

April 30, 2021

TO: Mayor Ken McClure and Members of City Council

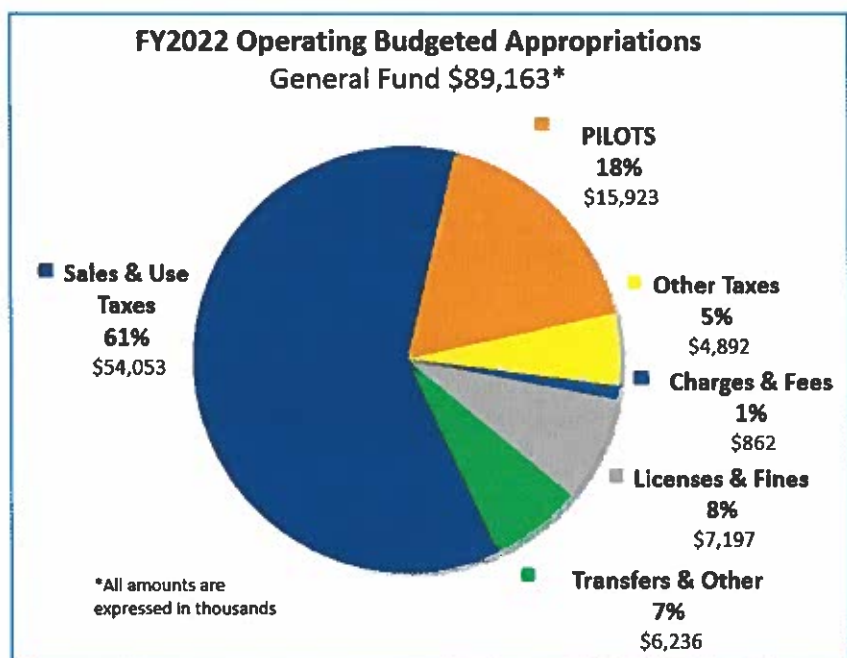
RE: **Fiscal Year 2022 Proposed Budget**

In accordance with the requirements of the City Charter, I am presenting my proposed Fiscal Year 2022 (FY2022) budget for your review and consideration. This budget covers the period July 1, 2021 through June 30, 2022.

The development of the budget has been a collaborative process with input from every department and the City of Springfield Leadership Team. The City is a complex and functionally diverse organization. This budget addresses many, but certainly not all, of the City’s most pressing operational needs.

The largest individual segment of the City’s operations is supported by the General Fund (approximately \$89.1 million, including \$2 million in reserve appropriations), which covers most police and fire operations, public works, planning and development, building development services, and all administrative support services. These activities are funded by four major General Fund revenue sources: sales and use tax, payments in lieu of taxes (PILOTs), other taxes, and licenses and fines. The General Fund is the primary focus of the City’s annual budget process because it funds many of the high-profile citizen services (e.g., those listed above) and is the revenue source that provides the most flexibility in use by City Council.

In addition to the General Fund, the City’s budget for its remaining governmental funds are specific to designated revenue sources and the restricted activities and services provided by those funds. For example, the City’s “enterprise activities” (such as the airport and clean water services) are all self-supporting operations. These enterprise activities earned the necessary revenue to cover the total costs of their respective operations, debt service, and capital activities,



through fees that are paid for the services provided. In other words, sewer fees fully fund sewer operations, airport revenues fully fund airport operations, etc.

The City Charter requires the City Manager submit a balanced budget to City Council for consideration by May 1 of each year. A balanced budget is, in essence, a “zero sum game.” Once the balanced budget has been submitted by the City Manager, anything added to the budget must be matched by an accompanying budget reduction or increase in projected revenues.

