

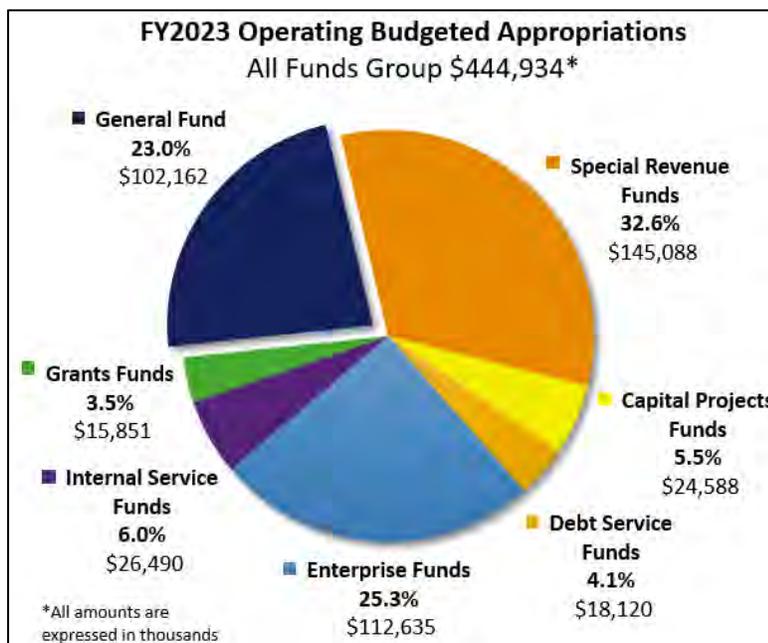
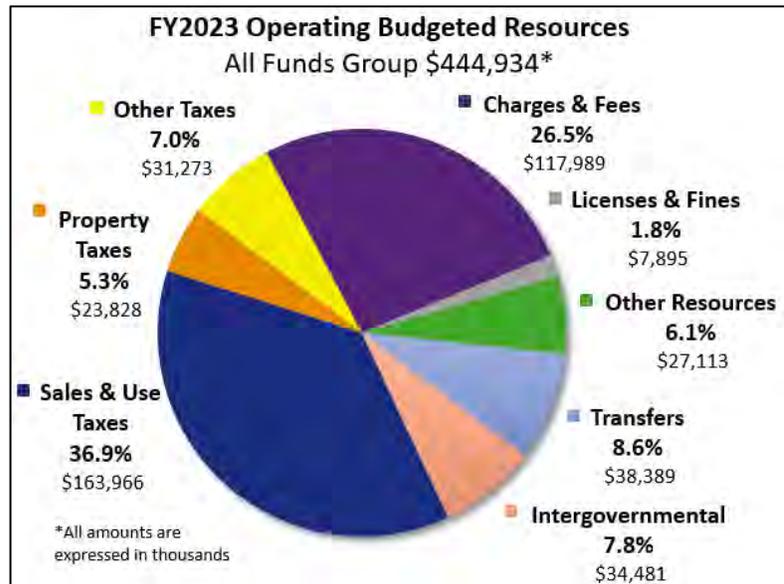
April 29, 2022

TO: Mayor Ken McClure and Members of City Council

RE: **Fiscal Year 2023 Proposed Budget**

In accordance with the requirements of the City Charter, I am presenting my Fiscal Year 2023 (FY2023) budget for your review and consideration. This budget covers the period July 1, 2022, through June 30, 2023.

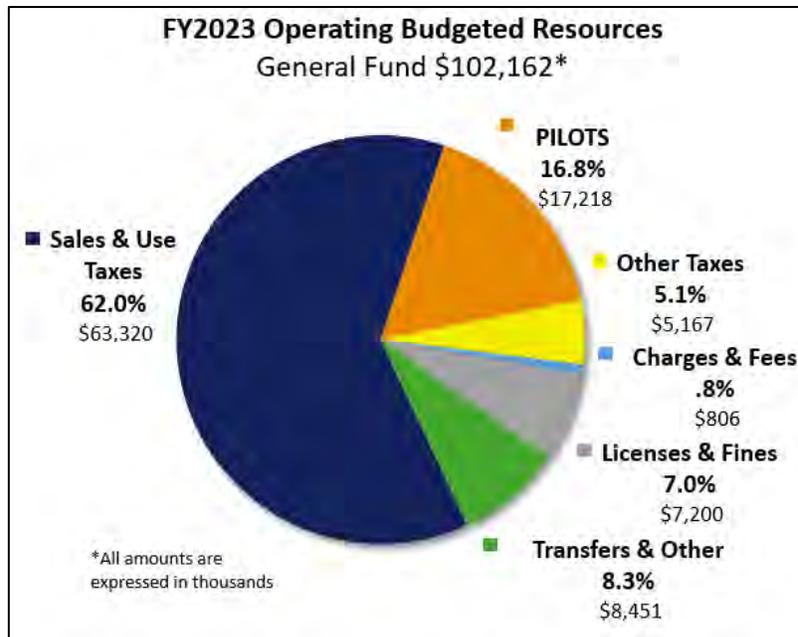
The development of the budget has been a collaborative process with input from every department and the City of Springfield Leadership Team. The City is a complex and functionally diverse organization. This budget addresses many, but certainly not all, of the City's most pressing operational needs.



