

**CITY OF SPRINGFIELD/FINANCE DEPARTMENT
MEMORANDUM**

Date: April 21th, 2025
To: Members of the Springfield Budget Committee
From: Nathan Bell, Finance Director
Subject: Agenda Packet for May 12th, 2025

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 12th 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 FY26 Proposed Budget document, there is a listing of the members of this year's committee. This year's Budget Committee has ten of its twelve members returning from the previous year. New to the committee is Councilor Alan Stout, joining the Council in January of this year as representative of Ward 6. Our new community member appointed by the Council to represent Ward six is Bob Brew. Bob has 35 years of experience in government, primarily in finance, and will be a valuable 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. Ruth Linoz is currently our 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 FY24 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 14th.

Bylaws for the Budget Committee are established by the Council and were last reviewed and updated in March of 2016. 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 12th. 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 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 16 pages after the budget message in 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 (pages 1-16): The Budget Message contains a summary of the proposed changes to the budget and financial policies from the previous year. This memo is intended to help explain how the overall budget is organized. The Overview Presentation 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 outline the structure and requirements under which the committee is asked to operate.

Department Operating Budgets (pages 103-172): These are specific to each department and are copies of each department's budget summary memo. For example, the Human Resource Department proposed budget begins on page 143 and refers to information for the Human Resource Department.

Budget Overview

In the Fall of each year as the City's budget process begins, City staff engage the City Council with an annual update on the City's General Fund five-year forecast. In more recent years, 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 was 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, beginning in 2020, the COVID-19 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%. More recently, with the change in the administration at the Federal level and the recent implementation of tariffs across all imported goods, there is again significant uncertainty in the economy and the potential impacts of the tariffs on inflation. While we are hopeful that the Federal Reserve Board will be successful in the long-term in attaining its' target range, we are also preparing for the potential that higher than average inflation may continue for some time. This has the potential to exacerbate an already challenging structural imbalance in the City's General Fund.

The impact of those high inflation years is now reflected in all in all our labor contracts. Beginning with 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 that resulted in approximately a 17% increase in wages over that period, we experienced similar increases to the remaining bargaining group contracts in the following years. We have now come full circle and will again begin negotiations with SPA for a new contract that will take effect in FY27. It is too early to project what the impact of this economic uncertainty will mean in the coming negotiations, but we will be closing watching our peer cities that are currently engaged in negotiations and how those contracts settle.

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 land use and planning requirements. This has resulted in additional planning staff in the General to meet State timelines and targets.

One silver lining from the pandemic 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.

The FY26 proposed budget continues to maintain current service levels without drawing down on General Fund reserves. However, this was accomplished through approximately \$800K in reductions across multiple General Fund departments as well as a one-time transfer of \$1.75M drawn from unrestricted reserve in other funds. While the reductions will positively impact future budget years, the one-time transfer only helps us through a single budget cycle and has no impact on future budget years and the existing structural imbalance. While there still remains unrestricted reserves we can use to support the General Fund, we are projecting a deficit in FY27 that will deplete the remaining balance.

With this challenge in mind, In the Fall of 2024, staff sought guidance from the City Council on potential strategies for addressing the structural deficit in the General Fund. From these discussions, the Mayor established a Mayor's Fiscal Stability Task Force. The Finance Department, in partnership with the City Manager's Office, brought in a team of consultants to assist in coordinating and facilitating weekly meetings during January to March of 2025. The Task Force's recommendations are being captured in a report that will be presented to City Council in May 2025. It is anticipated that Council will provide guidance to staff, before they go on summer recess at the end of June, to begin working on some Task Force recommendations with the goal of implementing in a time frame that will help address the FY27 projected deficit.

