



Budget Committee Kickoff Meeting
Draft Minutes
February 23, 2012 6:00 PM
Community Development/Engineering Service Building,
Siskiyou Room, 51 Winburn Way

CALL TO ORDER

The Citizens Budget Committee meeting was called to order at 6:05 pm.

ROLL CALL & INTRODUCTIONS

Mayor John Stromberg, Committee Members David Chapman, Douglas Gentry, William Heimann, Chuck Keil, Michael Morris, David Runkel, Russ Silbiger, Dennis Slattery, and Roberta Stebbins were present. Greg Lemhouse, Lynn Thompson and Carol Voisin were absent.

ELECTION OF CHAIR & VICE-CHAIR

Mr. Tuneberg advised the Committee that they have the task of nominating a Chair and Vice Chair and that person would take over the meeting. He then asked for nominations.

Chapman/Keil m/s to appoint Douglas Gentry as Chair. Mr. Gentry advised he is Chair of the hospital board, has many time commitments, maybe too new to this Committee and would prefer they nominate someone else.

Stebbins/Heimann m/s to appoint David Runkel as Chair. Mr. Runkel declined.

Heimann/Slattery m/s to appoint Roberta Stebbins as Chair. All Ayes.

Stromberg/Slattery m/s to appoint Chuck Keil as Vice Chair. All Ayes.

APPROVAL OF MINUTES

Approval of minutes from previous Budget Committee meetings dated:

None

Mr. Tuneberg will have minutes to present to Committee at a future meeting. Did not have time to present to Committee for review prior to meeting.

PRESENTATION BY STAFF

Mr. Tuneberg presented an overview of the agenda. Training is tentatively scheduled for March 1st and can also train individually if needed. Mr. Gentry suggested training after the new member is appointed. Mr. Tuneberg will then take suggestions on what date will work for future budgetary training. March 1st is taken off the calendar.

Mr. Tuneberg spoke to the long term operations and Ending Fund Balance (EFB) slide. Even though the City has had a downturn in the economy and has had challenges in many of the funds, the overall financial condition of the City and Parks is much better than some of our peer agencies around the State and Country. Indicators for the near future, with reasonable assumptions, show improving conditions in the General Fund (GF), Parks and Recreation Fund, Airport Fund, Capital Improvement Projects (CIP) Fund and Central Services Fund. Still having difficulty in the Enterprise Funds and Street Funds, mostly relating to unfunded CIP. Debt Service Fund does not meet policy due to the Ashland Fiber Network (AFN) debt service requirement and have not been able to set aside total debt service requirement minimum. The City does have revenue streams to make each year's annual debt service. Mr. Stromberg asked if the EFB and Debt Service Fund affect the City's bond rating. Mr. Tuneberg answered that it does not specifically on its own. Mr. Slattery asked if the Street Fund projected EFB is unfunded deferred maintenance. Mr. Tuneberg answered that it is unfunded CIP and it is the same in Water and Wastewater Funds. The Wastewater Fund has been able to make improvements based on revenues and expenses, refinanced DEQ loan and lowered debt service and Food and Beverage (F&B) tax proceeds offset the debt service. Waiting for the Master Plan to be done to identify capital improvements that are needed and potential funding. Mr. Slattery asked for the worst case scenario. Mr. Tuneberg advised that each year the departments go through a budget and operational process to project long term needs. However, a change in operations or a decision by Council will affect long term projections. Mr. Heimann asked if these figures are based on current conditions. Mr. Tuneberg answered yes. Ms. Stebbins asked for the Reserve Fund to be clarified. Mr. Tuneberg responded that this fund was established years ago with no specific expenditures or revenues identified. Money would be placed in that fund as it became available and anticipates a \$1 million balance by end of year. This is a restricted fund and cannot be used without going through the budget process and identifying the uses. Ms. Stebbins inquired why is it in trouble. Mr. Tuneberg replied that when the Reserve Fund was started in 2010, there was little or no money in it, with some transfers in 2011, it is now over \$1 million, but it has not been established what it should be to protect the City. Estimates have been in the \$3-5 million range. Mr. Stromberg asked if it is a joint fund of City and Parks. Mr. Tuneberg responded the money is available for needs of either agency.

Mr. Tuneberg spoke to the operational budget FY 2012. The GF shows \$788k working capital carried forward from prior year resulting in an EFB of \$1.7 million. Restricted EFB for the Enterprises and System Development Charges (SDC) that cannot be used for operational purposes are not reflected in these figures. SDCs can be used to retire debt or reimbursements. Mr. Stromberg asked can you borrow or lend SDCs? Mr. Tuneberg responded that you do not lend or spend, have at times borrowed between funds, but this is not a good policy.

