

City of Ashland

BN 2021-2023 City Manager's Recommended Budget - Proprietary Funds

ASHLAND CITIZENS' BUDGET COMMITTEE

APRIL 27, 2021

What are Proprietary Funds?

“used to account for activities that receive significant support from fees and charges.” Government Accounting, Auditing, and Financial Reporting (the Blue Book)

- **Enterprise Funds:**

- Water, Wastewater, Electric, Stormwater, Telecommunications

- **Internal Service Funds:**

- Vehicle/Equipment, Parks Vehicle/Equipment (to be presented on 04/27), Health Benefits, Insurance

Enterprise Funds

Enterprise funds sell goods and services to the public. Enterprises are intended to be self-supporting through user charges without subsidy from taxes. These are usually operations that require a scale of operations often not provided by the private sector or other factors encourage public ownership. Related capital improvements and debt service are included within the fund.

- **Water Fund**- Account for water system. Operates and maintains the City's water system including reservoirs, treatment facilities, and distribution.
- **Wastewater Fund**- Account for wastewater system. Operates and maintains the City's wastewater system including treatment facilities, and collections.
- **Electric Fund**- Account for electric system. Includes the operation and maintenance of the City's electric system including purchase and distribution of electricity.
- **Stormwater Fund**- Account for the collection, transportation, and discharge of Stormwater collected on City streets. Operates and maintains the City's stormwater system.
- **Telecommunications Fund**- Account for the City-owned internet service operations and capital and revenues. Includes the operation and maintenance of the City's wholesale and retail internet system.

Utility Rates

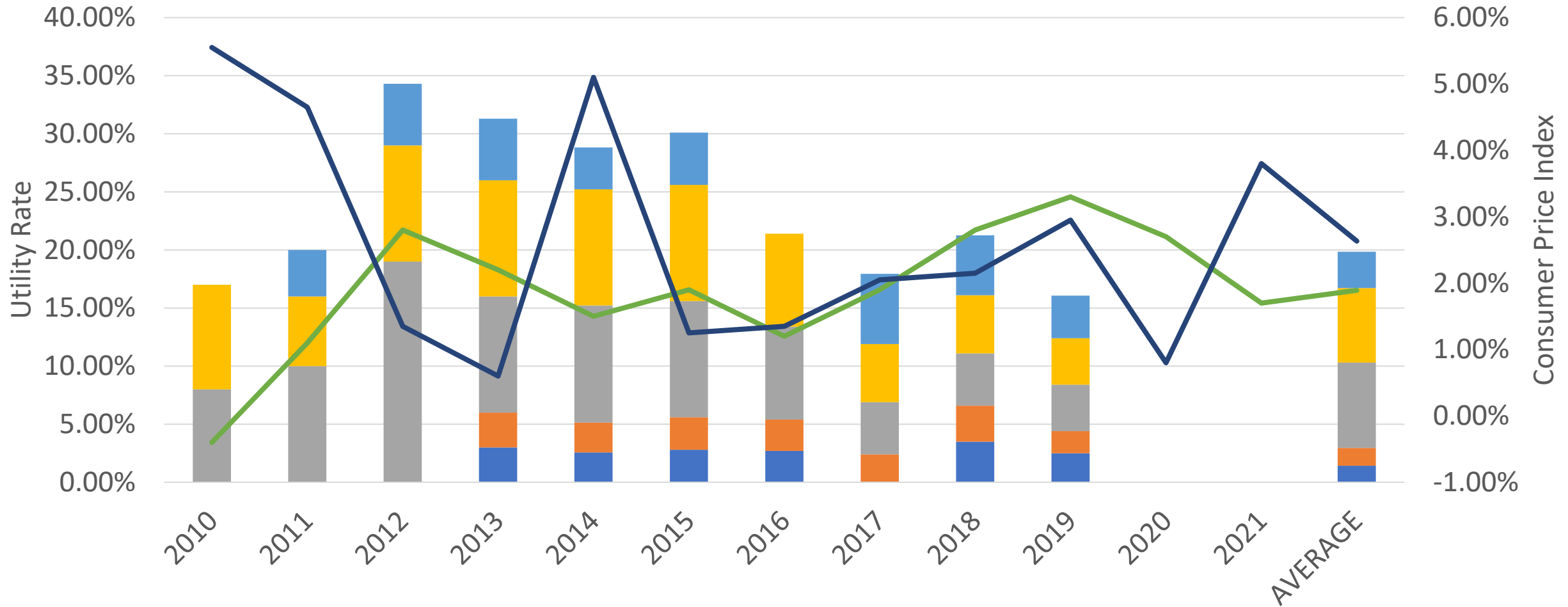
- Utility charges and fees for other services are evaluated each biennium to ensure sufficient revenue is generated to cover the cost of providing the services and maintaining the necessary infrastructure to support them. Consistent with industry best practices, Council has historically approved gradual increases in utility rates to avoid significantly larger rate shocks more intermittently.

Utility	FY2021-2022 Proposed Rate Increase	FY2022-2023 Proposed Rate Increase
Water	0%	4%
Wastewater	0%	0%
Electric	4.5%	4.5%
Stormwater	9% (45 cents per month)	9% (49 cents per month)
Telecommunications (AFN)	0%	0%

- Revenue is highly dependent on consumption by utility users and can be strongly impacted by the weather.

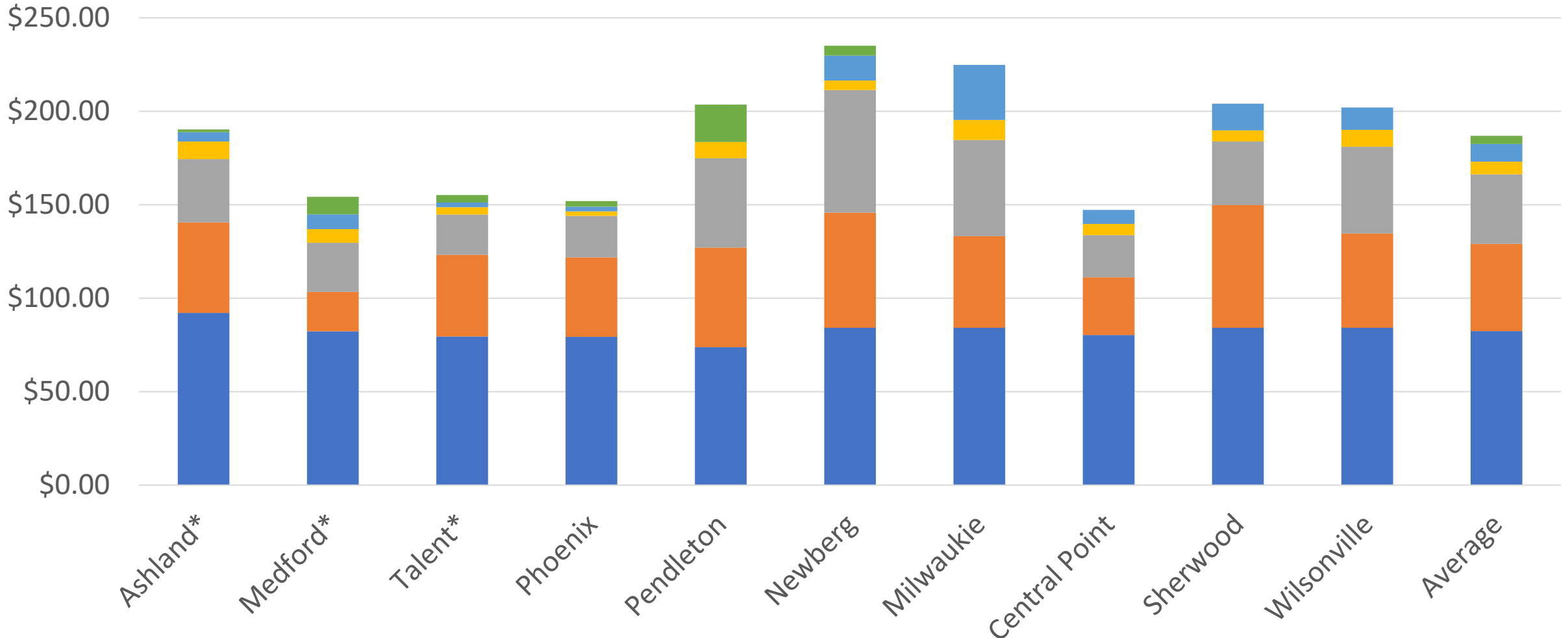
Utility Rate Growth History

- Transportation Utility Fee
- Storm Drain Utility Fee
- Water Rate
- Wastewater Rate
- Electric Rate
- CPI*
- Electricity CPI***



Comparable Community Utility Bills

- Total Electric bill *
- Water Avg. Resid. Bill 1,000 cf
- Sewer Avg. Resid. Bill
- Street Maintenance Rate
- Stormwater Residential Rate
- Public Safety Fee



with User Tax, Franchise, Tax, Low Income Assistance*

Comparable Community Utility Bills

	Ashland *	Medford*	Talent*	Milwaukie	Pendleton	Newberg
Total Electric bill *	92.13	82.32	79.54	84.22	73.83	84.22
Water Avg. Resid. Bill 1,000 cf	48.38	21.05	43.72	49.00	53.25	61.58
Sewer Avg. Resid. Bill	33.94	26.28	21.50	51.42	47.80	65.60
Street Maintenance Rate	9.37	7.35	3.92	10.71	8.70	5.09
Stormwater Residential Rate	4.99	7.85	2.50	29.47	0.00	13.34
Public Safety Fee	1.50	9.42	4.00	0.00	20.00	5.26
TOTAL Comparable Fees	190.31	154.27	155.18	224.82	203.58	235.09

