



April 1, 2009

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

Budget Overview

It is my pleasure to present the City of Springfield's Fiscal Year 2009-2010 budget.

Nearing the end of the first decade in this new century, our country and our community are facing financial challenges unprecedented in recent memory. As we move forward, I am reminded time and again that Springfield has weathered tough times before, and we will survive and thrive in these tough times as well. The current state of the economy does not allow us to put our heads down and allow the storm to blow over – In order to endure and prosper as a community and a municipal organization, we must honestly acknowledge the challenges we are facing, take stock of the assets we have at our disposal, and work together to develop a plan that positions us soundly for the future. This involves making tough choices in the short term in order to ensure we survive in the long term, and I have challenged my Executive Team to make those tough choices for your review and consent.

The current fiscal year has not unfolded as we had forecast; virtually every revenue source has failed to meet our projections, while costs have continued to rise. This changing economy calls for an adaptive response. For the first time in recent memory, we have been forced to make mid-year personnel cuts with further reductions planned for the coming fiscal year – these reductions consist of more than 20 FTE. Seven of the City's nine Departments have lost staff, and all are operating on a shoestring budget for needed materials and supplies.

The issues we face are not unique to Springfield and, in many cases they are not new:

- An Oregon property tax system that causes budgets to shrink during down times, but limits the ability of local governments to participate and recover in the prosperity of boom times
- Increasing reliance on fee revenues that are often very sensitive to changes in the economy
- Costs for some services that have traditionally been borne by Federal, State or County governments that have been shifted to cities to help them balance their own budgets
- Revenues that have traditionally been shared with cities have been retained by State and County governments to help them balance their own budgets
- Reliance on local option property tax levies to fund core services is not sustainable indefinitely

- A worldwide demand for heavy construction materials (concrete, steel, copper) has raised the price of capital construction (roads, sewers, buildings) at a rate far outstripping the ability of our funding sources to cover costs

For the past two decades, the City has been fortunate in always having a few healthy funds while other funds have been struggling: When the General Fund was having difficulties in the 1980's, the Ambulance Fund was able to take on more Fire and Life Safety costs; When the General Fund had recovered but the Street Fund was in decline in the late 1990's, the General Fund took on some of those costs. Through all this, we also relied on operating transfers from the Bancroft Fund or the Booth-Kelly Fund to support General Fund operations. As I will explain later in this letter, we are currently facing a "perfect storm" where virtually all of our City Funds are struggling to a greater or lesser extent.

Even with all these challenges, I remain optimistic about the future. By October/November of 2008, it was clear that our revenues would not make projections and some costs were exceeding expectations. In December, I challenged the Executive Team and City staff to find cuts we could make this year to shore up current operations and to put us in a better position for the coming year. I emphasized that these cuts should be strategic to ensure that core services would be maintained and the City could rapidly respond when the economy heats up. It is true that we have cut funding for personnel in the current year and next but, when possible, we have strategically chosen positions that were related to development demand. When our development customers return, we will be able to quickly re-fill these positions to accommodate the needs of the building community. In the meantime, we will retain core services in all Departments. When one-time costs are excluded, the General Fund budget in all Departments is smaller than the original budget for FY09.

I remain committed to providing stable governmental operations over the long term. Even in the midst of difficult reductions, I have directed staff to retain funding for specific long-term needs including replacement of aging fire equipment, addressing the deferred maintenance of our City buildings, and getting the municipal jail up and running.

Fund Snapshots

General Fund

All Funds in the City consist of four basic components –

- **Beginning Balance** - Money in a fund that was unspent in the previous year. The reserves available at the end of one year become the Beginning Balance for the next year.
- **Revenues** – Sources of income to the fund; these could include taxes, fees, permits, interest revenue, or transfers from another fund.
- **Expenses** – Uses of money in a fund; these can include personnel costs, purchases of goods and services, capital construction costs, or transfers to another fund.
- **Reserves** – Money expected to be unspent at the end of the fiscal year; these could include dedicated and non-dedicated reserves, and contingency funds.

The General Fund began the current fiscal year (FY09) with a smaller beginning balance than anticipated. While no Departments exceeded their legal appropriation, some Departments spent more than they had planned to spend, meaning there was roughly \$1 million less available at the end of Fiscal Year 2008 to carry forward into Fiscal Year 2009 (the current year) than had been expected.

