

# Council Business Meeting

February 2, 2021

<b>Agenda Item</b>	Review of Approved Financial Policies	
<b>From</b>	Melanie Purcell	Finance Director
<b>Contact</b>	<a href="mailto:melanie.purcell@ashland.or.us">melanie.purcell@ashland.or.us</a>	(541) 552-2003

## **SUMMARY**

Mayor Akins has requested that staff resubmit the financial policies adopted by City Council on December 2, 2020 for review by the newly seated City Council. The City of Ashland has a comprehensive set of financial policies to provide guidance to staff and represent the organization to financial markets. Per recommended best practices, it is important to periodically conduct a systematic review of the financial policies to ensure they accurately represent the intent and financial management philosophy of the City Council and the organization. The attached policies support the City of Ashland in its drive to long-term financial resilience.

## **POLICIES, PLANS & GOALS SUPPORTED**

Administrative/Governance goal:

*“To ensure on-going fiscal ability to provide desired and required services at an acceptable level”*

## **PREVIOUS COUNCIL ACTION**

Updated Financial Policies were reviewed by City Council on November 16, 2020 and adopted on December 2, 2020.

## **BACKGROUND AND ADDITIONAL INFORMATION**

The City has Financial policies provide the backbone of the financial management system and long-term guidance for financial resiliency. Financial policies include:

- Structure,
- Management, and
- Operations.

Financial policies are implemented through Administrative Procedures. Although the City has updated portions of the financial policies as needed, it has been at least five years since the last comprehensive review and update. This update incorporates prior actions into a single document.

Significant changes in the Financial Structure include:

- Consolidation of the Central Services Fund into the General Fund for greater flexibility and reflection of resources and structure;
- Separation of Storm Drain Fund from Streets Fund; and
- Removes component unit designation as not applicable under GASB.

Significant changes in Financial Management include:

- Increases minimum balances for stability and provides for restoration of balances should circumstances require use of minimums;
- Changes definition of required balance to consistent use of “average annual expenditures for prior three years” as base for calculating balances;
- Establishes parameters for funding and use of the Reserve Fund; and
- Establishes policy for allocation of unbudgeted surpluses and sale of assets.

Significant changes in Operations include:

- Incorporation of state law in Purchasing, Debt, and Investment policies;
- Incorporation of industry standards in Accounting, Budgetary, and Purchasing policies;
- Extension of capital planning with debt impacts out to 15 years; and
- Increase emphasis on risk management activities to reduce loss.

Several questions were asked during the most recent policy review and approval by Councilors and Councilors Elect about the intent of consolidating the Central Services Fund into the General Fund, particularly in terms of transparency, restricted funds, and the treatment of fund balances. There are several advantages to consolidating the funds:

- There are fewer transfers between funds, more accurately portraying the overall size of the budget and enhancing transparency;
- Expenditures are closer to their originating revenues in the General Fund and department expenditures are consolidated across funds enhancing transparency;
- Allocated expenditures are reduced to more accurately reflect the cost of service. Having base services such as Finance, Legal, and City Administration in the General Fund reflects the reality that there are tax supported activities required of any government that are not directly tied to the activities of a service department. This also enhances transparency and allows for more informed programmatic budget decisions;
- Having support services in the General Fund allows more flexibility in assigning resources that can be allocated to grants, i.e. shifting staff in case of emergencies that FEMA will then reimburse. When resources are fully allocated through the Central Services Fund, they are defined as administrative overhead and disallowed by FEMA and other granting agencies as supplanting and/or over the administrative limits even when they are deployed to direct service activities;
- Once the transaction for an external fund to purchase the services provided by the Central Services or General Fund is made, the funds become general revenues to the recipient fund, not restricted funds. Revenues are only restricted in that they are used by the enterprise fund to purchase services that support the enterprise activities and not general activities. The General Fund sells the service and receives payment that is recorded as a transfer and is used to support that activity. There are not any inherent restrictions on fund balance in the Central Services Fund that will be transferred to the General Fund; and
- The Government Accounting Standards Board (GASB) statement #34 as well as the Government Finance Officers Association recommends agencies use as few funds as possible to ensure greater transparency and reduce the amount of transfers and potential conflicts in reporting. Funds are established as required by law or operations such as the Enterprise Funds or in the case of Community Development Block Grants, as required by contract with the granting agency. The Central Services Fund is a construct of prior preference for the City of Ashland and with the relative size of the organization does not materially contribute to transparency or accountability so was recommended for consolidation.

Attached are examples of how the financial reports from the last update will look under the consolidated format. As indicated in the legend on the first page, the consolidation removes eight transfers that are redundant from the reporting mechanism. Ten divisions become consolidated and one account is added. This streamlines the transactions between funds materially.

### **FISCAL IMPACTS**

No direct impacts. Establishment of and compliance with financial policies assists the City in maintaining its bond rating and financial market position. Working from Council's direction, staff started building out the mechanisms to implement the reporting changes in the system and build the budget. Significant time investment will be required if changes are implemented at this time detracting from other projects and activities. The City Manager's

Recommended Budget would be delayed three weeks, reducing the available time for the City Council and Budget Committee to deliberate.

**STAFF RECOMMENDATION**

Staff recommends the Financial Policies document approved at the December 2, 2020 Council business meeting be retained in its entirety.

