



July 17, 2018

Dear Mayor and Members of the City Council:

As required by our City Charter, I submit for your consideration a recommended budget for fiscal year 2019. It is aligned with the priorities you set in the 2016 - 2019 Strategic Plan and reflects your goals and guidance expressed during the year. This budget is defined primarily by a lack of revenue. Your ability to balance the expectations of a "full service city" with our ability to pay for those services has reached the tipping point. While growth in revenue has been dwindling for a decade, we have now seen that move below the zero growth mark, and into an area of significant reduction over previous years. Throughout this erosion of funding, we, the City's staff, have managed resources responsibly, kept promises made to citizens and started making good progress in lowering poverty and unemployment.

FY 2019 Big Picture

This budget's total expected revenues are \$431,962,365 and total estimated spending is \$453,661,274 for FY 2019. Typically there is a gap between revenues and expenses. City departments outside of the General Fund are allowed to save money over several years and then spend that cash in one year to pay for capital projects. This budget includes a net increase in staff of 9.50 FTE, for a total of 1,507.90 permanent City employees, or 12.29 employees per thousand population. This staffing level per thousand population remains lower than pre-recession levels. Because of continuing erosion of City revenues, my recommendations were based on four goals:

1. Balance the General Fund budget and live within our means;
2. Avoid laying off permanent employees;
3. Provide employees with some kind of increase in compensation; and
4. Make progress on the City Council's Strategic Plan goals.

I am proud to report we have managed to achieve these goals, though just barely, and only after many painful cuts to the budget. Cutting the budget in order to give minor raises is not a sustainable strategy. I do not normally support this approach; however, given the number of years we have experienced no or minor raises, I do recommend this approach this year.

Challenges in FY 2019

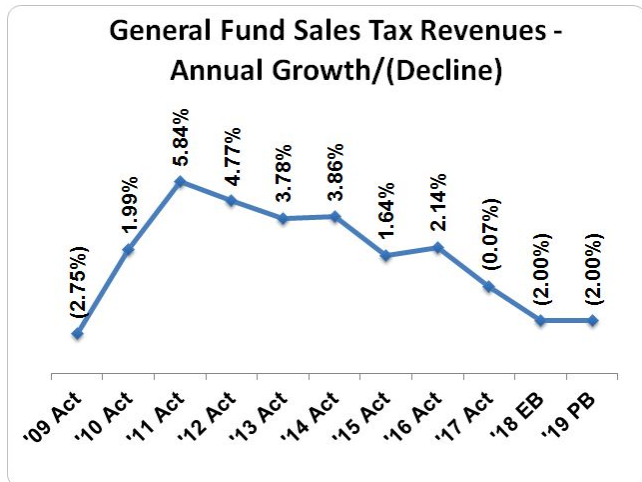
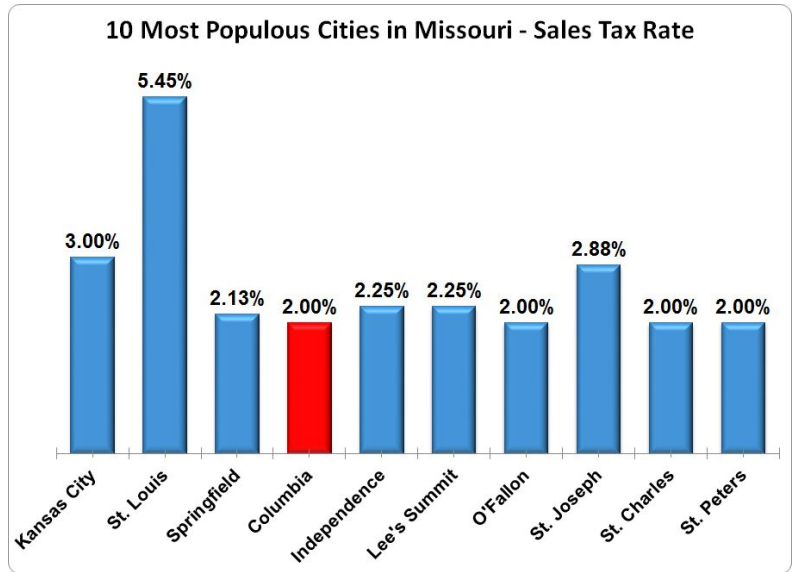
Continued reductions in brick and mortar sales tax create a severe revenue problem.

