

**CITY OF SPRINGFIELD/FINANCE DEPARTMENT
MEMORANDUM**

Date: April 12th, 2024
To: Members of the Springfield Budget Committee
From: Nathan Bell, Finance Director
Subject: Agenda Packet for May 13th, 2024

I would like to thank each of you in advance for volunteering your time to help review the Proposed Budget for the City. The first meeting is scheduled for Monday, May 13th 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 FY25 Proposed Budget document (Attachment 16), there is a listing of the members of this year's committee. This year's Budget Committee has eleven of its twelve members returning from the previous year. The Ward 3 Council position is currently vacant with the recruitment in process as of the date of this memo.

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. Ruth Linoz is currently our vice-chairperson from last year and will be asked to 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. The SEDA Glenwood position was term limited after last year's budget process and no applications were received during the recent recruitment, so this position will go unfilled for this year's SEDA budget process. This meeting generally takes only 30 minutes on one evening and is scheduled for 5:30 pm on Wednesday, May 15th.

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 May 13th. 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 City's budget development process. 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 FY25. 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 lasted for a few years. While the Federal Reserve Board has had some success in lowering the inflation rate, it has been unable to bring it down into its target range of 2%. While we are optimistic that the Federal Reserve Board will be successful in the long-term in attaining this target range, in the near-term we are expecting an inflation rate that will be higher than what we have historically experienced in the decades leading up to the pandemic. This will continue to exacerbate an already challenging structural imbalance in the City's General Fund.

We are now seeing the impact of those high inflation years in our contract negotiations. The Springfield Police Association (SPA) employee's current contract that was negotiated at the end of FY23 and covering the three-year period from July 1, 2023 to June 30, 2026 will result in an estimated 17% increase in wages over that period. SEIU and non-represented employees will receive market pay adjustments July 1, 2024 based on a market survey that is currently in progress by the City's compensation consultants and implemented on a methodology agreed to in labor negotiation in the spring of 2021. An informal survey conducted by City staff show us below market in the range of 10-20% in many key positions. And finally, IAFF and AFSCME employees are currently in contract negotiations with an expected implementation of those contracts on July 1, 2024.

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. City staff will be bringing the results of that study to the Council in a future work session for a conversation on potential new revenues or service reductions. 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 FY25 budget together were as follows:

- Property Tax Receipts - Assessed (taxable) value for the City is projected to increase by 3.3%, in-line with the historical average.
- Transient Room Tax Revenues - Transient room tax receipts have returned to pre-pandemic levels and are now leveling off. FY24 receipts came in lower than anticipated, so we are anticipating no increase in FY25.
- 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 FY24 revenues.
- Sewer & Stormwater User Fees - Revenues for both the City's sewer and storm water drainage programs were escalated by 5% and 3% respectively for FY25.
- Interest Income - The Federal Reserve's decision to hold interest rates steady is expected to have a positive impact on the City's investments, resulting in projected interest earnings of around 5%.
- While Inflation has come down from its historically high levels over the past few years, it remains higher than the historically low levels we experience in the decades leading up to the pandemic. We are now seeing the impact of those high inflation years in our contract negotiations. Inflation is a significant factor in the FY25 Personnel Services budgets. We continue to experience its impact in contractual services and material purchases and have therefore built in a 3% increase into the Materials and Services budgets.
- AFSCME employee's current contract expires June 30, 2024. Negotiations for a new contract are still ongoing and the full potential impacts on FY25 wages are unknown at this time.
- SEIU and non-represented employees will receive market pay adjustments July 1, 2024 based on a market survey that is currently in progress by the City's compensation consultants and implemented on a methodology agreed to in labor negotiation in the spring of 2021. While we have yet to see the preliminary results of this survey, an informal survey conducted by City staff show us below market in the range of 10-20% in many key positions. We are anticipating the implementation of the new compensation pay scales will result in a 5% increase in wages for these two groups in FY25.
- Springfield Police Association (SPA) employee's current contract covers the three-year period from July 1, 2023 to June 30, 2026. Negotiations for compensation with this labor group have expanded beyond the traditional cost of living adjustments to include additional steps, longevity pay, and

various incentive pays. The total financial impact of all these additional forms of pay will result in an estimated 6% increase in wages in FY25.

- The International Association of Fire Fighters (IAFF) now has two contracts with the City as the battalion chiefs are now a separate represented unit. Both contracts expire June 30, 2024. Negotiations for new contracts are still ongoing and the full potential impacts on FY25 wages are unknown at this time.
- 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, 2024, the City held rates flat. For the plan year beginning January 1, 2025, 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 \$800,000.

Conclusion

If you have any questions about the information or the process prior to the meeting on Monday, May 13th, 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, Jessica Mumme, by phone at 736-1032 or email at jmumme@springfield-or.gov. Either of us would be more than willing to meet with you prior to that time.