

City of Oakridge

Budget: revenue and expenditure review

Topics for today

- I. Governmental & Proprietary funds an overview
- II. Revenue & Expenditures and the rates of their increase
- III. Forecast of potential future expenditure amounts
- IV. Conclusion

Governmental & Proprietary Funds

- ▶ The City is comprised of (2) major types of funds
- ▶ “Governmental” funds include:
 - ▶ Administration
 - ▶ Police
 - ▶ Emergency Services
 - ▶ Oakridge Industrial Park
- ▶ “Proprietary” funds include:
 - ▶ Water
 - ▶ Waste water
 - ▶ Storm water

Governmental & Proprietary Funds

Governmental Funds

- ▶ Generally tax supported activities
- ▶ Emphasis on available resources
- ▶ Revenue primarily from taxes
- ▶ Providing service with public resources in compliance with the budget and restrictions

resources
(expenditures)
revenues over (under) expenditures
other financing source (use)
Net change in fund balance

Business Type Activities

- ▶ Business type activities supported by fees
- ▶ Emphasis on Net Income
- ▶ Revenue generated from service charges
- ▶ Expenditures are the costs to run and maintain the “business”

revenue
(expenditures)
income from operations
(capital investment)
net income

Governmental Funds: Objective

- ▶ Ability to monitor and report on compliance with:
 - ▶ Spending purposes (the Fund restrictions: Parks, Police, Streets, Emergency Services, etc.)
 - ▶ Spending limits (the budget for each Fund)
- ▶ To demonstrate fiscal accountability
 - ▶ Resources are being expended as designated by the Budget Committee and City Council
- ▶ To demonstrate operational accountability
 - ▶ The operational objectives are being met

Governmental Funds: an overview

- ▶ We will take a high level look at the resources and expenditures of the governmental funds for the City.
- ▶ The majority (57%) of resources come from property and other taxes
- ▶ The majority (68%) of expenditures are on public safety
- ▶ The goal of the City's Administration is to provide the governmental services that are most important to the citizens of Oakridge
- ▶ The City's Administration consistently uses all of the resources available to provide these services
- ▶ The governmental funds expend more resources than are received each year
- ▶ Costs are, and have been, increasing faster than revenue

Governmental Funds

Resources

▶ Property tax	1,100,000
▶ Franchise fees	273,000
▶ Licenses & other tax	498,000
▶ Intergovernmental	217,000
▶ Ambulance	443,000
▶ <u>Other</u>	<u>277,000</u>
▶ Total Resources	2,808,000

Expenditures

▶ General government	391,000
▶ Public Safety	2,011,000
▶ Streets	317,000
▶ Culture	84,000
▶ <u>Capital</u>	<u>86,000</u>
▶ Total Expenditures	2,888,000
▶ Revenue (under) expenditures =	(80,000)

Proprietary Funds: Objective

- ▶ Proprietary funds are also known as “business type activities”
- ▶ Water, waste water, and storm water are referred to as “Public Works”
- ▶ Public Works manufactures a product (clean water) and provides a service (waste water treatment) that it sells to the citizens of the City. The revenue generated is intended to pay for all of the costs associated with business
- ▶ Just like all businesses, Public Works strives to generate Net Income
- ▶ Net income should be saved over years to allow for the investment into the infrastructure of the city such as:
 - ▶ Water treatment plant
 - ▶ Supply and waste lines
 - ▶ Processing equipment
 - ▶ Heavy equipment
 - ▶ Vehicles & tools

Proprietary Funds: An overview

- ▶ We will take a high level look at the revenue and expenses of Public Works
- ▶ 97% of revenue comes from charges for services provided
- ▶ 64% of expenditures are on materials & services, 36% on personnel
- ▶ The goal of the Public Works is to provide clean water to the City, and then process the waste and storm water appropriately
- ▶ Public Works is also responsible for repayment of the debt related to capital projects
- ▶ Public Works generates a profit or net income
- ▶ Currently, the profit that public works generates is used by the governmental funds to cover the deficit spending
- ▶ There is “no” to “very little” net income left for Public Works to invest in infrastructure or equipment

