

Council Study Session

June 15, 2020

Agenda Item	General Fund Financial Update – Revenue Shortfall Plan	
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Item Type	Requested by Council <input type="checkbox"/> Update <input type="checkbox"/> Request for Direction <input checked="" type="checkbox"/> Presentation <input type="checkbox"/>	

SUMMARY

This Study Session council communication and presentation is the third Council update relating to actions taken and actions planned to address established projections of revenue shortfalls associated with the impacts of the COVID-19 crisis on the City’s operational budget. This update focuses on the cost reduction plan specifically for the General Fund addressing projected revenue shortfalls beginning at the end of the third quarter of Fiscal Year (FY) 2020 and continuing into and throughout all quarters of FY21 of the City’s overall 2019-21 Biennial budget.

POLICIES, PLANS & GOALS SUPPORTED

D. Develop current and long-term budgetary resiliency.

E. During the 2019-2021 Biennium analyze various departments/programs with the goal of gaining efficiencies, reducing costs, and improving City services.

BACKGROUND AND ADDITIONAL INFORMATION

In response to the COVID-19 crisis impacts to the City’s operational budget, staff has previously provided Council with an initial projection of shortfalls in the two most affected revenue streams; the Food and Beverage Tax (F & B) and the Transient Occupancy Tax (TOT). Each revenue stream is projected to fall short of original budgeted estimates by approximately fifty percent, causing total revenue short falls of just over \$3 million each over the remainder of the current biennium which ends June 30, 2021. A short summary of each revenue stream and associated cost reduction objectives is provided below:

Food & Beverage Tax

The Food and Beverage tax revenue funds the following:

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

Staff developed and presented a preliminary plan to address the Food and Beverage tax revenue shortfalls at the May 18, 2020 Council business meeting. The plan includes a proposed ordinance change to allow the wastewater fund to pay the portion of the wastewater treatment plant debt service that cannot be covered by the Food and Beverage Tax as originally expected and “hard coded” into the ordinance. Additionally, cost reductions in the Street Fund, primarily in capital projects will be deferred until such time as Food and Beverage Tax revenues return to allow a positive flow of funds into the Street Fund. A portion of the shortfall in the Street Fund will be addressed with personnel cost reductions in seasonal and open full-time staff positions. Final Council approval and enactment of this plan, including the consideration of the modification of the ordinance will be presented in an upcoming Council meeting.

Transient Occupancy Tax

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

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

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

Cost Reduction Plan

The focus of this update is a presentation of a more specific cost reduction plan to bridge the gap created by the projected revenue shortfall. Consistent with the core principles, values, and objectives stated above, the breakdown of cost reductions by Department within the general fund are as follows:

Department	Personnel	Materials & Service	Total	% of Total Budget
Police	\$395,000	\$75,000	\$470,000	2.8%
Fire	\$260,000		\$260,000	1.3%
Parks	\$260,000	\$40,000	\$300,000	2.7%
Community Development	\$50,000	\$40,000	\$90,000	1.6%
GF Fleet Deferral		\$300,000	\$300,000	
Cost of Living Adjustment Reduc	\$65,000		\$65,000	
TOTAL COST REDUCTION	\$1,030,000	\$455,000	\$1,485,000	

Personnel cost reductions in each department are planned to be accomplished using a variety of methods that best fit the existing circumstances, opportunities, and operational capabilities of each department. Methods include reduction of hours, layoffs, furloughs, open positions, and retirements. A draft Administrative Policy document has been provided as an attachment to provide context and definition to each of the methods listed.

Staff is additionally proposing to utilize funds currently residing with the Cemetery Trust Fund to be transferred to the General Fund to fund the cemetery operations that were budgeted to be funded from General Fund revenues rather than this dedicated source. City Attorney David Lohman has developed a memo included as an attachment to this staff report providing background and rationale for this transfer of funds.

The combination of cost reductions of \$1.485 million and the additional revenue covering the full FY21 expenses of cemetery operations of \$553,000 from the Cemetery Trust fund result in a total adjustment to the general fund of \$2.038 million.

