City of Springfield, Oregon
Long Term Financial Strategies Study

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Introduction and Executive Summary

Cities in Oregon have for many years experienced cost increases that exceed the rate of inflation. These increases, which include PERS premium increases and compensation costs that are heavily influenced by Oregon's Public Employee Collective Bargaining Act, are largely out of the city's control. More recently, high inflation and general supply chain issues have put pressure on all costs. City populations have grown, service demands have increased, the state and federal governments have imposed unfunded mandates, and services have become more complex and specialized.

At the same time, revenues have not kept pace. Property tax growth is constrained by the 3% assessed value limit and tax rate caps imposed by state law. Many alternative revenue sources are preempted or prohibited by state law or face practical limits due to Oregon's referendum process.

The City of Springfield has not been immune to these trends. The 2024-25 Budget Message states: "Although the addition of ARPA funding created a short-term buffering effect, for the long-term, the City of Springfield's structural imbalance within its General Fund remains. The City has retained the Center for Public Service (CPS) at Portland State University to research the fiscal stability of the City and make recommendations to address this issue."

The CPS research team analyzed financial data contained in some 7,000 revenue and expense line items in the city's general ledger, reviewed budget and financial report data, and interviewed department heads and members of the city council. The goal has been to identify possible strategies for long term fiscal stability, identifying options on both the revenue and expenditure sides.

We found that the City of Springfield is financially well-managed and years of belt-tightening have resulted in fairly lean operations. Even with the police and fire local option levies, the total property tax rate is comparable to, if not lower than, that of similar cities in the region. As with most cities, police and fire costs account for the majority of general service expenses. Springfield is a bit unusual in that it operates a city jail and does its own emergency dispatching; most cities in Oregon rely on the county jail and contract with a county or intergovernmental agency for dispatch services. But in spite of this, the total annual cost of operating the police department is comparable to that of other cities.

Development review is nearly self-supporting and could be made fully self-supporting fairly easily (although with only a minor effect on the general fund balance). Though in theory the library could be self-supporting, it generates very little user fee revenue. But the service is popular, and its net cost makes up only 5% of general fund expenses.

In short, the low-hanging fruit has already been picked. We do make some recommendations, and offer additional options for the city to consider, but none of them involve easy decisions.

Recommendations

Revenues

Consider implementing a payroll tax. The City of Eugene has a payroll tax, and many people cross the city boundaries to work. A similar payroll tax would ease pressure on the property tax that makes up most of general fund tax revenue. That tax could be a simple fixed percentage on payrolls of businesses within the city limits, dedicated to public safety, and could be accompanied by a reduction in one or both of the police and fire local option levy rates. The primary advantage of this revenue source is that, compared to property tax, it would be more responsive to changes in the inflation rate. Pros and cons of this recommendation are outlined in the section on general fund revenues and options.

Consider a street utility fee. Many cities in Oregon backfill declining state gas tax revenue with a street utility fee.

Pursue full cost recovery for development review. An earlier analysis by the Center for Public Service found that the community development department could fully recover its costs without a substantial increase in fees. But this study did not take into account costs incurred by other general fund departments or programs (primarily engineering). In a seller's market, recovering these costs should not increase the cost of housing because sellers are charging as much as the market can bear, regardless of actual cost. (See Community Development.)

Consider, where possible, charging for library services. Basic services, such as use of the library space and checking out a reasonable number of items per month, could continue to be provided at no cost to the users. See Public Goods, Private Goods, and User Fees and the section on Library options. Library costs are, however, relatively small compared to police and fire costs, and this recommendation may not be worth the time and effort.

Expenditures

Create, or annex to, a fire district. A study currently underway is an analysis of alternative governance structures for fire service in Springfield and Eugene. Subsequent to passage of Ballot Measure 50, several cities in Oregon have annexed to a fire district to relieve their general fund of the cost of providing fire and EMS service. See Fire & Rescue discussion.

Eliminate staff activities that aren't essential. This probably won't reduce expenses much, but will increase staff productivity and job satisfaction. See General Opportunities for Increased Efficiency.

Pursue alternatives to incarceration and seek contracts with other agencies for use of available jail capacity. The availability of the jail and the city's willingness to use it serves, at least in theory, as a deterrent to crime. Where non-incarceration alternatives (restitution, probation, diversion programs) have a similar deterrent effect, the city would be better off financially to let other jurisdictions pay for most of the jail capacity. See the discussion of Police costs and options.

Middle and Longer Term Strategies

The most significant factor in balancing general fund revenues and expenditures is one that is completely outside the city's control: reducing the overall inflation rate to a level below 3% per year. The trend is now heading in the right direction, but as of this writing the rate is still above 3%.

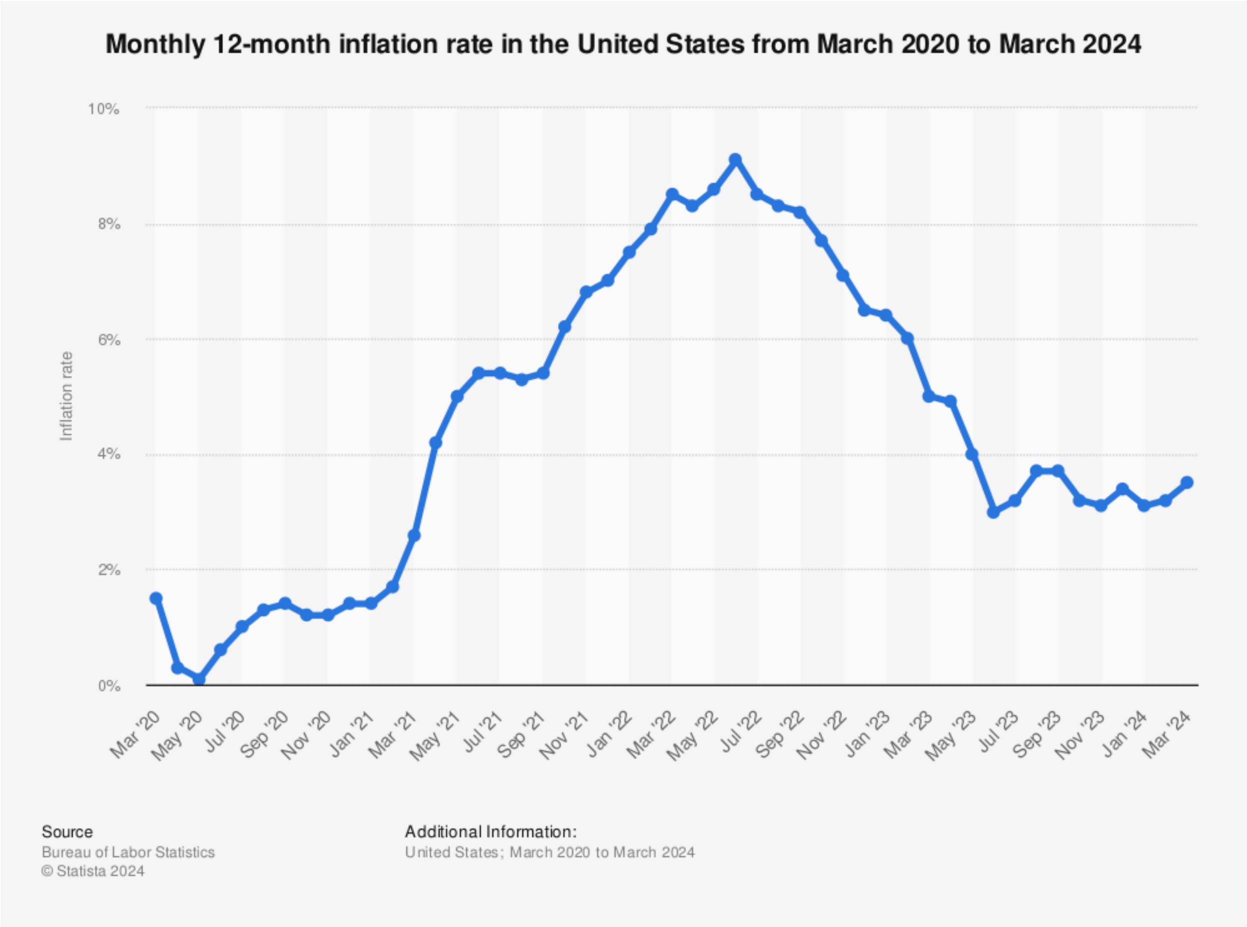

Figure 1: Annual Inflation Rate 2020-23

Many other factors are beyond the city's control. They include the practical impossibility of assessing a general sales tax and the tight labor market.

Much of the challenge in balancing the budget is a direct result of state law: limitations and preemptions of revenue sources, service and activity mandates, and laws that increase city costs. The City of Springfield alone cannot change these, but collectively Oregon cities may be able to prevail upon the legislature to provide some relief. See the [suggested changes in state law] for specific recommendations.

There are some actions the city could take beyond direct revenue increases or service reductions that might improve long term fiscal sustainability.

Use "Expenditure Control Budgeting"

A request-based budget process often results in the appearance of a structural budget deficit. Adopting an updated version of Expenditure Control Budgeting, advocated by Osborne and Gabler in their book, *Reinventing Government* in contrast enlists all general fund operating managers in the challenge of aligning service costs with available revenue. An added benefit is increased job satisfaction for managers and staff. See Budget Process and Finance Policies for a more detailed discussion.

Longer Term Strategies

While they would not alleviate current budget challenges, some strategies discussed in this report could offer long term financial benefits. Expanding the tax base through additional commercial and residential development could spread costs over a larger base. There could be environmental and quality-of-life implications of this, however, and current residents may not feel it is worth the financial benefit.

The use of urban renewal districts provides both medium term benefits through a source of funds for infrastructure investments and long term benefits when the expenditure limit is reached and the district expires. Even using very conservative estimates for assessed value growth, the downtown urban renewal district will add over a million dollars to annual property tax revenues in around twenty years, based on current tax rates for the base and local option levies. Increasing the debt limit for the Glenwood district and possible creation of additional districts could spur private investment that could have a similar benefit to the city's long term property tax revenues, as well as those of the overlapping tax districts.

Organization of the Remainder of the Report

The major sections of this report are organized as follows:

- A Financial Analysis section provides an overview of major general fund expenditures and revenues, based primarily on actual data from FY 2021-22. It begins with a look at general fund department and program expenditures, along with departmental revenues (e.g., user fees, fines, etc.). That is followed by a section on general revenues, focusing on Springfield data, but also discussing revenue sources used by other cities in Oregon.
- A discussion of possible expense reduction strategies.
- An exploration of long term strategies, including possible changes to state law.
- An exploration of options for user fees in areas where the city now uses taxes to support services that economists would classify as private goods.
- A more detailed discussion of Expenditure Control Budgeting and its possible implementation by Springfield.
- A brief conclusion, acknowledging the assistance provided by elected officials and staff of the City of Springfield.

Financial Analysis

The primary challenge faced by Springfield (and many other Oregon cities) is a mismatch between growth of tax revenues and the growth of expenditures for tax-supported services. State-imposed limits on local property taxes are manageable when the inflation rate is low, but they do not respond to higher rates of inflation, even when the market value of property is growing rapidly. Other general revenue sources, such as franchise fees and state-shared revenue, vary independently of changes in the cost of providing city services.

Using raw data provided by the Springfield Finance Department, the PSU-CPS research team explored the following questions:

- Which broad categories of city services place the highest demand on taxes and non-dedicated revenues?
- Which services are most dependent on general taxes? Or to put it another way, which are least able to recover expenses through user fees, grants, or other non-tax sources of revenue?
- How do costs for support services compare to the cost of the direct services they support?

Overview

Not surprisingly, police and fire services account for the largest demand on taxes and other non-dedicated revenues. The following chart shows the percentage breakdown of the net use of general revenues by the major general fund services.

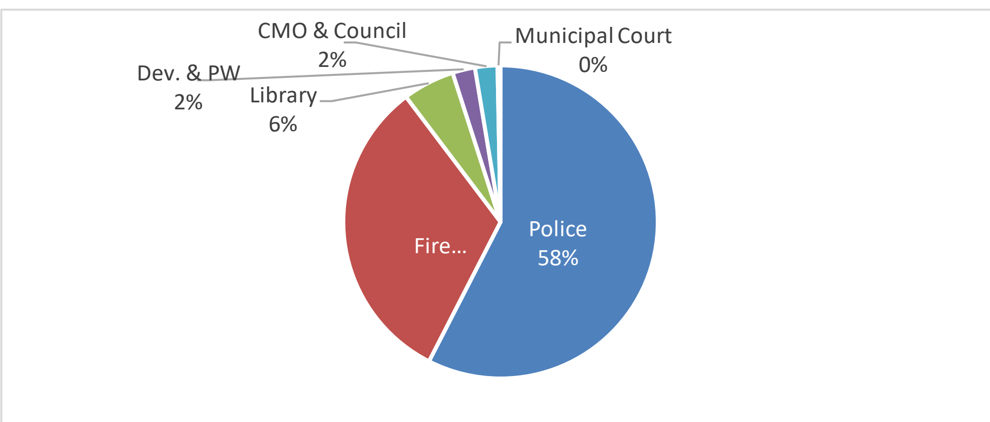

Figure 2: Use of general revenues

This chart is based on actual revenues and expenditures in the fiscal year that ended on June 30, 2022. Expenditures include an allocation of support service costs at an overhead rate of approximately 10%. Total expenditures are reduced by dedicated revenues such as fees and grants.

For this chart, the police and fire special levies are considered to be general revenues, and have not been netted out of the expenses, for these reasons:

- While it is true that the special levies are dedicated to their corresponding services, they do not come close to covering the full cost of either service. The levy covers approximately 27% of the total police cost, and 8% of the fire cost (13% when ambulance revenue is netted out).
- From the taxpayer's perspective, the two levies add to the general city operating levy as part of the total tax bill.
- The city could place a single special levy on the ballot for all general fund services that would raise the same amount of property tax revenue. Dedicating the levies to the popular services in effect means that more of the general operating levy is available to fund library, planning, and other services.

Transient lodging taxes are also assumed to be general taxes. The state-restricted share of the tax is allocated to some general fund services, primarily the library department (which includes the museum). But while the state does impose some restrictions on a portion of the lodging tax, it does not specify exactly how the money will be allocated. Funds used for one general fund service free up resources for other general fund services.

The city budget "by department" summaries show the total cost of police and fire services across all relevant funds, including the special levy funds and the ambulance fund. In the same way, the expenses (and netted-out revenues) summarized in the chart above include all related general governmental funds.

The chart below shows the relative dependence on taxes and other non-dedicated revenues by the major general fund services.