Proprietary Funds

Revenues & Expenses

▶ Charge for service	1,709,000
▶ <u>Other revenue</u>	<u>63,000</u>
▶ Total Revenue	1,772,000
▶ Personnel	557,000
▶ <u>Materials & services</u>	<u>1,001,000</u>
▶ Total Expenses	1,558,000

Expenses

▶ Revenue	1,772,000
▶ <u>Expenditure</u>	<u>(1,558,000)</u>
▶ Income from operations	214,000

Conclusion

- ▶ The governmental funds regularly over spend the resources that are obtained during the year
- ▶ In prior years, there were governmental funds that had built up cash reserves, but those reserves were finally depleted in 2020
- ▶ Prior administrations also used funds from the Industrial Park to cover the overspending, the Industrial Park fund is a restricted fund however, it is not allowable to use those funds for general operating expenditures
- ▶ The methods used in the past to address the overspending are no longer available
- ▶ The governmental funds are now relying on the net income that public works generates to cover the overspending
- ▶ This leaves public works with no income to use for replacing the equipment and infrastructure. The equipment and infrastructure has surpassed the end of its useful life in many cases.

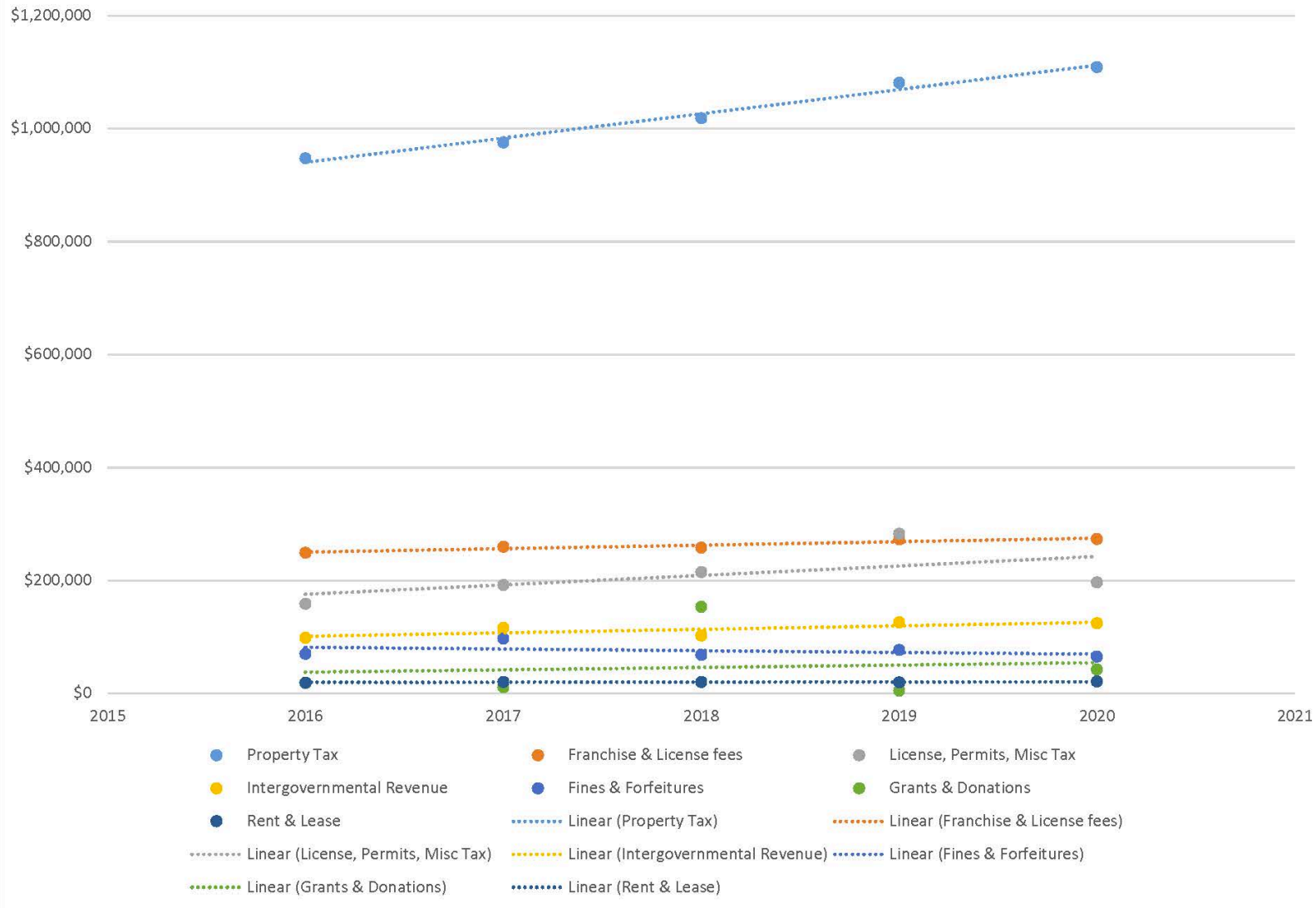
What is driving the increase in expenditures?

