

SUMMARY





Budget Message

City Manager's Budget Message 2019-2021 Adopted Biennial Budget

June 6, 2019

To the City of Medford Budget Committee:

Introduction

As the City Manager and budget officer for the City of Medford, I submit for your review the adopted 2019-2021 Biennial Budget. The budget is balanced in accordance with ORS 291.388(1). Balancing the budget is always a difficult task when it comes to providing the resources that each department requests in order to provide quality facilities and services. The adopted budget does not reduce core services which are essential for a growing community:

- **Public Safety** – Calling 911 will result in our Fire and Police departments responding to assist residents and visitors that are in need of services.
- **Public Works** – City streets will continue to be maintained at a pavement rating that is one of the highest in the state. Projects planned to upgrade sewer and storm drains will assist in providing a high level of service through the lowest life-cycle cost.
- **Parks, Recreation & Facilities** – Parks and facilities will be maintained at a measureable level of satisfaction for both residents, customers and internal staff. Recreation programs will provide affordable activities for youth and adults.
- **Development Services** – Planning and Building Safety will continue the highly rated services that are provided in order to assist the growth in Medford.
- **Internal Services** – City Manager, City Attorney, Human Resources, Innovation/Technology and Finance have the resources needed to address many of the needs for both internal and external customers.
- **Mayor & Council** – Resources for this division will help address some of the Council goals and objectives for the biennium.

The overall biennial budget totals \$365,034,490 for all funds. This is an increase of 12.7% over the currently adjusted 2017-19 budget. Medford continues to see continued growth in both residential and commercial development which provide property tax and utility fee collection increases. Medford currently sits at 80,378 residents, which comes from the Portland State University annual study certified in December 2018.



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As Medford is experiencing this growth, the need to develop a vision for the community will be vital in the upcoming years. This visioning process has already begun and we look forward to creating a shared vision between the City of Medford and all key community partners that will make the region a great place to live, work and play.

Budget Format & Preparation Instructions

The preparation and presentation of the adopted 2019-2021 Biennial Budget has not gone through changes from past practices. The Finance Department provided an updated Budget Preparation Manual for the departments to utilize in preparing budget requests. Direction was provided to each department in the following key areas:

- **Materials & Services Requests**
 - No across the board percentage increases. Each department was to prepare budget requests at the adopted 2017-19 levels.
 - Requests for additional resources in this area must be provided through a justification process.
- **Capital Outlay Requests**
 - Requests for replacement vehicles/equipment must be part of an approved plan. All requests must identify the life expectancy for the item. Also, the department had to determine if extending the life of the current vehicle was feasible without adding costs for on-going maintenance.
- **Capital Improvement Projects**
 - Requests must be part of an approved plan or extend the life expectancy of the asset.

In the review of requests for additional resources, each department was required to analyze if there could be reductions in other areas of their operations and simply move funds between line-items. Also, justification was required on how the increases provide for better services to either external or internal customers.

The presentation format will remain much the same as the 2017-19 budget meetings. Departments have been allotted a specific amount of time to present their adopted budget, which will allow for an ample amount of time for questions by the Budget Committee. Here is a summary of what to expect for the presentations:

- Each department was required to provide information on their achievements and accomplishments for the current biennium which are now contained within the Budget Narrative for each department/division.
- Presentations are to focus on the Objectives and Performance Outcomes contained in the budget narratives.
- A timeframe for each department, based on size and complexity, has been provided as a guideline. The department directors have done an excellent job during the practice presentations to stay within the guidelines.



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There is a consensus with the leadership team that the focus should be on what will be accomplished with the resources being requested through this process and how Council goals will be addressed.

Fiscal Policies & Practices

The budget document contains information related to the Comprehensive Financial Policy that were utilized in the development of the adopted biennial budget. There has been a minor change to the City's practice and all funds that include labor now maintain undesignated reserves of 12.5% of the biennial operating budget as opposed to 12.5% contingency. This change occurred because Oregon Budget Law states that contingency should be used for future expenses based off historical information or when costs may be unknown at the time of budget preparation.