Sales tax growth has been historically low for the last five years. This year, sales tax revenues are less than they were the year before. We have not experienced lower sales taxes received from a previous year since

the great recession. As the retail economy suffers, our city will continue to be negatively impacted because we rely so heavily on sales tax.

In the last 20 years, Columbia has lost half of its manufacturing jobs and replaced them with retail jobs. That has led to an increase in poverty. Now, even those will be vanishing at an increasing rate. We've seen significant retail stores close throughout the city. All of the indicators I watch point to a very dark year for traditional retail and a bright year for online retail which does not collect local sales taxes.

Columbia's sales tax is average for Missouri, and low for populous cities; however, it produces less and less funding, due to the majority of taxable transactions moving to the internet and the fact



that online retailers do not pay sales taxes to cities. As you can see by the chart on the left, our long slow reduction of sales tax has now dropped into negative territory. Our estimate is that we will lose an additional 2 percent in FY 2019, or \$931,910. Retail is suffering across the country. As of this writing, we are on pace in America to see a doubling of the amount of retail closures over last year. Both this year and last have seen more retail closures than we experienced in the Great Recession in 2008.

The recent ruling by the Supreme Court of the United States settles the question that States do in fact get to charge sales tax on internet transactions. It is unclear as of this writing what the impact of this decision will be for cities,

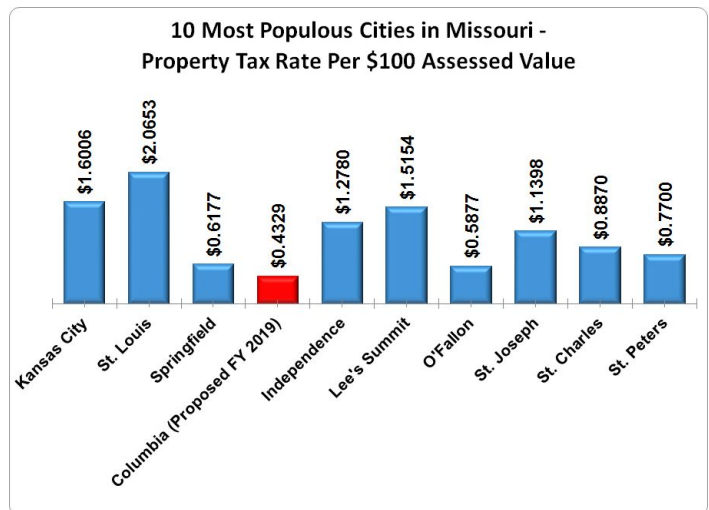
though, in the coming year, I will be aggressively pursuing options to recapture this lost revenue.

Other sources of revenue are also down. Gross receipts taxes from telephones are trending downward as more and more people move away from the use of landlines in their homes. Federal and state revenues are down in police and health as grants are ending. These departments will continue to apply for new grant funding, and if approved, the budgets will be revised.

Property Tax

Compared to other cities in Missouri, we have a very low city property tax rate. This means that the owner of a home in Columbia pays a lot less in city property tax than they would if they lived in the same house in 26 other towns in Missouri. In fact, the Daniel Boone Regional Library receives more funding each year from its property tax than the City government does. When you look at your total property tax bill, the City's portion is close to 6 percent.

Here is a comparison of the 10 most populous cities in Missouri. As you can see, Columbia is the fourth largest city, and the fastest growing, yet we have the lowest city property tax rate, by far. In fact, the average of these cities (\$1.09) is more than double our city tax rate. While we can take some pride in this fact, it also explains a great deal about why we have such low levels of staffing...and lower pay... than many cities, even in the police and fire departments. For example, O'Fallon and St. Peters don't have city fire departments, which is our second largest General Fund expense.



Transit Costs Must Again be Addressed

The Transit service continues to experience deficit spending. It is funded by the Transportation Sales Tax, which means that it is losing funding just like all other sales tax funded service lines. Therefore, this budget includes several service reductions for lower ridership routes so Transit can slow down the use of fund balance to operate. This is explored in more detail in the Infrastructure section that follows.

How we Balanced the General Fund Budget

No Fleet Replacement or Supplemental Spending

In a normal year, it is wise to replace a portion of our vehicles and equipment. This approach keeps us working and minimizes the ultimate cost of the equipment and keeps operating and supplemental budgets relatively level rather than having big spikes every so often. However, due to our very limited revenue growth, we have once again postponed replacements for a year. This is the fourth year we have had to forego fleet replacement funding in the budget. Departments have had to use savings in other areas, such as position vacancies within the department, to fund some fleet replacement; however, we are not keeping up with the need to update our fleet overall.

