

EUGENE CITY COUNCIL AGENDA ITEM SUMMARY



Work Session: FY14 Plan of Action – City Service Fee Proposal

Meeting Date: January 14, 2013
Department: Central Services
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Agenda Item Number: B
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ISSUE STATEMENT

This work session is an opportunity for the council to provide input on a new City Service Fee designed to maintain the current level of services to the community and prevent further cutbacks in previously reduced service areas. The new fee is one piece of the four-part FY14 Plan of Action to address a \$6 million deficit.

BACKGROUND

At the November 14 council work session, the City Manager presented information as background for the start of a financial strategy discussion, including discussion of a potential new revenue source. He described the City's efforts over the past several years to close a persistent structural gap in the budget. Despite several years of hard work and decisions to live within our means, the lingering impacts of the recession have widened the gap between revenues and expenses.

At the November 26 council work session, the council received an updated General Fund Six-Year Financial Forecast that showed a projected budget gap of \$6 million. The main reason for the increased gap was the significantly lower property tax revenue to be received this fiscal year and each year into the future, due to the depressed economy.

At the December 10 work session, the City Manager presented a four-part FY14 Plan of Action to address the budget gap. The plan is included as Attachment A. The four parts of the plan are:

1. Economic Prosperity – Grow the Property Tax Base
2. Cost Control – Lower Costs and Find Efficiencies with Minimal Service Impacts
3. Transition Funding for Parks Costs to Stormwater Fee
4. New City Service Fee

The council voted 6-1 to move forward on the path identified by the City Manager for the financial strategy.

The modest City Service Fee is proposed by the City Manager as a part of the Plan of Action in order to maintain services and avoid further cutbacks in quality of life for the community. Over the past several years, there have been discussions and examinations of possible mechanisms to

use if the City were to look at increasing revenues to fund services. These examinations have included the Meeting the Challenge Task Force, the Council Subcommittee on Human Service Funding, and two community surveys. These efforts have provided a basis for the current four-part Plan of Action, including the proposal for a monthly City Service Fee.

The Meeting the Challenge Task Force (MTC) was a group of citizens convened in 2009 by the City Manager to talk about potential new revenue sources. MTC recommended an emphasis on economic development that would grow the tax base and provide long-term financial stability to the City. They recommended a restaurant tax as the top choice for a new revenue source, but also suggested consideration of two other funding mechanisms – a utility consumption tax or a city-wide monthly service fee. Additionally, MTC recommended that, in order to maintain the public’s trust, when new revenue is proposed for specific services and the revenue is not generated because it lacks public support, the services that would have been funded with that revenue should be scaled back or eliminated.

In 2011, the Council Subcommittee on Human Service Funding was created, at the suggestion of the Budget Committee, to explore options for stabilizing human service funding needs in the community. The subcommittee started with the work of MTC and reviewed the recommended revenue options along with several other mechanisms. The subcommittee as a group recommended not pursuing a restaurant tax as it would not be politically feasible. They supported pursuing the other two items in the MTC report – a utility consumption tax or a monthly public service fee. Individual subcommittee members also mentioned other options that could be pursued.

The two scientific surveys included questions about a preferred mechanism to fund important community services. Responses in both the July and November surveys indicated a preference for a monthly fee, as seen in the chart.

As a result of this input over the past three years, the City Manager has proposed a modest, monthly City Service Fee for consideration by council. This particular funding mechanism has become popular with Oregon municipalities in the years since Measure 50 was enacted, and the ability of local governments to permanently increase property taxes was eliminated. Monthly city service fees (some called “utility fees”) have been adopted by Oregon local governments of various sizes and for a variety of purposes. Some examples are a police, fire & parks fee in Gresham, fees in Corvallis for sidewalk maintenance and urban forest management, a fire protection fee in Jacksonville, and several others.

July 2012 Survey Results	
<i>“Given a choice [of funding mechanisms], which alternative do you see as being the most appropriate?”</i>	
Monthly City Service Fee	28%
Restaurant Tax	20%
Personal Income Tax	13%
Utility Consumption Tax	11%
Business License Fee	11%
Refused	17%
November 2012 Survey Results	
<i>“Given a choice ... which alternative do you see as being the most appropriate?”</i>	
\$10/Month City Service Fee	52%
Property Tax Increase	28%
Neither One	14%
D/K or Refused	6%

The basic features of the new City Service Fee proposed by the City Manager are:

- A modest monthly fee that would be capped at \$10 per month per fee payer.
- The fee will be paid by residences and businesses in Eugene. It will be a flat fee for all fee payers.
- The fee will be administered in the most effective and efficient means possible. That may mean that the Eugene Water & Electric Board (EWEB) acts as billing and collection agent, or that the City uses another method for billing and collection.
- The fee design will be simple, in order to keep costs for billing and collecting as low as possible.
- The fee should include appropriate measures to ensure accountability and transparency for the community and fee payers.
- The fee should be placed on the May 2013 ballot for voter approval.