The Budget Committee provided direction to staff in preparing the adopted budget to begin charging a transaction fee for use of a credit card for payments associated with all services provided by the City with the exception of utility bills. In addition, the budget was also developed using the Budget Committee's directive to capture 20% of costs associated with providing planning services. There has currently been no direction provided on how to utilize the marijuana tax collected through June 2019 and for the 2019-21 biennium. This will be discussed further as part of the Budget Issues scheduled at the end of the budget presentations.

The Finance Department saw major personnel changes during the biennium. As a result of the changes, two items were not completed and will be moved to the 2019-21 biennium. These projects are:

- Complete a fee study of all revenues and services. This project will also review all utility fees that have the ability to be adjusted by the CPI.
- Establish a cost recovery policy reviewed and approved by Council.

The end goal for these projects is to complete and present to the Budget Committee for review and recommendation for adoption by the Council a comprehensive document on all fees for services. This document will be used in the future for needed adjustments in providing services to the community.

Financial Outlook & Challenges for 2019-21 Biennium

There is continued growth that has resulted in a near record pace of new home construction along with retail development expansion. The City has an approved Urban Growth Boundary Amendment and Transportation System Plan which are critical in providing sufficient land to help address the housing issue that Medford and other communities in Oregon are currently facing. As a result of the growth, staff has developed the adopted budget using the following property tax assumptions:

- Property Taxes
 - Assessed Valuation 2.3% growth
 - Collection Rate = 94.3%
 - Estimated Collection = \$81,722,300
 - Current Adopted Budget = \$76,365,000
 - Estimated Total Growth = \$5,357,300



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Utility Fees – Growth allows for a higher level of collection for the utility fees listed below. In order to be consistent for all of these funds, staff is estimating a 1.25% growth rate from the first year of the biennium to the second.

Utility Fee	FY 2020	FY 2021
Public Works – Street Fee	\$7,619,000	\$7,715,000
Public Works – Sewer Fee	\$5,917,000	\$6,515,000
Public Works – Storm Drain	\$6,580,000	\$6,662,000
Public Safety	\$3,974,000	\$4,011,200
Parks	\$1,403,000	\$1,420,000

The increases to the sewer and storm drain fees have been approved by Council action during the current biennium. The budget related to the Street Utility Fee is based on no anticipated increases for the current biennium. However, there will be a review of this fund during the biennium in order to estimate potential future increases that are necessary to continue the maintenance of our streets and for the mandated ADA ramp improvements which adds nearly \$1 million each year to the costs of maintenance.

The utility fees charged by Public Works fully funds the department without any support from the General Fund. In addition, Public Works transfers revenue to the General Fund through an indirect cost allocation process that offsets this department’s services received from other General Fund departments.

The Public Safety fees allow for the Fire and Police departments to accommodate funding for five employees each and also provides for debt service for the four public safety facilities that have been constructed over the past five years. The Public Safety Fee increase has not been approved by Council; see Budget Issue #4.

Parks fees pays for maintenance of rights-of-way/beautification areas as well as debt service for U.S. Cellular Community Park and Santo Community Center improvements.

Challenges

There are becoming more and more challenges in being able to provide the growing number of requested services to the community. We’ll summarize the obvious issues, but also outline some ideas in helping to address revenues and expenses.

- **PERS** – A state and nationwide issue surrounding public employee pension liability gains center stage during the past and current legislative session. There seems to be little that can be done in regards to those employees which are Tier 1 and have already retired and the other plans have already addressed removing the expansive benefits. The City of Medford’s PERS costs are increasing by \$3.5 million this biennium, with \$2.7 million being in the General Fund.



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Currently, nearly all governmental agencies in Oregon “pick-up” the employees 6% contribution. There would be great difficulty in negotiating with our labor groups to require employees to begin contributing to their required share, but we need to begin the conversations.