Revenues have also failed to meet expectations. Based on the trend over the past several years, property taxes revenue had been expected to grow roughly 4.9% for FY09, but a property tax appeal on a significant industrial development caused the total assessed value to grow at a much slower rate (1.9% vs. 4.9%). Other significant revenue sources have shrunk significantly as well; Planning Fees, for example, were expected to generate more than \$1.2 million this fiscal year, based on the past several years, but are now expected to bring in only a third to a fourth of that amount. Operating transfers from other funds have been impacted as well; a decline in travel has reduced income from the Transient Room Tax, and 5/9ths of that revenue goes to support the General Fund. A transfer from the Booth-Kelly fund is also roughly \$250,000 less than prior years.

Expenses in the General Fund have tracked fairly well with estimates. A mid-year health insurance premium increase was higher than expected, but Departments have been able to cover those costs within their existing appropriations. A few large and unbudgeted expenses have caused the overall fund expenses to exceed estimates; these include a \$325,000 payment toward the AIRS replacement system, a \$371,000 General Fund contribution to the replacement of Fire Station #16, \$62,000 in temporary housing costs for Firefighters during the FS #16 construction, and a \$506,000 transfer to the Ambulance Fund to keep that fund solvent (see Ambulance Fund below).

Taken alone, any of these challenges (low beginning balance, decreased revenues, increased expenses) could have been addressed fairly easily; however, the confluence of all three has challenged the City's Executive Team to come up with innovative solutions, both for the current year and for the upcoming budget year (FY10).

At an off-site meeting in December, each General Fund Department was directed to identify current-year reductions equal to four percent of their budgeted General fund expenditures – These reductions could include up to half (two percent) of one-time reductions, but the other half must be reductions that could be sustained over the long term. For the upcoming budget, each Department was expected to identify another four percent in reductions – This resulted in FY09 expenses being reduced by four percent and FY10 expenses reduced by six percent (two percent on-going from the previous year, and four percent of new reductions). The end result of these reductions was a proposed FY10 General Fund budget that is actually less than the FY09 adopted budget.

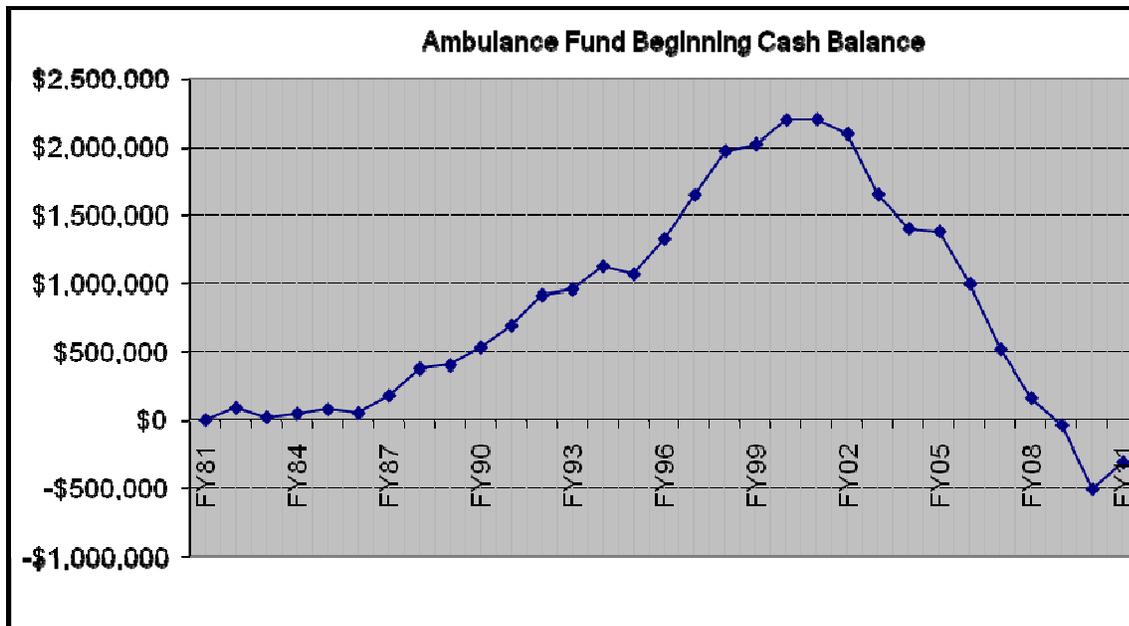
	FY08 Actual Expenses	FY09 Adopted Budget	FY10 Proposed Budget
Personal Services	\$23,003,466	\$24,426,452	\$24,857,714
Materials & Supplies	6,099,290	6,640,419	5,567,269
Capital Outlay	210,694	185,754	86,218
	\$29,313,450	\$31,252,625	\$30,511,201

Ambulance Fund

Since its inception, the Ambulance Fund has played a key role in City finances. When it was healthy, the Ambulance Fund was able to carry many expenses that would ordinarily have fallen on the General Fund. Over the past several years, however, we have seen the reserves in this fund falling. The declining reserves are an indicator that revenue is simply not able to keep up with expenses. Costs in the fund are increasing faster than inflation and a major revenue source (ambulance billings) is essentially flat.