**ACTIONS, OPTIONS & POTENTIAL MOTIONS**

N/A

**REFERENCES & ATTACHMENTS**

Attachment 1: Example of Financial Report with Central Services to General Fund consolidation

Attachment 2: MPurcell email to City Council and incoming Councilors, December 4, 2020

Attachment 3: MPurcell email to City Council and incoming Councilors, December 3, 2020

Attachment 4: MPurcell email to City Council and incoming Councilors, November 17, 2020

Attachment 5: Council Presentation, November 16, 2020

[Adopted Financial Policies, December 2, 2020](#)

[Council Communication, November 16, 2020](#)

### Comparison of Reporting Structures for FY2019-2020

Current Structure	Current Budget Expenditures	6/30/2020	% of Expenditures	Policy Requirement	Difference	July 1, 2021 Structure	Current Budget Expenditures	6/30/2020	% of Expenditures	Policy Minimum	Difference
General Fund	29,600,324.00	5,053,650.00	17.07%	20.00%	-2.93%	General Fund	36,673,646.00	6,626,512.00	18.07%	20.00%	-1.93%
Parks General Fund	7,093,986.00	1,074,423.00	15.15%	20.00%	-4.85%	Parks General Fund	7,159,770.25	1,074,423.00	15.01%	20.00%	-4.99%
Housing Fund	147,000.00	109,080.00	74.20%	20.00%	54.20%	Housing Fund	225,834.00	109,080.00	48.30%	20.00%	28.30%
Community Block Grant Fund	350,843.00	36,617.00	10.44%			Community Block Grant Fund	175,883.76	36,617.00	20.82%		
Reserve Fund		39,256.00				Reserve Fund		39,256.00			
Street Fund	11,216,620.00	1,681,184.00	14.99%	15.00%	-0.01%	Street Fund	10,373,226.63	1,681,184.00	16.21%	15.00%	1.21%
Airport Fund	238,044.00	376,568.00	158.19%	10.00%	148.19%	Airport Fund	368,044.00	376,568.00	102.32%	10.00%	92.32%
Capital Improvements Fund	1,666,746.00	918,571.00	55.11%	0.00%	55.11%	Capital Improvements Fund	1,732,132.22	918,571.00	53.03%	0.00%	53.03%
Parks Capital Improvements Fund	2,374,656.00	1,596,621.00	67.24%	0.00%	67.24%	Parks Capital Improvements Fund	3,439,172.00	1,596,621.00	46.42%	0.00%	46.42%
Debt Service Fund	2,025,354.00	1,037,695.00	51.24%	0.00%	51.24%	Debt Service Fund	1,765,520.00	1,037,695.00	58.78%	0.00%	58.78%
Water Fund	13,591,740.00	10,850,465.00	79.83%	25.00%	54.83%	Water Fund	25,403,866.31	10,850,465.00	42.71%	25.00%	17.71%
Wastewater Fund	9,180,885.00	10,085,824.00	109.86%	25.00%	84.86%	Wastewater Fund	9,900,831.28	10,085,824.00	101.87%	25.00%	76.87%
Storm Drain Fund	1,070,289.00	1,795,164.00	167.73%	25.00%	142.73%	Storm Drain Fund	1,187,893.04	1,795,164.00	151.12%	25.00%	126.12%
Electric Fund	18,201,468.00	2,521,065.00	13.85%	25.00%	-11.15%	Electric Fund	19,576,527.43	2,521,065.00	12.88%	25.00%	-12.12%
Telecommunications Fund	2,310,524.00	1,540,524.00	66.67%	20.00%	46.67%	Telecommunications Fund	2,345,381.12	1,540,524.00	65.68%	20.00%	45.68%
Central Services Fund	9,067,814.00	1,572,862.00	17.35%	5.00%	12.35%	Central Services Fund	Closed	Closed		5.00%	-5.00%
Insurance Services Fund	1,237,337.00	285,478.00	23.07%	50.00%	-26.93%	Insurance Services Fund	1,071,940.37	285,478.00	26.63%	50.00%	-23.37%
Health Benefits Reserve Fund	6,333,108.00	1,212,173.00	19.14%	10.00%	9.14%	Health Benefits Reserve Fund	6,699,195.00	1,212,173.00	18.09%	10.00%	8.09%
Equipment Fund	3,258,091.00	3,851,595.00	118.22%	20.00%	98.22%	Equipment Fund	4,434,707.10	3,851,595.00	86.85%	20.00%	66.85%
Parks Equipment Fund	155,000.00	288,346.00	186.03%	20.00%	166.03%	Parks Equipment Fund	150,000.00	288,346.00	192.23%	20.00%	172.23%
Cemetery Trust Fund	75,000.00	954,825.00	1273.10%	0.00%		Cemetery Trust Fund	75,000.00	954,825.00	1273.10%	0.00%	
	134,531,011.87	51,182,226.81					134,531,011.87	51,182,226.81			
General Fund	29,600,324.00	5,053,650.00	17.07%	20.00%	-2.93%	General Fund*	36,673,646.00	6,626,512.00	18.07%	20.00%	-1.93%
Central Services Fund	9,067,814.00	1,572,862.00	17.35%	5.00%	12.35%	Central Services Fund	Closed	Closed		5.00%	-5.00%
						includes costs of Central Services Fund less GF transfer for Internal Services Charges					

**City of Ashland**  
**Statement of Resources, Requirements, and Changes in Fund Balance**  
as of 09/30/2020 (25% of Budget)