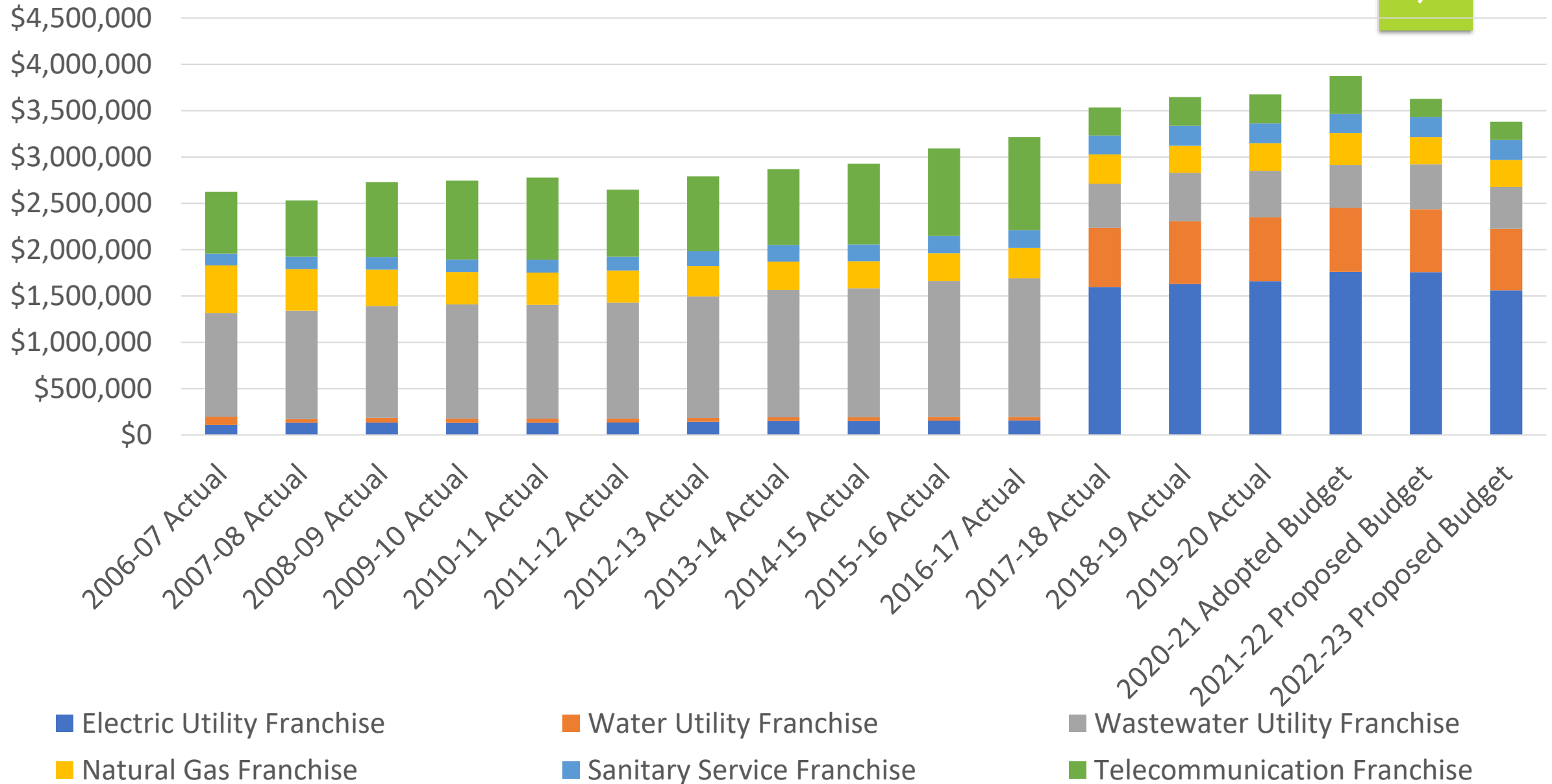
	Central				
	Phoenix	Point	Sherwood	Wilsonville	Average
Total Electric bill *	79.36	80.33	84.22	84.22	82.44
Water Avg. Resid. Bill 1,000 cf	42.51	30.87	65.65	50.43	46.64
Sewer Avg. Resid. Bill	22.16	22.58	34.00	46.39	37.17
Street Maintenance Rate	2.44	6.00	5.95	9.08	6.86
Stormwater Residential Rate	2.50	7.50	14.27	11.90	9.43
Public Safety Fee	3.00	0.00	0.00	0.00	4.32
TOTAL Comparable Fees	151.97	147.28	204.09	202.02	186.86

with User Tax, Franchise, Tax, Low Income Assistance*

Franchise Fees

- Franchise Fees are charged to all utilities for use of the City's rights-of-way and are designed to reimburse the local government for impacts of those utilities on that government, especially on the infrastructure owned by the governmental funds.
- Franchise Fees are paid to the General Fund.
- Revenue is highly dependent on consumption by utility users and can be strongly impacted by the weather.

Franchise Fees Revenue History



Rate and Funding Stabilization

- Better policy and financial alignment of franchise fee revenue stream
- Increased stability and structure for General Fund, APRC and Street Capital funding
- Three elements only work when implemented concurrently
 - Food & Beverage Tax Revenues to APRC/ reduction of property tax transfer to APRC
 - Reduction of Franchise Rates to Water, Wastewater and Electric Utilities
 - Allocation of a portion (eventually up to 50%) of franchise fee revenues to Street Fund for capital only

Franchise Fees as part of Rate Relief

- The BN2019-2021 budget recommended a comprehensive review of franchise fees to maintain affordability and competitiveness of the utilities.
- The BN2021-2023 Recommended Budget includes stepped reductions in franchise fees and codification of the rates for consistency across utilities including external agencies.

Franchise Fee Rate Structure			
	Current Franchise Rates	Proposed FY2022-23 Franchise Rates	FY2023-24 and forward Franchise Rates
Wastewater	8.00%	7.50%	7.50%
Water	8.00%	7.50%	7.50%
Electric	10.00%	8.50%	7.50%
Avista	7.00%	7.50%	7.50%
Stormwater	0.00%	0.00%	0.00%

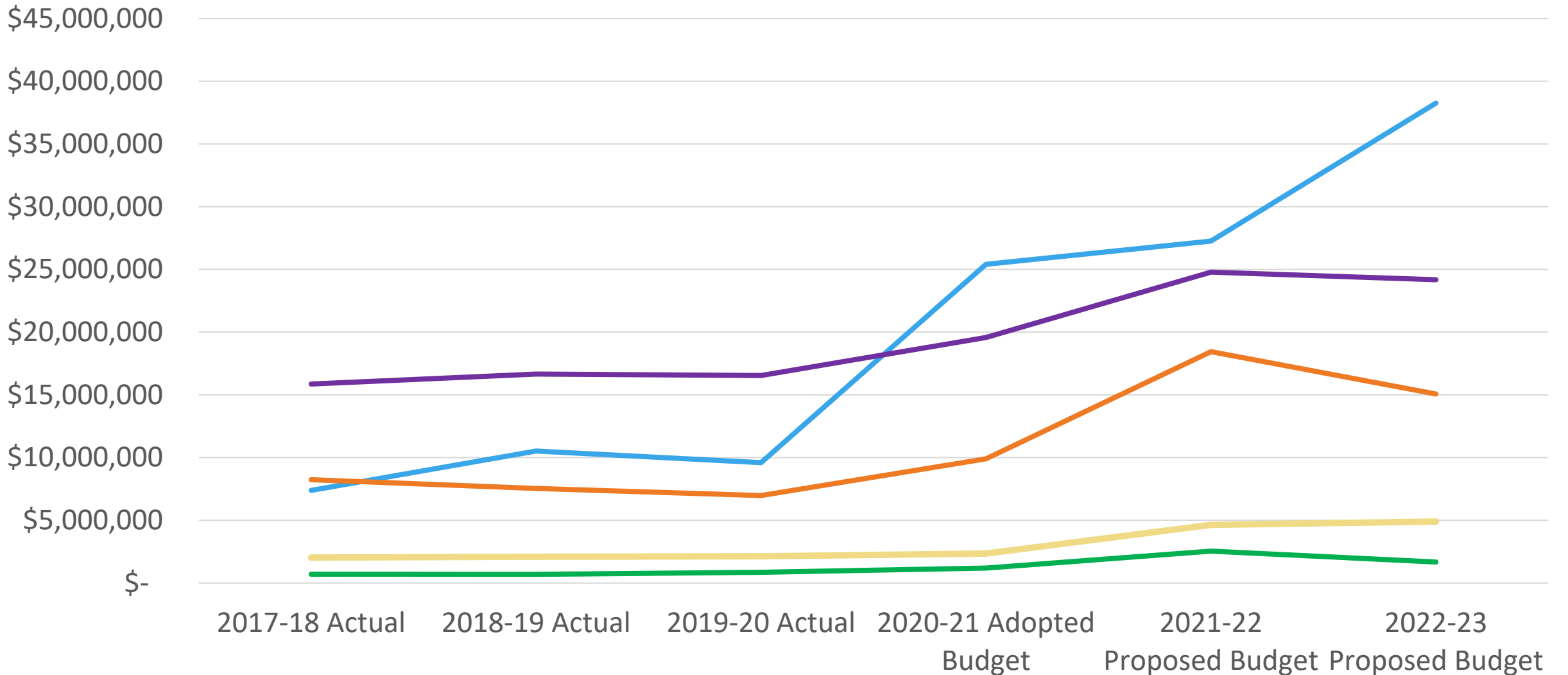
Franchise Fees in Funding Stability

- The City has struggled to find a stable and appropriate funding stream for Street repairs. Franchise Fees are designed to pay the City for impacts to Streets making a clear nexus.
- The BN2021-2023 Recommended Budget includes stepped increases in the percentage of franchise fees dedicated to Street capital improvements and codification of the contribution.

Franchise Fee Distribution	FY2022-23	FY2023-24	FY2024-25	FY2025-26
Dedicated to Street Funding	20.00%	25.00%	35.00%	50.00%

Enterprise Funds- Expenditures

Water Fund Wastewater Fund Electric Fund Telecommunications Fund Stormwater Fund



Personnel Services

- The primary accounting change is the movement of program management staff from a central charge under Materials and Supplies to direct cost allocation in the Water, Wastewater, and Stormwater funds.
- There are no operational changes in staffing.

Materials & Services

- Chemical and petroleum-based product prices are increasing in the Water and Wastewater operations.
- Physical, purchasable materials increasing
 - World-side Supply Chain issues continue to impact prices.
- Small changes in professional and contracted services; majority have held flat for the past few years. With change in economy and market including to return to office services, expense is expected to increase in the second year.

Water Fund

- The Water Fund houses the Water Division of the Public Works Department and provides drinking water to 7,736 residences, 608 business and 217 “institutions” (Governments and City) within the City of Ashland. The Water Division manages the City's water system, consisting of storage reservoirs, treatment facilities, and distribution systems.
- Sources: Charges for Services, Debt Proceeds
- Uses: Sourcing, treatment and distribution of water
- Challenges/ Opportunities:
 - Developing an updated Intergovernmental Agreement with Talent and Phoenix and part of the TAP system operations, maintenance and fiscal responsibilities
 - Infrastructure requires continuous maintenance to ensure the water needs of the community are met from both a consumption standpoint, but also an emergency standpoint (fire).
 - Cost effective delivery of major planned improvements, Dam Safety Project, Water Treatment Plant and non-peak bypass for the TAP line. Projects are defined to meet regulatory compliance issues (Dam-FERC, Water Treatment Plant- Oregon Health Authority and future proof).
 - Emergency preparedness

Changes in Service – Current and Future

Current

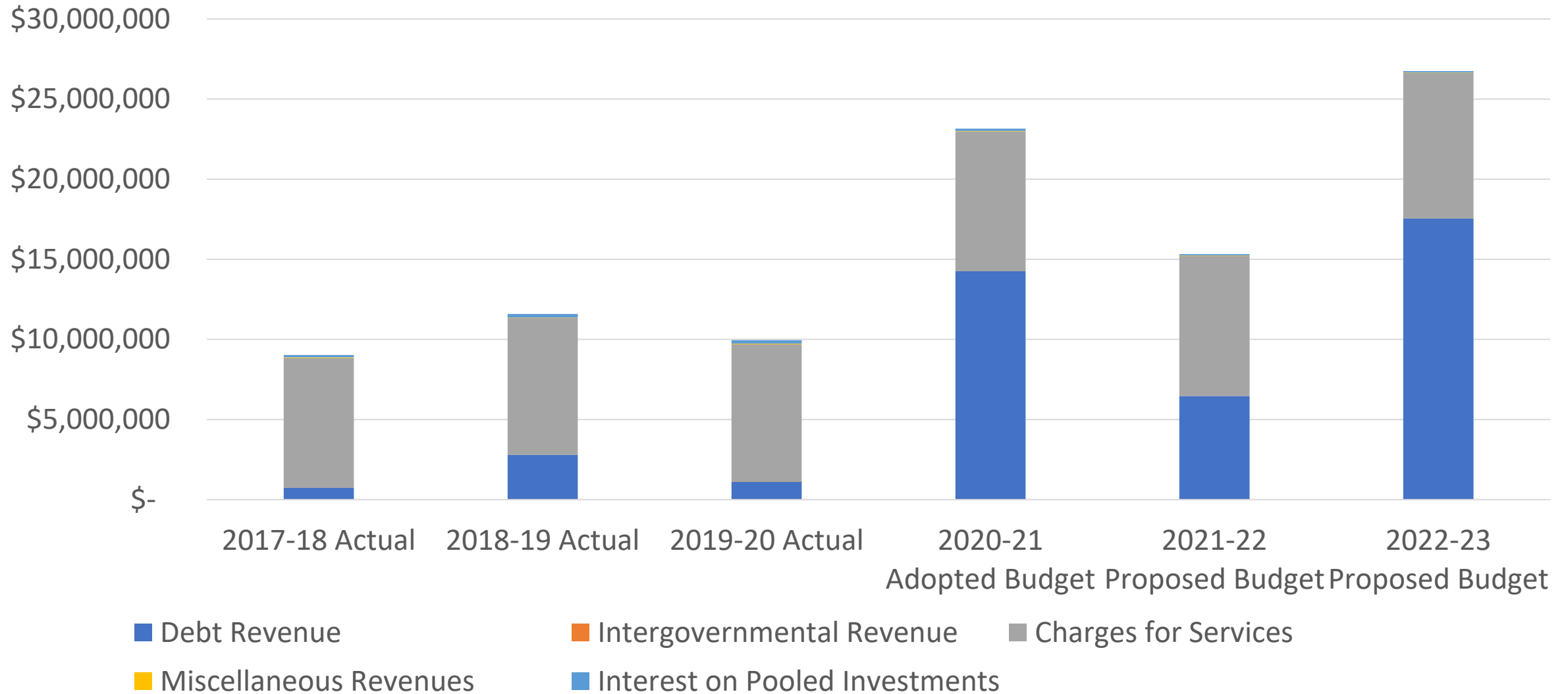
- Staffing levels may result in reduced hours for open public access (phones, counters)
- No changes in Water operations or services.
- Capital outlay includes repairs of older equipment and anticipated projects dependent on Council review and approval.