Council and the Fire and Life Safety Department (FLS) management have worked together to attempt to keep the fund solvent. The City Council has approved rate increases and supported other initiatives developed by FLS management. For their part, the Fire and Life Safety management staff have continued on the entrepreneurial path established by Chief Murphy – creating, developing and expanding the Firemed program and providing ambulance billing services to other jurisdictions at a net profit. In spite of these best efforts, the Ambulance Fund continues to lose money.

The most direct solution to the problems in this fund would involve a change to the Federal Medicare Reimbursement formula and that is not anticipated any time in the near future; therefore, Chief Murphy and his staff will continue to look for new ways to pay for this vital service. For the first time in the twenty year history of the Fund, the taxpayers will be supporting this fund with a direct transfer of more than \$500,000 in the current fiscal year. Unless substantial changes occur in the revenues or expenses of this Fund, this type of transfer is expected to continue and likely grow over time.



Street Fund

Over the past year, staff from the Public Works Department have made presentations to the City Council on several occasions relating to the current revenue challenges facing the Street Fund. Both State and local fuel tax revenues appear to be almost 10% below expectations, continuing a trend that began in mid-FY08. Public Works management staff have made significant mid-year cuts to their Street-Funded programs and have produced a much-reduced budget for FY10.

An election will be held on May 19th regarding a two-cent increase in Springfield's local fuel tax. The FY10 Proposed Budget is built on the assumption that the City will be successful in that election. If the increase is not approved, I will be asking the Budget Committee to empower the City Council to make the necessary budget adjustments as an alternative to reconvening the Budget Committee.

Other Funds

While the three Funds are called out individually above, we are also closely watching revenues, expenses, and reserves in the following Funds: Booth-Kelly Fund, Bancroft Fund, Storm Drainage Operations Fund, Local Sewer Operating Fund, and the Transient Room Tax Fund.

Conclusion

I have heard from several City employees that preparing this budget was the most challenging in their careers – in part because, while we know there is a serious economic downturn, we have no way of knowing how long it is likely to last. We are attempting to simultaneously reduce expenses significantly to “ride out the storm” while trying to retain services to be able to respond quickly when things turn around. I am particularly proud of the way our City employees have stepped up to meet this challenge.

Obviously, the proposed budget does not include the funding of many requests from Departments. While these requests represent improvements to services received by the citizens of Springfield, we simply don't have the resources to address any but the most pressing issues. As the economy turns around, we will need to revisit these requests.

Overall, the proposed budget reflects a continued conservative fiscal approach. We have attempted to cut deeper than the minimum required, in order to position the City for stability in the coming years. The proposed budget for the General Fund does a good job of balancing annual expenditures and revenues. The total expenditures being proposed for next year are lower than the FY09 budgeted amounts. The approximately \$6.8M that is estimated to be on hand on June 30, 2010 is an appropriate amount to meet the restricted and unrestricted cash reserve needs of the General Fund. With the exceptions noted, most City funds are in good financial health.

After significant adjustments made in FY09, the General Fund is stable. There is usually a lag between the state of the economy and when changes are seen in General Fund revenues so, while it took a while for the economic downturn to reach the City of Springfield, we may see recovery elsewhere in the economy before it reaches City government. Low interest earnings will impact the City's revenues over time, but slow inflation will help keep expenses under control; we will see inflation increase as the economy heats up, before we will see corresponding increases in revenue.

Since the state of the economy for FY10 (and beyond) is so uncertain, the proposed budget is more conservative than it might otherwise have been, leaving many worthwhile and needed City improvements unfunded.

General Fund Annual Operating Budget	FY08 Actual	FY09 Estimated	FY10 Proposed	FY11 Projected
Operating Revenue	\$28,735,949	\$30,139,686	\$31,691,022	\$33,124,028
Operating Expenditures	27,904,198	28,934,260	31,301,630	32,635,717
Other Expenditures	<u>0</u>	<u>0</u>	<u>385,000</u>	<u>235,000</u>
Annual Net Operations	831,751	1,205,426	4,392	253,311
Beginning Cash on Hand	7,357,907	8,189,658	9,395,084	9,399,476
Ending Cash on Hand	<u>\$ 8,189,658</u>	<u>\$ 9,395,084</u>	<u>\$ 9,399,476</u>	<u>\$ 9,652,787</u>

The annual budget, as proposed, is reflective of the Five Effectiveness Areas that were reviewed and adopted by the Mayor and City Council in February:

1. **Financially Responsible and Stable Government Services**
2. **Community and Economic Development and Revitalization**
3. **Enhance Public Safety**
4. **Maintain and Improve Infrastructure and Facilities**
5. **Preserve Hometown Feel, Livability, and Environmental Quality**

FY10 Proposed Budget—All Funds

The FY10 Proposed Operating Budget for all funds is \$77,391,418. This is \$75,558 more than the FY09 Adopted Budget.