	Fiscal Year 2020 Year-To-Date Actuals	Fiscal Year 2020 End-of-Year Actuals	Percent Collected / Expended	Fiscal Year 2021 Year-To-Date Actuals	2nd Year of Biennial Budget	Percent Collected / Expended	Year over year change
<b>110 General Fund with Central Services Rolled in</b>							
Taxes	\$ 2,307,205	\$ 22,071,780	10.5%	\$ 2,329,351	\$ 24,343,198	9.6%	101.0%
Taxes	1,671	53,166	3.1%	1,335	-	N/A	79.9%
Licenses and Permits	203,929	1,095,600	18.6%	567,540	949,150	59.8%	278.3%
Intergovernmental	165,772	2,217,898	7.5%	190,124	1,657,044	11.5%	114.7%
Intergovernmental	-	215,509	0.0%	27,544	-	N/A	N/A
Charges for Services	580,212	1,671,137	34.7%	406,565	1,599,001	25.4%	70.1%
Charges for Services	56,259	405,152	13.9%	84,058	295,000	28.5%	149.4%
Charges for Services - Internal	2,041,617	7,485,928	27.3%	2,161,054	8,365,502	25.8%	105.9%
Charges for Services - Internal	(425,821)	(1,561,352)	27.3%	(433,727)	(1,994,492)	21.7%	101.9%
Fines	166,025	418,514	39.7%	72,992	607,900	12.0%	44.0%
Interest on Investments	17,111	107,484	15.9%	9,234	126,250	7.3%	54.0%
Interest on Investments	6,157	31,499	19.5%	4,948	29,933	16.5%	80.4%
Miscellaneous	37,083	55,509	66.8%	4,668	70,145	6.7%	12.6%
Miscellaneous	1,036	9,122	11.4%	70	-	N/A	6.8%
Transfer in (Water Fund)	62,500	50,000	125.0%	50,000	250,000	20.0%	80.0%
Transfer In (Cemetery)	55,465	69,988	79.2%	52,324	75,000	69.8%	94.3%
Transfer In (Health Benefits)	100,000	100,000	100.0%	100,000	100,000	100.0%	100.0%
Total Revenues and Other Sources	5,376,221	34,496,934	15.6%	5,628,080	36,473,631	15.4%	104.7%
Administration Department	467,820	1,329,759	35.2%	444,110	1,111,194	40.0%	94.9%
Less CS Fee	(9,633)	(35,321)	27.3%	(9,922)	(39,688)	25.0%	103.0%
Administration Department	395,244	1,474,265	26.8%	355,224	1,803,662	19.7%	89.9%
Administration - Municipal Court	151,726	653,523	23.2%	155,383	708,010	21.9%	102.4%
Less CS Fee	(37,995)	(139,317)	27.3%	(39,103)	(156,414)	25.0%	102.9%
Information Technology - Info Services Division	300,211	1,299,078	23.1%	287,187	1,522,549	18.9%	95.7%
Finance Department	36,208	71,275	50.8%	6,306	85,459	7.4%	17.4%
Less CS Fee	(1,709)	(6,267)	27.3%	(1,755)	(7,022)	25.0%	102.7%
Finance Department	531,764	2,342,606	22.7%	528,905	2,821,250	18.7%	99.5%
City Recorder	53,403	183,363	29.1%	42,971	192,752	22.3%	80.5%
Police Department	2,061,564	7,768,441	26.5%	1,936,620	8,482,466	22.8%	93.9%
Less CS Fee	(140,846)	(516,436)	27.3%	(144,637)	(578,549)	25.0%	102.7%
Fire and Rescue Department	2,048,982	9,396,269	21.8%	2,266,750	9,902,676	22.9%	110.6%
Less CS Fee	(95,666)	(350,777)	27.3%	(94,504)	(637,595)	14.8%	98.8%
Public Works - Administration Division	558,006	2,167,935	25.7%	486,000	2,533,246	19.2%	87.1%
Public Works - Cemetery Division	142,203	459,164	31.0%	143,815	542,128	26.5%	101.1%
Less CS Fee	(17,082)	(62,637)	27.3%	(17,595)	(70,381)	25.0%	103.0%
Community Development - Planning Division	428,330	1,769,254	24.2%	379,036	1,755,537	21.6%	88.5%
Community Development - Building Division	195,845	793,354	24.7%	197,625	848,549	23.3%	100.9%
Community Development - Social Services Grants	132,000	134,000	98.5%	-	134,000	0.0%	0.0%
Less CS Fee	(122,890)	(450,597)	27.3%	(126,211)	(504,843)	25.0%	102.7%
Transfers (Parks)	1,347,975	5,391,900	25.0%	898,650	5,391,900	16.7%	66.7%
Transfers (Cemetery and Debt Svc)	500	500	100.0%	500	105,500	0.5%	100.0%
Contingency	-	-	N/A	-	505,209	0.0%	#DIV/0!
Total Expenditures and Other Uses	8,425,960	33,673,334	25.0%	7,695,354	36,451,596	21.1%	91.3%
Excess(Deficiency) of Revenues and Other Sources over Expenditures and Other Uses	(3,049,739)	823,600	-370.3%	(2,067,274)	22,035	-9381.7%	67.8%
Beginning Fund Balance	5,078,618	5,802,913	87.5%	6,626,513	4,494,968	147.4%	130.5%
Ending Fund Balance	\$ 2,028,879	\$ 6,626,513	30.6%	\$ 4,559,239	\$ 4,517,003	100.9%	224.7%
<b>Reconciliation of Fund Balance:</b>							
Restricted and Committed Funds				1,412,660			
Unassigned Fund Balance				\$ 3,146,579			
Revenue and Expenses from Central Services							
New Revenue from Central Services							
Impact of reducing Central Services Fee							