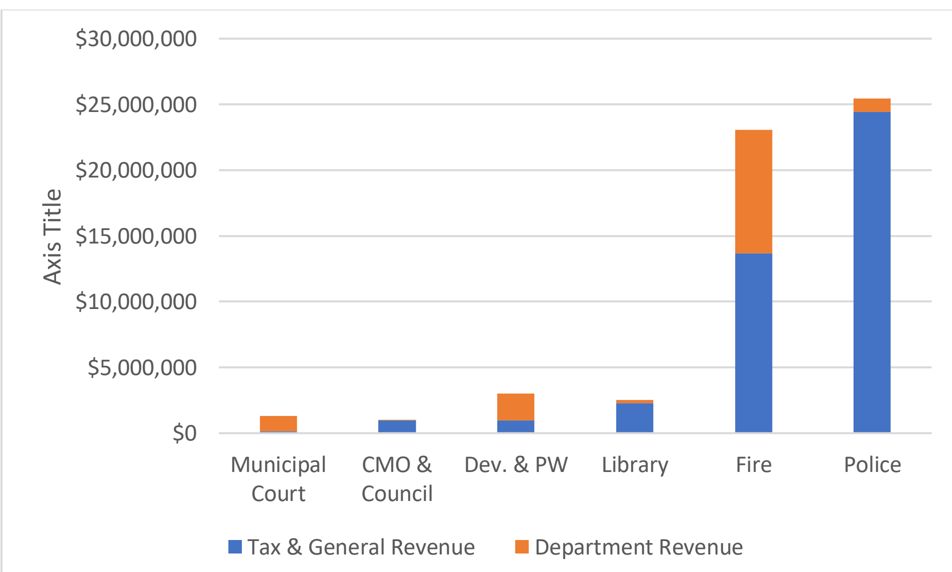

Figure 3: Dependence on General Revenue

In absolute dollar terms, the police department is most dependent on general tax and other non-dedicated revenues. In percentage terms, the CMO/City Council external (community-focused) services and the library are most dependent on general tax revenues, which cover over 90% of expenses.

The chart above treats the police and fire special levies as general taxes, for the reasons discussed earlier. If, however, they are considered to be dedicated (departmental) revenues, the dependence on other tax and non-dedicated revenue is shown below.

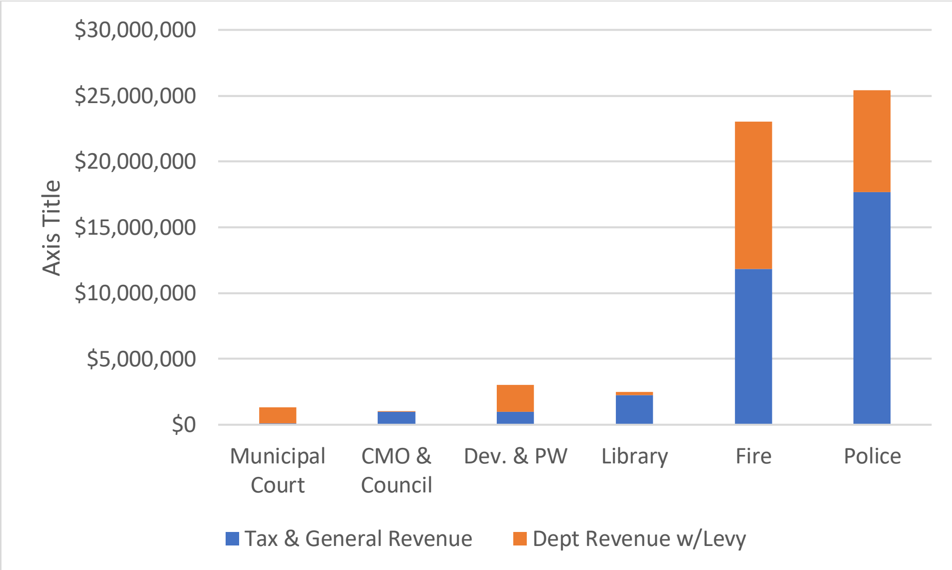

Figure 4: Dependence on General Revenue Excluding Special Levies

In absolute dollar terms, police and fire remain the most dependent on general revenues, but in this case 69% of police costs are dependent on general revenues vs. 96% when the special levy is considered to be a general revenue.

The following narrative provides a more detailed description of expenses and revenues for the major tax-supported services.

Police

Expenses

Total police expenses, including support service costs, amount to some $25.4 million per year. Patrol costs account for the largest category—41%—of police expenses. And like most city general fund operations, patrol is very labor-intensive. Personnel costs—salary and fringe benefits—make up 84%, or almost $8 million, of total patrol costs. In FY22, overtime salary made up 17% of total salary cost.

Patrol and ten other police programs together account for 90% of police expenses, as shown in the chart below.

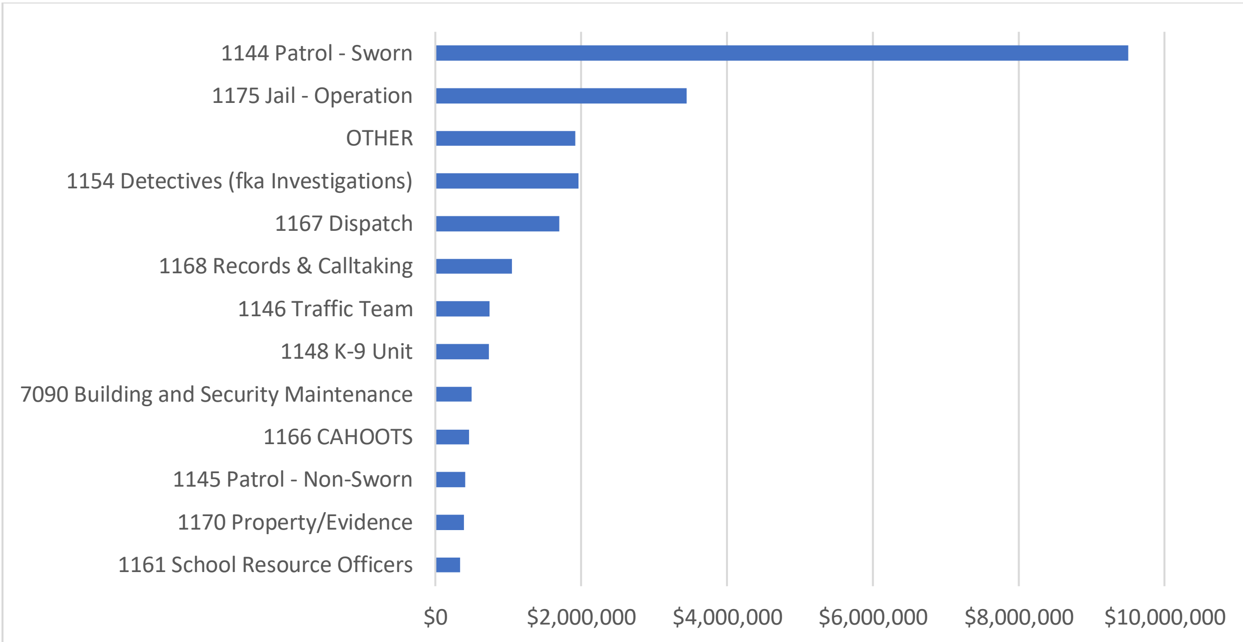

Figure 5: Police Expenses by Program

The “other” category includes fourteen other police programs, none accounting for more than 2% of total police expenses. These program costs range from the major accident investigation team (less than $2,000 in FY22) to hiring & professional standards (just over $350,000).

Revenues

Aside from the police special levy, amounting to some $6.7 million, the largest source of police revenue—over $500,000—comes from jail leases. The next largest source is school district payments for the school resource officer program, amounting to just under $200,000. The SRO program expense is accounted for as roughly $335,000, so the school district payment covers approximately 60% of the program cost. In FY22, grants accounted for in Fund 204, “Special Revenue” amounted to some $170,000.

A variety of other revenue sources account for a total of less than $130,000.

Fire

Expenses

Total Fire expenses, including support services, amount to some $23 million.

The following chart summarizes the cost of fire programs.

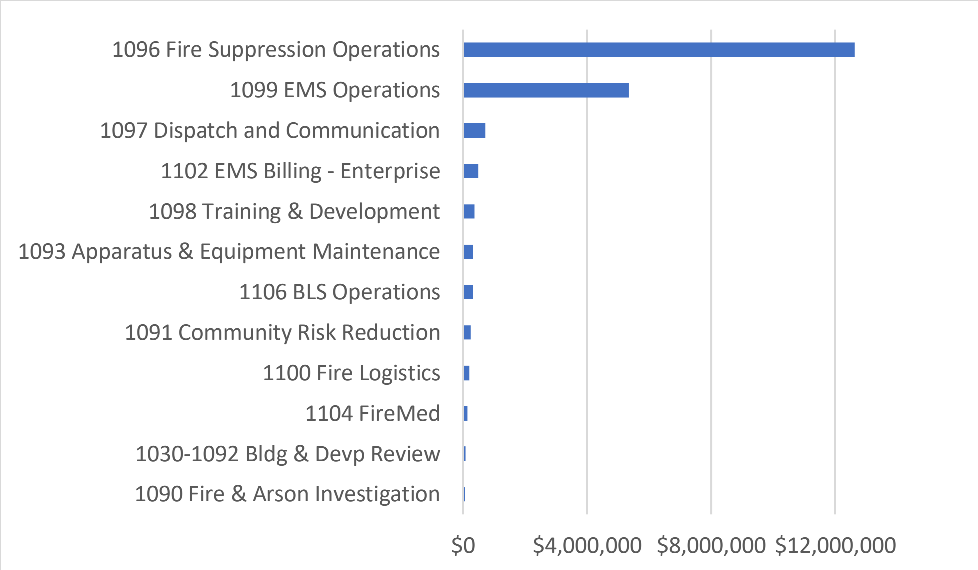

Figure 6: Fire Expenses by Program

Fire suppression operations account for some $12.6 million, or 60% of total department costs. The EMS operations program follows at 25% of total costs.

Outside these core services, other programs combined account for only 15% of total costs.

Revenues

While fire and life safety services are mostly dependent on taxes, there are two significant revenue sources besides the special property tax levy ($1.8 million in FY22). Service contracts with the Rainbow, Glenwood, and Willakenzie fire protection districts provide $1.7 million in revenues. Ambulance fees are a significant source of revenue, generating just over $7 million in FY22. Smaller sources of revenue include grants and permit fees.

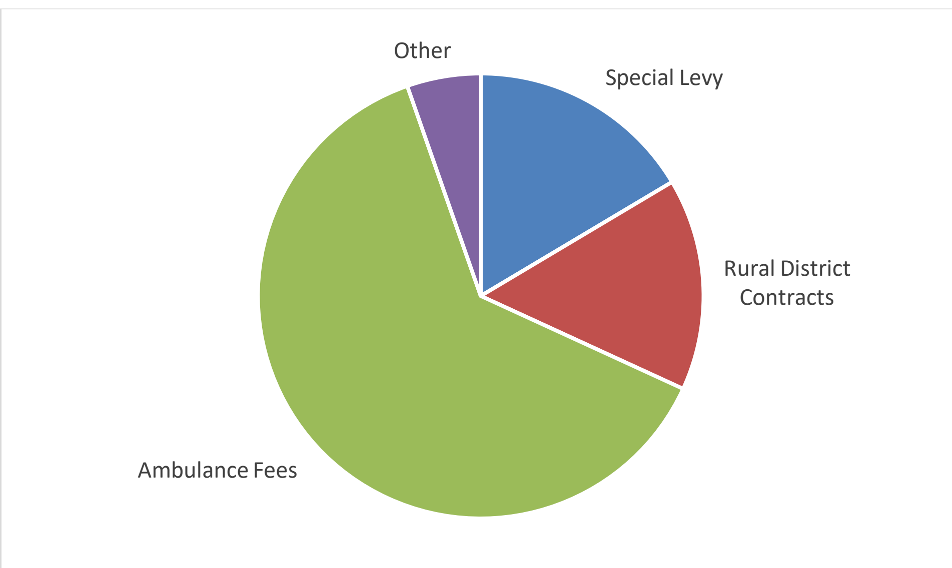

Figure 7: Fire Revenues

Library

Expenses

Library operations make up the majority (86%) of the expenses of the department. Purchase of books and other media ("library collections") make up 7% of expenses, and museum operations account for 3% of total expenses.

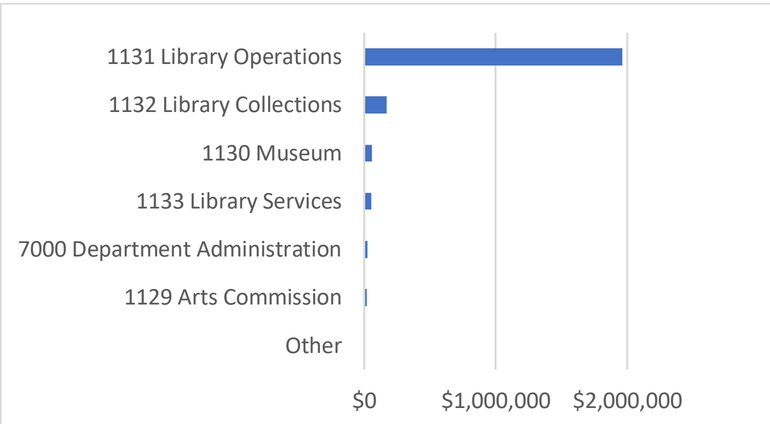

Figure 8: Library Program Expenses

Personnel costs make up most of the cost of total library expenses, at 78%.

Revenues

A revenue account called "library automation" makes up the majority (74%) of departmental revenues, which in turn support only 4% of the department's budget. Besides property tax and other general revenues, an allocation of the lodging tax provides 11% and grants and other special revenues provide 6% support for library expenses.

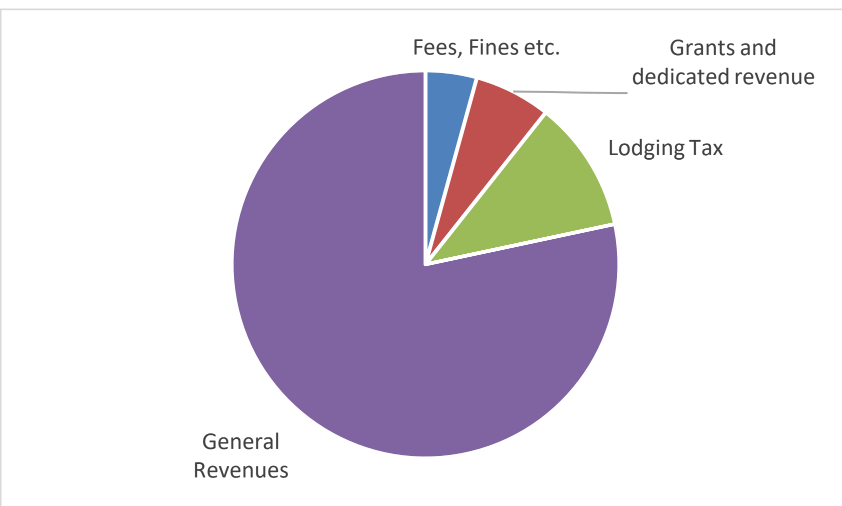

Figure 9: Library Revenues

Development & Public Works

By far the largest expenditures of this department are in special revenue funds (e.g., streets, building inspections) and enterprise funds (Stormwater and Sewer). Expenses allocated to the general fund fall into two broad categories: public works operations ($1.1 million, or 39% of the total) and community development ($1.7 million, or 61%).

