76 | 83.65% |
| 3/31/2011 | 20,738.20 | 3,234.83 | 23,973.03 | 86.51% |
| 6/30/2011 | 30,284.08 | 5,083.11 | 35,367.19 | 85.63% |
| 9/30/2011 | 71,733.05 | 11,211.69 | 82,944.74 | 86.48% |
| <u>12/31/2011</u> | <u>35,815.60</u> | <u>3,268.56</u> | <u>39,084.16</u> | <u>91.64%</u> |
| Total | 158,570.93 | 22,798.19 | 181,369.12 | 87.43% |
| 3 Year Average | 140,333.84 | 25,734.47 | 166,068.31 | 84% |

Table 1 represents that the County collects an average over the last three years of \$166,000 per year from all areas of the County. The Arch Cape area provides about 84% of the funds or \$140,000 per year with a low in 2009 of \$126,000 and a high in 2011 of \$159,000. The other areas of the County provide about \$26,000 per year. Arch Cape provides 84% of the Room Tax

collected by the County. This revenue is generated from about 65 vacation rentals out of a total of 387 tax lots with residential improvements. The vacation rentals offer space for 657 additional residents if all spaces are filled. The residential population in 2010 of Arch Cape, including Falcon Cove, was 183 residents and there are currently 144 registered voters in the area. (See attached map.)

In order to shift this income to other services including services specific to the Arch Cape community, the County would need to either increase revenues or reduce services in other areas of the budget. The budget assumption included direction to consider shifting these revenues to emergency services for services related specifically to the areas from which the Room Tax was collected.

Emergency Services

The Emergency Services Director, Dean Perez, was tasked with providing a budget request that would be useful during the 2012-13 fiscal year. The EMS team identified four project areas that are described as follows:

Project 1: Coastal Warning Sirens. In order to enhance warning residents and visitors to evacuate beach areas in the event of a distant tsunami or hazardous material event, the plan is to install four (4) all hazard sound and voice emergency notification systems (obtained from the Chemical Stockpile Emergency Preparedness Program) from the Tillamook County line to the Cannon Beach city limits. The sirens would be linked into Cannon Beach's existing warning siren network which is operated and maintained by the Cannon Beach Fire Department. The estimated cost to permit, transport, install and program the sirens is approximately \$25,750. This project would take approximately 60 days complete.

Project 2: Two 40 KW Diesel Generator Sets with fuel tanks. In the event of a power outage, these Generator Sets would provide emergency backup power to the unincorporated areas of Arch Cape and Falcon Cove. In consultation with community leaders, the generators would be placed near high ground assembly areas for Arch Cape and Falcon Cove residents and visitors. The estimated cost to purchase, permit, and enclose both Generator Sets is approximately \$40,800.

Project 3: Four (4) 40 - foot storage containers. Similar to the City of Cannon Beach's storage container program, the plan would be to pre-position four storage containers on the high ground assembly areas for Arch Cape and Falcon Cove residents. In the event of a near or distant tsunami, residents would have access to food, water, and medical equipment that could sustain them for up to one week maybe longer. One 40 foot container can hold personal emergency kits, blankets, food and equipment for approximately 100 people. The estimated cost to purchase, permit, and drop ship four containers would be approximately \$22,000.

Project 4: 10 Emergency Shelter Modular Tents. The plan is to pre-position Emergency Shelter Modular tents in each of the four storage containers located on the high ground assembly areas. In the event of a near or distant tsunami, residents and visitors would have access to temporary shelter. When properly deployed, these modular tents provide extended protection from the cold,

wind and rain and protect against hypothermia. The estimated cost to purchase, ship and store ten Emergency Shelter Modular tents is approximately \$52,500.

Table 2 identifies the cost of each of these projects. The projects would provide capital assets that the County would need to maintain over time. No on-going operational costs were identified after the first year, but staff would need to be paid for and dedicated to assure that all of the equipment is in proper working condition and the items in storage remain fresh and serviceable.