- ▶ There are (2) main expenditure categories in the governmental funds, Personnel is one and the other is Materials & Services
- ▶ Materials & Services accounts for 29% of the expenditures
 - ▶ The City has done an excellent job at reducing M&S to the minimum
 - ▶ In the governmental funds the biggest M&S items are: liability insurance, dispatch services, audit accounting services, utilities, fuel, emergency service supplies, and other professional services
 - ▶ The city has little control over the above costs
- ▶ Personnel accounts for 70% of the expenditures
 - ▶ Personnel costs increase each year
 - ▶ The increase is reasonable, taken as a whole, it's approximately 3.5% per year
 - ▶ However, the total burden of the personnel cost is substantial

Are revenues increasing as well?

- ▶ Revenues for the City are increasing, unfortunately the increase is minimal
- ▶ The main source of revenue is property tax revenue
- ▶ The other main sources of revenue are:
 - ▶ Franchise & License Fees
 - ▶ License, Permits, & Miscellaneous tax
 - ▶ Intergovernmental Revenue
 - ▶ Fine & Forfeitures
 - ▶ Grants & Donations
 - ▶ Rent & Leases

Revenue: Growth over time



Property Tax vs. Wage & Benefit increase

Property Tax revenue +3%

property tax revenue	\$1,090,763
estimated increase (in %)	3%
estimated increase (in \$)	\$32,723