The uncertainty of the impact of the Coronavirus Pandemic (COVID-19) this past year has provided challenges for the City from a budget perspective. Last year at this time, most communities across the county were shutting down non-essential functions with the “Stay-at-Home” orders that brought significant uncertainty to those communities, including the City of Springfield. After a series of cost saving measures implemented in the last quarter of fiscal year 2020 and much greater level of cost saving measures incorporated into the current fiscal year 2021, the City positioned itself to be able to preserve the City’s labor and financial resource capacity to continue to provide essential municipal services to our citizenry.

Over one-third of the entire City budget is dependent on sales tax. The initial impact of the pandemic and the reduction and closures of retail activities had an immediate impact on loss of sales and related sales tax collections, loss of employment and uncertainty of how we address the needs of our citizenry. During the past year, the City has provided specific quarterly revenue targets to City Council to ensure the City is tracking within the revenue projections for each quarter. Due to the substantial cost saving measures and ongoing financial monitoring implemented by the City at the onset of the pandemic, the organization is well positioned moving into fiscal year 2022.

The City was prepared to offset lost sales tax revenue for the General Fund and Parks Fund in FY2020 and F2021 using our self-insurance reserve funds. These self-insurance funds were established to pay the costs of the City’s workers compensation plan and general liability self-insurance programs. The general-liability self-insurance fund was established in FY2015 through the budgetary process to protect the City from areas of risk through a combination of insurance and self-insurance programs. Upon inception of the general liability self-insurance fund, the City was aware that some financial exposures were difficult, if not impossible, to fully address through traditional insurance products. One such exposure is the potential loss of sales tax revenue due to unforeseen events that may affect an entire community by reducing overall business activity. Our community did experience this phenomenon due to the current COVID-19 pandemic. The use of these self-insurance funds provided the City with an alternative, temporary revenue source. This prevented us from dipping into our reserve stabilization funds and protected our financial position as we move into the new fiscal year. In FY2020, the City only utilized \$307,000 of our self-insurance funds as a backstop for the Parks Fund. This action protected what is already a marginal Parks Fund balance moving forward into FY2021.

Moody’s Investor Service, the City’s bond credit rating service, reaffirmed the City’s general obligation credit rating as Aa1 in its September 30, 2020 Credit Opinion on Springfield.

“The credit profile of Springfield benefits from a large and growing tax base that serves as a regional economic center anchored by healthcare, higher education, and manufacturing, stable financial operations with a healthy reserve position, and a manageable debt burden with significant support of the City’s enterprises. These attributes are weighed against the City’s reliance on economically-sensitive sales tax revenues, an above average pension obligation supported by the Public Safety Sales Tax, and below average resident income indices.”

While Moody’s recognizes the City’s high-quality credit position, it also points out our City’s challenges, including our dependence on sales tax and below average resident income. As a result, City staff will continue to emphasize the future diversification of our revenue base in accordance to City Council direction to reasonably offset this economic sensitivity.

Economic Development

After the early stages of the pandemic, Springfield experienced consistently strong retail sales and construction starts. Costco announced it would be opening a location in Springfield and has begun construction with a Fall 2021 targeted opening date. Cox Hospital purchased a key development site at Battlefield Road & Highway 65 for construction of a new super-clinic. The Springfield Housing Authority began the process of rehabilitation and reinvestment in all of their properties with a \$22M tax-exempt bond issuance from the Springfield Industrial Development Authority (IDA). Kraft received approval for Industrial Development Bonds to facilitate a \$48M investment in new equipment to meet the increased consumer demand for products manufactured in Springfield. Missouri State University broke ground on an expansion of the Jordan Valley Innovation Center, which will complete the conversion of this former MFA mill facility to a cutting-edge research and development facility for university researchers and corporate partners to collaborate on projects such as nanotechnology and medical instrument technologies. The Springfield-Branson National Airport is building a new \$12 million aircraft maintenance facility for Envoy Air, a wholly owned subsidiary of American Airlines, to service more modern Embraer E-175 aircraft. While certain business sectors remained strong throughout the pandemic, this time has been extraordinarily difficult for small businesses, restaurants, hotels, cultural activities, and event venues. In response to these difficulties, the City developed a business grant program using the Coronavirus Aid, Relief and Economic Security Act (CARES) funding to provide vital assistance to many of these businesses that add so much to Springfield’s economy and quality of life. Some of this hardship was also addressed by a significant allocation of CARES grant funding to Greene County that was redistributed throughout the community.