Within the public works area, the majority ($0.8 million, or 72% of the public works total) is spent on city facilities operations. Most of the rest is vehicle and equipment services.

Within the community development area, $1.3 million, or 76% is spent on planning and development regulation. Development review itself accounts for $0.8 million, or almost half (46%) of the community development total.

Non-planning community development program expenses include code enforcement ($185k), business licensing ($70k), housing ($36k), and transient related issues ($35k).

The chart below shows the relative sizes of program expenses, split out by public works and community development services.

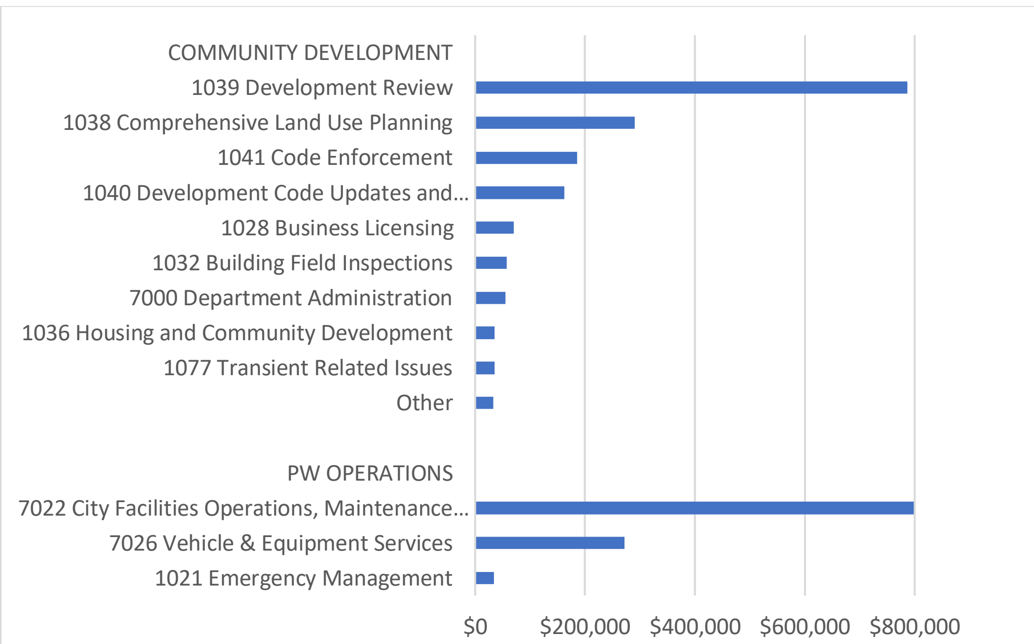

Figure 10: Development & Public Works Expenses by Program

Revenues

Almost three-quarters of the general fund development & public works expenses are offset by fees and dedicated revenues. Planning fees almost equal the expense for development review. Vehicle maintenance internal charges at $170k are 65% of vehicle and equipment service costs. Two other major sources of revenue—business license fees and right-of-way charges–are not directly related to expenses. The chart below shows the relative size of these revenues.

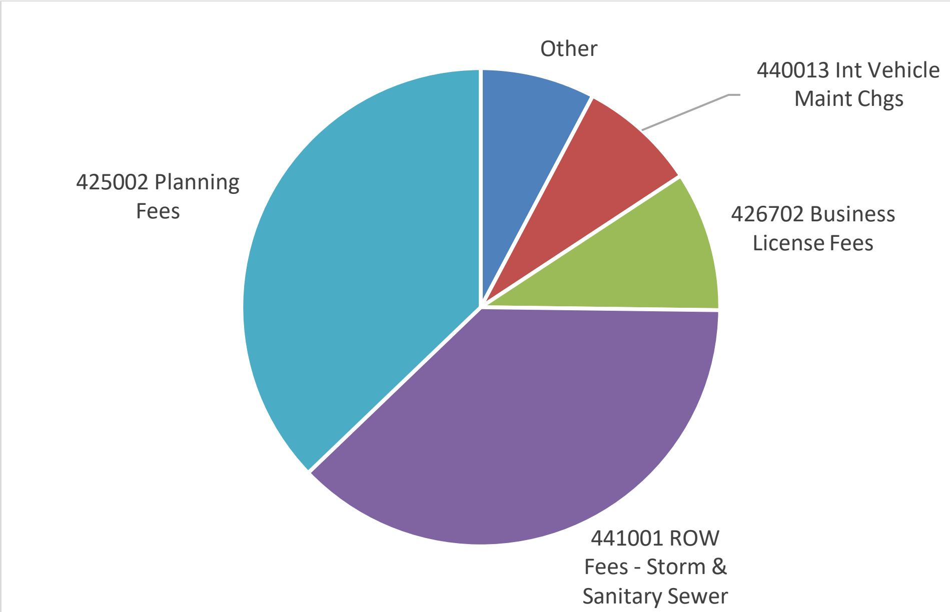

Figure 11: Development & Public Works Revenues

City Manager's Office & City Council

The staff of the city manager's office devote much of their time to the overall administration of the city government, and thus are part of general support service. But as in many cities, the city manager's office provides a variety of external community services that do not fit neatly into the other operating departments. And the primary focus of the city council is on the betterment of the community rather than the internal working of the city organization.

The chart below shows the relative size of these external expenditure categories.

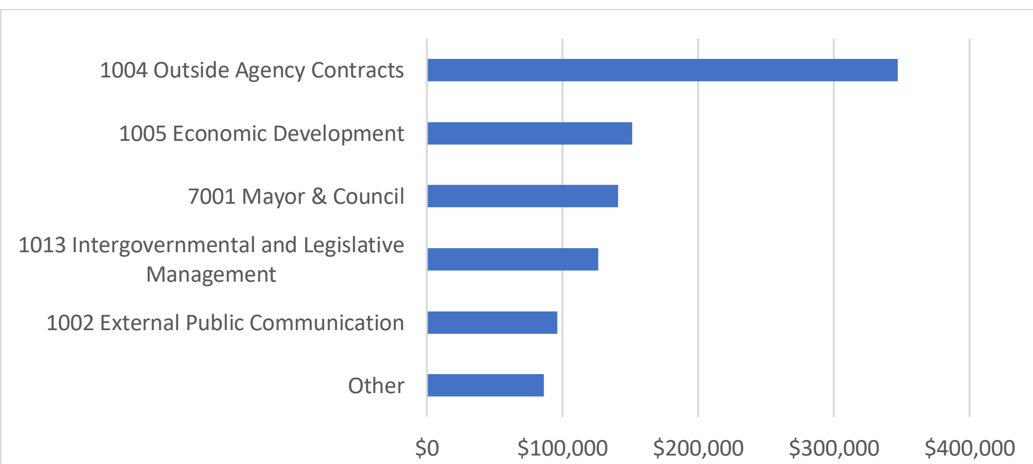

Figure 12: CMO Program Costs

The largest expense in the outside agency contracts is $160k for "intergovernmental human services." The second largest is $43k for League of Oregon Cities dues.

By their nature, these expenses are not supported by user fees or other dedicated revenues. There are, however, some $60k in cost allocations to other funds or departments that are shown in the general ledger as revenues.

Municipal Court

The cost of operating the municipal court is $1.2M in FY22. This expense is almost exactly matched by revenues—primarily fines and forfeitures—but this is a coincidence. Fines and forfeitures represent punishment for committing crimes and could be considered general revenues of the city. The cost of the municipal court makes up a share of the cost of bringing criminals to justice, but so does much of the cost of the police department and the prosecutor.

Support Service Departments

In a "program" budget such as the kind used in a PPBS (Planning-Programming Budget System) costs for support services such as HR and IT are fully allocated to direct services (e.g., police, fire) to more accurately show the true cost of providing services to the community. In that spirit, the total cost of direct services and their dependence on general revenues as shown above include an allocation of support service costs.

In reviewing general ledger expense data, it appears support service expenses are directly expensed, where possible, to other funds such as the utility enterprise funds. But they are not done so for the general fund direct service departments.

General fund support service costs total just under $5 million. This yields an overhead rate for direct services of just under 10%. Note: this assumes an allocation based on the relative size of expenses of direct service departments. More refined cost allocation models allocate some costs on a different basis; for example, HR costs may be allocated based on the number of employees in the various direct service departments. But since all the general fund direct services are labor-intensive, an allocation based on number of employees would not be much different from one based on spending.

Even in a PPBS system, governments do budget and track support service costs based on the organizational units that provide those services. The breakdown for Springfield is very typical of Oregon cities. The chart below shows the relative cost of the various support service functions.

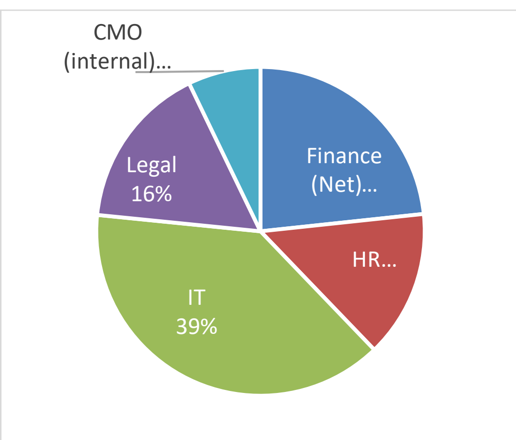

Figure 13: General Fund Support Service Expenses

IT

At $1.9 million, IT represents the largest support service expense. In its program breakout, IT identifies HR, criminal justice, and finance as the largest users of IT services, each in the range of 8% to 12% of IT expenses. The remaining 70% is allocated to shared systems, department administration, and other citywide costs.

Finance

Of the total $1.15 million in finance expenses, 60% is allocated to accounting and audit, and most of the rest is allocated to budget and procurement expenses.

Legal

Legal expenses of $802k are allocated to the city attorney function (64%) and prosecution (36%).

HR

Human resources costs total $710k and aren’t allocated to any specific HR function.

City Manager’s Office

Internal management costs of a net $350k are split roughly in half between two programs: “department administration” and “city-wide management and oversight.” Smaller amounts, totaling around 10% of total expenses, are allocated to city-wide employee communication and organizational development.

General Revenues and Revenue Options

The financial analysis above focuses on expenses and revenues that are attributable to specific general fund programs or services. User fees and other departmental revenue may cover some or all of the cost of the program or service. The gap, if any, is filled by what we will describe as general revenues. These revenues have relatively few restrictions on use.

Some general revenues, such as the fire and police local option levies and a portion of transient lodging fees, are taxes that are dedicated to particular services. They are considered general revenues here because they are taxes that allow a portion of the general (non-dedicated) property tax operating levy to be applied to other general fund services.

The chart below shows the relative size of the major general revenue sources for the City of Springfield, based on actual receipts in FY2021-22. It excludes business license fees and interest earnings, which together account for less than 1% of total general revenues.

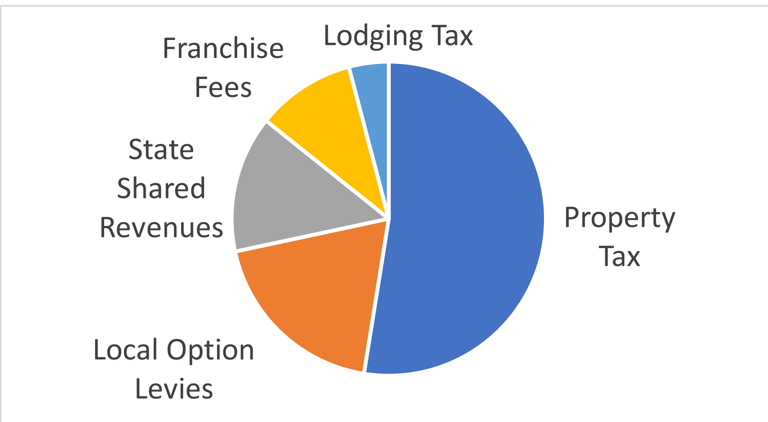

Figure 14: Springfield General Revenues

The discussion below focuses on general revenues, including those currently used by Springfield, those used by other Oregon cities, and those that are theoretically available but aren't typically used in Oregon.

Property Tax

Property tax is the primary source of general fund revenue for Oregon cities. It accounts for just over half of Springfield's general revenues (i.e., not including user fees and revenues limited to specific uses).

<u>Advantages</u>

- Relatively stable and easy to forecast.
- Some of the tax is exported to people outside the city (see the discussion on tax burden, below).
- Some (although tenuous) relation between tax amount and service benefits. Protection of property by police and fire departments has a higher value for higher-valued properties, and the owners of those properties pay higher amounts of property tax.

- Can be deducted from federal income tax for those who itemized deductions, although there is now a cap on the amount of state and local taxes that can be deducted.

Disadvantages

The primary disadvantages of the property tax are due to 1997's Ballot Measure 50. First, the measure arbitrarily froze the property tax rate at the level it was almost thirty years ago, when Springfield was still receiving timber revenue. Freezing tax rates at arbitrary levels has caused wide disparity in the tax rate between cities. The chart below shows the base tax rate for cities in the Springfield area.

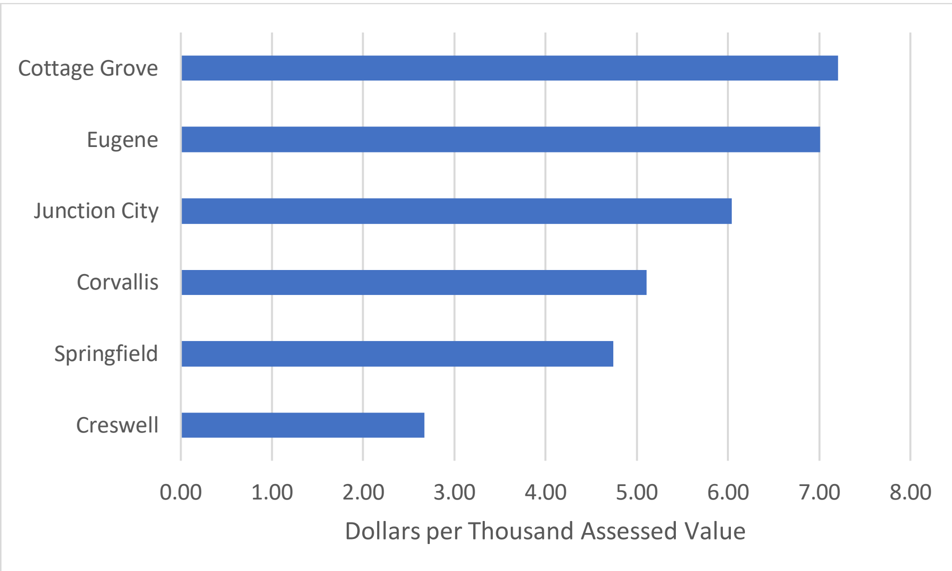

Figure 15: Base Property Tax Rates for Neighboring Cities

This comparison is, however, misleading because not all cities operate their own fire department, and instead are served by a "rural" fire district. The chart below includes the fire district tax rates where applicable. Conversely, most cities provide parks and recreation service through their general fund; in the case of Springfield, this is done through a special district, the Willamalane Park and Recreation District.