Continue 45-day Hiring Delay, Started in FY 2016

A hiring delay is an effective cost reduction technique that minimizes the negative impact of reducing budgets. Employee turnover is 13.22 percent which is up from last year's rate of 12.7 percent. However, by waiting 45 days to refill positions when they become vacant, we save roughly 1/12 of the total annual cost of those positions. We have continued Council's preference of not applying this to the Police and Fire Departments. This is projected to save the General Fund \$88,509 for FY 2019.

Departmental Budget Cuts

Because of our revenue constraints, I asked General Fund departments to recommend ways they might lower their spending. Though it was difficult, staff found ways to meet the goal. The total impact of these cuts was \$218,303. These spending reductions help balance the General Fund and largely were used to pay for the small across the board pay increase discussed later. These cuts are operational in nature and do not materially impact service provision. However, it is important to note, this is the last year we will be able to use this approach. We have reached the point where all future budget cuts will result in significant service reductions or outright elimination.

Other Important Considerations

Strong Bond Ratings

Because of your continued fiscal discipline and good staff-level management, our bond rating is AA. This is a good external indicator of the financial health of our utilities and the faith the market has in our financial stewardship. Given our revenue challenges, I don't expect this to continue into the future. As of the writing of this message, the Muni Ratio is .863. This means Federal Government Treasuries will be more attractive than municipal bonds in the market, putting pressure on municipal bonds to increase the interest we pay. If that occurs, the cost of future debt will increase, leaving less money to accomplish our Capital Improvement Plans. I believe we will be able to accomplish fewer projects with the revenue that our funding streams produce.

Residential Utility Rate Impact

Our goal each year is to keep average utility increases below \$5 per month in total. The 2019 budget includes residential rate increases in Electric (2.5 percent operating), Water (1 percent operating), Sewer (1 percent voter-approved), and Stormwater (25 percent voter-approved). The estimated average customer impact is \$2.93 per month (compared to an increase of \$3.24 per month last year).

Continued Sales Tax Erosion due to Online Sales

Sales tax in Columbia pays for many of the services our community relies on: road and sidewalk repair, the bus system, the airport, parks, police, fire and nearly everything else outside of utilities. As the retail market has increasingly moved to the tax haven of the internet, Columbia will see \$931,910 in reduced revenue for FY 2019 (\$456,802 in the General Fund). While the Supreme Court decision to end the tax free status of internet transactions will level the playing field with brick and mortar businesses, it remains unclear what our State Legislature will do. The erosion of sales tax per capita over time amounts to \$10 million every year in Columbia. If the state chooses to finish its long delayed effort to embrace a streamlined sales and use tax approach (or some other simple method for tax collection), Columbia would be in a position to solve its financial challenges without new tax ballots.

Implementing the Strategic Plan in an era of no Revenue Growth

Our Strategic Plan envisions a Columbia that is the best place for *everyone*...not just some...to live, work, learn and play. It's a community where people earn enough to support their families. It's a place where residents feel safe and secure, know and like their neighborhoods. A Columbia where, regardless of where they live, families know they can rely on police and fire protection, utility services and well-maintained streets and transit systems. They choose to call Columbia "home" because life is good here.

In the absence of new money, it can be very difficult to implement change on the scale envisioned in the Council's Strategic Plan. So we are left to accomplish what we can, with what we have. As you will see in the remainder of this message, some impressive results have been achieved, but future accomplishments will be a struggle against a lack of resources.



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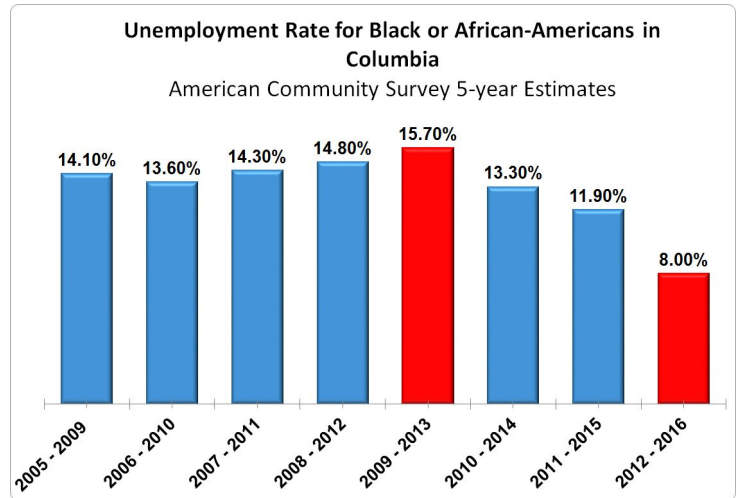
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Our vision: Columbia is the best place for everyone to live, work, learn and play.

