

**CITY OF SPRINGFIELD/FINANCE DEPARTMENT
MEMORANDUM**

Date: April 12th, 2023
To: Members of the Springfield Budget Committee
From: Nathan Bell, Finance Director
Subject: Agenda Packets for April 25th, 2023

I would like to thank each of you in advance for volunteering your time to help review the Proposed Budget for the City. After three years of conducting this meeting virtually, I am pleased to say that we will be back to an in-person meeting this year. However, we will also continue to offer an option for virtual attendance for the public. The first meeting is scheduled for Tuesday, April 25th at 5:30 p.m. in the Library Meeting Room of Springfield City Hall. Dinner will be served and ready for you at 5:00 p.m.

Committee Roster, Officers and Bylaws

In the first section of your FY24 Proposed Budget document (Attachment 16), there is a listing of the members of this year's committee. The majority of this year's Budget Committee will be new faces with only five of its twelve members returning from the previous year. New to the Committee is Councilor Michelle Webber, joining the Council in January of this year as a representative of Ward 1. Returning to the Committee after serving on the Committee in prior years as a community member is Councilor Victoria Doyle, also joining the Council in January of this year as a representative for Ward 5. The Ward 4 Council position is currently vacant with the recruitment in process as of the date of this memo. It is unknown at this time if that position will be filled and able to join us for any of the scheduled meetings. Our new community members appointed by the Council include: Jason Miller (Ward 1), Devin Marche-Duncan (Ward 2), Ruth Linoz (Ward 4), and Arthur Ayre (Ward 6). All four individuals bring valuable experience and will be a great addition to this year's committee.

Every year, the Committee is required by Oregon Budget Law to elect a chairperson. Our Committee historically has also chosen to elect a vice-chair to be available when the chair is absent. Typically, the chairperson from the previous year opens the meeting and conducts the process of electing a new chair. With neither the previous year chair nor vice-chair returning this year, Secretary Darlene Raish will open the meeting and conduct the process of electing a new chair. Upon election, the new chair will preside over the remainder of the meetings.

You are also being asked again to serve on the Budget Committee for the Springfield Economic Development Agency (SEDA). As a separate agency, SEDA is required to follow Oregon Budget Law in the manner similar to your role on the City's Budget Committee for the City's two urban renewal districts. The SEDA Board is comprised of the six City Councilors, the City's Mayor, and one County Commissioner. To ensure equal representation between elected officials and appointed members, the SEDA Budget Committee is comprised of those eight individuals plus the six community members from the City's Budget Committee plus two additional members from the corresponding districts.

Bylaws for the Budget Committee are established by the Council and were last reviewed and updated in March of 2016 (Attachment 4). Bylaws set forth the structure of the committee in the organization. They state what rights the members have within the organization and what limitations are put on boards and officers. The bylaws address the attendance policy that matches the language in the Council Operating Policies and Procedures and are in accordance with Oregon Local Budget Law ORS294.414.

Online Department Presentations

To allow for more meeting time dedicated to budget discussion and for the convenience of the Budget Committee, department directors have pre-recorded their presentations for review prior to the night of April 25th. These presentations are meant to provide the Committee with a summary of each department's operating budget, prior year accomplishments, coming year initiatives, and future considerations. Finance staff has posted the presentations to the City website and will email a link to Committee members.

Agenda Packet Information

This agenda packet contains a lot of information that will be discussed over the three scheduled meetings. It is not anticipated that you will have reviewed all of the information prior to this meeting. The packet is organized around the following guidelines:

The first item of the evening is a Budget Committee orientation which includes a brief overview of the City's budget process, an introduction to Oregon Budget law, and guidance on committee member roles and responsibilities. This is followed by the presentation of the annual budget message by the City Manager. The budget message is included as part of the legal document (Attachment 16) published by the City that contains both a overview of the budget as well as departmental detail. The written budget message is located immediately after the Table of Contents in the first section of the document.

The first 12 pages after the budget message in Attachment 16 are intended to inform the reader of the budget development process and the City's accounting structure. This is followed by a financial summary section which includes entity wide financial summaries, as well as such topics as property tax levies, and total City FTE. The middle section and bulk of this document is a more detailed look at the budget by fund and by department. At the end of the budget document is a non-departmental section which summarizes budgeted expenditures which fall outside of operating departments, such as, contingency, reserves, and debt service.

Citywide Budget Overview (Attachments 1-4): The Budget Message (Attachment 1) contains a summary of the proposed changes to the budget and financial policies from the previous year. This memo (Attachment 2) is intended to help explain how the overall budget is organized. The Overview Presentation (Attachment 3) provides an overview of the entire budget with an emphasis on Fund health and major trends influencing the organization. The Budget Committee bylaws and charge (Attachment 4) outline the structure and requirements under which the committee is asked to operate.

Department Operating Budgets (Attachments 5-14): These attachments are specific to each department and are copies of each department's budget summary memo and PowerPoint presentation. For example, the Human Resource Department proposed budget is contained in Attachment 10 and refers to information that is contained in Attachment 16 for the Human Resource Department.

Appendix – Expenditure Detail Reports: These reports provide a more detailed look into the specific line item expenditures proposed for FY24. Views can be by accounting fund, by department, by program, or by revenue and expense categories.

Budget Overview

Over the past few years, City staff have been engaging Council with an annual update on the City's General Fund five-year forecast. Those conversations have focused on a structural imbalance of expenditure inflation outpacing revenue growth that has primarily resulted from voter approved caps placed on assessed property tax growth and government funding in the late 1990's. While this challenge has been decades in the making, over that same period, we experienced historically low inflation which allowed us a long runway to make adjustments, such as process improvements, staff reductions, and new revenues, to balance each successive year's budget.

