(SLIDE 1 – Budget Committee Meeting)

Welcome to the third budget committee work session for the preparation of the 2019-2021 budget. When last we met on January 24, I followed up by sending you a budget calendar. That calendar indicated that your next meeting was on April 2 to review the Capital Improvement Program (CIP) with the Planning Commission. The calendar also indicated that your next official budget meeting would be May 7. However, as we sat down in earnest to craft budget submissions at the department level, we began to really see the impending bow wave.

As you know, your role is to receive the budget message and budget document, hear the public, and, when you feel ready to do so, approve the proposed budget. By the time you approve it, the budget may include any changes you may have directed. This is how ORS 294.414 describes the process.

I asked to schedule this additional work session because we need to make you aware of the magnitude of the situation that confronts us and advise you of the steps we're taking to deal with it. If there are course adjustments that need to be made, we want to make them sooner rather than later. I hope that you feel ready and welcome to ask questions. As I've mentioned to you many times before, my goal is to answer your questions and address your concerns as soon as possible. Come June, the final passage of our budget should not be giving people ulcers and anxiety attacks.

The CPI-W for January was 1.3 percent. This was welcome news for budget developers because it's not the anticipated 2.5 percent or even higher. However, this is the best news in a host of financial trends that don't bode well for us.

The economy has been strong, but there are worrying signs. Housing starts in the United States in December slumped 11.2 percent from a month earlier compared to market forecasts of a 0.5 percent drop. It is the lowest reading since September 2016, and housing starts are often viewed as a leading economic indicator. I mentioned to you in January that some are predicting the next recession as soon as the latter half of 2020 and perhaps earlier. If we wait to resolve the structural issues that face us, the magnitude of the problem will increase at an even greater rate. It'll be that much worse one year from now, and even worse when we start to build the next budget.

I take very seriously my stewardship responsibilities, as do each and every one of our directors. It's my expectation that each of our City employees take those responsibilities seriously as well; and when we have new employee orientation, we communicate that expectation to each of them. We will do everything we can to get as much value out of a dollar as we can; however, I also take seriously my charge to work with the budget we have. Consequently, our expectation is that we will make adjustments to operate under the limits imposed by the revenues we're expecting. In very few cases, there may be revenue generating opportunities, but those may be associated with fees for service. Our tax revenue is what it is, or what the projections indicate it will be.

(SLIDE 2 – Revenues)

What is the current situation? Jeanna received her revenue forecasts from the counties. She and her staff developed planning assumptions for distribution to department directors. Directors have engaged with their staffs and begun to crunch numbers, and it doesn't look good. Jeanna's numbers indicated that revenues are indeed increasing, but costs have increased by more than the amount that revenue has increased.

(SLIDE 2 – click)

- As you've heard, PERS costs are going to be 33 percent this coming year.
- Health insurance for firefighters was anticipated to increase by 8 percent but has been adjusted to 4 percent due to Danette Jamison's work with our insurance provider. For all other City employees, health insurance costs will go up by 17.8 percent (an increase of just under $1 million). This is due to some very high experience indicators in recent years.
- Central services costs are increasing substantially as well. We talked about these costs in January, but it's worth noting again that the aggregated ongoing maintenance and support cost of enterprise software and hardware is expected to go up by 28% next year.
- The cost of labor is going up due to increases in union contracts as well as the effects of the classification and compensation study.
- Finally, the City's staff has grown by 53 positions in 5 years, 45 of which have been funded.

In January, I noted with pride that City employees always have ideas for service enhancements; they are a hard-working and creative team. They are on the front lines and they have no shortage of good ideas about where the next dollar should be invested. But I also mentioned that it's going to be a struggle just to maintain service levels where they are, and that my concern was that we may have to be asking for ideas about where the next dollar should be cut. That is indeed the case.

The General Fund is anticipated to grow from about $41 million to about $43 million. However, as mentioned previously, this growth is not enough to sustain current service levels.

What do we need to do?

Tonight, I'd like to bring you up to speed on how we're contemplating developing a balanced and responsible budget. There is no way to do it without making some of those difficult decisions we've been talking about for the last 12 months. Throughout the difficult process, you'll hear the use of the phrase "freezing positions." This simply means not filling a position that becomes open due to a retirement or a departure for other reasons. Wherever possible, when cuts are necessary, we try to accomplish them using this natural turnover.

Fire:
In the Fire Department, in Year 1 (Fiscal Year 2020), we're looking at not filling vacant firefighter positions – those currently vacant, and as they become vacant. Reduced budgets for materials and services are projected, as well as reductions in scheduled overtime. The Fire Department would be unable to make General Fund contributions toward equipment replacement or IT equipment replacement.