Fiscal Management FY2021 – General Revenues

For FY2021, sales tax revenue was budgeted to decline 6% based the pandemic and the impact on retail sales. With the infusion of trillions of dollars of stimulus monies provided by the Federal government in the form of direct payments and enhanced and extended unemployment benefits and expanded federal assistance, sales tax revenue is exceeding last year’s actuals to date (April 2021) by 4.7% (or \$1,490,000). Due to approving a conservative budget, sales tax is exceeding last year’s amended budget projection by 6.5% (\$2,052,000).

Due to Missouri State law and a general public acceptability of the sales tax, the City relies heavily on this revenue for both operational and capital needs. Sales tax is used to fund vital functions such as police and fire operations, and development-related services. During positive economic growth years, this reliance is beneficial to the City. However, as noted during the beginning of the pandemic, reliance on sales tax is problematic because it is the most elastic, or volatile, of our revenue sources. This means that over-reliance on sales tax for operational needs during a recession creates significant financial challenges for the City. The City needs to identify approaches to better diversify our revenue sources in order to minimize this up and down effect.

Use tax revenue, a smaller component of sales tax on goods sold to Springfield residents by out-of-state vendors, has increased collections from last year. FY2021 use tax was budgeted at \$4.6 million and is projected to exceed last year at \$5.0 million, approximately \$400,000 more than budget. Use tax is a challenging revenue source to project due to the changing shopping patterns that are occurring. City use tax revenue will likely continue to be difficult to estimate in the future. It is possible this uncertainty could be tempered by statewide tax reform to address goods purchased online from all out-of-state vendors. Pending legislation (Senate Bill 153), commonly referred to as *Wayfair* (online use tax collections) could provide some level of increase in use tax collection over the next year due to retail activity shifts to on-line sales.

Our second largest general revenue source is Payments in Lieu of Taxes (PILOT). PILOT revenue is generated as a percentage of the gross receipts collection from City Utilities, the City's municipally-owned utility. Because of the extreme cold weather event experienced in February 2021, the city received a one-time electric PILOT from City Utilities for electric sales totaling \$1.5 million in excess of March's expected level for electric sales (for sale of electricity outside the Springfield market). In addition, the City will receive approximately \$1 million in additional gas PILOTs over a 24-month period for the excess costs of natural gas during the February 2021 extreme weather event. While this has a significant impact on the City's PILOT revenue, it needs to be recognized that this excess PILOT revenue is the result of a historic and one-time severe weather event. Revenue from PILOT's for FY2021 is projected to be \$16.2 million, or \$1.5 million above budget. PILOT's are a challenging revenue source to project due to its dependency on the weather and the fluctuating costs of natural gas. However, PILOT revenue is generally considered to be a very stable form of revenue for cities across the country.

The decline of our gross receipts tax (license tax) on telecommunication companies continues to be a concern. The financial impact to the General Fund has been significant over the past nine years, resulting in a loss of revenue just under \$2 million during this time. The City collects license tax from telephone and cable television services companies. The City Charter requires all telecommunication companies to pay a license tax of 6% of the gross receipts from such business, and cable television service providers to pay a license tax of 5% of the gross receipts from such business. Most likely, telecommunication companies have been shifting the base of revenue from cell phone usage to data usage. In addition, the same pending legislation noted above, *Wayfair*, proposes eliminating one-half of the rate (2.5% of the 5% total cable franchise fee rate) over a five-year period, further eroding the municipal revenue stream. FY2021 gross receipts is projected to generate \$4.4 million.