That said, we have accomplished something truly remarkable. We have begun to close the employment gap between white and black Columbians. The American Community Survey measures unemployment by race; they've measured it since 2005. The gap is now the smallest we've ever seen. When the City Council established the Strategic Plan, African American unemployment was 15.7 percent in Columbia. Today it's 8 percent. We still have work to do, but we're gaining on our goal.



FY 2017 Council Savings

To enable continued progress on the Strategic Plan, I am recommending the use of \$121,000 (out of \$1,454,983) of City Council FY 2017 savings to continue our work to implement the Strategic Plan:

- \$50,000 Creation of our next Strategic Plan
- \$36,000 Continue the Supplier Diversity Program
- \$35,000 Continue the Focused Job Coaching Program

Use of the remaining City Council FY 2017 savings will be resolved in the budget process; however, following are the current list of concepts for the use of the funds:

- \$2.5 million - Future Fire Station
- \$750,000 - Citywide performance audit
- \$486,000-\$648,000 - Police take-home car program (\$54,000 per vehicle (9-12 vehicles))
- \$500,000 - House down payment program for Police and Fire
- \$50,000 - Dignity in Work program
- \$50,000 - Peer to Peer Naloxone program
- \$20,000 - Flex transit ride system to and from Council meetings

Strategic Priority: Economy - Jobs That Support Families

Jobs are Social Equity

Working with our partners, the Economic Development Department and the City Council have helped to create or retain over 1,000 jobs at companies like Dana Light Axle, Kraft-Heinz, Northwest Medical Isotopes, American Outdoor Brands and Aurora Organic Dairy. We do this because we realize that jobs are social equity. The only path out of poverty is a good job that pays a living wage. One goal of the Economy Team is to increase the Boone County Average Wage; that average wage in 2015 was \$34,808 and has increased by \$3,448 to \$38,256 as of July 1, 2018. Unemployment rates for Columbia MSA (Boone County) continue to remain at an all time low and the lowest in the state, being just 2.3 percent as of May 2018. The Economy Team consists of numerous partners and programs to ensure that skill gaps are addressed and our residents attain high quality jobs that pay a living wage. Partners include: Columbia Public Schools, MACC's Mechatronics program, Job Point, Missouri Job Center, CARE, LADDERS, CDL testing, Financial Literacy and Supplier Diversity.

One of our most important Strategic Plan efforts was to invest time and energy into start-ups, especially businesses that have traditionally been disadvantaged. Jim Whitt implemented our Supplier Diversity Program

and has accomplished much in a short time. Through his efforts, we have lowered the barriers that keep those with criminal histories from starting their own business. We've lowered the amount of insurance we require to work for the City, giving small businesses more opportunity to compete for City contracts. Continuing Jim's work will cost \$36,000. This is part of the \$121,000 I have recommended for the use of City Council FY 2017 savings.

Plan amendments proposed for the coming year include:

- Supplementing our existing job fairs with career exploration involving Columbia Public Schools and other school districts in Boone County; and
- Tracking the economic mobility of youth, in cooperation with the Boone Impact Group, to effectively target resources.

Columbia Regional Airport

Our airport is an economic driver that supports 745 jobs with a \$27 million annual payroll and over \$87 million annually in goods and services (based on the 2012 Economic Impact Study conducted by Missouri Department of Transportation); not a bad return on the City's \$2 million annual investment. The number of people flying from Columbia Regional Airport has grown tenfold since 2007; more than 88,000 people boarded planes at COU in 2017. Our old terminal cannot continue to accommodate the growth we have seen. We have made significant progress assembling the funding to build a new terminal. Voters agreed to increase the lodging tax which is estimated to raise \$10 million. The state of Missouri provided an investment of \$2.5 million through MoDOT's State Aviation Trust Fund. And, we anticipate that the Federal Aviation Administration will commit up to \$20 million for this purpose if we closely follow the process they require to build the new terminal.

