

Council Study Session

May 18, 2020

Agenda Item	Financial Update	
From	Adam Hanks Bryn Morrison	Interim City Administrator Interim Finance Director
Contact	Adam.hanks@ashland.or.us (541) 488-6002 Bryn.morrison@ashland.or.us (541) 488-5300	
Item Type	Requested by Council <input checked="" type="checkbox"/> Update <input type="checkbox"/> Request for Direction <input type="checkbox"/> Presentation <input checked="" type="checkbox"/>	

SUMMARY

Before the Council is an update on the City's Financial picture due to the COVID-19 crisis.

POLICIES, PLANS & GOALS SUPPORTED

Section 2:

- D. Develop current and long-term budgetary resiliency.
- E. During the 2019-2021 Biennium analyze various departments/programs with the goal of gaining efficiencies, reducing costs, and improving City services.
- F. Enhance and improve transparency and communication

BACKGROUND AND ADDITIONAL INFORMATION

As previously reported to Council, the Food and Beverage and Transient Occupancy tax revenue is projected to significantly decrease in this biennium as well as possibly future biennia. Current estimates indicate a likely revenue shortfall of just over three million dollars for each of the two revenue streams over the remainder of the current biennium which ends June 30, 2021.

Food & Beverage Tax

The Food and Beverage tax revenue funds the following:

- Parks Acquisition, Planning, Development, Repair and Rehabilitation
- Wastewater Treatment Plant (WWTP) Debt
- Street Maintenance and Reconstruction
- Administration and Collection of the tax

With the decrease in revenue due to the pandemic, it is not possible to make the full WWTP debt payment that is described and required in the Food and Beverage Tax Ordinance. This necessitates utilizing monies from the Wastewater Fund to fully fund the debt service payment of \$1.6 million. Ashland Parks & Recreation Commission (APRC) will continue to retain 25 percent of the now reduced total Food and Beverage Tax revenue as mandated by the Ordinance.

The pre-COVID-19 revenues already allocated to Street Maintenance and Reconstruction remain, but no further allocation to the Street Fund will occur in this fiscal year and likely will maintain that same level for the second year of the biennium. Two percent of the tax will remain in the Central Service Fund for the administration and collection of the tax. A summary is provided below.

Distribution	FY2020 Adopted	FY2020 Proposed	FY21 Adopted	FY21 Proposed
Parks	779,488	450,484	802,488	349,871
Central Service/Admin	62,359	36,039	64,199	27,990
Wastewater Debt	1,590,800	970,415	1,584,200	676,623
Street Fund	685,304	345,000	759,064	345,000
TOTAL	3,117,950	1,801,938	3,209,950	1,399,483
Wastewater Fund	0	620,385	0	907,577

The Food and Beverage Tax Ordinance will require modification as the language did not consider the potential that the revenue stream would fall short of the amount required to comply with the required allocation of funds. This will come to Council for consideration in an upcoming Council meeting.

The Street Fund is now and will remain financially constrained which results in the need to defer all remaining planned capital projects for the biennium, with the exception of grant funded projects already in process. Staff will be developing and presenting an adjusted CIP plan for Council consideration in an upcoming Council meeting. This adjusted CIP plan will also account for the more subtle adjustments to capital project scheduling for the Wastewater Fund that is necessary to accommodate the required use of Wastewater revenues to complete the WWTP debt payment that typically comes from Food and Beverage Tax revenues as well as to address the planned delay in rate increases for Wastewater originally scheduled for July 1.

Transient Occupancy Tax

The Transient Occupancy Tax revenues fund general governmental services in the City’s General Fund. Roughly thirty percent of the funds are limited by State Law to be spent only on tourism related activities and expenses. The remainder is part of the overall revenue stream that fund public safety services such as our Police, Fire and Ambulance services, land use planning and building safety programs in the Community Development Department, and the local Municipal Court operations.

In contrast with the Food and Beverage Tax where projects and debt service are the uses of the funds, the overwhelming majority of expenses in the General Fund are the staff resources that are required to provide the core support services to the community. Expenditure reduction strategies have already been implemented and will continue in the coming weeks and months with targeted reductions using the following core principles, values, and objectives:

- Maintain to the extent possible the existing service levels in core public safety services;
- Preserve to the extent possible the investment made in the existing employee base; and
- Prioritize reductions that have cost savings extending into the next biennium over short-term savings that impact service levels, but do not have sustained expenditure savings over time.

Expenditure reductions will significantly contribute to addressing the estimated revenue shortfall, but cannot and should not be the only tool utilized to completely resolve the shortfall. Other tools under consideration to assist in addressing the long-term shortfall include:

- Sale of assets – B Street Yard
- Strategic utilization of the ending fund balance within the General Fund
- Federal assistance in the form of operating grants or low/no interest loans to spread the loss over multiple budget cycles
- Structural changes to the methods used to deliver services to the community (Cost Ad-Hoc Committee Recommendation #5 and #6)

- Expenditure reductions in Internal Services (IT, Administration, Finance, Facilities, Equipment, etc.)

Other Financial Updates

- Utility rate increases for Transportation, Stormwater, and Electric traditionally brought before Council for adjustment in July, have been postponed until September and Water and Wastewater have been deferred for one year with a Council review and approval of a modified CIP plan required to address the changes in anticipated revenues within these enterprise funds.
- Cost of Living Adjustment for City and Parks Non-Represented staff have been eliminated for the remainder of the biennium. Additionally, the Ashland Fire Association Union voluntarily agreed to forego their contractually approved Cost of Living adjustment for the remainder of 2020.
- As of April 22, 2020, the City has extended the payment deadlines for Transient Occupancy Tax and Food and Beverage Tax returns for the third quarter of January through April until August 1, 2020 as well as extended the payment deadlines for utility bills to June 30 and will be implementing a payment plan option for customers in June.
- Federal assistance funds for local government are still in development and City staff as well as the Mayor and Council continue to advocate for availability and access to those funds both directly for the City budget and indirectly to our community and residents through business assistance grants, utility bill assistance programs, rental/lease assistance, homeless services, and other COVID-19 specific reimbursable expenses.

FISCAL IMPACTS

The estimated fiscal impact of revenue shortfall from the TOT and Food & Beverage have been the focus of the initial analysis, strategy development, and initial and ongoing implementation. There are a variety of other smaller, but still significant revenue streams that will be impacted by the COVID-19 crisis that are being monitored and incorporated into economic recovery planning. These include:

- Downtown Parking – Revenues down on both tickets and revenue from the parking structure.
- Utilities – Likely to experience higher than typical non-payment of utility bills (labeled on financial reports as bad debt expense) for all utilities.
- Property Tax – No specific guidance or estimates have been communicated on the potential for flattened or reduced property tax revenues.
- Gas tax – Oregon Dept of Transportation has provided data showing significant declines in travel and have estimated the short-term reduction on total gas tax distribution to cities. The primary determining factor on the significance of this shortfall is the duration of the “essential only” travel restrictions in the Governor’s Executive Orders.

DISCUSSION QUESTIONS

- Are there other specific revenue streams Council would like staff to prepare a summary report and recommendation for?
- Are there other specific expenditures Council would like staff to prepare a summary report and recommendation for?

SUGGESTED NEXT STEPS

It is staff’s recommendation to continue to provide financial updates at future study sessions on a monthly basis to identify changes in estimates, status on federal aid and progress made in execution of expenditure reductions in the identified target areas.

REFERENCES & ATTACHMENTS

Slide deck to be presented at meeting and included in meeting minutes.