- **Health Care Costs** – The City continues to see increases in the cost for health insurance provided for our over 465 full-time employees. Much like retirement plans, this issue is not just specific to Medford. However, controlling costs needs to be a priority in order to provide financial stability to the organization.

The City has a current health plan that is one price for all and we have looked at creating a tiered plan for our employees. We have determined that there is truly no benefit to moving to this type of plan and with the current insurance caps that are in place for all of our represented and non-represented groups, most employees are paying for a portion of their insurance premiums based on the plans that they pick. Staff continues to evaluate the possibility of moving to a self-funded model for providing health insurance and will work with employee groups to educate them fully on this model.

Stabilization Ideas

The previous budget message on this subject outlined three areas for review. The first was the possibility of establishing a Revenue Team, much like the City of Eugene model. This item did not move forward, but staff has identified potential funding sources that will be further explored during the Council Goal/Vision process as well as the upcoming decision regarding an Aquatic/Event Center.

The following two items will continue to move towards implementation in the 2019-21 biennium:

- **Consolidation of Internal Services** – Through an extensive review by a local consultant, there are many advantages to be gained by consolidating our payroll, contracts and purchasing functions. This work to determine the process for consolidation will begin in earnest after the completion of the budget cycle. We’re looking at consolidating payroll during the upcoming fall and for the other processes to take place early in 2020.
- **Cost Recovery and Fee Study** – Through the direction of the Budget Committee, the adopted budget was built on the 20% cost recovery for Planning Department services. As mentioned previously, there is still work to be done to complete a master fee schedule that will be updated annually through a review by the Budget Committee and approval of the Council.

Performance Measurements

There was a more robust effort to provide performance measurement data during the current budget cycle. I will have to admit that the overall reporting on our progress and success of these measurements were not what I was hoping to accomplish.

Through the efforts of our departments and Eric Zimmerman, Deputy City Manager, we have retooled this section of the budget. There are less Key Objectives and Performance Measurements in the adopted budget, but they represent measurements which are important in achieving the goals of the Council.



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Each department was to prepare these items based on the following:

- Goals:
 - Need to reflect the mission or vision statements for each department.

- Key Objectives – Linked to one of the following:
 - Council Goals
 - Department strategic or operation plan(s).
 - Comprehensive Plan
 - Developed by using examples from other cities (internal services areas)
 - Other Resources – ICMA, state or national associations

The performance measurements will continue to be used in evaluating each department director as part of a Performance Management System. However, these measurements will not serve as the lone evaluation piece as self-development for both the director and their staff will need to be a major portion of the process.

Budget Issues

The Budget Issues section identifies increased needs in Personnel, some mandated by state/federal agencies, and programs. A determination on the use of the Marijuana Tax Revenues that have been received in the current biennium along with the amount projected for the 2019-21 biennium will take a majority of the time for consideration.

Staff will present recommendations on the use of these funds that will hopefully help provide some guidance on the decision making process. Staff recognizes that the ultimate decision on this use will come through a recommendation of the Budget Committee to the Council.

Staff was provided direction from the Budget Committee on how and what budget issues should be presented during deliberations and summarized as follows:

- Budget Committee to review all budget issues with staff making presentations.
- City Manager providing a recommended priority based on various criteria.
- Budget Committee to set final prioritization.

The Budget Issue section details 8 budget issues which are prioritized in three different recommendation levels that provides analysis on each item.

Conclusion

The City is a very complex organization. Forecasting our resources, preparing the budget, monitoring its implementation, assuring accountability and transparency, all while getting the work done takes an exceptional group of professionals. I want to thank the City's Management Leadership team, and the many employees across the City who participated in the development and preparation of this budget.



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The adopted budget was also developed utilizing the City's new financial software system, which was fully implemented over the past year.

Finally, I would like to recognize the great work by our City Council, whose leadership will be paramount as we begin a visioning process that will help shape future budget decisions for decades to come.

Sincerely,

A handwritten signature in black ink, which appears to read "Brian Sjothun". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Brian Sjothun
City Manager