M I N U T E S

Budget Committee
City Hall—McNutt Room
777 Pearl Street, Eugene Oregon

November 17, 2008
5:30 p.m.

PRESENT: John Barofsky, Chair; Claire Syrett, Vice Chair/Secretary; Bonny Bettman, Mike Clark, Chris Pryor, Jennifer Solomon, Betty Taylor, Alan Zelenka, Kate Davidson, Mary Ann Holser, Joseph Potwora, Doug Smith, members; City Manager Jon Ruiz; AIC Assistant City Manager Sarah Medary; Central Services Executive Director, Jim Carlson; Dee Ann Raile, Sue Cutsogeorge, Kitty Murdoch, John Huberd, Pavel Gubanikhin, Finance; Mayor Kitty Piercy.

ABSENT: George Poling, Andrea Ortiz, Noah Kamrat, Terry McDonald, members.

I. Introduction of Committee Members

Mr. Barofsky called the meeting to order at 5:36 p.m. and asked those present to introduce themselves.

Mr. Barofsky acknowledged the contributions of outgoing committee members Jana Rygas, Jim Carlson, Bob Peter, Mike Biglan, John Demboski, and Bonny Bettman.

II. Election of Officers

> Mr. Zelenka, seconded by Mr. Clark, moved to nominate Mr. Barofsky as Chair of the Budget Committee. The motion passed unanimously, 12:0.
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> Ms. Taylor, seconded by Ms. Bettman, moved to nominate Ms. Syrett as Vice-Chair of the Budget Committee. The motion passed unanimously, 12:0.

III. Financial Trends

Ms. Cutsogeorge presented the "Financial Trends Report" (FTR) for the benefit of the committee. She noted that she did not have copies of her slide presentation for the committee members due to problems with the City's computer systems that day, and noted that copies would be provided to the committee members as soon as possible.

Ms. Cutsogeorge noted that her report would cover trends from FY01 through FY08.

Ms. Cutsogeorge briefly described the background and methodology of the FTR and in doing so noted that the report would primarily focus on the financial trends related to the City's general fund. She added that each trend identified in the report would be classified as favorable, caution or negative.

Ms. Cutsogeorge described the favorable property tax collection rate trend from her presentation for the benefit of the committee and commented that for FY01-FY08 property taxes made up approximately 60% of the general fund revenues. She added that the figures demonstrated property tax collection rates for both the net levy and the gross levy.

Mr. Zelenka asked how many people took advantage of the 3% discount provided by the net levy. Ms. Cutsogeorge answered that she did not have exact numbers, but that the number of people who took advantage of the discount was quite high.

Ms. Cutsogeorge noted that while property tax collection rates for FY02, FY05 and FY08 had been affected by significantly large refunds to Hynix and Qwest, overall collection rates had been high.

Ms. Cutsogeorge presented information regarding revenues and expenditures per capita for the committee, noting that the revenue trend had been classified as a caution trend due to the fact that revenues per capita had suffered a 0.2% average annual decrease. She added that the expenditures trend had been classified favorable since the 0.6% rise in expenditures per capita over FY01-FY08 had only been a small percentage above inflation. She noted that the expenditures per capita being higher than revenues was a clear impediment to the committee's goal of making the general fund sustainable.

Ms. Cutsogeorge presented information demonstrating the projected General Fund Revenue budgets versus revenues actually received. She noted that the trend indicated by her graph was considered favorable as the discrepancy between budgeted and actual revenues had grown progressively smaller over FY01-FY08.

Ms. Cutsogeorge, responding to a question from Mr. Clark, noted that while they would not have FY09 actual figures until late next year they would be able to provide initial budgeted revenue figures later in the meeting.

Ms. Cutsogeorge presented information regarding the general fund surplus/deficit as a percent of revenue, noting that the trend indicated therein was considered negative since the general fund had been in a deficit state for the past two years.

Ms. Cutsogeorge, responding to a question from Ms. Bettman, noted that the financial indicators report due to be presented to the budget committee in January or February of 2009 would include information on the entire City budget and not just the general fund.

Ms. Cutsogeorge presented information regarding the general fund fund balance as a percentage of revenue, which indicated a caution trend since the percentage had been on the decline in the last two years. She noted that the fund balance percentages were often used by outside credit rating agencies to determine the financial health of the City.

Ms. Cutsogeorge presented a summary of trends and noted that her office was working on ways to address those trends classified as negative by the report.

Mr. Barofsky called for a short break at 6:01 p.m. and then reconvened the meeting at 6:10 p.m.

IV. General Fund Outlook

Ms. Raile provided a presentation on the City's six-year general fund forecast. She noted that the figures being presented represented the Financial Services division's best professional guess but that the numbers would almost certainly change over time.

