CITY OF COSMOPOLIS

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March 15, 2024

RE: March 20, 2024, City Administrator Final Report

Informational Items Only

Item 1) *History of Budget Cuts Presentation* – As you are aware, there is a lot of inaccurate information going around our community, some from the community and some from elected officials. These are some of the actions taken since the closure of the Weyerhaeuser Pulp Mill:

History of City Employees since Mill Closure in 2008

2008 - Police Department 6
City Hall 3.75
Public Works 6.5

2009 – Police Department 4
City Hall 3.75
Public Works 4

2023 – Police Department 6
City Hall 4
Public Works 3

Current – Police Department 2
City Hall 3
Public Works 3

Departments in the General Fund

Parks
Police
Cemetery
City Hall
Fire Department
Compost Program

<u>Other Budget Cuts Made</u>

2008 – Closure of Compost Program

Parks and Recreation Program

Festival In the Park

Department Heads gave back take-home vehicles.

2020 - **Covid and Mill Closure**

Prior City Council adopted supplemental budget reducing spending.

Reduction in spending by Police Department

Closure of Compost Program

Reduction of spending in Parks, Cemetery

Reduction in spending by Fire Department

Reduction of spending in Financial Services

City Administrator and Police Chief volunteered to pay back part of their Salary.

Furlough of some Employees

Other staff voluntarily delayed step wage increases.

City Administrator and Police Chief paid for fuel and expenses of take-home vehicles.

2021 - All non-union staff gave back their annual cost-of-living increase.

2023 - Closure of Compost Program

Reduction of spending in Parks, Cemetery

Reduction of spending in Police Department

Hiring of 3 position in Police Department – Against advise of Administration Staff.

Reduction of spending in Financial Services

Reduction in spending by Fire Department

All non-union staff gave back their cost-of-living increase.

