



City of Oakridge FY 2022 Budget Message

Mayor Kathy Holston, Councilors and Budget Committee Members and Citizens:

We are approaching the end of FY 2021 budget year and presenting the budget for FY 2022. Since this process begins early in the spring, the final results of FY 2021 and their impact on FY 2022 in terms of cash and working capital carryovers are more uncertain, particularly for those operations that are seasonal (Streets, Park, Water etc.) and where final results will determine the level of support (transfers & loans) from one fund to another.

This budget has been prepared on a basis consistent with prior years that is on a modified accrual basis of accounting and the legal requirements of Oregon Local Budget Law for all Funds. No new Funds have been created. Fund budgets are prepared with a current financial resource measurement focus for both revenues and expenditures.

There have been no fundamental changes in the financial policies of the city from last year. Application of policies relating to allocating administrative overhead charges and other interfund fees and charges are consistent with prior year and accurately reflect an appropriate burden to the applicable fund or department.

FY 2021 saw several significant challenges which will continue into FY 2022. Among them are:

- a. Providing essential public safety services, particularly EMS services, in the face of rising costs and insufficient revenues.
- b. The rate at which expenditures grow, is much higher than the growth rate of revenues.
- c. As deteriorating infrastructure and aging equipment surpasses the end of its useful life, it is not being replaced.

We will comment on these items in more detail later in this presentation. Overall this budget reflects the same types of activities and programs as in prior years, but the level of service must decline. The budget results reflect a harsh reality. The Emergency Services Fund is projected to again operate at a deficit, increasing to \$608,000. The General Fund is projecting a deficit of \$258,000. Finding resources to supplement these over spent funds is challenging. In prior years there were other funds that had cash available; all those monies have been used. There is no longer “surplus” cash available from any funds. The only funds with the resources available to the city are the proprietary (enterprise) funds (Water, Wastewater, and Storm Water). However, it is critical to understand that those funds which are borrowed from the enterprise funds to support the governmental funds, such as the General Fund or Emergency Services Fund, creates a significant consequence. The enterprise funds are then left without the resources needed to replace infrastructure and equipment that has gone beyond its useful life. Attention needs to be given to this situation. These critical situations require difficult choices to be made by the budget committee, city council, and the citizens of Oakridge. Clear priorities from the citizens, a commitment to fund those priorities, and an honest understanding of the consequences of those choices are important.

First some comments on some general trends in the finances of the City:

Revenues

We do not anticipate any significant new types of revenue in FY 2022. Revenues in the General Fund are expected to remain essentially flat in FY 2022. We expect an increase of about 2%- 3% in property taxes based on an anticipated increases in assessed value. No other revenues are expected to grow other than to keep pace with cost of living increases. We expect the effects of the COVID-19 pandemic will continue to adversely affect revenues which are based on travel, tourism, and recreation such as transient taxes, fuel taxes, etc. Fees from intergovernmental services (Westfir, Lowell, Hazeldell) are expected to increase moderately, unless public safety service cuts lead to a reduction in intergovernmental revenues.

In the proprietary funds (Water, Wastewater and Storm Water) revenue will increase in line with the rate increases based on the Consumer Price Index – West (CPI-W). Note the increase in water revenues in FY 2022 compared to last year’s budget amount will be about \$50,500.

Revenue from Oakridge Industrial Park (OIP) sales and other activity is inconsistent and cannot be used for planned revenue in the FY 2022 budget. In addition, this is a restricted fund whose resources cannot be used to fund operations outside the park.

The city is currently a recipient of several grants. Grants, while beneficial for improving the infrastructure and livability of the city, are typically targeted for specific projects or efforts and rarely provide general operating funds for city operations.

One of these grants not yet distributed but will greatly impact the FY 2022 budget is the American Rescue Plan Act funding targeted to help local governments respond to the COVID-19 public

health emergency and the corresponding economic impacts. This funding, unlike the reimbursable Coronavirus Relief Fund, will come directly to the city and be accounted for directly to the US Treasury. The City of Oakridge is expected to receive a total of \$686,000, with 50% being distributed this in the coming months and the remainder the following year. The city staff will establish a deliberate process to allocate these funds which will involve the governing body.

Personnel Expenses

Wages are up an average of 3.5 % overall from COLA and Step increases dictated by the terms of the various collective bargaining agreements (CBAs) under which the City operates and from longevity and merit increases.

Of course, when wages rise all costs based on wages increase (payroll taxes, PERS, etc.). Health insurance rates went up 3% in January 2021 and we expect another 3%-4% increase in January 2022. Workers compensation rates are expected to increase slightly. PERS rates are increasing July 1, 2021 by about 3%. Additional personnel qualified for PERS contributions in FY 2021 which will increase total contribution costs. Continued increases in per person costs are inevitable under current circumstances. The combination of flat revenues and increasing expenses is exerting further pressure on the City's resources.

Materials & Supplies

Materials and supplies (M&S) budget amounts are down from the prior year. Many of our department personnel are aware of the financial situation and they have done an excellent job in controlling M&S expenses in many categories in FY 2021. Their frugal habits will extend into FY 2022 with their budgets reflecting this.

Debt Service

Debt service costs will remain similar to the prior year as no new debt was incurred.

The City has incurred substantial debt over the years primarily for water projects and for some other public works buildings and projects. The City needs to take caution in increasing its debt levels, to ensure that it does not jeopardize its future financial stability by becoming overburdened with debt and debt service requirements.

Capital Outlays

The following capital projects are planned for FY 2022. These are high priority investments in infrastructure required to keep the providing the critical services the city provides to its residents.

