

Memo

TO: City Council and Citizen Budget Committee members
FROM: Dave Kanner, city administrator
DATE: February 19, 2015
RE: **Budget Assumptions**

This memo is intended to summarize the information provided to you tonight regarding budget assumptions and budget-building process.

The budget is being built as a “current service level” budget. Departments are instructed to prepare a budget that assumes we will continue to offer the same services at the same levels through the 2015-17 biennium that we are offering in the current fiscal year. Whether it will be possible to actually fund current service levels will not be known for certain until we’ve finalized our revenue projections and seen the requested budgets from the departments. Departments will also be permitted to submit add packages. Whether add packages are included in the recommended budget will depend on how closely they align with City Council goals and objectives and whether funding is available. This does not mean that departments are prohibited from adding new or enhanced services to their budgets, however to do so without the enhancement being considered an add package, they must either show a revenue source or show how it can be added within existing resources (i.e., by deleting other expenditures).

Personnel costs for current service level have already been calculated and given to the departments and are described in greater detail later in this memo. Departments have been instructed to assume a 2% inflation factor when calculating materials and services costs. This does not mean M&S budgets will automatically increase 2%. It means only that ongoing, predictable M&S costs are assumed to increase 2%. The one caveat here is gas prices. The price of gas has a significant impact on departmental budgets. Forecasting too low a price could leave us short of appropriation authority at the end of the budget cycle, but forecasting too high could take money away from other necessary expenditures. The U.S. Department of Energy forecasts that gas prices will continue to rise through 2015 and peak at about \$2.60/gallon (retail) by the end of the year. We plan to assume a gas price of \$2.80/gallon for the first year of the biennium and \$3.30/gallon for the second year.

We currently project that General Fund revenues will increase by about 4% in each year of the biennium. We project a 3.5% increase in property tax collections next year. Note that the County



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Assessor is projecting 3.4%, but that number does not jibe with recent actuals (upon which our projection is based), which should push property tax collections up slightly. We also project a 5% increase in transient occupancy taxes and a 5% increase in food and beverage tax. Both of those increases are over current year actual revenues. Franchise fees are a mixed bag. Avista franchise fees may rise slightly due to a recent rate increase approved by the Public Utility Commission, while cable/telecom franchise fees are projected to remain flat. Weather is a significant variable when attempting to forecast utility-related revenue, including franchise fees and electric user tax. Water and electric franchise fee revenues are trending below budget in the current fiscal year due to lower-than-budgeted utility revenues (despite rate increases). Only Waste Water revenues and associated franchise fees are close to projections following the approved rate increase. The Water and Waste Water Master Plans call for a 10% increase in those respective rates next year. We have already been notified of projected increases in wholesale power costs from BPA of 6.8% for power, 7.8% for transmission and 25% for General Transfer Agreement. Those wholesale cost increases alone could push electric rates up by 4.5% or more.

Enterprise fund revenue is projected to increase about 10%, assuming rate increases called for in the master plans are approved. Much of this money goes into a debt service reserve to help pay for large capital projects in future years.

Increases in personnel costs are projected at 9%, biennium over biennium. This is driven largely by COLAs and step increases, and to a large extent by a 16.5% increase in health benefits charges in the first year of the biennium (our first increase in health benefits charges in three years) and a budgeted 5% increase in the second year. This 5% increase will not be imposed if the health benefits plan continues its current excellent claims experience through the first year of the biennium, potentially freeing up money for other departmental expenditures. Many of our PERS rates are flat or up only slightly and our overall PERS costs are flat when comparing budget to budget.

COLAs are uncertain at this point. We will be in negotiations with three of our five bargaining units this spring, including both of our strike-prohibited bargaining units. The Electrical Workers unit is due a 2% increase on July 1. The Laborers Union COLA (minimum 1.5%) and the management/non-represented COLA are based on January-to-January CPI, which will be released on February 26. December-to-December CPI was 0.8%, so we expect the management/non represented COLA will be in the neighborhood of 1%.

We are also forecasting an increase in internal service charges to the departments, driven by cost increases in the Central Services Fund (banking fees, software licenses and personnel cost increases) as



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well as increases for insurance. The City also needs to start addressing its chronic underfunding of the Equipment Fund. While it's unlikely that we can afford to make up this underfunding in a single budget cycle, we can begin the process of raises vehicle and equipment "rents" to the departments in order to address projected future shortfalls.

Finally, this budget will propose raising the City's general property tax rate to its maximum limit – an increase of 8.92 cents per \$1,000 of assessed valuation – and dedicating the bulk of the money to the Ashland Forest Resiliency Project, which requires \$175,000 per year to maintain the acreage that has already been treated for fuels reduction.

Please don't hesitate to contact me directly if I can answer any further questions for you.