Strategic Priority: Social Equity - Improving the Odds for Success

Our investments in time, talent, funding and partnerships are showing returns in the Strategic Plan Central, East and North neighborhoods. Because our work meshes City, neighborhood and personal goals, more people appear to be thriving where they live. The community fabric is getting stronger.

Effective community policing is significantly reducing crime and generally increasing satisfaction with several public safety services in the Strategic Neighborhoods. Lives are enriched through recreation, as more people report using City parks and community recreation centers. Summer lunch programs are enhancing child nutrition, and the percentage of people who said there was a time when they could not get health care last year dropped from the year before. Columbia's stock of affordable housing is increasing, especially in the Central Neighborhood, and more people report using City energy efficiency programs.

Originally built on priorities selected by City Council members and City staff, the Strategic Plan also addresses neighborhood priorities identified in public meetings. Central neighbors are seeing improved street lighting, traffic calming and housing development, and are involved in beautification and alley improvements. East neighbors are connecting through social events, have seen park improvements and changes in problem tenant populations and look forward to having more sidewalks. North neighbors are reducing litter and trash, increasing resources available for kids and families and seeing reduced threats from illegal fireworks. All this is happening because of constant, strong neighbor advocacy and the work of dedicated community partners.

The Paris/63 Corridor, while not in the Strategic Plan, is an area with challenges similar to those in the other neighborhoods. What's happening, here, though, emerged from long-standing concerns with safety. A federal

COPS grant allowed us to assign two Community Outreach Unit officers. The Columbia Insurance Group (CIG), United Way and other partners hosted a summer get-together on CIG's vacant property at Whitegate Drive and Towne Drive. Within less than a year of that event, CIG committed to housing a Police substation at its headquarters. The City purchased the vacant property, at a discount, and will develop a community park. The Community Outreach officers held a successful "Xbox with a Cop" video gaming tournament for kids and opened lines of communication and trust.

All this visible, public work really distills into individuals and families. The hope is that change today leads to successful tomorrows. For the second year, the Shelter Insurance Foundation is generously providing \$1,000 awards to high school seniors headed to college or career training and who do projects serving people in Strategic Neighborhoods. These Success Grants, developed in partnership with our Social Equity staff team, may be renewed up to four years. Last year there was one grantee, and this year there are three. Continuing education is a high-dollar household investment, but it creates lasting benefits for students, their families and the community.

Plan amendments proposed for the coming year include:

- Meshing the Municipal Court's Community Service Docket into the Social Equity strategic goals.
- Providing more cultural activities in the Strategic Neighborhoods.
- Completing the transition of facilitating and managing neighborhood meetings to neighborhood leaders.

Strategic Priority: Public Safety - Safe Wherever you Live, Work, Learn and Play

The Public Safety portion of the General Fund budget is by far the largest. The Council has just over \$60 million in discretionary funding available to it in a typical year and dedicates over \$41 million of that to public safety, or \$2 out of every \$3. The remaining \$1 is used to fund the other 16 City budgets that make up the General Fund.

Citizen satisfaction with the Fire Department is very high with 85 percent of respondents satisfied or very satisfied with the quality of fire protection. Survey respondents also indicate that to them, the most important metric in the fire service is how quickly we respond to calls for help. As our city has grown, two areas of our city are seeing lower response times than the rest of the city; those parts of town have quite literally grown away from our stations. I recommend the following plan to address these two areas; the east and southwest of our city.

New East Fire Station

This new station must be built south of Interstate 70, and east of Highway 63. Funding to build a station exists in our Public Improvement Fund and is expected to cost \$2.5 million. Due to excellent long-range planning, staffing for this station is also already available. Acquiring the site will be a top priority upon approval of this budget by the City Council.

New Southwest Fire Station

While we do have revenue identified to purchase land in the southwest (from the 2015 Capital Improvement Sales Tax), we do not now have the resources to build or staff this station. To make this station a reality, I propose using our taxing authority to reverse our previous voluntary reduction of property tax. This action would consist of a public hearing, followed by a Council resolution to set our property tax rate at \$0.4329 per \$100 assessed valuation rather than the current rate of \$0.4100 per \$100 assessed valuation. I propose

permanently dedicating 100 percent of the revenue generated by this increase to the fire service. Applied to current taxable value, it should produce \$469,000 in sustainable revenue beginning in 2019.

