Attachment 6

City of Salem

UPDATED PEER CITY FINANCIAL RESEARCH

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SUMMARY

Moss Adams was tasked with researching the financial condition of other cities in Oregon to provide additional context to the current budget discussions in the City of Salem. We examined budget documents, city council and committee materials, and other publicly available documents for the following peer cities, presented by population size:

- Eugene
- Gresham
- Hillsboro
- Bend
- Springfield
- Corvallis

As expected, the review of peer cities' financial conditions indicates that the state's structural problems with property tax funding, created by Measures 5 and 50 in the 1990's, have reached a point of critical concern for municipalities. Cities throughout the state are figuring out how to afford additional services demanded by growing communities while revenues are constrained by state law. Although the specifics of each City's financial condition and service needs are unique, each reflects the state's increasingly adverse environment for municipal funding.

Because cities differ by which financial documents they make publicly available, and because cities are at different stages in their current budget processes, the information on each City's financial condition varies by type and level of detail. Nevertheless, the available information illustrates that the financial issues faced by the City of Salem are shared by many of its peers.

The original version of this document was prepared in March 2023. This version was updated to reflect additional information that was published by cities in the past six months, as each of these cities have adopted new budgets for FY24 or the FY23-25 biennium. The financial status and forecast of nearly every city have worsened since the original version of this document was prepared.

PEER CITY FINANCIAL RESEARCH SUMMARY						
	Eugene	**Gresham**	**Hillsboro**	**Bend**	**Springfield**	**Corvallis**
Current and Projected Structural Deficits?	Yes	Yes	Yes, until FY28	Yes	Yes	Yes
General Fund Deficit Amount(s)	FY25: $8,300,000	FY24: $8,200,000 FY25: $11,265,000 FY26: $15,295,000	FY25: $1,663,000 FY26: $3,253,000 **However**, these forecasts rely on $20.5M of transfers from ARPA and other one-time funds	2023-2025: $6,623,100 **However**, projected deficit levels rely upon $9.2M of city-owned land sales	FY24: $1,158,837 **However,** the FY24 budget relies heavily upon ARPA funds. FY26: $3,164,663	FY24: $9,640,700
Additional Revenues or Service Cutbacks Being Considered?	Yes	Yes	Yes	Yes	Yes	Yes
Revenue Tools in Use, or Being Considered, to Address Deficits	• New revenue strategy unclear • Payroll tax already in place • Multiple local option levies must soon be renewed to meet baseline funding assumptions	• Safety-focused local option levy - **Failed** • Council supports an additional attempt at a local option levy • Operations fees increases	• Multiple local option levies must be renewed in the coming years to maintain current deficit projections • Revenues must increase sharply in FY26	• May 2023 levy passed, keeping support for the Fire Department unchanged • Transportation fee increases	• Local option levy • FY24 budget highlights that new revenues must be adopted, or services must be cut, in the coming years	• Library and Parks local option levy must be renewed to maintain current levels of funding • $5.6M per year operations fee increase adopted in FY23

CITY DETAILS

EUGENE

Eugene’s first biennial budget began to address its $15M structural deficit, with an open question about how council’s $5M of additional priorities would be funded. Although significant reductions were taken, the City also began permanently funding services that were previously funded through one-time funds. City reserves have begun to fall well below their policy targets.

Eugene continues to undertake significant reduction strategies to address these deficits. Every department experienced at least some cutbacks. Reductions in the 2023-2025 budget include:

- $18.6M in ongoing service reductions
- $4.3M of one-time reductions

On a departmental level, these reductions included:

- $1.5M in Public Works
- $3.7M in Police
- $830k in Planning and Development
- $6.6M in Library and Cultural Services
- $4.9M in Central Services

To fix the structural deficit and replenish reserve funds, without further layoffs or service reductions, the City requires $8.3M of additional annual revenue beginning in FY25. Without adopting new revenue strategies in the coming months, the City will have to soon implement even sharper service reductions and continued layoffs.

Eugene currently has a payroll tax and two operational local operation levies: one for Library operations and another for Parks and Recreation operations. In addition to adopting new revenues, Eugene must renew these levies in the coming years. If voters reject these local option levy renewals, the new revenues required by Eugene would far exceed the $8.3M currently needed.

GRESHAM

Gresham’s structural deficit for FY24 is $8.2 million. This deficit was meant to be partially addressed using a public safety local option levy that was on the May 2023 ballot. Because this levy failed, the City used $5 million of fund balance and $3.2 million of remaining ARPA funds to close the budget gap for this fiscal year.

Gresham’s structural deficit is projected to grow to $15,295,000 in FY26. The City faces this increasing deficit despite significant measures in recent years to contain costs. Over the last two years, Gresham has cut 31 positions. However, to implement the service goals outlined in the City’s strategic plan and to improve service levels, the City would need to increase revenues by $16.3 million per year over the next few years.

