

Budget Philosophy

The City of Lake Oswego approaches budgeting for General Fund departments similarly to how we budget for enterprise and special revenue funds. With enterprise funds (e.g., water, wastewater) and special revenue funds (e.g., transportation), departments must balance a fund's budget. The number and level of positions, the cost of union contracts, and interest earnings on invested cash are important factors in the budget, as are the costs of materials and capital spending. There is no "spend it or lose it" incentive because spending in one budget period reduces the beginning balance in the following budget period. As such Department Directors focus on the long-term health of a fund and the service provided through the fund.

Treating General Fund departments like enterprise-funds encourages a focus on outcomes, long-term thinking, and capital planning. There are five major elements to this approach:

1. Allocation of General Revenues to Major Programs. While many general fund departments generate some revenue, they are largely dependent on general taxes and fees (primarily property taxes and franchise fees). The first step in Lake Oswego's budget process is allocating these general tax revenues to each program. Public Safety (police and fire) make up the largest allocation of general revenues. This is followed by parks and recreation, planning, library, and transfers to the street fund - all services that are strongly supported by Lake Oswego's residents.

These allocations of general revenues reflect the priorities the City Council has placed on funding city services, and they are consistent citizen expectations and best practices in each City service area. For 2025-27, we started with the allocations approved by the City Council in the 2023-25 budget, and for the most part multiplied these amounts by the projected growth in general revenues, which were 4.5% for FY 2026 and 3.5% for FY 2027.

2. Carryover Savings. As noted above, for enterprise and special revenue funds, any savings during a fiscal year or biennium adds to the next budget period's beginning balance, which in turn provides flexibility in funding one-time expenses such as equipment or capital improvements. This budget includes the same incentive for general fund departments, by allowing them to carry over savings and department revenues that exceed projections as a beginning balance for the department. These balances must be used for one-time expenditures that are consistent with Council priorities.

3. Departmental Contingency Accounts. All general fund programs in every city include contingency amounts, but they are hidden in the form of padded line items. In Lake Oswego's budget, we encouraged department managers to set aside some portion of their beginning balance in a clearly identified contingency budget, rather than hidden within line items. This contingency services as a buffer for higher than expected costs in other line items. And of course, if the contingency account isn't needed in the current budget period, it carries forward into the next budget period.

The carryover savings program and combined departmental contingency accounts have made the City of Lake Oswego resilient to outside shocks to the financial environment.

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4. Responsibility for Personnel Costs. One could argue that the cost of employees is outside the control of operating managers. Salaries are set by union contracts (approved by the City Council) or by a citywide classification system. Pension costs are set by the state. Healthcare costs are also set by union contracts or through citywide contracts.

However, operating managers set the number and level of positions in their departments. The cost of wages, health care and other benefits are known, and Department Directors are well aware of the trade-offs between personnel spending and other costs, such as materials and equipment.

After the general fund managers receive their share of general revenues, they must balance their costs, including personnel costs. The finance department projects the salary and benefit costs for each current employee, but the department heads have to add them into the budget. In other words, operating managers are responsibility for *all* the costs of providing service, including staff costs.



5. Internal Fees for Service. To be able to provide city services, we have to account for money, recruit staff and process the payroll, provide legal advice, maintain buildings, operate a computer network, and provide other internal support services.

The City of Lake Oswego uses a sophisticated cost allocation model - developed by an independent expert and updated by the Finance Director - to charge internal service costs to the city operating departments. The model includes an allocation of costs to general fund programs, such as police and library service, but since most of the expenses are also accounted for in general fund units (HR, IT, Finance, etc.), there is no need to transfer these amounts between funds, so they haven't been shown separately. We now show these amounts as a component of the cost of general fund services.

By fully expensing these costs, we are able to show corresponding revenue for the support service departments, so like their direct service peers, these programs become self-balancing accounts. The direct service departments are the customers of the support service departments, and the fees represent the cost of internal "contracts" for services.

Managing the Bottom Line

The final budget adopted by the City Council set a total appropriation (spending limit) for each program in the general fund, and appropriations by categories of expense in other funds.

Where it really matters is in how the budgets are *managed*. Enterprise and special revenue fund managers have always had to manage the bottom line: regardless of estimates and authorizations (the budget), actual spending can't exceed actual total available resources. The same is true for the managers of general fund and central service programs. Actual expenses can't exceed resources. If carryover savings are less than projected, or if departmental revenues come in below projections, the manager will have to offset this on the expense side. On the other hand, if a department generates additional revenue, these funds can be used in future budget years.

Fiscal Health and Financial Policies

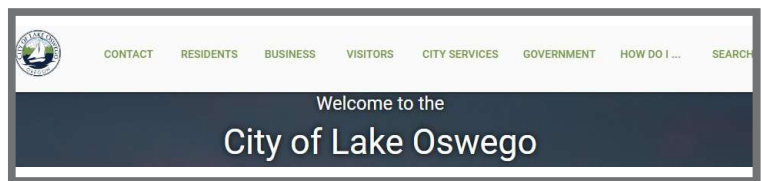
A financial policy that has served Lake Oswego well is to use one-time resources (e.g., beginning balances) to fund one time expenditures, such as capital, equipment, or special projects.

The City has also been well serviced by adhering to Council-adopted policies for the overall General Fund balance and capital reserve practices. By policy, the City sets aside 30% of general fund operating costs. This practice both recognizes that the majority of general fund resources are property taxes, which are levied in July but not collected until November and December and that the City needs to reserve funds for emergencies.

The City also has a practice of placing any “excess” funds into a capital reserve fund. In past fiscal years, this practice has protected the City against changes in the economy or construction costs. In the 2025-2027 budget, all excess funds have been allocated to high priority capital projects, including the Recreation and Aquatic Center and skatepark, and there is no contribution to the capital reserve fund.

Budget Information Improvements

To make budget information more widely available, the City provides web-based budget information.



We also use an interactive budget dashboard that allows operating managers and citizens an at-a-glance overview of all city financial performance, with the ability to drill down to more detailed data. We also use a Capital Improvement Dashboard for real-time tracking of multi-year capital projects, showing the total project budget and the amount spent to date (across fiscal years).

Biennial Budget

Well-managed cities pay attention to the long-term consequences of decisions. Every year, we update a six-year projection of general fund revenues and expenditures, and we adopt a two-year (biennial) budget. For 2025-27, we are continuing a biennial budget format. This doesn't, however, mean it is a static document: the City Council can and should amend it as needed. The real-time budget dashboard allows the Council and public to monitor financial performance throughout the period, and a mid-biennium review in the spring of 2026 will give the City Council an opportunity for mid-course fine-tuning.