A G E N D A

Budget Committee – Finance Investigative Team

Lane County Public Service Building
Harris Hall, 125 E 8th Avenue,
5:30 to 8:00 p.m.
Tuesday, October 22, 2013

Time	Item	Presenters
5:30 to 5:45	Introductions Review of Previous Work	Sue Cutsogeorge, Finance Director
5:45 to 6:00	Annex River Road & Santa Clara	Renee Grube, LRCS Director
6:00 to 6:30	Employee Compensation	Kristie Hammitt, CS Director Myrnie Daut, Risk Services Director
6:30 to 6:45	Manager to Line Staff Ratios	Kristie Hammitt, CS Director
6:45 to 7:00	Eliminate Year-End Carryover Balances	Sue Cutsogeorge, Finance Director
7:00 to 7:30	Use Net Assets from the CAFR to Balance the Budget	Sue Cutsogeorge, Finance Director
7:30 to 8:00	Wrap Up and Next Steps	Sue Cutsogeorge, Finance Director

Budget Committee Meeting
Lane County Public Service Building, Harris Hall, 125 E 8th Avenue
Monday, October 28, 5:30 to 7:00 p.m.

Finance Investigative Team
Solutions Evaluation Matrix
Meeting 4: October 17, 2013

Evaluation Criteria	Eliminate Leaf Collection	Eliminate Enforcement of the Bag Ban	Eliminate Green Buildings Program	Use Non- General Funds to Solve Budget Gap	Use Parking Funds to Solve Budget Gap	Use Fleet Funds to Solve Budget Gap
Could there be potentially significant savings or increased revenue to the General Fund as a result of this item?	No	No	No	Maybe - depending on the fund. See Non-General Fund Matrix for more details.	Maybe	Yes
Can it be In place for FY15 budget savings, or is this a longer-term solution?	N/A	N/A	N/A	It depends on the approach and the fund.	FY15 budget savings	FY15 budget savings
Is it legal?	Yes	Yes	Yes	Maybe - depending on the fund. See Non-General Fund Matrix for more details.	Yes	Yes for General Fund vehicles
Who must take action?	City Manager	City Council	City Manager	City Council	City Council-policy City Manager-rates	City Council
Is this a one-time or ongoing solution?	N/A	N/A	N/A	One-time	One-time or ongoing	One-time
Is it scalable?	N/A	N/A	N/A	Yes	Yes	Yes
Can the funds generated be used for General Fund purposes?	No	N/A	No	Maybe - depending on the fund. See Non-General Fund Matrix for more details.	Yes	Yes for General Fund vehicles
Can this item save money or raise revenue without reducing services?	No	N/A	No	No	Maybe	No
Will this item cause other costs to increase or revenues to decrease in the City's budget?	Yes	N/A	No	Yes	Yes	Yes
Additional FIT Comments				Consider the service impacts and tradeoffs when looking at Non-General Funds. Are there opportunities to move services from the GF into a Non-GF?	Parking garages have significant unfunded deferred maintenance. Consider impacts on downtown. Consider scaling rates or decreasing rates but increasing meters.	Vehicle failures due to delayed replacement would impact public safety and other services. Consider asking voters to approve G.O. Bonds for vehicles.

Finance Investigative Team
Solutions Evaluation Matrix
Meeting 4: October 17, 2013

Evaluation Criteria	Use Telecom Funds to Solve Budget Gap	Create a Lapse Fund
Could there be potentially significant savings or increased revenue to the General Fund as a result of this item?	Yes	Yes
Can it be In place for FY15 budget savings, or is this a longer-term solution?	FY15 budget savings	FY15 budget savings
Is it legal?	Maybe	Yes
Who must take action?	City Council	City Council or City Manager
Is this a one-time or ongoing solution?	One-time or ongoing	One-time or ongoing
Is it scalable?	Yes	Yes
Can the funds generated be used for General Fund purposes?	Yes	Yes
Can this item save money or raise revenue without reducing services?	No	No
Will this item cause other costs to increase or revenues to decrease in the City's budget?	Yes	Maybe
Additional FIT Comments	Unstable revenue source. Risks associated with changing the policy to use dollars for non-telecom related purposes.	May be more appropriate to be used as a management tool. Ongoing lapse is equivalent to outright reduction in appropriation. Could be risky for service delivery.

