

February 12, 2025

Mayor Hoy & Salem City Council  
555 Liberty St. SE  
Salem, OR 97301

*Re: Findings & Recommendations (City Efficiency Committee)*

Dear Madame Mayor and Council Members:

Thank you for establishing the City Efficiency Committee (CEC) and giving us the opportunity to be members of it. This letter summarizes our findings and recommendations. As a reminder, our primary objective was to identify opportunities to improve cost efficiency within the General Fund. In addition, an aim of the committee's formation was to increase its understanding of the City's financial process and constraints while also strengthening trust and transparency in the City's fiscal practices.

**A. Process**

The CEC met five times for a total of 6.5 hours between January 29th and February 12th. The Committee's work was significantly enhanced by the preparation and participation of Keith Stahley (City Manager), Josh Eggleston (City CFO), and Kali Leinenbach (Budget Manager). We thank the Council for allocating time for their participation, and we thank them for their significant command on budgetary matters and for their time informing us on those matters.

We also received very helpful written and verbal testimony from several interested citizens and City Budget Committee members as well as Police Chief Trevor Womack, Fire Chief David Gerboth, and Deputy City Manager Krishna Namburi. While CEC members have extensive organizational budget experience, most of us did not have in-depth knowledge of the City's current general fund challenges, budget process, or the significant, existing efforts to achieve efficiencies with limited resources. Testimony from these individuals was very helpful.

It is important to note, however, that our review was conducted at a high level and did not include a detailed review of contracts, interviews with staff, or a detailed analysis of resource allocation. Additionally, we did not look at City functions operating outside the general fund such as public works, parking and utilities. Accordingly, it is possible there are opportunities for the City to be more efficient that could be identified with a more detailed review.

**B. Summary**

In the time given, the CEC did not find inordinate waste among the City General Fund operations and that the City is doing more with significantly fewer resources than cities of similar sizes. Where there are potential inefficiencies, the CEC recommends City leadership pursue the specific opportunities for efficiency outlined in this report. Nevertheless, the CEC finds that none of these efficiency opportunities in and of themselves will preserve the current levels of City services without addressing largely external influences powerfully impacting the City's budget. Those externalities, if unaddressed, will dramatically limit the City's General Fund's ability to operate without a deficit. This leaves few options outside of service cuts or new revenue.

### C. Findings –

As mentioned, our committee members gleaned a great deal from the data we received and reviewed. We do provide recommendations of potential efficiencies further below in this report. However, even if those efficiencies are viable and achieved, we conclude they will do little to substantively reduce the City's budgetary deficit, which is trending higher annually. We recognize that the City Council, Budget Committee, and City Staff are well aware of these realities. However, we offer the following observations about current efficiencies and budget constraints to reinforce the urgent need to address systemic issues, if at all possible, for greatest impact on efficiencies:

1. **In the time given, the CEC did not find inordinate waste among the City operations budgeted within the General Fund.** This is not to say that opportunities for efficiency do not exist. Most large organizations have some opportunities for greater efficiency. We do see some opportunities, and urge pursuit of them. But, we see the inefficiencies as a result of systems and budgetary constraints, rather than a result of the people themselves. In fact, we find that at least some staff are seeking ways to save costs wherever possible (e.g. pausing purchasing of equipment/fleet or avoiding new hires if potentially unnecessary to fill). We believe the community perception is inconsistent with this reality, and it would benefit both the citizens and City staff and officials to find ways to effectively communicate this truth to the community.
2. **The City of Salem is doing more with less compared to cities of similar size.** Data provided by each of Moss Adams, Library, Police, and Fire, demonstrate that compared to its peers, City of Salem staff are severely understaffed for the level of service they are expected to deliver, which we find significantly contributes to inefficiency. We highlight here only a few key data points in support:
  1. **City Manager's Office.** The City Manager's Office ratio of Full Time Employees (FTE) per 10,000 residents is .34. The average of its peers is 1.38 FTE per 10,000 residents. The City Manager's Office has six FTEs, and to achieve the average FTE/resident ratio, it would need 25 FTE. See *Moss Adams 2024 Enterprise Leadership Performance Audit*, January 24, 2025 Draft.
  2. **Fire Department.** Firefighters are responding to twice as many calls since 2011, with 4.5% less staffing. Salem Fire has the lowest staffing per engine compared to its peers (Salem has 3 firefighters/engine versus the 4 firefighters/engine of its peers).
  3. **Police Department.** Salem PD has the same number of budgeted officers as it did 18 years ago in spite of a substantially increased population. As a result, Salem's officer to citizen ratio is the lowest among its peers and trending down still. All the while, Salem's crime rates are higher than peer cities (e.g. 69% higher crime rate than Gresham).
  4. **City Library:** Salem's library provides the lowest number of service hours per 1,000 residents and half as many as its next lowest peer (Salem has 18 hrs/1,000

compared to Beaverton's 35 hrs/1,000). As those numbers suggest, it also has far fewer paid staff than its peers.