Gresham is considering a number of revenue increases to avoid significant layoffs and reductions in service, including:

- Another attempt at an operational local option levy
- Indexing fees to inflation
- Significant increases to the city services fee (similar to Salem's Operations Fee), each year for the next three fiscal years
- A streetlight fee in FY26
- A dispatch fee in FY26
- A parks utility fee

If Gresham is unable to increase revenues, it will need to significantly reduce services and cut positions. In addition to funding some new positions, the failed public safety local option levy was originally intended to retain 55 positions. These positions remain unfunded beyond this fiscal year.

The Gresham city council has expressed a desire to bring some version of a public safety local option levy back to a vote. However, no levy has passed in the City of Gresham since 1992.

HILLSBORO

Expenditures have exceeded revenues at the City of Hillsboro since FY21. These deficits continue in FY24, and the City projects these deficits to continue until FY28. Fortunately for the city, prior to COVID-19, the City amassed a fund balance of 25% of annual operational expenditures. This fund balance, as a percentage of expenditures, has steadily declined since 2020, and is now well below the City's policy targets.

Although the City's biennial budget forecasts an increase in fund balance from 2023 ($20.8M) to 2025 ($22.8M), this projection of fund balance growth is only possible due to the transfer of $20.5M of one-time funds into the General Fund, including ARPA and Strategic Investment Program funds. Without these transfers, the City's structural deficit would be approximately $7.2M in FY24 and $12.2M in FY25.

Hillsboro projects a sharp increase in property tax (+$9M) and local option tax (+$4.5M) from FY25 to FY26, at least partially due to the City's 2005 Strategic Investment Program moving out of abatement. Hillsboro must renew two operational local option levies to maintain current funding projections. One levy must be renewed in FY26 and the other must be renewed in FY28. If voters reject these levy measures, or if assessed value projections do not increase by as much as the City expects, Hillsboro will face sharply higher deficits in the coming years.

BEND

The City of Bend's 2023-2025 biennial budget exhibits a $6.6M structural deficit, which the City has decided to temporarily address by drawing down its reserve and contingency levels. However, these deficit projections rely upon $9.2M of city-owned land sales which are, by definition, one-time funds.

Although these development-focused land sales will lead to long-term growth in the tax base, it remains to be seen if the pace of this growth—and the growth of the tax base throughout the city—will be able to replace these millions of dollars in one-time land sales revenues, which currently bolster the City's finances, in the near and medium terms.

The City of Bend has strictly limited hiring over the previous biennium and plans to continue these restrictions. New hires are predominantly restricted to public safety and utilities. Bend voters recently approved the fire services local option levy, ensuring that fire services are provided at a consistent level for the next few years.

The City's transportation services fund also faces a significant shortfall. On average, this shortfall is projected to be approximately $6M per year. To address this gap, Bend is considering adopting a transportation utility fee (similar to Salem's Operations Fee, specifically for transportation). The City is also considering an overhaul to its transportation system development charges.

Bend has decided not to support any shelter operations with city funds. The City is seeking state and federal revenue to run three shelter facilities that were purchased during its 2021-2023 biennium.

SPRINGFIELD

The City of Springfield's general fund demonstrates a significant structural deficit that must be addressed within the next five years. Although the FY24 budget exhibits a $1.16M general fund deficit, the structural deficit is much larger, as the City's budget is temporarily buoyed by the continued use of ARPA funds.

Even without any additional staffing, the City's personnel costs are projected to increase sharply in the near term. Springfield is currently negotiating with its police union—the first union negotiation to occur within the current period of elevated inflation. Fortunately for the city, Springfield voters renewed a police services levy in November 2022. The fire fighters' union contract is set to expire in June 2024, which will in all likelihood be associated with further personnel cost increases.

The City's general fund structural deficit is projected to increase steadily in the next few years:

- FY24: $1,159,000
- FY25: $1,127,000
- FY26: $3,165,000
- FY27: $3,784,831
- FY28: $4,882,410

Although Springfield's current fund balance is 25% of operating expenses, these growing deficits will gradually erode the City's working capital. The City projects a negative fund balance by FY28. Springfield is currently exploring revenue options and expense reduction scenarios with consultants from the Center for Public Service at Portland State University.

CORVALLIS

The City of Corvallis General Fund demonstrates a significant structural deficit for FY24. Although the City was buoyed by a relatively large fund balance at the beginning of the current fiscal year ($21.7M, 30% of general fund operations costs), this year's projected general fund deficit of $9.6M will sharply decrease working capital. Even this large deficit is deceptively small, however, as the City's social services in its Community Development Department is set to receive approximately $1.7M as the city depletes its remaining ARPA funding this year.

Despite recent increases to operations fees, with projected annual revenues of over $5.6M, the City continues to face significant financial headwinds. Although Corvallis has not published a financial forecast for the coming years, City leadership has vehemently stressed that expenses are projected to continue to outpace revenues, and that there are significant operational and infrastructure needs with no clear funding solutions. Corvallis faces significant facility needs in the future, despite allocating approximately $9.6M of ARPA funds to facilities needs during FY24.

Compounding this difficult financial outlook is the City's $29M Parks and Library local option levy that voters must renew this November. If voters reject this ballot measure, Corvallis deficits will sharply increase.

Attachment 6

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