



Staff Report

Meeting Date:

From Jordan Wheeler, City Manager

SUBJECT: Budget Direction and Priorities

Background:

As staff prepares the budget for the 2019-21 biennium, we are seeking council's input or preliminary direction on general budget priorities and topics for the budget committee meetings. While we can't go into specifics of the proposed budget until the budget message is presented to the committee, we can discuss policy issues, the major assumptions, and significant drivers to the budget.

General Fund Services and FundingTopic 1: Police Department Funding & Staffing

The loss of the Estacada contract results in a decline of just over \$1.1 million in operating revenue for the police department in the next biennium. This funding gap presents a challenge to support the current level of services without additional revenue or budget reductions. In the current biennium, the police department received a total of \$458,721 in one-time support from general fund contingency and an interfund loan from the transit department to maintain services and purchase needed equipment.

Estacada notified the city of the termination of the service contract in January, 2018 and Sandy officially stopped servicing the City of Estacada in September, 2018. Since the termination of the contract, one position was converted into a second school resource officer (SRO) for the Oregon Trail School District. The other position, a patrol officer, is currently vacant and under recruitment.

The police department's budget currently includes 17 sworn officers and 3 administrative staff for a total of 20 full time equivalents (FTE). This includes the 2 FTEs that were added in 2013 with the Estacada contract. In other words, if the department's current staffing level is maintained, it would reflect one additional officer and one additional SRO in comparison to staffing levels before the Estacada contract.

Even with allocating over \$1 million more general revenue to the police department in the next budget cycle, we are projecting that the department will still have a shortfall if the current staffing levels are maintained.

Staff is seeking the council's input on some potential options for balancing the police department's budget:

1. Public Services/Public Safety Fee. Consider a proposed monthly public safety fee on utility bills within the city limits. The fee could be phased in over the biennium to help reduce the impact on households. A \$5.00 fee in the first year would generate about \$230,000 and cost a household \$60 per year. A \$7.00 fee would generate about \$327,000 per year and cost a household \$84 per year. Note that this fee would not include an amount for the aquatic center, which was under consideration by the council last year.
2. Reduce general revenue allocations to other departments. To allocate more general revenue funding to the police department, we could reduce the amount of funding that is allocated to other general fund departments. This would result in service and staffing impacts to those departments. The council's guidance on service priorities would be helpful.
3. Reduce police department staffing/service levels. The police department currently has two vacancies which presents an opportunity to reduce staffing levels through attrition to the 2013 staffing levels (prior to the Estacada contract).
4. Reduce general fund contingency. A discussion on the general fund contingency policy follows in the section below. The council could decide to reduce the budgeted reserve amount in order to free up more resources for the police department.
5. A combination of the above.
6. Other options from council.

We may also suggest a follow up work session on the police department services when Chief Roberts returns.

Topic 2: General Fund Contingency and Reserve Policy

Another major driver of this year's budget is rebuilding the general fund's reserves and setting a general fund reserve policy. Over the course of the current biennium, the general fund's contingency (originally budgeted at \$785,000) was allocated to community services, the aquatic center, and the police department as needs occurred in those departments. As of today, the general fund contingency sits at \$240,878. As a result, the reserves need to be replenished with general revenue for the next biennium.

For now, we are developing a reserve policy that would require initially setting aside 5% of the general fund operating budget in contingency. This amount would be consistent with prior budgets and provide cash flow and operating coverage for approximately 1.32 months. A more formal policy will be drafted based on this approach and government best practices.

It's also important to note that under the city's expenditure control budgeting approach, departments still have their own carryover contingencies to build reserves and use for one-time expenses that are consistent with council goals and policies.

For the next biennium, we are also planning to set aside an amount in contingency for funding the results of the planned compensation study.

Topic 3: Sandy Aquatic Center

A 2019 City Council goal is to “make a decision on the future of the Sandy Community Campus.” This includes “implementing a strategy, including a financing plan, for the ongoing operation and maintenance of the aquatic center.” The council will begin the conversation about the future of the community campus on March 11.

We’ve included this as an information only topic since operating the pool is a new program that impacts the general fund budget. Based on the data we have for the first six months of operating the pool since July, we would need to allocate about \$360,000 per year from the general fund.

Topic 4: Communications

Another council goal is to “enhance the city’s communications to its residents and public.” And, “through the budget process, consider the creation of a city communications position.”

A consequence of the other budget drivers is that there is not enough available ongoing revenue in the next biennium to fund a communications position without impacting other services and priorities. Roughly, the total annual salary and benefits cost for a communications specialist position would be around \$110,000.

Additional Resource Options

There are a few resource options that the council previously considered that may be worth exploring and discussing in the budget process. A 2019 city council goal is to “study options for generating additional revenue including cost recovery and alternative sources of funding.”

Public Safety or Public Services Fee

The public services fee was last proposed and discussed at the [December 17, 2018 meeting](#). But conversations about a fee started when the acquisition of the community campus and pool was under consideration. A monthly fee on city utility bills for public safety services could generate \$234,000 per year.

Monthly Fee	\$3.00	\$5.00	\$7.00
Annual Revenue	\$140,000	\$234,000	\$327,000
Annual Household Cost	\$36	\$60	\$84

Franchise Fee on City Utilities

The city currently does not charge a franchise fee to any of the city owned and operated utilities. This includes water, wastewater, stormwater, and Sandynet. A recent League of Oregon Cities’ survey of 91 cities reported that about 36% of the respondents

charged a franchise fee to itself. The fee would be a percentage charged on gross revenues.

Utility	3%	4%	5%
Water	\$46,000	\$61,000	\$76,000
Wastewater	\$42,000	\$56,000	\$69,000
Stormwater	\$7,000	\$10,000	\$12,000
Sandynet	\$35,000	\$48,000	\$60,000
Annual Revenue	\$130,000	\$175,000	\$217,000

Establishing a fee on our own utilities would impact the utilities' planned capital expenditures, rates, or both. If the council is interested, staff would recommend that we bring back more information about how the franchise fee may impact the rates.

Recommendation:

Staff is seeking council's input and general direction on the budget topics outlined above. The key questions that may help the discussion:

1. Should a public safety or public services fee be considered and incorporated into the proposed budget as an option to balance the Police Department's budget? Or, should staff assume no additional revenue and prepare a budget accordingly?
2. Is there interest in establishing a franchise fee on the city's own utilities and does the Council want more information about the fee?
3. Does the council have input on the proposed approach for the General Fund reserve policy?
4. What other information would be helpful for the council when the proposed budget is presented?