

REQUEST FOR COUNCIL ACTION

DATE ACTION REQUESTED: April 21, 2014

Order ____ No.	Ordinance ____ No.	Resolution ____ No.	Motion ____	Information <u>XX</u>
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SUBJECT: Revenue Enhancement Options

Contact Person (Preparer) for this
Item: Lee Elliott, city manager pro tem
Dept.: Administration

EXECUTIVE SUMMARY:

Please accept this memorandum for our discussion regarding General Fund (GF) revenue enhancement options on Monday, April 21st. Currently, we are facing challenges with our GF fiscal health. We are currently spending more money than we are taking in. Our 3 year financial forecast shows our reserve fund significantly declining over the next 3 year period.

Before FY 2013/2014, we had been increasing our GF reserve fund due to cutting back each year. We have been conservatively budgeting our expenditures to address fiscal pressures. To perform these actions, we had to defer a lot of projects. Unfortunately, like your home or car, you can only defer maintenance for so long. These deferments are no longer being able to be postponed. For example, the necessary software and computer infrastructure upgrades are a significant cost.

We have also restructured the last 3 years. We have laid-off employees and have reached a point where any more lay-offs will affect our service quality and quantity. The GF is service based which means it is comprised primarily of personnel costs. There are no large projects to defer like you have in Public Works budgets, i.e. water lines or backhoes. Approximately 76% of the GF budget is comprised of personnel expenses.

The challenge with the reductions in recent budgets, which have increased our reserves, is that there are fewer areas to “safely” reduce costs. Also, our GF fixed costs are due to personnel, i.e. CPI adjustments, insurance, merit increases and retirement are generating major stress on the budget. However, with personnel costs comprising 76% of the budget, GF employee reductions will dramatically affect our GF service quality and quantity. We also need to attempt to remain competitive with personnel retention and attraction. To do this, we need to remain competitive with wages and benefits. However, currently, we are falling behind in this area. Reduction in number of employees, without compensation staying competitive, just perpetuates our challenge of retaining and attracting highly qualified employees.

An option to assist with not having to reduce employee numbers is to enhance revenue which will provide more money. Revenue enhancements will enable us to take a moderate budget approach, help slow down the use of our reserve fund, smooth out the next few years’ revenue shortfalls and keep us from reducing more employees and therefore services.

I am proposing the following immediate revenue enhancements:

- **Transient Lodging Tax (TLT):** need to increase the rate from 6% to 9%. This 3% adjustment will currently generate approximately \$115,000 per year. This action is already scheduled to come before the Council on May 19th.
- **Planning Fees:** to assist in reducing the planning deficit, I propose an adjustment to these fees of 7.5%. 2.31% of the proposed increase is the current CPI, and 5.19% is to mitigate some of the

current deficit of providing short-term planning services. Short term planning services, which should be fee-based, should be covered by the direct-benefit applicant with zero to little tax subsidization. Long term planning benefits everyone, i.e. working on Future Land Use Plan, so taxes should subsidize this service. Currently, the short-term planning is generating the deficit in planning.

- **Stormwater Franchise Fee:** all utilities operated in Newberg pay a franchise fee except for our stormwater utility. Proposed in the rate increases by our Citizen Rate Review Committee is a 5% Stormwater Franchise Fee. If adopted, this new revenue source will commence 01/01/2015. It can also be adopted sooner which would provide a quicker stream of revenue. The 5% fee will generate approximately \$56,000 per year.
- **EMS Fee:** we need to adjust our EMS fee to the CPI's of 2012 (2.9%) and 2013 (2.31%). This should be performed as quickly as possible since it is an inflation index. We should also look to adjust our EMS fees to our surrounding municipal EMS providers (McMinnville). Also, to help take stress off of the GF in FY 14/15 only, we will move 1 firefighter position into the EMS Fund. The EMS reserve is proportionally healthier than the GF reserve this upcoming FY.
- **Public Safety Fee (PSF):** currently, our public safety fee is set at \$3 to provide for 3 police officers. Public safety is provided for all citizens and businesses in our community. Non-profits and public entities do not pay property taxes which are the primary revenue source for public safety. The public safety fee is charged by water meter size, which ensures a broader base pays for the public safety service. I recommend increasing this fee by \$2.67. Our dispatchers are short staffed. Currently, we are paying enough over-time for 1 new full time employee (FTE) in dispatch. This is a concern; however, a bigger concern is the stress being created by long hours and fatigue of the dispatch staff. In an effort to relieve some of the fiscal stress on the GF, I propose moving an existing 1 dispatch position into the PSF (increase fee \$1 to pay for this action). I am also proposing 1 new FTE in dispatch. Since the GF taxes are unable to sustain this action, I propose we move 1-dispatch position into the Public Safety Fee (paid for by \$1 fee increase). The rest of the proposed fee increase of .67 cents will be to adjust to the increased costs related to the existing 3 police officer positions.
- **Waste Management Franchise Fee:** currently this fee is 3%. It can be adjusted to 5% as all of our other franchise fees are. If we adjust the rate 2%, it will generate approximately \$55,000 a year.

Other options-longer term to consider; if fiscal stress continues:

- Public Safety Levy
- Library Levy
- Food and Beverage Tax

We would like to discuss these options Monday with you all. *Staff would like to receive direction whether or not the council would like to pursue all, or some of these revenue adjustments.* The sooner we adopt any of these changes we will lessen our shortfall in the 3 year forecast. Also, we will be able to strategically address more deferrals before they become more expensive. Since we have chosen to take a moderate approach to our shortfall, which entails strategic reductions, revenue enhancements and a moderate usage of our reserves to smooth over the shortfalls, these proposed actions also provide us time. Time enables our high-quality services to support our local economy's recovery, and therefore our tax base. After direction is provided, staff will immediately generate the RCA's and resolutions to provide legislative action to the items agreed upon by Council.

If you have any questions, comments or other options from this proposal, please contact me directly at (971) 732-6664.