Future

- Operating changes and expenses are dependent on future modifications and approval of specific repair and replacement infrastructure investments, particularly the water treatment plant.
- The water plant is included in the second year as a placeholder because it is a known topic of consideration.

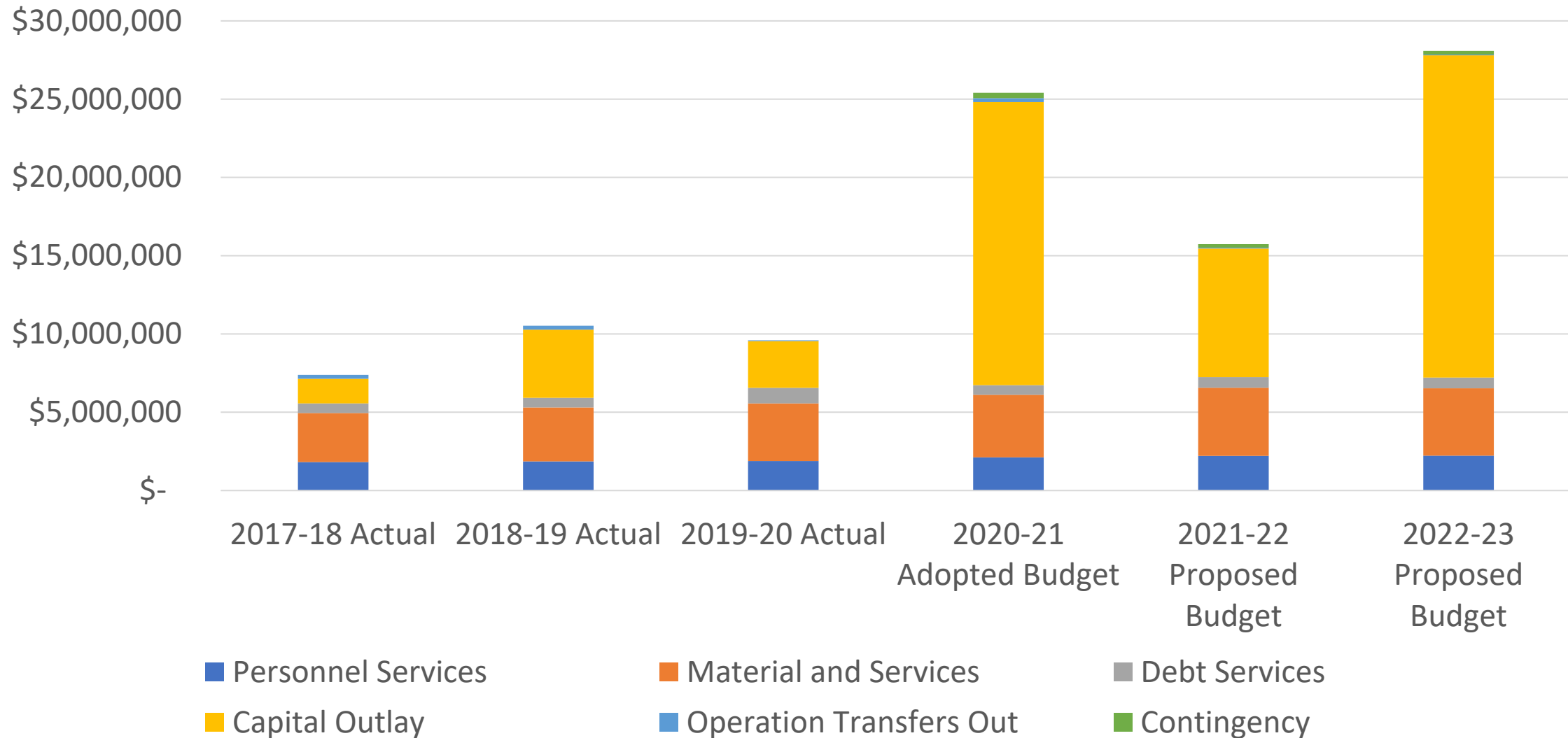
Water Fund Revenues by Type

Water Fund Revenue by Type



Water Fund Expenses by Type

Water Fund Expense by Type



Wastewater Fund

- The Wastewater Fund is home to the Wastewater Division of the Public Works Department providing sewage collection and treatment to 8,644 customers. The Wastewater treatment process is closely regulated within Federal and State Law.
- Sources: Charges for Services, Debt Proceeds
- Uses: Collection, treatment and discharge of sewage
- Challenges/ Opportunities:
 - National Pollution Discharge Elimination System Permit (NPDES) Compliance within the 5-year permit window
 - Cost effective delivery of major projects that provide compliance
 - Ongoing maintenance activities, for both the collections and treatment systems
 - Analyze ways to reduce energy consumption with respect to treatment operations
 - Monitor and implement cost effective measures to reduce inflow and infiltration into the system
 - Emergency preparedness

Changes in Service – Current and Future

Current

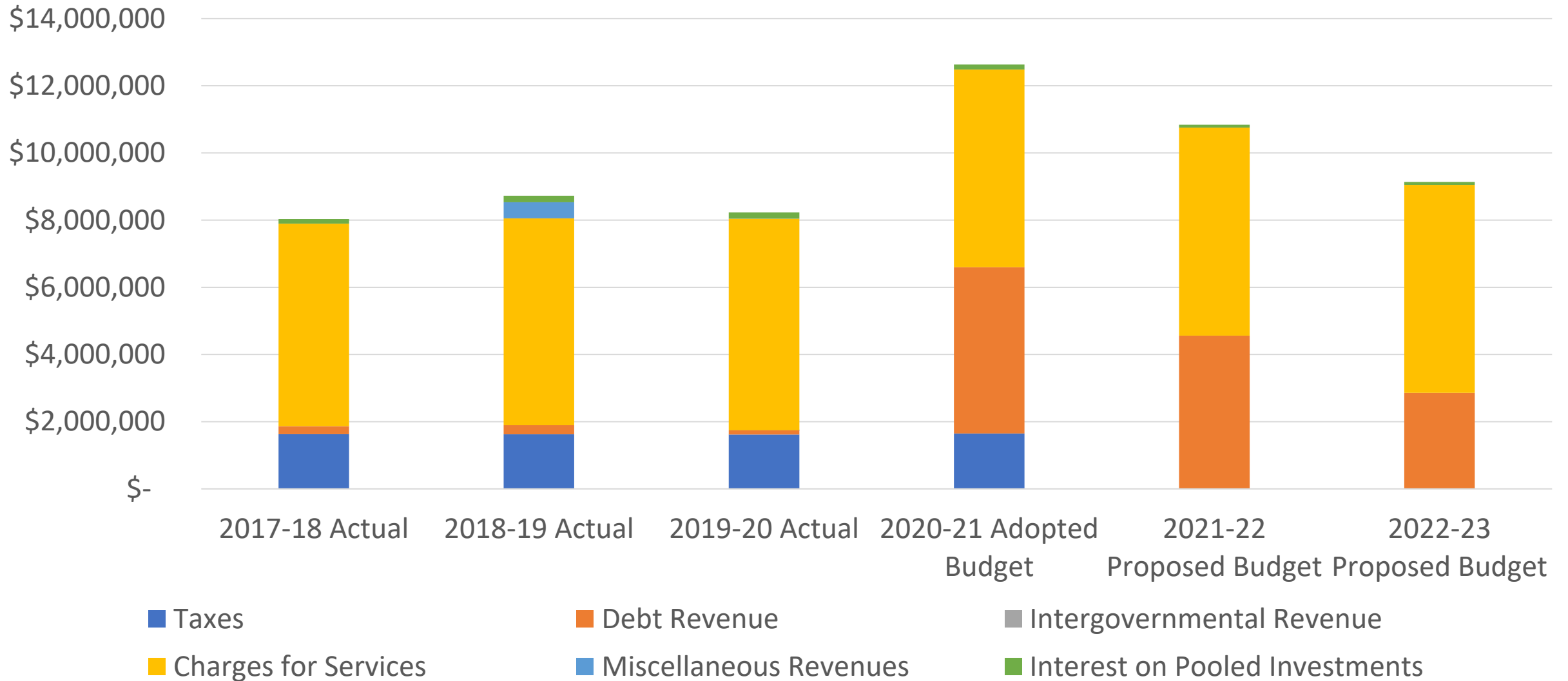
- Staffing levels may result in reduced hours for open public access (phones, counters)
- No changes in Wastewater operations or services.
- Sale of properties to fund infrastructure investments contributes to rate stability.

Future

- Additional treatment and discharge requirements will require changes in operations and potentially increased expenses.