Actual amounts from FY2020

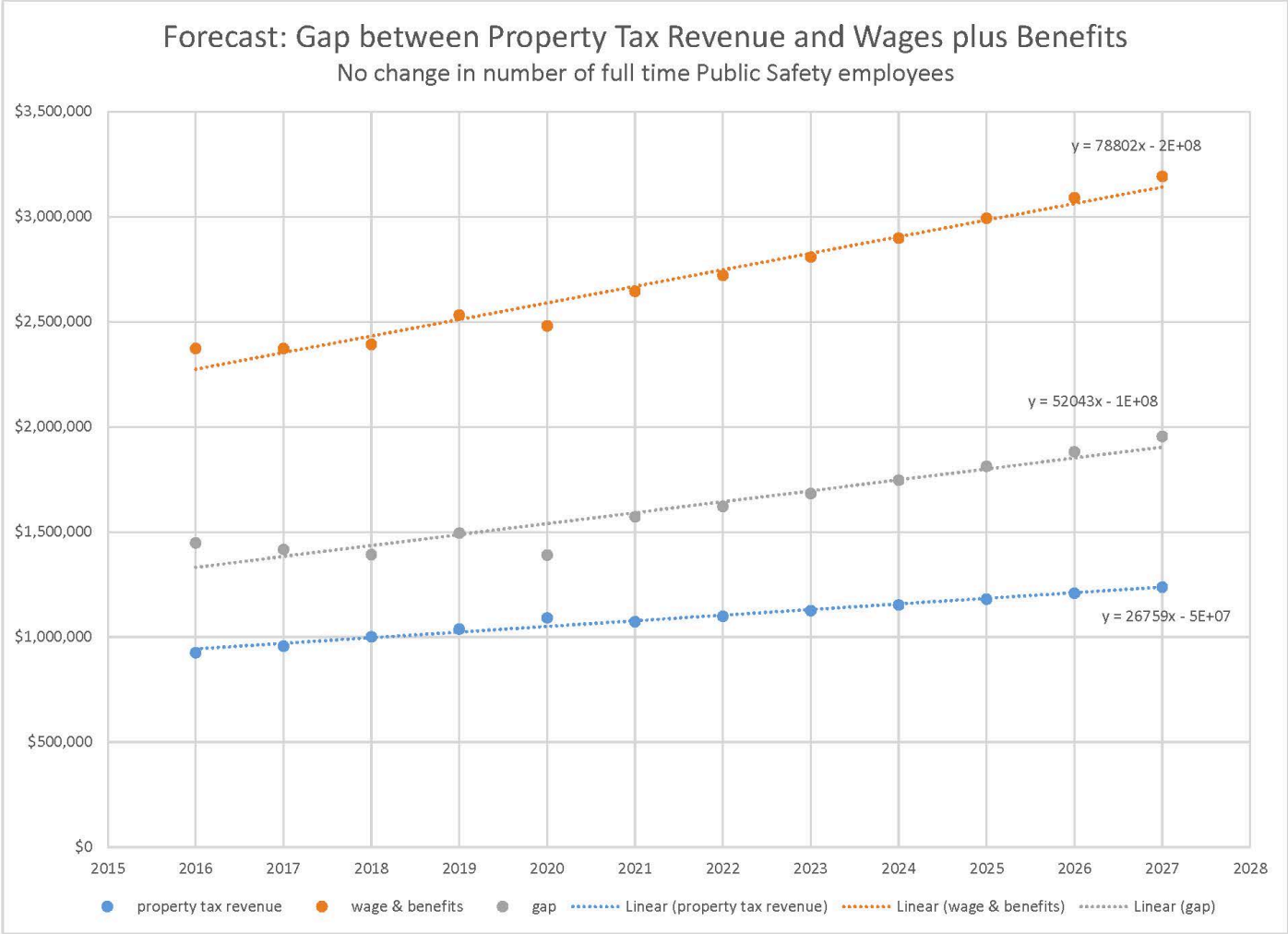
Wage & Benefit +3.5%

wage & benefit exp.	\$2,480,224
estimated increase (in %)	3.5%
estimated increase (in \$)	\$86,808