2024 – Closure of Compost Program

Emergency spending only in Parks, Cemetery

Reduction in spending Police Department

Reduction in spending by Fire Department

Reduction of spending in Financial Services

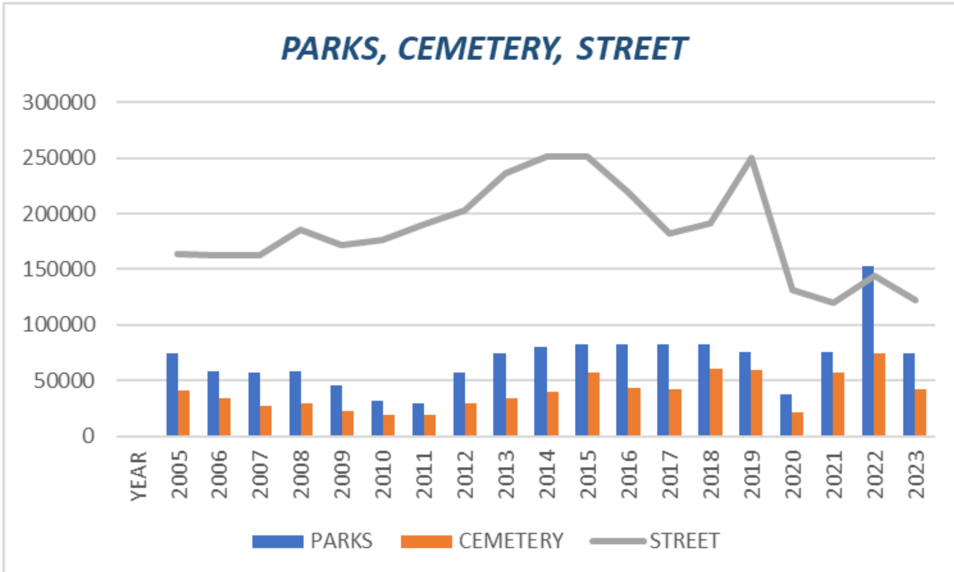
Layoff of **1** City Hall Clerk

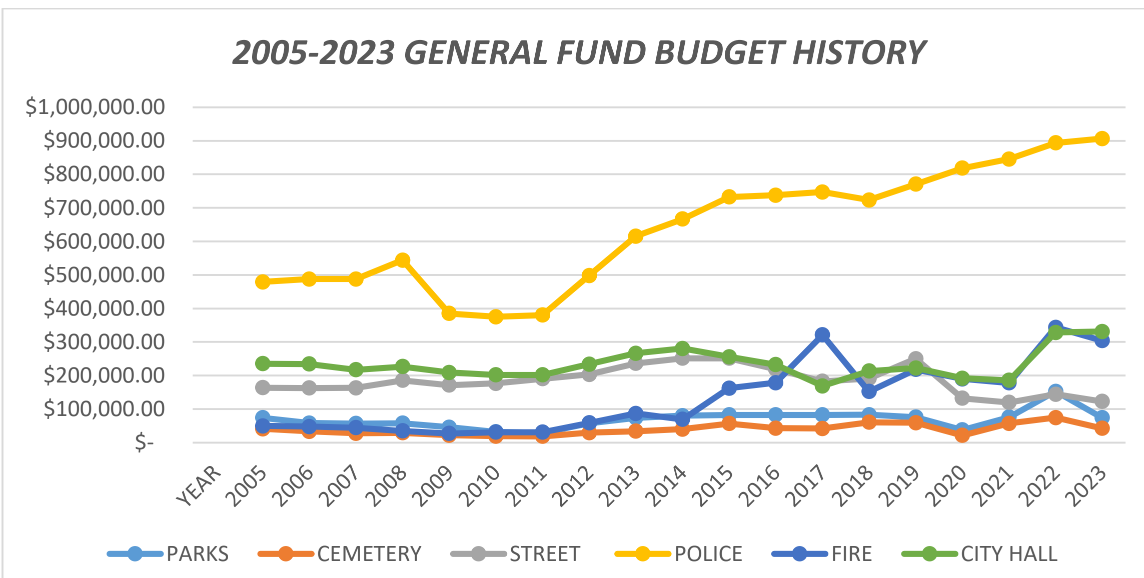
Layoff of Police Clerk and **3** Officers

No cost-of-living increases.

All take home vehicles besides Police Department gave back.

GENERAL FUND EXPEDITURE HISTORY





Actions Introduced by Staff and approved by prior Council to help Budget

MRSC - Fund Balance and Reserve Policies

Key questions to consider:

- **Which funds are your major operating funds?** You should establish minimum fund balances for all of these funds. At a minimum, the GFOA recommended best practice is for the general (current expense) fund and the enterprise funds (utility funds such as water, sewer, and storm drainage).
- **Is there an interdependence between funds that would drain resources from the general fund or enterprise funds?** For example, the street fund is typically dependent upon the general fund for operating income, so consider that when establishing the fund balance for the general fund.
- **What types of reserves should be included?** When considering which types of reserves your entity should establish, it's important to define the problem or potential problem that could trigger a fiscal crisis. Fiscal crisis will often trigger policy creation, but the objective of reserve and fund balance policies is to minimize the potential financial crisis as well as provide financial stability to the funds. Some of the most common reserves are:
    - Contingency Reserves
    - Rainy Day Funds
    - Emergency Reserves
    - Current and Future Capital Needs Reserve
    - Liability Reserves for compensated absences, pension, post-employment benefits (OPEB), unemployment

Appropriate Fund Balance Level

The question of an appropriate level of fund balance is always a difficult one to answer. The GFOA best practice recommendation has changed to consider the many variables of local government, but at a minimum the fund balance for the general fund should be no less than what will meet the average cash flow needs of your entity (GFOA Best Practice, Cash Flow Analysis).

This is typically no less than **60 days or two months** (about 16.5%-16.7%) of operating expenditures for the general fund and 45 days (about 12.3%) for the enterprise (utility) funds. However, this recommendation is for operating costs and does not consider impacts of debt. For cash basis entities where debt service is frequently paid from the operating funds, consideration should be given to timing of these debt payments.

Each government has its own unique set of circumstances and may require different thresholds. Even within the same governmental entity, different funds may require different levels of fund balance due to differences in cash flow or risk.

Establishing an appropriate level of fund balance to meet the demands of the fund during periods of the year when revenues are not available is vitally important to the fiscal health of the fund. Depending upon the answers to some of the questions below, you may need to adjust your fund balance levels a bit higher or consider adding reserve funds for fiscal concerns unique to your entity.

In the Recommended Resources section at the end of this page, there are some useful risk assessment tools that can help jurisdictions better assess their risks. Using analytical tools such as these, which can run the gamut from relatively basic qualitative assessments that even small local governments can use to more advanced statistical models used by larger jurisdictions, can be very helpful, especially considering that research cited by GFOA has found that human judgment alone typically underestimates risks by about 50%.

