

BUDGET MESSAGE

April 26, 2005

Honorable Mayor Leiken, Budget Committee Members and Citizens of Springfield:

Budget Overview

The Springfield Community has enjoyed another successful year. Not only from the perspective of our continued healthy economy but also from the perspective of the mood and social fabric of our community. We have captured so many economic growth opportunities in the past five years that there is now an electric feeling of momentum in the air when community groups come together to discuss the future of our beloved city. I have taken this valued commodity, momentum, into consideration as I prepared this proposed budget.

Now more than ever, our citizens want Springfield to continue to grow and prosper and thereby become the city of choice for many of the new residents and businesses desiring to call central Lane County home. Based upon our rapid progress towards community goals over the past few years and plans currently underway, it is certainly possible to achieve the envied “city of choice” designation within Springfield’s ten year planning horizon.

And while it is comforting to know that there is strong community support for our destination, that does not mean that the pathway to our desired future is going to be short or trouble free. Indeed, just the opposite is likely true. We continue to face significant fiscal challenges and prudence once again requires us to give budget priority to stabilizing current basic services before allocating significant resources to longer term activities.

I believe this budget proposal does a good job of stabilizing most of our current critical services while still funding some longer term community enhancement activities. However, it will take careful and continued stewardship of our funding sources for our hopes and dreams to be realized within a ten year horizon. Based upon what I have seen in my tenure as City Manager, Springfield City Government is certainly up to the challenge.

The Process

The proposed FY 2005/06 budget is policy-directed; driven by the Council’s existing public policies and future stated goals. The Council met on November 8, 2004 to review the long range financial projections for the City and to discuss possible alternative revenue proposals for next year. On January 24, 2005, the Council met to both review Council goals for the current year and to set new five year goals and priority action items for next year.

City Council Goals, 2004 – 2009

- ◆ Provide financially sound, stable city government
- ◆ Utilize resources efficiently and effectively to meet citizen needs for core services
- ◆ Expand the Springfield economy through commercial and industrial development which creates family wage jobs
- ◆ Enhance Springfield’s safety by constructing the Justice Center

- ◆ Participate in a renaissance for Springfield
- ◆ Partner with citizens and other public agencies
- ◆ Preserve our hometown feel as we grow

Top Priority One Year Targets

Glenwood Development
 Gateway Development-Transportation Management
 Downtown Redevelopment

High Priority One Year Targets

Comprehensive Plan and Remaining Periodic Review Tasks
 Designating Nodal Development Areas in Fulfillment of TransPlan
 ESA Code Amendments
 Jasper Natron Development
 TEAM Springfield

By also addressing one of the Council’s top priority goals for 2005/06, “provide financially sound, stable City government,” the guidelines utilized in budget preparation are as follows:

1. Propose a Goal-Directed Budget

Team Springfield efforts at creating community goals and the Council’s efforts at creating 5-year goals and 1-year targets have identified outcomes for management to achieve.

2. Stabilize Core Service Delivery for the Next 3 to 5 Years

The city’s effort for many years has been to view the proposed budget in the context of a 3-year projection, looking ahead to ensure that as decisions are made during the budget process, a core level of basic service can be maintained.

3. Maintain Adequate Reserves and Working Capital

The city’s 3 to 5 year long range forecasts for its operating funds anticipate future needs as well as current needs.

4. Continue General Property Tax Levy Anticipating Moderate Economic Growth

The health and growth of Springfield’s economy has an important role in the delivery of services to all residents. Promoting and accurately projecting economic activity assists in the city’s long range planning and visioning.

5. Continue Support of General Fund Through Interfund Operating Transfers

The support of the General Fund through operating transfers from other sources has allowed the city to offer a greater number and higher quality services to residents. Selective use of one-time funds provides for continued provision of services.

6. Assess and Develop Appropriate User Fees

The city has recently updated all of its major fees and charges. Continued revisiting of appropriate recovery guidelines, annual inflation impacts, and cost of service methods will help ensure that appropriate revenue resources are being recognized.

7. Continue to Look for Overall Efficiencies

The Council has continued to stress for several years the importance of striving to find better ways for the provision of services. Management continues to look at inter and intra-departmental and inter-agency opportunities for efficiencies.

8. Promote a Healthy Internal Organization

In addition to customer satisfaction, management needs to provide employees with the training and tools they need to do their jobs, as well as addressing the well being of our work force.

Key Issues

Early each year it is necessary to review the service expectations and financial projections for each of the City's significant service areas and identify key issues that may need to be addressed during the budget preparation process. The City's executive team developed this year's strategy based upon this review and also in response to desired outcomes expressed by the Budget Committee during last year's budget review; direction received from City Council members at a mid-year budget work session; as well as at the Council's annual goal setting session. The key issues identified include:

- ◆ Continued, focused communication with Springfield's citizens about the enhanced services being provided by the City's two special four-year levies for police and fire services is critical because both levies will require voter renewal in 2006
- ◆ The recent approval of the capital bond vote for the construction of a new police administration facility and municipal jail provides an opportunity to influence other downtown redevelopment
- ◆ Passage by Council of the utility tax ordinance addressed a critical funding need for the City and the subsequent referral to the voters may jeopardize future funding for jail operations, other public safety services and all other services offered by the City
- ◆ Redevelopment of Glenwood after the recent formation of the Glenwood Urban Renewal District may depend upon the City's ability to successfully provide financial stimulus within the District
- ◆ In the wake of tax limitation measures and a modest regional economy, the City's General Fund is still subject to slow growing resources in comparison to increasing demands for service and escalating labor costs resulting in the need for the City to continue utilizing its reserve funds to meet current service demands
- ◆ A reduction in federal cost reimbursement levels for Medicare/Medicaid and a reduction in ambulance billing services revenue is significantly impacting the City's Emergency Medical Services Fund, an enterprise fund established for the delivery of ambulance services