Finance Investigative Team
Solutions Evaluation Matrix
Meeting 5: October 22, 2013

Evaluation Criteria	Annex River Road & Santa Clara	Reduce Employee Compensation	Decrease the Manager to Line Staff Ratio	Eliminate Year-End Carryover Balance	Use Net Assets from the Comprehensive Annual Financial Report to Balance the Budget
Could there be potentially significant savings or increased revenue to the General Fund as a result of this item?					
Can it be In place for FY15 budget savings, or is this a longer-term solution?					
Is it legal?					
Who must take action?					
Is this a one-time or ongoing solution?					
Is it scalable?					
Can the funds generated be used for General Fund purposes?					
Can this item save money or raise revenue without reducing services?					
Will this item cause other costs to increase or revenues to decrease in the City's budget?					
Additional FIT Comments					

Finance Investigative Team

Report to the City of Eugene Budget Committee

October 22, 2013

Table of Contents

DRAFT

To: Budget Committee

From: Finance Investigative Team

Date: October 22, 2013

Re: FIT Report

Attached is our report as a result of five meetings over the past month. This report is being provided to you in order to fulfill our charge:

> The Finance Investigative Team (FIT) will bring together community members and Budget Committee members to review proposed budget solutions using a standardized evaluation matrix. The focus of the work will be on "fact finding", with an emphasis on the financial impact of the solutions as they might apply to balancing the FY15 budget.

This report will provide you with information that can be used as reference material during development of the FY15 budget, and to communicate with the public about the issues.

The report consists of two parts: a matrix with key information for all of the items and an approximately one-page write up for each item. Staff prepared the write-ups and we determined the information to be included in the matrix.

Our focus was on fact finding, and we did not evaluate whether any particular approach would be a "good idea" in terms of solving the budget gap. This was a difficult charge, as we often found ourselves wanting to know more about the policy issues or to weigh in with our recommendations. We did our best to stick to our charge in developing this report for you. We do recommend that as you consider budget balancing options, you review the matrix and the write-ups together in order to understand the full picture, as neither item stands alone in providing what you might need to make a decision.

FIT Membership:

John Barofsky	George Brown	Ken Neubeck
Ken Beeson	Chelsea Clinton	Eric Richardson
Jen Bell	Ruth Duemler	Evangelina Sundgrenz
Barb Bellamy	Greg Evans	Marty Wilde
Rob Bennett	Marilyn Milne	

Title: River Road/Santa Clara Annexations

Description: A large number of unincorporated properties within Eugene's Urban Growth Boundary are located in the River Road/Santa Clara (RR/SC) area. These properties now receive services from several special districts and Lane County. There are also many properties in RR/SC that are within the City and receive City services. The patchwork character of unincorporated and City properties make service delivery among properties in RR/SC difficult, inconsistent and inefficient.

The Eugene/Springfield Metropolitan Plan, adopted by Eugene, Springfield and Lane County, includes policies that encourage annexation as the preferred means of providing urban-level services for new development and for a city to be the providers of these services within its Urban Growth Boundary. The Lane County Code, which the City administer through an urban transition agreement, requires owners of unincorporated RR/SC property to agree to annex for land divisions, zone changes, new commercial or industrial development, new dwellings and any other activity that increases demand for services. Annexation is not required for minor property improvements, residential outbuildings, room additions, home remodeling or other activities that do not increase demand for services.

State law governs how annexations may occur. To be eligible for annexation a property must be contiguous with city boundaries or separated only by a right-of-way. All property owners and at least 50% of residents on a property must consent to annexation. There are numerous unincorporated islands in the RR/SC area and state law allows such island properties to be annexed without consent; however the Metro Plan and City policy promote that annexations occur on a voluntary basis, rather than city initiated actions.

After annexation, a property is removed from any special districts and no longer pays special district taxes. The property then receives full city services and is subject to all city property taxes. The property tax paid by newly annexed properties approximately covers the marginal costs of extending city services to the property, on average. State law allows taxes to be deferred up to ten years.

How could this idea help solve the FY15 budget gap? This idea is unlikely to help the FY15 because it is anticipated that taxes on newly annexed properties would approximately cover cost of extending city services to the property.