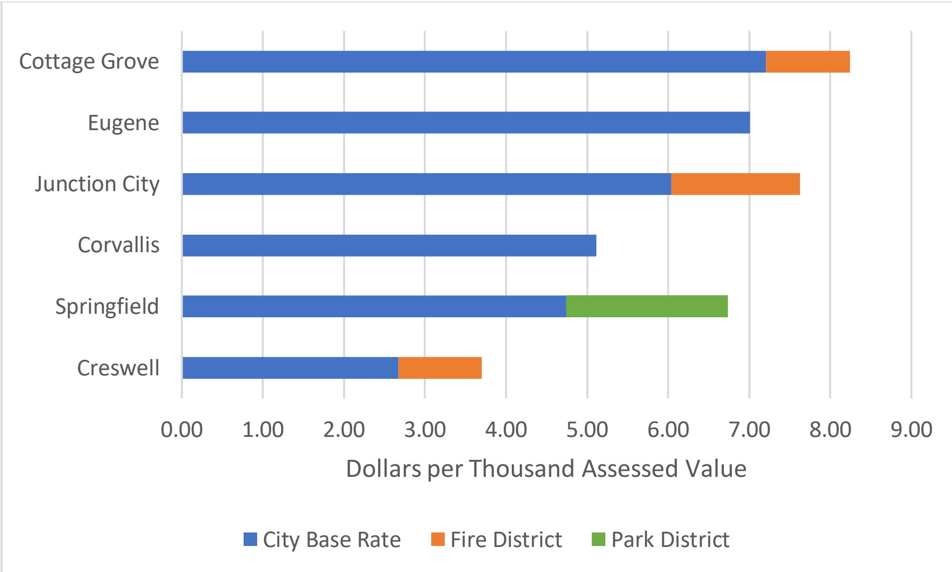

Figure 16: Property Tax Base Rate Plus Special District Rates

The second disadvantage caused by Measure 50 is that, for purposes of taxation, the assessed value of property is arbitrarily limited to an annual growth rate of three percent. The total levy can grow more than this if there is substantial new development, but in percentage terms, this is a more important factor in smaller growing cities like Happy Valley than for larger (and largely built-out) cities.

This limit was not as much of concern when in the years when inflation was low, but in the current era of high inflation, including wage inflation, property tax levies are shrinking in real (inflation-adjusted) terms.

Another disadvantage of the property tax is that, while the benefits provided by the tax are spread throughout the year, the cost appears in the form of a single large bill each November, in which city taxes are added to the taxes levied by the county, school districts, and other special districts. For property owners with a mortgage, the cost is typically spread out monthly through their escrow accounts, but they still receive an annual tax statement from the county treasurer.

On the other hand, many people who vote (i.e., renters) never see the property tax bill; the cost is hidden in their rent.

<u>Tax Burden</u>

On the surface, property tax is generally considered to be regressive. While higher income households do tend to own higher value homes, housing cost typically accounts for a lower share of income and property tax is also a lower percentage of income. Landlords generally try to recoup at least the annual expenses associated with the property, and therefore pass the property tax on to renters, who also tend to be, on average, lower income households.

On the other hand, residents of a city can receive a larger benefit—in the form of city services—than what it costs them in property tax because the tax is assessed on industrial and commercial properties. Contrary to popular opinion, businesses—being imaginary entities—never pay taxes. Taxes on businesses are paid by human beings, spread over owners of the business, employees, and customers. In the case of cities like Springfield, many of these people do not live in the city, and in effect subsidize those who do.

For more background on the property tax, see the report issued by the League of Oregon Cities.

Local Option Levies

Local option levies can offset the property tax disadvantages caused by Measure 50 since there is no arbitrary cap on the tax rate associated with the levy. Measure 5 does, in theory, set a limit because it puts a cap on total overlapping tax rates. But that cap is based on the ratio of the levies to **market value** rather than assessed value, and market values are now so much higher than assessed values that the Measure 5 cap is typically not a concern.

The chart below shows the total effective tax rate when the local option levies and fire district levies are added to the base city levy.

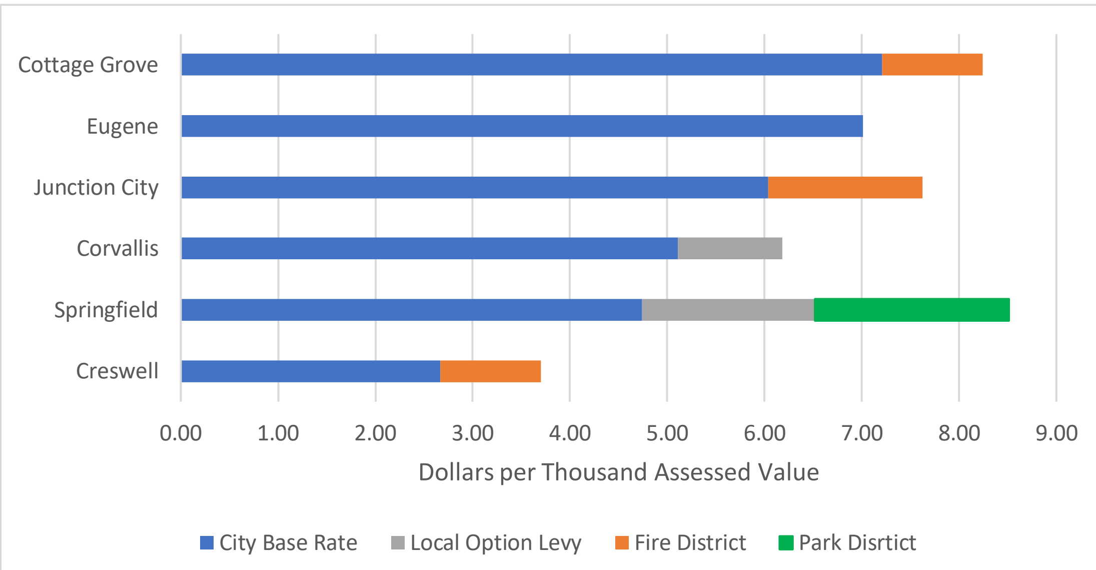

Figure 17: Base, Local Option, and Fire District Tax Rates

The local option levy must be approved by the city's voters. This is an advantage as a powerful form of public engagement in the city's financial management. But the primary disadvantage is that voter approval of the levy extends for no more than five years, making the local option a potential unstable source of revenue if the levies are not renewed. For Springfield, this could be a serious concern, since the fire and police local option ("special") levies bring in over $9 million/year, or 37% of the base property tax levy.

Except for offsetting some of the disadvantages of Measure 50, local option levies have the same advantages and disadvantages—and tax burden—as other property taxes.

Franchise Fees

Cities grant franchises to natural monopolies such as telecommunications and energy utilities and in return charge the monopolies a fee for the use of the public rights-of-way. The fee is typically based on a percentage—usually at or less than five percent—of the gross revenues of the utility within the city service area. In the case of electric and natural gas utilities, franchise fees can provide a source of revenue that grows in proportion to both population growth and inflation, although energy price inflation does not always coincide with the overall inflation rate as measured by the Consumer Price Index.

Some major utility services—electricity and water—are provided to Springfield residents by government entities (Springfield Utility Board and Eugene Water and Electric Board) rather than private companies. One local government can't legally tax another local government, but the governments can, by intergovernmental agreement, provide for the payment for use of the city's rights-of-way through a payment-in-lieu of tax. In Springfield's case, this is a significant source of revenue (almost $3 million/year).

Telecom utilities are another matter. Over the years, telephone and cable TV utilities have benefitted from federal legislation and court decisions that have meant that the revenues subject to city franchise fees are a diminishing share of their actual gross revenues. Landline telephones and cable TV are becoming obsolete technologies, and while phone and cable companies have more than made up for the revenue loss through internet service fees, the federal government has prohibited cities from charging for the use of their rights-of-way to provide these services.

Springfield's current franchise and utility license fees are:

- SaniPac - 7% of revenue
- Comcast - 5% of revenue
- Qwest/CenturyLink - 5% of revenue
- NW Natural Gas - 5% of revenue
- Sprint - 5% of revenue

These rates are typical for cities in Oregon and do not offer much opportunity for increases.

Many, if not most, cities charge their own water, stormwater, and sewer utilities for their use of the public right-of-way. Given that these utilities are treated like businesses (accounting for them in self-supporting "enterprise" funds), use of the real estate occupied by pipes is a legitimate cost of doing business.

The argument for not doing so is more of a political and policy question. Water and sewer fees can be quite regressive, both because the utilities account for a higher share of income for lower income households, and because cities often choose to assess a fairly high monthly fixed cost. This means that the effective unit cost (e.g., per gallon) is highest for those who use less of the service. Even where cities use a tiered "conservation" rate for their volume charge, the high fixed rates mean that households must use a very large amount of water (or generate a large amount of sewage) to begin paying more on a per-gallon basis than those who use little of the service. Seattle is one of the few cities that base sewer costs on a purely volumetric basis, with no fixed cost.

And for many residents, the "water bill" (often a bill that includes multiple service fees) is even more unpopular than the property tax. There can be strong political pressure to keep those fees as low as possible. Best practice is to make smaller annual adjustments to avoid the need to periodic large adjustments. The public, once accustomed to the practice, is generally more accepting of such rate structures, particularly those that are similar to the rates charged by comparable cities.

State-Shared Revenue

Oregon cities receive a share of some state revenues: fuel tax, marijuana, cigarette, and liquor taxes, and state 9-1-1 fees. The bad news for cities is that compared to some states, the relative amount of shared revenue is small, and the legislature is often tempted to keep more of it for the state, as has happened recently with the shrinking allocation of the marijuana tax. The good news for cities is that since the revenue source is relatively small, the harm caused by reduced allocations is limited.

Except for deciding to allow retail marijuana sales, there is nothing that individual cities can do to affect their allocation of state shared revenue. For a detailed analysis of these revenues, see the LOC State Shared Revenues Report.

Sales Tax

In theory, cities in Oregon can assess a general retail sales tax, but none do. This is at least partly due to the fact that this tax would be subject to referendum and would probably fail at the polls. And as a practical matter, a sales tax assessed by a single city would put the retail businesses in that city at a serious disadvantage.

Interestingly, the State of Oregon has yet to place restrictions on a local general sales tax, but that is probably because none exist. It has, however, placed restrictions on some targeted sales taxes that cities have adopted (e.g., lodging), and completely prohibited others (e.g., a sales tax on real estate).

Hospitality Services

Many Oregon cities assess a sales tax on lodging, called a "transient lodging tax," that was previously limited to hotels and motels but more recently extended to short term rentals. In theory, a city like Springfield could generate additional general fund revenue by raising the tax rate, which is currently 4.5%**.** But there are two practical problems with this.

First, lodging is a fairly competitive industry, and an unusually high total tax rate would put the local industry at a disadvantage. In the last few decades, counties have begun assessing a lodging tax, and the state government has joined in, initially at a rate of 1% and now 1.8%. This has placed a lower practical limit on what a city can reasonably assess.

Second, by state law, only thirty cents of every dollar of an increased lodging tax can be used by a city for general city services. The other 70% must be used for tourism promotion or tourism-related facilities. In some cases, this can help cover the cost of services the city might provide anyway (such as operating a museum). Tourism promotion can provide indirect benefit to residents (e.g., through employment and broadening the tax base), but the community and city council might put a higher priority on other city services were it not for the state requirement.

In addition to lodging, the Cities of Ashland and Yachats assesses a tax on restaurant sales. Both cities are relatively isolated from other cities, and are a destination for visitors; thus the cities are able to export a portion of the tax.

Fuel

Many cities assess a tax on fuel sales (typically referred to as a gas tax). This can be of indirect benefit to the general fund, to the extent that general revenues are used to support the cost of street maintenance and operations. The City of Springfield currently levies $.03/gallon and the City of Eugene levies $.05/gallon. Springfield could increase its fuel tax by $.02/gallon to match Eugene's rate. But since 2009 the state government has required cities to put fuel tax increases on the ballot. Given the declining gasoline sales and the relatively small amount that would be raised by this increase, it probably wouldn't be worth the political capital to put it on the ballot.

Income Tax

Local governments in Oregon can assess an income tax, but few choose to do so. The disadvantages of a local income tax include the fact that, by national standards, the state's income tax rate is already quite high, and the difficulty of administering an income tax separate from the state or national tax systems.

Metro assesses a 1% income tax for "supportive housing services." Multnomah County assesses an income tax, currently ranging from 1.5% to 3% of income, for its "Preschool for All" program. The taxes are based on income as reported to the state, along with specific income thresholds. Both taxes are administered by the City of Portland, which has faced some difficulty in getting people to actually file and pay the taxes.

The City of Portland also levies a tax to support the arts. While lower income households are exempt from the tax, it isn't technically an income tax but instead a flat tax of $35 per resident. Challenges in getting residents to pay the tax led the city to hire a private collections agency, which hasn't endeared the city government to some of its residents.

Payroll Tax

Payroll taxes are more commonly used by local governments in Oregon, especially by those that provide public transit service. TriMet in the Portland area has used a payroll tax to subsidize the cost of its service for decades. Employers in Springfield are subject to the Lane County Transit District's payroll tax rate, currently set at 0.78% of gross wages. The State of Oregon also imposes a 0.1% payroll tax statewide for public transportation. The Salem City Council adopted a payroll tax to fund general fund services earlier in 2023. It was the subject of a referendum election in November that resulted in over 80% voters choosing to repeal the tax.

The City of Eugene now assesses a payroll tax to support community safety. Unlike the typical transit taxes that use a single flat percentage rate, it is a graduated rate that fully exempts lower wages (currently corresponding to an annual income of under $29,557). In a narrow band (currently between annual wages of $29,557 to $31,221), the rate is 0.3%; otherwise the rate is 0.44%. Those amounts are theoretically withheld from employee pay (the discussion of tax burden, below); an additional 0.21% is paid as an employer payroll tax.

Compared to income tax, the payroll tax is relatively easy to administer. It is based on wages and salaries only and is paid by employers as part of the payroll process. Most larger employers use some form of software or service to generate their payrolls, and once the various taxes and withholdings are programmed, payment of the payroll tax is done automatically.

