M I N U T E S

Eugene Budget Committee
Bascom-Tykeson Room—Downtown Library
100 West 10th Avenue

November 2, 2009
5:30 p.m.

PRESENT: John Barofsky, Chair; Claire Syrett, Vice Chair; George Poling, Betty Taylor, Jennifer Solomon, Chris Pryor, Mike Clark, Mary Ann Holser, Joseph Potwora, Doug Smith, George Brown, Alan Zelenka, Terry McDonald, members; City Manager Jon Ruiz; Assistant City Manager Sarah Medary; Dee Ann Raile, Kitty Murdoch, Sue Cutsogeorge, Pavel Gubanikhin, Twylla Miller, Larry Hill, Financial Services; Susan Muir, Scott Luell, Planning and Development Department; Kurt Corey, Public Works Department; Renée Grube, Mike Magee, Library, Recreation, and Cultural Services Administration; Chief Pete Kerns, Eugene Police Department; Fire Chief Randall Groves, Fire & Emergency Medical Services; Glenn Klein, City Attorney; Kitty Piercy, Mayor.

ABSENT: Noah Kamrat, Ramin Shojai, Andrea Ortiz, members.

I. ELECTION OF OFFICERS

Mr. Barofsky called the City of Eugene Budget Committee meeting to order and welcomed the reappointed members, Mr. Smith and Mr. Potwora, back to the Budget Committee, as well as new member Ramin Shojai. He noted that Mr. Shojai was not able to attend the present meeting.

> Ms. Taylor, seconded by Mr. Poling, moved to nominate Claire Syrett as Chair.

> Ms. Syrett, seconded by Mr. Brown, moved to nominate John Barofsky to serve another term as Chair.

Ms. Syrett explained that she was uncertain she could make the level of commitment required by serving as Chair.

> The vote to appoint Ms. Syrett as Chair failed unanimously, 12:0 (Mr. Zelenka had not yet arrived).

> The vote to nominate Mr. Barofsky as Chair passed unanimously, 12:0.

> Ms. Taylor, seconded by Mr. Pryor, moved to nominate Claire Syrett as Vice Chair. Ms. Syrett was elected Vice Chair by a unanimous vote, 12:0.

II. HELLO AND GOOD BYES

Mr. Barofsky stated that former Budget Manager Kitty Murdoch and former Finance Division Director Dee Ann Raile were leaving the City. He commended them for their service and their help in educating him and other Budget Committee members in the budget process.

Ms. Murdoch and Ms. Raile received a round of applause.

Mr. Zelenka arrived.

III. APPROVAL OF PRIOR MEETING MINUTES

Mr. Barofsky reported that no corrections had been submitted to the minutes to date.

Ms. Syrett recalled that the Budget Committee had been given the opportunity to weigh in on the issue of the possible relocation of the Eugene Police Department (EPD) to a building on Country Club Road. She said Ms. Holser had thought that the Budget Committee had voted on the issue. She clarified that the committee had engaged in a vigorous discussion but had not voted.

> Mr. Poling, seconded by Mr. Clark, moved to approve the minutes of the Budget Committee meeting held on July 27, 2009, as written. The motion passed unanimously, 13:0.

IV. STATUS OF FY10 GENERAL FUND STRATEGY

Acting in Capacity (AIC) Finance Director Sue Cutsogeorge stated that the Fiscal Year (FY) 2010 budget strategy had been built on $12 million in sustainable cuts in an effort to move toward a sustainable budget. She reported that the six-year forecast had predicted approximately $1 million in surplus in the present fiscal year, with all savings taken to balance the FY10 budget continuing as ongoing dollar savings in future years and a plan to find an additional $3.5 million in ongoing savings in the FY11 budget. She said if all of that were to occur, they had predicted a surplus of just under $5 million, with part of that helping the City get through FY12 and to offset a significant Public Employees Retirement System (PERS) rate increase, with the library debt due to expire. She reported that in subsequent years they anticipated revenues to be slightly more than expenditures and that a small balance would accrue.