Reduction Compared to Target

The overall shortfall to the general fund is approximately \$3 million. Approximately thirty percent of this total (\$900,000) is restricted by State statute for Tourism related expenses. Council has already taken action

to resolve the overall shortfall for the restricted funds by de-committing the restricted reserves previously dedicated to future parking supply thereby making those prior year funds available to appropriate in FY21. This leaves a target cost reduction of \$2.1 million for the unrestricted TOT funds that are utilized to fund operating expenses for the departments that reside within the general fund.

The identified cost reductions and offsetting revenue from the Cemetery Trust Fund come within under \$100,000 from meeting the target.

Cost Reduction Plan Considerations

While very early in the re-opening of the national, state and local economies, early indicators hint that the initial revenue shortfall projections could be more conservative than originally thought. This is tempered by the potential for a fall/winter “second wave” so adjustments to the initial estimate are premature. Staff will continue to monitor revenues and activity levels and will adjust projections as verified data and payments are submitted and report back to Council on suggested modifications to the cost reduction plan.

Additionally, staff continues to monitor and advocate for federal relief funds for local governments that specifically address revenue shortfalls. Coordinated efforts are underway to partner in advocacy with other local jurisdictions in the Rogue Valley to amplify the importance and necessity for such federal assistance to hopefully prevent or mitigate the significant cuts to critical public safety and community services described in the proposed cost reduction plan.

Because of these two considerations and the confidence in the ability of the City’s management team, staff feels confident that the City’s budget will adapt to the challenging economic impact this crisis presents and will be in a good position to enter the next budget cycle able to address the non-COVID financial sustainability issues that are known and need to be resolved with a multi-biennium strategy and commitment.

SUGGESTED NEXT STEPS

Staff recommends the continuation of monthly reporting on monitoring the status of both the revenue projections to actual and the cost reductions to actual. Staff is developing a dashboard view for both revenue and cost reduction tracking for both the TOT and F & B taxes that will be available to the community as well as to Council and staff and would form the basis for the ongoing monthly financial reporting as we move through the remainder of the biennium.

Concurrent with the implementation of the cost reduction plan, staff recommends continued Council support for the pursuit of the following:

Sale of the B Street Yard

Estimated \$1.3 to 1.5 million net one-time revenue, but tentative Council direction that these revenues would be shared between the Wastewater, Street and General Funds)

Sale of 380 Clay Street

Estimated \$200,000 net one-time revenue tentatively allocated to the Housing Trust Fund. This could replace current Marijuana Tax revenues (\$100,000/year) currently directed to the Housing Trust Fund for the 2021-23 biennium allowing Marijuana Tax revenues to be unrestricted General Fund revenues.

Staff also sees benefit in developing a process framework to assist Council in formulating long term strategies for both the Imperatrice property and Briscoe School. It is recognized that both projects will require staff and Council time commitments that may not be immediately available due to more pressing operational and policy issues and neither property provide viable financial relief in the near term.

REFERENCES & ATTACHMENTS

Attachment 1: Administrative Policy No. 2020.05.04 - COVID-19 Staffing Response Policy

Attachment 2: Using Cemetery Trust Fund money for Cemetery Operations Memo

Attachment 3: General Fund Forecast

[Council Study Session – May 18, 2020 Presentation](#)

[Council business meeting – April 21, 2020 Presentation](#)

ADMINISTRATIVE POLICY

LAST MODIFICATION: May 4, 2020

Policy No. 2020.05.04

ORIGINATING DEPARTMENT: Administration

SUBJECT: COVID-19 Staffing Response Policy

PURPOSE: To establish a procedure in the event that staffing adjustments are put into action to address financial stability, change in workload or reorganization of staff of the City and/or Parks & Recreation (APRC) in response to the public health emergency and executive orders from the Governor's office during the COVID-19 pandemic.

STATEMENT OF POLICY: This policy is intended to supply a framework for the decision to adjust staffing in response to the COVID-19 impact on employment, workload, and financial stability in the City and APRC. Decisions to implement staffing adjustments will be administered fairly and without prejudice, in a manner that results in minimal disruption to employees and the business functions and service levels of the City and/or APRC.

Measures to mitigate layoffs will be considered and used where it is feasible.

Seniority will be applied where appropriate per the language in our current Collective Bargaining Agreements (CBA) as referenced in Appendix A.