## Melanie Purcell

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**From:** Melanie Purcell  
**Sent:** Friday, December 04, 2020 3:54 PM  
**To:** City Council; gina.duquenne@gmail.com; Paula Hyatt; Shaun Moran  
**Cc:** Bryn Morrison; Cindy Hanks  
**Subject:** Preliminary Budget Information and Central Services Fund questions

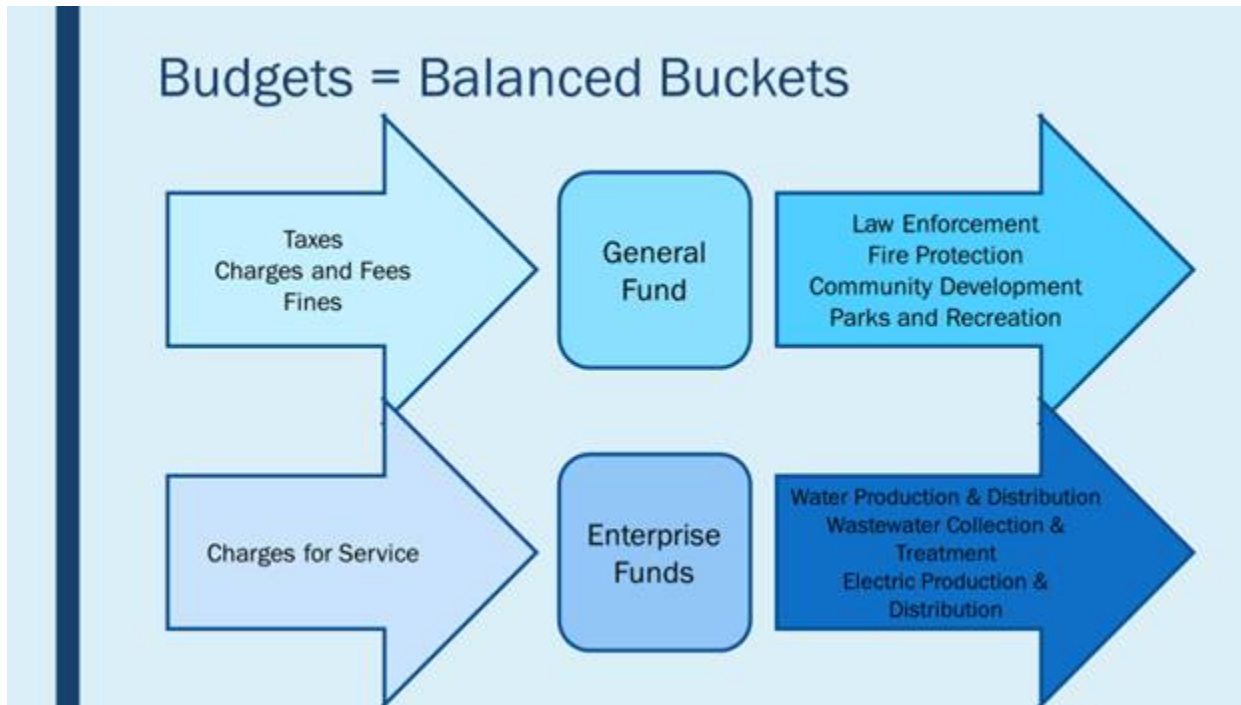
Good afternoon,

I have been asked to provide some preliminary budget information as background for the upcoming budget process. The City's Finance Department webpage ([City of Ashland, Oregon - Finance Homepage](#)) includes many resources about the City's financial reporting and activities including links to our transparency portal ([Ashland / Annual \(opengov.com\)](#)) which provides interactive graphs of the City's financial data and the ability to filter data for different views. In addition, the City's Comprehensive Annual Financial Report (CAFR), Fees and Charges schedule, and Budget documents are listed under Financial Documents. Additionally, a few more questions have come in that everyone may find useful.

The City uses governmental or fund accounting to manage and report on its finances. The funds are separate buckets that track revenues and expenditures for the activities within the fund. The primary funds include the General Fund, the enterprise funds (Water, Wastewater, Electric), and the internal services funds (Employee Health Benefits, Insurance, Equipment, and Central Services). There are more but these are the major ones under discussion.

- The General Fund accounts for majority of tax revenue and basic government services that are not associated with a dedicated revenue, i.e. law enforcement, fire protection, parks and recreation, and community development.
- The enterprise funds operate as if a private business with the intention of being fully self-supporting, i.e. Sewer, Water, and Electric. This is where the concept of restricted funds often comes into play; the money received for these services cannot be diverted to pay for other services.
- The internal service funds help the City account for activities, especially the purchase of specific goods and services, that are used by all of the operating funds. The services provided by these funds are "purchased" by the other operating funds of the City rather than from private companies.

The operating funds can be viewed as buckets with specific types of revenues coming in and specific services being paid for from those revenues:



The internal service funds are vendors to these operating funds.