Ms. Cutsogeorge said there were nearly 50 items in the FY10 strategy to balance the budget, included in ***Attachment B – FY10 Budget – General Fund $12 Million Savings Plan***. She reported that some items were still being actively worked on and cited grant funding as an example of one. Some were yet to be determined, such as shrinking the organizational footprint. She explained that they had a goal of attaining $750,000 in grant funding for existing programs and services and so far they had received $50,000. She stated that they were still "pushing hard" to achieve the goal and had expanded the opportunity to include partnerships and sponsorships.

Mr. Zelenka asked if staff thought they would be able to achieve that goal. Ms. Cutsogeorge replied that they were working hard to do so.

City Manager Jon Ruiz commented that grant funding was one they had identified early on as one of the more challenging goals. He assigned the elements of the savings plan a "red, yellow, or green" value and said he considered the grant funding to be a "red."

Ms. Holser asked if stimulus funds had been included. Ms. Cutsogeorge responded that the grant funding they were seeking was an effort to find $750,000 in funding for General Fund programs and services. She said they had also applied for and received for stimulus funding, but it was almost entirely for capital projects.

In response to a follow-up question from Ms. Holser, Ms. Cutsogeorge explained that $50,000 in grants received for services normally funded from the General Fund had been for the Library, Recreation, and Cultural Services Department (LRCS).

Ms. Cutsogeorge highlighted the *Employee Cost Savings*. She noted the shorter work week imposed on employees represented by the American Federation of State, County, and Municipal Employees (AFSCME) and said the City was still bargaining with the Eugene Police Employees Association (EPEA) and the International Association of Fire Fighters (IAFF).

Mr. Ruiz interjected that the half percent in personnel cost savings was "green" and the non-represented employees Cost of Living Adjustment (COLA) was also "green." He said the International Alliance of Theatrical Stage Employees (IATSE) had taken a COLA freeze. It was noted that IATSE employees were not part of the General Fund. He considered the AFSCME cost savings to be "yellow." He said the City was negotiating with them and AFSCME had "contractual concerns." He classified the EPEA and IAFF negotiations as "red" because they did not have "anything else to benchmark them with." He said voluntary furloughs were "on track" and could be considered "green" but the reduced organizational footprint should be considered "yellow," because they had captured a portion of it but not all of it.

In response to a question from Mayor Piercy, Mr. Ruiz averred that of the $12 million, they had already captured $8 million-plus in ongoing savings. He believed that other pieces were on track.

In response to a question from Mr. Barofsky, Ms. Cutsogeorge explained that the voluntary furloughs were projected to capture $200,000 in savings, but had captured $70,000 since the beginning of the year.

In response to a question from Mr. Potwora, Mr. Ruiz said the half percent in personnel savings had been implemented on July 1, but it would be realized through the year. He stated that the shorter work week imposed on AFSCME had gone into effect on September 27 and the outcome of the contract negotiations with the EPEA and IAFF were yet to be realized. He added that the organizational footprint would vary based on severance agreements, which spanned into the next fiscal year. He averred that the $1.5 million in savings for FY11 had been planned for and so far it was at $1.2 or $1.3 million. He said there were still monies that needed to be captured for FY10.

Mr. Potwora asked if there were savings that would be realized in the present that would be ongoing. Mr. Ruiz replied that some were one-time savings that would have to be turned into ongoing savings.

Mr. Barofsky recalled that when the budget had been initially presented to the Budget Committee at which the plan had been to ask the AFSCME employees to take a COLA freeze, the "initial sell" from the City Manager was that the City would reduce the ongoing payroll costs without reducing services or laying people off. He observed that they had not been able to gain agreement on the COLA freeze and had implemented the truncated work week. He wanted to know at the next meeting how that was affecting services and how it was affecting employee morale. Mr. Ruiz responded that he believed that many were comfortable with the shortened hours and some were not comfortable with it at all. He said they were trying to minimize the impact on services, though there were some offices that were closed for two hours.

Ms. Holser asked if this was being carried over in the projections. Mr. Ruiz affirmed that it was accounted for in the projections.

Ms. Cutsogeorge presented a slide on the *FY11 Outlook*. She stated that the assumption was that they would find a way to capture $2.3 million in ongoing savings in the future in FY09. She said they also included $3.6 million of additional reductions or revenue enhancements in the General Fund forecast.