BUDGET REDUCTIONS

One means of implementing budget reductions is to reduce staffing levels. Vacant positions may be eliminated; employees of terminated positions may be transferred to vacant positions that will continue to be funded; reduced FTEs may be considered to address decreased workload; however, layoffs or demotions in lieu of layoff may become a necessity.

REORGANIZATION

During reorganization, positions may be terminated or reclassified, which may require a department to reduce its staffing levels through layoffs or alternatives to layoffs.

FUNCTIONS, PROJECTS, OR PROGRAMS ARE CURTAILED OR DISCONTINUED DUE TO DECREASE OR TERMINATION OF FUNDS

These actions may result in the termination or reclassification of positions, which may require a department to reduce its staffing levels through layoffs or alternatives to layoffs.

EFFORTS TO MITIGATE THE DECISION TO LAY OFF STAFF

Before severe actions of reducing workforce by eliminating positions is acted on, the following steps must be reviewed by the requesting Department, Human Resources and Finance to confirm that they are not an effective course of action to achieve the goal of alleviating budget concerns, reduced workload, or reorganizational goals.

HIRING FREEZE

The City and/or APRC may initiate a hiring freeze in the area of layoff and in other areas where vacancies might assist in easing the impact of staffing reductions. A hiring freeze may be utilized to create vacancies to which employees may be transferred or demoted (either voluntarily or involuntarily)

in order to avoid a layoff. Comparability of positions and current staff's ability to perform required essential job functions in vacant positions will be a central factor in this decision.

REDUCTION OF INTERMITTENT SEASONAL AND NON-PERMANENT WORK FORCE

Departments may cut intermittent hours, terminate contract employees, or terminate temporary appointments such as limited-term appointments. These measures may generate considerable savings if a department has a large temporary work force.

REDUCED WORK TIME

The City may reduce staff in some classifications by reducing FTE of an existing position. A reduced FTE means employment of less than 40 hours per workweek. Reduced FTEs benefit the City by promoting retention of skilled staff and allowing departments to adjust staffing to meet changed workload. The impact to the employee in a reduced FTE is the reduction in health care coverage to employee only and a reduction in paid time off accruals.

Departments may review the changes in workload after Stay Home/Save Lives orders are lifted and determine that some positions are no longer necessary at the 1.0 FTE to complete the essential job functions required.

Reduced FTEs may be temporary or permanent.

RETIREMENT

Employees may elect to retire, thereby eliminating some staffing. If an employee has been noticed that he/she will be laid off, the employee may elect to retire in lieu of layoff.

FURLOUGH IMPACTS AND CONSIDERATIONS

A furlough is an unpaid and inactive status resulting from the COVID-19 Emergency's significant financial impact on the City.

Any department requesting to initiate a furlough process must provide clear documentation that the action will definitively alleviate budget concerns without jeopardizing the essential functions of the remaining programs and processes in place. This practice will be a collaboration between Human Resources, Finance and the Department Head. Approval from the City Administrator is required.

The furlough period may last for as long as the City is under a State of Emergency, but may last longer based upon the time required for the City to recover from the Emergency.

- Employees, either salaried or hourly, may be placed on furlough in full week increments or on a reduced workday per week schedule.
- Employees will be given as much advance notice of a furlough as possible. The City of Ashland will provide written notice to employees to be placed on a furlough. The furlough notification letter will specify the terms of the furlough and may be used to apply for unemployment compensation, subject to state and local unemployment compensation laws.
- Furloughed employees will receive notice pay up to two weeks based upon 40 hours per regular work week which will be reduced per regular hours for part-time employees.
- During the furlough period, individuals are prohibited from performing any work for the City of Ashland. All City-provided equipment must be returned to the City at the start of the furlough period. All network access and physical access will be temporarily deactivated.



RETURNING FURLOUGHED STAFF TO ACTIVE EMPLOYMENT

If the City returns a furloughed employee to active status on or before the furlough period's end date, the employee will be granted credit for prior service with the City in determining:

- PTO accrual rates
- Anniversary recognition eligibility
- Continuation of medical coverage
- Past service credit for vesting purposes under the City's retirement program

Benefit coverages will be reinstated per the provisions of the City's benefit plans in effect at the time the individual returns to regular full-time or part-time employment status at the City.

City of Ashland employees are required to return from furlough within three business days following notification from the City. Employees who fail to return within that time period without contacting their supervisor will be considered absent without approved leave and will be terminated from employment.