Key Questions: The City Manager has proposed a City Service Fee that would be a maximum of \$10 per month and be designed to avoid further cutbacks in services. At this work session, the council will consider several key components of the City Service Fee and provide input to staff as the ordinance is drafted. Key questions are:

1. What services should be funded through a new City Service Fee?
2. What types of assurances should be built into the fee ordinance for accountability and transparency?
3. Should the fee incorporate assistance for limited income individuals and families?

In putting together a proposal for the council to consider on a City Service Fee, surveys completed in July and November 2012 provide information that has helped to shape the recommendation.

Services Funded Through New Fee: As discussed in the four-part plan, the City Service Fee is needed to help close the budget gap and maintain services at their current level. Survey results indicate the community is willing to pay a modest monthly service fee (up to \$10 per month) to maintain the present quality of life.

An important factor when choosing which services to fund with the new fee is ensuring that the fee is used only for maintenance of current services or to avoid further cutbacks. When asked, after some explanation of the City's financial situation, whether they would prefer cutbacks in services to avoid new taxes or fees, or to pay a modest fee to maintain services, respondents preferred to maintain services even if it meant paying a modest fee – 58 percent in July and 61 percent in November preferred to avoid further service cutbacks. In July, community members were asked if they wanted to maintain present services (39 percent), restore services to three years ago (34 percent), or increase services (18 percent) with a new monthly fee.

Survey results also provide information about how the community would rank services that should receive a high priority for funding. In July, respondents were asked to rank four service areas that could be funded through a new fee. In the November survey, respondents were asked

in several ways about their collective core values and issues of concern, as well as about their spending priorities. Responses from both surveys are shown in the table.

At the January 14 council work session, the City Manager will provide a recommendation about a package of services that would be funded through the new City Service Fee.

Accountability and

Transparency: It is essential to provide assurances to voters and taxpayers that the funds provided through a new revenue source

are appropriately spent on programs that meet their expectations, and that caps are placed on revenue generation. The success of building in such assurances can be seen in the recent approval by voters of a second street bond measure that includes a number of accountability and transparency features.

Survey data from July and November provide insight into some of the things that would be important for accountability and transparency. The types of features tested in the survey mirror the kinds of assurances that were built into the street bond measures and the Downtown Urban Renewal District plan amendment processes.

Both surveys included questions about how the revenue source should be enacted, and about dedication of the revenues, including how much discretion the council should have in enacting the revenue source and determining how to spend the funds each year. It is very clear that the community would expect that the council would bring a proposal for a new monthly City Service Fee to the ballot, rather than authorizing the fee without a vote – 66 percent said that even a modest fee must be placed on the ballot and approved by the voters.

In both July and November, voters were asked about their preferences for how the investment of new revenues should be controlled, and in both cases, respondents were willing to provide the council with some discretion in determining how those expenditures were allocated. The wording of the questions was slightly different, but used the same concepts in asking the voters their opinions, and in both cases, approximately 60 percent were willing to provide the council with some ability to determine spending allocations, as can be seen in the chart on the following page.

July 2012 Survey Results	
<i>Rank Four Service Areas</i>	
<u>Service Area</u>	<u>% #1 or #2 Priority</u>
Human Services	85%
Street/Bike Path Maintenance	62%
Quality of Life Services (such as parks, recreation & library)	47%
Public Safety	34%
November 2012 Survey Results	
<i>Priority Spending for Services and Programs</i>	
<u>Issue</u>	<u>% Top + 2nd Priority</u>
Maintain fire protection and ambulance services	96%
Encourage economic and business development	94%
Maintain funding for human services	89%
Increase police protection	85%
Increase jail capacity	84%
Avoid cutbacks on City parks & recreation programs & facilities	79%
Avoid cutting back further hours at public libraries	66%
Keep public swimming pools open	64%

<i>Preference for Controlling Investments</i>		
	<u>July</u> <u>Survey</u>	<u>November</u> <u>Survey</u>
Allow council to determine spending	24%	17%
Dedicate a portion of spending and allow council to control the rest	36%	42%
Dedicate 100% to specific expenditures and not allow council to alter the allocation	25%	37%
Refused/Don't Know	15%	4%

A number of arguments were proposed in the November survey to test the impact of additional measure features related to accountability and transparency – restrictions on how the money would be spent, a cap on the fee, an oversight committee, and five-year review clause. Voters were asked if these features would make it more or less likely that they would support the measure. In all cases, these features increased support for the new fee.