The largest individual segment of the City's operations is supported by the General Fund (approximately \$102.2 million, including \$4.1 million in reserve appropriations), which covers most police and fire operations, public works, planning and development, building development services, municipal court, 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.

In addition to the General Fund, the City’s budget for its remaining governmental funds is 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 from 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 impacts from the Coronavirus Pandemic (COVID-19) during the past two years have been unprecedented from an operational perspective and a budget perspective. In the spring of 2020, most communities (including the City of Springfield) were shutting down non-essential functions and brought significant uncertainty to those communities. The City moved forward in FY2021 with a very conservative budget anticipating shrinking revenue sources. The financial picture of FY2021 was significantly better than anticipated due to the infusion of trillions of dollars of stimulus monies provided by the Federal government, resulting in greater sales and use tax revenues than originally projected.

Over one-third of the entire City budget is dependent on sales tax. Sales tax growth historically is very modest, averaging 3-4 percent during the past 40 years (including periods of decline). Given the heavy reliance on sales tax, the City began providing specific quarterly revenue targets to City Council since the onset of the pandemic to ensure the City is tracking within the revenue projections for each quarter.

During the current year, FY2022, sales and use tax has continued to exceed the City’s budget projections by over 10%, spurred on by the infusion of Federal monies and a significant rebound

in the economic conditions of the country. While the infusion of federal monies has been successful in stimulating the economy, it has also created inflationary concerns which have impacted all aspects of the City. Geopolitical concerns surrounding the invasion of Ukraine by Russia has heightened the concerns of a slowing economy due to higher-than-normal energy prices and supply issues across the globe. The City is anticipating lower growth for the rest of the current year and FY2023. Additional resources are proposed in FY2023 to help mitigate the increased costs of supplies and materials due to rising prices. The City continues to live within its means and is well positioned moving into FY2023.

Moody's Investor Service, the City's bond credit rating service, reaffirmed the City's general obligation credit rating as Aa1 in its December 2, 2021, 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, 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 with City Council direction to reasonably offset this economic sensitivity.

Economic Development

Springfield continues to experience exceptional retail sales and strong progress in the area of economic development. Costco opened in August 2021, a 160,000-square-foot wholesale and retail general merchandise facility, bringing 125+ jobs and average retail sales of \$217 million annually. Envoy Air (American Airlines) opened a new 60,000-square-foot aircraft maintenance hangar (MRO – maintenance, repair, overhaul) for the larger Embraer E-175 aircraft. The facility was constructed by the Springfield-Branson National Airport and leased to Envoy Air for 20 years (with two additional 5-year renewals), saving 75 quality jobs and ensuring SGF remains key to American Airlines routes. Hy-Vee opened its second store, a 94,000-square-foot "reimagined flagship" grocery store that includes a large open dining area as well as pub with a full bar, several fast-casual concepts and outpost of Wahlburgers. The Hy-Vee location brings 600 new jobs and average retail sales of \$42 million annually. CoxHealth Super Clinic opened at the corner of Highway 65 and Battlefield Road, a 30,000-square-foot facility featuring urgent care, primary care, physical therapy, as well as on-site radiology and lab services. CarMax, the nation's largest retailer of used cars, opened a 5-acre used car lot, bringing 15 new employees. Air cargo volumes at the Springfield-Branson National Airport has increased 14% last year to 34,568,324. Bass Pro celebrated its 50th anniversary holding the Worlds Fishing Fair at their national headquarters in Springfield, bringing in hundreds of thousands of visitors and a significant economic impact that has not been quantified to date. The Enterprise Zone program assisted one new business and one existing business with \$7.1 million in capital investment creating 38 new jobs.