We will place the new revenue into a dedicated fund to build the southwest station. It may take up to six years to save up enough cash to build the station. Once construction starts, we will use that same funding source to add the firefighter positions needed to staff the new station and purchase the necessary apparatus.

This increase would amount to less than \$10 per year for the typical homeowner in Columbia. Realtor.com lists the median home value in Columbia at \$215,000. Thus, $\$215,000 \times 0.19 = \$40,850 / 100 = 408 \times 0.0229 = \9.35 per year increase to property tax, or 78 cents per month.

Policing in Columbia

This budget proposes spending over \$23 million for the various services provided by our Police Department. By far our highest funded General Fund department, these services are routinely considered by our residents as one of the most important we provide. After the condition of our roads, crime prevention is the most important service our residents want from the Police Department. One of the most effective methods to prevent crime is the approach to policing referred to as community policing.

Community Policing

The Columbia Police Department's Community Outreach Unit (COU) is our newest approach to community policing. Citizens helped choose the officers we assigned to this Unit. Even though our efforts are best described as incremental, we are already seeing incredible impact. Stories of the team's work routinely go viral on social media. Eight officers, one sergeant and one lieutenant make up this dedicated Unit. This represents a roughly \$1 million investment in community policing, or 5 percent of the Police Department budget.

We have seen amazing things happen in Columbia with the work of this team. Over the last two years, the three neighborhoods in which our officers are assigned have seen a 22 percent reduction in the eight categories of crime we track the most. The city as a whole has only seen a 6 percent reduction. Another way to look at this is, of the total citywide drop in the number of crimes, 45 percent of the drop occurred in neighborhoods with a community police officer.

Now, that said, we did see a citywide increase in homicide and larceny, and also in two of the Strategic Plan Neighborhoods. Even though homicides did not exceed the standard deviation citywide (meaning it was a 'normal' year) it was still deeply troubling to have nine homicides in 2017. Nearly all of these involved the sale of drugs.

Seven of Eight Categories of Crime are Down Significantly

We've completed two years of neighborhood-based community policing and the results are impressive. Seven of the eight categories of crime we worry about the most are down. They have fallen by double digits. This is outside the standard deviation. It is not normal variation from year-to-year.

Our Strategic Plan Neighborhoods equate to about 4.5 percent of the geographic area of the city and just under 14 percent of the city's population. Since we started community policing, these neighborhoods are responsible for half of the drop in crime citywide.



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Our vision: Columbia is the best place for everyone to live, work, learn and play.

- 519 fewer calls to 911
- 11 percent reduction in shots fired calls
- 24 percent reduction in rape
- 47 percent reduction in robbery
- 50 percent reduction in aggravated assault
- 46 percent reduction in burglary
- 0.5 percent increase in larceny-theft (from 187 to 188 incidents)
- 16 percent reduction in motor vehicle theft

Overall, if you add all of these together, we experienced a 22 percent drop in crime in just two years in our Strategic Plan Neighborhoods. This kind of work sends ripples throughout the city. When crime drops this far in a part of the city, it drops in all of the city.

The City Council has passed a Community Oriented Policing resolution which directs me to conduct a six-month process to design a citywide Community Oriented Policing program for the Columbia Police Department and a transition plan, timeline, and budget for modifying current department policies, procedures, and operations, and implementing the new program, as well as an evaluation process that includes goals, objectives and measurable outcomes. The work we are now engaged in should result in a compelling vision for the future of policing in Columbia. It will be delivered to the Council by the end of August. If the City Council places that vision before the voters, it will be the community's decision whether to pay for that vision or to have us struggle on as we are. Given the number of uncertainties associated with a ballot, I do not include a funding recommendation in this budget. Rather, I recommend amending the budget using General Fund reserves to cover the cost of any resulting election once the specifics (thus costs) can be better known.

New North Police Station

Using part of the proceeds from the 2015 voter-approved Capital Improvement Sales Tax extension, we've purchased land (\$484,400) in Ward 2, near Auburn Hills Park, for a north police station. The building, which has a budget of \$9.2 million, is being designed this year, and will begin construction soon after. This decentralization of the department is aimed at improving response times and citizens' proximity to officers, where possible.