Movement of money between the funds are limited to:

- Purchase of goods and services from another fund
  - Water Fund buys accounting services from the General Fund
  - General Fund buys water from the Water Fund
  - An operating fund purchases services or goods from an internal service fund.
- Taxes (only applies to enterprise funds)
  - Electric Fund pays a franchise tax to the General Fund in recognition of wear and tear on infrastructure from electric system (would apply to any electricity provider)
  - Wastewater Fund pays PILOT (payment-in-lieu-of-taxes) in recognition of the property value of its plants and the general services provided to the plant similar to other taxpayers
- Direct Financial Transactions
  - One fund can loan another fund money for specific purposes with an adopted loan agreement indicating payment terms, loan repayment schedule, etc.
  - The General Fund can subsidize other funds' activities through a direction of City Council that indicates the general public purpose served by doing so.

The elimination of the Central Services Fund moves the majority of its services to the General Fund because these services are not solely services to the operating departments, i.e. Finance collects taxes and Legal advises the City Council; both of these activities exist because the government exists, not as extensions of or vendors to other departments. Because many of the administrative activities are similar across funding structures, it is prudent to use the economies of scale and centralized expertise to provide the services to all the funds. The General Fund can sell some of its capacity to provide related services to other funds without restriction provided the cost allocation plan supports the charges as being appropriate. For example, the water fund does not by itself need a full-time government accountant nor does the Wastewater Fund; the General Fund can hire the accountant who also does significant work for the General Fund rather than each fund attempt to find the expertise in a part-time position. The cost allocation plan is used to prevent inadvertent subsidies of one fund by another for similar services. The other internal services, Employee Benefits, Equipment, and Insurance use the funds collected from the operating funds to purchase goods and services

from predominantly external sources with greater economies of scale and to track funds set aside for the purchase of replacement equipment or pay claims as indicated by the purpose of the fund.

**Q:** Understanding that Enterprise funds are restricted, how will they be segregated in the General Fund? Specifically, at the end of the fiscal year how are these funds treated in the fund balance? I do not want to assume, so do they remain sequestered and restricted? They do not get rolled into the GF unrestricted fund balance correct?

**A:** Enterprise funds will purchase services from the General Fund. Once the transaction is made, the funds become general revenues to the General Fund, not restricted funds. They are only restricted in that they are used by the enterprise fund to purchase services that support the enterprise activities and not general activities. For example, the Water Fund purchases accounting services, i.e. pays a portion of the accounting staff and annual audit. The contribution must be reasonable to cover the Water Fund's portion and not be subsidized nor provide a subsidy to other funds for the same type of work. The General Fund sells the service and receives payment that is recorded as a transfer and is used to support that activity.

**Q:** Also, though I am not as clear on the various elements of the Electric users fee, I know it is a unique provision in our BPA contract and essential to the funding of our operations. Does this consolidation trigger any provisions in the BPA contract related to the electric users fee? Specifically, are there defined uses for those funds in the contract? Will this change impact our ability to show that we are using those funds as agreed in the contract?

**A:** There is no impact on any of our contracts or fee structures by making this consolidation. It removes transfers between the General Fund and Central Services Fund and does not alter the purchase of services by the enterprise funds other than the source of the services, i.e. the services are housed in the General Fund rather than the Central Services Fund.

**Q:** Finally Grants. I think I understand the supporting point about the Central Service Fund not being set up to support Grant Funding. I'm hoping to better understand because most grant awards allow for use on administrative services such as those currently held in Central Services. What makes the fund less ideal for grant revenues? Have we been doing something wrong?

**A:** The Central Services Fund can host administrative activities without concern. It is more difficult to claim costs associated for direct activities that are hosted in an internal service fund because the assumption is that they are always administrative and are fully allocated to other operations. The internal service fund only serves internal customers while the General Fund serves internal and external customers. For example, administration, human resources, and finance can participate in activities directly related to a specific grant such as the CARES funding and not just administration. Because they are fully allocated in the Central Services Fund, they are counted as only administrative overhead. By recognizing some of the services provided by these administrative functions as direct services to the government entity within the General Fund, the City is making it easier to include those direct activities for reimbursement. This reflects a shift in the organization and current grants environment rather than any error in actions to date. The organization is lean and more people within it are tasked with greater varieties of tasks, i.e. more hats, so their roles have evolved to include more direct services when previously, there may have been more positions that provided a narrower administrative focus. In addition, the COVID-19 pandemic has required that traditionally inward facing departments add focus on outward interactions as well as internal.

Please let me know if you have questions or I may clarify anything.

Have a wonderful weekend,  
Melanie

Melanie D. Purcell, CPFO, CGAP, SHRM-SCP  
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## Melanie Purcell

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**From:** Melanie Purcell  
**Sent:** Thursday, December 03, 2020 12:47 PM  
**To:** City Council; Shaun Moran; gina.duquenne@gmail.com; Paula Hyatt  
**Cc:** Bryn Morrison; Cindy Hanks  
**Subject:** Financial Policies Questions  
**Attachments:** 3. Sept20 FY21 Financial Report.pdf; 12. Jun20 2nd FY20 Financial Report.pdf

Good afternoon,

As mentioned at the Council meeting, I have received a couple of questions on the financial policies and received an additional one yesterday afternoon. I explained some of this the other evening but wanted to share with everyone.

**Q:** Is your reasoning to consolidate the funds to insure we get a balanced General Fund or to increase the charges and revenues to the GF? I know with the expected big hit to the lodging tax (which will be reflected in the 2nd yr of this budget as well as the 2021-23 budget) and the embedded cost increases in the GF we are facing a substantial deficit so I am interested to know what would happen to the GF deficit once this "consolidation" occurs? Have you run any analysis you can share with the council and council elect?

