

July 1, 2016

TO: Mayor Robert Stephens and Members of City Council

RE: **FY2017 Budget**

In accordance with the requirements of the City Charter, I am presenting the FY2017 budget.

The development of this budget has been a collaborative process with input from the Leadership Team, community groups and special task forces. The City is a complex and diverse organization. I believe this budget addresses the most pressing operational needs of our City departments. Our needs far exceed available funding. Given the ongoing budget commitments made in the previous year, the FY2017 budget addresses only a fraction of the City's overall needs. The budget focuses on public safety and providing resources for economic development, so that as a community, we continue to foster a positive growth environment for the expansion of existing businesses and opportunities for new businesses to locate in our community.

Over the past several months, one of my major initiatives has been a focus on critical community issues such as poverty and the vitality of neighborhoods. The Community Partnership of the Ozarks formed the Impacting Poverty Commission. In their final report, the Commission issued a call to action, recommending how poverty can be addressed within our community. First, we as a community (and as a City Council) must decide whether addressing the growing poverty in our community is a priority. I am so thankful for the support and leadership City Council has provided in this area.

Following the report from the Impacting Poverty Commission, "Community Listen" events were held in nine neighborhoods throughout the northwest quadrant of our city. The purpose of these events was to hear first-hand from City residents their concerns, challenges and a vision for their neighborhood. The Community Listen events were followed by the kickoff of the "Zone Blitz", an action plan for City Council's Zone 1. This Council district is located in the northwest quadrant of the City and has a high rate of poverty, as well as a number of other challenges that were graphically represented on a series of "heat maps" that were exhibited at the Community Listen events and elsewhere.

The Zone Blitz Action Plan, currently being finalized, will focus on chronic nuisance properties, crime and safety concerns, housing, food access, the digital divide, communication, jobs and economic development, infrastructure and transportation, civic engagement, healthcare and wellness. I am excited about the opportunities ahead for this under-resourced section of our community. Portions of our entire community are rallying around these identified needs. The Community Foundation of the Ozarks' recent announcement of a \$1.3 million grant to lift families in northwest Springfield out of poverty is one of many examples. The faith-based sector is responding to our direct request for their assistance. Other sectors are responding as well. The priorities reflected in the Zone Blitz Action Plan are also included in some of the budget priorities funded in the FY2017 budget. While it's not nearly enough to fully address these issues, it's a start, and it will likely trigger additional community resources being invested from other sources once they see the City Council is committed to "moving the needle" on these challenges.

Economic Development

Springfield's economy continues to experience stable growth. During the current fiscal year, several economic indicators are showing an upward trend, signaling a strong and stable regional economy. Sales tax is one of the key indicators that we use to monitor the strength of the local economy. At the end of April, sales tax revenue exceeded the budget by 6% (or \$2.0 million). We have seen growth in all sectors of the economy. Sales of motor vehicles and home improvement commodities have been especially strong over the last two years. Another key economic indicator, the unemployment rate, also continues to improve. In July 2015, the start of the fiscal year, the unemployment rate for Greene County was 4.4%. By February 2016, the rate had declined to 3.9%. Springfield continues to experience the interesting juxtaposition of having very low unemployment and a relatively high (25%) poverty rate. This is one of the reasons the National Resource Network targeted Springfield for study and assistance.

Growth in the manufacturing sector has been significant. In its annual report, the Springfield Business Development Corporation noted the Springfield MSA has added approximately 1,000 jobs in this sector in the last two years, and the manufacturing sector has grown 23% since the recession. Several existing businesses have announced expansion plans, signaling the strength of the regional economy. Kraft Heinz, one of the City's primary manufacturing employers, recently announced a \$33 million capital investment in their existing plant in Springfield and the addition of 100 jobs. This is an exciting addition to the community as these are higher-paying jobs that will help increase the median wage and strengthen the local economy. Another long-time Springfield manufacturing company, Digital Monitoring Products (DMP), has recently announced a \$7-million expansion and the addition of 65 new jobs. DMP is adding high-paid manufacturing jobs as well as engineering and software developer positions.