In Year 2 (Fiscal Year 2021), there would be further reductions in materials and services; and, again, no General Fund contributions toward equipment replacement or IT equipment replacement. More importantly, there would have to be layoffs unless the landscape changes significantly. We would need to end our participation in the Medic 71 partnership program with Lebanon Fire District and Tangent Fire District due to a need to maintain coverage within our existing areas of responsibility. This would mean the elimination of some revenue-generating capability, but it's needed in order to continue to provide fire and EMS service through our existing stations.

To further adjust, and unless the landscape changes, we're faced with losing six dual-role firefighter/paramedics – positions that were initially obtained through SAFER grants. If this happens, the impact would be a decrease in minimum staffing at our five fire stations.

There would be two demotions, along with the corresponding loss of duties which were being performed at the higher level. This would have impacts on our training division and our fire marshal's office.

The impacts of these cuts on service levels would need to be carefully monitored. Our calls for service have increased significantly, and the reduction of two medic units from a system that responds to an average of 21.5 medical responses every day will require us to think of new ways to triage our calls, to eliminate responses to those calls that don't need emergency response, and to generate revenue.

Fire Department management are evaluating the coverage provided by our five stations to determine how best to handle interfacility transfers, and where increased levels of risk would have to be tolerated.

The elimination of our technical rescue team would mean the loss of certain in-house emergency response capabilities.

Training for Fire Department personnel would be hampered by the loss of a training lieutenant position. The number of compliance inspections would have to decrease due to the loss of a deputy fire marshal.

Layoffs are not cheap. The organization loses people who are trained, at considerable expense to the City, and motivated to do the job. This means that we strive to avoid layoffs wherever possible.

In some cases, this means that contributions toward equipment replacement are not made as we try to allow attrition to bring our numbers down. However, this is not a sustainable practice as fleet and equipment continue to advance toward the ends of their service lives.

Police:
The Police Department in Year 1 would freeze one lieutenant position and three officer positions, losing a training position and patrol staffing. In anticipation, the department has already frozen two officer positions. Reductions have been made to overtime, education and training, and minor equipment. Equipment replacement would be funded at the lowest level possible to minimally maintain a reduced fleet for the next three years; however, this is not sustainable in the long run.

Training for PD would be hampered by the loss of a training position while the mandates for police training continue to rise.

It is important to note that it takes one year to hire and train a police officer. Losing patrol positions would cause a cascading effect that as personnel retire or experience injuries or illnesses, the department would be unable to keep up and would need to pull from other assignments, such as detectives and school resource officers, to fill patrol positions.

In 2018, the City of Albany experienced a 12.4 percent increase in Part I crimes, and calls for service increased by 9.2 percent. Decreased staffing would result in the reduction of some service levels. The department would lose the ability to work proactive activities such as extra traffic enforcement and additional car prowl and theft deterrence. Lower staffing levels would keep the department from responding to certain calls for service such as non-injury collisions and minor thefts.

In Year 2, staffing would be reduced again from 94.25 FTE to 91.25 FTE, freezing an additional lieutenant and an additional two officers, thereby causing the Street Crimes/Traffic Unit to be cut. The department would lose even more of their ability to be proactive and direct enforcement into areas that experience higher crime. The Street Crimes/Traffic Unit helps reduce crime rates and improve livability in Albany, but we'll be unable to maintain that service in Year 2 in order to maintain staffing in our core response and enforcement areas. Response times to priority calls may increase, and the City would be challenged to prevent an increase in the crime rate.

In 2020-2021, the number of sworn officers would be down to 58, the lowest level since 2004-2005 when there were 59.

Parks & Recreation:
While they're not reflected in the General Fund, the Parks & Recreation Department receives 20 percent of property tax revenues. However, they are subject to the same cost increases as the rest of our departments. Parks & Recreation, facing a shortfall in excess of $800,000 for the biennium, is considering the closing of Maple Lawn Preschool. This would result in a savings of 3.1 FTE. Another position in parks maintenance and a recreation position may also be eliminated,

saving an additional 2.0 FTE. The losses would equal roughly 17 percent of the department's workforce.

The proposed elimination of Maple Lawn Preschool is an especially painful one for both parents and our dedicated teachers. For decades, MLPS has provided child development and learning opportunities for up to 89 children each session during the school year. There is a significant deficit of preschool placements in Albany, and the closing of MLPS would have a negative impact.