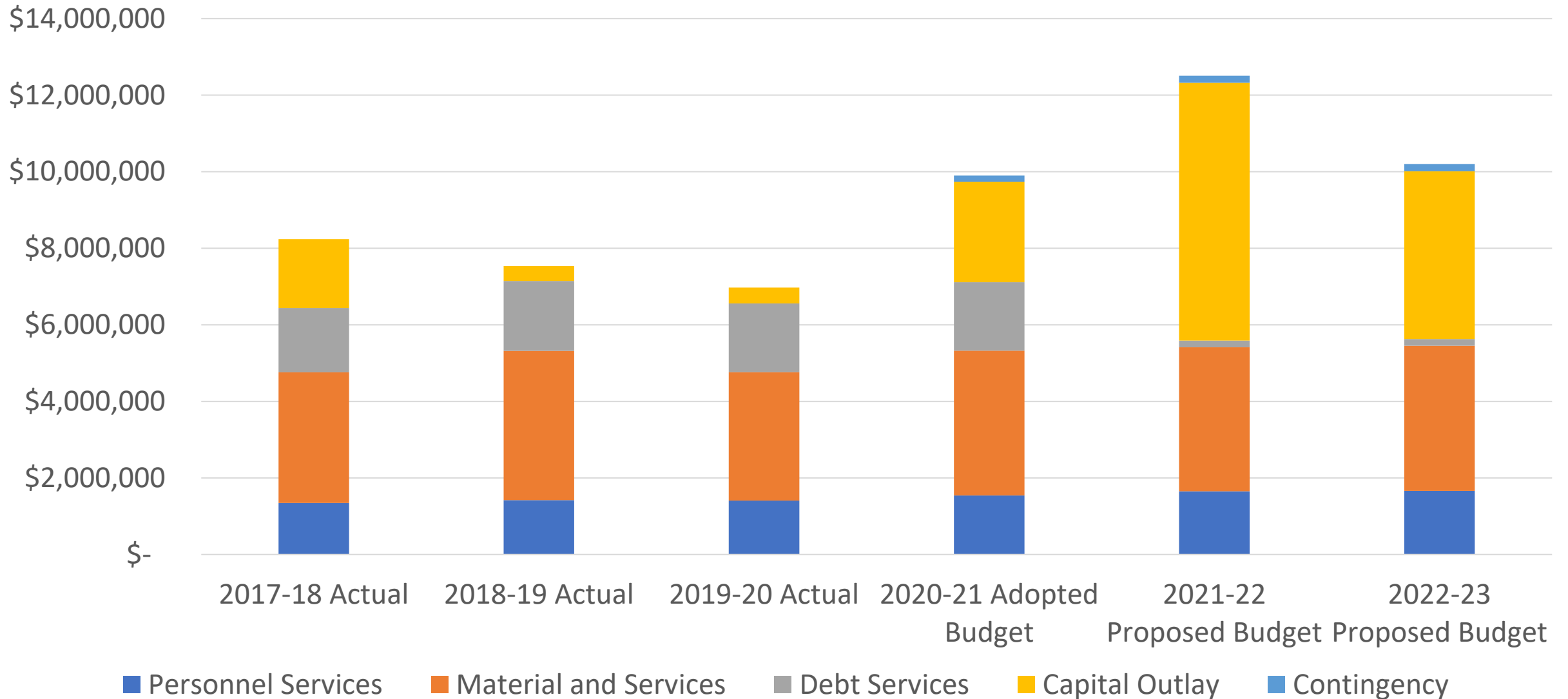
Wastewater Fund Revenues by Type

Wastewater Fund Revenue by Type



Wastewater Fund Expenses by Type

Wastewater Fund Expense by Type



Stormwater Fund

- The Stormwater Fund was created in BN2017-2019 to account for the collection and transportation of Stormwater collected on City streets and properly discharged into approved streams and creeks. These operations were formally housed within the Streets Fund. For this reason, the charts for Stormwater will only show information since FY2017-18.
- Sources: Charges for Services
- Uses: Collect and transport stormwater
- Challenges/ Opportunities:
 - MS4 Permit Compliance within the 5-year permit window
 - Establishing the appropriate rate and system development structure to support this newly created fund
 - Ashland Municipal Code update requirements as required by DEQ and the MS4 permit

Changes in Service – Current and Future

Current

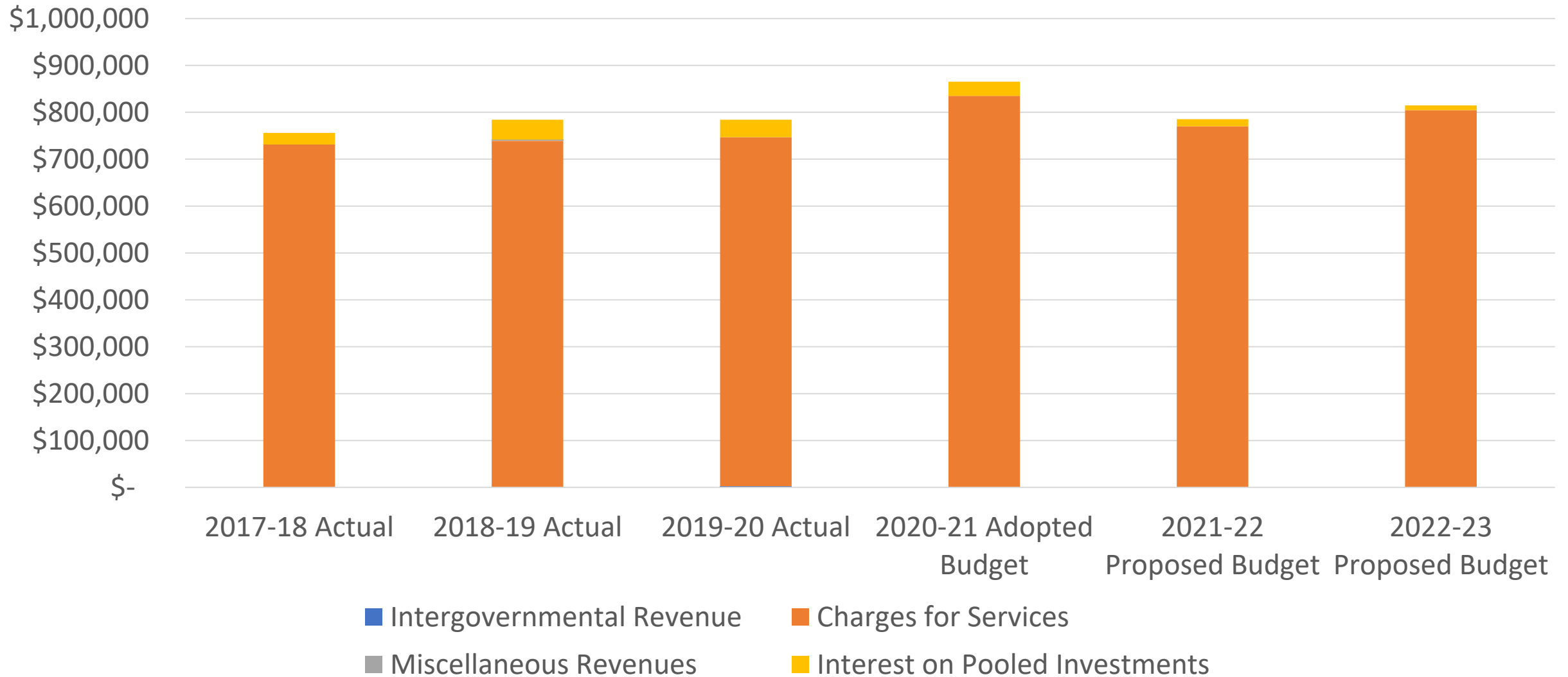
- Staffing levels may result in reduced hours for open public access (phones, counters)
- Explore ability to meet DEQ requirements for permit compliance with existing resources or through regional partnerships. Evaluate cost-benefit of capacity options.

Future

- DEQ requirements are anticipated to be stricter in terms of compliance being ensured separate from other functions which may require expansion of operations.

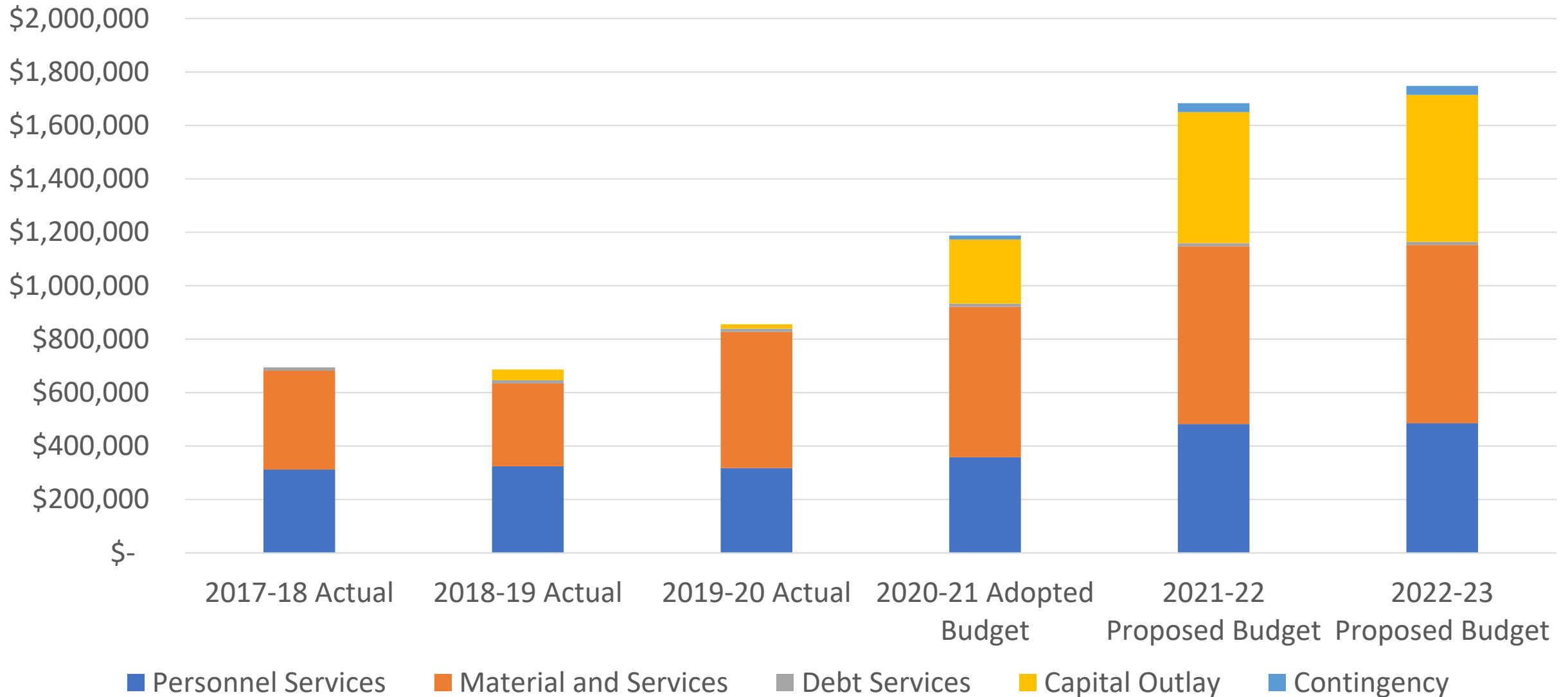
Stormwater Fund Revenues by Type

Stormwater Fund Revenue by Type



Stormwater Fund Expenses by Type

Stormwater Fund Expense by Type



Electric Fund

- The Electric Fund accounts for the all revenue and expenses relating to the Electric Utility operations. The Electric Fund purchases wholesale electricity from the Bonneville Power Administration (BPA), transmits that power throughout the City's distribution system and sells the electricity to residential, business and institutional customers.
- Primary Sources: Charges for Services, Debt Proceeds
- Uses: Purchase, transmission, and distribution of electricity
- Challenges/ Opportunities:
 - Staying ahead of demand created by fuel switching and EV's
 - Attracting and retaining qualified journey level employees
 - The pending expiration of current wholesale power purchase agreements with BPA