Last year was a strong year for the Springfield-Branson Regional Airport. Passenger counts for 2015 set a new record of 919,000, an increase of 70,000 passengers over 2014. Several service improvements were also announced. American Airlines started twice-daily service to Charlotte, and an additional flight was added to Chicago. Recently year-round, non-stop service to Los

Angeles was announced. Springfield is one of the few mid-sized cities in the country to see significant passenger growth.

The stainless steel industry in Springfield continues to be a major contributor to our local economy and economic growth. With over thirty stainless steel companies in the area, ***Springfield is the leading region in the country for stainless steel products.*** The Missouri Career Center has embarked with the Springfield Area Chamber of Commerce on a major “talent attraction” effort for this industry, spotlighting the growth and income potential for those in the early career phases.

Fiscal Management FY2016

For fiscal year 2016, sales tax revenue was projected to grow 3%. Actual revenue has thus far exceeded the estimate by 6% (or \$2 million). We are aware of a one-time payment received in this fiscal year. If this amount is deducted, the ongoing sales tax base is more accurately 5% (or \$1.5 million) over the budget. I am encouraged by the strong performance of our primary source of General Fund revenue. The City relies heavily on sales tax revenues. It is our primary revenue source, and it is used to fund vital services such as Police and Fire operations and development-related services.

Other sources of revenue are expected to meet budget or fall slightly *below budget*. Payments in Lieu of Taxes (PILOTS) from the City's municipally owned utility are expected to fall *below budget* in 2016 and below last year's actual revenue. This decline is primarily due to a very mild winter, coupled with the low cost of natural gas. Total PILOT revenue is expected to be 6% (or \$875,000) below budget. This shortfall negatively impacts the City's General Fund budget.

Revenue from the Municipal Court is significantly *below budget* due to several factors, including changes in State law, lack of jail space, and fewer ticket filings. Fines and Court Cost revenue is expected to be 33% (or \$500,000) below budget in FY2016. Other fee based revenue is meeting or exceeding the budget estimates. As a result of an increase in development, revenue from building permits is expected to *exceed the budget* by \$119,000. This overage, along with the anticipated sales tax revenue outlined above, is expected to cover those areas where a shortfall is anticipated, but does not leave much available to address other pressing needs within the City.

Financial results for Fiscal Year 2015 were positive. Overall, the fiscal year ended with an operating surplus of approximately 5% (or \$4.4 million) of the General Fund's FY2015 annual budget. Approximately one-half of this surplus was generated from revenues that exceeded budget, and approximately one-half was generated from expenses that came in below budget. Sales tax revenue was the primary generator of the surplus on the revenue side. Careful financial management and vacancies were the primary reason expenses were less than budgeted. Due to the lack of jail space at the Springfield-Greene County Justice Center, a short-term solution was recently developed with other counties that required an estimated allocation of \$500,000 of the FY2015 carryover funds to be appropriated for inmate housing within Miller and Taney counties. The remaining funds will be used for high-priority, one-time projects. A

budget adjustment to appropriate the remaining FY2015 carryover funds was approved by City Council on June 13.

After the FY2016 budget was approved, the City received a Community Oriented Policing (COPS) Grant. This grant funds the salary and benefits for eleven new police officers for three years. After the grant expires in three years, the City is responsible for 100% of the salary and benefit cost for the eleven officers. This commitment was made after the budget was approved and commits revenue for future years. Our practice has been to set-aside one-third of the grant amount each year, so that at the end of the three year period, the additional expense of approximately \$600,000 can be smoothly worked into the annual operating budget. The amount needed for the first of the three years is included in the budget. In addition to covering one-third of the salary and benefit cost, the City must pay for all of the necessary equipment for the officers including new vehicles. This cost is estimated to be \$511,000 and is included in the budget adjustment for FY2015 carryover funds.