All of these reductions would negatively impact department services and would be felt in the community, directly and indirectly. That said, they represent a choice over other possible cuts with equal or greater negative effect. Without a significant increase in revenues to restore these services, the proposed cuts must be implemented or other reductions of equal or greater value must be substituted during the budget review process.

Court:
The Municipal Court budget would see a revenue increase of $48,000 in the biennium, but central services charges increase by $37,000 and wages by $96,000.

With the additional full-time position approved by Council in 2018, the court was able to be open to the public on Fridays again, bring in an additional $200,000 in revenues in 2018, and begin an amnesty program with their collection agency to help generate payments on collection accounts. It's been four years since we've been able to run an amnesty program. This position may have to be eliminated in the coming year due to the increase in costs. Unfortunately, this may lead to the closure of court on Fridays again to keep up with work generated by court proceedings and increasing case filings. Once again, the court would not be able to take action on past due accounts. Contempt filings and warrants issued, which both generate revenue, would drop, and we won't be able to conduct regular amnesty programs with our collection agency.

The court would come very close to eliminating its training and conference budget. Staff would likely only be able to attend one court conference a year (past practice has included two of these professional development opportunities) and only one clerk would be able to attend. These conferences provide important legislative updates and information on how other courts are best implementing those updates, as well as opportunities for Q&A and collaborative sessions with other municipal courts.

Looking to the future, we anticipate the costs of indigent defense to rise, and further pressure on the budget from the need to be able to provide aid-and-assist evaluations at $3,000 apiece for defendants suffering mental health issues. The jail budget may also need to increase, depending on crime statistics.

Library:
The Library, facing a $325,000 shortfall, is freezing one position. Funds for temporary help have been reduced by 50 percent. Contributions to the General Fund for materials would be cut by 70 percent in Year 1 and 100 percent in Year 2.

Thus, there is an overreliance upon outside revenues that would significantly stall in Year 3. This would negatively impact programs and opportunities for outreach. Albany's library programs lead the state in terms of attendance, but we'll no longer be able to provide this level of programming.

The library is planning to discontinue its contributions to the Dolly Parton Imagination Library, a program that has a significant positive impact on literacy for the youngest children entering the school system. And finally, the Library is unable to make contributions to technology equipment replacement in the biennium.

Planning:
The Planning staff was reduced by two planners during the last recession, and the department no longer has a full-time director. Through hard work by staff and departmental and operational efficiencies, the Planning Department has been able sustain levels of service for current planning activities without adding back staff as we climbed out of the recession. However, one place we are now seeing the impact of those cuts is in long-range planning activities. Council has talked extensively about long-range planning needs over the last few months and ultimately approved a creative funding package to add back a small amount of capacity to get critical long-range planning efforts underway. This is a good exercise in prioritization, and staff are working at maximum capacity. Any upticks in applications, assigned projects, or Code evaluations/amendments would immediately confront the limitation of insufficient staff.

Reserves:
Facing all this, are we able to start rebuilding reserves? Yes. And here I want to take the opportunity to distinguish between one-time monies and recurring demands. Monies applied toward our reserves are one-time monies. In other words, once the dollars are in the contingency fund, they're there. They stay there until some contingency requires their one-time use. But they don't grow and once they're used, they're used. This is in contrast to the recurring funds required to operate. If the work force is larger than the City can afford, applying a Band-aid does not fix the problem. We'll be getting the same bill next year, and the year after, and the year after. We'll be digging ourselves a bigger and bigger hole. The cost of our work force has grown faster than it can be supported by the rate of growth in our community. If the growth we're seeing doesn't support the rate of growth in our work force, then we have to adjust the latter.

We are slowly building that reserve back, making it a priority to take some of our precious resources and set them aside. The goal is still to build it back at a rate of 1 percent per year. The

City's policies mandate reserves be maintained between 5 and 15 percent. We are currently at five, and we aim to be at six next year, and seven the following year.

Conclusion:

These are significant cuts, but they are necessary. We're all chipping in. In coordination with other department directors, the Information Technology Department has considered the need for weekend IT support and eliminated on-call support, saving $60,000 per year beginning in the first year. In the first year, one position would go to 0.9 FTE. In the second year, a second position would also be reduced to 0.9 FTE. In GIS, additional reductions totaling 1.0 FTE would have to be made: 0.5 in the first year and 0.5 in the second. In Human Resources, one position recently opened due to a promotion would remain open.