Changes in Service – Current and Future

Current

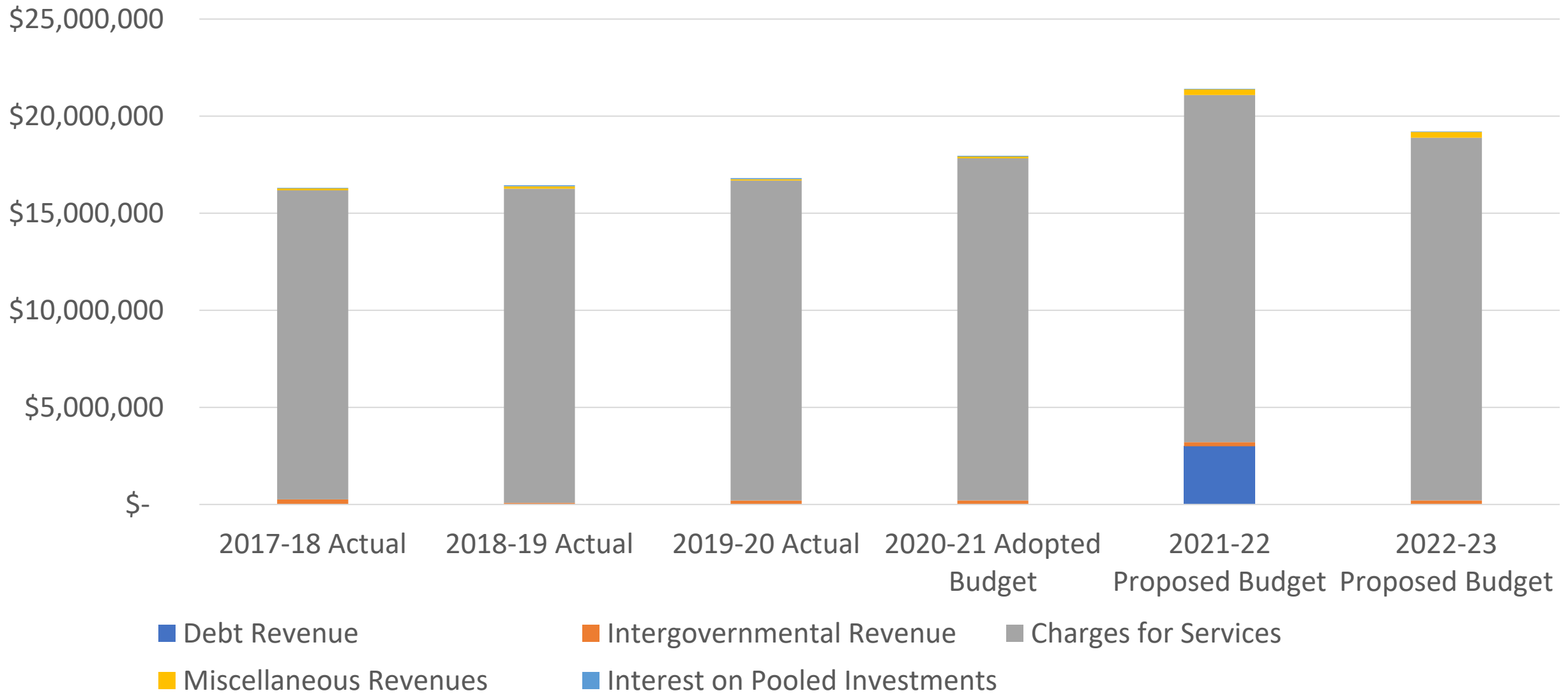
- Continued challenges in filling line positions.
- Increase in electric rates from Bonneville Power Authority (BPA).
- Negotiation to purchase and update substation for greater redundancy and reduced volatility in transmission costs.

Future

- Negotiation of agreement with Bonneville Power Authority (BPA) for continued electricity purchasing.

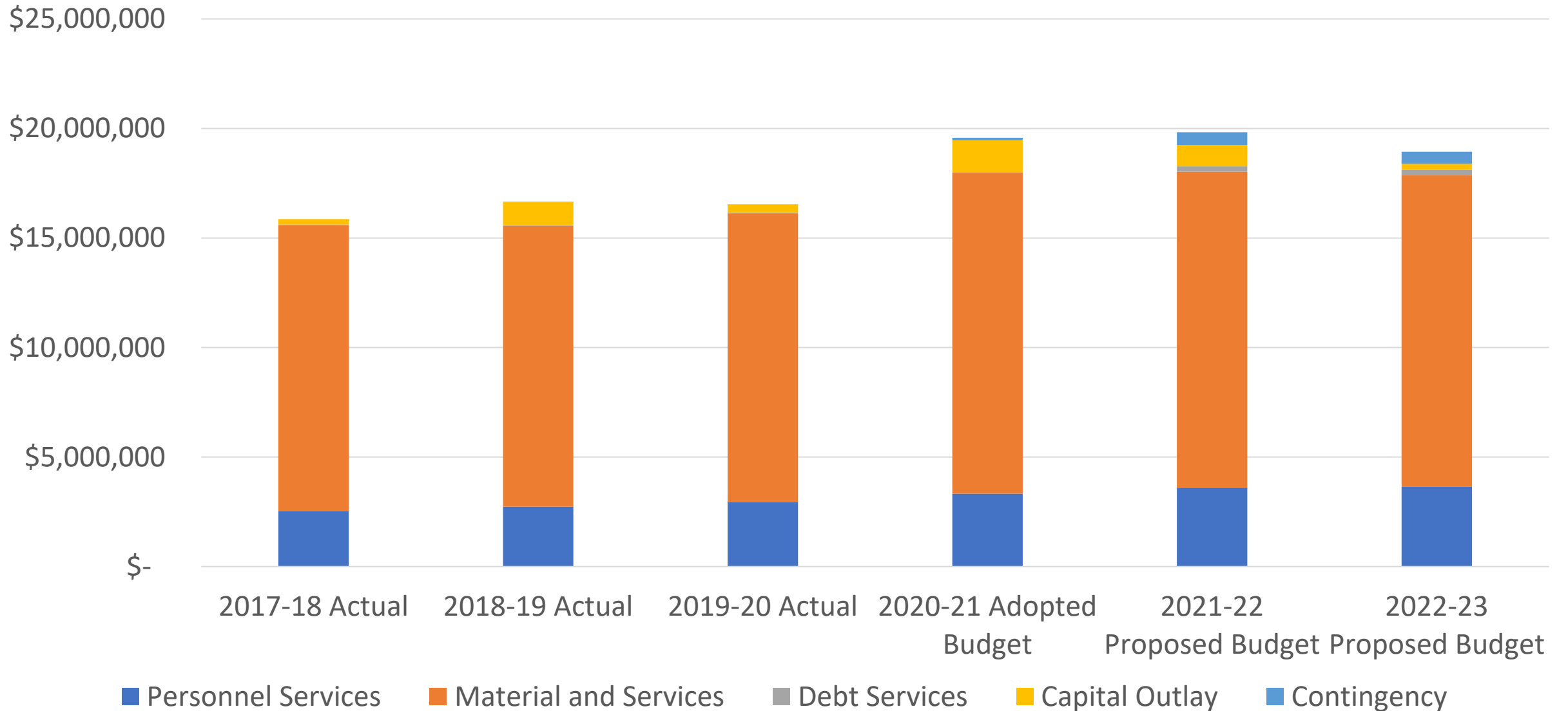
Electric Fund Revenues by Type

Electric Fund Revenue by Type



Electric Fund Expenses by Type

Electric Fund Expense by Type



Telecommunications Fund

- The Telecommunications Fund accounts for all revenue and expenses relating to the City's wholesale and retail Internet Service Utility, Ashland Fiber Network (AFN).
- Sources: Charges for Services
- Uses: Provision of internet services
- Challenges/ Opportunities:
 - As a technology-provider, AFN must evolve with technology.
 - Short investment window; revenue potential will decline over time.
 - Existing infrastructure requires labor-intensive maintenance.

Changes in Service – Current and Future

Current

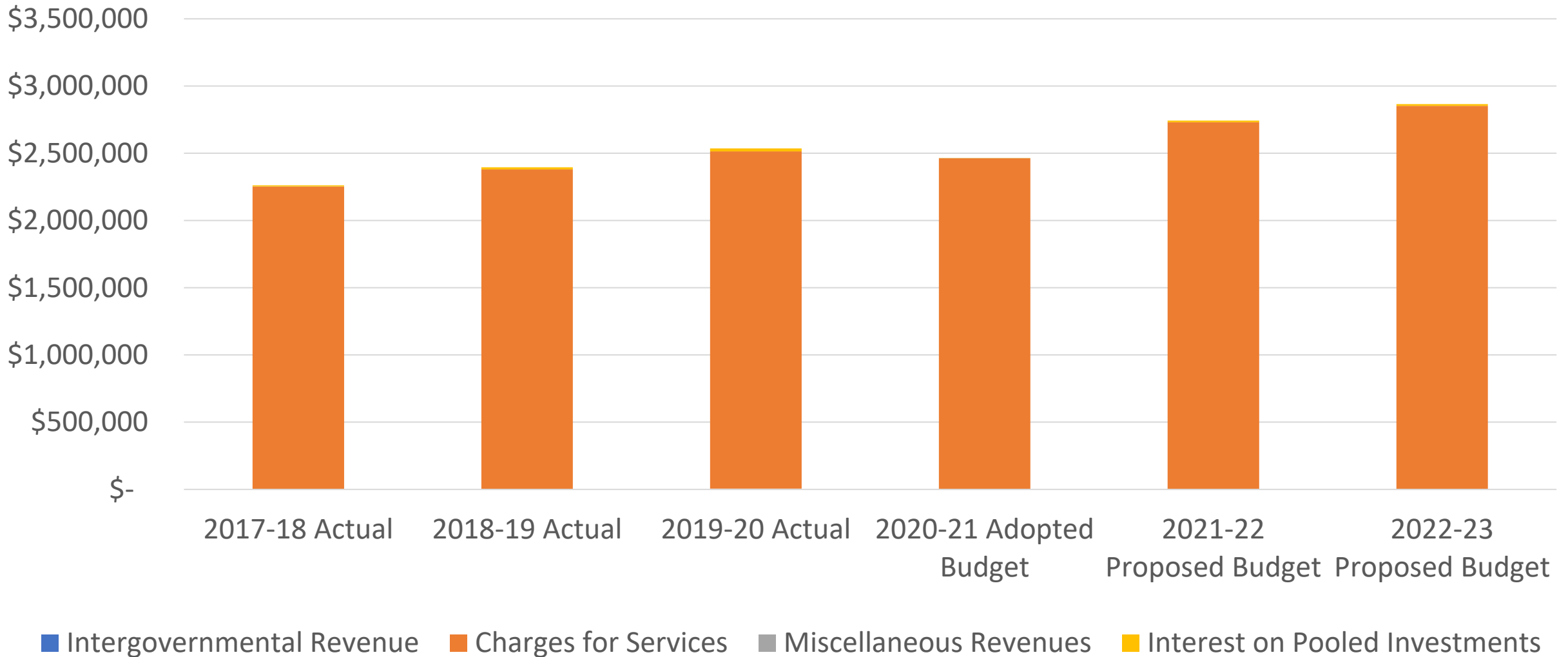
- Review options and determine mid- and long-term direction of the enterprise

Future

- Implement direction of City Council regarding system technology and enterprise market position