**A:** As presented to City Council at the November 16, 2020 Study Session, the City's General Fund has a solid fund balance as of June 30, 2020 (also confirmed in the draft audit being presented on December 15, 2020) and as of September 30, 2020. [Study Session - City Council - City of Ashland, Oregon](#) The balance drops over the first half of the fiscal year as expected to fund the time before property taxes come in at the end of the calendar year and into the spring. While we are definitely seeing reductions in other revenues with COVID-19, we have also seen reduced expenditures providing us a more balanced picture than might have been expected. The balances associated with Central Services will roll into the General Fund as will any outstanding liabilities or payables; this does remove the transfers between the General Fund and the Central Services Fund. There will not be any net change to the City's fiscal position; there is no net change to any operations through this action.

**City of Ashland**  
**Summary of Fund Balances**  
as of June 30, 2020

Fund	Balance June 30, 2020	Balance June 30, 2019	Change Fr FY 2019
General Fund	\$ 5,053,650	\$ 4,963,180	\$ 9
Parks General Fund	1,074,423	842,877	23
Housing Fund	109,080	69,986	3
Community Block Grant Fund	36,617	36,617	
Reserve Fund	39,256	38,440	
Street Fund	1,681,184	4,815,937	(3,13
Airport Fund	376,568	235,658	14
Capital Improvements Fund	918,571	860,718	5
Parks Capital Improvements Fund	1,596,621	1,428,985	16
Debt Service Fund	1,037,695	1,035,855	
Water Fund	10,850,465	10,495,073	35
Wastewater Fund	10,085,824	8,826,690	1,25
Storm Drain Fund	1,795,164	1,866,537	(7
Electric Fund	2,521,065	2,249,387	27
Telecommunications Fund	1,540,524	1,135,308	40
Central Services Fund	1,572,862	839,733	73
Insurance Services Fund	285,478	44,383	24
Health Benefits Reserve Fund	1,212,173	932,374	27
Equipment Fund	3,851,595	3,328,444	52
Parks Equipment Fund	288,346	264,491	2
Cemetery Trust Fund	954,825	984,915	(3
	<u>\$ 46,881,984</u>	<u>\$ 45,295,588</u>	<u>\$ 1,58</u>
Total Fund Balances	<u>\$ 46,881,984</u>	<u>\$ 45,295,588</u>	<u>\$ 1,58</u>

**City of Ashland**  
**Summary of Fund Balances**  
as of September 30, 2020

Fund	Balance September 30, 2020	Balance September 30, 2019	Change Fr FY 2020
General Fund	\$ 2,407,653	\$ 968,015	\$ 1,439,638
Parks General Fund	802,568	613,891	188,677
Housing Fund	119,354	93,764	25,590
Community Block Grant Fund	19,289	26,159	(6,870)
Reserve Fund	39,355	38,657	698
Street Fund	969,438	2,656,490	(1,687,052)
Airport Fund	360,373	246,997	113,376
Capital Improvements Fund	894,314	928,834	(34,520)
Parks Capital Improvements Fund	1,606,234	1,085,739	520,495
Debt Service Fund	128,624	146,785	(18,161)
Water Fund	12,144,911	11,959,025	185,886
Wastewater Fund	10,463,829	8,956,867	1,506,962
Storm Drain Fund	1,773,239	1,840,134	(66,895)
Electric Fund	2,552,015	2,099,877	452,138
Telecommunications Fund	1,675,525	1,249,970	425,555
Central Services Fund	2,151,585	1,060,863	1,090,722
Insurance Services Fund	(393,521)	31,980	(425,501)
Health Benefits Reserve Fund	1,195,707	939,810	255,897
Equipment Fund	3,100,950	4,088,384	(987,434)
Parks Equipment Fund	344,841	302,919	41,922
Cemetery Trust Fund	908,951	941,143	(32,192)
	<u>\$ 43,265,234</u>	<u>\$ 40,276,302</u>	<u>\$ 2,988,932</u>
<b>Total Fund Balances</b>	<b>\$ 43,265,234</b>	<b>\$ 40,276,302</b>	<b>\$ 2,988,932</b>

**Q:** Lastly, you mentioned that that the purpose of this merger is to allow for "greater flexibility and reflection of resources and structure." Can you give me some examples of what "greater flexibility" means.

**A:** Internal Service Funds, such as the Central Services Fund, are not intended to host grant or specialized programs and by moving the staffing associated with those services that support or may be directly involved in grants and special services such as Finance, Administration, Legal, and Human Resources into the General Fund, it allows the City to appropriately charge the direct activities performed by those staff rather than be limited to charging solely for administrative overhead activities.

**Q:** Consolidate the Central Services Fund into the General Fund. If you could address this tonight in your presentation as to why we need to do this? Maybe this would be a good longer term goal but with all the budgetary issues we immediately face how/why is this necessary or urgent to address now? With all the moving parts in the allocation in charges to the various departments there would be greater transparency to keep it separate as highlighted in the adopted

budget. I believe there are over \$16.6ml in internal charges broken out for each department - merging that into the GF will make it much harder to keep track of cost allocation?