Several new developments are taking shape and will have a significant impact in the near future. The \$14.3 million expansion of Missouri State University Jordan Valley Innovation Center is well underway, a public-private partnership between the University and Vecino Group, with the City providing upgrades to nearby streetscape, stormwater, and sewer infrastructure. O'Reilly Hospitality is investing \$19 million in a redevelopment project, the Moxy Hotel, the historic Medical Arts Building in downtown Springfield. Brody Corners TIF was approved, which will facility funding for utility extension and roads to serve the new \$20 million commercial development in southwest Springfield being developed on an environmentally contaminated former mobile home park. Buc-ee's is building Missouri's first location in Springfield, a 53,000-square-foot travel center with 175-225 employees, an estimated 6 million customers and \$30 million in retail sales (non-gas) annually. Sports Town Soccer Complex (SGF Sports) is an indoor/outdoor venue offering 12 outdoor fields, including 4 turf fields and a 90,000-square-foot indoor facility featuring four basketball courts as well as 2 indoor soccer fields.

Fiscal Management FY2022 – General Revenues

For FY2022, sales tax revenue was budgeted 10% higher than FY2021 sales tax. With the infusion of trillions of dollars of stimulus monies provided by the Federal government, sales tax is exceeding the original budget projection by 15% (\$6,560,000). FY2022 sales tax is projected to be \$54.7 million.

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 significantly from last year. FY2022 use tax was budgeted at \$5.1 million and is projected to exceed last year at \$6.5 million, approximately \$1.4 million 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 increase in the near future. Senate Bill 153, commonly referred to as *Wayfair* (online use tax collections), was signed into law and will increase use tax collections from online retailers who sell and deliver more than \$100,000 in tangible goods to the State beginning in January 2023.

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. PILOT revenue has increased this past year due to the increased cost of natural gas used in the production of electricity and use by customers. In addition, the City continues to receive recovery of the excess costs of natural gas during the February 2021 extreme weather event. Revenue from PILOT's for FY2022 is projected to be \$17.2 million, or \$1.3 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 ten years, resulting in a loss of revenue of \$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 legislation noted above, *Wayfair*, eliminates 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. FY2022 gross receipts is projected to generate \$4.5 million. The remainder of the City's taxes are projected to total \$800,000.

Licenses, fines, and other fee-based revenues are meeting the budget estimates and are very similar to FY2021 actuals, generating \$8.1 million in revenue.

FY2022 remaining resources including transfers, reimbursements and other revenue, is expected to generate \$4.1 million, similar to budget. Total General Fund revenue is projected at \$96 million for FY2022, approximately \$8.9 million higher than budget.

The City continues to provide 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 \$14.5 million received versus \$11.9 million budgeted. Total revenue for the first quarter exceeded budget by approximately \$3.4 million. This positive outcome was much better than anticipated, along with the better-than-expected 4th quarter sales tax collections for FY2021. 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 4.0% across-the-board increase.

The City's second quarterly revenue update for the General Fund has continued to provide positive revenue trends. After amending the budget for the increased sales tax collections, total revenue exceeds budget expectations by almost \$5.0 million for both quarters. These trends are continuing into the third quarter of FY2022.

Revenue Outlook FY2023

We do expect growth in the retail sector to level out as we move thru the next year. Inflationary pressure, higher interest rates, and geopolitical concerns will impact retail sales. Overall sales tax growth is projected to remain positive at 2.25% (this represents a 14.4% increase from the FY2022 budget for sales tax). Use tax is projected to increase significantly in FY2023, as a result of the *Wayfair* legislation approved by the State of Missouri. Use tax is projected to grow by 12% in FY2023. PILOT revenue is projected to remain steady, an increase of approximately \$1.3 million from the FY2022 budget due to increased cost of natural gas used in the production of

electricity and use by customers and the current portion of the natural gas recovery (\$500,000) from February 2021 extreme weather event.

Gross receipts tax revenues on telecommunication and cable television will continue to be impacted in the future. Effective August 2023, the cable television service provider tax of 5% will be reduced by one-half percent each year for five years. Licenses, fines, and other fee-based revenues have met budget expectations for FY2022 and are anticipated to remain steady in FY2023. Total revenues are expected to generate \$98 million, up from \$87.1 million budgeted in FY2022. This represents a 12.5% 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 \$1,760,000 increase), the 1/8-cent Transportation Sales Tax (approximately \$880,000 increase), the Police-Fire Pension Sales Tax (approximately \$6,055,050 increase), the Law Enforcement Sales Tax (approximately \$1,269,695 increase), and the Springfield-Greene County Park Board (approximately \$1,692,105 increase).