<i>November 2012 Survey</i>			
<i>Test of Arguments – Accountability and Transparency Measures</i>			
	<u>Much More or</u> <u>Somewhat More</u> <u>Likely to Support</u>	<u>No Effect/ Doesn't</u> <u>Matter / Unsure /</u> <u>Don't Know</u>	<u>Much More or</u> <u>Somewhat More</u> <u>Likely to Oppose</u>
Restrictions on how the money is spent	73%	20%	7%
Cap on the amount of the fee	69%	21%	10%
Oversight committee	58%	29%	13%
5-year review clause	58%	28%	14%

In drafting an ordinance for the new City Service Fee, the council should consider which of these features would be included as part of the accountability and transparency for the fee. At the January 14 council work session, the City Manager will present recommendations for accountability and transparency measures to be built into the ordinance for the new City Service Fee.

Limited Income Assistance: Council members have indicated a concern about how the new City Service Fee might affect residents with limited income. The new City Service Fee could include features to mitigate or lessen the impact of the fee on those fee payers. The method for doing so can be simple or complicated, and the impact on the cost of billing and collection will be affected by the method chosen.

If the fee is billed and collected through EWEB, the City could participate in EWEB's Customer Care program which is targeted at individuals and ratepayers with limited incomes. The way the program currently works is:

- Up to \$200 of bill-paying assistance is available per year.
- Ratepayers at 60 percent of Oregon median income are eligible to apply.
- There is similar assistance available for customers who are receiving unemployment compensation.

There are a number of benefits from incorporating the City Service Fee into this program. First, it is an already existing program that will be relatively simple to add to. Fee payers will have an easy

way to access assistance through just one program that encompasses all of the items on the EWEB bill, rather than having to go through different processes for different portions of the bill to receive assistance. Infrastructure is in place which will mitigate start-up costs to administer. The maximum amount of bill-paying assistance could be increased in order to accommodate the new City Service Fee, if that amount were to be funded through proceeds from the fee.

If the fee is not billed and collected through EWEB, City staff would look for ways to achieve a similar outcome for fee payers. Goals would be to provide assistance to fee payers who need it most, and to make the application process simple and streamlined, which would also help to keep billing and collections costs low.

At the January 14 council work session, the City Manager will present recommendations for including limited income assistance into the new City Service Fee proposal.

Timeline and Next Steps: The focus of this work session is on the fourth item in the plan: a new City Service Fee to maintain the present quality of life in Eugene. If the council should decide to move forward with asking voters to consider such a fee, action must be taken no later than February 13 to place the measure on the ballot. In order to meet that schedule, the following dates have been set aside for council discussion and public input:

- January 14 work session
- January 28 work session
- February 4 public hearing
- February 11 work session and possible action
- February 13 work session and possible action (if needed)

The council will also consider changes to the stormwater ordinance during this time period, which is another key part of the four-part plan. That ordinance will provide for transitioning funding for parks costs to the stormwater fee. The proposed schedule for considering those changes is:

- January 22 public hearing
- January 28 possible action

RELATED CITY POLICIES

Council Goal of Fair, Stable and Adequate Financial Resources.

COUNCIL OPTIONS

The council may accept the City Manager's recommendation to move to a public hearing on an ordinance for a monthly City Service Fee on February 4 as proposed at the January 14 work session, or may choose to direct the City Manager to adjust the recommended approach.

CITY MANAGER’S RECOMMENDATION

The City Manager recommends developing an ordinance for a monthly City Service Fee and proceeding to a public hearing on February 4. Specific recommendations about services included, accountability and transparency measures and limited income assistance will be presented by the City Manager at the January 14 council work session.

SUGGESTED MOTION

Move to direct the City Manager to proceed to a public hearing on February 4 for ordinance for a monthly City Service Fee as proposed at the January 14 council work session.

ATTACHMENTS

A. A Plan of Action to Address the Fiscal Challenge: Closing a \$6 Million Deficit

FOR MORE INFORMATION

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City of Eugene
A Plan of Action to Address the Fiscal Challenge:
Closing a \$6 Million Deficit

Current Situation

The City of Eugene has continued to experience the distressing effects of the steep economic decline that began in 2008. The business and property impacts experienced by the community result in reduced revenues to support City services. Other difficult decisions have led to reduced revenues, such as deciding to let the Library Local Option Levy expire. Over the past four years, the revenue reductions have been addressed through spending and personnel reductions with a focus on maintaining services to the community.