Tax Burden. On the surface, the payroll tax in most cases is paid by employers. The TriMet payroll tax, for example, appears on employee pay stubs as an amount paid by the employer and not the employee. But one could argue that the tax increases the total cost of compensating employees, and employers might in practice offset the cost by reducing overall wages. This could be the case in an era of high unemployment (a buyer's market for labor) but probably not for the current era in which employers find it difficult to hire and retain workers.

As noted above, a portion of Eugene's payroll tax is attributable to the employee, and the tax reduces the employee's net pay. But the tax is still calculated and paid by the employer and the employee only sees it when he or she examines the pay stub. Employers can offset it by increasing wages, which they might be prompted to do in a tight labor market.

As with other taxes on businesses, a payroll tax paid by the *employer* gets passed on to some combination of owners, customers, and employees; depending on the nature of the business, much of this tax is exported; that is, the tax burden doesn't necessary land on Springfield residents.

A payroll tax paid by the *employees* of businesses located in the city is partially exported, given that many employees live outside the city. Even if the rate is graduated, it is still regressive because wealthier residents gain a larger share of their income through investments and transfer payments (social security) that aren't subject to the payroll tax.

Revenue Performance and Stability. Unlike property taxes in Oregon, both income and payroll taxes can increase in response to higher levels of inflation. Given that the primary cost for city general fund services is labor, income or payroll taxes levels can vary closely with the cost of providing general fund services, at least as far as inflation is concerned. And for cities in Oregon, wages are not the only driver of the cost of compensation. PERS cost increases imposed by the state have been a major factor in overall compensation cost increases. Oregon's Public Employees Collective Bargaining Act puts pressure on cities to match compensation levels of "comparable" jurisdictions, and since most historically have provided fairly generous medical benefits, medical insurance premiums account for a larger amount of total labor cost for cities than for most private employers.

While Oregon's property tax does not in practice vary with inflation, it is very stable with respect to economic cycles.[1] In contrast, both income and payroll taxes are sensitive to recessions and other economic factors. This holds more for income tax than payroll tax, since the former is influenced by interest rates, capital gains, and tinkering with the definition of income by the national and state governments.

The Salem payroll tax referendum experience may discourage other cities from considering a payroll tax. It might face less opposition from voters (residents) if the tax were levied on employers (businesses) within the city, rather than employees as in the case of Salem's tax.

[1] In theory, if the property market was flat or declining over an extended period of time, the decline would eventually be reflected in reduced levies. But this has not happened since Measure 50 was adopted. New development is influenced by economic cycles, and this does affect the amount of value added to the tax rolls on top of the base 3% growth in assessed value.

Licenses and Fees

Business Licenses

Many cities require businesses within the city to be licensed, and the fees generated by the licenses typically exceed the cost of administering the license and thus are a form of tax. In many cases, the fee is based on the number of employees in the business. Multnomah County bases its license fee on the business's income and refers to it as a business income tax.

Utility Fees

As a response to the limitations of Measure 50, several cities have included costs for general fund services as fees that accompany water and sewer bills. These may appear to be user fees, but they are typically flat fees per residential utility account and do not reflect the quantity of service used, at least within broad classes of payers (e.g., single family residential). They often help pay for services that economists classify as "public goods" (discussed in more depth below), for which it is impossible to calculate true user fees. City councils adopting this type of fee may see it as a last resort to fund a basic level of public safety services, for example in Creswell and Gresham. In Gresham, the city council acted to impose a utility fee following voter rejection of a local option levy for public safety services.

The advantage of these fees is that they are simple to administer; they are not subject (so far) to arbitrary state limits; and they can generate significant amounts of revenue. When fees are assessed on non-residential as well as residential payers, some of the fee is exported.

The disadvantages of these fees include:

- They are regressive, especially when assessed as a flat fee per household;
- They are typically added to bills for water and/or sewer service; some if not many residents already view these bills as too high; and

Adding other fees (taxes) to the utility bill is fairly simple for cities that already bill residents for water and sewer service. In Springfield's case, however, the water bill comes from a different government (the Springfield Utility Board), which charges the city a fairly substantial amount for providing billing services for Springfield's sewer service. If it took over billing for sewer and other services, Springfield would still need to share the cost of meter reading, since the sewer bill is partially based on water usage. But it could probably cover billing costs through savings in the payment to the utility district.

Street Utility Fee

Street costs are accounted for in a separate special revenue fund, so a street utility would not directly benefit the general fund. But due to declining state gas tax revenues (on an inflation-adjusted basis), the general fund subsidizes the street fund. For example, a portion of right-of-way fees are allocated to the street fund even though the city rights-of-way are owned by the people of Springfield and the fees could be considered a general revenue.

Several cities in Oregon backfill declining state gas tax revenue with a monthly street utility fee. The fee is often a fixed amount per month; for example, the City of Corvallis charges just under $10 per month per single family household. Rates for multi-family units and businesses are typically based on average trip generation data according to the Institute of Transportation Engineers (ITE) manual.

A similar fee in Springfield would raise a significant amount of revenue: over $3 million per year from residential properties alone.

Interest Income

Interest income can be an important source of general revenue, but it is highly unstable and difficult to forecast. The amount of revenue varies by the yield on invested cash and by the size of the general fund cash balance during a fiscal year.

A city can increase interest income by putting its cash in higher-yielding investments, but there are legal and practical limits to this. Larger cities like Springfield adopt a city investment policy that emphasizes a balanced and fiscally prudent portfolio. Most larger cities also take a pooled approach to treasury management in which the cash balances of all funds are pooled and invested according to the city's adopted investment guidelines, and total interest earnings are allocated to each fund in proportion to its share of the cash holdings.

Short term and highly liquid investments, such as the state's Local Government Investment Pool, typically offer lower yields than longer term, less liquid, investments. This fact can benefit the general fund in a pooled cash management system because city utilities often build up substantial cash balances to help pay for future capital improvements. Those balances can be invested in long term securities within the requirements of state law, benefitting all the funds under management by the city treasurer (typically finance director).

Interest revenue may be the lowest when the city's general fund needs it the most. There are three primary purposes for a general fund cash balance. The first is to help manage cash flow and avoid borrowing to cover expenses while waiting for property tax revenue to begin flowing in November. The second is to (depending on the needs of the city) help build up funds for an anticipated capital improvement, such as replacement of a fire engine or city facility. The third is to serve as a buffer or contingency account for an economic downtown or an unanticipated disaster or other major expense.

As to the latter, many cities set a target for the level of general fund beginning balance to hold as a contingency reserve; for example, some percent of total annual general fund operating costs. There is no good reason to accumulate balances larger than this (unless for a planned future capital improvement, as noted above); the city does not exist to bankroll the taxpayers' money. And the balance should be spent down in response to short-term economic pressures caused by recession or high inflation; that's what a contingency reserve is for.

Net Revenue Generated by Enterprises

Some cities operate public enterprises that generate a net profit that can be used to offset general tax revenues. This is often the case for cities that operate electric utilities; they can charge rates less than those of nearby private for-profit monopolies and still generate funds that can be used to offset taxes. The City of Mesa, Arizona, operates electric, natural gas, and garbage collection utilities, allowing it to avoid a property tax altogether (it does levy taxes for debt service for bonds which are typically approved by voters). The City of Sandy provides internet service at a cost substantially below that of private monopolies; the user fees are kept low as a benefit to residents and businesses, but the utility does help cover city overhead costs.

Some cities are truly entrepreneurial. The City of Edmonton, Alberta, provides turn-key service worldwide for the design, construction, and operation of large wastewater plants. The City of Green Bay, Wisconsin, owns an NFL football team. The Portland International Raceway is owned and managed by the city's parks department. In the past, the City of Vancouver, Washington, provided cremation service to local funeral homes to offset the cost of maintaining city cemeteries.

Revenue generated by these activities can reduce residents' tax burden, but it is often very difficult to create a new enterprise to do so. Incumbent private monopolies oppose any encroachment on their territory and profits, and city governments are often reluctant to take on the kind of risk that starting an enterprise often entails.

Sale or Revenue-Producing Use of Surplus City Assets

Cities can generate one-time revenue by selling surplus land, buildings, and equipment. Ongoing revenue can be generated by leasing property or buildings or using surplus assets for some kind of (entrepreneurial) activity. Springfield's Booth Kelly site is a prime example of this.

Expense Reduction Strategies

Over time, the Springfield city government has employed several belt-tightening exercises to keep expenditures in line with available revenues. At least in the short to medium time frame, it will be difficult to balance the budget without an increase in revenue or a reduction in service levels. In some cases, however, there may be some (limited) opportunities for increased efficiency.

General Opportunities for Increased Efficiency

As are many employees of cities in Oregon, some Springfield staff members are facing stress due to a workload that is difficult or impossible to keep up with. This may be due to a lack of funding, or to difficulty in filling positions.

Stress is exacerbated when employees feel like they are required to engage in activities that they perceive to be a waste of their time. A thorough review of the activities that fill each employee's day might yield opportunities for both increased efficiency and higher job satisfaction.

A sign in a business is reputed to read, "if what you're doing right now does not directly benefit the customer, it is a complete waste of time." This may be a bit hyperbolic, but it could be helpful to eliminate, where possible, activities that do not directly or indirectly benefit residents of Springfield.[2] Some of the typical targets for this kind of review include:

- Reporting. Staff may spend time preparing reports that no one reads or that are not critical for decision-making. For example, the fleet manager in one Oregon city discovered that mechanics were spending a lot of time filling out paperwork on parts and labor used in repairs. By identifying what information was absolutely necessary and using simple drop-down menus on a tablet computer, the staff were able to reduce this activity from a half day to a half hour per week.
- Compiling performance measures that aren't used for any decisions. When done as part of a continuous process improvement effort, collecting and studying performance measures is the only way to ascertain that the process is in fact being improved. But most performance measures collected by cities measure inputs and outputs rather than performance (effectiveness) and are not used for performance improvement.
- Meetings. Some meetings are unavoidable, and some employees enjoy them regardless of how productive the meetings are. But it would be helpful to survey staff on their perception of time wasted in meetings. Patrick Lencioni's *Death By Meeting* can serve as a useful guide in making most efficient use of staff's time.
- Email. Dealing with email can be an enormous time waster. Cal Newport's *A World Without Email* may describe an ideal that is difficult to achieve in practice, but he and others provide practical tips for freeing staff from bondage to email and other instant communication.

[2] The emphasis here is on residents, but activities that serve businesses and other organizations in the city can indirectly benefit residents by providing jobs and exporting the tax burden.

- Training. As with meetings, some amount of training is necessary. But in many organizations, some training sessions are offered or required in order to check a box and produce little or no improvement in the employee's competence or behavior.
- Responding to surveys. As members of a research institution, we recognize that people must be very selective in responding to surveys. And there is some irony in asking employees in a survey if they perceive responding to surveys as a waste of time. But it is probably worth it.
- Seeking awards. Professional guilds exert pressure to apply for and submit applications for awards and accreditations that may have little or no benefit to the residents of the city. Some do provide at least an indirect benefit. For example, the Award for Excellence in Financial Reporting can help maintain a city's bond rating and thus benefits residents through lower debt service costs. But the Budget Award program administered by the same professional guild requires the city to supply a "document" (itself an outdated concept) that takes a great deal of effort to produce and that is read by almost no members of the local community. For an example of a more streamlined (and automated) method of sharing both budget and actual spending information, see the City of West Linn's Financial Dashboard that allows those interested (including operating managers, council members as well as residents) to see the overall budget picture at a glance while also being able to drill down to line item detail.

National and state-imposed mandates can be a large driver of wasted time. In some cases, the required activity itself does not really benefit anyone in the local community. For example, many of the requirements of ORS 197 (state mandates on local land use planning activities) might, depending on the community, fall under this category.

In theory, unfunded mandates are prohibited by Article XI, Section 15, of the Oregon Constitution. But there are so many loopholes in this law that it is generally ignored by the legislature, and it has no effect whatsoever on local unfunded mandates imposed by statewide voters.

In some cases, activities are mandated that the city might choose to do anyway. But if not, there may be opportunities for increased efficiency. The city must obey the law of course, but activities associated with the mandate could be analyzed to ensure the city is doing the bare minimum required to meet the requirements of the law. For example, many cities hire a consulting firm to develop plans and reports to comply with their MS4 (storm drainage) permit. The reports are often four-color elaborately produced documents that no resident of the community ever reads, and that probably exceed the requirements of the law.

General Fund Departments and Programs

Members of the research team met with the directors of the major general fund departments (police, fire & rescue, library, and community development), reviewed material on city services via the city's web site and analyzed revenue and expense data contained in some 7,000 general ledger line-item accounts. The team members collectively have over 70 years of experience as city managers for fourteen different cities and are familiar with most of the current issues faced by general fund departments.

That said, the best source of knowledge on opportunities for service streamlining or realignment are the people on the front lines of providing the service, and those, like members of the city council, who have a good understanding of the needs of the community. The observations and comments we provide will, we hope, be of use as the city government charts a path toward fiscal stability. An independent, outside view of the organization can provide a valuable perspective. But as outsiders, we acknowledge that these comments should be taken with a grain of salt by those more familiar with the organization and community.

Police

Typical of cities, Springfield's police department accounts for the largest share of general fund spending and use of general (tax) revenues. It is a labor-intensive service, but over time police departments have adopted many technologies and practices to increase efficiency, ranging from shifting to one rather than two officers per patrol car to the use of e-ticketing to reduce errors and data entry time for traffic law violations.

A commonly used, although crude, benchmark for police staffing is officers per thousand. According to FBI data, the national average is 2.4. Springfield's ratio at 1.1 is less than half of this. The national average is skewed by a relatively small number of very large cities that have higher crime rates. Springfield's ratio is slightly lower than Eugene's 1.2.

Jail. These numbers do not include staff assigned to the jail. Relatively few cities in Oregon operate their own jail, and instead transport arrestees to the county jail for booking.

Operating the city jail accounts for almost $3.5 million in annual expenses, or around 15% of the total police budget. Having jail capacity means that misdemeanors are more likely to be prosecuted, which in turn means that criminals that are apprehended by the police department are more likely to face jail time. Individuals who are aware of this may be deterred from committing a crime or choose another city for their criminal activity.

As with other preventive activities, it is difficult to assess how effective the jail is in deterring crime. One would have to know how many crimes would have been committed if the city jail did not exist, and that is impossible to measure. A cross-sectional study (comparing crime rates in Springfield with those of similar jurisdictions) would be challenging because it would be difficult to isolate the impact of the jail from other independent variables.

This kind of study is not impossible, however. A detailed analysis of the drop in New York City crime in the 1990s found that arrest, prosecution and incarceration rates were not the driving factors; the primary cause of the drop in the crime rate was an increase in the number of police officers and targeting those officers to crime hot spots, increasing the visibility and presence of law enforcement.