Licenses, fines, and other fee-based revenues are meeting the budget estimates and are very similar to FY2020 actuals, generating \$7.9 million in revenue. FY2021 total General Fund revenue, including transfers, is expected to generate. This is an increase from FY2020 actuals by 2.7% (or \$2.3 million) and FY2021 budget by 6.2% (or \$5.0 million). This amount is accounted for in our FY2022 budget projections.

As mentioned, the City provided specific FY2021 quarterly revenue targets to City Council to ensure the City is tracking within the revenue projections for each quarter. The City's first quarterly revenue update for the General Fund revealed sales tax collections of \$12.5 million received versus \$10.25 million budgeted. This was our first sign of good revenue news while in the pandemic. This positive outcome was much better than anticipated, along with the better than expected 4th quarter sales tax collections for FY2020. After careful review and consideration, the City was able to offer a substantial mid-year pay plan improvement package to City employees that was equivalent to a 3.5% across-the-board, plus merit increases. While no pay plan improvements were provided in the FY2021 budget, a commitment was made by the City Council and staff leadership to review the City's actual financial position against our projections at mid-year. That commitment was honored and resulted in the approval of the mid-year salary adjustments.

The City's second quarterly revenue update for the General Fund has continued to provide positive revenue trends with sales tax collections continuing to exceed budget expectations by \$680,000 (\$12.25 million received versus \$11.57 million budgeted). These trends are continuing into the third quarter of FY2021.

Revenue Outlook FY2022

We expect retail sales to remain strong as we continue to move through the pandemic. While some retail sectors experienced significant declines (traditional retail outlets, tourism, entertainment, restaurants, and bars), many sectors experienced significant growth that contributed to the overall sales tax growth of approximately 2.5%. Use tax is not projected to increase significantly in FY2021, unless the pending *Wayfair* legislation is approved by the State of Missouri. Please note that cities already receive sales tax from many on-line retailers. In addition, we are not provided with sufficient on-line retail shopping data to adequately determine an accurate revenue impact if *Wayfair* legislation is adopted. With this in mind, PILOT revenue is projected to increase approximately \$1.2 million from the FY2021 budget due to the current portion of the natural gas recovery (\$500,000), an increase of the right-of-way expansion, and a slight increase in usage projected by City Utilities for the upcoming year.

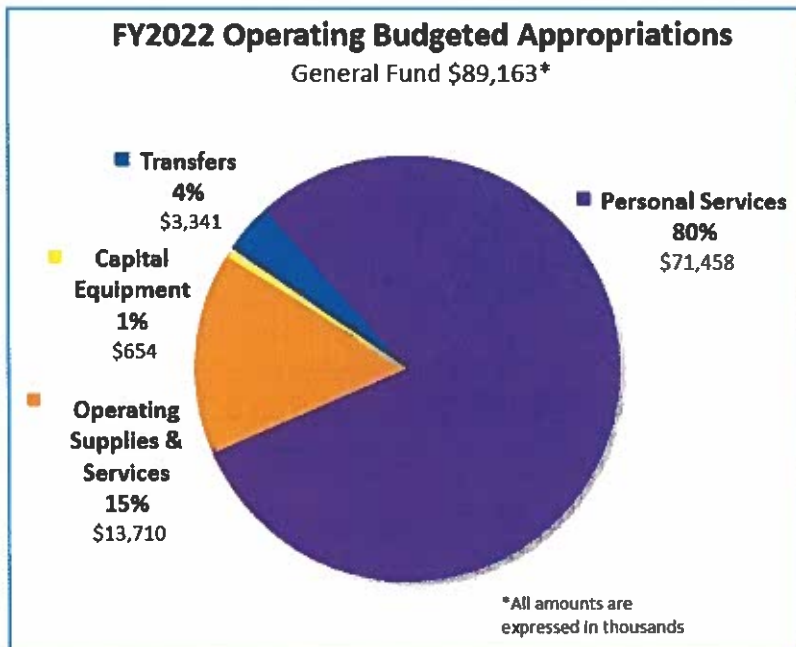
The decline in gross receipts tax revenues on telecommunication companies has continued in FY2021. We anticipate this revenue, along with the other revenue sources, will continue to decrease approximately \$500,000 in FY2022. Licenses, fines, and other fee-based revenues have met budget expectations for FY2021 and are anticipated to increase in FY2022 to \$8.1 million, up from \$7.9 million in FY2021. FY2022 total revenue, including transfers, is expected to generate \$87.1 million, up from \$80.9 million budgeted in FY2021. This represents a 7.6% increase.