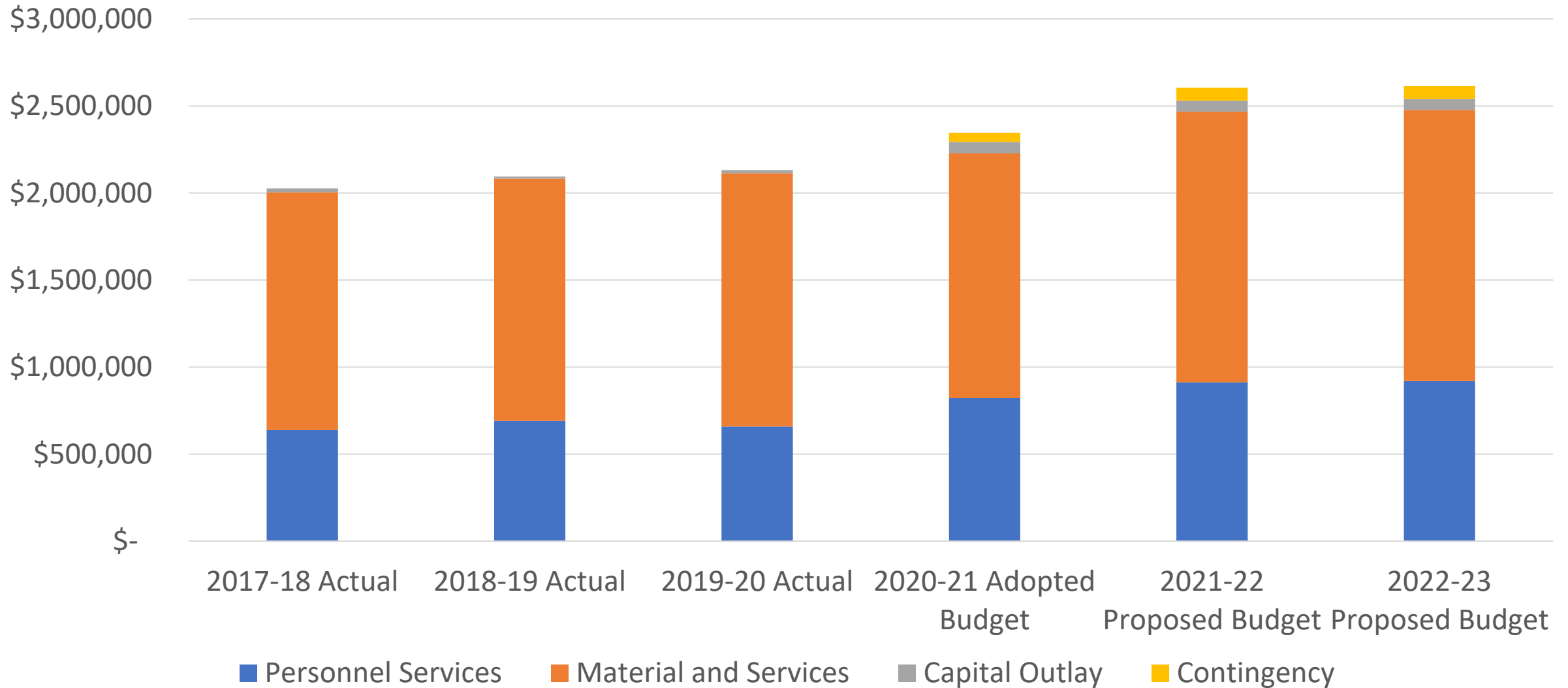
Telecommunications Fund Revenues by Type

Telecommunications Fund Revenue by Type



Telecommunications Fund Expenses by Type

Telecommunications Fund Expense by Type

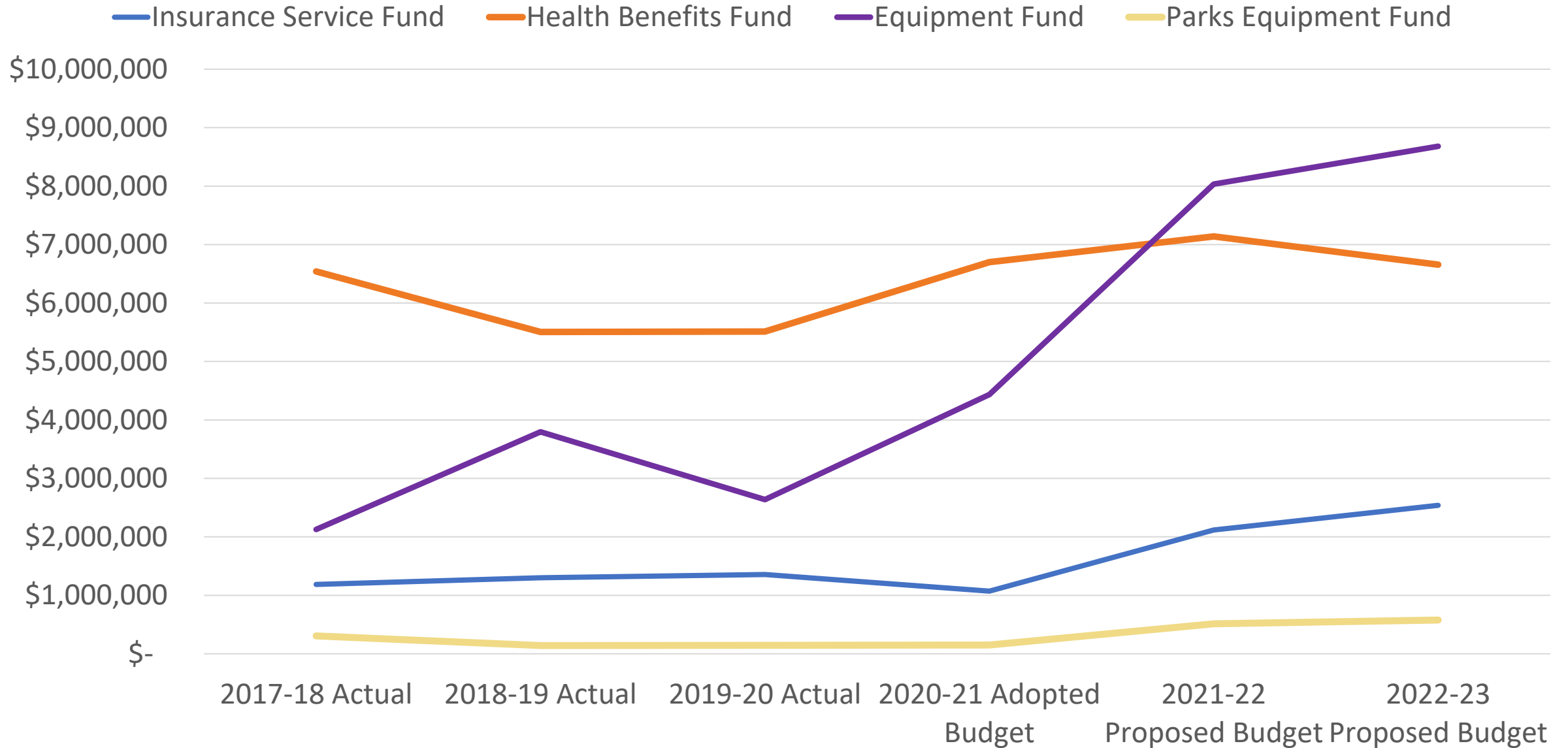


Internal Service Funds

Internal Services Funds sell goods and services to other parts of the City, particularly the primary operating departments that provides services to residents and customers. These funds are intended to be self-supporting through user charges.

- **City/ Parks Equipment Funds-** Account for the maintenance and replacement of equipment including vehicles and large equipment. Uses internal charges for purchase and maintenance of most motorized equipment (rolling stock) and some larger non-rolling stock equipment (generators, cutting equipment, etc.) within the City.
- **Health Insurance Fund-** Account for health care costs and to use reserves built over time to stabilize health care costs. Uses internal transfers from operating departments and employee contributions to pay for employee health insurance premiums.
- **Insurance Fund-** Account for the purchase of insurances including workers' compensation, property, and liability coverage. Uses internal charges for purchase of insurance and pays non-covered claims and deductibles.

Internal Service Funds- Expenditures



Equipment Fund

- The Equipment Fund is an internal service funds that provides for the maintenance and replacement of most motorized equipment (rolling stock) and some larger non-rolling stock equipment (generators, cutting equipment, etc.) within the City.
- Sources: Charges for Services
- Uses: Repair and replacement of equipment used by City departments
- Challenges/ Opportunities:
 - Supply chain issues continuing to impact prices and ability to maintain/repair equipment.
 - Evaluation of vehicle usage provides opportunity to delay replacements and consolidate users.

Changes in Service – Current and Future

Current

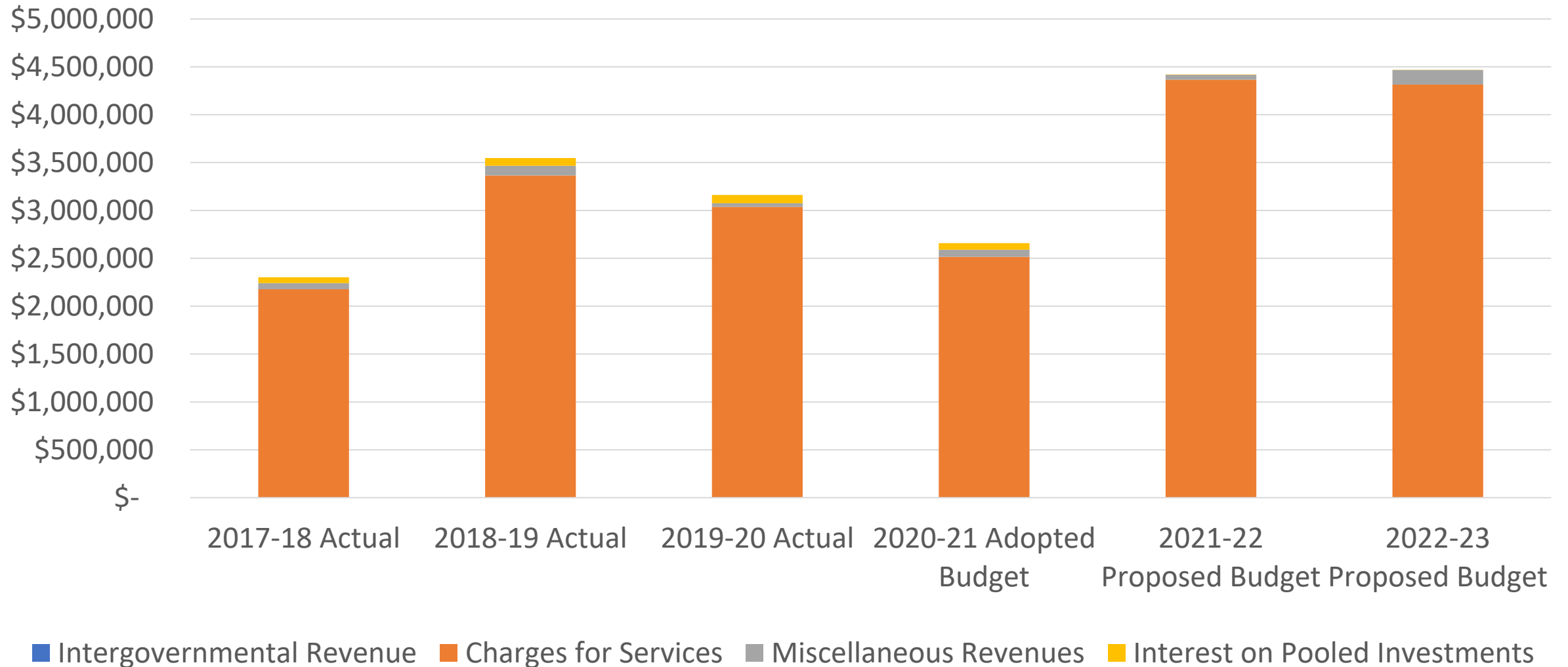
- No changes in operations or services.
- Increase in Capital costs are for vehicle replacement including postponed ambulance, two trucks for the electric Fund, and Paint Machine, Sweeper, and Grader for Street Fund.

Future

- Demand dependent on operating department needs.