Ms. Raile reminded the committee that despite deteriorating economic conditions, the City had done good work to control costs and protect the revenues in the general fund.

Ms. Railed demonstrated a graph explaining the general fund revenues in the adopted FY09 budget. She reminded the committee that property tax revenues accounted for 62% of the total budget and constituted the largest portion of the general fund revenues.

Ms. Raile, responding to a question from Mr. Zelenka, commented that the interfund transfers portion of the general fund revenue were part of an overhead allocation plan to provide funds for central functions such as human resources and information technology and were allocated based on the individual needs of the various offices and not on any constant predetermined percentage across the board.

Mr. Raile, in comparing actual general fund revenues between FY96 and FY08, noted an average annual increase in revenues of 4.8%. She added that property tax revenues as a percentage of the total general fund revenues had decreased from 61% to 58.5% over the twelve year period.

Ms. Raile described the history of personnel costs, noting that the actual costs over the FY96-FY08 period had increased on average by 5.2% annually, which was consistent with Ms. Cutsogeorge's earlier statement regarding per capita revenues being less than per capita expenditures. She added that retirement costs were expected to decrease over the next two years

Ms. Raile presented a brief history of the Public Employees Retirement System (PERS) and Oregon Public Services Retirement Plan (OPSRP) rates going back as far as FY02. She noted that the PERS rates were capped and collared to decrease by no more than 3% in any two year period. Ms. Raile added that the decrease in the pension bond rate under OPSRP from FY06-FY10 was due to the fact that the City had paid off more than $7 million in pension obligation bonds.

Ms. Raile proceeded to describe the significant forecast variables identified in her presentation for the committee with respect to the revenues and expenditures of the general fund.

Ms. Raile, responding to a question from Mr. Potwora, noted that with respect to property tax revenues there was enough of a margin between real and assessed values that the assessed values could sustain projected growth even if real property values were to drop significantly.

Ms. Raile, in response to a comment from Ms. Bettman, noted that the EWEB Contributions in Lieu of Taxes portion of the projected general fund revenues had been relatively static in the past few years, hovering at around $11 million.

Ms. Raile noted that the City was anticipating wage growth as a portion of the general inflation adjustment of general fund expenses to be at 4% as dictated by the City’s contracts for FY10. She noted that beyond FY10, and in the absence of new contracts, the City would default to the State’s budgetary forecasts.

Ms. Syrett asked if the default forecast provision was part of normal budgeting policy or if it was the result of the unfavorable economic climate. Ms. Raile answered that the default forecast provision had been in place since FY03 and was considered normal budget policy.

Ms. Raile noted that, with respect to the Program Costs portion of projected general fund expenses, the forecast assumed the additional cost of public library operations beginning in FY12 after the current library levies had expired.

Ms. Raile presented a comparison of annual operating surplus/deficit projections, noting a substantial deterioration of the general fund in the projections for FY10 due to inflation adjustments, property tax revenue decreases, and additional public safety expenditures for police officers.

Ms. Raile presented a comparison of annual reserve for revenue shortfall, noting that at the end of the current fiscal year there would be $1.9 million in reserve funds after the City Manager had dictated that $2.5 million in adjustments over the course of FY09 in order to ensure that the reserves would not have a negative balance. She commented that, based on current conditions and left unchecked, the annual reserve would continue to significantly decrease.

Ms. Raile, responding to a question from Mr. Potwora, noted that the most urgent variables were the property tax collection rate and the growth rate in assessed values for property taxes. In response to further questioning from Mr. Potwora, she noted that those variables were difficult to control and that the most urgent expense variables that were under the City's control were salaries and wages for City employees.

Ms. Raile, responding to a comment from Mr. Zelenka, noted that there were several different approaches the City could take in order to increase the property tax revenues or the collection rate for those revenues including local option levies, hiring an employee to ensure accurate reporting of assessed values, and renegotiations of contributions in lieu of taxes from utilities such as EWEB and Northwest Natural Gas.

Mr. Barofsky asked if there would be any updates on the outlook of the General Fund provided in January. Ms. Raile responded most of the figures from her presentation had been finalized and that she would provide an updated presentation only if the numbers changed substantially in the interim.

Mr. Barofsky asked if it might be advisable or possible to discontinue the 3% property tax discount that Ms. Cutsogeorge had mentioned earlier. Ms. Raile answered that the discount was part of a State law and could not be discontinued by the City.

Mr. Barofsky was concerned about how forecasted salary and wage increases for certain unionized city employees might be addressed. Mr. Ruiz responded that the AFSCME and police union contracts had already been signed, and that contracts for the remaining union City employees were still being negotiated.