Budget Assumptions

Some of our key assumptions as we put the FY26 budget together were as follows:

- Property Tax Receipts - Assessed (taxable) value for the City is projected to increase by 3.4%, in-line with the historical average.
- Transient Lodging Tax Revenues - Transient lodging tax receipts are on track to come in as budgeted and close to their historical high. This is positive news after they underperformed budget in FY24. Given some uncertainties in the current economy, we are holding them steady in FY26.
- Land Development Revenues – FY24 planning revenue significantly outperformed the estimated budget. That is resulting in building permits revenues to be on track to come in significantly higher than the FY25 budget. FY25 planning revenue are back on track to come in at historical levels and we are anticipating them to remain steady through FY26. Similarly for building permit revenues, after a significant spike in FY25, we anticipate they will be back to historical levels in FY26.

- Sewer & Stormwater User Fees - Revenues for both the City's sewer and storm water drainage programs were escalated by 5% and 3% respectively for FY26.
- Interest Income – With the Federal Reserve continuing to hold interest rates steady, we expect it to continue having a positive impact on the City's investments. Again, with some uncertainty in the economy and some recent volatility in interest rates, we are taking a conservative approach to rates and projecting interest earnings of around 4%.
- Materials & Services Inflation - We continue to experience inflation in contractual services and material purchases and have therefore built in a 3% increase into the Materials and Services budgets.
- Personnel Services Inflation - While inflation has come down from its historically high levels over the past few years, it remains higher than the historically low levels we experienced in the decades leading up to the pandemic. The impact of those high inflation years is now reflected in all our current labor contracts. Inflation is a significant factor in the FY26 Personnel Services budgets. Assumptions by labor group are as follow:
 - AFSCME employee's current contract covers the three-year period from July 1, 2024 through June 30, 2027 and provides for a cost of living increase of 2.77% effective July 1, 2025. This was based on the CPI-W from the most recent December with a collar not less than 2% and not more than 4%.
 - Service Employees International Union (SEIU) and non-represented employees received market pay adjustments on July 1, 2024 based on a market survey completed by the City's compensation consultants and implemented on a methodology agreed to in labor negotiation in the spring of 2021. Implementation of the new market-based pay plan involved moving these employees to the nearest pay step that allowed for a minimum increase of 3%. This typically resulted in employees that were at the top pay step dropping down a few steps while still receiving the minimum increase and having annual merit steps in future years. The current contract expires June 30, 2025. Negotiations for a new contract are currently underway.
 - Springfield Police Association (SPA) employee's current contract covers the three-year period from July 1, 2023 to June 30, 2026 and provides a cost of living increase of 3% effective July 1, 2025.
 - 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 expired June 30, 2024. Negotiations for new contracts are still ongoing and the full potential impacts on FY26 wages are unknown at this time.
- Health Insurance - 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, 2025, the City held rates flat. For the plan year beginning January 1, 2026, the City is not projecting an increase.

- Oregon Public Employees Retirement Program (PERS) - PERS set the City's new two-year rates beginning 7/01/25 (FY26) and those rates will remain in place through FY27. All rates have increased by more than anticipated due to the PERS portfolio significantly underperforming its target rate of return on investments in the most recent actuarial valuation. In addition to the rates shown below, the City continues to pick-up the employees 6% contribution except for members of IAFF. For the current biennium, the City has three separate PERS retirement rates for its employees with the lowest % rate increase being 14.2% (PERS Tier 1 / 2), 20.4% for OPSRP Public Safety, and the highest rate increase at 23.4% for OPSRP General Service. The estimated dollar impact over the two-year period (FY26-FY27) is \$5.4M as compared to the prior biennium.
- City Retirement Plan - The City contracts for an actuarial study every two years to determine the percentage of funding level and the contribution rates necessary for both current employees and retirees. The first year of the new rates (23.8%) will be effective on 7/1/25 and those same rates will remain in effect until 6/30/27. The stated rate does not include the employer's pick-up of the employees 6%. The additional lump sum contribution was reduced to \$220,000 in FY26.

Conclusion

If you have any questions about the information or the process prior to the meeting on Monday, May 12th, 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.