Table 2
Arch Cape
Proposed Projects 2012-13

| | | | |
|----|---|-----------|-------------------|
| 1. | Coastal Warning Sirens | | |
| | · Transportation and Installation of Power Poles | \$ | 8,000.00 |
| | · Permits | \$ | 1,500.00 |
| | · Installation of 4 Poles, Sirens and Programming (labor) | \$ | 16,250.00 |
| | Total: | \$ | 25,750.00 |
| 2. | 2 -40KW Generator Sets @ \$12,000 per Generator Set X 2 | \$ | 24,000.00 |
| | · 250 Gallon Fuel Tank | \$ | 3,600.00 |
| | · Enclosures | \$ | 1,100.00 |
| | · Switch Gear | \$ | 3,000.00 |
| | · Control Panels | \$ | 3,600.00 |
| | · Permits | \$ | 1,000.00 |
| | · Electrician, cable and materials, Labor | \$ | 3,000.00 |
| | · Drop Shipping | \$ | 1,500.00 |
| | Total: | \$ | 40,800.00 |
| 3. | 4- 40 foot Storage Containers @ \$5,500.00 per Container X 4 | \$ | 22,000.00 |
| | · Price includes Drop Shipping | \$ | - |
| | Total: | \$ | 22,000.00 |
| 4. | 10 - Emergency Shelter Modular Tents @ \$5,000.00 per Tent X 10 | \$ | 50,000.00 |
| | Note: Each Tent Shelters 50 people | | |
| | · Drop Shipping | \$ | 2,500.00 |
| | Total: | \$ | 52,500.00 |
| | Grand Total | | |
| | Cost: | \$ | 141,050.00 |

In the years to come the \$140,000 could be used to pay for maintenance and supplement the existing items. In addition, the community might identify additional County services or projects designed to assist the community. For example, a volunteer coordinator working with residents may be one investment that could be useful.

Legal Framework

Is there any legal impediment to changing the Clatsop County Transient Room Tax Ordinance No. 90-7 (as amended by Ordinance No. 04-02) to which short term rentals are subject to pursuant to Ordinance 03-13?

The allocation of a portion of funds collected to a special fund for use in the specific geographic area from which the funds were derived is allowed. This would take some detailed drafting and require a number of decisions by the Board, but it could be done. There is no legal prohibition on doing so.

The board would need to decide what the fund would be used for, with some specificity. The Board would also need to decide how the funds would be applied geographically to the various collection points throughout the County. While most funds are collected from the Arch Cape area, funds are also collected from Westport, the Elderberry Inn, and the Clatsop Plains. The needs in one area may be very different from the needs in another. There also should be some thought given to the precedent created in dedicating funds geographically, for other funding streams (this is considered elsewhere in this Memorandum).

A decision like this may be impacted by ORS 320.350. This statute (Attached to this Memorandum) grandfathers all room tax ordinances in existence on July 1, 2003. Any new ordinances, or increases after that date, must be allocated at least 70% to tourism promotion or tourism-related activities. Since an amendment to allocate the use of the funds from a specific geographical area back to that area is not expected to increase the tax rate, the County will not fall under the statutory requirements of ORS 320.350.

Creation of a new fund does have costs for administration and statutory audits. The County has determined, and its indirect cost allocation plan provides, that the cost to the County of managing each separate fund is 10% of the value of that fund. If all room tax receipts were allocated to dedicated fund, the additional cost to the County would be approximately \$16,600 based on the three year revenue average. Once in a special fund established by ordinance, the funds could not be used for any other purpose without both amending the ordinance and adjusting the budget.

Use of these funds for the purpose outlined the protection of property, lives and providing a place for residents and visitors to safely assemble pending or after a natural disaster, appears to be a use of Room Tax funds consistent with the law establishing the County authority to impose a Room Tax. Additionally, after the investment in Arch Cape is completed Emergency Services could use the funds elsewhere on the Clatsop Coast to address Emergency Services projects.

Reductions

The reductions needed to replace the \$141,050 loss in General Fund resources is difficult to specifically identify. The amount equals a little more than one percent of the General Fund and in those terms it does not seem like a large amount. In the limited proposed 2012-13 fiscal year budget however this reduction would equal about two positions including the materials and services to support those positions. Rather than the shock to the budget of a reduction of this amount all at once, perhaps a first step would be to fund the coastal warning sirens project this year. Then in the ensuing years the current years' project and the next year's project would be funded until the \$141,050 is dedicated to Arch Cape. Table 3 depicts the financial impacts of this scenario.

Table 3
Incremental Reduction of Room Tax

| <u>Project</u> | <u>Year 1</u> | <u>Year 2</u> | <u>Year 3</u> | <u>Year 4</u> |
|------------------------------|---------------|---------------|---------------|------------------|
| Coastal Warning Sirens | \$ 25,750 | | | |
| 2 - 40KW Generator Sets | | \$ 40,800 | | |
| 4 - 40 foot Storage | | | \$ 22,000 | |
| <u>10 Emergency Shelters</u> | | | | <u>\$ 52,500</u> |
| Total Support - Arch Cape | \$ 25,750 | \$ 66,550 | \$ 88,550 | \$ 141,050 |

Fairness of Services

Arch Cape is a rural residential area located in Clatsop County. The County keeps track of some of the services provided to the Arch Cape area since the question of County service levels in this particular rural residential area has been raised in the past. The County's policy is to provide equitable services to all County residents regardless of location while recognizing that certain locations require additional attention in the short-term.