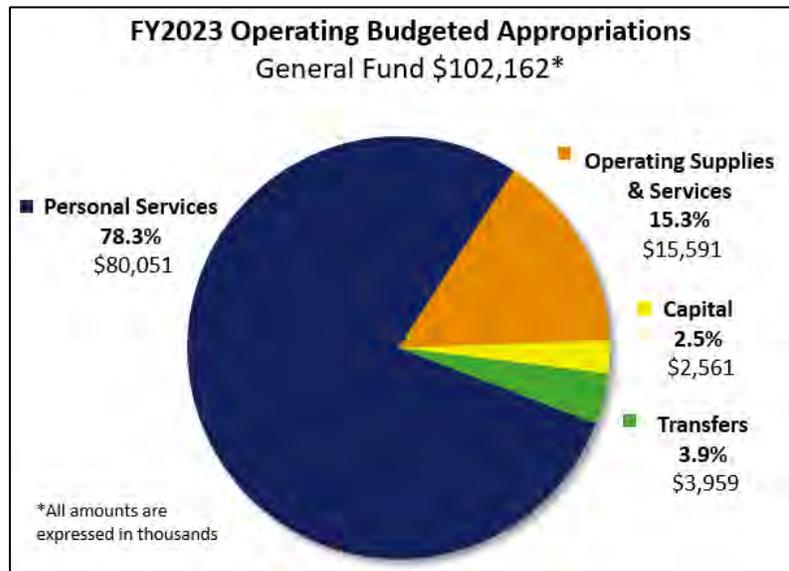
Property tax provides a stable source of revenue for the Springfield Art Museum, Springfield-Greene County Park Board, the Springfield-Greene County Health Department, and for voter-approved municipal purposes, city facilities, and public safety initiatives. Although property tax revenue does not typically show significant growth, the stability of this revenue source adds a small level of diversification to the City's revenue sources. In FY2023, property tax is expected to generate \$23.1 million. This represents a 3.3% (or \$631,000) increase from projected FY2022 revenue.

Expenditures

The focus of this budget is to address City Council's priorities, employee recruitment and retention, the impact of inflation, and critical on-going needs of positions and supplies. In addition, infrastructure and unfunded maintenance needs are proposed to be funded by carry-over funds.

In support of employee recruitment and retentions, I am proposing to fund all requested career ladder advancements throughout the City.

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, ongoing funding has been set-aside in the City Manager's budget for pay plan improvements for all city employees. This set-aside includes 67% of new money available for pay plan improvements. 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 FY2023 budget includes restoration of the Workers Compensation rate transfer to help restore some significant claims over the past year and a partial restoration of the General Liability rate transfer which were both reduced during the pandemic.

The FY2023 budget reflects a total of 2,063 FTE's. This is an increase of 103 FTE's from the FY2022 budget. A total of 51 FTE's was added in FY2022 with City Council approval. Two FTE's (the Director of Economic Vitality and a legal technician in the Law Department) were new positions, the remaining forty-nine (49) positions were the conversion of long-term contract employees to FTE's in order to prioritize the need for their services and stability in staffing. In addition, a total of 52 new FTE's are being proposed in FY2023, 2 FTE's in the Airport Funds, 10.75 FTE's in Public Works (Transportation and Project Funds), 8.5 FTE's in Environmental Services Funds, 15 FTE's in Parks Funds, 15.25 FTE's in the General Fund, and .5 FTE in Emergency 911 Fund. A total of 11 of the new FTE's in FY2023 are also the conversion of long-term contract employees to FTE's.

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 FY2023 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 FY2023, 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. The City anticipates issuing a second round of LPT special obligation bonds in early calendar year 2023 to continue progress and improvements to Historic City Hall, a new Animal Shelter, a new Public Works Grounds Maintenance Building, reconstruction of an existing fire station and improvements to existing fire stations. 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 FY2023 the City is entering the tenth 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. With the planned

increases for both the workers' compensation and general liability insurance funds, the City will 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.