It is frustrating for police officers to go to the effort of investigating and arresting criminals only to have them released to commit another crime. The availability of the jail and the city's willingness to use it reduces that sense of wasted effort. Managing a jail as part of the city's overall justice system (law enforcement and arrest, prosecution, municipal court, and jail) allows a more integrated approach to reducing and preventing crime.

From a financial perspective, the city would be best off if it could employ, wherever possible, alternatives to incarceration (e.g., restitution, probation or diversion programs) and let other jurisdictions (cities, county, and possibly the federal government) lease most of the available jail bed spaces. Note though, that non-incarceration alternatives would also require staff time and expense for monitoring and enforcement.

Dispatch. Springfield also differs from the norm in providing its own police dispatch service; 9-1-1 calls are taken by Central Lane Communications and routed to Springfield. Most cities contract with the county or an ORS 190 (intergovernmental) agency for both call answering and dispatch. The state has in the past encouraged consolidation of "public safety answering points" (PSAPs). Larger dispatch centers can more easily balance staffing to call volumes and can coordinate responses to incidents that cross jurisdictional lines.

On the other hand, city dispatch centers can avoid higher salary and support service costs of larger organizations. Dispatchers are more familiar with the local territory and the police, fire, and public works staff members. Call volumes during the course of a 24-hour period might drop below the level to justify a full-time dispatcher, but police departments often have other work (e.g., records processing) that can fill extra time.

According to the city's program expense data, dispatching costs total over $700,000 per year and account for 11% of total police department expenses. Central Lane Communications might be able to provide the service at less apparent cost. Aside from the benefits of local dispatching, any cost comparison must take into account costs that would **not** be reduced if the city contracted with another agency (e.g., activities that are performed by dispatchers that would need to be back-filled by other staff, and support service costs).

Responses by Non-Sworn Personnel. Salary and benefit costs for "sworn" police officers tend to be higher than those for non-sworn "civilian" personnel for several reasons: the higher level of training for sworn officers; a higher level of personal risk; responsibility for use of police powers including use of deadly force; and a state requirement for binding arbitration that, at least prior to recent statutory changes, has tended to be tilted in favor of unions.

The Springfield Police Department's staff includes three non-sworn Community Service Officers to handle calls and services that do not require a sworn officer. Further, the city contracts for "CAHOOTS" service in situations where a response by a mental health or social service expert is called for (Central Lane Communications makes the decision on dispatching CAHOOTS).

We recommend that the City of Springfield continue to use, and expand where possible, the deployment of non-sworn staff to incidents or situations that permit it. This can reduce staff costs and offset the difficulty in recruiting and training sworn officers; it can also strengthen relations between the police department and community.

That said, the police department is primarily a law enforcement agency, and many situations will still require the expertise and authority of a sworn officer.

Other Possible Options for Increased Efficiency

- Fleet electrification. Police patrol cars spend a lot of time idling or being driven in stop-and-go traffic. While the up-front cost is higher, the life cycle cost of EVs may be lower due to the significantly lower cost of fuel and the efficiency of regenerative breaking. A side benefit would be the powerful acceleration of EVs. As a related issue, periodically revisit fleet management policies (e.g., number of vehicles, replacement triggers, lease/purchase options, etc.) to seek the lowest life cycle cost.

- Risk management savings. With the new chief's modernized practices and operational changes, it is possible that the city's liability exposure has been significantly reduced. This could present an opportunity for the city to look at greater assumption of risk management costs (insurance) through higher self-retention (higher deductibles and reduced premiums) or self-insurance. No analysis of this was done in this study, but we do recommend that such an analysis be conducted.
- Overtime. The police department is experiencing a significant gap between the overtime budget ($450,000) and actual use ($1,300,000). Police departments across the state are facing the same issue due to staff turnover, the difficulty of recruiting new staff, and the long lead time between hiring and placing a trained officer on the street. That said, it may be possible to reduce high overtime costs by hiring additional staff and revising/redeploying schedules to minimize overtime.
- Wherever possible, share training costs with neighboring law enforcement agencies.
- Analyze mutual aid responses to determine whether SPD is a donor or recipient agency. If the latter, seek reimbursement from the recipient agency.
- Continue to seek efficiencies by sharing specialized services and functions with neighboring agencies.

Fire & Rescue

The City of Springfield fire and emergency medical services are provided via Eugene Springfield Fire, a consolidated department with the cities of Springfield and Euguene. In this structure, one fire chief reports to both the city manager of Eugene and the city manager of Springfield. Employees of the department have a joint union and share similar benefits, administrative staff and take part in centralized training. Emergency 911 calls are directed to and answered by a dispatch center operated by and physically located in the city of Eugene.

The department has seen successes with the consolidated system through standardization and improved safety for its employees, consistency in operational tactics, standardization of EMS services and a shared ambulance transport system. The depth of resources and the ability to surge staffing as needed has also provided a benefit to both cities, a common factor in contract cities and shared districts.

While sharing resources through this consolidated structure has some efficiencies, it also presents other challenges. The availability of revenue in each city presents challenges for the department to offer comparable opportunities, pay, benefits, employee resources, equipment, facilities and resources to department staff and each community. Administratively, the city of Springfield operates on an annual budget cycle while the city of Eugene is on a biennial budget cycle. The fire chief and administrative staff responsible for budget development and oversight spend a considerable amount of time managing both budgets and coordinating line items for shared resources. The staff must also pivot between two payroll systems, different purchasing systems, procurement guidelines and payroll.

Similar to many other fire departments, Springfield's fire department is challenged by staffing issues, with staff vacancies caused by medical disabilities or retirements, coupled with difficulty in hiring or promoting a sufficient amount of personnel. These challenges result in a large amount of overtime charges. Fire department staff also noted a need for additional capital equipment.

The Eugene Springfield Fire Governance Review Panel, comprised of two council members from each city, was established to: 1) raise awareness of the current model and remaining considerations for improved efficiencies, 2) share progress and build confidence in process; and 3) keep key audiences informed on process/decisions/outcomes.

In February 2022, the Governance Review Panel issued a contract for a feasibility study of the consolidated fire department to determine if an independent fire district or fire authority structure would better serve the cities of Eugene and Springfield. The feasibility study is currently underway.

Annexing to, or creation of, a fire district

A side effect of the 1997 Ballot Measure 50 is the creation and expansion of scope of special purpose districts. Several cities have annexed to a "rural" fire district in order to relieve their general funds of the cost of providing fire service. It costs taxpayers more, but they have generally been supportive of it. Newberg is one of the more recent examples, where the voters in 2017 approved annexation to the Tualatin Valley Fire & Rescue district. The City of Gresham is now exploring the idea of spinning its fire department off to a district.

Springfield's cost for fire & rescue service could be covered by a district charging a property tax rate well under that assessed by the current neighboring districts (in the range $3 to $3.77 per thousand). Net savings to the general fund would be just under $10 million, taking into account the loss of fire-related revenue (including the local option levy) and the fact that some support service costs would remain with the city. This would allow the city to not only eliminate the police local option levy, but also a reduction in the base levy while still providing a net increase in resources available for other general fund services.

Voters tend to support the status quo, as evidenced by support for relatively high property tax rates levied by fire districts. To give Springfield voters a better idea of the true cost of providing fire and medical service, when the fire local option levy is renewed, it could be set to cover the full cost with a rate of around $2.44 per thousand, with a concomitant reduction in the city's base levy amounting to around $2.00 per thousand.

Charging the actual cost of medical service (including costs not covered by insurance) would also give more accurate price signals to consumers, which would help manage demand. But people are so used to receiving "free" on-call medical service that billing and collecting the fees would not be popular.

Community Development

In March of 2023, the city entered into an agreement with PSU's Center for Public Service to analyze the City's planning fees. The Planning Department is housed in the Community Development Department. In June of 2023, the findings of this study were presented to the City Council for consideration.

We estimated that the Planning Program generates approximately $775,000 in revenues from fees annually while expenditures are approximately $900,000, thereby placing a burden of over $100,000 onto the general fund a year.

The study compared fees charged by four comparable cities – Eugene, Medford, Albany and Corvallis in order to ascertain whether fees being charged by the City of Springfield were in line with those of similar municipalities. The comparison did find many similarities and some minor differences. Of note, the City of Springfield only analyzed costs associated with actual planning activities and did not include time spent on these activities by other departments.

The study did take into account actual time spent by Planning staff as well as the administrative burden of employee benefits. However, the fee study did not account for the cost burden of materials and other purchases such as office supplies and travel. Therefore, in order to determine the actual costs of the Community Development Department, city staff are currently conducting a more comprehensive study which will analyze the development-related costs of other departments. This study is also addressing the technology fee and determining whether the city is appropriately capturing the costs of all technological-related activities.

As noted in the section on public vs. private goods, development review fees and systems development charges can be considered user fees because they benefit the owners and users of developed properties. Development review costs—and thus user fee amounts—could be reduced through a variety of means. For example,

- Using off-the-shelf customer relations management (CRM) software such as Salesforce, automate review of development applications on the front-end (i.e., in real time as the applicant submits information in the online portal). This would eliminate the need for a completeness check and the associated lag time as well as reduce staff processing time.
- Eliminate all development code requirements that are not absolutely essential.
- Adopt a form-based or performance-based code rather than a use-based code. If done consistent with Sull and Eisenhardt's *Simple Rules: How to Thrive in a Complex World*, this could both reduce staff review time and provide more flexibility for builders.

There are pros and cons to these options. In a seller's market, reducing development review fees will not reduce housing costs since landowners and builders are already charging as much as the market will bear. A reduction in fees would result in increased profits for property owners and builders. The seller's market will probably continue for the foreseeable future as the State of Oregon fuels demand for housing through subsidies for new businesses like chip plants and continues to restrict the supply of land available for housing through ORS 197.

Library

The Springfield Library and Museum budgets constitute approximately 10% of the overall General Fund expenditures for the fiscal year and combined are operated by 16 FTEs plus many volunteers. As such, opportunities for savings short of significant service cuts or revenue increases are fairly low impact. Nevertheless, the Director and support professional were very helpful in our interview.

There could be strategies for reducing the library's reliance on tax revenues, but few of them could be implemented easily or without controversy. They include:

Consolidation of Services

Given its relatively small staff, operating an independent city library is fairly efficient. The primary advantage to some form of consolidation would be to give patrons access to a larger collection, and possibly some efficiency in support functions such as ordering materials and maintaining the online catalog system.

Multnomah County operates a library system that can be used by residents of cities and unincorporated areas within the county. Patrons do have access to a very large collection. But as a large county organization, staff and overhead costs are probably higher than for some of the smaller cities within the county (e.g. Troutdale).

Washington and Clackamas Counties have confederated systems that combine the efficiency of cities operating their own local libraries with the advantages of a large shared collection and centralized support services (courier, IT, etc.). Washington County distributes around $28 million per year to the member libraries to fund their operations; sixty percent of this is from the county's general fund and forty percent from a county local option levy.

Creation of a Library District

A further advantage to the cities in the Clackamas County systems is that in 2008 voters approved creation of a countywide library service district. The district, governed by the Board of County Commissioners, provides central support services and distributes library operating funds to the city libraries through a formula.

Voters in the area south of Eugene created the Lane Library District in a 2004 election. As noted by the Lane Library League, the district could be expanded to include other jurisdictions. Doing so to include Springfield would relieve the general fund of some or all of the library expense, and would be more effective than the non-city library card fee in having residents of unincorporated areas support the cost of the library. On the other hand, having access to the library is currently one of the advantages of living in the city.

The Oregon Constitution (Article XI, Section 11(c)(B)) provides that if Ballot Measure 5 tax rate compression is in effect, local option levies are reduced before the base levies for cities, counties, and districts are reduced. A newly created district, whether for library or fire service, could cause a reduction in revenue for any remaining city local option levies. High inflation has, however, further reduced the effective Measure 5 tax rates, which are based on market, rather than assessed, value, so compression is less of an issue for residential property (office properties might be another matter).

Charge User Fees

As noted above in the section on public and private goods, most services offered by the library meet economists' definition of private goods and thus can be fully supported through user fees.

An argument against charging user fees is that it could make the service unaffordable for low-income households. One way to address this would be to offset user fees through general taxes for low-income households only.

Another argument is that while the service is a private good, it also provides general benefits to society at large (e.g., increased literacy), and that if users faced the true cost of using the service, fewer would take advantage of it, reducing the benefit to society.

An option to address these issues could be to provide basic services at no cost to users, but to charge the full cost (or a graduated cost based on household income) for additional services such as:

- The ability to check out more materials than a base amount (for example, two items per person per month)
- Checking out new bestsellers
- Getting immediate access to any ebook or audio book that would otherwise be available only through a hold
- Renewal of any item, including digital materials
- Use of internet stations

Some of these options could be limited by policies of the publishers or distributors of digital materials. Further, there is an overhead cost to establishing and managing a fee system. But this is a problem faced by every small business, and tools are widely available for dealing with it efficiently. The library already has systems for collection of fines and out-of-city library cards.

A potential concern is that people would not use the library if they had to pay the actual cost for the service. This might be the case for digital materials, since other lending options exist (e.g., through Amazon). But for physical books, the convenience of the library and the high cost of new books should make borrowing significantly cheaper than buying one, even when staff and other operating costs are taken into account.

Turning Over Operations to a Nonprofit

Many private goods (or services) provided by cities were once paid for through general taxes and are now supported through user fees; these include water, sewer, and garbage service. People have come to accept that situation. But it may be politically difficult to cover other services, such as library services, through user fees ("I already pay taxes for that"). In that case, one option would be for the city to provide the physical space, including utilities and other facility maintenance costs, and turn over the operation of the library to a self-supporting nonprofit organization, along the lines of the original Carnegie libraries.

Collaboration with Visitor Services Operations

As collections shrink and space becomes available for reprogramming, there may be opportunities for collaboration and cost-sharing with the city's visitor services operations. The library has over 100,000 visitors per year and exists near the revitalizing downtown. As an expanded Information destination, there would appear to be an opportunity for local businesses to both benefit and support.

Cut Services

No analysis would be complete without this option on the table. Libraries typically reduce operating costs by cutting hours of service. The Springfield Library has already done this to some extent, with late opening on Mondays and Thursdays, early closing on Saturday, and no service on Sunday. A short-term strategy is to reduce spending on the collection.

We recommend that no further service cuts be made until user fees are considered; it does not make sense to withhold service if there are people willing to pay for it.

Keep the Status Quo

Library service is one of the few tax-supported general fund services that actually add to quality of life, at least for those who use the library. Police and fire services, while critical, reduce harm (crime, fire, medical emergencies) rather than increase people's enjoyment of life. Similar private good services (e.g., streaming services, and Amazon's Audible and Kindle Unlimited) charge users a flat monthly subscription fee. The cost of library services comes out to about $8 per month per household in Springfield, comparable to many other entertainment services.