What are some potential benefits? The RR/SC area is currently a patchwork of incorporated and unincorporated properties. Additional annexations would consolidate incorporated properties and improve urban service delivery and service efficiencies.

What are some drawbacks? If taxes were deferred for up to ten years to encourage more annexations, the costs of extending city services would not be supported by additional property tax revenue. Property taxes would go up for those in the RR/SC area.

What are longer-term or indirect implications from this idea? If the RR/SC area were entirely annexed City service delivery would benefit due to increase efficiency. Residents in RR/SC area would benefit from consistent availability of urban-level services to their properties. Special districts in the area would experience a loss of significant property within their boundaries, and community members are concerned about what happens to those districts and their community assets.

Title: Reduce Employee Compensation

Description: Employee compensation consists primarily of salaries, retirement contributions (PERS and OPSRP) and health benefits. Total employee compensation costs are a function of two variables, the number of positions and the compensation levels associated with those positions. The City has been taking proactive steps in the past several years to slow the growth in its personnel costs. The two primary avenues for containing personnel cost increases have been by working with represented and non-represented employee groups to slow the growth in employee compensation through COLA reductions and by reducing the number of positions.

How could this idea help solve the FY15 budget gap? With personnel costs comprising 76% of the General Fund's operating budget, reducing employee compensation can contribute significantly towards closing the City's budget gap. However, the City Manager's ability to reduce employee compensation is limited by the legal and regulatory environment.

Seventy-one percent of the City's positions are covered by one of four labor unions. Since wages and benefits are mandatory subjects of collective bargaining, reductions in compensation associated with these positions must be bargained, with police and fire compensation also subject to binding arbitration. The City has been successful in negotiating zero, reduced and delayed COLAs and increases in employee health insurance cost sharing, however, currently, all unions with the exception of the Eugene Police Employee Association (EPEA), which is in negotiations, have contracts in place that cover FY15 compensation. Therefore, the only areas where material reductions can be achieved in FY15 are reducing personnel costs through eliminating positions or considering changes to non-represented employee compensation.

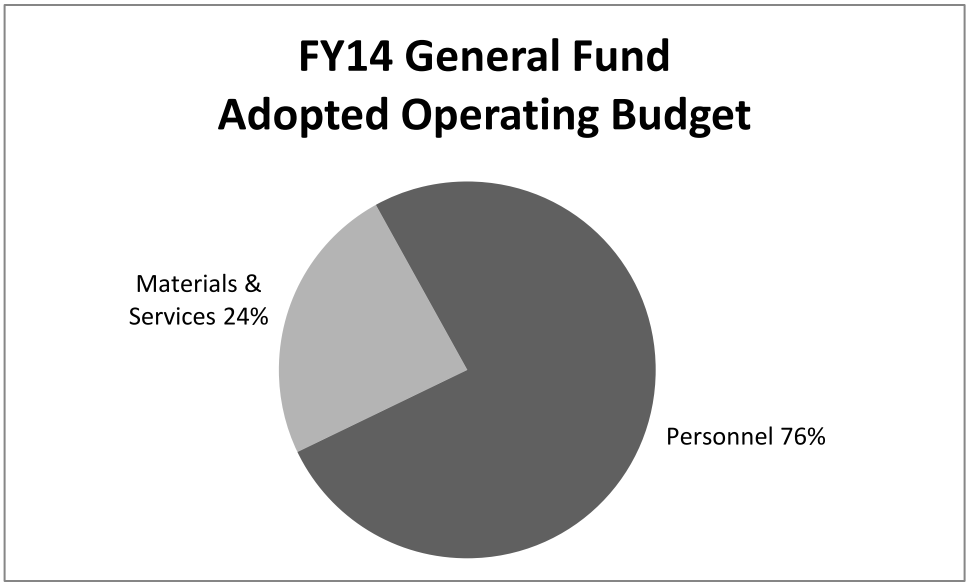
The state legislature determines PERS/OPSRP benefit levels and the PERS Board sets employer rates. Even though the City has no control over its retirement costs, recent PERS legislation (SB 822) did provide some relief by lowering the City's FY14 retirement costs by an estimated $2.8 million across all funds, and $1.7 million in the General Fund. These savings will be realized again in FY15, assuming that the current legal challenges to this legislation do not prevail. It is not yet known whether the most recent PERS legislation (SB 861), which was passed during the recent special legislative session, will have an impact on the PERS FY16 and FY17 rates. The PERS board is expected to provide its advisory rates for FY16 and FY17 in November 2013.