Mr. Tuneberg spoke to the preliminary projections for 2012. Spending down of EFB has changed and in some cases it is not as bad or has seen improvement from prior year. Pointed out Street and Water Funds are not where they need to be and there might be some commitments against them. Mr. Keil questioned the previous slide where the GF had a budgeted net of \$(788,878) and on this slide it drops to \$(608,000), that is \$180,000 better. Why did EFB projected go up to \$600,000? Mr. Tuneberg stated it is a function of improvement between two years; the net on this slide is for one year's spend down, but there was a larger carry forward than anticipated from the prior year. More will be explained on the next slide.

Mr. Tuneberg spoke to variances. When we did the budget for this year, we had not yet finished the last fiscal year, growth of EFB was larger than projected for this year, that rolls up to a positive variance this year. Mr. Runkel asked if the amount in the Reserve Fund would have made the GF larger? Mr. Tuneberg advised that Council takes action to move additional EFB into the Reserve Fund. Last year Council authorized transfers of approximately \$350k to the Reserve Fund from the City last year and Parks this year. City has already put \$150k in this year and will budget Parks to put in \$150k.

Mr. Tuneberg spoke to projected EFB - restricted and not, highlighting only the GF and Parks. Restrictions were done by resolution as part of fiscal stability efforts. He reviewed the GF categories of restrictions: Asset Forfeiture, Downtown Parking, Public Arts and Housing. At the Council meeting last night, there was discussion on \$125k for property being purchased by Parks that would go into the GF as restricted for housing. Parks only had \$150k for transfer to the Reserve Fund and will be budgeted in FY 2013. Mr. Gentry asked if the EFB policy is **directed** to unrestricted? Mr. Tuneberg responded yes. Mr. Gentry would like to talk about those policies in the future. Mr. Tuneberg planned to talk about the policies in the future and will schedule.

Mr. Tuneberg moved to the GF over time slide. 2008 was a critical year for the City in budgeting and finances. Downturn in revenues was recognized, impacting the EFB and fiscal stability looking forward and made the necessary changes. Have done conservative budgeting since. The City is back to having revenue streams larger than expenditures, which contributes to growing EFB. Contingency is excluded from this slide. Mr. Stromberg noted it will contribute to a growing EFB provided you are not in a condition where revenue is less than expenses. Mr. Tuneberg answered that is correct. The City had budgeted to spend down EFB in the GF accomplishing projects. Mr. Slattery asked what are the EFB goals. Mr. Tuneberg answered they are based on a percentage set that represents a portion of annual revenue. Each fund is different. In the long term section of the budget document, in each fund that does have an EFB, we try to identify the percentage at the bottom, and it is included in financial policies in the appendix.

Mr. Tuneberg addressed the overarching assumptions slide. Staff looked at these common issues across funds. Tried to move away from across the board percentage cuts. The same percentage cut may not have the wanted effect in many funds. Looked at shortfall and/or what is the need and where should logical changes be made in the budget. Would like to be more specific on controlling costs and adjusting revenues. Looking at using screening criteria or ranking criteria to determine what it is we want to do and how do we rank? Started using matrices and outcomes in an effort to move toward outcome oriented budgeting.

Mr. Tuneberg moved to the Highest Priority Criteria slide. Tried to categorize things that the City is required to do. Things that are mandated by Federal or State law, required by City Charter or Code and contractual obligations. Council goals are high priority and departments create their budgets to align with those goals. Mr. Stromberg asked are there expected services the City provides that are not mandated by law, code, or charter, and if so, where do they fit? Mr. Tuneberg answered, if it does not have that high priority, it fits somewhere in these layers and this criteria is used for ranking those areas they have to make decisions on.

Mr. Tuneberg moved to the Council Goals – Draft slides. These goals will impact the coming budget and some may require decision making as the budget is created. A key goal that was identified at the February 11th Council Retreat was economic development. These will need to be spoken to by departments as part of their budget preparation and presentation. #2 Public Safety key issues are the Fire Station remodel and Police building remodel. Council will restore a Police Officer and Firefighter that went unfunded in prior years. There is a grant pending for three additional Firefighters that will have future impact after grant goes away. Emergency preparedness and training was reduced in 2008. #3 is the retention of staff, wages, benefits and have union contracts to negotiate this year. Will address the Department Heads taking a class in compensation study. Mr. Heimann inquired if it will be a new study? Mr. Tuneberg answered they will probably update the existing study for Department Heads, excluding Police and Fire. #4 is the Biennium budget preparation to get ready for FY 2013-2015 combined. Mr. Gentry asked if Council still needs to approve these goals. Mr. Stromberg responded yes. Mr. Patterson added they need to come back to Council, this is a draft, if modifications are needed they will do that and bring back to Council, some may be new and old. Mr. Slattery inquired if there was still time to make a move to take a biennial budget out. There was Committee discussion that there is still time.

