

The 2001 Oregon Legislature revised local budget law to allow municipalities to adopt biennial budgets. The City of Medford has prepared a two-year budget since the 2003-2005 biennium. As anticipated, the adoption of biennial budgets has significantly reduced staff time devoted to preparing budgets each year.

Category Descriptions:

Under Oregon Local Budget Law, expenditures are grouped into five different categories: personnel services, materials and services, capital outlay, capital improvements, and transfers and other.

- *Personnel Services* include salaries, overtime, temporary and seasonal help, employee insurance, retirement benefits and payroll taxes.
- *Materials and Services* account for all general operating expenditures, which includes supplies, fuel, utilities including telephone, gas and electricity, professional services, and training.
- *Capital Outlay* includes fixed assets purchased or constructed with a value of \$5,000 or more.
- *Capital Improvement Projects (CIPs)* are projects that involve additions to, or enhancements of, the City's infrastructure and include buildings, roads, sidewalks, storm drains, parks and waste water treatment facilities. These projects frequently require phasing over multiple years because of their scope and complexity. We are presenting carryover requirements of CIP projects to reflect projects started in a previous biennium that will continue in this biennium.
- *Transfers and Other* includes transfers to other departments/funds for a variety of purposes including debt service and special payments. These become resources to other funds in the budget. Though not technically expenditures, all interfund transfers and loans are reflected as required by Local Budget Law.

Contingency accounts vary by fund and are comprised of estimates of potential expenses in each fund based off historical information or where costs are unknown at the time the budget is prepared. Contingency requirements exclude the CIP and Transfer and Other categories.

Unappropriated Ending Fund Balance represents a set-aside for subsequent years' cash and working capital. Such funds can only be accessed by Council action in response to a civil disturbance or natural disaster (ORS 294.455). The Unappropriated Ending Fund Balance is the difference between revenue and expenditure (including Contingency) appropriations.

Comprehensive Financial Policy:

This budget document has been prepared in the format of a program-based budget. All costs have been assigned to program account codes and consolidated into standard expenditure categories. This format does not affect the fund accounting procedures, as appropriations will be by department and fund.

The City of Medford uses the modified accrual basis of accounting for governmental and fiduciary fund types and the accrual basis of accounting for the proprietary fund types, including full encumbrances, in accordance with generally accepted accounting principles.

Under the modified accrual basis of accounting, revenues are recognized when they become measurable and available as net current assets. Expenditures are generally recognized when the related fund liability is incurred. The exception to this general rule is interest on general long-term debt which is recognized

when due. Under the accrual basis of accounting, revenues are recognized when earned and expenditures are recognized when liabilities are incurred. Service revenues are recognized when billed.

The City modified its Comprehensive Financial Policy in 2011 to include a formalized Contingency Policy and implement GASB 54 reclassifying ending fund balances. The policy requires the City to hold 25% of annual operating budget (or 12.5% of biennial operating budget) in contingency for any operating funds. However, per Oregon Budget Law, contingency should only be used for reasonably expected expenses based off history or where exact costs are unknown at the time the budget is prepared. Therefore, the City has altered the practice to include keeping the 12.5% of biennial operating budget in the total of contingency and unappropriated ending fund balance.

More specifically:

- a. The City will maintain General Fund undesignated reserves of at 12.5% of the biennial operating budget of the General Fund.
 - b. All other operating funds – The City will maintain undesignated reserves of at least 12.5% of the biennial operating budget unless it can be demonstrated that less than 12.5% is adequate to meet the needs of the operation for the biennium.
 - c. Use of fund balance to support budgeted operations in the General or other funds shall be explained in the annual budget document; such explanation shall describe the nature of the budgeted reduction in the fund balance and its expected future impact. Fund balances in excess of future needs shall be evaluated for alternative uses.
2. The City delegated to the Chief Financial Officer/Assistant City Manager the authority to assign (and un-assign) additional amounts intended to be used for specific purposes more narrow than the overall purpose of the funds established by Council. A schedule of such assignments shall be included within the adopted budget document.

The City of Medford considers restricted amounts to have been spent prior to unrestricted (committed, assigned, or unassigned) amounts when an expenditure is incurred for purposes for which both restricted and unrestricted amounts are available. Within unrestricted amounts, committed amounts are considered to have been spent first, followed by assigned amounts, and then unassigned amounts when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

The following information will be specified by Council in the establishment of Stabilization Arrangements as defined in GASB Statement No. 54:

- a. the authority for establishing the arrangement (resolution or ordinance),
- b. the requirements, if any, for additions to the stabilization amount,
- c. the specific conditions under which stabilization amounts may be spent, and
- d. the intended stabilization balance

The following pages are a high-level presentation of the City's proposed budget request. Detailed information can be found in the individual department narratives as well as Chapters 11, 12 and 13.