Other major commitments for future budget years are the collective bargaining agreements with the Springfield Police Officers Association Lodge 22 (SPOA) and the International Association of Fire Fighters Local 152 (IAFF) employee unions. Since we are one unified organization, the budget gives both those represented by unions and the employees that are not represented by a union the same wage package increase (3.5%). I, as well as the entire City Leadership Team, consider employee pay to be a high priority; fair compensation is critical to our success. Many positions in the City are not represented by a union. The City must pay competitive salaries if we want to continue to attract and retain quality employees. A collective bargaining agreement pre-commits future revenues – this is something we must continue to be aware of when developing future budgets.

The General Fund reserves are strong at 20% of the annual General Fund budget. This is the level of reserves recommended by industry best practices, and it took many years of difficult budgetary decisions to achieve this recommended level of reserves. We have been able to maintain this reserve level due to careful management of expenses and the fiscal discipline of paying for on-going expenses from recurring revenue, while funding one-time expenses from one-time sources. Any proposal to fund ongoing expenses via one-time funds would likely systematically erode our reserves below the recommended level and is strongly discouraged. Our current fiscal discipline positions us well for future years when we may have to compensate for fluctuating sales tax revenues. Over the last few years, Special Revenue Funds, such as the Art Museum and Transportation Fund, have established and maintained cash reserves. These reserves lessen the potential burden on the General Fund, which serves as a fiscal “back stop” for these funds.

We have now completed two years of our expanded risk management program. The expansion of this program, with liability coverage and cyber insurance, has performed as expected. I am pleased that we are now taking a more proactive and long-term focus toward managing risk for our employees, citizens, and visitors. The self-insured workers' compensation program and health insurance fund continue to perform well and are financially stable. The Health Insurance

Fund maintains a reserve in excess of six months of claims experience. Additionally, we have been successful in controlling expenses. The City is entering the fourth year of no premium increases for the plan. The Workers' Compensation Fund continues to maintain the level of reserves recommended by our actuary. The strength of these funds today is the result of several years of increasing payments into the funds during the years they were under-funded.

Revenue Outlook FY2017

As I mentioned previously, sales tax revenue has exceeded the budget thus far in FY2016. Revenue has been increasing at a more stable rate, a trend that is different from past years. The last few years have been characterized by significant fluctuations in monthly revenue. These fluctuations made it difficult to project sales tax revenue. In mid-FY2015, when we were attempting to predict FY2016 sales tax revenues, an increase of 3% was projected. We anticipate ending FY2016 4% over budget. This is the second year that we have seen actual revenue exceed the budget by more than 3%. For FY2017, we expect this upward growth trend to continue, but at a more moderate pace. Sales tax revenue in FY2017 is projected to increase 3% over estimated FY2016 revenue, generating \$45.4 million, a \$3 million increase over the FY2016 budget.

This growth in sales tax revenue also benefits the 1/4-cent Capital Improvements Sales Tax, the 1/8-cent Transportation Sales Tax and the Police-Fire Pension Sales Tax. The Capital Improvements Sales Tax and the Transportation Sales Tax are the only funding source for important capital and road improvements in the City. I am grateful to voters for renewing both of these taxes once again in April of 2016 (at a record 86% approval rate), allowing us to continue our strong capital improvements program.

Another significant source of General Fund revenue is Payments in Lieu of Taxes (PILOTS). Revenue from PILOTS for FY2017 is estimated to be \$13.7 million. This is a slight improvement from expected 2016 revenue of \$13.6 million, but still below the FY2016 budget of \$14.4 million. License and Permits are expected to increase 2% or \$130,000 in FY2017. This is the result of an increase in some fees and an increase in development-related activity.

Overall, the projected increase in revenue for FY2017 in the General Fund is 2%.