Key questions to consider:

- **Is your jurisdiction dependent on cyclical or volatile revenue sources?** For instance, are you heavily dependent on property tax revenues, which are due April 30 and October 31? Is your utility dependent upon seasonal consumption that not only varies throughout the year, but also fluctuates from year to year based on the weather? Do state shared revenues, which can be unpredictable and are not guaranteed in the future, contribute significantly to a program or service? Is your tax base heavily dependent upon one industry or one or two major employers?
- **Do your enterprise funds (utilities) have debt service requirements?** Do the debt service payments have a significant impact on the cash flow needs of the utility? Are all of the debt payments due at the same time of the year? Should the utility increase its reserve or fund balance to minimize the impacts of debt payments?
- **Are your enterprise funds (utilities) dependent upon a small number of customers that represent a large portion of the cash flow?** For instance, if one of your customers represents a significant portion of the income and then goes out of business, it will create a problem with cash flow, especially if there is a heavy debt load.
- **Do your utility billing cycles create cash flow concerns?** For example, if your utilities collect payments every two months, or if your water utility only reads meters once a year, that may impact your cash flow, especially for smaller jurisdictions.
- **Are you vulnerable to natural disasters such as earthquakes, wildfires, landslides, or flooding?** If so, you should set aside a certain amount of money to prepare for and protect against future risks.
- **Do you have a buffer against economic downturns?** If and when the local economy slows, will you be able to sustain most of your staffing and operations, or will you be forced to make layoffs and service cuts (which will have a further detrimental impact on the economy)? Consider establishing an

economic stabilization reserve to help protect against these inevitable economic cycles. This is an important consideration for all jurisdictions, but especially for those entities or funds that rely heavily on sales taxes or other revenues that are highly sensitive to economic conditions.

- **Will lenders, credit agencies, and others be evaluating your fund balance levels?** For instance, entities that receive USDA loans may be subject to more stringent debt covenants as a result of insufficient reserves and/or inadequate financial policies to address fund balance. These covenants can potentially create ongoing compliance issues, such as annual federal single audits until the loan balance is below a specified level or additional reserve requirements for short-lived assets. Similarly, if you are considering issuing bonds, your fund balance policies or lack thereof will be one of the factors considered by credit rating agencies to help determine your agency's creditworthiness, and inadequate fund balance policies could result in a reduced credit rating.
- **If your fund balance/reserves are currently insufficient, how will you accumulate the desired amount, and how long will that take?** Depending on your entity's current financial condition, you might be able to reach your goals within a single year, or the process might take multiple years. Establish a clear plan for how you will build your fund balance levels (such as using one-time revenues) and the length of time you anticipate it will take to meet the policy level you have adopted.

Use and Replenishment of Funds

Your policy should clearly state when reserves should be used, how the reserves will be replenished (and how quickly), and what happens when fund balances or reserves drop below the designated levels. Defining these conditions and triggers will help minimize possible interpretation issues later on.

Key questions to consider:

- **When can reserves be used?** Contingencies, "rainy days," and emergencies mean different things to different people, so they should all be clearly defined. When is it raining, what is the trigger for a contingency, and what counts as an emergency?
- **How will reserves and fund balance be replenished once they're used?** Describe the strategy for repayment (resources potentially to be used, one-time revenues, or other considerations) and define the time period. Replenishment is usually within 1 to 3 years, but that can be difficult if the use of funds was due to an extreme event such as a natural disaster or severe economic decline. Identify possible scenarios and set your policy considerations accordingly.

The prior City Council adopted Resolution 2021-06

- **The former City Council set a General Fund Reserve Policy that requires 4.5 months of reserve be maintained.**
- **This policy requires the City to set aside 15% of its revenues each year.**
- The City's annual budget surplus funds, and unencumbered sources of funds contribute to the Reserves. Conditions for the Use of Reserves:

Any expenditure requested by the City out of the fiscal annual budget cycle is subject to the approval of City Council. General Fund Reserves are to be used to sustain the City in situations of revenue shortages or unexplained expenditures. It is under the discretion of City Council to determine whether the state of the City warrants the use of General Fund Reserves.

As you can see, the former Councils and Staff have done their jobs, we have all sacrificed happily for the good of our community!

Action Items

Item 2) *Building Code Updates* – There will be an Ordinance coming before you with the new required Building Codes from IRC, IBC, IMC, IFGC.

Sincerely,

Darrin C. Raines

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City Administrator