This totaled $5.9 million in changes that were needed to be made in order to balance the budget. She discussed some of the challenges that lay on the "financial horizons," which included maintaining reserves, infrastructure maintenance, preservation and replacement, equipment funding, and PERS rate increases. She underscored that things kept changing and some revenue estimates would be different from the estimates that staff provided in April, 2009. She cited several components in a future budget that were still unknown, such as the operations cost for a potential new police facility, and underscored that there were still unknowns in the financial forecast.

Mr. Brown recalled that the operations and maintenance for the new police building was projected to cost $800,000 annually. He ascertained that the City had committed to backfilling the Beam development project in the downtown up to 50,000 square feet. He asked if staff had any idea of what a ballpark figure would be for a public safety station downtown, intended to replace the current level of police presence in that area. Mr. Ruiz replied that there were several different options for leased space or the City could actually buy space in a building. He did not know the answer to the question yet.

Ms. Syrett ascertained from staff that the Sheldon aquatic facility was closed for repairs; it was not a permanent closure.

Mr. Brown noted that one item on the list of *Other Internal Service Fund Savings* was a planned reduction in "estimate of risk claims" expense and asked how this could be accomplished. Ms. Raile responded that when risk rates were developed by the actuary, they looked at confidence levels and they would indicate that they were 55 percent confident, as an example, that the City would have enough resources to pay its bills. She said the City's range for establishing that rate had been between 70 and 90 percent, by administrative policy, and they had taken that confidence level down which allowed them to charge a lower rate.

In response to a follow-up question from Mr. Brown, Ms. Cutsogeorge affirmed that the figure for the disposition of property had included the building at 858 Pearl Street.

Mr. Clark asked by how much the revenue rates would change. Ms. Cutsogeorge replied that staff was in the process of taking a look at of the different revenues in order to update the projections and to see what the outlook would be for the upcoming six years. She underscored that they would be working on it.

Mr. Clark asked if staff anticipated a major change in property tax revenue. Ms. Cutsogeorge responded that the assessor had just published the information and they were in the process of analyzing it. She said they had not concluded anything from it yet.

V. DISCUSSION ON FY11 BUDGET PROCESS

Mr. Ruiz stated that FY10 had been a challenge and FY11 would be more difficult. He said they were continuing a budgeting for outcomes discussion, which had begun a couple of years earlier. He related that the discussion focused on what they were trying to accomplish and what "dials [they were] wanting to move in the community" and how they would budget to achieve this. He reiterated that his guidance to the process in the previous year had been to maintain services, avoid layoffs, and to move toward a sustainable budget. He said this had resulted in the development of a $12 million plan to do that. He felt they had tried to be innovative and creative in doing that and "really taking a little bit of risk around some of the things" they said they would do. He averred that one of the organizational "culture pieces" was to say that "it was okay to take some risk, it was okay to be innovative" and then they would adapt as they continued to move forward. He thought this was part of what was presented to them in the $12 million plan. He declared that one thing they should celebrate was that staff had done a "great job" of moving the $12 million plan forward while continuing to maintain services and a minimal impact on services and employees. He said they would continue to work hard on it. He acknowledged that some portions, such as finding grant funding for General Fund services, were challenging.

Mr. Ruiz stated that as the City moved into FY11 and FY12, the goal would be on focusing around moving toward a sustainable portfolio of services and organizational footprint. He recalled that they had discussed the need to shrink the organizational footprint in order to have a structurally sound budget. He said the total number of positions, the fleet, and facilities would need to be reduced to be sustainable. He noted that if they looked at the FY10 budget, they had reduced the organizational footprint by "plus or minus 40 positions." He related that the council goals and the Eugene Counts exercise would help to inform the budget process. He reiterated that internally they would continue to try to balance customer service, employee satisfaction, and financial management and they would continue to try to minimize impacts on services and employees while moving toward "whatever that sustainable portfolio" would be. He predicted that there could be challenging budget discussions.