As these issues clearly demonstrate, these are challenging times to our city's future. Each of the six key issues identified are addressed in the proposed budget, while the fundamental challenge was to address each of these and still provide a fiscally responsible budget proposal. Each of these issues requires a multi-year solution with the key strategies described below:

Special Four-Year Levies for Police and Fire Services

The City asked and received authorization from Springfield citizens in November of 2002 to levy two separate but additional taxes for public safety services. Each of these two levies began in the 2003/04 fiscal year and provides revenue for enhanced services through the 2006/07 fiscal year. The levy for Police services is for \$.66 per thousand and the levy for Fire services is for \$.36 per thousand. These two levies enable the City to provide valued and critical public safety services with a caveat that the services can only be continued after June 30, 2007 if citizens are willing to renew one or both of the levies at the November 2006 election. A citizenry that is kept informed about the outcomes that are being achieved with this additional levy authority is more likely to understand the importance of the four-year renewal cycle than one that is only spoken to once every four years. With this need in mind, as well as other issues such as the utility tax, justice center, and necessary community input for service prioritization, it is being recommended that the funding for a Public Information Officer position be included in the Proposed Budget.

Utility Tax

During the budget preparation process last spring, the City's desire to ask citizens about the annexation of Springfield Fire & Life Safety to the Willakenzie Fire Protection District was ended without a citizen's vote at

the Lane County Boundary Commission. The Budget Committee did discuss the potential enactment of an ordinance that would impose a privilege tax upon utilities doing business in the City. Both the fire district and the utility tax were efforts by the Council to stabilize Fire and other general fund services. The City Council continued the utility tax discussions during the fall and in December 2004, the Council adopted such an ordinance. The analysis indicated that a utility tax as designed would possibly net \$600,000 annually. Although earlier budget projections for the City were developed assuming the adoption of the utility tax by the Council, for prudent budget planning purposes, since the successful referendum action to refer this decision to the citizens, the proposed budget does not include any projected revenue from the proposed utility tax.

Springfield Justice Center

The Springfield Justice Center is the working title for the new police/court administration and jail facility in Springfield. This became possible after citizens approved a \$28.6 million capital construction bond in November 2004. The project is underway and includes the formation of a citizen's advisory committee, formation of a project management team, site land-use decisions, selection of design architects, and the implementation of a capital financing plan for construction. Also important to the current discussion is the response to Council's decision that the construction of the jail portion of the facility will not commence until the City has secured the funds necessary to pay for the operation of the jail.

Glenwood Urban Renewal District

For several years, the City Council has placed the Glenwood area as one of its highest priorities for the redevelopment. In November of 2004, citizens approved a 20-year plan which is intended to redevelop certain areas to their highest and best use while also maintaining public support from Glenwood residents. The progress of the urban renewal plan is expected to span a 20-year period but will depend upon the City looking for opportunities to provide the right catalyst at the right time to help ensure that Glenwood meets the desired economic development goals.

Financial Stability for the City's Operating Funds

The primary operating funds for the City are the General, Emergency Medical Services (EMS), Street, Sanitary Sewer, and Storm Water, and Regional Wastewater Funds. Of these, only the General Fund is tax supported. Each of the other funds has their own dedicated revenues and long range financial plans. The Street Fund shows operating stability over the next several years with the recent enactment by the Council of a local gas tax. The three sewer and drainage funds show reasonable operating stability over this same period with the annual review of rates by staff and Council.

The remaining two funds, the General and EMS Funds, are both facing significant instability over the next several years. This is a new situation for the EMS Fund, having been established as an enterprise fund in 1981 and having seen healthy financial stability for most of this period. Recent reductions in Medicare and Medicaid reimbursement levels from the federal government and a decision by the City of Eugene to not renew their ambulance billing and FireMed contracts with Springfield Fire has greatly reduced revenue projections. For the General Fund, the cause of the concern is a more familiar one. The city's heaviest subsidized services are reliant upon resources that have become more influenced at the State level with these resources seldom adequate to meet local demands.

The concern for the financial stability for the EMS Fund is the paramount issue addressed in the proposed budget since most of the fund's reserve cash has been utilized over the past 2 years. The remedial actions that are being proposed involve city-wide solutions and not just expenditure reductions within the Fire Department.

Because Policy leaders and staff take a multi-year approach to budgeting, we have not been caught unprepared for the fiscal challenge of addressing the projected EMS Fund and General Fund operating shortfalls.

Regarding the EMS Fund, the Fire Department is currently working with a consultant to develop a funding strategy plan for ambulance services to be completed by summer of 2005. In the interim, the recommended budget proposes several changes to the EMS budget that begin to address some of the funding strategies that likely will be part of that final report. The following table and descriptions are the recommended steps to help stabilize ambulance service operations.