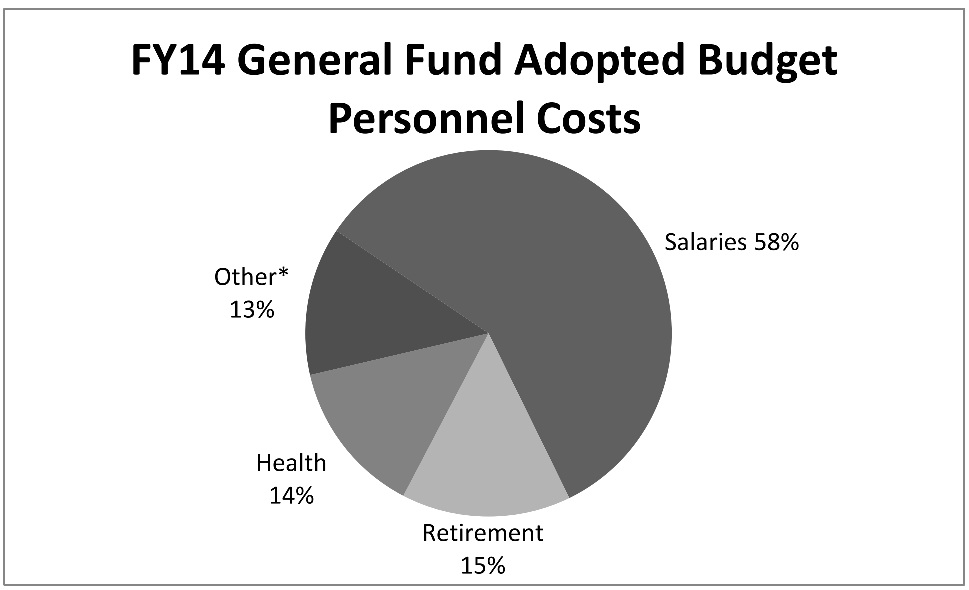
What are some potential benefits? Reducing City's personnel costs in a way that does not result in reduced service levels (e.g., through union contract negotiations or incremental footprint reductions) would have a positive impact on the social equity, economic prosperity and environmental sustainability goals by helping the City achieve a stable budget that maintains municipal services at their current level.

What are some potential drawbacks? Personnel cost savings achieved through reductions resulting in lower level of services provided to the community may have a negative impact on the community members utilizing the services, will reduce the quality of life in our community, and may have negative impacts on social equity, economic prosperity and environmental sustainability goals. These impacts will depend on the specific service areas targeted for reductions. Reductions resulting in employee layoffs will likely have a negative impact on the local economy. Reductions in employee compensation may also make it harder for the City organization to attract and retain highly qualified employees.

What are the longer-term or indirect implications from this idea? Limiting future COLA increases would have a significant long-term impact, because reduced or no COLAs generate ongoing budget savings. The City will continue to manage health care costs by negotiating increased employee cost sharing, promoting employee health through its award-winning health and fitness program, and continuing to realize cost saving through self-insurance.

Reduce Employee Compensation: Supplemental Information





* Other personnel costs include workers' comp, unemployment insurance, long-term disability, life insurance, overtime, and temporary staffing.

Title: Decrease Manager to Line Staff Ratio

Description: Manager to line staff ratios can be measured in a number of different ways depending on the level of the City organization, e.g. as ratio of section/program managers to front line staff, division managers to section/program managers, or department directors to division managers. These ratios also vary across service areas within the City based upon the type of work performed by the team. Managers that supervise more technical areas, such as financial analysis or risk services, will generally have a lower manager to employee ratio. Field service areas such as custodial or street maintenance crews may have a larger ratio based on the nature of the work and the organizational structure of that work unit. In addition to fully funded regular employees, managers are also responsible for the supervision of several hundred temporary employees in service areas such as Recreation Services and Public Works Maintenance who are hired to help with seasonal work.