Sheriff's Office Law Enforcement Services

The areas of the County not within cities pay a law enforcement levy. These funds are generated to provide rural law enforcement services. While the General Fund Room Tax discretionary revenue supports the Sheriff's Office, the majority of the support for these services comes from the rural law enforcement levy. Based on a review by the County staff the Arch Cape area receives about \$8,000 per year in services that are not provided to other areas of the County by the Sheriff's Office.

The Sheriff's Office divides the County into several service zones. Arch Cape is in Zone 3 and the Arch Cape area makes up a relatively small portion of the Zone 3 district (which encompasses from the north Seaside City Limit to the County Line on Hwy 101 and out Hwy 26

to Milepost 11). Unlike other zones (even those with resident deputies) the Arch Cape area has a .2 Full Time Equivalent (FTE) deputy assigned to the area. The call volume is low in the area.

In order to be comparable to other areas of the County, the Sheriff's Office would have to provide a deputy specifically assigned to the Westport community instead of the current practice of having services provided by the Zone 1 deputy who also serves all of the communities in Zone 1 including: Clifton/Bradwood, Knappa, Svensen, Brownsmead, Burnside and John Day. For Arch Cape to be treated similar to the other communities in the county would mean they would only receive services from the deputy assigned to the Zone, not the additional .2 FTE deputy specifically assigned to their community.

The Arch Cape area also receives General Fund support in the form of search and rescue, civil service, the jail, the work crew and mandatory investigations (i.e. child abuse, death investigations) no different than any other area in the county.

Emergency Preparedness

The focus of emergency preparedness has been along the coast due to the potential destructive force of a subduction zone earthquake followed by a tidal wave. Through an interview with the Emergency Services Director no inordinate service levels were identified for the Arch Cape area. It is true that services have been more focused in the community this year than in the past, but he thought this was a short-term occurrence related to increased community interest. In addition, there were some issues that needed to be resolved and a willingness by Cannon Beach Rural Fire Protection District to assist the rural area. These short-term projects would not be considered extraordinary since similar services are offered anywhere in the County.

Southwest Coastal Citizen Advisory Committee

The County Comprehensive plan identified citizen involvement groups to represent the rural residential communities located in Clatsop County. These groups were active during the development of the comprehensive plan and then with the planning mission accomplished, most are no longer active. The Southwest Coastal Citizen Advisory Committee served as the Arch Cape comprehensive planning committee, but actually was formed many years ago to provide advice and monitor development in the Arch Cape community. They are the only citizen advisory committee provided specific duties in the Land and Water Development Code that in general includes design review and recommendations to the Director. The County staff's the committee.

Table 4 below outlines the formula used to calculate the costs of providing support for the Southwest Coastal Citizens Advisory Committee and code enforcement services to Arch Cape during the 2011-12 fiscal year.

Table 4
Community Development Services
General Planning and Code Enforcement Support

| | | |
|------------------------|--------------|-------------|
| Personnel | | \$ 352,200 |
| Materials and Services | \$ 372,200 | |
| Contractual | \$ (216,000) | |
| Bradwood | \$ (10,000) | |
| OR -LNG | \$ (115,000) | |
| Subtotal | | \$ 31,200 |
| Total | | \$ 383,400 |
| Full time equivalent | 3.30 | |
| Hours per year | 2,080.00 | |
| Total Department Hours | | 6,864 |
| Per Hour Cost | | \$ 55.86 |
| Hours Spent Arch Cape | | 149 |
| Total Cost | | \$ 8,322.64 |

Code Enforcement

County staff provides code enforcement services and has been involved in discussions with community members regarding the County code, the role of County in enforcement actions, property boundaries, and other neighborhood disputes. Staff indicates there seem to be more phone calls and requests for services from Arch Cape than other areas of the County.

Overhead

The County incurs costs for the billing, collection, and research to identify vacation rentals that have not signed up to pay the Room Tax. While specific hours are not identified by the staff in general the County overhead rate is 10% and County staff believes it is reasonable to estimate the time and materials dedicated to the maintenance of the Room Tax for Arch Cape at \$14,100 average per year based on the prior three years of collections.