In the Water Fund, Well #2, which is the City's primary water producer, will be refurbished. Estimated cost is \$250,000. This was a project budgeted for in FY21 however the COVID pandemic

caused significant delays at IFA in processing the required loan, delaying it into the peak demand season for water consumption. This delay requires moving the project to FY22. The Water Fund revenue will be able to accommodate this added debt servicing.

In Wastewater Fund we have budgeted an outlay of \$136,000 for facility investments to replace aging facility equipment at the wastewater treatment plant.

Across all the enterprise funds, investments are planned to replace shared aged out mobile construction equipment. All of these proposed expenditures are evident in the capital improvement plan.

In the Street Fund, the paving projects on Berry and Garden Street are expected to begin this Spring; made possible by two Small Cities Allotment grants of \$100,000 each. These projects are mentioned as they will likely spill over into next fiscal year. There are no cost shares with these grants.

Tourism and Recreational Activities

Tourism and outdoor recreational activities are a source of business for Oakridge. While considering the pandemic, we cautiously expect the level of resources for RTMP and TRT in FY 2022 to be \$19,000 and \$23,000 respectively. In addition, we are working with the Oregon Department of Transportation (ODOT) to obtain grant funding to further install improvements found in the city's Signage and Wayfinding Plan. This work also includes pursuing funding for sidewalk infill along OR-58 in the vicinity of Crestview Street.

Administrative Overhead

As in prior years the Administration Department of the General Fund is charging the other Funds administration over head for providing centralized services to those Funds (admin, payroll, utility billing, accounting, audit etc.) and to charge for expenses that are incurred through the Admin department such as property and casualty insurance billings that apply to assets in all Funds. These administration over head charges are also allocated to the Departments in the General Fund. Each Fund and Department should bear its appropriate share of the overhead burden. In FY 2022 these charges are supported by a detailed analysis of these expenses and the benefit to the Fund or Department. The administration overhead charges will be the same as the prior year.

We are now allocating an appropriate charge to each Fund or Department for the work performed by our Public Works (PW) personnel and seasonal PW workers. This impacts primarily Parks, OIP, WAC, and City Hall (General Fund) where PW and seasonal personnel provide significant maintenance and other services, but no charges have been made in the past resulting in Water, Wastewater and Streets Funds absorbing the expenditure.

Public Safety

The costs of providing public safety services continues to be the major financial issue for the City. This budget has been prepared on the basis of operating as in past years, basically continuing 24/7 service from both the police and EMS departments and maintain a capability by EMS to respond to at least two call outs simultaneously. In this scenario net costs are about \$1.1 million for the Police Department (6 FTE) and \$1.2 million for the Emergency Services (4 FTE). Absent increased revenue, the net deficits of both these operations are no longer sustainable and significant changes will need to be made for the FY 2022 budget. The brief by the Finance Director following this budget message will further illustrate this untenable situation.

The EMS Fund projected deficit of nearly \$608,000 by year end FY 2022 cannot be covered by the General Fund and would require substantial additional support from the other Funds. In this scenario, the support will come in the form of loans from the Water and Wastewater Funds, to the General Fund, which are the only Funds with sufficient unrestricted cash for such purposes. The consequence would be that the Water and Wastewater Funds would have no resources to use for infrastructure or equipment repair or replacement. The infrastructure that brings clean water to, and carries wastewater away from, the citizens of Oakridge needs to be maintained properly so it keeps performing.

However we must look further ahead as the General Fund operates at a significant deficit from July until property tax receipts are received in late November. This will require either additional support from other Funds, which may be beyond their capacity, or will require the City to borrow against future anticipated tax revenue.

As I mentioned in last year's budget cycle, a proposed Public Safety Levy was needed to allow the city time to explore longer-term solutions to providing Advanced Life Support transportation, including redistricting or brokering a reconfiguration of the Lane County Ambulance Service Area. While the City Council made a good faith attempt by placing this on the ballot in November 2020, it was soundly rejected by the citizens of Oakridge.

Given this reality, more significant policy options will need to be explored by the budget committee and governing body. Simply reducing material and services expenditures even more with result in a loss of critical services and not come close to meeting the gaping shortfall.

Possible solutions being presented to the budget committee and governing body:

1. Impose a three-year Public Safety fee to be included in the utility billing. This would allow the city to commission a feasibility study for redistricting and also pursue a more feasible Ambulance Service Area configuration with Lane County. These are long term projects that need time to be accomplished.
2. Reductions in personnel and scope of operations across the public safety spectrum (elimination of Police and Fire employees). This option would greatly reduce the capacity of the both departments and result in higher overtime costs and reduced coverage.
3. Significant curtailment of EMS operations and transition to a primarily volunteer fire protect service operational concept. Obviously, to accept extended ambulance response

time given the remote location and vulnerable population of the city is the last possible choice. Our ALS transportation is a critical service, but not a required city service.

Summary

This budget has been prepared on the same basis as the prior year and assumes the same scope of operations in order to start the discussion but introduces the possible courses of action needed to approach a truly balanced budget. To do nothing is not an option. But these are significant policy decisions which need to be deliberated in the budget process. These are not simply administrative changes.

The department heads and staff provided the majority of the work you see here. In particular, I would like to thank Eric Kytola for his fresh look at the work of his predecessor and viewing the findings in a different light, offering creative views of the financial data presented. He has focused using information technology to reduce workloads and improve the delivery to citizens. I also want to thank the many volunteers who selflessly commit their time as City Councilors, at the Library, in citizen committees, and individuals that serve the city so well. I want to thank each budget committee member for the time you will spend in understanding, molding, and adopting this budget.

Now and in the following sessions we will present the FY 2022 budget for your consideration.

Respectfully Submitted,

Bryan Cutchen
City Administrator