The City continues to evaluate the potential uses of the American Rescue Plan Act funds (ARPA). To date, City Council has approved approximately \$6 million in public safety retention payments and up to \$8 million in COVID-19 health related expenses of the \$40.3 million allocation from the Federal Government. The U.S. Department of Treasury has issued the Final Rules on APRA funds, which can be used under the following general areas:

- Replacing lost public sector revenue
- Responding to public health and economic impacts of COVID-19
- Premium pay
- Water and sewer infrastructure
- Broadband infrastructure

Non-General Fund Highlights

Enterprise Funds:

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

In 2021, the City filed a Second Amended Consent Judgement with the Missouri Department of Natural Resources (MDNR), resulting in a supplemental Overflow Control Plan. This plan outlines how the City will invest a total of \$300 million over a 15-year period in an effort to reduce Sanitary Sewer Overflows and improve water quality in the region. This approach will allow the City to maintain compliance with the Federal Clean Water Act, while maintaining wastewater rates that are affordable to our citizens and competitive with the industry.

Operationally, Environmental Services is requesting 8.5 additional FTE's. Six positions are requested from the Clean Water Services Fund (Sanitary Sewer System) to improve operations and ensure compliance with the Supplemental Overflow Control Plan. One position will be cost-shared with Public Works to increase the capacity of our right-of-way staff to accommodate the increased number of CIP projects. One position will be added to the department's financial staff to increase capacity for the increasing financial activity. Finally, one position will be added within the Solid Waste Fund (Integrated Solid Waste Management System) to provide better customer service and accommodate the recent increases in Landfill customers.

Springfield-Branson National Airport

The goal of the proposed 2022-2023 budget for the Springfield-Branson National Airport (Airport) is to continue with conservative budget assumptions, while starting to build back maintenance and capital items from earlier cuts done at the beginning of the pandemic. The proposed operating budget of \$18.1 million is up 9% from 2022, reflecting continued recovery in aviation activity and key revenue sources like auto parking and car rental concessions. As the terminal and other facilities age, the need for added maintenance to maintain the assets long-term is key for future growth. To keep up with growing demand, the budget includes a major remodel and

expansion of the General Aviation Terminal. All upcoming debt service requirements are covered in the budget and federal funds are not used for operational expenses.

Special Revenue Funds:

Springfield-Greene County Health Department

Over the past year, the Springfield-Greene County Health Department has balanced a robust response to the ongoing COVID-19 pandemic and provided comprehensive public health services to the community. This has been possible due to substantial increased funding from multiple sources to aid in the department's response to COVID-19, as well as stable funding from local sources including Springfield property tax, Greene County, and fees and services. With the disease being considered endemic in Missouri, the department will continue to leverage a stable response to limit the virus' impact within the community, while beginning to prioritize other pressing health concerns. While the FY2023 budget does not include any increases in positions, the department continues to adapt to changes through organizational restructuring, providing increased expertise and capabilities to improve the community's health.

Springfield Greene County Park Board

Throughout the many challenges the COVID-19 pandemic imposes 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. One of the biggest challenges Parks has faced has been the shortage of available staffing for some of our key programs and facilities, particularly with outdoor pools. As a result, Parks staff is working to address those specific staffing needs with the FY2023 budget and aquatics section wages have been increased accordingly.

Through 2021, the Parks department continued to see record-setting use level 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 capital component of our 2006 Parks Sales Tax Initiative ten years ago, 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. The Park Board members and staff will continue to have critical conversations with the community regarding the inability to successfully address our growing financial liabilities and park system expectations.

Despite the ongoing pandemic and budgetary constraints, there are many good things to look forward to with the coming fiscal year. With significant financial support from the City of Springfield, renovation efforts at the Cooper Park/Lake Country Soccer facility should move forward in FY 2022-23. The City and Springfield-Greene County Park Board also partnered to acquire the four multi-court Fieldhouse SportsCenter facility this past year. Additional restoration efforts for the Killian Softball Complex, Cooper Baseball Complex and Spokes BMX Track are also critical and pickleball continues to be an emerging sport with growing demands and expectations.

Parks converted 18 contract positions to FTE status during FY2022 and is requesting to convert an additional nine contract positions in FY2023. Conversion of these positions will help maintain consistent operations within the Parks system and is consistent with the use of these employees. Six additional positions are requested among recreation, operations, and park ranger staff.

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 year budget totaling \$1,760,000 for the 1/4-cent Capital Improvements Sales Tax and \$880,000 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 FY2023 budget, with 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, there is 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 FY2023 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,



Jason A. Gage, ICMA-CM
City Manager