With the anticipated increase in sales tax revenue, similar sales tax increases from the prior budget will also occur in the following funds: the 1/4-cent Capital Improvements Sales Tax (approximately \$1,570,000 increase), the 1/8-cent Transportation Sales Tax (approximately \$741,000 increase), the Police-Fire Pension Sales Tax (approximately \$3,795,200 increase), the Law Enforcement Sales Tax (approximately \$958,200 increase), and the Springfield-Greene County Park Board (approximately \$1,046,238 increase).

Property tax provides a stable source of revenue for the Springfield Art Museum, Springfield-Greene County Park Board, the Springfield-Greene County Health Department, and for voter-approved municipal purposes, city facilities, and public safety initiatives. Although property tax revenue does not typically show significant growth, the stability of this revenue source adds a small level of diversification to the City's revenue sources. In FY2022, property tax is expected to generate \$23.2 million. This is a 3.6% (or \$815,000) increase from projected FY2021 revenue.

Proposed Expenditures

The focus of this budget relates to preserving employee jobs and addressing employee recruitment and retention. The FY2022 budget reflects a total of 1,960 FTE's. This is an increase of 44.5 FTE's from the FY2021 budget. Five FTE's (three building development services nuisance abatement positions, a public works professional engineer, and the Director of Diversity and Inclusion) were added during FY2021 with City Council approval. Thirty-four (34) of these new FTE's are the conversion of long-term



contract employees in order to prioritize the need for their services and stability in staffing. In addition, an Art Museum Educator, City Clerk executive secretary, Police NIBRS coordinator, Public Works engineer, a Human Resources labor relations position, a .5 animal control officer, and six positions in Environmental Services (discussed below). Six previously unfunded positions have been eliminated from the FY2022 budget.

I am proposing to fund all requested career ladder advancements throughout the City. In addition, a larger funding commitment relates to the collective bargaining agreements with the Springfield Police Officers Association Lodge 22 (SPOA), the International Association of Fire Fighters Local 152 (IAFF), the International Brotherhood of Electrical Workers Local 753 (IBEW) employee unions. Because we are currently meeting with the three established unions groups and one new union group, ongoing funding has been set-aside in the City Manager's budget for pay plan improvements for all city employees. This commitment to employee recruitment and

retention is paramount to retaining a high-quality work force that is committed to community service. In addition, the FY2022 budget includes restoration of several of the prior year budget reduction measures including capital and training budgets, several positions which were frozen, and a partial restoration of the Workers Compensation rate transfer to help restore some significant claims over the past year.

The City recognizes the need to maintain adequate reserves. The General Fund reserves are strong at 20% of the annual General Fund budget. This level meets our reserve policy, is critical to maintain the City's stellar credit rating, and is consistent with reserve levels recommended by industry best practices. This current budget does not contemplate utilization of reserve funds.

The FY2022 budget includes continued funding based on the long-range plan of the Level Property Tax (LPT) initiative approved by voters on November 7, 2017. In addition to paying off the existing LPT debt, LPT revenue is used for many high-priority General Fund needs. LPT provides a dedicated revenue source for Police, Fire, and Public Works Department personnel and life-cycle vehicle and equipment replacement for those departments and the Information Systems Department. In addition, this revenue source funds specific voter-approved facilities such as fire stations, stormwater infrastructure, and other high-priority public improvements. Without the renewal of the Level Property Tax, these activities would likely not be possible within our General Fund. In FY2022, the City continues the projects that are being funded with the first LPT special obligation bond issue for capital projects. These bonds are providing \$18.5 million in proceeds that will be used for the construction of stormwater improvements (\$9.1 million), to construct one new fire station and replace one existing fire station (\$6.2 million), and to construct a new Public Works Maintenance Building (\$2.6 million). Several of these projects have been designed and initial bids have been received and are being evaluated. These projects would not have been possible without the renewal of the Level Property Tax.