Table 1: Emergency Medical Services Long-Range Projections

<u>Annual Operating Budget</u>	<u>Actual FY04</u>	<u>Projected FY 05</u>	<u>Proposed FY06</u>	<u>Projected FY07</u>	<u>Projected FY08</u>
Operating Revenue	\$4,177,988	\$3,549,650	\$3,644,470	\$3,617,000	\$3,690,000
Operating Expenditures	<u>4,199,065</u>	<u>4,246,831</u>	<u>4,099,622</u>	<u>4,412,000</u>	<u>4,544,000</u>
Revenue Over (Under)	(\$ 21,077)	(\$ 697,181)	(\$ 455,152)	(\$ 795,000)	(\$ 854,286)
Expenditure					
Beginning Cash on Hand	<u>1,406,248</u>	<u>1,385,171</u>	<u>687,990</u>	<u>232,838</u>	<u>(562,162)</u>
Ending Cash on Hand	\$1,385,171	\$ 687,990	\$ 232,838	(\$ 562,162)	(\$1,416,162)

Steps taken to ensure that the EMS Fund has a minimum cash on hand balance of \$232,838 June 30, 2006 are:

- ◆ Hold vacant for 1 year, due to retirement, the Deputy Chief of Operations position. This position is 50% EMS Fund and 50% General Fund, saving a total of \$135,000
- ◆ Recalculate the EMS funded portion of the department's dispatch contract with Eugene resulting in a savings of \$61,342, with that amount being picked up by the General Fund
- ◆ Eliminate non-essential travel & meeting, employee development and memberships
- ◆ Recalculate the EMS funded portion of medical supplies for fire engines resulting in a savings of \$50,500, with that amount being picked up by the General Fund
- ◆ Cap the Internal Data Processing Charges and reduce the amount of payment to the General Fund for this internal service by \$50,000
- ◆ Cap the Indirect Charge and reduced the amount of payment to the General Fund for internal services by \$75,000
- ◆ Reduce the EMS overtime budget by \$20,000
- ◆ Hold vacant for a second year a 1.0 FTE Training Officer position for a savings of \$110,000
- ◆ Increase ambulance user fees to raise an additional \$90,000 annually
- ◆ Implement a new fee for First Response Service, expected to generate \$100,000 in the first year

To provide for fiscal stability in the General Fund, the Proposed Budget is recommending many of the same steps taken by the EMS Fund to maintain critical services while at the same time looking to reduce operating expenditures. Although the General Fund has historically had ongoing difficulties in matching current revenues with current expenditures, it has been successful recently in maintaining or even increasing its year end fund balance to ensure a multi-year approach to service adjustments.

Table 2: General Fund Long-Range Projections

<u>Annual Operating Budget</u>	<u>Adopted FY05</u>	<u>Projected FY 05</u>	<u>Proposed FY06</u>	<u>Projected FY07</u>	<u>Projected FY08</u>
Operating Revenue	\$24,732,579	\$25,742,345	\$25,499,630	\$26,220,000	\$27,030,000
Operating Expenditures-	<u>24,205,081</u>	<u>24,222,037</u>	<u>25,924,186</u>	<u>27,420,000</u>	<u>28,850,000</u>
Revenue Over (Under)	\$ 527,497	\$ 1,520,308	(\$424,556)	(\$1,200,000)	(\$1,820,000)
Expenditure					
Operating Transfers Out	-150,000	-1,006,634			
Beginning Cash on Hand	<u>5,997,209</u>	<u>5,960,704</u>	<u>6,474,378</u>	<u>6,049,822</u>	<u>4,849,822</u>
Ending Cash on Hand	\$ 6,374,706	\$ 6,474,378	\$ 6,049,822	\$ 4,849,822	\$ 3,029,822

The significant actions being taken to ensure that the General Fund continues to meet service expectations while remaining financially prudent for fiscal year 2005/06 are as follows:

- ◆ Continue to offer the DARE program by retaining 1.0 FTE in the police department at a cost of \$115,000 (75% funded by the Dist 19 and 25% contributed through community fundraising efforts)
- ◆ Re-fill the vacant Senior Management Analyst position, vacant since 1998, to provide for public information services for the City with start-up costs, material & services and salary totaling \$100,000
- ◆ Continue funding for 1.0 FTE Programmer Analyst in the information services department added mid-year to be dedicated to the development of the regional fire records management system at a cost of \$66,000
- ◆ Add \$15,000 to the library department budget to allow continued funding for temporary staff that fill in for regular staff members' vacations and sick time
- ◆ Allow the library department to carry-over \$15,000 from the current fiscal year to next year for implementation of a marketing plan being developed by the U of O marketing program
- ◆ Add \$15,000 to the human resources budget for labor negotiation consultant assistance for next year's three labor contract negotiations.
- ◆ Increase expected revenues and increase collection expenses by \$23,000 to allow municipal court staff to continue more aggressive delinquent fine collections
- ◆ Recalculate shared expenses between the two public safety levy funds and the General Fund to ensure proper allocation of program expenses with reallocations amounting to \$65,000
- ◆ Increase expenses by \$110,000 within the fire department as the dispatch contract and medical supply costs are reallocated between services
- ◆ Decrease revenues to the General Fund from the EMS Fund for internal services costs
- ◆ Achieve savings in several department by reviewing and reducing projected material and services cost for next year
- ◆ The City's PERS (Public Employee Retirement System) rate for the next two years has been tentatively set by the PERS Board at a rate substantially lower than those estimated last year. This is resulting in a decrease of \$350,000 over what was previously projected for retirement cost

Table 3 will describe in detail more of the expenditure changes that are included as part of the Proposed Budget for next year while Table 4 will describe in more detail the revenue changes that are included.

