

# Kline's Q & A

Vernonia City Administrator M.R. "Dick" Kline has been on the job for more than a year. In order to facilitate better communication with local citizens, as well as a higher profile and more accessibility, Mr. Kline and Vernonia's Voice have agreed to provide space for citizen questions, with answers provided by your City Administrator, Dick Kline.

**Q: The community of Vernonia has been told that the city is in financial difficulty. Can you explain what our financial condition is, and what you have been doing to get us back on track?**

**A:** Once again my compliments to you for a provocative and thoughtful question; but more importantly, thank you for the opportunity to answer it in this column. I will strive to be to the point and completely honest in my answer.

The short answer to your question is that our financial circumstance is horrible. Below I will do my best to explain what that means, how we got here, and the steps we have been taking to direct the city to better times.

When I came to Vernonia, the city had none of the comprehensive plans cities typically use to guide their decision-making. Worse yet, I found the fiscal system in significant disarray. To address the lack of planning, we have established or revitalized a number of standing committees, including Public Works and the Community Learning Center, that will help complete the planning needed to assist the Council in making choices informed by a comprehensive understanding of the very complex issues facing the city. It has taken a year and a half of hard work to keep the city afloat while we reorganized the city accounts and implemented a new accounting software system. These changes will help us see a complete picture of the city's finances in all areas with sufficient detail to make good decisions.

The City Council and I have made these two main changes in the City's accounting system with guidance from our financial professionals. First, we made the city's chart of accounts more meaningful and comprehensive. These accounts are actually line items in our financial system that represent specific revenues and expenditures. State law requires us to maintain separate funds for distinct departments like the water, sewer, street and storm water systems. Other, less obvious departments/funds like parks, capital projects, and bonded debt must also be carefully separated and reported individually. Every dollar in materials or wages is now being carefully booked to the correct city line item and fund. With this new system, we can keep better track of the various City funds/departments and give the City Council and citizens a clear and accurate account for the inflow and outflow of money in the City.

We changed the city's accounting software for two reasons. First, the new system is simpler and more user friendly. As such, the system does not require an operator with a strong accounting background to use it safely. Second, the new system will save the City at least \$5,000/year in support fees and upgrades as well as significant amounts of staff time. I believe this new system will allow the City Council to more clearly understand the impacts of their choices than has been the case in the past. Since cities are required to track all of their activities within various funds, poor accounting systems can really get a city into trouble.

Vernonia was in exactly that kind of trouble when I got here. One example was the large negative fund balance in the Community Development Fund at the beginning of fiscal year 2006-07. The 2006-2007 budget projected the beginning balance of this fund to be almost \$128,000. However, once we had the fund audited, it became clear that the actual audited beginning balance was a \$384,000 deficit. This single mistake amounted to a negative cash swing of nearly \$512,000 which the city must make up. We are still working to find a complete solution to plug that deficit. Another example, described in a previous issue of The Voice, was the inappropriate spending of more than \$100,000 from a city loan reserve fund. Replenishing these contractually obligated loan reserves necessitated the temporary \$11.50/month surcharge in water rates implemented earlier this year.

Oregon law regulates city bookkeeping, spending, and budgeting, and allows cities to lend money from one fund to another for a term of no more than two years. In order to balance the 2006-07 supplemental budget and the 2007-08 regular budget, several of these inter fund loans were necessary. In other words, normal operating revenues were not in 2006-07, and will not be in 2007-08, sufficient to cover operating expenditures in several funds. And the inter fund loans must still be repaid, including interest, within two years! Therefore, every possible means of reducing expenditures must be utilized. We have dramatically reduced city administrative staff. Currently Joann Glass and I are juggling the work once

performed by four city staff, and while not sustainable in the long run, this "skeleton crew" structure is saving scarce dollars necessary to repay existing obligations. The public should know that the Council has adopted these changes on my recommendation, in large part to avoid dramatic cuts to our police force and public works staff which would be the only other cost-saving alternatives.

A smart citizen might ask, "How can I know that all of this is true and that the city's money is being accounted for and spent appropriately?" That concern is also addressed by state law. Each year, every city in Oregon must have a financial audit performed by an independent CPA firm. These auditors confirm, or correct, the numbers in our accounting system and issue recommendations for program improvement to the City Council. This year's audit will be conducted in early December. I'm looking forward to the results. The auditor's report this year will help us complete the set up of our financial system by providing us with final, authoritative beginning balances. I'm working with the auditors to make sure that they provide the City Council with comprehensive, unvarnished recommendations for improvement.

Looking forward, the City's financial stability is shaky. Even after a supplemental budget process and a series of interfund loans, this fiscal year (2007-08) started with a number of funds in precarious balance. Like a family that begins each month with an overdrawn checking account, Vernonia's ongoing loan obligations for the Water, Sewer, and Streets Funds consume more income than we can afford. Worse yet, in the near future, we face the prospect of more obligations from additional needs in each of the utilities, sewer and storm water in particular.

The situation is not so bad as to leave me completely disheartened. I believe that after two or three years of austerity, the city can recover from its fiscal mistakes. But this can only happen if we make no further big mistakes. That's why cities plan. What I find most concerning is that the City currently lacks the planning tools necessary to make good strategic choices. The committees described above are a good start, but we need more data, quickly.

Over the last several months, I have been working to address this need. I have been working with an experienced public engineer by the name of Dale Merrill to review all of Vernonia's public works systems. Dale's work has been done pro bono, so far. He will have presented his preliminary findings, which were not available at the time of this writing, at the November 27 Public Works Committee meeting. Frankly, I do not expect it to be a pretty picture. Your newly formed Public Works Committee will be busy for the next several years doing the planning necessary to address the many public works needs outlined by Dale.

Good public strategy cannot happen without cooperation. The citizens of Vernonia really do need to look to the future and find ways to cooperatively work towards addressing these issues. There is little to be gained by dissecting what happened in the past or looking back for someone to blame for past practices. It is much like driving a car, looking in the rear view mirror allows you to see where you have been, but in doing so you have taken your eyes off of the road ahead and now you aren't looking where you are going.

I hope that as we complete this fiscal year and begin planning for the 2008-2009 year, the various factions that make up Vernonia can come together to support the various committees, Council, and the new City Administrator. I believe that the city's plight is too grim to allow divisiveness on the scale we have seen this last year. Only by pulling together can the city and its people make the best of the hard choices facing them. I wish you all the best possible result.

**If you have a question you would like to ask of City Administrator Dick Kline, please send them to:**

**Vernonia's Voice - Kline's Q&A**

**PO Box 55**

**Vernonia, OR 97064**

**- or -**

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