Support Services

Overhead services, including Human Resources, IT, Finance, City Attorney and general administration (City Manager's Office) exist to support the direct service departments. To paraphrase Einstein, the cost of these services should be as low as possible, but not lower. As noted in the financial analysis section, the effective overhead rate of under ten percent seems reasonable.

IT costs can vary widely from city to city. Springfield has taken steps to keep these costs in check by organizing this function under the Finance Department.

Smaller cities typically contract for city attorney services. Cities of Springfield's size often, but not always, have an in-house city attorney and contract for specialty services such as bond counsel. In-house attorneys generally cost less per hour than private attorneys. But this is at least partially offset by the easier access to in-house counsel. Staff, especially planners, tend to seek legal advice when it is easily available more often than they would in calling a private attorney who bills by the hour.

Two overall recommendations noted above are especially relevant to support services:

1. As noted in the section on overall efficiency, identify and eliminate any activities that do not benefit either the residents of Springfield or the departments that provide direct services.
2. As noted in the section on budget management, fully allocate all support service costs to direct service departments, including those in the general fund, and encourage a dialogue between direct and support service operating managers on ways to reduce those costs.

Long Term Strategies

Changes to State Law

As it was initially designed, the state government was relatively weak, with executive authority spread among several elected officials and legislative power split between two houses. The state constitution provided for strong local control, prohibiting the state government from interfering with local charters and laws except in the case of criminal laws. Home rule cities had full control over revenues and budgets. The initiative and referendum process was added to the constitution at the beginning of the 20th century. While it applied to cities as well as the state, the early statewide ballot measures affirmed local control over issues such as prohibition of alcohol sales.

Over the years, home rule authority was eroded to the point that cities are now saddled with a long list of preemptions, restrictions, and mandates from the state government. While it is theoretically possible for cities to restore home rule authority, a successful strategy would require concerted effort on the part of many cities across the state. As a practical matter, changes to individual laws may have a somewhat higher chance of success. Suggested changes are as follows:

Property Tax

- If local option levies have been approved in two or three consecutive elections, give voters the opportunity to roll the local option levies into the permanent base.
- Allow assessed value to grow by the overall rate of inflation (CPI) when inflation exceeds 3% per year.
- Consider, as California did, a reset of assessed value at sale to ensure some meaningful relationship between market value and assessed value over time and avoidance of disparate tax structures by neighborhood.

All of these changes would require constitutional amendments.

Transient Lodging Tax

- Remove all restrictions on use of local transient lodging taxes. Effective city services benefit visitors as well as permanent residents.

PERS

- Reduce per-employee PERS rates charged to cities and counties to their 1997 levels (when the state imposed a 3% assessed value cap), allowing for 3% annual growth. Cities have had little say in the state's management of the PERS system.

Shared Revenues

- Three quarters of the state's population live in incorporated cities, and cities drive much of the growth of the state's economy and thus the growth of the state's income tax. As part of Ballot Measure 50 in the early 1990s, the state began sharing a portion of its income tax with school districts, but has provided no similar support to cities. Voters in Arizona in 1972 approved a law requiring the state government to share 15% of its income tax with cities.[3] A similar ballot measure could be considered in Oregon.

UNFUNDED MANDATES

- Eliminate the loopholes in the constitutional prohibition of unfunded mandates. Sample language is included in the Appendix.

Expand the Tax Base

With all its faults, Ballot Measure 50 does allow new development to be added to the assessed value base, albeit at an amount significantly below market value. As noted in the section on revenues, property taxes paid by non-residential properties can be at least partially exported to people who live outside the city. Strategies to increase non-residential development include urban renewal, tax incentives such as enterprise zones, infrastructure grants, reducing development restrictions, and significantly expanding the urban growth boundary.

Urban Renewal

Springfield has two urban renewal districts, Glenwood and Downtown. When an urban renewal district reaches its expenditure limit and is dissolved, all non-school taxing districts experience an increase in revenue due to the growth in assessed value within the district. We estimate that the Glenwood district will reach its current expenditure limit in around 16 to 17 years, and the Downtown district will reach its limit in around 19 to 21 years (this assumes the full amount is levied for the districts, and the expenditure limits are not increased). When this happens, Glenwood will return over $400,000 per year to Springfield's general fund in the base levy, and the Downtown district will return over $800,000. If the local option levies continue at their current rates, total base and local option levies will increase by around $1.7 million when the districts are closed.

As an urban renewal district approaches its expenditure limit, increasing the limit can be a good financial strategy because by this point the assessed value increment has grown enough that the limit can be increased by a fairly substantial percentage without extending the life of the district very much. Another option is to allow a district to expire, and then start a new one. The disadvantage of this is that it takes many years for the increment to grow enough to support bonds for infrastructure investments.

[3] More recently, the share was increased by the Arizona legislature to 18% in order to offset a revenue decline when the state moved to a flat income tax.

Public Goods, Private Goods, and User Fees

User fees are a potentially large source of revenue for cities that provide services that economists define as "private goods" (and most, like Springfield, do). That said, while the revenue potential exists, there are often good reasons to subsidize the cost of the private good (or service) through taxes.

According to Wikipedia:

> A private good is defined in economics as an item that yields positive benefits to people that is (1) excludable, i.e. its owners can exercise private property rights, preventing those who have not paid for it from using the good or consuming its benefits; and (2) rivalrous, i.e. consumption by one necessarily prevents that of another.

A typical example of a private good is a loaf of bread. If I buy it, I can eat it, and the store can easily identify me as the person who bought the bread. And if I eat the bread, no one else can.

A *public good*, in contrast, is one in which benefits are diffused over a broad population and it is impossible to limit the benefits to a single individual or group of individuals. The fact that the public good benefits me does not reduce the benefit to others. A classic example of a public good (as the term is used by economists) is national defense. It benefits all the people in the nation, and the fact that one person benefits does not reduce the level of benefit to others.

One way to know that a service provided by a government is a "private good" is when the service can be provided solely on a fee basis by any public or private organization. Thus education is a private good (private schools and colleges exist on a fee basis). So is medical care (there are fee-supported clinics and hospitals), and so are highways (toll roads exist).

General fund services operated by the City of Springfield are a mix of private and public goods, as defined by economists.

Library Services

Most services provided by the library are private goods. Checking out materials and using internet terminals meet the definition. Even use of reference materials within the library qualifies, since if one person is reading a magazine or book, it isn't available to another person. Therefore the majority of services provided can be funded through user fees, offsetting costs of over $2M per year. The library now charges non-city residents a fee for access to library services, although it is a flat fee not tied to actual use of library services.

One aspect of the library that could be considered a public good is the physical library space itself. Eric Klinenberg of New York University has done research on the importance of public spaces that bring people together. Klinenberg acknowledges that businesses like Starbucks can fulfill this function (other research finds that chain restaurants are especially good at attracting a mix of people from different socio-economic strata). But he specifically points to his neighborhood library in New York as a space that brings people in the community together in a healthy way. That said, maintaining and operating the library space is a relatively small part of the overall budget.

Fire

Most services provided by the fire department fit the definition of a private good. Emergency medical and transport service clearly fall in that category. A fire response to a specific building or facility does too, since the benefit can be isolated, and if a fire crew is responding to one fire, it isn't available to respond to another.

EMS and transport calls for service account for the majority of the department's total calls for service. If costs related to those calls were funded through user fees, it could offset most of the annual budget. Not all the amounts billed would be collectable; other medical providers cover bad debt by increasing overall user fees. Another option would be to use taxes for some level of indigent care (although, as discussed below, the federal government, rather than local governments, should address poverty issues).

Reponses to fires, fire alarms, storm damage and other services to private properties account for a small percentage of total calls for service, but the cost per response can be significantly higher than that of medical response. User fees for this service could be graduated, with a lower amount for responding to false alarms and a higher amount for putting out serious fires or performing complex and risky rescues.

If a building is totally destroyed by fire, it might be difficult to bill for the fire department's response, but at that point the service acts more like a public good: it prevents the fire from spreading to the rest of the city. As a public good, it would be tax-supported. Protecting the city in the event of a wildfire would also be a public good, although it would be an exceptionally rare but possible event, e.g. Talent, Detroit, Gates and Mill City in fall 2020.

Allocating the department's cost according to call volume might not be a fair way to set user fees. In practice, a large part of a fire crew's time is spent not providing direct service to the community, but being available to respond when the need arises. The percentage of time not actively performing medical or fire/rescue work could be considered a public good, since the availability of the crew to respond to a call benefits the community at large.

Although most of the department's service takes the form of a private good, charging all residents and businesses for the service, whether or not they use it, can be seen as a form of insurance. Netting out ambulance user fees, the annual cost per household for fire and EMS service is around $542 per year ($45/month), in the same order of magnitude as home insurance. True, residents have no choice in deciding whether to buy the "coverage" in this case. The city could give them this choice, collectively, by adopting a policy that if the fire local option levy is not passed, services will be provided on a fee basis.

Planning

Building plans review and inspections as well as infrastructure funded through systems development charges can be viewed as private goods since they benefit the owners of new construction who ultimately pay for the service. Building inspection service benefits homebuilders and contractors too, by providing an independent review of the quality of their work. Thus, building permit fees and SDCs are true user fees. In Springfield's case, the cost of service is almost fully funded through these fees.

Long range planning and review of development applications for compliance with planning and zoning codes are public goods, since they benefit the public at large rather than the individual development project. Fees for this work are not user fees but instead a form of a tax on new development. Applying such a tax is a legitimate exercise of city policy-making authority. Spreading it over all city residents would more closely match cost to benefit. It is, however, a small amount in comparison to the cost of police and fire service.

Social Services

Cities have traditionally not provided social services, because doing so can be financially unsustainable. In our highly mobile society, over the long run, people who need the service may choose to live in or near the city, and people who pay for the service may leave the city in search of a lower tax burden. Cities typically focus on place-based services such as utilities and infrastructure, and services that are targeted to all residents, such as protection of people and property.

Social services (housing, health, mass transit, etc.) meet the definition of private goods and thus could in theory be provided on a fee-supported basis. But they are provided publicly precisely because the population they are targeted to cannot afford to pay the actual cost of the services. Income transfer programs, either in the form of money (e.g., Social Security), or in the form of payment for services (e.g., Medicare) should be provided at a national level, because compared to cities and states, the national population is a relatively closed system, and it is harder for people to “vote with their feet” to take advantage of the service or to escape paying for it.

In spite of this, cities are facing pressure to fund or provide some social services in light of a lack of federal funding. Oregon’s local government tax system is not designed to fund social services relating either directly (housing) or indirectly (mental health, addiction) to homelessness, but many cities are now caught in the position of being the provider of last resort. City governments can take a leadership role in advocating for and coordinating the provision of social services by the appropriate providers, but using local taxes to fund them will not in the long run be financially sustainable.

Budget Process

The budget preparation process used by Springfield as well as most other governments has its roots in the industrial era over a century ago. It was at the time a much-needed answer to corruption and financial mismanagement. Various attempts to improve the budget decision-making process at the policy-setting level—PPBS, zero-based budgeting, priority-based budgeting, and outcome-based budgeting—have come and gone, but the core steps in preparing a budget have remained unchanged.

Under this traditional process, managers of general fund departments make budget **requests** and a small group of people at the top of the organization then make decisions to bring the budget in balance. The operating managers have little involvement with or interest in revenue-raising and cash flow or the overall balance of the general fund. Savings at the end of the fiscal year go into the “general fund black hole.”

Managers of city operating departments typically have a genuine interest in providing the best service possible to those served by their department. To do so, they need resources and have a strong incentive to maximize their allocation of the general fund budget. Therefore, a possible outcome of this process is the appearance of a chronic, or structural, budget deficit. Even as revenues increase, those making the decisions on balancing the budget often are saddled with the job of making budget “cuts” as the budget requests outstrip available revenues. Operating managers have little incentive to reveal or admit to opportunities for increased efficiency or to realign services with changing needs. Doing so would put their department at a disadvantage in the competition with other departments over available resources.

In healthy organizations like Springfield’s, department heads may approach budget decisions as collaborative rather than competitive processes and willingly support a shift of resources to other departments. A problem remains with a top-down request-based budget approach: it is difficult if not impossible for people at the top of the organization to know exactly what happens on a day-in day-out basis at all levels of the organization, especially in the case of front-line staff. As noted by the Beyond Budgeting Round Table[4], the traditional industrial-era budget system does not lend itself well to tapping into the expertise and knowledge of those working in the trenches.

The traditional requests-based process is also at odds with over six decades of research on human motivation, management, and leadership. That body of research emphasizes the importance of autonomy, delegation of authority, and giving those in the front lines of service provision the tools and power to address challenges.

Expenditure Control Budgeting

To address these shortcomings, some local governments have experimented with “expenditure control budgeting,” a term coined by David Osborne and Ted Gaebler in their book, *Reinventing Government.* Key elements of this approach include:

- Allowing operating carry over any budget savings achieved during the fiscal year.

[4] See also *The Leader’s Dilemma: How to Build an Empowered and Adaptive Organization without Losing Control*

- Allowing departments to manage to the bottom line, shifting resources from one line item to another as needed.
- Allocating general fund revenues, wherever possible, to the departments that generate them or have influence over them.

This process does give operating managers more flexibility in managing their budgets, but as originally described, it is still a top-down requests-based approach to budget balancing and does not engage operating managers in addressing overall financial sustainability.

A further refinement—the addition of **target-based budgeting**—addresses this problem. Under this process, there are no budget requests. Instead, the city manager allocates all general (i.e., non-dedicated) general fund revenues to the direct service departments, and the department managers have the task of balancing their own budgets. In making the revenue allocation, the city manager takes into account city council priorities and goals. The allocation is also informed by short- and long-term forecasts, capital improvement and strategic plans, process improvement studies, etc.

Department managers can draw on the following resources in balancing their budgets:

- Beginning balance, based on the difference between the department's actual revenues and expenditures in the previous fiscal year.
- Departmental revenues.
- Their allocation of general revenues.

Two features of the expenditure side of the budget differ from the traditional process:

- General fund departments are charged their share of support service costs (HR, IT, finance, legal, etc.). This provides a truer picture of the actual cost of the service and reinforces the fact that the support departments exist to support the work of the direct service departments.
- Departments are encouraged to maintain a departmental contingency or reserve account, rather than hiding their reserves by padding line items as they do under a traditional process.

Once the departments balance their budgets and the budget is adopted, they are held responsible for the bottom line: actual expenditures must kept be at or below revenues. The budget is a planning tool only; if revenues exceed projections, the budget is automatically amended to adhere to state budget law (established over 70 years ago in the heart of the industrial era).

For a further description of how this kind of process works, see *The Budget Process and Philosophy* for the City of Lake Oswego.

Biennial Budgeting. If a city adopts this process, it makes sense to follow a true multi-year approach to financial management and planning. State law limits this to a 24-month fiscal period. Budget preparation takes a toll on city staff and resources, and cutting this in half saves a considerable amount of the staff and city council's time to spend on other activities. Some part of that time savings can be devoted to off-year review of capital and strategic plans and long-range financial forecasts. The ideal time to implement this would be for the 2025-27 biennium, which would give newly elected councilors an opportunity to influence the budget six months into their term.

