

# **Biennium 2019/21 General Fund Budget Balancing Proposal**

The City of Ashland is entering the Biennium (BN) 2019/21 Budget facing a structural deficit, and additionally facing uncertainty in future revenues relating to the local tourism economy. Similar to all Oregon cities, the City faces increases in the cost of retirement contributions, increased General Fund healthcare costs, inflationary impacts on materials and services, along with contractually obligated employee wage increases. The use of one-time funds to balance the citywide overhead, the Central Services Fund, also contributed to the current scale of the structural deficit.

General Fund Departments were directed to submit their budgets holding Materials and Services flat, meaning no increases compared to the current biennium regardless of the expected cost increases in many of their operating expenses. The Departments were also directed to submit no new position requests, along with no new capital projects with funding from the General Fund.

When revenue assumptions are added to the equation, the result is an anticipated deficit of \$2,050,239 annually. The solution to a balanced budget relies on a combination of expenditure reductions along with proposed revenue enhancements. The choices to be made are not easy, but through a collaborative approach the City anticipates a solution that mitigates service level reductions and financial burden on the community.

With the General Fund consisting of 65% of its expenses in Personnel Services (staffing), the only mechanism to make expenditure reductions involves reductions in positions. The General Fund Balancing Proposal includes a reduction of 5 full-time equivalent positions (FTEs). This would be done with a combination of layoffs permanent elimination of requisitions for currently unfilled positions. The City worked for well over a year to find a sustainable solution to fund and hire four additional Police Officers. Not all of the revenue that was anticipated to be raised materialized, so the elimination of the two open Police Officer requisitions was an appropriate place to begin the reductions. The City hopes to work with the Ashland School District on a partnership to restore the School Resource Officer Positions. The other reductions include one position in each of the Community Development, Administration and Administrative Services Departments.

In order to complete the balancing of the General Fund, the Fire Department would expand their staffing windows from a minimum of nine per shift to a minimum of eight per shift. The expansion the staffing window may leave the Fire Department in an unfavorable position to respond to calls depending on call volume and type, but the change would reduce overtime expenditures by \$100,000.

With tourist related revenue not anticipated to grow, property tax revenues must be used to cover increases that are otherwise unable to be mitigated. The City has traditionally

provided the equivalent of \$2.09 per \$1,000 assessed valuation to the Parks Department budget. With the structural deficit, the City would need to limit the Parks Contribution at the previous biennium level, which allows the increased collections revenues to remain in the General Fund. This amounts to a \$262,260 reduction in the contribution Parks would have otherwise received. Not only did Parks not have an increase in their contribution, they also have the same employee cost increases, and funded an additional \$150,000 in Central Service Charges as part of the implementation of the updated citywide cost allocation plan.

These proposed expenditure reductions total \$892,260, reducing the deficit to \$1,157,979.

The balancing proposal also includes several revenue enhancements to maintain critical services. The City operates a Building Division that serves the development and construction sector of the Ashland economy. The City goal is to recover 75% of the operating expenses of this program through building permit fees, but currently only collects 40%. Adjusting the permit fees to achieve the desired cost recovery goal is estimated to generate \$95,000.

When the City dissolved its self-funded health insurance plan, the same level of costing to Departments was maintained, even though the actual cost of the premiums decreased. This was implemented to build a reserve in the Health Benefits Fund to mitigate future premium increases. With a reduction in benefit offerings to all employees, except Police and Fire, the City premiums are decreasing as more cost of the plan are shifted to employee. Police and Fire maintain the current benefit offerings for the remainder of their collectively bargained contract at an increased premium level. Staff proposes to move \$100,000 from the Health Benefits Reserve Fund to mitigate the increased premium charges experienced by the General Fund.

During the BN 2017-19 Budget process, the City transferred \$100,000 per year from the General Fund Local Marijuana funds to the Housing Fund for a grant program. Removal of this restriction does not change the overall revenue to the City, but provides an additional \$100,000 of unrestricted funds annually to the General Fund and is reflected as such in the proposed budget.

In 2015 the City created an Ashland Forest Resiliency (AFR) Fee charged and collected on utility bills to fund Forest Resiliency Projects. These funds were utilized to generate over \$10 million in grants funds from various Federal Funds. Wildfire mitigation and Community Emergency Preparedness remain a top priority for the City, with a renewed urgency with the wildfire devastation throughout the west in recent years. This proposal increases the AFR fee from \$1.39 to \$3 in order fund the increased cost of the program. The AFR fee increase is not the only potential revenue source for these purposes as the City could increase both the Water and Wastewater Franchise Fees to 10% to match the Electric Utility and generate an additional \$300,000. The impact of the 2% franchise fee would be minimal to utility rates.