Plan amendments proposed for the coming year include:

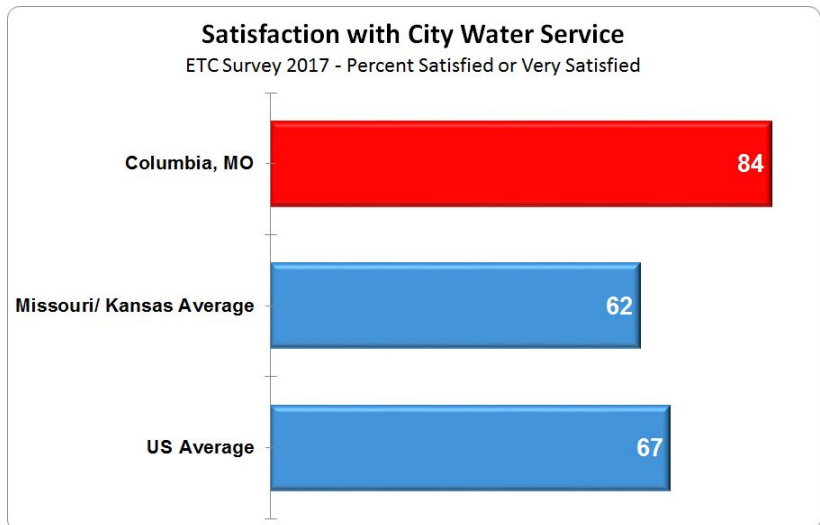
- Facilitating more collaboration between COU and officers on general patrol assignments to share skills and work in tandem on all-squad days.
- Increasing positive citizen interaction with the Police through social media, public news conferences and meeting people at traditional community gathering places.

Strategic Priority: Infrastructure - Connecting the Community

Water

Columbia is in an enviable location when it comes to water. Unlike many places in the U.S., water here is plentiful, and our source for drinking water starts out cleaner than most. This enables us to make the water high quality for a relatively low cost. Once again, our survey results attest to this.

However, a fair bit of our drinking water infrastructure is well past its useful life: some of it dates from the early 1970s. We must replace old equipment; add water towers to maintain water pressure for residential use but more importantly Fire Department use; and work to regain the capacity we naturally lose over time from wells and the treatment plant. These projects will cost a little over \$42.8 million and, therefore, will require the use of bonds to finance that level of expenditure.



If voters approve a water ballot issue, a rate increase of 11 percent would occur over the course of the next four years (3 percent each year for three years, and then 2 percent in the fourth year) to pay for the bonds. This would cost the average residential rate payer approximately \$2.71 per month when fully implemented.

Public Transit

Our bus system is once again in dire financial condition. Last year, Olsson Associates completed an analysis of our transit system. They recommended deleting some routes to better serve the core routes (which are far more heavily used). This budget proposes accepting those recommendations, but significantly scaling down much of the service level to match the revenue available. Most of these changes will be delayed until June 1, 2019 to allow us to complete the federal process for making service changes. For FY 2019, we must reduce our operational spending by \$450,687 and transfer \$283,689 of Transportation Sales Taxes (we would normally save up to use as matching funds for grant funded capital projects) into operations. If we do this, the transit service will remain solvent (though still below the budgeted cash reserve target) through 2023. We achieve this reduction through four separate changes which include:

- Ending service at 7 p.m. rather than 8 p.m. on weekdays and Saturdays - effective 10/01/2018.
- Implementing the Olsson study recommendations regarding the re-use of the Wabash bus station and route cuts - effective 06/01/2019.
- Increasing paratransit fees by \$1 and reducing the paratransit service area - effective 06/01/2019.
- Ending Saturday service and special event support (Roots N Blues, True False, football shuttle) - effective 06/01/2019.

Plan amendments proposed for the coming year include increasing public engagement on the following neighborhood infrastructure needs and projects:

- Transit consultant recommendations.
- Whitegate Park.

- Hinkson Trail to Clark Lane design and construction.
- Locations for traffic calming, lighting and sidewalk projects.