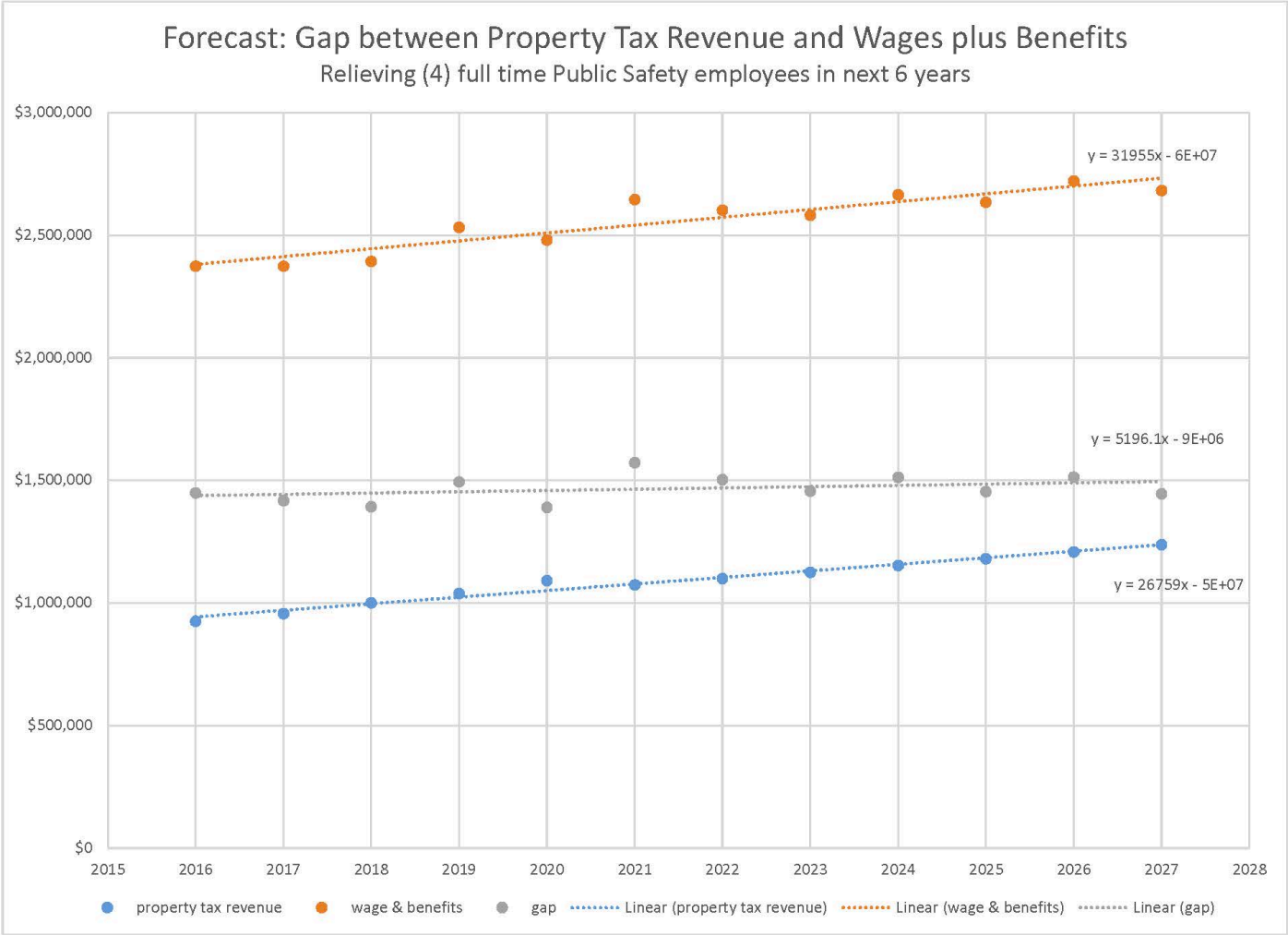
Expenditure over revenue = **\$54,085**

Actual amounts from FY2020

Forecast: wage vs property tax growth

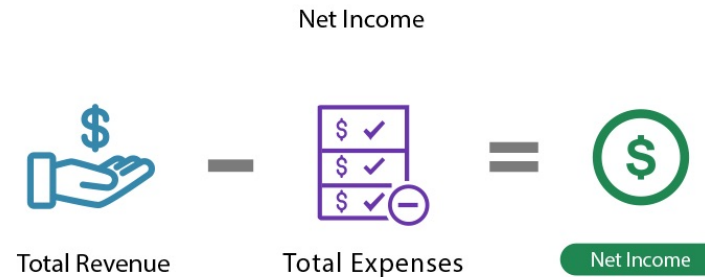


Forecast: wage vs property tax growth



Revenue growth vs. Expenditure growth

- ▶ With the exception of property tax revenue, other revenue streams are flat
- ▶ The City faces nearly flat resource growth
- ▶ Expenditures are increasing at a much faster rate
- ▶ Revenues need to increase
- ▶ Expenditures need to decrease
- ▶ The current model is no longer sustainable
- ▶ Developing a new plan is critical



Conclusion

- ▶ Personnel expenditures are rising much faster than revenue increase
- ▶ Using a “cut expenditures” model as the only method to fix the issue will result in many employees losing employment with the city.
 - ▶ The M&S budgets are already very lean
 - ▶ Personnel costs are substantial, so this is where cuts will have to occur
- ▶ Revenue sources are flat
 - ▶ Increasing revenue will allow services to continue as is
 - ▶ Imposing fees or taxes can generate revenue in the short term
 - ▶ Economic development could generate revenue in the long term