One common misconception that often arises as part of the manager to line staff ratio discussions is the assumption that all non-represented employees perform management functions. In reality, over 40% of non-represented positions are in professional job classifications that do not include management or supervisory duties, as shown in Exhibit 1 below.

How could this idea help solve the FY15 budget gap? With personnel costs comprising 76% of the General Fund operating budget, any reduction in General Fund authorized positions would have a positive fiscal impact on the FY15 budget gap. However, such reduction would result in significant decreases in the level of service, as managers and supervisors are needed to complete technical program work, lead projects in support of City Council and community initiatives, and provide direction and oversight in support of existing service levels. The work completed by this classification of employees cannot be delegated to union-represented employees per contractual agreements. Therefore, elimination of management positions should be considered in the context of reducing General Fund-supported services and not as a stand-alone item.

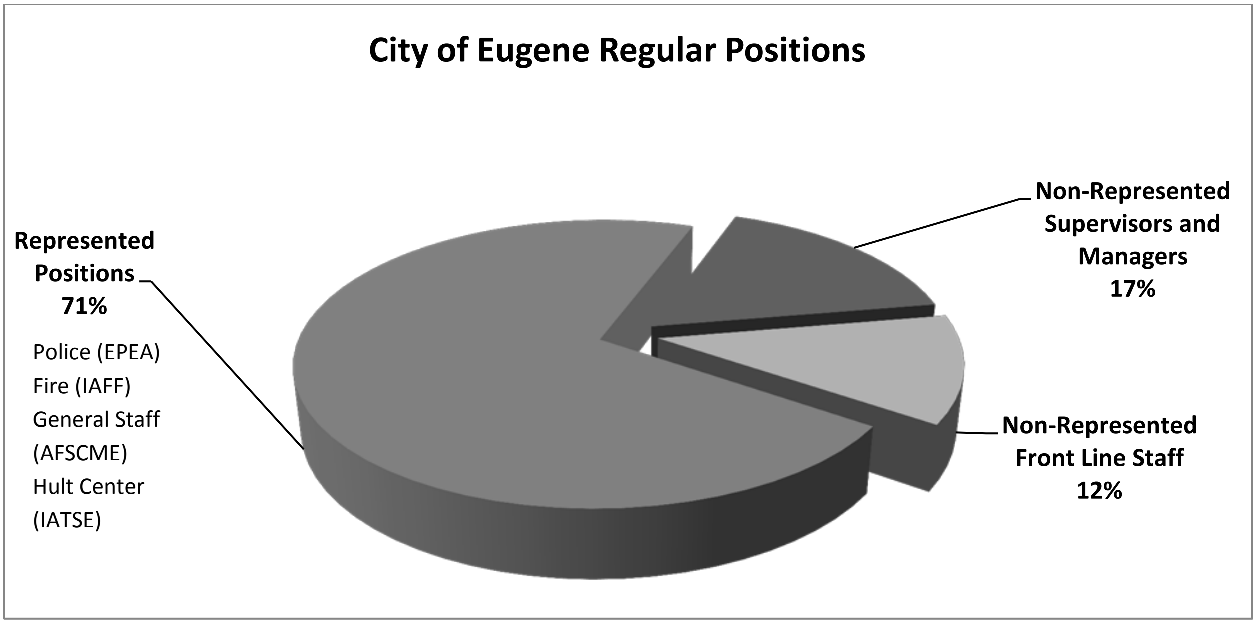
What are some potential benefits? Increasing manager to line staff ratio by reducing the number of management positions may have a positive impact on the City's financial outlook by reducing its ongoing personnel costs. The City Manager and the Executive Team periodically evaluate the need for supervisory and management positions as part of the annual budget process, and several such reductions have been accomplished over the years through reorganizations, such as elimination of two manager positions in the Finance Division several years ago.