Not having the resources necessary to meet all the demands for City services is not a new problem. Many have heard that a number of years ago $1.2 million in franchise fees was diverted from street maintenance to other priorities in the General Fund. I understand that this was the case, but it doesn't do any justice to leave that statement alone and not consider the rest of the context:

- Franchise fees are NOT restricted. In other words, they can be used for any programs toward which the Council would like to apply them. Most cities in Oregon do NOT use them for street maintenance.
- A previous Council diverted these funds to meet the priorities of the time. They had every right to do so; and, indeed, it was their responsibility to take that action if that was their collective determination.
- These funds could be diverted again, this time toward street maintenance, or toward any of the other pressing needs the City has. However, as you have noticed, they would have a serious negative impact on any of the other programs. Taking the funds from Municipal Court (with a budget of $945,600), from Planning (with a budget of $1.2 million), or from the Library (with a budget of $2.9 million) would decimate any of those programs. And while the damage wouldn't be as great in terms of a percentage, you've already heard what cuts the public safety agencies are facing. But again, diversion of that $1.2 million IS possible.

Naturally, during the course of discussing these problems, long-term solutions are also brought up. These have included the possibility of:

- combining the Parks & Recreation Department with the Library;
- creating a parks and/or a library district;
- creating a fire district;
- outsourcing certain functions;
- using the full 60 percent of Transient Lodging Tax for which the Council has discretion;
- carefully evaluating and limiting incentive pay; and
- negotiating for increases in employee contributions to health insurance.

And while I told you earlier that I take seriously my charge to work with the budget we have, you, on the other hand, will have to consider opportunities to seek other revenue sources to pay for public goods that the community wants. These may include:

- an increase in the public safety levy due to be resubmitted to the voters in 2020 and last adjusted in 2014 – from $0.95/$1,000 AV to $1.15/$1,000 AV.
- Establishment of a street utility, though this would do nothing to solve structural issues in the General Fund.
- Increasing franchise fees. One franchisee (NW Natural) currently pays 5 percent, one pays 6 percent (Republic Services), and the others pay 7 percent. Comcast is capped at 5 percent by law. (If all that were able to pay 7 percent did so, it's estimated that this would generate an additional $230,000).
- Increasing fees for planning functions.
- A utility fee, as used by some jurisdictions to fund transit and other public services.
- Ambulance and engine assist fees may be adjusted, potentially generating $150,000.
- Lift assist fees could be charged for transfers from assisted living facilities.
- Promote a levy to support park maintenance.

These all add to the financial burden of our citizens, and I am very aware of that. Hence, my statement that we will work with the budget we have.

It can be difficult to understand or accept the problem. After all, the economy is humming along and all should be well, right? The community is growing, and revenues are increasing. Some have asked in a roundabout way whether switching to a biennial budget is creating these problems for us. On the contrary, I would say that it exposes the structural problems we're facing. It makes it clear that the use of one-time funds does nothing for the cause of creating a fiscally sound, long-term viable government. It forces us to take action now, rather than later.

(Slide 3 – FTE to population)

This slide shows the City's growth in FTE over the last five years. We have added approximately 50 positions over those 5 years. This is an increase in operating cost by itself. But, when PERS and health insurance costs increase the per unit cost of an employee, it has the net effect of multiplying the first increase: the cost of wages.

(Slide 4 – Budgeted FTE per 1,000 population)

This next chart shows the population of the City represented by the vertical blue bars. The green line represents the growth in FTE. You can see exactly where the recession happened, and the climb-out from the recession.

(Slide 4 – click)

The growth is not unreasonable. As you can see from the red line, the City's workforce has actually gone down in terms of FTE per thousand, a decrease of 4.3 percent since 2010.

The bulk of our discussion tonight has to do with the General Fund, but we will have to address these problems in our enterprise funds as well. They are not immune to the rising costs of labor.

Difficult fiscal challenges are just that: challenges. Challenges to be creative, to reassess, to implement change. To create that next innovation. We continue to seek partnerships wherever possible, to collaborate with neighboring cities, with nonprofits, and with the private sector. It is important to keep in mind that our city is a wonderful place to live. We need to make some critically needed adjustments, and we will. But your City staff, with characteristic dedication and commitment, look for ways in which to minimize negative impacts and to optimize the value of every dollar spent.

Thank you again for serving on this important committee. Please let us now answer any questions you might have or hear any concerns. We're constrained by the fact that this is a Budget Committee work session, so we can't debate or make decisions. Also, we have our CIP review beginning at 7 p.m. in the Municipal Courtroom, but Jeanna and I are also available to each of you individually to answer your questions and concerns.