Property tax provides a stable source of revenue for the Art Museum, Parks Department, and the Health Department and for voter-approved storm water, city facilities and public safety projects. Although property tax revenue does not have significant growth, the stability of this revenue source adds diversification to the City's revenue sources. In FY2017, property tax is expected to generate \$19.2 million. This is a 2% (or \$438,000) increase from estimated FY2016 revenue.

Proposed Expenditures

When we started to prepare the FY2017 budget, we looked first at the new, on-going commitments that were approved after the FY2016 budget was approved. The largest of these was the 11 new officers funded by the federal, three-year COPS grant that was approved by City Council on October 12, 2015. These officers will start the academy in July 2016 and will begin being paid immediately upon starting the academy. The amount needed to set aside one-third of the salary of this group, plus the 10 COPS grant-funded officers that were hired in 2015, is a total of \$306,000.

The other large funding pre-commitment was the collective bargaining agreements with the Police and Fire unions. If applied for all employees, the increased cost of the 3.5% wage package, excluding merit steps is \$1.2 million in the General Fund. (See more detail below under "Employee Salaries and Benefits.") The combination of these two items is \$1.5 million, the equivalent of a 3.5% increase in sales tax revenue. Thus, assuming these two budget elements – setting aside funds to cover the ongoing costs for 21 additional police officers as they roll off the COPS grants and funding the 3.5% wage package for all employee groups – are to be funded and remain as priorities, the vast majority of the projected FY2017 revenue increase has already been committed.

After these two items are funded in the budget, the focus of the budget is on priorities that address critical operating needs, positions and supplies that will improve the safety of our employees, preserving our facilities, and meeting some of the goals outlined in the Zone Blitz Action Plan.

Employee Salaries and Benefits

In accordance with our collective bargaining agreements, the budget includes the equivalent of a 3.5% wage package increase for all employee groups. We are one organization and it takes all employees, both front-line and administrative, to keep the City functioning smoothly. For this reason, I have included this wage package increase for all employees. The application for this increase will vary based on employee group. For all employee groups, this level of increase is expected to cover the cost of merit steps, with some amount remaining for an across-the-board increase. The SPOA collective bargaining agreement states that effective July 1, 2016, a wage package increase of 3.5% shall be implemented which is intended to cover the merit step increases plus an across-the-board increase. After funding merit steps, there is 2.14% available for an across-the-board increase for all employees on the Law Enforcement Pay Schedule. The agreement with IAFF states that under no circumstances will the amount in the compensation pool be reduced to a percentage level below the merit step funding plus across-the-board increases given to City employee groups. Therefore, IAFF will also receive the equivalent of a 3.5% wage package increase, the same as the SPOA. All employees on the Fire Protection Salary Schedule will receive an across-the-board increase of .5%. The remaining funds will be contributed to the Police Fire Pension fund to be applied to the Additional Funding Contribution (AFC) for Tier 1 employees.

The Craft, Trades and Labor (CTL) salary schedule and the Professional, Technical and Administrative (PAT) salary schedules will also receive the same 3.5% wage package increase. After funding merit steps, the employees on these two salary schedules will receive an across-the-board increase of 2.14%. The money remaining after the merit increase and the across-the-board increase will be used to adjust those positions most below market and those positions for which we are having difficulty retaining and recruiting employees. As you may remember, last year, the Leadership Team was removed from the grade and step salary schedule. This group now is on a pay-for-performance plan. I have included a 3.5% equivalent for this group. The allocation of this money will be based on the results of their performance reviews.

Information Technology

One of our greatest needs is in the area of information technology. It is a vital component to most of our jobs. It is also an area that requires significant investment and, unfortunately, our investment in past years has not been adequate and we are now in a critical situation. This area alone has consumed a majority of the funding available for new projects in FY2017. Currently, we are using the Office 2007 version, which will no longer be supported by the vendor after 2017. We must upgrade to Office 365. Thus, we must switch horses now. In the past, we have paid a lump sum for replacement. The business model is changing and the software is now cloud-based (e.g., hosted remotely) and we must pay annually for each email address and computer that uses Windows. Given the importance of being able to interoperate with our citizens and business partners, this move is necessary to maintain high-quality services. The cost of making this transition in FY2017 is \$269,000 for the General Fund. This is an ongoing cost that we will have to fund each year. Enterprise funds and Special Revenue funds will be responsible for the upgrade cost in their respective departments.