General Fund Overview

Preparing the General Fund budget for next year presented many interesting challenges. The estimated operating deficit for this fund in December 2004 was \$826,967. This number still included an estimated \$200,000 in revenue from the utility tax and did not yet include any estimate for a city-wide response to the financial difficulties of the EMS Fund. In addition, service demands required consideration of adding three additional FTE to the General Fund. These three FTE are the DARE officer for an additional year, continuing the funding for an IT Programmer Analyst for public safety technology issues and the re-instatement of a public information officer position for the City to address many of the identified strategic issues. If all of these issues had been included in the original projections without benefit of accompanying resources, the potential deficit for FY 05/06 would have been closer to \$1.5 million.

In preparing my recommended budget, I held strongly to the notion of balancing the budget by looking at both revenues and expenditures. From an academic standpoint, to simply reduce expenditures to match existing

resources balances the budget but this would cause many popular city services to be eliminated or severely reduced. Since local government exists for two primary reasons, regulation and providing valued services, the potential \$1.5 million in further estimated cuts necessary to balance revenues and expenditures would have to come from the discretionary service side of government. This would mean less funding to achieve “should do or nice to do” projects or activities.

The targets that were eventually set for this proposed budget included considering additional revenue, reducing expenditures, and the use of limited one-time general fund reserves. The expenditures changes that are included in the proposed budget are aggressive. We made sure that services being provided receive adequate resources and looked for efficiencies to reduce the cost of services. They are listed in Table 3.

Table 3: FY 05/06 General Fund Balancing Strategy Expenditure Changes from Dec. 2004 Projections			
Significant Expenditure Changes	FTE	Amount	Comments
Changes to Departmental Budget Authority:			
City Manager's Office	1.0	\$ 105,613	Re-fill Public Information Officer position
Finance Department	-	(8,389)	Reduction in Material & Services
Fire and Life Safety Department	(0.50)	(66,829)	Hold Deputy Chief of Operations vacant 1-year
		15,550	Increase Gas & Oil account
		28,541	Increase contractual Dispatch account
		61,342	Reallocate Dispatch costs from EMS
		(39,548)	Reduce Overtime account
		50,500	Reallocate First Response medical supplies expenses from EMS
Human Resources Department	-	15,000	Increase contractual account for labor negotiations support
		2,500	Increase account for employee longevity recognition program
Information Technology Department	1.0	66,312	Continue mid-year funding for Program Analyst for regional public safety program
Legal and Judicial Services	-	23,000	Increase contractual cost for delinquent account collection effort
Library	-	15,000	Increase funding for temporary staffing help
		(5,166)	Reduce contributions to equipment replacement fund
Police Department	-	115,000	Continue DARE program
		5,000	Increase Prisoner Medical Expense account
		(65,820)	Reallocate appropriate employee cost to Police Levy Fund
Public Works Department	(.04)	(26,363)	Reduction in M&S; reallocate staffing costs
Development Services Department	.41	10,000	Reorganize division staffing; increase planning technician position
All Departments		(340,456)	Reduction in estimate of retirement contribution cost with new rates
		(451,601)	Based upon January CPI, reduce estimated COLA for employee groups by 3% to 5%
Expenditures Total – General Fund Only	<u>1.87</u>	<u>(\$500,814)</u>	Total Change December 2004 to Proposed FY 05/06

Next, the City’s executive team focused its attention on attempting to raise revenue to better match expected expenditure. This effort included both generating additional carry-over funding from the current fiscal year as well as adjusting current revenues. The generation of carry-over dollars was very successful and increased anticipated reserves by \$505,919 over December projections. The actual result of changes after eliminating any inclusion from the utility tax and reducing the receipt of internal charges for both the EMS Fund and some other specialty funds is a reduction of \$98,402. The proposed budget does require that current expenditures exceed current revenues by \$424,556 but this is accomplished in FY05/06 by utilizing the reserve buildup accomplished during this fiscal year and does not require any previously existing reserves. The projected cash reserves at the end of FY05/06 are projected to be approximately \$90,000 greater than at the beginning of FY 04/05!

Table 4: FY05/06 General Fund Balancing Strategy Revenues Changes from December 2004 Projections		
Revenue Enhancements	Amount	Comments
Cash Carryover	\$ 505,919	FY05 acceleration of FY06 strategy
Current Revenue		
Decrease in Current Revenues:		
Remove Projected Utility Tax	(200,000)	To be determined by citizen vote in May
Reduce Indirect Charges from EMS Fund	(75,000)	Strategy for stabilizing EMS Fd over 2 years
Reduce Data Processing Chrgs for EMS	<u>(50,000)</u>	Strategy for stabilizing EMS Fd over 2 years
Decrease in Current Revenue	(325,000)	
Increase to Current Revenues:		
DARE funding from Dist #19	85,000	Dist #19 contribution of Officer’s salary
Increase DARE donations	30,000	Commitment for DARE fundraising
Increase internal rent payments	113,119	
Current property tax collections	<u>56,100</u>	Change growth rate by .1%
Increase in Current Revenue	284,219	
Changes to Revenue Projections:		
Net Increase in Franchise Revenue	27,341	Updated estimates
Net Change in Library Fees & Donations	(1,617)	Updated estimates
Net Decrease in Licenses and Permits	(35,800)	Decrease in projected activity level
Net Change in Intergovernmental	\$115,781	Increase reimbursements for services provided
Net Increase in Fines	47,744	Change in interest income and donations
Net Change in Indirect Charges	(460,315)	Increased indirects from new positions and reallocation
Net Change in Planning Fee Projections	<u>234,057</u>	
Net Change in Revenue Projections	(72,809)	
Change in One-Time Transfers:		
Net Change in One-Time Transfers	<u>15,188</u>	
FY05 Current Revenue Changes	<u>(98,402)</u>	FY05 Operating Revenue
Carry-Over and Current Revenue	<u>\$ 407,517</u>	Total Additional Cash Carry-Over and Operating Revenue