The self-insured workers' compensation program, general liability insurance fund and health insurance fund continue to perform well and are well-funded. The health insurance fund maintains a reserve in excess of required six months of claims experience. Additionally, we have been successful in controlling expenses. In FY2022 the City is entering the ninth year of no premium increases for the employee healthcare plan. Much of this credit goes to the work of the Health Insurance Committee and the inBalance employee wellness program. The workers' compensation and general liability insurance funds have sufficient levels of reserves to pay claims and remain at or near the recommended level as determined by the actuary. The self-insurance funds continue to contribute to the overall fiscal sustainability of the City.

Non-General Fund Highlights

Enterprise Funds:

Environmental Services includes both the Clean Water Fund and the Solid Waste Fund

In December 16, 2019, the City applied for State Revolving Fund (SRF) loans from the Missouri Department of Natural Resources (MDNR), to fund wastewater infrastructure projects required by the Amended Consent Judgement and approved Overflow Control Plan (OCP). Per the Amended Consent Judgement with MDNR, the City is required to invest a total of \$200 million

over a 10-year period in an effort to reduce Sanitary Sewer Overflows. The SRF loan program provides low-interest loans to municipalities for wastewater infrastructure projects. It is a competitive selection process based on evaluation of applications. The City was awarded an SRF loan for up to \$15,010,000 and was approved by City Council in February 2021. The projects to be completed will include the Group 5 Sewer Rehabilitation Project. These projects will enhance the City's wastewater collection system to further minimize capacity-related sewer overflows which occur to system infiltration during heavy rains. The loans will be repaid through sewer rate fees within the current rate structure.

Operationally, Environmental Services is requesting fifteen additional FTE's. Nine positions are requested from the Clean Water Services Fund (Sanitary Sewer System). Two new positions are within the infiltration/inflow division to monitor an increased number of metering devices throughout the sewer collection system in accordance with the OCP. One position is within the construction inspection division due to several capital projects and the initiation of a manhole rehabilitation and municipal grouting contract. The remaining six are converting long-term contract employee positions to FTE. Finally, six positions within the Solid Waste Fund (Integrated Solid Waste Management System); three for the landfill are requested due to increased demand and full staffing of a new scale house and small load facility and three are converting long-term contract positions to FTE.

Springfield-Branson National Airport

The goal of the proposed 2021-2022 budget for the Springfield-Branson National Airport (Airport) is to be fiscally cautious as we leave the pandemic, while also supporting airport tenants and using FAA pandemic funds in an appropriate manner. The proposed operating budget of \$16.6 million is up 22% from 2021, primarily reflecting small anticipated increases in lease and fee revenue sources. Most of the increase is due to Federal Aviation Administration (FAA) grants received for operational expenses. The proposed budget does not include an increase in airline rates and charges; but does expect commercial airline traffic to increase as vaccines are rolled out and the general public is ready to return to pre-pandemic activities. Additionally, the proposed budget does cover all debts issued for airport activities and reinstates the capital equipment readiness program that was put on hold in the 2020-2021 budget.

Special Revenue Funds:

Springfield-Greene County Health Department

The Springfield-Greene County Health Department has requested to convert a part-time Animal Control Officer to full-time and a contract Coordinator of Epidemiological Services to FTE status. The health department receives the majority of its revenues thru property taxes (stable revenue source), charges for services, grants, and funding from Greene County. Over the last year, their revenue was bolstered by CARES Act funds. After enduring an extremely challenging year with COVID-19, the health department is expecting to return to normal operations in FY22.