The Medium priority slide includes: long term financial responsibility, health of the local economy, environmental protection and emergency preparedness. This is the area Mayor Stromberg inquired about, the day to day operations fits here.

The Lowest priority slide to enhance quality of Ashland as a place to live and some may see this as high priority. This category includes a lot of operational responsibilities that are not mandated.

Mr. Heimann commented that a budget has two sides; income and expenditures. He does not see any opportunity for encouraging saving in departments and believed that should be high priority. Mr. Tuneberg pointed to the medium priority of long term fiscal responsibility, efficiency, reduction in risk to tax and rate payers category. Some components of that is providing services and looking at costs. Open to input on how to reword that. Mr. Stromberg added there is a tendency for budgets the deal with the same thing year after year to creep, do we have a regular process where we take a fresh look to bring back into line. Mr. Tuneberg replied that will be addressed in a future slide.

Mr. Tuneberg spoke to the performance drivers slide. The City is in its third year of departments using matrices. Department Heads describe what they do, what the criteria is and desired outcomes, and the steps they are doing to reach outcomes and giving comparative data over time to show progress and outcome performance. The next slide is a closer look at what the department budget presentations will be speaking to. How well they have done, what are their projections for this year and what are next year's goals.

Mr. Slattery said he was curious if the matrices are effective and a good use of time. What is the departments' view, do these help and is there a less bulky budget process in mind? Mr. Tuneberg advised more input will be coming soon with Mr. Kanner on board. He believed it helps with mind set and gets departments to think about what they are doing. Going forward there will be fewer, but more meaningful, performance drivers. Mr. Gentry thinks it simplifies the process.

Departments can focus on performance and not get bogged down in the process. Mr. Slattery does not want these to just be an exercise for them. Police Chief Holderness added that everything is useful to them internally and likes the system. Ms. Stebbins asked the Chief if they were doing these before they became a part of the budget? Chief Holderness responded that they were doing some before, as crime rates, response times and case loads are monitored. With this system more were added. Chief Karns concurred and advised most of the categories are standards in the industry. Mr. Tuneberg thinks the same will apply to Public Works. Even accounting looked at comments from auditors and talked about the metrics of work done and are they doing better this year. Mr. Stromberg added that ultimately they would like to track the impact on users and explore that through user satisfaction. Only justified if they are significant and meaningful to the citizens.

Mr. Tuneberg said he would like to walk through the process of creating the budget through these rules:

Ground Rules 1. Staff will be recommending a balanced budget and tax rates that fit into that balancing. Tax rates will be determined by the budgets created by the departments and looking at updated forecasts for end of year and future needs. Utility rates are a big factor. Have studies going on now that will have an impact on rates. Calculated rate impacts will be identified in the Budget Message and long term section of the budget. Enterprise rate changes require a Public Hearing subsequent to budget approval and Council approval. Mr. Stromberg asked if that means a balanced budget on a fund by fund basis. Mr. Tuneberg answered yes.

Ground Rules 2. Departments will prepare their expenditures with the usual basic assumptions. Existing staff will be budgeted based on contractual requirements, PERS and healthcare. Will be looking at: tracking of Materials & Services, where are grants going away and that expenditure cut from the budget, where you can hold line items flat, and what is causing increases. It is anticipated that dispatch may go up more than the 3% limit and this will be addressed in the Budget Message. Both Police and Fire will speak to this issue in this coming year. Ms. Stebbins asked if fuel costs will be kept flat. Mr. Tuneberg responded staff will wait for departments to address it, fuel costs are going up and it will be calculated based upon the services that need to be provided. The Central Service, Insurance and Facilities Funds charge various departments and funds based upon the benefit or use of funds and they intend to hold those flat, with a few exceptions on a case by case. Mr. Stromberg asked if those fees are absolute numbers or percentage. Mr. Tuneberg advised absolute. The charge amount for service is based on what was charged last year, and will look at other discretionary items. Mr. Stromberg asked how Central Services absorb its predicted cost increases. Mr. Tuneberg advised Central Service Fund attempts to keep a minimum EFB, but because of open positions and projects, that fund typically has a larger EFB than it needs, that provides a cushion for one year. Ms. Stebbins asked if these are the ground rules given to Department Heads to build their budgets on. Mr. Tuneberg responded yes, in addition to meetings with Department Heads to identify issues that need to be spoken to in the budget process. Mr. Gentry offered a suggestion to the Central Services contingency that is used to avoid passing along normal inflation costs to the departments, will not be able to do that next year. At that point departments will be absorbing two years worth of normal Central Services inflation. Can that be eased in so there is not a big jump in Central Services in two years? Mr. Tuneberg advised they will model and look at that, may continue to have larger EFB, but after

