

About the City of Piqua's Financial Planning by Fred Enderle, City Manager

Over the first six months of this year the City Commission and staff have been preparing a long range financial plan. The intent is to address a long-standing issue in the City's General Fund and to a lesser degree the Enterprise Funds. To help readers understand the issue, let me first define a number of terms to explain some basic principles of how the City of Piqua must account for its finances.

While the City has a number of fund types there are three major fund types that constitute the majority of the City's \$55 million budget. These three major fund types are:

The General Fund, which is defined as the general operating fund of the City. The annual fund activity is approximately \$13 million. All City activities are supported by tax dollars (real property and income) and other non-dedicated revenue. The non-dedicated revenue includes: license and permit fees, user charges, intergovernmental revenues (state shared tax revenue, etc.), fines and miscellaneous revenue. The General Fund supports traditional services such as public safety, parks, and city administrative services. However, General Fund revenues can be spent for any City program or purpose and are currently used to help balance the golf course and municipal pool enterprise funds.

Special Revenue Funds. The annual fund activity is approximately \$5.7 million. These funds account for specific revenue sources that legally are restricted to expenditures for specific purposes. Two of these funds are: the *Street Maintenance Fund* which provides revenue for maintenance of street rights-of-way and are supported by state gasoline tax and motor vehicle license fees returned to the cities. The *Street Levy Construction Fund* is supported by a 0.25% levied income tax for the purpose of annual street construction.

Enterprise Funds. The annual fund activity is approximately \$34 million for all funds and is used to account for operations in a manner similar to private business enterprises where the intent is that the cost of providing these services to the general public are financed through user charges. The City's enterprise funds include: electric, water, wastewater, refuse, golf and the municipal pool. Enterprise Funds can only be collected for and spent within the each specific enterprise and cannot be used for any other purpose.

The Long Range Financial Planning process was recommended at the time of adoption of the 2008 Annual Budget in November 2007. The plan will address all funds of the City. However, the major focus is on the General Fund because it supports the general purposes of the City and is the most volatile in terms of funding sources (state and local taxes, etc.). The purpose of the plan is to:

- Align financial capacity with long-term service goals
- Combine financial forecasting with strategic thinking and planning
- Gather information, analyze challenges and opportunities, decide a plan of action, and continue to evaluate action taken

What everyone needs to understand is that this is not a panic situation – the City is not broke, nor do we have to lay people off immediately. The General Fund is projected to have a \$1.7 million surplus at the end of 2008. However, we have a fundamental issue of annual revenues not meeting annual expenses and fund balance in the General Fund is rapidly declining. This is also not a new problem. Annual revenues have not met annual expenses in the general fund since at least 2001. A 2002 projection indicated that the general fund would have a deficit in 2006. That projected deficit did not come about because steps have been taken to curtail it. The City has been monitoring the situation closely for the previous two budget years. However, like with your household budget, if revenues are not meeting expenses you have choices for addressing the problem. In cities we can do one of four things: raise revenues (taxes and service charges), cut services, borrow money to extend obligations, or use fund balance (savings).

Over the last ten years the City has elected to do some expense reductions and some fee increases, but primarily has utilized fund balance to fill the gap between revenue and expenses. This has worked to some degree as can be witnessed by the General Fund deficit in 2006 not happening. However, this approach is not a long-term solution, sooner or later fund balance runs out. The preferred long-term solution for Piqua has been to increase revenue through positive economic development. And while there have been gains the last ten years, much of these gains have been offset by an on-again, off-again economy. In addition, expenses are increasing at a more rapid rate than anytime in the recent past. Therefore, I have advised the City Commission that we can no longer put off addressing the widening gap between revenues and expenses by means of minor service fee increases, minor expenses reductions, economic development and utilization of fund balance. We must continue our aggressive economic development posture, because in the long run it will help sustain us. However, we must now look critically at everything we as a City do, and how we do it, and align our service goals with our financial capacity. New revenues will need to be raised and expense reductions must be made in order to find a balance between service levels desired and the amount of revenue available. We can no longer rely on the use of fund balance to fill the gap. This approach means that in order for sustainable expense reductions to be made, changes in how all departments operate will be necessary.

To date the City Commission has analyzed current services levels, reviewed some new revenue alternatives and expense reductions. Additional expense and revenue alternatives will also be considered. Thereafter, the Commission will be asked to review and approve a plan for aligning the City financial capacity with long-term service goals and implement or phase-in plan recommendations over the next 2 – 3 years. This is not something we can or will do all at once; some changes will take time for the benefits to be realized, like changing personnel classifications through employee attrition or bargaining a new provision of a contract.

In conclusion, nothing has been decided. The City Commission will ultimately adopt recommended changes after careful analysis. The public will have an opportunity to learn about the recommendations beforehand and comment prior to the City Commission approving any plan.