County-wide Service Balance

The Room Tax may provide an issue to discuss an important County policy - providing equal services to all County residents. On the one hand it does seem unfair that the residents of Arch Cape tolerate an increase in population from 183 residents to more than 600 on holiday weekends and during the summer, and receive very little extraordinary service from the Room Tax revenues that these visitors generate. On the other hand it could also be argued that Wauna Mill pays about 7% of the County's property taxes (this is approximately \$500,000 of the County's General Fund revenue) and the rural residential community of Westport receives very little extraordinary service from the property tax revenues generated by Wauna Mill.

The discussion of services based on revenues generated from specific geographic areas, might develop into identifying the taxes generated and the services that should be provided in each District. This would lead to a study of matching services to revenues by area to financial management and providing services to five mini-counties.

Summary

Arch Cape uses County Community Development services in the amount of \$8,322.64 more than would be anticipated or expected in other parts of the County. Rural law enforcement and emergency preparedness identified \$8,000 in additional support in the form of a .2 FTE. Based on the cost of overhead of \$14,100, the Community Development services of \$8,322.64, and \$8,000 for Sheriff's Office services, the total cost of services identified is \$30,422.64. Of this amount \$16,322.64 would be considered extraordinary services.

The County Board is elected from districts and each Commissioner has the focus of the voters who elected them, the geographic area of the district, and the whole County. General County issues are the subject to the goodwill framed as a focus of the Board to serve the whole County. The County staff is committed to providing equal services for all County residents.

Long Term Financial Plan Categories

Table 1 indicates that during the past three years there has been significant growth in Room Tax revenue from the Arch Cape community and the balance of the County. Part of this may be more efficient collection by the Assessment and Taxation staff, part of it may be the down-turn in the economy in 2008 that placed more housing in the short-term rental market, part of it may be an increase in the rents being charged, and part of it could be more people electing to have a stay near home vacation thereby increasing the demand. The increase in revenue also suggests greater impacts on the Arch Cape community assuming occupancy has been higher.

The Board could change the policy and determine that the Room Tax is not county-wide discretionary revenue. Room Taxes are generated by tourist activity that brings with them a whole set of problems. Noise, crowding, traffic, are impacts that may or may not be present from other uses. Possibly the Room Tax should be considered a nondiscretionary revenue in the Long Term Financial Plan.

The Long Term Financial Plan was provided to the County on September 13, 2004. The Board may want to revisit the plan and categorize the Room Tax as nondiscretionary revenue and dedicate the Room Tax to certain purposes.

Incorporation

When the County Comprehensive Plan was developed Arch Cape was one of the areas that allowed for a more urbanized development form while remaining in the County. Under the land use planning scheme, areas like Arch Cape will eventually either incorporate or be annexed into a contiguous city in the future. Arch Cape is not contiguous to another City in the County. The concept of incorporation of Arch Cape is an additional way to capture the Room Tax revenues

for use in the Arch Cape area, although incorporation is not an easy process. The authority to incorporate is included in the Oregon Revise Statutes.

“ORS 221.020 Authority to incorporate. The people of an area, no part of which lies in an incorporated city and in which 150 persons reside, may incorporate a city by approving at an election called and held according to ORS 221.031 to 221.061 a proposition provided by those sections for incorporating the city.”

The Arch Cape area has 183 residents (See the Map Attached) and according to the 2010 census this is more than enough to incorporate albeit not without some challenges. There may be some zoning to change, since property must be in certain zones prior to incorporation, to be resolved with the assistance of County Community Development Department. Petitions would need to be collected and an election held. A study of resources and expenses completed and other requirements met. A property tax base would need to be secured and a City Council elected. The community may want to request that the County assist them with preparing the Arch Cape area for incorporation.

The Arch Cape area also has 144 registered voters and with children and unregistered adults it is likely that the small community would meet the minimum of 150 persons required to consider an annexation vote.

A very preliminary financial evaluation based on the assessed value of the Arch Cape Domestic Water District and the Falcon Cove Beach Water District suggests a minimum annual revenue stream of about \$360,000 per year with no increase in the current tax rate paid by residents. A breakdown of the calculations follows in Table 5.