Oregon cities that have adopted a biennial budget include:

Ashland
Bend
Central Point
Eugene
Fairview
Gladstone
Hillsboro
Lake Oswego
McMinvillle (now under consideration)
Medford
Milwaukie
Oregon City
Prineville
Sandy
West Linn

An argument against a biennial budget is that it might not allow an organization to react to changing economic conditions that affect revenues or expenses. This is less of an issue under an Expenditure Control Budgeting system because operating managers balance actual expenses to actual revenues and react in real time to economic changes. Annual budgets are more necessary in top-down management structures in which top managers must take it upon themselves to respond to changing economic conditions and use the budget as a control mechanism rather than a planning tool.

City council decisions that result in changes to revenues or expenditures can always be reflected in budget amendments, whether in an annual or biennial budget system.

Conclusion and Acknowledgements

This report includes a few recommendations and identifies more options that could be considered in balancing long-term expenditures to revenues. But few of them are simple to implement or come without disadvantages. There is no magic bullet here.

We found no low-hanging fruit. It appears to our project team that Springfield is a well-managed, lean city, and the city council has already taken a number of steps to adequately fund services, including the use of local option levies and exploration of governance alternatives for fire and EMS services.

That said, both the top managers of the city and the members of the city council have indicated to us that all financial strategies are on the table for discussion. This willingness to be proactive and to accept responsibility for difficult decisions is more important to the city's long term fiscal stability than anything we could suggest.

The PSU/CPS project team appreciates the willingness of the mayor and city council members to meet with us individually in the information-gathering stage of the project. City manager Nancy Newton and her key staff provided valuable insights and direction at the outset of the project. Budget manager Neil Obringer as staff project lead was very responsive our questions and requests for data, as was finance director Nathan Bell who took over the project lead role. Accounting manager Meg Allocco helped extract and refine raw data from the city's general ledger.

The research team also appreciates the time and thought shared by key managers of general fund operations in a series of (virtual) meetings. They include Emily David and Carrie Schindele-Cupples (library), Andrew Shearer (police), Mike Caven (Fire) and Mark Rust (Planning).

Appendix—Oregon Constitutional Prohibition of Unfunded Mandates

Current Language

Oregon Constitution Article XI

Section 15. Funding of programs imposed upon local governments; exceptions. (1) Except as provided in subsection (7) of this section, when the Legislative Assembly or any state agency requires any local government to establish a new program or provide an increased level of service for an existing program, the State of Oregon shall appropriate and allocate to the local government moneys sufficient to pay the ongoing, usual and reasonable costs of performing the mandated service or activity.

(2) As used in this section:

(a) "Enterprise activity" means a program under which a local government sells products or services in competition with a nongovernment entity.

(b) "Local government" means a city, county, municipal corporation or municipal utility operated by a board or commission.

(c) "Program" means a program or project imposed by enactment of the Legislative Assembly or by rule or order of a state agency under which a local government must provide administrative, financial, social, health or other specified services to persons, government agencies or to the public generally.

(d) "Usual and reasonable costs" means those costs incurred by the affected local governments for a specific program using generally accepted methods of service delivery and administrative practice.

(3) A local government is not required to comply with any state law or administrative rule or order enacted or adopted after January 1, 1997, that requires the expenditure of money by the local government for a new program or increased level of service for an existing program until the state appropriates and allocates to the local government reimbursement for any costs incurred to carry out the law, rule or order and unless the Legislative Assembly provides, by appropriation, reimbursement in each succeeding year for such costs. However, a local government may refuse to comply with a state law or administrative rule or order under this subsection only if the amount appropriated and allocated to the local government by the Legislative Assembly for a program in a fiscal year:

(a) Is less than 95 percent of the usual and reasonable costs incurred by the local government in conducting the program at the same level of service in the preceding fiscal year; or

(b) Requires the local government to spend for the program, in addition to the amount appropriated and allocated by the Legislative Assembly, an amount that exceeds one-hundredth of one percent of the annual budget adopted by the governing body of the local government for that fiscal year.

(4) When a local government determines that a program is a program for which moneys are required to be appropriated and allocated under subsection (1) of this section, if the local government expended moneys to conduct

the program and was not reimbursed under this section for the usual and reasonable costs of the program, the local government may submit the issue of reimbursement to nonbinding arbitration by a panel of three arbitrators. The panel shall consist of one representative from the Oregon Department of Administrative Services, the League of Oregon Cities and the Association of Oregon Counties. The panel shall determine whether the costs incurred by the local government are required to be reimbursed under this section and the amount of reimbursement. The decision of the arbitration panel is not binding upon the parties and may not be enforced by any court in this state.

(5) In any legal proceeding or arbitration proceeding under this section, the local government shall bear the burden of proving by a preponderance of the evidence that moneys appropriated by the Legislative Assembly are not sufficient to reimburse the local government for the usual and reasonable costs of a program.

(6) Except upon approval by three-fifths of the membership of each house of the Legislative Assembly, the Legislative Assembly shall not enact, amend or repeal any law if the anticipated effect of the action is to reduce the amount of state revenues derived from a specific state tax and distributed to local governments as an aggregate during the distribution period for such revenues immediately preceding January 1, 1997.

(7) This section shall not apply to:

(a) Any law that is approved by three-fifths of the membership of each house of the Legislative Assembly.

(b) Any costs resulting from a law creating or changing the definition of a crime or a law establishing sentences for conviction of a crime.

(c) An existing program as enacted by legislation prior to January 1, 1997, except for legislation withdrawing state funds for programs required prior to January 1, 1997, unless the program is made optional.

(d) A new program or an increased level of program services established pursuant to action of the Federal Government so long as the program or increased level of program services imposes costs on local governments that are no greater than the usual and reasonable costs to local governments resulting from compliance with the minimum program standards required under federal law or regulations.

(e) Any requirement imposed by the judicial branch of government.

(f) Legislation enacted or approved by electors in this state under the initiative and referendum powers reserved to the people under section 1, Article IV of this Constitution.

(g) Programs that are intended to inform citizens about the activities of local governments.

(8) When a local government is not required under subsection (3) of this section to comply with a state law or administrative rule or order relating to an enterprise activity, if a nongovernment entity competes with the local government by selling products or services that are similar to the products and services sold under the enterprise activity, the nongovernment entity is not required to comply with the state law or administrative rule or order relating to that enterprise activity.

(9) Nothing in this section shall give rise to a claim by a private person against the State of Oregon based on the establishment of a new program or an increased level of service for an existing program without sufficient

appropriation and allocation of funds to pay the ongoing, usual and reasonable costs of performing the mandated service or activity.

(10) Subsection (4) of this section does not apply to a local government when the local government is voluntarily providing a program four years after the effective date of the enactment, rule or order that imposed the program.

(11) In lieu of appropriating and allocating funds under this section, the Legislative Assembly may identify and direct the imposition of a fee or charge to be used by a local government to recover the actual cost of the program. [Created through H.J.R. 2, 1995, and adopted by the people Nov. 5, 1996]

Section 15a. Subsequent vote for reaffirmation of section 15. [Created through H.J.R. 2, 1995, and adopted by the people Nov. 5, 1996; Repeal proposed by S.J.R. 39, 1999, and adopted by the people Nov. 7, 2000]

Suggested Amendment

Funding of programs imposed upon local governments; exceptions.

(1) Except as provided in subsection (7) of this section, if the Legislative Assembly or any state agency requires any local government to establish a program or provide a service, the State of Oregon shall appropriate and allocate to the local government moneys sufficient to pay the ongoing, usual and reasonable costs of performing the mandated service or activity.

(2) As used in this section:

(a) “Enterprise activity” means a program under which a local government sells products or services in competition with a nongovernment entity.

(b) “Local government” means a city, county, municipal corporation or municipal utility operated by a board or commission.

(c) “Program” means a program or project imposed by enactment of the Legislative Assembly or by rule or order of a state agency under which a local government must provide administrative, financial, social, health or other services to persons, government agencies or to the public generally; or any requirement imposed upon the administration, practices, policies, procedures or operations of a local government that are not equally imposed upon all organizations in the state, both public and private.

(d) “Usual and reasonable costs” means those costs incurred by the affected local governments for a specific program using generally accepted methods of service delivery and administrative practice.

(3) A local government is not required to comply with any state law or administrative rule or order that requires the expenditure of money by the local government until the state appropriates and allocates to the local government reimbursement for any costs incurred to carry out the law, rule or order and unless the Legislative Assembly provides, by appropriation, reimbursement in each succeeding year for such costs.

(4) When a local government determines that a program is a program for which moneys are required to be appropriated and allocated under subsection (1) of this section, if the local government expended moneys to conduct the program and was not reimbursed under this section

for the usual and reasonable costs of the program, the local government may submit the issue of reimbursement to nonbinding arbitration by a panel of three arbitrators. The panel shall consist of one representative from the Oregon Department of Administrative Services, the League of Oregon Cities and the Association of Oregon Counties. The panel shall determine whether the costs incurred by the local government are required to be reimbursed under this section and the amount of reimbursement. The decision of the arbitration panel is not binding upon the parties and may not be enforced by any court in this state.

(5) In any legal proceeding or arbitration proceeding under this section, the state government shall bear the burden of proving by a preponderance of the evidence that moneys appropriated by the Legislative Assembly are sufficient to reimburse the local government for the usual and reasonable costs of a program.

(6) Except upon approval by three-fifths of the membership of each house of the Legislative Assembly, the Legislative Assembly shall not enact, amend or repeal any law if the anticipated effect of the action is to reduce the amount of state revenues derived from a specific state tax and distributed to local governments as an aggregate during the distribution period for such revenues immediately preceding January 1, 2018.

(7) This section shall not apply to:

(a) Any costs resulting from a law creating or changing the definition of a crime or a law establishing sentences for conviction of a crime.

(b) A new program or an increased level of program services established pursuant to action of the Federal Government so long as the program or increased level of program services imposes costs on local governments that are no greater than the usual and reasonable costs to local governments resulting from compliance with the minimum program standards required under federal law or regulations.

(8) When a local government is not required under subsection (3) of this section to comply with a state law or administrative rule or order relating to an enterprise activity, if a nongovernment entity competes with the local government by selling products or services that are similar to the products and services sold under the enterprise activity, the nongovernment entity is not required to comply with the state law or administrative rule or order relating to that enterprise activity.

(9) Nothing in this section shall give rise to a claim by a private person against the State of Oregon based on the establishment of a new program or an increased level of service for an existing program without sufficient appropriation and allocation of funds to pay the ongoing, usual and reasonable costs of performing the mandated service or activity.

Suggested Amendment with Markup and Comments

MODIFICATIONS TO CURRENT LAW	COMMENTS
Funding of programs imposed upon local governments; exceptions.(1) Except as provided in subsection (7) of this section, if the Legislative Assembly or any state agency requires any local government to establish a program or provide a service, the State of Oregon shall appropriate and allocate to the local government moneys sufficient to pay the ongoing, usual and reasonable costs of performing the mandated service or activity.	Funds mandated programs and services.

(2) As used in this section:	
(a) “Enterprise activity” means a program under which a local government sells products or services in competition with a nongovernment entity.	
(b) “Local government” means a city, county, municipal corporation or municipal utility operated by a board or commission.	
(c) “Program” means a program or project imposed by enactment of the Legislative Assembly or by rule or order of a state agency under which a local government must provide administrative, financial, social, health or other services to persons, government agencies or to the public generally; or any requirement imposed upon the administration, practices, policies, procedures or operations of a local government that are not equally imposed upon all organizations in the state, both public and private.	Exempts requirements imposed by the state on all organizations, such as employment laws or workplace safety regulations. Consistent with Supreme Court ruling on sick leave requirements.
(d) “Usual and reasonable costs” means those costs incurred by the affected local governments for a specific program using generally accepted methods of service delivery and administrative practice.	
(3) A local government is not required to comply with any state law or administrative rule or order that requires the expenditure of money by the local government until the state appropriates and allocates to the local government reimbursement for any costs incurred to carry out the law, rule or order and unless the Legislative Assembly provides, by appropriation, reimbursement in each succeeding year for such costs. (4) When a local government determines that a program is a program for which moneys are required to be appropriated and allocated under subsection (1) of this section, if the local government expended moneys to conduct the program and was not reimbursed under this section for the usual and reasonable costs of the program, the local government may submit the issue of reimbursement to nonbinding arbitration by a panel of three arbitrators. The panel shall consist of one representative from the Oregon Department of Administrative Services, the League of Oregon Cities and the Association of Oregon Counties. The panel shall determine whether the costs incurred by the local government are required to be reimbursed under this section and the amount of reimbursement. The decision of the arbitration panel is not binding upon the parties and may not be enforced by any court in this state.	Eliminates the loopholes that have made the law ineffective.
(5) In any legal proceeding or arbitration proceeding under this section, the state government shall bear the burden of proving by a preponderance of the evidence that moneys	Since it is the state imposing the mandate, the burden should be on the

appropriated by the Legislative Assembly are sufficient to reimburse the local government for the usual and reasonable costs of a program.	state to prove that the funding amount is appropriate.
(6) Except upon approval by three-fifths of the membership of each house of the Legislative Assembly, the Legislative Assembly shall not enact, amend or repeal any law if the anticipated effect of the action is to reduce the amount of state revenues derived from a specific state tax and distributed to local governments as an aggregate during the distribution period for such revenues immediately preceding January 1, 2018.	
(7) This section shall not apply to:	
(a) Any costs resulting from a law creating or changing the definition of a crime or a law establishing sentences for conviction of a crime.	A super majority requirement is an ineffective constraint on unfunded mandates.
(b) A new program or an increased level of program services established pursuant to action of the Federal Government so long as the program or increased level of program services imposes costs on local governments that are no greater than the usual and reasonable costs to local governments resulting from compliance with the minimum program standards required under federal law or regulations.	The cumulative effect of unfunded mandates is a serious problem; the state legislature is always free to reconsider old laws if it does not want to fund their impact.
(8) When a local government is not required under subsection (3) of this section to comply with a state law or administrative rule or order relating to an enterprise activity, if a nongovernment entity competes with the local government by selling products or services that are similar to the products and services sold under the enterprise activity, the nongovernment entity is not required to comply with the state law or administrative rule or order relating to that enterprise activity.	A mandate on local governments imposed by the state government should be funded regardless of how the mandate is created.
(9) Nothing in this section shall give rise to a claim by a private person against the State of Oregon based on the establishment of a new program or an increased level of service for an existing program without sufficient appropriation and allocation of funds to pay the ongoing, usual and reasonable costs of performing the mandated service or activity.	
	There is no logical reason for this exemption.
	The state government is able to impose fees itself; there is no excuse for hiding behind a local government when doing so.