V. FY10 Budget Strategy

Mr. Ruiz commented that the City was faced with the difficult challenge of closing an $8 million budget gap without cutting City services. He noted that the City Manager's and Risk Services offices had been attempting to control health benefit and workers compensation costs in recent years, in addition to seeking more was ways in which to carry over the financially benefits of improved safety and wellness policies.

Ms. Taylor asked if the City Manager's office had explored any new revenue options. Mr. Ruiz responded that no viable sources of new revenue had presented themselves in recent years. He asked that the City Council feel free to make any suggestions in that regard. Ms. Taylor suggested that Mr. Ruiz look at a recent study performed by the City Club of Eugene that might give helpful input.

Mr. Ruiz, responding to a question from Mr. Zelenka about the timeline for addressing the budget gaps, noted that the City Manager's office had already been exploring avenues to increase revenues and reduce expenses and to that end had formed five City executive management teams to explore a number of options. He noted that those teams would be meeting with Mayor Piercy and members of the City Council several times over the course of the next year to present their findings. He said that those findings and discussions would most likely be incorporated into the budget that he would eventually submit to the budget committee.

Mr. Ruiz expressed that the Council's normal timeline of considering budget issues in January in February might be moved forward to September of the previous year in order to give the Council the opportunity to provide more comprehensive policy guidance.

Mr. Ruiz suggested that biannual meetings with the budget committee might be a helpful way for the City to review or adjust its investments in various City policies and initiatives.

Mr. Ruiz, responding to a question from Mr. Zelenka, noted that closing the $8 million FY10 budget gap, either by making service adjustments or cuts, would allow the City to increase the reserves for revenue shortfalls, which had decreased significantly over the last several years.

Mr. Pryor appreciated Mr. Ruiz's efforts to close the budget gap without cutting services, and similarly asked that he not lay off critical City infrastructure personnel unless it was absolutely necessary to do so.

Ms. Davidson asked Mr. Ruiz what the process was whereby the City Manager would be including non-executive level city employees as well as members of the general public in budget discussions. Mr. Ruiz answered that the City had recently completed an online think tank discussion for employees to make suggestions and provide input regarding the City budget. He added that the City was in the process of creating more improved ways to solicit community input on the budget, but that no specific strategic practices in that regard were yet in place.

Mr. Smith maintained that he was not in favor of cutting City services to close the budget gap, and encouraged Mr. Ruiz and the rest of the City's executive management to find creative ways to address the problem that would not require cuts.

Mr. Barofsky reminded the committee that the $8 million budget gap pertained only to the general fund, and that the actual budget deficit faced by the City was probably closer to $12 million or $13 million overall.

Mr. Barofsky expressed that he was encouraged by Mr. Ruiz's efforts to find creative ways to address the budget problems, but was discouraged by Mr. Ruiz's inference that the problem could be solved in the current year when the same problem could not be solved in the previous year. Mr. Ruiz responded by noting that the financial situation and the budget challenges faced by the City in the current year were quite different from previous years.

Mr. Ruiz, responding to a comment from Ms. Bettman, reiterated that by making structural changes in order to close the $8 million FY10 budget gap the City could increase its reserves for revenue shortfalls beyond FY10.

Ms. Bettman maintained that the current discussion regarding the budget gap was overly theoretical, and agreed with Ms. Davidson's position that the public was not being involved enough in the budget process.

Ms. Bettman felt that the calls for creative ideas to address the budget gap were actually a call to privatize public city services and which would allow public revenues to be used for private purposes with little or no oversight. She added that any public funds being devoted to private services or privatized bureaucracies should be cut first in addressing the $8 million FY10 budget gap.

Ms. Bettman expressed that the City should review administrative salaries and compensation to see if there was anything that could be cut or re-administered to save money.

Ms. Bettman expressed an opinion that at some point it would be nice to explore the possibility of making a requirement of new City employee hires that they also live within the City limits.

Ms. Syrett agreed with Ms. Davidson and Ms. Bettman's positions that it was important to provide community members with specific strategic avenues for providing input on the budget and other City issues.

Ms. Taylor maintained that the City should consider reducing or eliminated its contributions to the Metro Partnership as well as the various tax exemption opportunities offered by the City.

Mr. Zelenka commented that it would not be wise to spend public tax revenues to privatize public services. He maintained that contributions to capital improvement projects had been insufficient to maintain current City assets.

VI. FY10 Proposed Meeting Schedule

Ms. Murdoch asked the committee to check their schedules and let her know if the two dates for upcoming meetings, January 28, 2009, and February 11, 2009, would work for them.

The meeting adjourned at 7:19 p.m.

(Recorded by Wade Hicks)