two years there could be a larger increase. Central Services has not raised most internal charges for multiple years.

Ground Rules 3. Council approved CIP for next year is projected at \$14 million. The departments will be incorporating CIP within their budgets. If a department identifies a project will not get done in this FY, some parts of the project may be re-budgeted for next year.

Mr. Slattery out at 7:11.

Mr. Tuneberg continued that in the May/June timeframe, Council's approval is required for appropriation adjustments for projects identified that will need to be carried over into the next year, typically resulting in increased EFB for the current year. This primarily falls within the Enterprise Funds with big projects. Mr. Heimann asked if they will see a reflection of the change Public Works wants to do in budgeting long term projects. Mr. Tuneberg noted it should be seen in the long term and finance puts it into a model to see when funds will be needed for projects and if financing is required. Mr. Stromberg commented that they had been seeing CIP coming in under budget because of so much competition, assumes that rolls into an EFB. Does that go into a restricted category? Mr. Tuneberg answered it is a complex issue, but if money was borrowed, that money would be restricted for that project. If not borrowed, goes to the EFB. Mr. Stromberg noted it was important for Council to understand if EFB increases, if it is restricted funds. Mr. Tuneberg advised the capital basis versus long term operational basis are separated out. Staff will adhere to EFB policies and through meetings with the Budget Officer and City Administration make adjustments as needed.

Ground Rules 4. Only the most urgent Add packages will be recommended to the City Administrator to recommend to the Budget Committee and will identify what the revenue stream is.

Ground Rule Changes. Mr. Tuneberg advised he sees some potential changes and things that will have to be addressed in the upcoming budget. Class and compensation study will be implemented for Department Heads. Mr. Stromberg noted this is after holding Department Heads flat for four years. Mr. Tuneberg continued the budget will be adjusted up for new grants and down for grants going away. He will be recommending to Council to put the IT Director back in and noted the top two positions in Electric remained unfilled much of last year. The City may want to talk administratively about the right way to organize ourselves and he recommends putting back in a Director position is prudent for budgeting purposes.

Ground Rules Negotiations. The City has contracts with adjustments in pay that will be honored. Currently negotiating three contracts and if we do not budget an increase and one is approved, this would cause an operational problem and would need to make budget adjustments. Will be working with Mr. Kanner on the right percentage to put in budget. Mr. Stromberg asked what did we do in the past. Mr. Tuneberg responded that nothing was put in. Once a contract was settled, they did adjustments and departments were looking at cost overruns. Mr. Gentry asked when would it be effective. Mr. Tuneberg answered effective July 1, 2012. Doing budget increases in Contingency is frowned upon. The City has a compression issue that is getting worse and this will take considerable discussion as we prepare the budget. Mr. Stromberg said he had

two questions. First, do you only deal with compression where it's directly the supervisor of the subordinates that are working too closely with that supervisor? Second, if the subordinates are working overtime, making say time and a half, do you consider that a compression issue if that brings them up to or above their supervisor? Mr. Tuneberg responded that, yes, they look at the two positions, but also look globally to see if there are other issues related and the complexity of responsibility exceeding pay. On the second, overtime is a factor, but does not drive completely. When the supervisor is working the same number of hours at fixed pay, and the position they are supervising has overtime of 10-20 hours, that causes them to be paid more than the supervisor. There was Committee discussion that holding back on adding staff can generate more overtime and creates compression.

Mr. Tuneberg moved to the Budget Process and Questions. The City is only doing a one year budget in this process. Next year will be creating a two year budget. We will realize a savings not going through the process every year and looking out longer doing better planning. Will free up time in off year to look at other issues, such as: review priority services and funding, enterprise needs and franchise payments, city-wide aging infrastructure, and internal services. The Committee may have issues they would like staff to discuss and look into. An example is the water comparison done last year to Roseburg that the Committee found very enlightening. Mr. Gentry inquired would the first off year be FY 2015. Mr. Tuneberg responded it would be during spring of 2014.