Continuing, Mr. Ruiz underscored the importance of also looking at the revenue sources to consider as they went through the budget process. He noted that a citizen group was looking at these kinds of things. He said they would continue to involve all of the employees in coming up with different ways of trying to achieve the goals and they would continue to encourage innovation.

Mr. Ruiz stressed that the "mantra" continued to be that they would seek ongoing savings. He said even in the $12 million budget plan, there was $2.3 million in one-time savings that would need to be turned into ongoing savings. He stated that they tried to plan for that, adding that he suspected that they would have to find one-time savings in the FY11 plan that would also need to be turned into ongoing savings. He showed a slide containing a graph of the *General Fund Revenue/Expenditure Forecast - Plan vs. Where We Are Now*. He explained that the anticipated revenue was according to the best information available in April, 2009, and staff was now updating it. He projected that there would be a small reserve in FY15 and that starting in FY10 the City would begin to spend within its means. He said if they had $8 million of ongoing savings and only $4 million in one-time savings, the City was projected to be "$40 million in the hole" by FY15. He said this was not going to happen on his "watch" and reiterated that finding the whole $12 million in ongoing savings in the plan plus the $3.5 million in additional ongoing savings was key. He stated that part of the strategy going into FY11 was to try to keep the "savings account pumped up" even if it was only with one-time savings, though ongoing savings was the only sustainable budget.

Mr. Ruiz stated that the Eugene Counts effort would help to inform the discussion. He acknowledged that they faced a difficult budget discussion. He said staff was continuing to be innovative and creative; they were continuing to look at organizational structure kinds of things and how they provided services.

Mr. Clark appreciated that staff was thinking strategically about how they would address a challenging situation. He asked if either graph had taken into account the increasing PERS rates. Ms. Cutsogeorge replied that some PERS rate increase had been built into the forecast, noting that five percentage points in payroll had been built into FY12 in the forecast.

Mr. Zelenka thanked staff for the look forward, "scary as it is." He understood that if they rested on the "laurels" of what they had done so far in finding $8 million in ongoing savings and $4 million in one-time savings, they would be in trouble. He surmised that they would have to work hard to turn that $8 million into $12 million and then to find another $6 million in ongoing savings, and then they could achieve a balanced budget outcome.

Mr. Potwora asked if they were able to convert the one-time savings into ongoing and if they could identify approximately another $7.5 million in ongoing savings, would it correct the curve on the graph. Mr. Ruiz reiterated that his preference would be to capture ongoing savings over one-time savings.

Mr. Potwora suggested that they develop a policy that insured that whenever a budget was put together, a certain percentage of savings should be ongoing.

Mr. Ruiz said internally they would try to find 100 percent of it in ongoing savings.

Mr. McDonald understood that the projections over the next few years indicated a flat 3percent incline or decline on both sides. He noted that they went from 10 to 15 percent on revenues, which was a 3.4 flat percent, which came to approximately 3 percent per year.

Ms. Raile said there were many variables in the forecast and staff would come back in January with a better understanding of the projected revenue. She noted that the Materials & Services (M&S) had run at 2.5 percent and health care increases had been greater than that. She stated that this was a compilation of all of the different variables.

Mr. McDonald could not recall a Budget Committee process that he had participated in that did not have some kind of good or bad "big surprise." He asked them to consider what possible revenue sources they could envision coming forward. Mr. Ruiz replied that he would not want to presuppose how staff would work on meeting the challenge, but he thought that part of their discussion would be not only the type of revenue source but also the capacity and tolerance of the community.

Ms. Cutsogeorge said economic development could provide revenue benefit in the long run.

Mr. McDonald acknowledged that there would be "some downs" but he hoped that they would have some planning forward for what "possible ups" there were.

Mr. Pryor appreciated that they were trying to recoup the savings all at once and also that they were retaining the flexibility to utilize a bridge strategy. He called the budget a "tough nut to crack." He said this called out how critically important it was to determine the priorities through the council and Budget Committee process along with the Eugene Counts effort. He agreed that they needed to find sustainable reductions and they had to do it in a thoughtful way. He thought that there might be entire areas of the City that needed to be shut down for at least a short time.