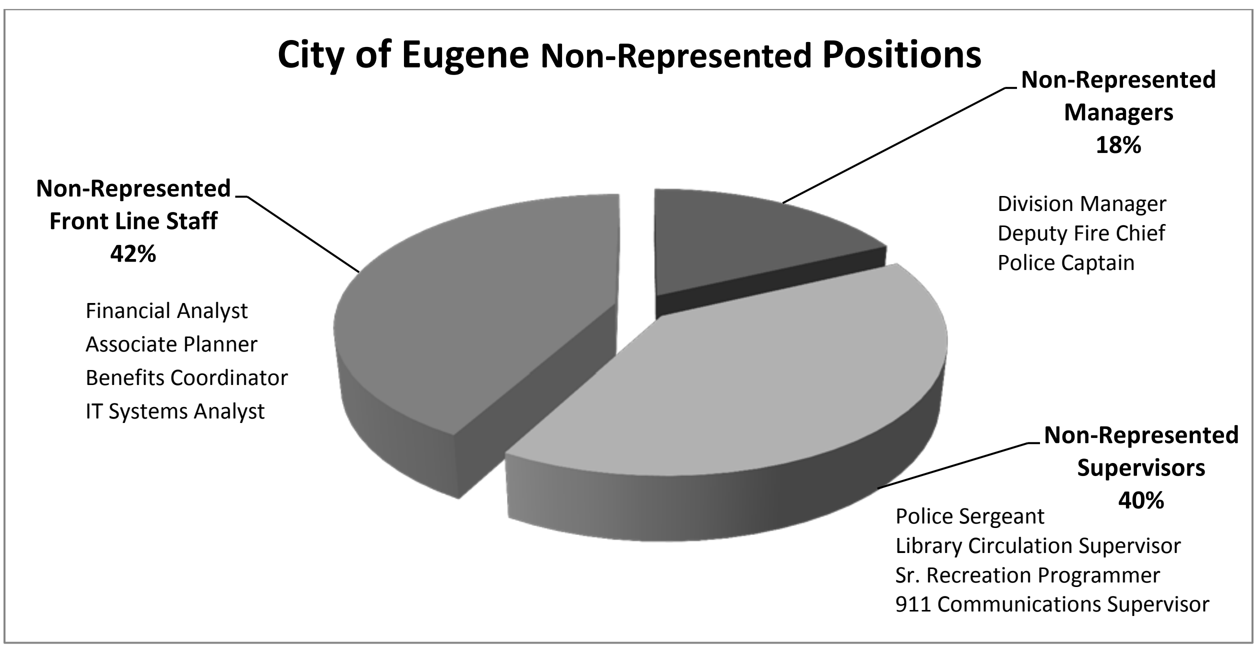
What are some drawbacks? Reducing the number of supervisory and management positions and the loss of expertise and experience associated with this reduction would have an immediate impact on the successful completion of critical work. Workload would be redistributed to others along with additional supervisory responsibilities, thus impacting an even broader base of workload and workplace environment. The inability to address employee issues in a professional and timely manner may result in potential liability and safety issues, as well as degradation in the professional development of employees.

What are longer-term or indirect implications from this idea? Elimination of manager and supervisor positions for the sole purpose of reducing the ratios is not a strategic approach to reducing personnel costs. The work performed by many supervisors and managers is technical in nature and often times mandated by federal, state or local law. Lack of adequate leadership will likely result in reduced efficiency in the delivery of services and adequate program oversight. Remaining managers will have a broader span of supervisory responsibility, which in turn will diminish the organizational capacity to complete complex, critical work requiring strategic planning and technical skills.

Manager to Line Staff Ratio: Supplemental Information

Exhibit 1 – Non-Represented Positions by Manager/ Supervisor/ Front Line Staff





Title: Eliminate Year-End Carryover Balance

Description: The budget includes a Beginning Working Capital (BWC) balance that is estimated based on mid-year estimates for the prior year's operations. Each year once the audit is complete for the prior fiscal year, the City Council considers a supplemental budget that aligns the current fiscal year with actual (rather than estimated) beginning fund balances. The difference between the estimated beginning fund balance and the actual beginning fund balance is called the "Marginal Beginning Working Capital" or "MBWC". This adjustment is made for all City funds and it occurs on the supplemental budget in December (scheduled for December 9, 2013 for FY14 working capital adjustments). Over the past 10 years, MBWC has averaged $3.7 million per year, or 3.8% of actual expenditures.