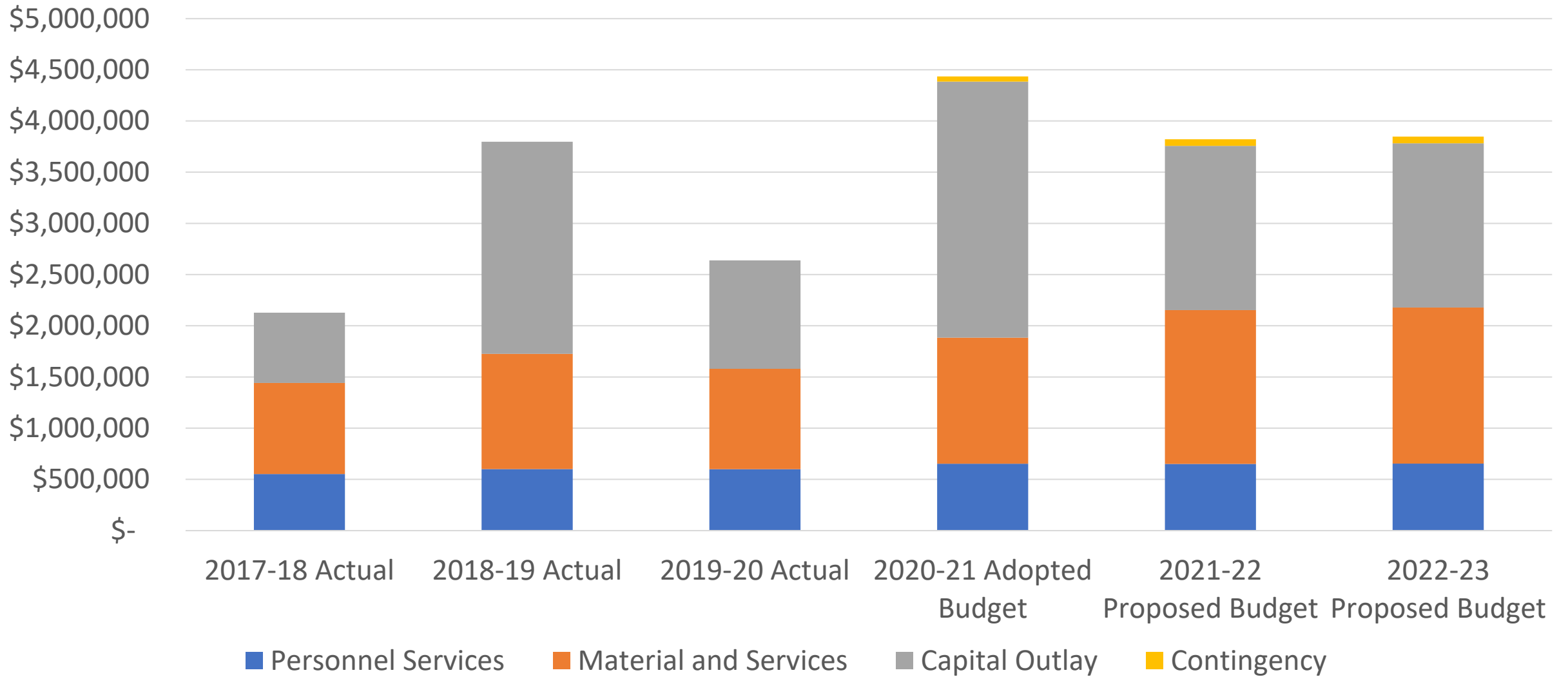
Equipment Fund Revenues by Type

Equipment Fund Revenue by Type



Equipment Fund Expenses by Type

Equipment Fund Expense by Type



Insurance Fund

- The Insurance Services Fund accounts for the purchase of insurance for the City along with the City's Workers' Compensation program.
- Sources: Charges for Services
- Uses: Payment of insurance premiums and claims
- Challenges/ Opportunities:
 - Increases in small claims below the insured level
 - Need for increased training and risk management activities to bring rate of increases
 - Review of Workers Compensation structure: self-funded vs. insured

Changes in Service – Current and Future

Current

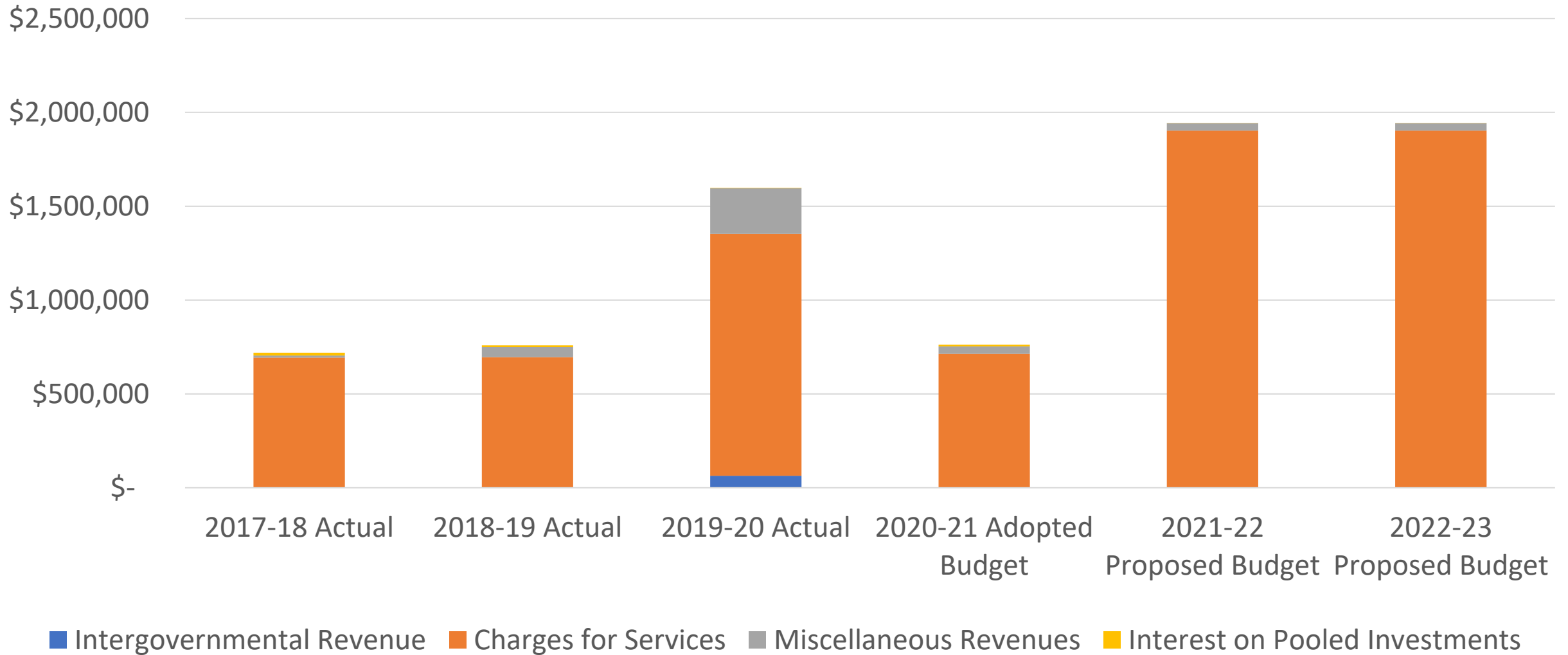
- Increase in premiums consistent with state-wide increase
- Increase in small claims; increase in training efforts
- Avoid supplemental budget appropriations and stabilize charges to operating departments
- Review workers compensation structure

Future

- Update policies and procedures and continue assertive training and risk management
- Implement workers compensation structure direction upon completion of review and approval by City Council