LAY OFF IMPACTS AND CONSIDERATIONS:

Any department requesting to initiate a layoff process must provide clear documentation that the action will definitively alleviate budget concerns without jeopardizing the essential functions of the remaining programs and processes in place. This practice will be a collaboration between Human Resources, Finance and the Department Head. Approval from the City Administrator is required.

REASONS FOR A LAYOFF

Employees may be laid off without prejudice according to these layoff procedures.

The reasons for a layoff include, but are not limited to:

- (1) Lack of funds.
- (2) Lack of work.
- (3) Organizational change.

IMPACT OF A LAYOFF

Layoff is an employer-initiated action taken that could result in any of the following:

- (1) Separation from service with the Department.
- (2) Employment in a class with a lower salary range maximum.
- (3) Reduction in the number of work hours.

LAYOFF PROCESS:

The decision to proceed with a layoff will be thoughtfully prepared to address budget concerns and lack of workload. Layoffs implemented within a department, a division or a classification will be strategically planned and supported by the sound documentation and collaborative input of the Department, Human Resources and Finance.

Once an area of layoff is identified, the Department will prepare and present a plan to assign primary and secondary job functions to remaining staff.

This could result in demotions for some existing staff to maintain their FTE during a layoff per seniority language in the current CBA.

Unions will be notified before a layoff is implemented. Seniority status of represented employees will be prepared and acknowledged.



LAYOFF NOTICE:

When a position is subject to layoff, the Department Head or appointing authority shall give permanent employees at least 15 calendar days' written notice, unless the employer and employee agree to waive the 15-day notice period.

The layoff notice will state the basis of the layoff and include the layoff option, if any, available to the employee.

If the employee accepts a layoff option, the employee will also be notified of:

1. Any requirement to serve a transition review period in accordance with the current CBA or Management Resolution.
2. The date by when the employee must select a layoff option.

If the layoff notice is personally delivered, the date of delivery will constitute the first day of notice. If mailed to the employee, the notice must be sent via U.S. Mail and the mailing date will constitute the first day of notice. The Human Resource Director will record the date of mailing or the date the notice was personally delivered to the employee.

The employee shall advise the Department Head or appointing authority in writing or via email within five working days of the date of notice whether the employee accepts or rejects the option. If the employee fails to respond to the Director within the prescribed time limits, such failure shall be considered a rejection of the option.

When there are no layoff options or when an option is rejected, permanent employees may be separated after 15 calendar days' notice in writing from the Department Head. Probationary employees must be given at least one day's notice of a layoff.

NO JOB GUARANTEE AND OTHER EMPLOYMENT

The City does not guarantee continued employment to employees at the end of the furlough or layoff period. Furloughed and Laid off employees will, however, be given priority when the City fills positions for a period of one year from the date of the start of the furlough period.

Outside employment may be accepted during furlough days if the work does not constitute a conflict of interest for the City. Furloughed employees who do not intend to return to work at the City must notify Human Resources immediately.