**A:** The cost allocation plan is conducted regardless of the fund hosting the activities and will provide detailed information to assist with evaluating the cost of programs as City Council determines which programs will be scaled back or eliminated during the budget process. Although it may seem counter-intuitive, the intent is to create greater transparency by consolidating the funds through two primary facets:

1) shortening the transactional distance between revenues paid by taxpayers to the services being provided by removing the transfers to the Central Services Fund from the General Fund and reflecting those activities in the same fund as the revenue paid by the taxpayers; and

2) separating those services that are tax supported and those that are user fee supported. There are some services that will always exist because the government exists, including many of those currently housed in the Central Services Fund. The level of services fluctuates with the size of the organization and is reflected in the size of those operations, i.e. Finance, Legal, Administration, and Human Resources. By emphasizing the tax-supported nature of general government within the General Fund and selling services as needed to enterprise funds to support the enterprise activities, there is greater transparency about the true cost of government.

**Q:** Changes definition of required balance to consistent use of “average annual expenditures for prior three years” as base for calculating balances. Wouldn't this eliminate the ability to look at a year to year comparison? Why is this important to do and why now?

**A:** The Government Finance Officers Association (GFOA) which provides the most detailed guidance to government entities on financial management and reporting, recommends at minimum using the cost of two months of operations for calculating fund balance percentages. While we recommended higher percentages due to the instability of our economic and service environment, the principle of using expenditures as a basis is consistent. Fund balance is maintained at these levels to ensure stable operations and there are known expenditure levels associated with minimum capacity while revenues are typically generated independently of expenditures.

**Q:** Increases minimum balances for stability and provides for restoration of balances should circumstances require use of minimums.

**A:** Several people have asked why there would be an interest in increasing reserves when revenues are tight. While the City's balances are healthy for the most part, they do not provide additional capacity in case of further constraints or for larger projects. As the years since 2008 have shown and especially 2020, local government revenues can be erratic and circumstances can change quickly without warning. The City of Ashland has stated its commitment to continuing high levels of quality services to its residents and visitors and leaders have expressed interest in new and expanded programs and projects. To accomplish both of these commitments will require financial capacity and flexibility including both cash and debt financing options. The key to those options lies in strengthening the City's funds positions and ensuring there are clear policies adopted that establish minimum goals, parameters for use, and directions for restoration of fund balance when it falls below the minimums. In addition to the financial resources being set aside, the policies themselves provide an assurance to the marketplace that the City is committed to maintaining its financial health and managing its resources prudently and transparently.

Thank you for your support of the Financial Policies at the December 1, 2020 meeting. Please let me know if you have any questions.

All the best,  
Melanie

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## Melanie Purcell

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**From:** Melanie Purcell  
**Sent:** Tuesday, November 17, 2020 10:16 AM  
**To:** City Council; Paula Hyatt; Shaun Moran; Gina DuQuenne  
**Cc:** Michael Black; Adam Hanks  
**Subject:** Information re: Financial Policies and Financial Update  
**Attachments:** Reserve Fund Reso 10.26.2020 DRAFT.pdf; Financial Policies Update 11.16.2020.pdf; WWTP Debt Options 11.16.2020.pdf; Financial Policies Update Present 11.16.20.pdf; Financial Update Present 11.16.20.pdf; Financial Policies Update SS Communic 11.16.20.pdf; Financial Update SS Communic 11.16.20.pdf

Good morning Mayor and Council and newly elected Councilors,

As mentioned last night, I responded to a number of questions regarding the Financial Update and Financial Policies and would like to provide all of Council the related responses. Please let me know any questions and any feedback on any of the provided documents.

Thank you for the warm welcome,  
Melanie

**Q:** Your staff report on the financial policy discussion for tonight's study session mentions rolling the Central Services Fund into the General Fund. I'm curious as to the rationale for this. While ORS 294.343 (internal service funds) is permissive and not prescriptive, it seems that this would mean rolling a lot of dedicated and restricted revenues into the General Fund that still need to be segregated from and accounted for separately from non-restricted funds, and there still needs to be an adopted cost-reimbursement methodology for those dedicated and restricted funds.

**A:** In reviewing the general structure of the City's funds, I noticed that we have a number of funds that are as you say "permissive not proscriptive". Under GASB guidelines, it is recommended to use as few funds as necessary to streamline reporting. It is also important to make distinctions between tax supported activities and user supported activities with the majority of the former housed in the General Fund, and to use incremental compensation for the additional resources needed to provide services to the user supported activities. With the concentrated effort to streamline services and optimize use of resources, human and financial, there is greater flexibility to move staff between tasks and activities within a single fund than across funds. The cost-allocation methodology is being reviewed and updated as we "speak" in preparation for the BN2021-23 budget process to reflect the most current staffing and service models. All restricted and dedicated funds are accounted for using the current chart of accounts which meets the federal standards for reporting.

**Q:** On the financial report, can you help me understand the 20% of Water Fund (transfer in) revenue in terms of the budget to actuals. That difference seems pretty high even with the financial disturbance of COVID.

**A:** The transfer in for the Water Fund reflects the original amount of the AFR tax that is added to the utilities bill, receipted into Water, and transferred to the General Fund. The remainder of the increased tax is paid directly to the General Fund. We will get this adjusted over the next few months to treat it consistently so it can all be seen together.

**Q:** Can you speak to what the estimates for the F&B taxes going forward are based on? I'm assuming the \$1.86 million is the current estimate given COVID and then we are just notching up from there, but it would be good to confirm that.