Strategic Priority: Operational Excellence - High-Level Service From Engaged Employees
City Employees Excel at Service to our Residents

In our most recent survey, Citizen satisfaction with the overall quality of City service was 73 percent (satisfied or very satisfied). This compares incredibly well to the Kansas/Missouri region of 46 percent and the national satisfaction level of 49 percent. When you beat the national benchmark by over 27 percentage points, you can justifiably be proud. I am even more impressed when I consider the lack of resources we have struggled with in the last 10 years. The following chart lists the impact to employees for the last 13 years of budgets:

| City of Columbia, MO | | | | | |
|--|---------------------|---------------------|------------------|------------------------------------|-------------------------|
| Pay and Health Insurance History FY 2006 - FY 2009 | | | | | |
| Fiscal Year | Additional Payments | ATB Increase | Performance Pay | Move Toward Midpoint* | Health Insurance Change |
| 2019 | N/A | \$0.25/hour | NONE | NONE | 3.3% |
| 2018 | \$1000 | NONE | NONE | NONE | 7% |
| 2017 | N/A | \$0.25/hour | NONE | NONE | 13.8% |
| 2016 | N/A | 2% | NONE | 20% of diff between pay & midpoint | NONE |
| 2015 | N/A | 2% | NONE | 20% of diff between pay & midpoint | NONE |
| 2014 | N/A | NONE | NONE | NONE | NONE |
| 2013 | N/A | \$0.27/hour | NONE | NONE | 4.8% |
| 2012 | N/A | \$0.25/hour | NONE | N/A | NONE |
| 2011 | N/A | NONE | NONE | N/A | 7% |
| 2010 | N/A | NONE | NONE | N/A | (2.9%) |
| 2009 | N/A | \$0.25/hour | 0% - 3% (3% Max) | N/A | 7% |
| 2008 | N/A | 1.5% or \$0.30/hour | 0% - 3% (3% Max) | N/A | 4.1% |
| 2007 | N/A | 4% or \$0.50/hour | NONE | N/A | (11.6%) |
| 2006 | N/A | 3% or \$0.38/hour | 1% | N/A | 12.5% |

*Part of compensation & classification system adopted in FY 2014 – employees with 5 years “time in class” as of March 1st were eligible

Pay and Benefit Changes

Our employees are some of the best you will ever see. As I mentioned before, citizen satisfaction with the service they provide is much higher than regional or national averages. I receive many email messages and phone calls praising employees who go above and beyond to help residents. Unfortunately, given the lack of revenue, funding is just not available to offer a significant raise for our employees this year. Because of the operational budget cuts made across departments, we will be able to provide employees a permanent across the board raise of 25 cents per hour. As mentioned before, this is not a sustainable practice.

Because, once again, we can only provide a very modest raise, I am also recommending the addition of one more paid holiday to our portfolio. We found, through a survey of all employees, our preference was for the day

after Thanksgiving; thus I am recommending that day be added to our benefit package. With this addition, we still trail the state and county in the number of holidays we provide.

We have experienced one of those rare years with very little increase in costs to our health care plans. The total increase in costs is 3.3 percent shared between the government and employees. The employee share ranges from no increase in cost at all to an increase of \$0.2044 cents per hour, depending on the plan and dependent tier an employee chooses.

I am growing more and more concerned about overall morale moving forward; with no or minor raises, it can be difficult for even our best colleagues to maintain a positive outlook. Turnover has historically been very low for the city government, but is beginning to increase. Additionally, over 20 percent of our workforce will be eligible to retire within the next four years. This represents a lot of institutional knowledge that could leave. This is yet another example of the need to move away from the dependence on sales tax where possible.

The Need for a Priority Based Budgeting Process

We are looking at lean years ahead. Over the past 10 years, we have trimmed expenses, and tightened our belts repeatedly. At this point, there are no remaining operational cuts I can recommend that will balance future budgets without significantly reducing or eliminating service lines. Because this will directly impact our residents, I recommend a process for future budgets that includes the public and our employees, and that prioritizes all service lines of the city for the purpose of reducing and or eliminating services. This is often referred to as Priority Based Budgeting. Once Council has completed its work on the FY 2019 budget, I recommend we begin the priority based budgeting process for FY 2020 and beyond.

Many Thanks

Producing a budget with 20 departments, 52 separate spending plans and hundreds of service lines is no small task. No city manager can do this alone, and I thank the individuals who work so diligently to help me - and the community - achieve our goals. My profound thanks to all department directors and especially City Finance Director Michele Nix, Budget Officer Laura Peveler and her staff, Community Relations Director Steve Sapp, Civic Relations Officer Toni Messina, and Economic Development Director Stacey Button for their excellent work and ongoing stewardship of the community.

All FY 2019 financial information is summarized in the "Budget in Brief" and detailed in other parts of the document. Residents may read the budget and related material online at CoMo.gov or review a printed copy at the City Clerk's Office or at the Finance Department in City Hall.

Best Regards,



Mike Matthes
City Manager