Table 3: Total City Department Operating FY10 Proposed Budget Versus FY09 Amended Budget				
Department	FY09 Amended*	FY10 Proposed	Dollar Change	Percent Change
City Manager's Office	\$ 1,917,198	\$ 1,461,399	(\$ 455,799)	-23.77%
Development Services Department	7,401,986	4,209,394	(3,192,592)	-43.13%
Finance Department	1,479,949	1,151,820	(328,129)	-22.17%
Fire and Life Safety Department	17,026,758	16,492,246	(534,512)	-3.14%
Human Resources Department	1,292,880	1,127,529	(165,351)	-12.79%
Information Technology Department	1,662,363	1,483,904	(178,459)	-10.74%
Legal and Judicial Services	1,697,823	1,482,205	(215,618)	-12.70%
Library Department	1,464,975	1,357,800	(107,175)	-7.32%
Police Department	14,814,005	17,476,621	2,662,616	17.97%
Public Works Department	<u>37,091,150</u>	<u>31,148,500</u>	<u>(5,942,650)</u>	-16.02%
Total Operating Budget	<u>\$ 85,849,087</u>	<u>\$ 77,391,418</u>	<u>(\$8,457,669)</u>	<u>-9.85%</u>

* As amended through February 17, 2009

Conclusion

This proposed budget has been carefully prepared to address the current fiscal challenges yet maintain the City's core services in order to respond to current and future citizen needs. During the coming year, we will continue to closely monitor the economy and work with City Council to ensure we are poised to survive and thrive in these changing times.

Preparation of the annual budget is truly a team effort. I would like to thank the many City employees that helped prepare the budget. I would like to give special thanks to Bob Duey and Bob Brew of the Finance Department for the leadership role that they play each year in the preparation of the budget.

I formally submit the FY10 proposed budget for your consideration and look forward to discussing it with you in greater detail.

Respectfully,

A handwritten signature in black ink, appearing to read 'G. Grimaldi', written in a cursive style.

Gino Grimaldi
City Manager

ADDENDUM TO THE CITY MANAGER'S BUDGET MESSAGE

Summary of Actions of the Budget Committee and City Council Adopting the FY10 City Budget June 15, 2009

A summary of the actions taken by the Budget Committee and City Council in adopting the FY10 annual budget is provided in the following addendum to the City Manager's Budget Message.

Budget Committee Action – FY10 Approved Budget

The City Manager's Proposed Budget totaled \$326,320,577 and 442.80 FTE. At the May 12, 2009 Budget Committee meeting, the Committee approved the FY10 Proposed Budget with specific changes. These changes increased expenditures by \$1,720,234. Total FTE did not change. The budget as approved included the following changes by the Budget Committee:

EXPENDITURE INCREASES

The following two items use reserve funds to provide increased services:

Police Training

The Budget Committee increased funding for Police Department training by \$42,000. The source of the funds is the Workers' Compensation Reserve in the Insurance Fund. This change will appear in the Police Department budget. Citywide appropriations increase by \$84,000. This is a one-time increase.

Requested Action

Fund 100 -	Increase expenditures	\$42,000
	Increase revenues	\$42,000
Fund 707 -	Increase expenditures	\$42,000
	Decrease reserves	\$42,000

Human Services Commission

The Budget Committee increased funding for the Human Services Commission to the Adopted FY09 level (increased by \$20,000). The source of the funds is the Workers' Compensation Reserve in the Insurance Fund. This one-time change will appear in the City Manager's Office budget. Citywide appropriations increase by \$40,000.

Requested Action

Fund 100 -	Increase expenditures	\$20,000
	Increase revenues	\$20,000
Fund 707 -	Increase expenditures	\$20,000
	Decrease reserves	\$20,000

EXPENDITURE INCREASES

In order to avoid accessing reserve funds to pay for current operations, the Budget Committee directed staff to identify \$235,000 in additional savings from current expenses. The following four bulleted items represent the one-time actions taken to generate that savings:

- **Litigation Expenses**

The budgeted appropriation for possible future litigation was reduced. The savings will be returned to reserves. If litigation funding beyond current levels is needed in the future, staff will prepare a supplemental budget request for those funds. The reduction in Litigation Expenses will appear in the budgets of the City Attorney, Public Works and Development Services. The result is a Citywide decrease in appropriations of \$25,000.