When the proposed expenditure reductions are combined with the revenue enhancements, the deficit is reduced to \$660,281. The \$1,320,562 biennium deficit totals roughly half of the BN 2017-19 budget deficit of \$2,509,559. The now proposed \$1.3 million Biennium deficit could be addressed by utilizing General Fund Carryforward money (money appropriated in previous years but not spent).

Although the City could utilize Carryforward to balance the budget, the intent of the proposal is to eliminate the structural deficit entirely to ensure that the General Fund has a fund balance to cover unanticipated revenue reductions or expenditure increases.

In 2016, the City added three firefighters to bolster staffing for emergency response call volumes. Prior to the addition of the three firefighters, the Department was operating on a minimum staffing of seven and a maximum staffing level of nine Firefighters per shift for each of the three total shifts. Department analysis demonstrated the optimal staffing level to be nine and in order to reduce overtime to keep the Department at a consistent nine staffing level, hired three additional firefighters. Over the last several years the Department has increased the minimum staffing from seven to nine and the maximum to ten. This new model ensures adequate staffing to respond to typical calls but also allows the Department to increase emergency preparedness in case of a house fire that could ultimately spread to additional structures, or even worse start a widespread wildfire.

This proposal widens the staffing window from nine as the minimum and ten maximum to eight minimum and ten maximum, thus reducing overtime by \$100,000 per year. This change would have a potential service level impact when the minimum eight firefighters are on shift. In order to keep the three additional Firefighters that were added in 2016, the proposal calls for an increase in the Public Safety Support Fee of five dollars (in addition to the existing \$1.50 fee). This new revenue would fund the firefighters in the current budget and the next biennium budget as well. If the Public Safety Support Fee is not approved, the City is left with two primary options. The first is to eliminate the three firefighters and permanently reduce Fire Department staff levels. The other option is to identify a different revenue source, or to utilize carryforward fund balance for the budget and work to identify other options before the next budget.

The proposed balancing options for the General Fund required extensive evaluation of each Department and pose challenges in maintaining service levels expected by the community. To restore the level of service, further analysis of the operations and services provided by each Department would be necessary immediately upon the completion of this current budget process.

Some of the items to be explored in the next year include an analysis of the Ambulance Service and potential options to reduce costs. Other options include increasing the property tax to the City's limit (\$150,000).

There are also long term options that need to be explored and analyzed in the next year. These include an increase of two percent to the Food and Beverage Tax to 7%, with the additional funds generated to be used by the General Fund. It is estimated that this could generate \$1.2 million a year. Another long term solution could be a Local Property Tax

Operating Bond Levy to fund programs. The Operating Levy at 50 cents per \$1,000 of assessed valuation would generate approximately \$1.5 million annually. These long term solutions would require more analysis and could potentially replace utility fees in the future, depending on how they are structured.

The General Fund, utilizing all of the revenue and expense within this balancing proposal, improves its net fund position by \$2.5 million for the Biennium and sets the fund up for sustainability over the foreseeable future.

**General Fund  
Balance Proposal**

**General Fund Net Position after Department Submittals (2,050,239)**

| <u>Description</u> | <u>Amount</u> |
|--------------------|---------------|
|--------------------|---------------|

**Expenditure Reductions**

|   |                |
|---|----------------|
| Hold Parks Contribution Flat from Property Taxes  | 262,260        |
| Reduce 6 FTEs from the Police Department (2) , Community Development (1) ,<br>Administration (1), Court (1) and Administrative Services (1) | 530,000        |
| Reduce Fire OT by increasing the staffing windrom from 9/10 to 8/10   | 100,000        |
| <b>Expenditure Reduction Totals</b>   | <b>892,260</b> |

**Revenue Enhancements**

|  |                |
|--|----------------|
| Building Fee Increase/Inspection Billing   | 95,000         |
| Utilize Health Benefits Reserve for the increase in Healthcare premiums experienced in<br>the General Fund | 100,000        |
| Do not transfer Local Marijuana Funds (Property Sales instead)   | 100,000        |
| Raise AFR Fee from \$1.39 to \$3 to Fund Program   | 202,698        |
| <b>Revenue Enhancement Totals</b>  | <b>497,698</b> |

**Offsetting Revenue and Expenditures**

|  |                |
|--|----------------|
| Increase Public Safety Support Fee \$5 or Eliminate 3 Firefighters | 600,000        |
| <b>Offsetting Revenue and Expenditures Total</b>                   | <b>600,000</b> |

**Reduction in Net Positions 1,989,958**

**New General Fund Net Positioin (60,281)**

**Revenue Options**

|  |                 |
|--|-----------------|
| Increase Food and Beverage 2% (all for General Fund) | 1,200,000       |
| Operating Levy (50 cents)                            | 1,500,000       |
| Property Tax Increase (4.5 Cents/\$1000)             | 150,000         |
| Increase Water and Wastewater Franchise Fees         | 300,000         |
| Parking Lot Meters                                   | 60,000          |
| Live Entertainment Ticket Tax                        | 200,000-300,000 |