Table 5
Arch Cape/Falcon Cove
City Incorporation Preliminary Revenues

| | Gross | 70 Percent for Tourism | NET |
|--------------------------------------|----------------------|---------------------------|----------------------|
| Arch Cape Water Dist. Assessed Value | \$ 105,363,019 | | \$ 105,363,019 |
| Fal Co Beach Water Dist A. V. | <u>\$ 19,241,116</u> | | <u>\$ 19,241,116</u> |
| Total Assessed Value | \$ 124,604,135 | | \$ 124,604,135 |
| | | | |
| Rural Law Enforcement Tax Rate | \$ 0.7195 | | \$ 0.7195 |
| <u>Road District #1 Tax Rate</u> | <u>\$ 1.0175</u> | | <u>\$ 1.0175</u> |
| Possible City Tax Rate | \$ 1.7370 | | \$ 1.7370 |
| | | | |
| Total Value in Thousands | \$ 124,604.135 | | \$ 124,604.135 |
| Potential City Property Taxes | \$ 216,437.38 | | \$ 216,437.38 |
| <u>Room Tax - 3 year Average</u> | <u>\$ 141,050.00</u> | <u>\$ 98,735.00</u> | <u>\$ 42,315.00</u> |
| Est. Rev. - No Change in Tax Rate | \$ 357,487.38 | | \$ 258,752.38 |

The law would require that 70% of the Room Taxes adopted by the new city be dedicated to tourism promotion activities (See Page 14, (6) for the reference to State Law. This amount is almost \$100,000 per year and would leave a balance of about \$260,000 in revenue to operate the new City.

The assumption is that the City Property Tax rate would equal the amount currently collected for Rural Law District and Road District #1. There would be additional revenue from the State in the form of liquor, cigarettes, and gas taxes that is not shown in this illustration. A Municipal Court might do well in Arch Cape through the generation of revenue based on traffic violations along Highway 101. The new Arch Cape City Council would need to adopt the Room Tax since the County would no longer have the authority to collect the Room Tax within the new Arch Cape City Limits.

Of course there would be requirements for a small city including an annual audit, periodic election of a City Council and commensurate election costs, meeting agendas and general administration. This may cost up to \$100,000 per year depending on the availability of an individual to work part-time. The balance of the funds would be dedicated to basic services including law enforcement, land use planning, street repair and maintenance, and other general municipal services including emergency management. The services could be secured either by hiring staff or contracting with nearby cities or the County.

Attachments:

Oregon Revised Statutes 320 – Room Tax or Lodging Tax
Map of Arch Cape
Arch Cape Emergency Preparedness Project Recommendations
List of Arch Cape Short-Term Rentals
Room Tax Collected

Oregon Revised Statutes
Room or Lodging Tax

320.350 Tax moratorium; exceptions; uses of revenues. (1) A unit of local government that did not impose a local transient lodging tax on July 1, 2003, may not impose a local transient lodging tax on or after July 2, 2003, unless the imposition of the local transient lodging tax was approved on or before July 1, 2003.

(2) A unit of local government that imposed a local transient lodging tax on July 1, 2003, may not increase the rate of the local transient lodging tax on or after July 2, 2003, to a rate that is greater than the rate in effect on July 1, 2003, unless the increase was approved on or before July 1, 2003.

(3) A unit of local government that imposed a local transient lodging tax on July 1, 2003, may not decrease the percentage of total local transient lodging tax revenues that are actually expended to fund tourism promotion or tourism-related facilities on or after July 2, 2003. A unit of local government that agreed, on or before July 1, 2003, to increase the percentage of total local transient lodging tax revenues that are to be expended to fund tourism promotion or tourism-related facilities, must increase the percentage as agreed.

(4) Notwithstanding subsections (1) and (2) of this section, a unit of local government that is financing debt with local transient lodging tax revenues on November 26, 2003, must continue to finance the debt until the retirement of the debt, including any refinancing of that debt. If the tax is not otherwise permitted under subsection (1) or (2) of this section, at the time of the debt retirement:

(a) The local transient lodging tax revenue that financed the debt shall be used as provided in subsection (5) of this section; or

(b) The unit of local government shall thereafter eliminate the new tax or increase in tax otherwise described in subsection (1) or (2) of this section.

(5) Subsections (1) and (2) of this section do not apply to a new or increased local transient lodging tax if all of the net revenue from the new or increased tax, following reductions attributed to collection reimbursement charges, is used consistently with subsection (6) of this section to:

(a) Fund tourism promotion or tourism-related facilities;

(b) Fund city or county services; or

(c) Finance or refinance the debt of tourism-related facilities and pay reasonable administrative costs incurred in financing or refinancing that debt, provided that:

(A) The net revenue may be used for administrative costs only if the unit of local government provides a collection reimbursement charge; and

(B) Upon retirement of the debt, the unit of local government reduces the tax by the amount by which the tax was increased to finance or refinance the debt.

(6) At least 70 percent of net revenue from a new or increased local transient lodging tax shall be used for the purposes described in subsection (5)(a) or (c) of this section. No more than 30 percent of net revenue from a new or increased local transient lodging tax may be used for the purpose described in subsection (5)(b) of this section. [2003 c.818 §11]