When taken in total, Table 4 below shows the full budget strategy utilized in the current fiscal year (estimated FY 04/05), the projections utilized at the beginning of this year's budget process after trending revenues, labor contracts and inflationary increases (projected FY 05/06) and the budget as proposed for next fiscal year (proposed FY 05/06):

Table 5: General Fund				
	Estimated* FY 04/05	Projected** FY 05/06	Cumulative Actions Taken	Proposed FY 05/06
Projected Revenue	\$ 26,012,345	\$ 25,598,033	\$ (98,403)	\$ 25,499,630
Projected Expenditures	<u>25,687,807</u>	<u>26,425,000</u>	<u>(500,814)</u>	<u>25,924,186</u>
Balance	<u>\$ 324,538</u>	<u>\$ (826,967)</u>	<u>\$ (402,411)</u>	<u>\$ (424,556)</u>

* estimated as of March 2005

** projected as of December 2004

My proposed budget reflects a lot of cost control and selective revenue additions totaling \$402,411. Coupling these major changes with numerous smaller budget adjustments and the prudent use of reserves, results in a proposed General Fund Operating Budget that grew by 7.13% from the FY 04/05 Adopted Budget (see Table 5). This is possible because of the multi-year commitment by the Budget Committee last year to maintain a high level of reserves within this fund and to project an ending balance for FY05/06 that is no less than the beginning balance for FY04/05.

Table 6: General Fund – FY 05/06 Proposed versus FY 04/05 Adopted				
Category	FY 05-06 Proposed Budget	FY 04-05 Adopted Budget	Dollar Change	Percent Change
Departmental Operating				
Personal Services	\$ 21,431,678	\$ 19,966,616	\$ 1,466,501	7.34%
Materials and Services	4,369,415	4,113,858	254,117	6.18%
Capital Outlay	<u>82,844</u>	<u>80,780</u>	<u>2,064</u>	<u>2.56%</u>
Departmental Operating Budget	\$ 25,883,936	\$ 24,161,254	\$ 1,722,682	7.13%
Departmental – Non Operating	40,250	40,250	0	0.00%
Non Department – Non Operating	<u>6,049,822</u>	<u>6,528,283</u>	<u>(478,461)</u>	<u>(7.33)%</u>
Total Budget - All Requirements	<u>\$ 31,974,008</u>	<u>\$ 30,729,787</u>	<u>\$ 1,244,221</u>	<u>4.05%</u>

However, even with the aggressive actions taken to date, again the general fund deficit is expected to approach \$1,200,000 in FY06/07. Obviously, additional work is needed to keep expenses and revenues balanced while still allowing our community to be able to capture significant economic and societal opportunities.

FY05/06 Proposed Budget—All Funds

Turning to the overall FY05/06 Proposed Budget (including the General Fund) the Proposed Budget is \$213,895,262 which is \$44,039,779 million greater than the FY04/05 Adopted Budget. The operating budget

actually decreased by \$674,589 (-1.03%) over the FY04/05 Adopted Budget, while the capital budget increased by \$16.83 million (40%) increase. The cause of the large increase in the Capital Projects budget is the beginning of the Regional Wastewater 20-year capital improvement program which shows a proposed \$17.4 million increase for next year in budgeted projects for next year.

The large increase in the Non-Department Budget (from \$62.7 million to \$90.6 million) is not reflective of an increase in expenditures or a significant change in the City's operating funds held in reserve at year end but instead is the result of an effort by management to account more effectively for the organization's System Development Charges (SDC's) expenditures and the Metro Wastewater Commission (MWMC) planned revenue bond sale. For the SDC programs (transportation, storm water and sanitary sewer) new accounting funds are being provided to separately track improvement and reimbursement SDC expenditures. Over \$11.5 million in City and MWMC SDC cash assets are being transferred from the old funds to the new, creating the non-departmental appropriation. An additional \$7.9 million are the funds expected to remain from MWMC's FY05/06 revenue bond sale as a resource for year 2 of the capital improvement program.

Categories	FY 05/06 Proposed	FY 04/05 Adopted
Department Operating Budget	\$ 64,569,569	\$ 65,244,158
Capital Budget	58,772,205	41,943,920
Non Department Budget	<u>90,553,488</u>	<u>62,667,405</u>
Total Requirements:	<u>\$213,895,262</u>	<u>\$ 169,855,483</u>

All things considered, I believe the proposed budget does a good job of holding the line on increased costs and reducing our overall operating expenditure level while responding to adopted TEAM Springfield community goals and those City goals adopted by our Mayor and City Council in November, 2004.