Predicting the amount of BWC is more of an art than an exact science as a multitude of variables must be considered in developing the estimate. BWC figures for the budget are determined approximately six months before the fiscal year begins and the estimates are the result of estimating both revenues and expenditures that may occur during those remaining months. On the revenue side, staff must estimate the activity of more than 100 different revenue sources for those remaining months. The difference in BWC derived from actual revenues coming in different from the mid-year estimates has been relatively small, at an average of $0.8 million over the past 10 years, or 0.8% of total revenues. The variance from year to year, however, is large, with revenues coming in lower than estimated in 3 of those 10 years.

Estimating expenditures is more difficult and can vary based on factors such as community events that result in public safety overtime, prices for fuel and energy, turnover in staff that results in accrued time payouts and salary level changes, timing of the receipt of grant funding, and so on. Over the past 10 years, the variance due to under-spending versus mid-year estimates has averaged about $2.9 million or 2.6%. It should be noted however that the MBWC adjustment for FY13 (based on FY12 actual results) showed under-spending of 0.5% of the mid-year estimate, or about $650,000, which was significantly less than prior years. This was likely due to the FY12 budget balancing strategy which reduced all department budgets across the board by 1.8% or $2.2 million.

How could this idea help solve the FY15 budget gap? It has been asserted that if the mid-year estimates were more accurate, there would be less of a budget gap that would need to be solved. While it might be possible to produce mid-year estimates that more closely match year-end figures, the result would be to change the BWC in the Proposed Budget in following year. This increase in BWC is not an on-going resource that could be used to balance the budget gap. The MBWC adjustment is a one-time resource is are most appropriately spent on one-time expenditures, in accordance with Council policy.

What are some potential benefits from this approach? Smaller MBWC adjustments would remove the argument that the budget could be structurally balanced if the mid-year estimates were more accurate.

What are some drawbacks? If all the variables were removed and staff was able to predict with 100% accuracy the BWC for the General Fund, there would be a negative impact on the amount set aside for capital maintenance of City facilities. Council policy states that the first uses of MBWC are to fund contingency, UEFB and the general capital transfer. Without any MBWC, Council would not be able to direct $900,000 towards the additional general capital transfer or add to the Reserve for Revenue Shortfall on supplemental budget #1 when the RRSF drops below the target level.

What are the longer-term or indirect implications from this idea? It has been suggested that if there is under-spending in the budget year after year, then budgets could be reduced in order to produce on-going budget savings. Because the budget is a legal spending limit, there will always be under spending by departments in order to ensure that they do not exceed the limit. If budgets are reduced in order to capture that under spending as ongoing savings, then departments will underspend that reduced budget. While under-spending can be used as a management tool from time to time to address emerging issues as the organization goes through the budget cycle, reducing budgets by those amounts permanently does not prioritize service delivery, especially at the current time, when departments have already reduced department budgets by $24 million. In addition, if budgets are reduced because prior year spending was less than the authorized amount, that might encourage staff to spend more of their authorized budget rather than save money where possible.

Title: Use the Net Assets in the CAFR to Balance the Budget

Description: Each year, the City produces a Comprehensive Annual Financial Report ("CAFR"). This is the City's audit of financial operations for the prior fiscal year. The most recent CAFR available is the one produced as of June 30, 2012. The CAFR for June 30, 2013 will be available in January 2014.

The CAFR includes a statement of Net Assets. That statement shows total net assets in the Governmental Funds of $534.8 million, broken out as follows:

Total Net Assets, Governmental Activities, as of June 30, 2012 (CAFR page 23)	Amount
Capital Assets (net of related debt), such as streets, public buildings, etc.	$384.2 million
Restricted Net Assets (see FIT matrix on Non-General Funds for restrictions)	59.4 million
Unrestricted Net Assets	91.2 million
Total Net Assets	**$534.8 million**

Of the unrestricted net assets of $91.2 million, the General Fund ending fund balance was $43.1 million, with the remainder attributed to the other Governmental Funds (Special Revenue, Debt Service, Capital Projects and Internal Service Funds).

The $43.1 million of unrestricted net assets consisted largely of the General Fund's two main reserves which total about $31.5 million ($21.1 million for UEFB and $10.4 million for RRSF). Most of the other monies in the General Fund had already been spent or dedicated for specific uses by the time the CAFR was completed, although those dollars represented assets at that historic point in time. Information on the $43.1 million of unrestricted net assets in the General Fund is set attached, along with explanations.