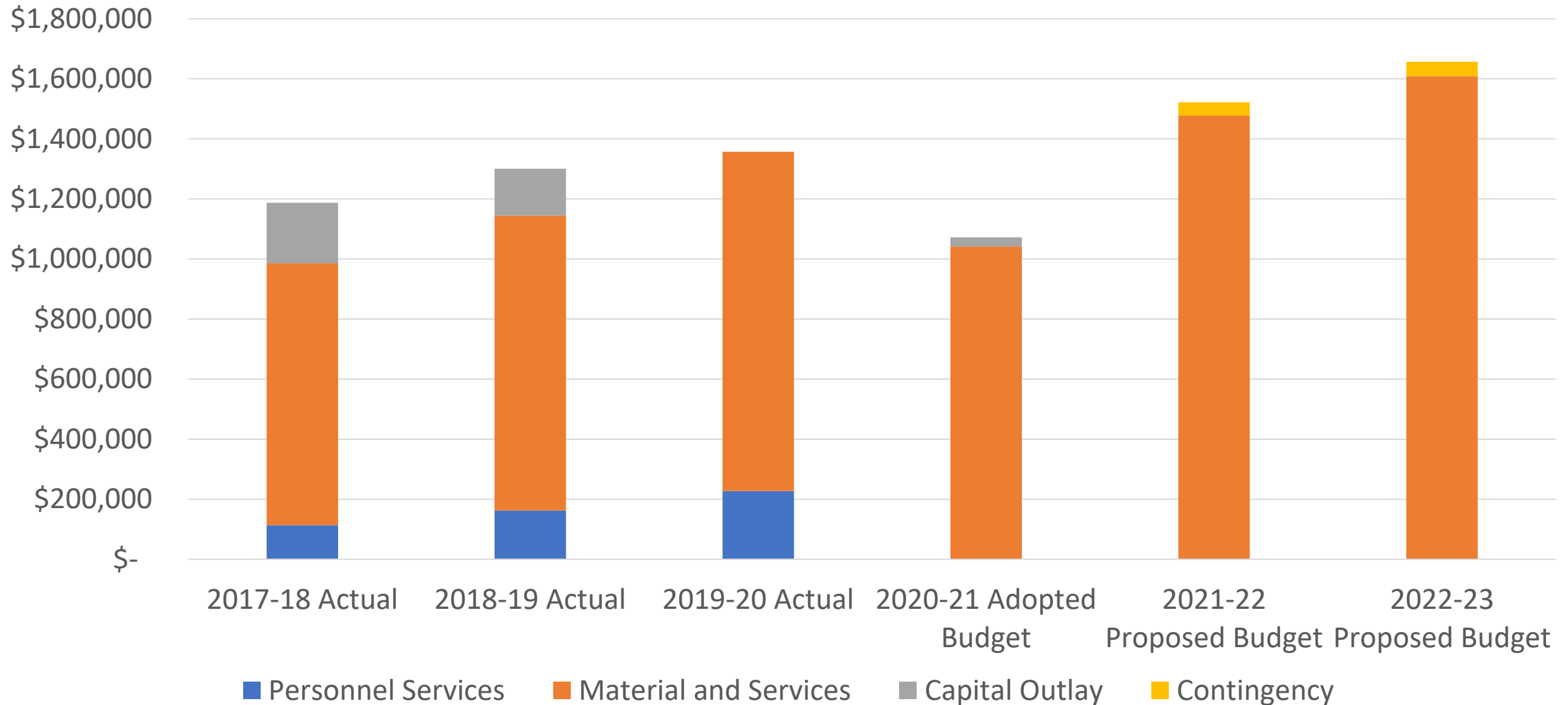
Insurance Fund Revenues by Type

Insurance Fund Revenue By Type



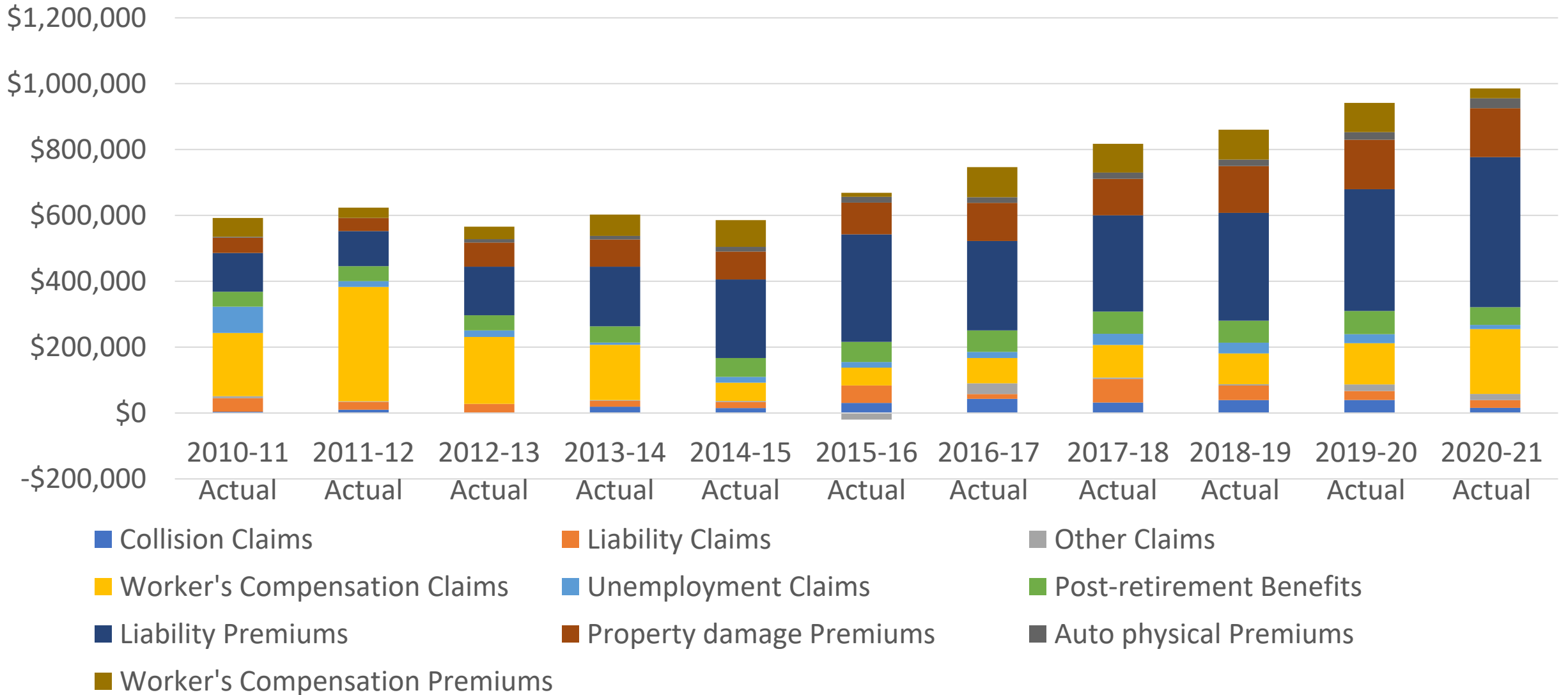
Insurance Fund Expenses by Type

Insurance Fund Expense by Type



Insurance Fund Materials & Services Details

Insurance Fund Materials & Services Details



Health Benefits Fund

- The City operated a self-funded health insurance plan before changing to a fully insured plan on July 1, 2019. The City made the decision to keep the fund open and build a reserve to help mitigate future rate increases.
- Sources: Charges for Services
- Uses: Payment of health insurance premiums
- Challenges/ Opportunities:
 - The City has successfully built sufficient reserves to allow for lower charges to operating departments with the intent of smoothing costs through the biennium.
 - Future market behavior is not known or reliably predicted.

Changes in Service – Current and Future

Current

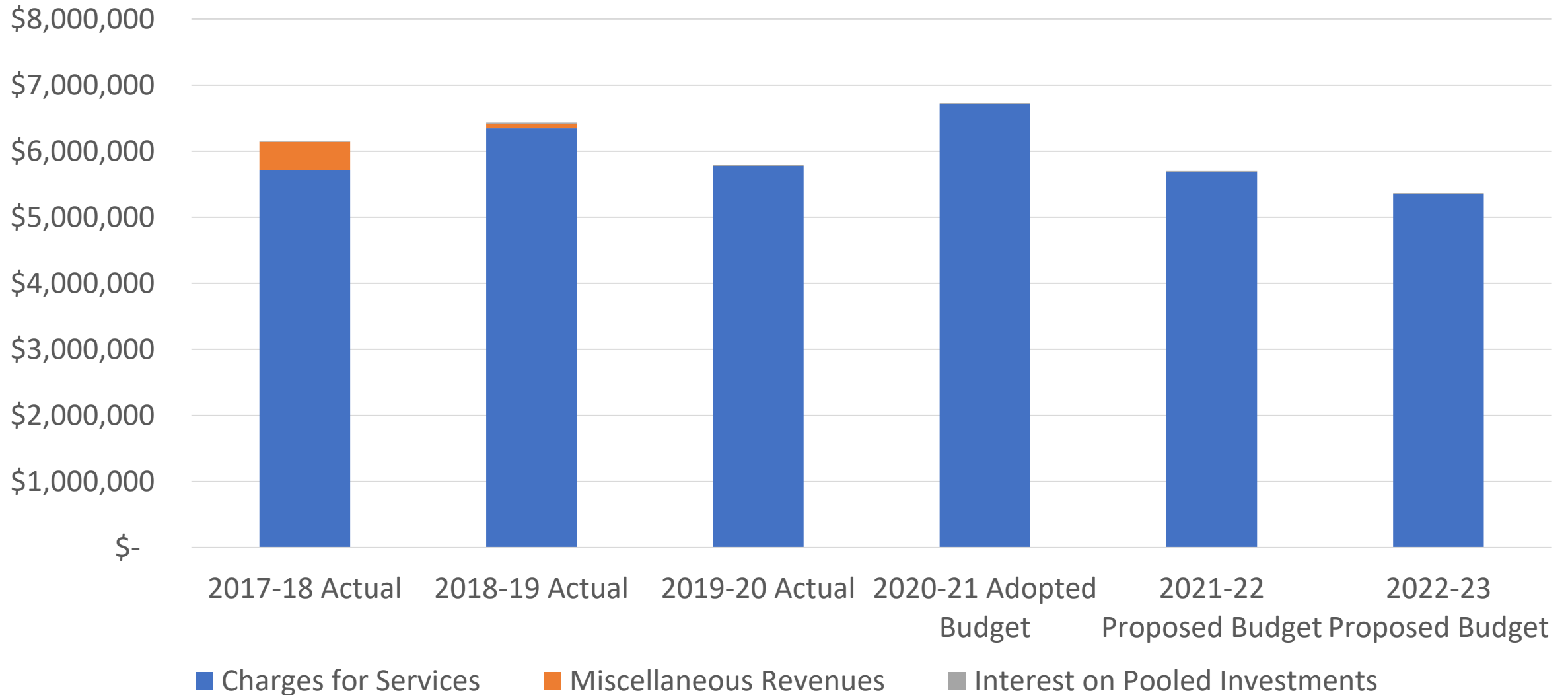
- The recommended budget includes lower charges to departments than anticipated expenses with the intent of smoothing costs to the operating departments by utilizing a modest portion of the available surplus balances.
- All employees except Police, Fire, and Laborer groups are currently contributing 5% more to health insurance coverage, approximately \$150,000 annually.

Future

- Rates are dependent on market and claims behavior post-COVID-19 pandemic.
- City contribution to health insurance premiums are also dependent on specifics negotiated in labor agreements.

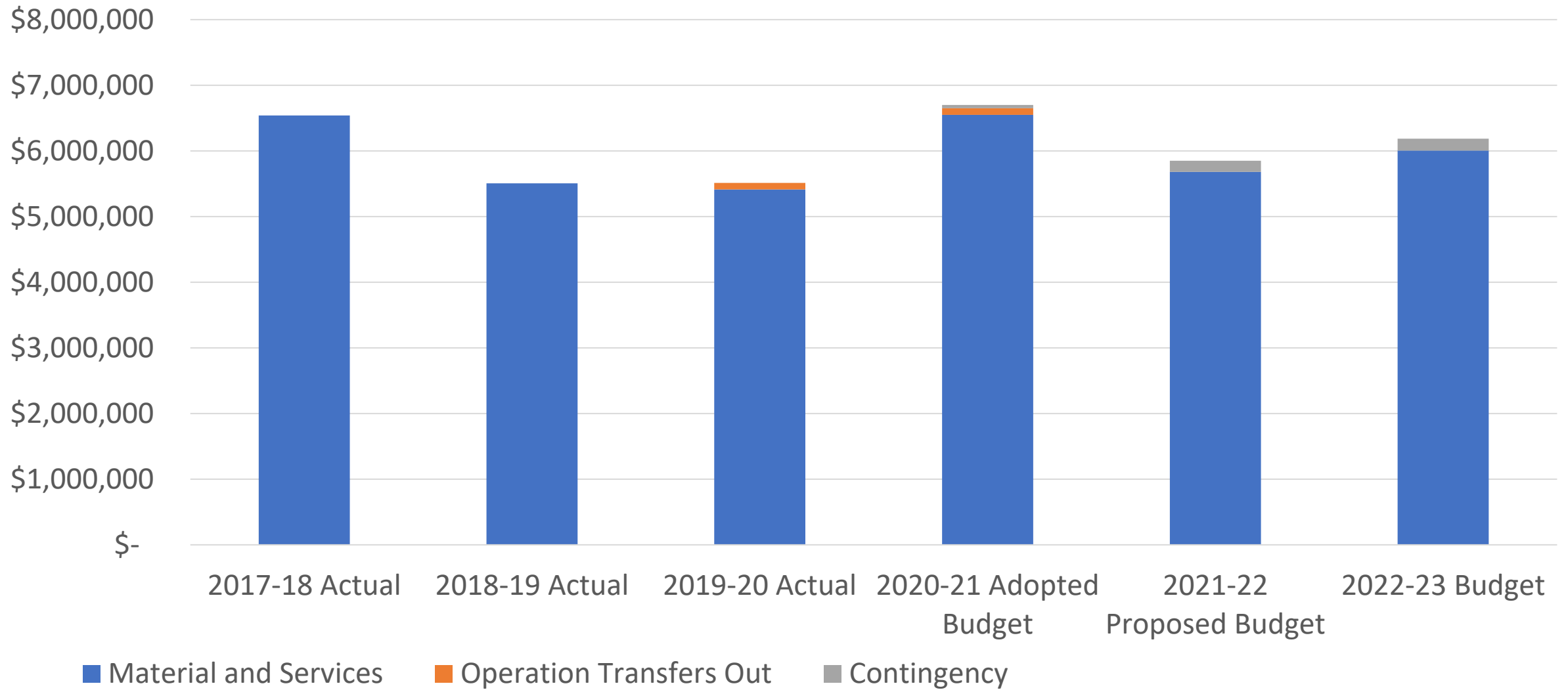
Health Benefits Fund Revenues by Type

Health Benefits Fund Revenue by Type



Health Benefits Fund Expenses by Type

Health Benefits Fund Expense by Type



Looking Forward

- Update of the F&B ordinance to distribute 98% of the proceeds to the Ashland Parks & Recreation Commission and 2% to be retained by the General Fund to offset administration. This change does not require an election but F&B modifications have been referred to the voters in the past;
- Adopt an ordinance directing the specific allocation of property tax millage to be transferred to the Ashland Parks & Recreation Commission on a stepwise decreasing schedule;
- Adopt a Franchise Fee ordinance to establish universally applied franchise fees to all purveyors of utilities within Ashland City limits and direct a stepwise increasing amount to the Streets Fund for capital investment; and
- Schedule study sessions for Council to explore strategic financial plan elements including Capital Improvements Plan, debt management, labor negotiations strategy, and service array options such as a regional fire district or partnership. September 2021- March 2022

Next Steps

Budget Committee Meetings

- Tuesday, May 11 (Parks Commission, Final Review, and CBC Deliberation)
- Friday, May 14 (CBC Deliberation and Approval including Grants Recommendations).

City Council Meetings

- Tuesday, June 1 and Tuesday, June 15 at 6 p.m.

Please visit the City's website, www.ashland.or.us, more information.