In summary, with all the actions taken over this past year and proposed for next year, the composite view of the proposed budget is as follows:

Table 8: Total City Department Operating FY05/06 Proposed Budget Versus FY04/05 Adopted Budget				
Department	FY05/06 Proposed	FY04/05 Adopted	Dollar Change	Percent Change
City Manager's Office	\$1,249,225	\$1,036,137	\$213,088	20.57%
Development Services Department	4,749,306	6,896,879	(2,147,573)	(31.14)%
Finance Department	1,068,801	1,110,483	(41,682)	(3.75)%
Fire and Life Safety Department	13,050,822	12,619,239	431,583	3.42%
Human Resources Department	1,040,232	983,845	56,387	5.73%
Information Technology Department	1,236,467	1,145,175	91,292	7.97%
Legal and Judicial Services	1,392,690	1,320,278	72,412	5.48%
Library Department	1,251,843	1,233,854	17,989	1.46%
Police Department	12,577,095	11,556,433	1,020,662	8.83%
Public Works Department	<u>26,953,088</u>	<u>27,341,835</u>	<u>(388,747)</u>	<u>(1.42)%</u>
Total Operating Budget	<u>\$64,569,569</u>	<u>\$65,244,158</u>	<u>(\$674,589)</u>	<u>(1.03)%</u>

Table 9: FY 05/06 Capital Projects Compared to Adopted FY 04/05

Fund Name	FY05/06 Proposed	FY 04/05 Adopted	Difference
Community Development Block Grant	1,220,713	10,000	1,210,713
Sewer Capital Projects	3,846,000	5,747,000	(1,901,000)
Development Projects	5,961,080	8,811,359	(2,850,279)
Drainage Capital Funds	706,005	0	706,005
GO Capital Projects	99,102	147,776	(48,674)
Police Building Bond Capital Project	2,776,514	0	2,776,514
Regional Wastewater Capital	31,647,000	14,220,000	17,427,000
Street Capital	3,987,402	3,670,000	317,402
Transportation SDC	0	2,247,228	(2,247,228)
Sewer SDC	0	3,272,557	(3,272,557)
Regional Wastewater SDC	0	3,625,000	(3,625,000)
SDC Storm Reimbursement	950,766	0	950,766
SDC Sanitary Reimbursement	150,000	0	150,000
SDC Sanitary Improvement	1,160,557	0	1,160,557
SDC Regional Wastewater Reimbursement	3,325,000	0	3,325,000
SDC Regional Wastewater Improvement	650,000	0	650,000
SDC Transportation Reimbursement	160,700	0	160,700
SDC Transportation Improvement	2,101,366	0	2,101,366
Booth-Kelly	30,000	193,000	(163,000)
Total Capital Projects	<u>\$58,772,205</u>	<u>\$41,943,920</u>	<u>\$16,828,285</u>

Conclusion

Like the budgets of the past few years, this year's budget is certainly not a "status quo" proposal. Rather, this year's proposal is once again a delicate balance of expenditure reductions, increased revenues and the prudent use of reserves. The amounts allocated or derived from each of these three budget components have been carefully determined in order to lessen the structural problem between revenue growth and expenditure growth. While I am very pleased with the progress made this year towards our structural balance dilemma, more work is necessary over the next few years to even better balance revenues and expenditures while still making progress towards popular community goals.

In closing, I would sincerely like to thank members of the city organization for not only their continued hard work and commitment to public service but also for their ongoing support and friendship over the past 38 years. This will be my last Budget Message as City Manager and I truly want each employee to know how much I have appreciated their loyalty and support.

It's a privilege and honor for anyone to serve as City Manager of their adopted home town. I feel particularly blessed to have been City Manager during a time of significant community accomplishments. But make no mistake; it has been the effort of hundreds of elected and appointed officials, along with our citizen stakeholders, that has resulted in so many community accomplishments. Many of the folks directly responsible for these successes are senior staff members as well as long tenured managers. Seldom do those folks get the full credit they deserve. My gratitude and appreciation goes out to them along with my hope that

they will continue to help build our community with the same caring attitude I have witnessed over the past 16 years.

Finally, I want to express my gratitude to all the elected officials I have served and especially to the current elected leaders, Mayor Sid Leiken and City Councilors Anne Ballew, Tammy Fitch, Christine Lundberg, Joe Pishioneri, Dave Ralston, and John Woodrow. You have all provided me a wonderful and rewarding career which I will cherish throughout time. I leave with few regrets and numerous wonderful memories. It's been a great ride, bless you all.

Sincerely,

Michael A. Kelly
City Manager

ADDENDUM TO THE CITY MANAGER'S BUDGET MESSAGE

Summary of Actions of the Budget Committee and City Council Adopting the FY06 City Budget June 20, 2005

A summary of the actions taken by the Budget Committee and City Council in adopting the FY06 annual budget is provided in the following addendum to the City Manager's budget message.

Budget Committee Action – FY06 Approved Budget

The budget as approved includes the changes approved by the Budget Committee. The budget as proposed and approved also includes recommendations by management for certain fee increases that will be reviewed by Council after the beginning of the fiscal year.

The FY06 Approved Budget is in the amount of \$242,072,011, is as follows:

Sewer User Fees

Upon a recommendation by public works management, Local Sewer User Fees were increased by \$311,411 and Drainage User Fees were increased by \$137,371. Increases were made to the sewer capital projects and rate stability funds.

Justice Center Project

Upon a recommendation by the finance management, it was approved to include in the approved budget the necessary appropriation for the receipt and expenditure of all bond proceeds from the sale of the general obligation bonds approved by voters in November of 2004. The additional amount is \$25,735,967.