Springfield Greene County Park Board

The onset of the COVID-19 crisis in March of 2020 impacted the Springfield-Greene County Parks Department like no other single event has ever done. The pandemic required numerous Parks facilities to be closed, a variety of programs had to be cancelled, and departmental special events

became virtually non-existent. Each of these measures were necessary in the overriding interest of community health and implemented in full partnership with both the City of Springfield and the Springfield-Greene County Health Department.

Throughout the many challenges the pandemic continues to impose upon the Parks Department and its operation, the Parks staff have been resilient in their efforts to keep the parks, trails and indoor facilities open and available to the community in a safe and health-conscious manner. In many cases, patrons have been equally resilient, setting record use levels for outdoor parks, trails, and golf facilities. In spite of this popularity, Parks unfortunately continue to be at a crisis point with the operational budget and the inability to secure a long-term sustainable funding source for projects, restoration, repairs, and park development. Since the sunset of the last Parks Sales Tax Initiative in 2012, the Park Board has operated without the ability to systematically address major facility repairs, park and trail development, program growth, and long-term land acquisition. As a result, Parks will implement major reductions until an additional funding initiative or revenue stream can be implemented. Anticipated cuts for FY 2021-22 include reductions in pool facility availability, facility hours, seasonal staff totals, special events, shared partner activities, marketing/advertising, and cuts by virtually each departmental division. The annual Parks budget contains very little in the way of operational funding from the City of Springfield (albeit some critical capital funding for sports facility redevelopment) and no operational support from the Greene County Commission. The Park Board members and staff will continue to have a critical conversation with the community regarding the inability to successfully address our growing financial liabilities and park system expectations.

In spite of the ongoing budgetary challenges, there are many good things to look forward to with the coming fiscal year. Parks requests to convert ten contract positions to FTE status. Conversion of these positions will help maintain consistent operations within the Parks system and is consistent with the use of these employees. Park use is at an all-time high and sales tax revenues continue to remain strong. Other things to look forward to include, sharing with the community the new Parks and Recreation Master Plan effort associated with the City's Forward SGF Comprehensive Plan and the long-awaited Economic Impact Study for the entire park system. Additionally, Parks will be partnering with the City of Springfield and the Lake Country Soccer organization for the renovation of the Cooper Soccer Complex with provisions for state-of-the-art turf field amenities, pursuing potential expansion opportunities for popular Sequiota Park and looking to improve a number of key trail connections and corridors for our active Springfield community.

Capital Project Funds:

The City's 1/4-cent Capital Improvement Sales Tax Fund and 1/8-cent Transportation Sales Tax Funds are projected to experience sales tax increases from the prior COVID-19 effected budget totaling \$1,507,0000 for the 1/4-cent Capital Improvements Sales Tax and \$741,000 for the 1/8-cent Transportation Sales Tax. Both funds have uncommitted reserves in each fund and have approximately 2 years of accumulated cash.

Conclusion

City Council's priorities of public safety, fiscal sustainability, quality of place and economic vitality have guided my efforts in the development of the proposed FY2021 budget. Specific emphasis on continuing City Council priority of public safety. In support of City Council's priority of fiscal sustainability, this budget preserves the City's financial stability, while continuing to provide quality vital services to our community. In addition, continued emphasis on improving the efficiency and effectiveness of the development review process to enhance our overall development competitiveness and significantly improve our nuisance abatement and dangerous structures process to ensure neighborhood stability and addressing City Council's priority of quality of place.

The City continues to be financially sound and prudent in our mission to serve our citizens and we have earned the reputation of being a good steward of our community's tax dollars. Your staff believes that the FY2022 budget is a major part of what will allow us to continue to prosper as a community. I am pleased to present this budget to you and look forward to discussing it with you and responding to your questions!

Respectfully,

A handwritten signature in black ink, appearing to read "Jason A. Gage". The signature is fluid and cursive, with a long horizontal stroke at the end.

Jason A. Gage, ICMA-CM
City Manager