**A:** Basically, we are taking a fairly flat forecast with the same as current for FY2022 and 10% growth over current for FY2023. The majority of economists are predicting that the national and state economy will not rebound until at least 2023 so we are being cautious and will bring forward adjustment as information becomes more certain.

**Q:** Can you send me the last five years of allocations from the F&B fund to Parks?

**A:** The Parks income from F&B is as follows:

	Street	Parks CIP	WW	Central service
2006		370	1481	
2007		395	1594	
2008		392	1567	
2009		374	1495	
2010		396	1584	
2011		398	1593	
2012		427	1707	47
2013		460	1840	47
2014		473	1892	48
2015		520	2080	53
2016		565	2260	58
2017	255	709	2005	61
2018	708	758	1608	61
2019	646	804	1601	64
2020	341	664	1600	53
10 yr Avg		577.80	1818.60	54.67
5 yr Avg		700.00	1814.80	59.40
Lifetime Avg	487.50	513.67	1727.13	54.67

One clarification we do need is if the Parks funding is for Parks capital and maintenance or if it can be used for Recreation. The Charter separates the two pretty distinctly so funding should be clearly identified as to eligibility.

**Q:** Firstly you state *"the Insurance fund is notably ahead of prior year expenses and will need attention within the second half of this Fiscal Year."* Please explain in detail why the insurance fund is ahead of prior year expenses? I believe earlier this year, back in the April of 2020, the insurance fund was "bailed out" with \$1.2ml in unassigned ending fund balance from the Central Service Fund because of a huge YoY cost increase in both personnel services expenses and materials and services costs? Please explain why the fund incurred these costs, what happened, and how this is being addressed? When will those funds be restored to the Central Service Fund? Lastly, what are you seeing to say "expenses will need attention the 2nd half of the fiscal year?"

**A:** The Insurance Fund receives funding from other operating funds based on historical allocations. The claims experience varies year to year and building a sufficient balance in the fund helps buffer citizen services against those variances. Unfortunately, those allocations have not been increased for several years and the balance has shrunk. When the Insurance Fund had a negative fund balance in FY20 due to claims and operating costs, it was determined to have the budgeted contributions to the Central Services Fund go to the Insurance Fund as an offset instead. My initial review of the Insurance Fund to date is that the budgeted transfers to support actual experience in the current fiscal year may be short; it will take additional research but I want to give City Council a heads up that it is being closely monitored. Part of my early look into the City's fiscal health is to check claims behavior and potential loss exposure and while I am still reviewing the situation and possible responses, it appears we are experiencing increased activity that may need Council action to address; it will certainly be a topic of conversation in the budget process.

**Q:** Secondly you write... *"Of the scenarios presented, the option to use Wastewater Fund retained earnings to pay off the debt early saves the City over \$125,000 and frees up some resources to continue street maintenance activity. The Wastewater fund is healthy and has adequate balances to support the final two payments without negative impact to operations or rates."* I believe you are suggesting taking unrestricted WW Funds and just pre-paying off the debt? Taxpayer funds have been collected to fund future capital projects in Waste Water so therefore those funds need to be



repaid.. When and how will the funds be restored to the WW Fund? Lastly, how exactly does/would the city save the \$125,000 you outlined?

**A:** The recommendation to use Wastewater balance to pay off the one year of outstanding debt service stems from the information provided by the City's financial advisor that the interest saved would be \$125,333. The balance is prior rate payer receipts and residual transfers from earlier Food & Beverage Tax (F&B) allocations that exceeded the actual debt service. The City Council has several options including to repay the debt service amount from future F&B receipts.

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# City of Ashland

## Financial Policies Update

CITY COUNCIL STUDY SESSION

NOVEMBER 16, 2020

# Financial Policies Update

- ▶ Financial policies provide the backbone of the financial management system and long-term guidance for financial resiliency.
- ▶ Financial policies include:
  - ▶ Structure
  - ▶ Management
  - ▶ Operations
- ▶ Financial policies are implemented through Administrative Procedures.
- ▶ The City has updated portions of the financial policies as needed.
- ▶ It has been at least five years since the last comprehensive review and update.
- ▶ This update incorporates prior actions into a single document.

# Financial Policies - Structure

- ▶ Significant changes include:
  - ▶ Consolidation of the Central Services Fund into the General Fund for greater flexibility and reflection of resources and structure
  - ▶ Separation of Storm Drain Fund from Streets Fund
  - ▶ Removes component unit designation as not applicable under GASB



# Financial Policies - Management

- ▶ Significant changes include:
  - ▶ Increases minimum balances for stability and provides for restoration of balances should circumstances require use of minimums
  - ▶ Changes definition of required balance to consistent use of “average annual expenditures for prior three years” as base for calculating balances
  - ▶ Establishes parameters for funding and use of the Reserve Fund
  - ▶ Establishes policy for allocation of unbudgeted surpluses and sale of assets

# Financial Policies - Operations

- ▶ Significant changes include:
  - ▶ Incorporation state law in Purchasing, Debt, and Investment policies
  - ▶ Incorporation of industry standards in Accounting, Budgetary, and Purchasing policies
  - ▶ Extension of capital planning with debt impacts out to 15 years
  - ▶ Increase emphasis on risk management activities to reduce loss

# Next Steps

- ▶ Provide Feedback on proposed changes
- ▶ Adopt updated Financial Policies- December 15, 2020
- ▶ Review and modify, if needed, during BN2021-2023 budget process