In addition to this City-wide investment, other departments have specific software needs. The Police Department will begin using a Lexis Nexus software package. This was a top budget priority for the Police Department. This software will expand their ability to solve crimes via the added features available for investigators and provide an online reporting system for the Records division. The first year cost for the software is \$78,000, with an annual maintenance cost of \$47,500. I recognize that purchasing the software this year will commit \$47,500 of revenue in FY2018 and beyond (in addition to the funds necessary to set aside to fund the additional 21 police officers already pre-approved).

The Human Resources applicant tracking system, used by our job applicants (and often the first impression they have of our organization) is used for all online job applications. It is cumbersome and is impacting our recruitment process. The budget includes \$20,000 to purchase new applicant input and tracking software.

Community Listen “Zone Blitz”

The community response to the Zone 1 Listening Tour was outstanding, and I appreciate all those who contributed ideas. I also thank all members of City Council who attended one or more of these sessions – I suspect we all learned something during this process.

A significant number of needs were identified in this process. Similarly, a significant number of ideas to address those needs have emerged (and continue to emerge), but we cannot implement them all or fund them in a single year. Therefore, I have selected the highest priority items for inclusion in the FY2017 budget. Nuisance properties in neighborhoods are a growing problem and are leading to the degradation of otherwise stable neighborhoods. The FY2017 budget has several items dedicated to neighborhoods. Two new residential/zoning inspectors will be added in the Building Development Services Department. These inspectors will handle the increasing number of housing inspections for tall grass, weeds and trash. This was the highest-priority problem identified consistently during the Listening Tour. The addition of these two positions is expected to help relieve the backlog of cases we are currently working to resolve.

The Mayor's Commission on Crisis Sheltering spent several months reviewing the issue of homelessness and the need for more crisis sheltering units in our community. Currently there are only 48 crisis sheltering units available to families, and these are generally full. The top recommendation from the Task Force was increased funding for a shelter diversion program. The Task Force requested funding for One Door to allow them to add three positions to expand their diversion work. The budget includes funding for only one of those recommended positions. Due to limited funding, the City is not able to fund three positions. I am hopeful that community organizations will be able to assist with funding the other two positions. City Council has the option of issuing and sponsoring a “community funding challenge” to raise funds for one or two of the other recommended positions.

Another housing-related issue in Springfield is the poor condition of some rental properties. In some cases, the properties are unsafe and do not meet the City's building code. Some landlords have not been responsive to tenants' requests for repairs of health-related issues. Due to limited funds, the tenants often cannot move because they do not have money for moving, deposits, or perhaps higher rent elsewhere. I am including \$10,000 in the budget to fund a pilot program that would provide temporary housing and other assistance to individuals displaced while repairs are made to the home they are renting when the City identifies a severe health-related problem. In such cases, the tenants would have to temporarily relocate while the landlord makes the repairs (or, in the case of a non-responsive landlord, the City arranges for the repairs and places a lien on the property).

Employment and jobs was a frequently discussed topic on the Listening Tour. A satellite office of the Missouri Career Center in the northwest quadrant of the City would provide employment-related services to the citizens living in this area. The budget includes funding for leased space for a full-service Career Center location in Zone 1 and will be funded from grant revenues.

Lastly, the General Fund budget includes \$26,700 for Zone Blitz expenses related to the purchase of security cameras, wellness initiatives, project signage, and enhanced communication with citizens – all aligned with the Zone Blitz Action Plan.