**3. Powerful externalities, if unaddressed, make current levels of service**

**unsustainable.** The current levels of service, let alone better levels of service, are unsustainable unless some powerful and complex external impacts are somehow addressed. We recognize these impacts are not news to anyone on this Council, but until something is done to address their impacts, "efficiencies" will do very little to address the City's General Fund budget deficit. Specifically, we highlight these complexities:

- 1. PERS.** The State mandated contribution rates for PERS have continued to increase. As recently as 2008, the rates ranged from 8.65% to 12.23% compared to the rates for FY 2026 ranging from 24.02% to 30.29%. This upward trend is an inordinate burden on the City, as it is for all public entities funding PERS.
- 2. Compensation & Benefits.** As in any organization, the greatest expense in Salem's General Fund budget, by far, is in salaries, wages, and benefits. These costs make up 80% of the General Fund budget. In any organization, the ability to control and manage costs is a critical part of achieving efficiency. In light of the largest General Fund expense being salaries and wages, the ability to manage that cost is critical. City management is very limited in its control of those costs due to those being negotiated with six different external organizations. Some may view this finding as a commentary on unions. We do not intend it as such. We are simply acknowledging the impact of this significant cost not being within the direct control of those who are responsible for controlling costs and achieving efficiencies.
- 3. Property tax revenue.** Revenues are also lower for Salem compared to many of its peers due to Salem's below-average tax rates when Measures 5 and 50 were passed decades ago. For example, Eugene's tax rate is \$7.01 per \$1,000 of assessed value, compared to Salem's \$5.83 per \$1,000. Accordingly, Salem generates \$89 million of property tax revenue compared to \$134 million in property tax revenue for Eugene with a higher rate and assessed value base. If Eugene had the same tax rate as Salem, Eugene would generate \$108 million. Salem's property tax revenues also suffer from being a capital City. We are encouraged to hear of the City's current efforts with the State to pursue recoupment of some of those revenues.

**D. Recommendations for Efficiency**

Our Committee explored as many opportunities for efficiency as was possible in the time given. Below are the potential efficiencies we conclude have both the greatest impact and likelihood of being achievable. In other words, we find these to be the opportunities most worthy of pursuing, while recognizing that such pursuit may reveal they either cannot be achieved or do not deliver a meaningful impact.

- 1. Increase intergovernmental collaboration.** Several department heads acknowledged potential redundancies or opportunities to leverage systems employed by neighboring or similar jurisdictions that similarly utilize tax dollars for delivery of services (e.g. Cities,

county, or state). We learned of examples of existing cross-jurisdictional collaboration in fire and law enforcement, and suggest such opportunities may further exist in either:

1. “Front line” services (e.g. potential merger of closely-located county and city fire stations; collaborating response to impacts of 1,000 homeless in Salem), or
  2. “Back office” services (e.g. the City’s HR, expense-payment systems, which were reported as being antiquated).
2. **Identify alternative delivery of services.** Some of the highest-cost resources are being used for delivery of services that could likely be delivered by a lower-cost alternative. For example, 74% of the fire department’s responses to calls are for medical reasons, including mental health calls, not for fighting fires. The opportunities for alternative deliveries of certain services may be most available in Police and Fire, but we recognize those will require some policy decisions regarding which there will be strong public opinion.
  3. **Pursue reductions in employee overtime and turnover.** Given the prevalent understaffing, the high employee turnover, and languishing position vacancies, the need for overtime is not surprising. Yet, the cost of the City’s overtime did surprise us (roughly \$9 Million in FY 2024). We acknowledge both the inevitability of some overtime and also the significant efforts by department heads to reduce it. We also urge executive-level collaboration with department heads to examine how turnover and overtime could be limited to mitigate both the monetary and human impacts.
  4. **Give department heads permission and resources to think strategically.** Given the significant understaffing in many departments, and as identified by Moss Adams in its Performance Audit, many staff with leadership responsibility are understandably involved in the tactical work of those they lead. If they were given space and time to think strategically (e.g. Fire Chief acknowledged need to create a Strategic Plan), we believe they can help create greater efficiencies.
  5. **Encourage efforts to leverage artificial intelligence.** We understand that City staff have already leveraged artificial intelligence applications and are assessing further opportunities. We urge investment of time and, where determined to be effective, money to expand use of artificial intelligence wherever possible to reduce burden on staff and increase efficiency in delivery of City services.
  6. **Examine costs and benefits of Urban Renewal Areas (URA’s).** The committee acknowledges that construction or rehabilitation of some facilities advancing City policies (e.g. affordable housing) would not have occurred without tax increment financing from URA’s. We also received testimony indicating that the costs required to serve such facilities may exceed the benefits.
  7. **Leverage Moss Adams recommendations impacting efficiency.** Our committee received the draft report from Moss Adams’ 2024 Enterprise Leadership Performance Audit. Additionally, we understand there are additional performance audits planned. To the extent any of the report’s recommendations could improve efficiency, and we believe some would, we urge City leadership to pursue them. We recognize the value in conducting performance audits to identify potential efficiencies and recommend the City continue

these engagements. Additionally, the City may find greater value in adding an internal auditor to staff who is able to conduct more frequent and thorough audits to identify additional efficiencies and follow up to ensure implementation.

- 8. Strengthen communication with the community.** This committee benefited greatly from the education we received from City Staff on budget practices and constraints. We believe Salem citizens would likewise benefit from such an understanding, and it would counter what we believe is a common perception of inefficiency in City government. We suggest the City quantify, record, and communicate any current or future efforts to increase efficiency.

If the City Council invests resources in pursuit of any of these recommendations (or others), we urge collaboration, as reasonable, with those who are intended to implement or benefit from the solutions (e.g. middle managers and end users). They can offer important insights to assess viability of proposed solutions and create critical paths for implementation. Such collaboration will not only enhance innovation, but also generate buy-in to increase likelihood of success.

Thank you, again, for this opportunity to participate in this important work of the City. We hope you will find our findings and recommendations helpful to the important work you are doing on behalf of our City.

**Sincerely,**

**City Efficiency Committee Members:**

Erik Frisk

Brian Moore, Chair

Kathy Gordon

Bryce Petersen

Michael Gay

Todd Graneto

Brian Johnston

Ernesto Toskovic, Vice Chair

Ryan Dempster