Mr. Ruiz said when they talked about priorities he preferred to talk about it in terms of what they could sustain. He felt that there could be a high priority service that could be provided differently in order to sustain it. He considered this to be a little bit of a nuance. He averred that part of the difference for him was in viewing the whole community as a resource base or abundance model as opposed to a scarcity model.

Ms. Holser perceived that costs were continuing to go up and even if they made improvements and cut positions, the costs would continue to rise. She wondered if some of the costs could be lowered. Mr. Ruiz responded that generally costs would go up, because 75 percent of the General Fund budget was attributable to personnel costs.

Mr. Barofsky recalled that the committee had done a lot to try to cut costs in the last budget process. He acknowledged that cutting costs was one option for getting to a balanced budget, but cuts could only be taken so far if they did not want to cut services. He said he was working with a group of citizens that was looking at different forms of revenue and that citizens might have to pay more to retain the services.

Mayor Piercy expressed her hope that economic development would add resources to the community.

Mr. Barofsky noted that this was the first revenue enhancing idea that had been brought forth at the citizen committee.

Ms. Syrett requested more detail on the health benefit costs at the next meeting. She also requested more detail on the costs of community broadcasting for public meetings.

Mr. Ruiz acknowledged that the budget outlook felt "gloomy." He opined that it could either be a struggle just to survive or they could use it as an opportunity to thrive "on the other end." He said they were viewing it as a chance to figure out how to make it a place that they wanted to be as a community. He underscored that there were a lot of things going on in the community and they should work to figure out how to move through this period to a better place from a community sustainable services budget. He said though things felt "heavy," they were not without hope.

Mr. Smith expressed confidence that they would make things work and without cutting services. He felt that they needed to get everyone to buy in on the process and they needed to keep things as transparent as possible. He thought they could make a lot of little cuts and that people in Eugene might be willing to spend a little or a lot more for their services.

Mr. Zelenka ascertained that the forecast envisioned normal growth. He suggested that on the main components of the budget, they delineate the budgetary projections by line.

Mr. Clark left the meeting.

VI. PERS RATE INCREASES

Ms. Raile stated that the majority of the information had come from Mercer, the PERS actuary, and the presentation had been given to PERS in September, 2009, about the system as a whole. She reviewed the slides in that power point presentation. She underscored that information they were discussing was based on an interim mid-stream valuation of the year that ended in December, 2008. She said much of the work they were reviewing referred to side accounts, something that the City of Eugene did not have. She explained that a side account was an account in which pension obligation bond proceeds would be set aside and amortized over the life of the debt. She stated that when the City issued its pension bonds, the entire amount had been put into its account with PERS at the time and had bought down the rate. She stressed that the funded status had decreased from 112 percent on December 31, 2007, to 80 percent on December 31, 2008.

Ms. Raile explained that when the status of the system as a whole was below 80 percent the rate collar, which regulated rate increases, would double. She said employers with side accounts would see a greater rate increase than 6 percent of payroll because they no longer would have the balance in the side account to bring the rate down. She related that a reduction in the City's footprint would actually cause PERS rates to increase.

Ms. Raile reported that things were improving; the investment return on the regular account through August 31 had been almost 9 percent, but in order to be fully funded the returns would have to be at 26 percent. She explained that if PERS rules did not include the rate collar, the system-wide rate would increase by 22 percent. She said the collar would cap the rate at 18 percent, which indicated that rates would continue to increase.

Continuing, Ms. Raile reviewed a graph of *Key Findings – Historical Perspective on Valuation Rates (Including IAP)*. She stated that the PERS board had changed its valuation methodology to allow for recognizing an increase in hedging costs related to how long an employee stayed with the organization. She highlighted a graph of *Key Findings – Historical Reported Funded Status*, which delineated the effects of the economic losses on the funding.

Ms. Raile reported that the PERS Board had talked for the first time in November about some options. She believed the Board would ultimately have numerous conversations about how they may go about adjusting the rates, if they could change the current practices. She related that the modeling they did took all of the accounts, i.e. Tier 1, Tier 2, and the Oregon Public Service Retirement Plan (OPSRP), into consideration and did not include health care and the employees' 6 percent. She explained that the PERS Board had modeled using three different scenarios:

- 4.5 percent, based on a 10-year average of return;
- 8 percent, which was the actuary's assumption of what returns would be; and
- 10.5 percent, i.e. the investment average earnings over a 25-year period.