Requested Action

Fund 100 -	Decrease expenditures	
	City Attorney's Office	\$10,035
	Public Works	\$2,631
	Development Services	\$12,334
	Increase reserves	\$25,000

- **Internal Building Preservation**

Council directed staff to reduce General Fund contributions to Internal Building Preservation by a total of \$80,000 for FY10. The savings will be returned to reserves. The reduction in Internal Building Preservation Expenses will appear in the budgets of the City Manager's Office, Legal and Judicial Services, Human Resources, Information Technology, Fire & Life Safety, Police, Library, Public Works, and Development Services. The result is a Citywide decrease in appropriations of \$80,000.

Requested Action

Fund 100 -	Decrease expenditures	
	City Manager's Office	\$2,666
	Legal and Judicial Services	\$2,360
	Human Resources	\$1,369
	Information Technology	\$3,603
	Fire and Life Safety	\$23,223
	Police	\$32,431
	Library	\$4,541
	Public Works	\$3,591
	Development Services	\$6,216
	Increase reserves	\$80,000
Fund 420 -	Decrease revenues	\$80,000
	Decrease reserves	\$80,000

- **Access Grant Funds for Jail Operations**

The Police Department received a grant for police operations. This grant money will be used for jail equipment that would otherwise be funded by the General Fund. The series of transactions that follow will result in a decrease in the transfer from the General Fund to the Jail Operations Fund, and the savings will be returned to reserves. The result of the transactions below is to decrease Citywide expenditure appropriations by \$105,000.

<u>Requested Action</u>		
Fund 100 -	Decrease expenditures	\$105,000
	Increase reserves	\$105,000
Fund 202 -	Decrease expenditures	\$105,000
	Decrease revenues	\$105,000
Fund 204 -	Increase expenditures	\$105,000
	Increase revenues	\$105,000

- **Access Marcola Meadows revenue for Planning activities**

The City normally funds planning activities from the General Fund. Even though the Marcola Meadows project is on hold, planning work continues to be done on that area. The City still has money remaining from the initial payment from the property developer. Development Services staff will be authorized to charge up to \$25,000 in staff time associated with Marcola Meadows to the remaining deposit. This will allow the General Fund to recover \$25,000 in planning costs from the Special Revenue Fund, and the savings will be returned to reserves. These transactions increase Citywide appropriations by \$50,000, funded by off-setting revenue.

<u>Requested Action</u>		
Fund 100 -	Increase expenditures	\$25,000
	Increase revenues	\$25,000
Fund 204 -	Increase expenditures	\$25,000
	Increase revenues	\$25,000

The savings to the General Fund from the four actions listed totals \$235,000.

ERRATA:

The following items were “housekeeping” items that were identified after the Proposed Budget had been prepared. The Budget Committee included them in their Approved Budget:

Neighborhood Improvement Projects

Neighborhood Improvement Projects funded by the Community Development Block Grants are commonly grants and contracts with other agencies and have been miss-categorized as Capital Projects. A change was requested to have them re-categorized

as Materials and Services for FY10. This transaction increases Materials and Services by \$540,108 and decreases Capital Projects by \$540,108.

Debt Service for Sewer Revenue Bonds

When the Proposed Budget was developed, the proceeds from the sewer revenue bond were budgeted, but the funds to make the first debt service payments were not. A change was requested to appropriate funds from the bond proceeds to make those payments. This transaction adds Debt Service expense of \$1,843,234 and decreases Unappropriated Ending Fund Balance by \$1,843,234. Total operating appropriations increase by \$1,843,234.

City Council Action – FY10 Adopted Budget

Oregon Budget Law allows the City Council to adopt changes made to the budget approved by the City’s Budget Committee, within guidelines. These guidelines include being able to increase total expenditures within a fund by not more than \$5,000 or 10% of the estimated expenditures to the fund (whichever is greater). There is no limit on the amount by which a fund can be reduced.

At the June 15, 2009 regular meeting, the City Council held a public hearing on the FY10 Approved Budget and adopted the FY10 City Budget with no further changes. The following table provides a summary of the final Adopted Budget.

Adopted FY10 Budget	
Operating Budget	\$ 77,808,526
Capital Budget	103,118,848
Non-Departmental Budget	<u>145,320,203</u>
Total	\$ 326,247,577