Approved: _____
Adam Hanks, Interim City Administrator

Date: _____

Reviewed as to Form: _____
David Lohman, City Attorney

Date: _____



OPTION	BENEFITS TO EMPLOYEE	NEGATIVE IMPACT TO EMPLOYEE	FINANCIAL SAVINGS TO DEPARTMENT
<p>FURLOUGH Employee stays ‘employer connected’ and goes unpaid for a set amount of time or specific days of the week. More likely that these employees will remain available if benefits are extended during this time.</p> <p>Employer decides how long furlough will be in effect.</p> <p>CBA language needs to be acknowledged w/ seniority rules.</p>	<p>Employee stays covered with health insurance and life insurance - dependent on what level City decides to continue to pay premiums on employee’s behalf --- (single, family etc.).</p> <p>VEBA continues.</p> <p>An end date to return to work is almost certain.</p> <p>PERS membership is still active with no contributions.</p>	<p>No vacation or sick leave accruals will occur during furlough.</p> <p>No paycheck for the duration of the furlough – or- reduced pay for partial furlough.</p> <p>PERS service credit is suspended.</p> <p>ICMA contributions are suspended.</p>	<ul style="list-style-type: none"> • PTO options are (City decides): payout of vacation and comp or roll into Deferred Comp, or hours can stay on the books or be used to supplement some of the time during furlough. • Savings on salary and some benefits for F/T and P/T staff --- could be significant for higher level positions. • Keeping key positions ‘employer connected’ can help mitigate future recruitment costs of hard to fill skillsets.
<p>LAYOFF Employee is no longer an active member of staff and is not ‘employer connected’.</p> <p>CBA language needs to be acknowledged w/ seniority rules.</p>	<p>Employee can collect full unemployment insurance and seek employment elsewhere.</p>	<p>Employee is separated from the City.</p> <p>All benefits will end on the last day of the month of separation.</p> <p>No end date or recall date is guaranteed.</p>	<p>After payout of comp and vacation, total salary cost and benefits cost is saved for the FTE that is separated.</p>
<p>REDUCED HOURS Employee FTE is reduced to acknowledge less workload available for that department. Best if done across a classification of employees.</p> <p>CBA language needs to be acknowledged w/ seniority rules.</p>	<p>Employee remains paid at a lesser FTE and is able to retain employee only benefits.</p> <p>With new COVID 19 eligibility reasons, employee can apply for partial unemployment to help supplement the loss in take home pay.</p> <p>Retirement remains active.</p> <p>VEBA continues.</p>	<p>Loss of benefits for family/spouse.</p> <p>Accruals are reduced to match reduced FTE.</p> <p>Loss in take home pay.</p> <p>No guarantee that FTE will return to full time.</p>	<ul style="list-style-type: none"> • Savings on salary and some benefits premiums. • No required payout of existing accrual banks, they remain available. • Keeping key positions ‘employer connected’ can help mitigate future recruitment costs of hard to fill skillsets.



Memo

TO: City Council
FROM: David Lohman, City Attorney
DATE: June 11, 2020
RE: Using Cemetery Trust Fund money for Cemetery Operations

Below is an outline of what will be needed to supplement with appropriate dollar figures:

- The Cemetery Trust Fund should be comprised of the \$500 per year derived from the tax levied for that purpose from the time Article 18 was in place up until Ballot Measure 50 displaced that levy— plus interest thereon. The Trust Fund should also include any recorded revenues from the sale of cemetery plots— plus interest thereon. The total of these two items, minus the accumulated interest, constitute the “reserve” portion of the Trust Fund – meaning that portion which needs to be retained in perpetuity and not spent.
- The expendable portion of the Trust Fund consists of accumulated interest on the Trust Fund plus any amounts accumulated in excess of the reserve as a result of the tax levy and any other inputs.
- Probably, \$500 per year was one such “other input” that was added to the Trust Fund from the General Fund after the effective date of Ballot Measure 50. If so, the total of those additions (and interest thereon) can be included in the expendable portion of the Trust Fund.
- The expendable portion of the Trust Fund can be used to pay for maintenance and upkeep of the cemeteries, including (1) salaries of employees doing that work; (2) necessary materials and services; and (3) infrastructure allocable to maintenance and upkeep of the cemeteries. In other words, the expendable portion can be transferred to General Fund and spent exclusively for these purposes, which are all incorporated in the term “cemetery operations.” Alternatively, it may be simpler to simply fund those items directly out of the Trust Fund.
- I understand the expendable portion of the Trust Fund now amounts to approximately \$900,000, which is about enough to pay for about two years of the numbered items in the bullet above. So using the expendable portion of the Trust Fund to pay for those items in this biennium likely means most of the costs for maintenance and upkeep of the cemeteries. In future biennia, this probably would have to come from the General Fund, except that the small amount of interest accumulated each year on the reserved portion of the Trust Fund could also be expended. Of course, fees could also be raised to help offset these costs.

In reaching these conclusions, I conferred initially with the Assistant City Attorney, Katrina Brown, who had advised former Public Works Director Paula Brown on the ability to use Trust Fund monies for an infrastructure project at a cemetery, but did not otherwise address allowable uses of the Trust Fund. After reaching the above conclusions, I discussed them with Bryn Morrison, Interim Finance Director, and Cindy Hanks, Deputy Finance Director, who did not on the spur of the moment disagree. I feel fairly confident of these conclusions, but would welcome any contrary views or refinements from Bryn, Cindy, Katrina, or an auditor.