Springfield Economic Development Agency (SEDA) Loan

The Springfield Economic Development Agency requested that the City appropriate the necessary funds to provide for a loan to SEDA for up to \$1.5 million dollars. The Budget Committee voted to include this recommendation within the approved budget with the understanding that the actually granting of the loan would still require that the Council and SEDA enter into an agreement between the two agencies for any loan or service exchange to occur.

Animal Control Contract

The current animal control program at the city is currently funded through the police levy support for a community service officer and combination of fees from dog licenses and general fund subsidy. An increase in the cost of the animal shelter contract required staff to request additional tax subsidy for the program. An increase of \$27,000 was approved by the Budget Committee.

Lane County Jail Bed Contract

At the time of budget preparation, the City had not received the proposed FY06 jail contract from Lane County and estimated a 3% increase. Subsequent receipt of the proposed contract asked for a 5% increase in the grant which was accepted and recommended by staff to the Budget Committee. An increase of \$3,154 was approved by the Budget Committee.

Springfield Museum Contract

The non-profit Springfield Museum Board of Directors requested that the Budget Committee increase the contract for service between the City and the Museum from \$34,440 to \$50,000. An increase of \$15,560 was approved by the Budget Committee.

Community Relations Coordinator

The City Manager’s proposed budget included restoring funding to the City’s Community Relations Coordinator position that has been vacant for 4 years. The \$105,613 (\$75,024 wages and benefits for 1.0 FTE and \$30,589 supplies, material & equipment) was 100% from the General Fund with the only offsetting revenue being what would be generated from internal indirect charges against other specialty and enterprise services benefiting from the position. The Budget Committee chose to reduce the wages and benefits to reflect the position being budgeted at .50 FTE in place of the 1.0 FTE. This decreased the budget by \$37,524. The Budget Committee directed that this funding be utilized to respond to Lane Metro Partnership’s request to restore its contract with the City to \$50,000 (see next paragraph), however the City Council chose to change this recommendation (see City Council Action taken, below).

Lane Metro Partnership Contract

The Land Metro Partnership requested that the City continue its support in an amount equal to that of last fiscal year, for a total of \$50,000. The current year is the last of a three year agreement that saw the funding for the Partnership increase from \$28,827 to \$50,000 annually. The Budget Committee asked that the funding for this request be made available from the savings generated through the reduction of the proposed CRC position from 1.0 FTE to .50 FTE. An increase of \$21,163 was approved by the Budget Committee; however the City Council chose to change this recommendation (see City Council Action taken, below).

DARE Program

The DARE Program was included in the City Manager’s Proposed Budget, with the funding to be provided by the School District #19 (\$85,000) and the remainder of the program to be funded through community fundraising. The City’s Manager’s Proposed Budget did not include utilizing any city resources towards the DARE Program. Subsequent to this proposal being included, the School District indicated that may not be interested in funding the DARE or at least not at that level of commitment. The City’s Budget Committee responded by approving a re-allocation of resources among the partners of the \$130,000 program that resulted in the following:

	<u>District #19</u>	<u>City of Springfield</u>	<u>Total</u>
Agency Share of \$130,000 Total Cost	\$65,000	\$65,000	\$130,000
Offset provided by Fundraising	<u>0</u>	<u>30,000</u>	<u>30,000</u>
Net Agency Share	\$65,000	\$35,000	\$100,000

The Budget Committee requested that the City contract with the SEDA for staff support, specifically for that of .40 FTE of the City’s Economic Development Officer. This amounts to \$43,236. The general fund revenue from this contract would be utilized to offset the additional \$35,000 subsidy required for DARE.

Indications from the School District’s Budget Committee meetings are that the District may not be supportive of the program at a \$65,000 contribution level and that the adoption of the budget by the City with an

DARE Program, contd.

expectation of a \$65,000 contribution from the District may leave the program under funded for next school year. An alternative proposal being considered between the two agencies management's staff is:

	<u>District #19</u>	<u>City of Springfield</u>	<u>Total</u>
Agency Share of \$127,000 Total Cost	\$63,500	\$63,500	\$127,000
Offset provided by Fundraising	<u>10,500</u>	<u>10,500</u>	<u>21,000</u>
Net Agency Share	\$53,000	\$53,000	\$106,000

From the City's budget, \$43,236 would be funding from the revenue received from SEDA for the staff support of the City's economic development officer. The remaining \$9,764 would come from the City's general reserves. The staff will be prepared to discuss with the Council any possible changes in the DARE Program budget for next year.

Operating Funds and Long Range Financial Projections

In addition to the changes referenced above that were included by the Budget Committee as part of the Approved Budget, the approved budget also includes certain proposals that require subsequent consideration and action by the Council in order to reach the projected revenues for next year. Primarily these increases in fees are necessary for the stability of the City's operating funds. The City's five primary operating funds, (i.e. General, Street, Sewer, Building, EMS) all require a balance of different resources to meet the continuing demands of service. For the next fiscal year, the focus on fees and charges has been primarily been on General, Sewer and EMS Funds.