However, the pandemic ushered in a period of high inflation that was hoped to be transitory, but now appears to be resisting the Federal Reserve's efforts to bring it down into its target range of 2%. We are now thinking that inflation may be with us for a while. If it continues in the range of 5-7%, this could exacerbate an already challenging structural imbalance in the City's General Fund.

We are now seeing its impact on the wages of peer agencies and expect it to impact future contract negotiations at the City. The Springfield Police Association (SPA) employee's current contract expires June 30, 2023. This contract is currently in negotiations and will be the first contract negotiated in this high inflation environment and a potential indicator of what is to come. Three more bargaining units will begin contract negotiations in FY24 with contracts expiring at the end of that fiscal year.

While this continues to be our largest challenge in building a sustainable budget, it is not the only one. We continue to grapple with unfunded State legislative mandates around housing, climate change, and family medical leave as well as a tight labor market.

One silver lining from the pandemic and the economic chaos that has ensued over the past few years has been Federal ARPA funds. These funds have allowed the City to address important unfunded infrastructure needs as well as funding for critical staffing to complete work on the aforementioned legislative mandates and needed positions lost in previous budget reductions. Unfortunately, this is one-time funding that will be fully expended by the end of FY25. Many of the staffing needs that were addressed by ARPA funds will continue well beyond that. Beginning in FY26, the current five-year forecast shows what that impact will be on the General Fund.

With an eye towards those outer budget years and a recognition that finding solutions takes time, staff are taking actions now that will hopefully alleviate some of these future funding challenges. One such initiative is a recent contract with the Portland State University Center for Public Service to develop strategies to address the structural imbalance in the General Fund. Staff and consultants will bring options for new revenue and expense reductions to the Council for consideration in a future work session. Another initiative is around strategies to encourage smart growth in the community through urban infill and density. As you read through this year's budget, keep this context in mind.

Budget Assumptions

Some of our key assumptions as we put the FY24 budget together were as follows:

- Property Tax Receipts - Assessed (taxable) value for the City is projected to increase by 3.0% in-line with the historical average.
- Transient Room Tax Revenues - Transient room tax receipts have returned to pre-pandemic levels and are expected to increase by about 6% over FY23 levels.
- Land Development Revenues – Development activity is anticipated to remain steady in the upcoming fiscal year with building permit and planning revenue expected to be consistent with FY23 revenues.
- Sewer & Stormwater User Fees - Revenues for both the City's sewer and storm water drainage programs were escalated by 2.5% and 3% respectively for FY24.
- Interest Income - The Federal Reserve's decision to increase interest rates is expected to have a positive impact on the City's investments, resulting in projected interest earnings of around 3%.
- Inflation has remained at a historically high level over the past year. We are now seeing its impact on the wages of peer agencies and expect it to impact future contract negotiations. However, with only one bargaining unit in active negotiations, inflation will not be a significant factor in the FY24 Personnel Services budgets. We have been seeing an impact in contractual services and material purchases and have therefore built in a 3.5% increase into the Materials and Services budgets.
- AFSCME employees, the City's smallest employee group, received a cost of living adjustment on July 1, 2023 of 2.5%. This is the last year of a three-year contract.
- SEIU and non-represented employees received market pay adjustments July 1, 2021 as a result of a market survey completed in the spring of 2021. The next market survey will occur in the spring of 2024 and implemented on July 1, 2024.
- Springfield Police Association (SPA) employee's current contract expires June 30, 2023. Negotiations for a new contract are still ongoing and the full potential impacts on FY24 wages are unknown at this time.
- The International Association of Fire Fighters (IAFF) now has two contracts with the City as the battalion chiefs are now a separate represented unit. The main contract has been negotiated with a three-year contract that will expire on June 30, 2024. Members represented by this contract will receive a cost of living increase on July 1, 2023 as follows: 2.25% for Firefighters and Engineers,

3.5% for Captains, and 3% for 40-hour positions. The battalion chief's contract is also a three-year contract that will expire on June 30, 2024 with a cost of living increase on July 1, 2023 of 3%.

- The plan year for health insurance is the calendar year. Beginning January 2013, the City initiated a self-funded insurance program with the administration of the program contracted out to a private provider. The City's experience factors since becoming self-insured have been very positive. For January 1, 2023, the City held rates flat. For the plan year beginning January 1, 2024, the City is not projecting an increase.
- Oregon PERS rates are biennial with the last rate adjustment occurring in 2023 for FY24 and FY25. State legislation intended to help control the growth of PERS costs for local governments has started to influence rate adjustments and has moderated the rate of increases for this biennium. For FY24, the City had three separate PERS retirement rates for its employees with the lowest % rate increase being 6.6% (PERS Tier 1 / 2) and the highest rate increase at 9.28% (OPSRP General Service). These rates will remain flat for FY25. The total estimated dollar impact over the two-year period is \$3.4M.
- The City schedules an updated actuarial study of its City Retirement Plan every two years. The last update was as of July 1, 2022 and completed in early 2023 and implemented on July 1, 2023. The employer paid percentage of payroll contribution for members of this plan is 28.3% and will continue at this rate until the next update scheduled for early 2025 with an implementation date of July 1, 2025. In addition to the payroll contribution, the City makes an additional annual payment of \$1,352,000.

Conclusion

If you have any questions about the information or the process prior to the meeting on Tuesday, April 25th, please do not hesitate to contact either myself by phone at 726-2364 or email at nbell@springfield-or.gov or contact our Budget Officer, Neil Obringer, by phone at 736-1032 or email at nobringer@springfield-or.gov. Either of us would be more than willing to meet with you prior to that time.