

Alex Jarrett

City Council

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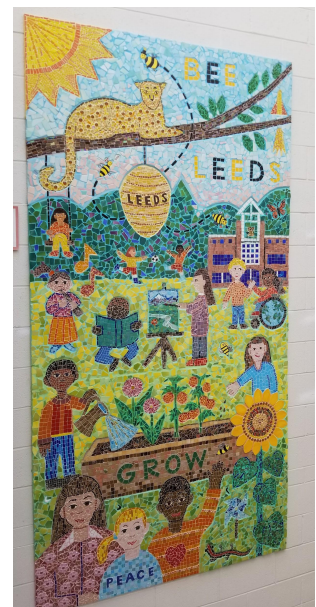
A brief budget primer

I'm getting a lot of questions about the budget - it's a top issue in the campaigns this election season. This is my attempt at crystallizing the key concepts of municipal budgeting, and of our City in particular, to help voters make informed choices. I also have a slideshow when I do this as a presentation: ([link to slides](#)).

Enterprise Funds & the General Fund

The City has four **Enterprise Funds**: [Water](#), [Sewer](#), [Stormwater/Flood Control](#) and [Solid Waste](#). These are funded entirely by user fees and grants and by law can only serve those purposes. Their annual budgets total around \$16 million, and we have about \$17 million in reserves dedicated to them. \$12 million of that is in the Sewer stabilization fund, which will help with debt service on a \$22.5 million wastewater treatment plant upgrade, reducing the need to raise sewer fees. All of these services are highly regulated by the State and Federal government, and we are required to upgrade to current standards.

All other City operations are in the **General Fund**, a [\\$130 million budget](#) in this fiscal year. This includes schools, public safety, public works, health & human services, arts & culture and general government. We have about \$16 million in reserves for the general fund, for special education, capital, fiscal stability, climate action and general needs.



Capital includes **buildings, vehicles, roads, sidewalks, pipes and other infrastructure**, and is planned out over the next five years, adjusted each year.

Capital is funded by surplus, a small amount directly from the general fund, drawing from reserves, and borrowing money. Debt service from borrowing comes from the general fund.

We have spent more on capital in the last few years in an effort to catch up on decades of deferred maintenance.

Our **surplus** from last year is estimated to be \$6.5 million. Surplus is used for capital, emergencies and to replenish reserves. For this year, it is estimated to be less, somewhere in the \$4-5 million range. I'll explain why below.



Levers we can pull

- **Property tax.** This lever is set all the way at the top of what the State allows, which is an average increase of 2.5% per year. If we have new growth (new buildings, additions and certain improvements), that adds to the tax base. Beyond that, we can only tax more if a [Proposition 2 1/2 override](#) is passed by the voters. Instead of having an override vote every year, the Fiscal Stability Plan allows us to do an override vote every 4 to 7 years, and the money raised is spaced out, providing a predictable amount each year.
- **Local receipts estimates.** If we make our estimates higher for local revenue (hotel/motel, meals, cannabis tax, interest income and others), we can then spend more on the expense side and still have our budget balance. But it's risky, because if these receipts don't come in as high, we may overspend. This lever was moved **18% higher** between last year and this year, to support schools, public safety and public works. By spending more, **our surplus will be less.**
- **Debt service.** This lever was lower when we received COVID relief funds, and is now moving back up as we have less surplus to work with. The more debt we take out to pay for capital projects, the more principal and interest we have to pay, which comes from the operating budget.
- **Spending from reserves.** We spend from reserves for emergencies, capital needs and to support operating budgets with a sound long term plan. Without replenishment, either from a tax override (the Fiscal Stability Plan) or from surplus, these reserves will be depleted. We've spent \$5 million from reserves on education in the past three years.

Perfect storm of pressures

Over the past couple of decades, these forces have put pressure on our budget:

- **State funding decline.** As a percentage of our budget, state funding has declined from 26.6% twenty years ago to 13.5% today.
- **Inflation.** It takes \$1.50 today to buy what \$1 could buy in 2010. This affects city purchasing and salaries, and makes it harder for residents to afford to pay the City in taxes.
- **COVID relief has ended.** We received general funding (ARPA) and school funding (ESSER), which has all been spent, or allocated for capital projects.
- **Charter school increase.** We send over \$3 million per year to charter schools, and our costs do not decline by that much with a smaller student body.

Future projections and options

Our **revenue doesn't keep up with our increased costs** (contractual salary increases and employee benefits are a large part of this), requiring reduction of other expenses or staff, and making it difficult to sustain level services. The alternative is a larger Proposition 2½ override, which may not pass and will be a burden on many residents.

Our **reserves have hit a high point**, built up over the last 11 years and boosted by one-time COVID relief funding. In order to fund our capital needs, we will slowly increase debt (moving it up too fast would require cuts to operations), use the lower surplus, and draw from reserves. Surplus can't all be used for capital as we need to hold some for emergencies and to replenish reserves.

Many candidates are **advocating for higher spending for schools and other services**. These are tough fiscal times, and providing sustained funding is a challenge. In order to accomplish higher spending, we'll need to do some combination of these:

- Reduce operating budgets of other departments
- Reduce future capital spending even further over the long term
- Raise taxes or other revenues
- Deliver services more efficiently

As you are evaluating candidates, I encourage you to ask them for detailed plans on how they will accomplish their proposals.

Please [reach out](#) with questions. I'd be happy to meet with you and your neighbors too!

Resources

- [Fiscal Year 2026 budget](#)
- [Capital Improvement Program](#)
- Fiscal Stability Plan [projections](#) and [explanation](#)
- [Fiscal Policy Manual](#)
- Free cash [presentation](#) and [video](#)