Employee Safety

During FY2016, we have increased our focus on employee safety. The Safety Committee, chaired by Deputy City Manager Tim Smith, has been active this year, involving administrators representing several departments throughout the City. The City is operationally diverse and employee safety is important for all departments. Employee safety is a high priority, and I feel it is important to dedicate resources to our safety program.

The FY2017 budget includes full-time positions dedicated to safety. Public Works and Environmental Services and the Transportation division have an employee that is dedicated to safety. A training captain focused on safety will be added to the Fire Department. This position will initially be funded from the self-insured workers' compensation fund, and then funding will gradually be transitioned to the Fire Department budget over multiple years in much the same manner as we absorb the COPS grant-funded police officer positions. Parks, Police and the Airport are currently evaluating their safety programs and may consider adding safety positions in future years.

Facilities Maintenance

Although we have made great strides in addressing some of our capital and facilities needs, we still have not identified an on-going funding source dedicated to replacing capital and preserving our investment in facilities. We have addressed these needs primarily with carryover funds or reserves from the Level Property Tax Fund. Last year, we were able to replace most of our high-mileage Police vehicles. This year, in the budget, I am recommending appropriating \$500,000 for exterior maintenance on the Busch Building. This maintenance is needed to preserve the exterior shell and reduce moisture infiltration.

The budget adjustment for the FY2015 carryover includes an appropriation to set aside \$500,000 toward the purchase of a ladder truck for the Fire Department. The remaining \$800,000 would be appropriated from the Level Property Tax Fund in FY2017. This will allow the Fire Department to order the ladder truck for delivery in 2018. Maintenance of our ISO 2 rating requires replacement of fire apparatus on a specific schedule. This purchase will replace a 15 year-old front line apparatus.

A critical issue that I feel must be addressed is the removal of underground fuel storage tanks. We are monitoring the tanks and they are not leaking at this time. However, they are old and we want to remove and replace them to protect our environment before a leak does occur. The budget includes \$86,000 from the General Fund and \$154,000 from the Clean Water Services budget to address this critical issue.

We are currently re-engineering the process we use internally to develop the capital budget. Our goal is to make this document more meaningful for all stakeholders. I anticipate providing Council with a more complete capital budget plan in conjunction with next year's budget.

Parks

The Springfield-Greene County Park Board has some exciting initiatives planned for the upcoming year. Neighborhood parks are an important component of many of our older neighborhoods. In the last few years, the Park Board has devoted funds to restoring some of our older parks. This effort will continue in FY2017 in conjunction with the Zone Blitz Action Plan. Improvements will be made to park infrastructure, including repairing playgrounds, pavilions, picnic tables and signage. The Parks Department is also continuing trail development. In FY2017, emphasis will be placed on connecting the South Creek and Wilson's Creek trails and the extension of the South Dry Sac/Fulbright Trail. The Parks staff, in conjunction with the Convention and Visitors Bureau and others in the community, continues to promote sports tourism. This not only provides opportunities for local athletes, but also is a boost to our local economy. Springfield was recently awarded the Missouri State High School Athletic Association basketball championships for 2018-2022 and the football championships for 2016. I am excited for the opportunity to showcase our City and for the positive economic impact these events bring to the community.

Closing

As always, the total budget requests I received from our departments far exceed our available funding. All of the requests are needed and would improve the service we are able to provide our citizens. As in past years, demand greatly exceeds supply. But we can't pound 20-pounds of sand into a 5-pound bag.

The projected increase in sales tax revenue for FY2017 is significantly more aggressive than past years, so we must carefully monitor both revenue and expenses during the upcoming year. On the expenditure side of the budget, this year, my priorities are addressing our information systems technology needs, continuing our promise to address issues in Zone 1 and funding commitments made on the current year's revenue. During the last three years we have added 21 new police officers through the COPS grant. This approximately \$1.1 million investment is a testimony to public safety.

Sincerely,



Greg Burris
City Manager