General Fund

Fees generated through the Development Code are the largest category of fees within the General Fund. In work session earlier this year, the Council took action to increase Development Code fees in response to the annual increase cost of providing service and also directed staff to work towards the percentage of cost recovery for these services to be 60%. A July 1, 2005 date was selected as the target date for this increase and the City Manager's Proposed Budget anticipated and included this additional revenue. At the time of approval of the budget by the Budget Committee a request for final action on this change in fees had not yet been presented to Council for consideration. On June 6, 2005, after conducting a public hearing, Council did take final action on the recommended Development Code fee increase to match the revenue projected in the budget approved by the Budget Committee. The additional revenue expected to be generated will be approximately \$200,000.

Sewer Funds

On July 1, 2005 the City began reorganizing its accounting practices for sewer operations, including creating an operating fund for its storm water drainage program separate from its sanitary sewer program. Annually, the City reviews its fees & charges and consideration is given to an adjustment in the monthly user rates. On May 02, 2005 the City Council approved increases in the uses rates for both the City's sanitary sewer program and its storm water drainage program. The increases are expected to generate an additional \$290,000 for the sanitary sewer program and \$110,000 for the storm water drainage program. These amounts were not in the budget as originally proposed by the City Manager but have been included in the budget as approved by the Budget Committee.

EMS Fund

The budget message presented by the City Manager at the first meeting of the Budget Committee stressed the fragile financial condition of the city’s EMS Fund. The operating revenue of this fund has seen a dramatic drop over the past couple of years as the federal government has greatly altered its Medicare and Medicaid programs and our City’s loss of Eugene as a customer/partner for its ambulance billing and FireMed program. The table and actions described below are excerpts from the 2005 budget message that detail the plan for addressing the financial difficulties of the EMS Fund over the next couple of years.

Table 1: Emergency Medical Services Long-Range Projections					
<u>Annual Operating Budget</u>	<u>Actual FY04</u>	<u>Projected FY 05</u>	<u>Proposed FY06</u>	<u>Projected FY07</u>	<u>Projected FY08</u>
Operating Revenue	\$4,177,988	\$3,549,650	\$3,644,470	\$3,617,000	\$3,690,000
Operating Expenditures	<u>4,199,065</u>	<u>4,246,831</u>	<u>4,411,644</u>	<u>4,412,000</u>	<u>4,544,000</u>
Revenue Over (Under)	(\$ 21,077)	(\$ 697,181)	(\$ 541,592)	(\$ 795,000)	(\$ 854,286)
Expenditure					
Beginning Cash on Hand	<u>1,406,248</u>	<u>1,385,171</u>	<u>687,990</u>	<u>146,398</u>	<u>(648,602)</u>
Ending Cash on Hand	\$1,385,171	\$ 687,990	\$ 146,398	(\$ 648,602)	(\$1,502,888)

Steps taken to ensure that the EMS Fund has a minimum cash on hand balance of \$146,398 June 30, 2006 are:

- ◆ Hold vacant for 1 year, due to retirement, the Deputy Chief of Operations position. This position is 50% EMS Fund and 50% General Fund, saving a total of \$135,000
- ◆ Recalculate the EMS funded portion of the department’s dispatch contract with Eugene resulting in a savings of \$61,342, with that amount being picked up by the General Fund
- ◆ Eliminate non-essential travel & meeting, employee development and memberships
- ◆ Recalculate the EMS funded portion of medical supplies for fire engines resulting in a savings of \$50,500, with that amount being picked up by the General Fund
- ◆ Cap the Internal Data Processing Charges and reduce the amount of payment to the General Fund for this internal service by \$50,000
- ◆ Cap the Indirect Charge and reduced the amount of payment to the General Fund for internal services by \$75,000
- ◆ Reduce the EMS overtime budget by \$20,000
- ◆ Hold vacant for a second year a 1.0 FTE Training Officer position for a savings of \$110,000
- ◆ Increase ambulance user fees by to raise an additional \$90,000 annually
- ◆ Implement a new fee for First Response Service, expected to generate \$100,000 in the first year

The last two items described above are issues that will require one or more subsequent work sessions. The ability of the EMS Fund to maintain the cash balance of \$146,398 on June 30, 2006 as indicated in the table above, depends upon the City being able to generate an additional \$190,000 (indicated here by \$90K in

EMS Fund, cont'd.

ambulance fees and \$100K in a first response fees) that currently has not yet been approved by the City. All of the other items on this list can be implemented by staff without any further action by Council. The remaining \$190,000 required for the fund to meet its year-end cash objectives can be met through the increase in fees or the reduction of expenditures. The two revenues described above were management's recommendations on how to close the funding gap. Preliminary discussions on these two topics with Council are due to occur shortly after the FY06 Fiscal year begins.

City Council Action Taken

Justice Center Project

On June 20, 2005, the City Council approved by resolution the sale of the first \$4 million of bonds for this project to finance the initial program planning, design work, and other possible pre-construction work that may occur in the next 18 months.

Community Relations Coordinator

The City Council chose to restore the wages and benefits that the Budget Committee reduced to reflect the position being budgeted back to a full 1.0 FTE. This increased the budget by \$37,524.

Lane Metro Partnership Contract

The City Council voted to fund the additional request of \$21,163 through General Fund reserves, rather than through the reduction of the CRC position.

Final Budget Adoption

At the June 20, 2005 regular meeting, the City Council held a public hearing on the FY06 recommended budget and after making the changes summarized above, adopted the FY06 City Budget. The following table provides a summary of the final adopted budget.

Adopted FY06 Budget	
Operating Budget	\$ 66,668,927
Capital Budget	\$ 82,475,691
Non-Departmental Budget	\$ <u>92,635,593</u>
Total	\$ 241,780,211