She said they had modeled it looking at two different things, the first of which was to look at 3 percent of payroll which was the collar or 20 percent of the current rate, and then to double the collar, and the second of which was to see what would happen if the collar did not double. She highlighted the slides delineating the *Ten-Year Financial Projections – Combined Payroll Weighed (Tier 1/Tier 2, OPSRP) Contribution Rate (Excludes Side Accounts, Excludes IAP and Retiree Healthcare Rates*, which was based on the three percentage rates combined with each of the two scenarios, and the *Ten-Year Financial Projections – Combined (Tier1/Tier 2, OPSRP) Valuation Funded Status*. She explained that if the rate collar was not allowed to double, even if the rate was still 24 percent they would have a poorer funding status.

Ms. Raile said the City of Eugene had included a 5 percent rate increase for PERS in its forecast for FY12. She cited the graph delineating the *City of Eugene Tier 1/Tier 2 Rates – History of PERS % of Payroll*, which showed that the percentage of payroll was projected to increase to 28.1 percent in FY12, including the employer contribution, the pension bonds payment, and the 6 percent employee pick-up. She stated that, depending upon the type of returns they would get beginning in the present year, the City could face a rate increase of between 3 and 6 percent. She predicted staff would have more information in January.

Mr. Smith asked if the 6 percent employee pick-up was required by law. Ms. Raile replied that the employee contribution was 6 percent by law but the law did not require the City to pay that portion, as was the current practice.

Mr. Potwora asked if that percentage of payroll would be held constant regardless of the size of the organizational footprint. Ms. Raile reiterated that the organization's payroll mattered and, though the organizational footprint would be reduced, the City still had an obligation to pay retirement benefits, which was amortized over many years based on changes in valuation. She summarized it by saying that the payroll would shrink more quickly than the retirement costs would.

Mr. Potwora asked if the actuarial estimate which was based on what it would cost to fund the pension for employees would ultimately drop with a reduction in numbers. Ms. Raile affirmed that it would drop at some level, but it would not drop at the same rate.

Mr. Potwora averred that the committee needed to make tough decisions given this information regarding the increased cost of PERS relative to payroll.

Ms. Raile stated that the unfunded liability in 2002 had been $68 million. She said because it could not be paid in one lump sum, it was amortized over 20 years.

> Mr. Zelenka, seconded by Ms. Syrett, moved to extend the meeting by 15 minutes. The motion passed, 11:1; Ms. Taylor dissenting.

In response to a question from Mr. Poling, Ms. Raile said she did not know when the investment period had changed from ten to five years. He asked what the real increase in costs. Ms. Raile replied that each percent of payroll was approximately $600,000.

Mr. Zelenka asked what the difference was between Tier 1 and Tier 2. Ms. Raile responded that Tier 2 did not have a guaranteed rate, but Tier 1 was guaranteed a return on the account balance.

In response to a follow-up question from Mr. Zelenka, Ms. Raile said less than 80 percent of employees were currently in Tier 1 and Tier 2, with the remainder in the OPSRP plan. She added that she would find out what portion of them was in Tier 1 alone. She noted that Tier 2 had been added in 1996.

Mr. Barofsky ascertained from Ms. Raile that reducing the organizational footprint would have the effect of increasing the rate, but the rate would not go above the allowable maximum though the unfunded portion would become harder to afford.

VII. EUGENE COUNTS REPRESENTATIVE

Mr. Barofsky explained that the City was hosting a special Eugene Counts discussion that sought to bring together representatives of several of its boards and commissions to discuss results of the community exercise to hone in on priorities. He said he would be participating as a Budget Committee representative and he was seeking one more committee member to serve. He noted that the meeting was scheduled for November 10 at noon.

Mr. Potwora volunteered to serve as Budget Committee representative. Mr. Smith offered to serve as his alternate.

ADJOURN

Mr. Barofsky adjourned the meeting at 7:12 p.m.

(Recorded by Ruth Atcherson)