It should be pointed out that the figures were as of June 30, 2012 and are not the currently anticipated amounts of reserves for the General Fund. The FY14 Adopted Budget includes a summary of General Fund reserves for the main subfund on page 20, and the reserves budgeted for the General Fund reporting fund (including the Cultural Services subfund and the Equipment Replacement subfund) are shown on page 272. The amounts for UEFB ($21.7 million) and RRSF ($4.9 million) in the FY14 Adopted Budget were updated for estimated activity in FY13 and FY14. The UEFB has increased in accordance with Council policy to maintain that reserve at two months of expenditures. The RRSF has decreased by $5.4 million for two main reasons: (1) the FY13 Budget was adopted by Council with a deficit that was funded with RRSF and (2) a portion of the RRSF balance was programmed to be used in FY14 to fund the FY14 deficit as well as to provide additional funding for HSC and LRAPA services per Budget Committee direction.

How could this idea help solve the FY15 budget gap? It has been asserted that there are additional resources reported in the CAFR that are not included in the budget, and those resources could be used to balance the budget. This is not true. All monies that are available for budget purposes are included in the budget document. See the attached for a cross-walk between the FY12 General Fund results in the CAFR and the same results reported in the FY14 Budget.

What are some potential benefits from this approach? This is not a viable approach to balancing the budget as it is based on erroneous information.

What are some drawbacks? This is not a viable approach to balancing the budget as it is based on erroneous information.

What are the longer-term or indirect implications from this idea? The purpose of the CAFR is different than the purpose of the budget. The budget necessarily must rely on estimates as it is forward-looking, while the CAFR can rely on actual results since it is historic in nature.

The CAFR is a snapshot of the City's financial situation at a historic point in time, and it is prepared according to nation-wide accounting rules. It is audited by a third-party in a way that's designed to provide stakeholders with reasonable assurance that the financial statements are fairly presented in accordance with Generally Accepted Accounting Principles. It takes many months to prepare the CAFR because there are a number of steps to be taken in order to ensure that the CAFR fairly presents the City's financial situation as of June 30, in accordance with accounting principles.

The budget serves several purposes: planning document, policy document, operations guide and legal spending limit. Budget preparation begins 18 to 20 months prior to the end of the budget year. Because no one can accurately predict what will happen over that entire period of time, the budget is an estimate of both revenue and expenditure activity that is expected to occur during the fiscal year. During the year, supplemental budgets are prepared to update policy direction about what should occur during the year, and a mid-year "experience estimate" is prepared by staff to provide updated estimated year-end results that become the basis for the next year's beginning fund balance. (See FIT information on "Eliminate Year-End Carryover Balances".)

Although the budget figures are based on estimated rather than actual data, it is the best possible information that is available to City staff and policy makers for considering budget decisions. Looking backwards at historic CAFR data would not provide up-to-date financial information for making those important, forward-looking budget decisions.

General Fund Balance Sheet
Fund Balance as of June 30, 2012

Category	Item	Explanation	Amount
Non-Spendable		Prepaids and deposits have already been paid out and are not available for other spending	$1,399,020
Restricted	Cultural Services	From Transient Room Tax; must be spent according to state law	1,041,185
Assigned	Unappropriated Ending Fund Balance	Pay bills and payroll until property taxes are received in November; set at 2 months of expenditures per Council policy	21,150,000
	Cultural Services	Prudent reserve for operation of Hult Center, etc.	1,342,578
	Reserve for Encumbrance	Contracts that were in effect but not complete as of June 30	1,201,735
	Reserve for Next Year's Spending	Used to balance the FY13 Budget	1,325,082
	Reserve for Revenue Shortfall	Prudent reserve for the General Fund; target is 8% of expenditures	10,428,107
	Other Reserves	For property tax appeals and equipment replacement	1,872,779
Unassigned		Appropriated on supplemental budget #1 in December 2012 and no longer available for spending	3,330,380
		Total Fund Balance	$43,090,866

Source: CAFR Exhibit 3, page 25, and CAFR Note (1)(N), page 44.