Over the next several years, the City of Eugene is anticipating an additional \$6 million budget shortfall. This projection, generated from the recently updated General Fund forecast, doubled the \$3 million gap that was projected in May 2012. Property taxes make up 66% of the General Fund and changes can significantly impact the ability of the City to fund services in the current economic environment. Because of the depressed economy:

- The City received significantly less income from current year property taxes than anticipated.
- City officials expect lower growth rates in future property taxes.

Without action to fill the General Fund gap in FY14, the impact of lower than expected revenues (income) over the forecast period will compound and the gap will likely grow in future years, resulting in significant service reductions that will negatively impact the quality of life for Eugene's residents.

Like other communities, the City of Eugene has faced deficits over the last several years. Nonetheless, by exercising sound stewardship of public resources, the City has achieved balanced budgets, lived within its means, and not raised taxes. At the same time, we have continued to invest in community goals and minimized impacts to community services. Strides made to address these fiscal challenges have included:

- Cutting \$24 million from the General Fund budget (about 20%) over the past four years.
- Eliminating more than 100 full-time positions.
- Maintaining prudent reserves to address unexpected impacts due to shifts in income and/or expenses that could not be anticipated in advance.

Many parts of the City's organization were affected by these actions. Two examples of services to the public that were affected by the actions are parks maintenance and library services. Parks maintenance services have been reduced, such as mowing of grass in the parks and maintenance of the Owen Rose

Garden. Library services were first affected by reducing the budget for books and materials; last year, branch library hours were also reduced, among other staff efficiencies and changes.

The financial strategy chart below provides our five-part framework for maintaining community services and achieving financial sustainability. The fifth component, creating new revenues, has been added for the first time in several years and will interact with the other four components to stabilize the budget over the next several years. However, given the reductions made over the last four years, closing the \$6 million gap solely by cutting spending further will negatively impact community services presently being provided to Eugene residents. Therefore, new revenues are being considered as one component of the overall framework to maintain those important services at current levels.



FY14 Budget – Proposed Plan of Action

This plan is based upon community feedback received over the last three years via Eugene Counts, community surveys and Envision Eugene. It is also guided in part by recent surveys of Eugene voters conducted in July and November 2012. The key finding in these scientific surveys is that the community is open to paying a modest fee to avoid further cutbacks in City services. The most recent survey results indicate that a clear majority (59%) of Eugene voters are likely to support such a fee in the \$10 per month range.

We will continue the approach we’ve institutionalized over the past four budget years to control costs and invest in community goals, while living within our means and being good financial stewards. The proposed plan of action is designed to fill the General Fund gap of \$6 million, strengthen economic prosperity, maintain community services at their present levels, and provide future financial stability to ensure continuation of those efforts in the long run.

1. Economic Prosperity – Grow the Property Tax Base

Ultimately, our property tax base must grow to ensure that long-term revenues are available to maintain services at their present levels. Additional economic prosperity actions will be implemented, guided by the Regional Economic Prosperity Plan, Envision Eugene and Council goals with ongoing focus on supporting the local business community, employment and wage growth. These actions will also encourage new and expanded business investment in existing vacant and underutilized industrial and commercial lands. However, growing the property tax base alone will not close the \$6 million gap in the near term. Nearly a billion dollars of new property value would be needed to achieve \$6 million of additional revenue, which is more than twice the value of Eugene's top ten taxpayers combined.

2. Cost Control – Continue Footprint Reductions

The City has successfully reduced its General Fund expenses in recent years. Employees will again be asked to find additional efficiencies, including continued and expanded community partnerships. This will be done in a way that has minimal impact on direct services to the community being provided by or through the City.

3. Transitioning Funding for Parks Costs to Stormwater Fee

Transitioning funding for the General Fund parks maintenance budget into the stormwater fund will free up General Fund monies to maintain other community services that are central to the quality of life for all Eugene residents and prevent further erosion of these services. It will also provide a more stable ongoing funding source for parks maintenance.

4. New City Service Fee

Unfortunately, the above actions will not close the entire budget gap. As a result, the City will need additional revenues to maintain the current level of services and move the organization forward on priority goals. As noted above, the survey has indicated the community's willingness to pay a modest monthly service fee in order to maintain their present quality of life. Based upon that information, the proposed FY 14 Plan of Action recommends that the remaining gap be closed by asking Eugene voters to authorize such a modest fee of up to \$10 per month.

The depressed economy has impacted our community and we know many people are still struggling. We have worked hard to maintain services we know are important to the quality of life in Eugene. However, we have reached a point in which we can no longer maintain the services we provide today without a modest fee increase. We are putting forth a plan for consideration that could meet the desire to have a healthy, vibrant place to live, balanced with sensitivity to the financial impact that these proposals would have on Eugene residents. We are confident that the conversation with the City Council and the community will provide valuable direction on these difficult choices.