Ms. Stebbins spoke to page 7 and the Council goal that impacts the budget of the Charter Amendment to a City Manager. How does it tie into the recommendation of an Assistant City Administrator and how does this impact the budgetary process. Mr. Tuneberg responded that he believed it does not, that the two were arrived at separately. Cannot speak to the Charter Amendment other than it was brought up in Council's goal setting. He added it is looking at the duties he took on at the end of last year and deals with operational effectiveness. Mr. Patterson noted it may have election costs. Mr. Silbiger questioned not adding back an IT Director. Mr. Tuneberg recommended adding a Department Head position in addition to the Assistant City Administrator, recognizing there is no Electric or IT Department Head.

Mr. Tuneberg spoke to Current trends. He noted the Consumer Price Index-U was at 3% (CPI), and CPI-W at 3.2%. This affects Materials & Services and labor contracts. Property taxes have been difficult to predict the last few years. Distributions from the County have varied. In November had 4% in revenue more than prior year, and in February distribution went down. May see a 3% growth in revenue from property taxes. We closely monitor this as the budget is prepared. Mr. Stromberg asked do we get countywide average growth rather than the actual Ashland growth? Mr. Tuneberg responded correct. Distribution is based on the entire County's collections based upon the rates that were set. Mr. Stromberg said if the City was getting actuals, it would probably be a half percent greater and what would that be? Mr. Tuneberg advised he would have to calculate.

Mr. Tuneberg moved to the Transient Occupancy Tax (TOT) item and noted it is down 2.7% from last year and this could be from cancellations due to the Oregon Shakespeare Festival's Bowmer problems. Could be due to discounting rooms. F&B is up 6.2%. Mr. Runkel noted it is true lodging is down around City, partly due to Bowmer and partly due to economic conditions.

Mr. Keil asked if TOT is collected on a quarterly basis. Mr. Tuneberg responded that with both of these taxes, the operator can report monthly, but no less than quarterly. There was Committee discussion on visitors staying in Medford because of new motels and lower rates.

Looking at Enterprise revenues, Mr. Tuneberg noted Water and Wastewater revenues are up and even though there was an Electric rate adjustment, Electric is down 1-2%. Probably due to weather conditions. Fuel costs are rising and do not know what that impact will be yet. Police, Fire and clerical will be having contract negotiations. Healthcare premiums are up 6.5%. A year ago the City made the decision to go from Blue Cross coverage through City and County Insurance Services to Pacific Source and by doing so, held premiums flat. Now seeing increases and may look to self insure in the future.

Mr. Heimann asked if there is a possibility of the Ashland Water Advisory Committee (AWAC) discussion being in this year's budget, as there is a large amount of money there, rate increases and recommendations. Mr. Tuneberg advised there are two sides to that. One is what approved CIP construction projects will be included in the budget and that could change between now and when the budget is created. The other one is what rate increase percentage is to be included in the budget as a revenue stream and it will be identified, not only in the Water Fund, but in the Budget Message itself. There was Committee discussion on rate increase and structure, timing, and looking at costs years out.

Mr. Tuneberg asked the Committee to look at the proposed meeting calendar and asked for conflicts. Mr. Chapman asked to reduce the length of presentations. Mr. Tuneberg will try to get departments to focus as well as giving them a fair chance to present their budget and get the Committee's questions answered. It was noted Mr. Kanner may have some influence on the presentations.

Mr. Runkel out at 7:49.

Mr. Tuneberg asked for volunteers for the Economic, Cultural, Sustainability and Tourism granting process with meetings scheduled for April 11th and 12th. Mr. Silbiger, Mr. Keil, Mr. Runkel, Mr. Morris, Mr. Slattery, Mr. Stromberg, Ms. Stebbins, Mr. Gentry, Mr. Heimann, all Committee Members volunteered. Ms. Stebbins asked for information for them to get aboard the new process. Mr. Tuneberg will send Committee informational documents.

PUBLIC INPUT

It was asked if there is still an opening on the Committee. It was determined there is and the cut off is March 1, 2012.

ADJOURNMENT

The Budget Committee Kickoff Meeting adjourned at 7:54 p.m.

Respectfully submitted,
Peggy Carson
Temporary Administrative Secretary