

Financial Policies Discussion

Board of Estimates

July 29, 2013

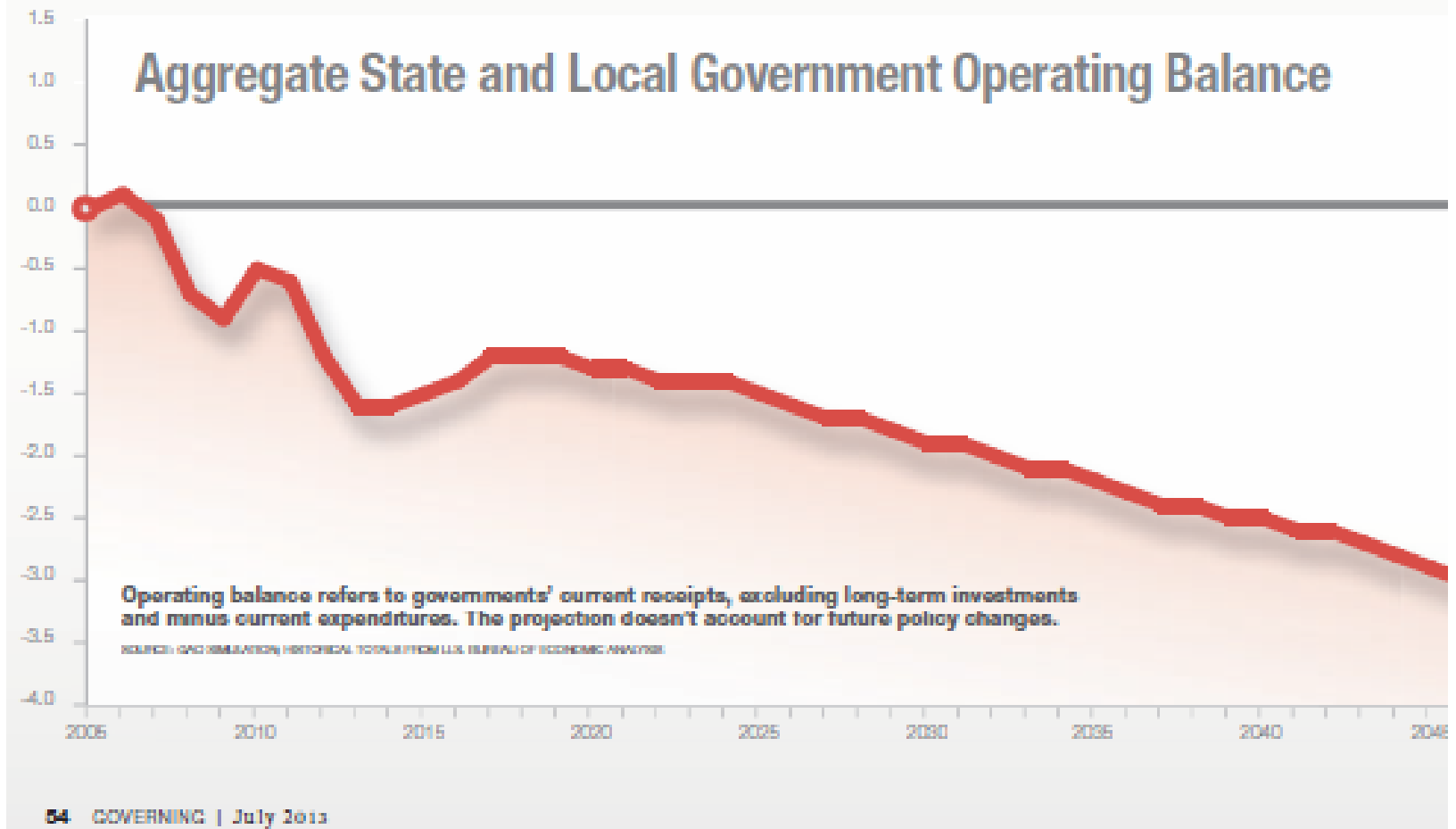
Topics

- Background
- Long-range planning
- Short-term management
- Use of reserves and one-time revenues
- Budget-to-actual reviews

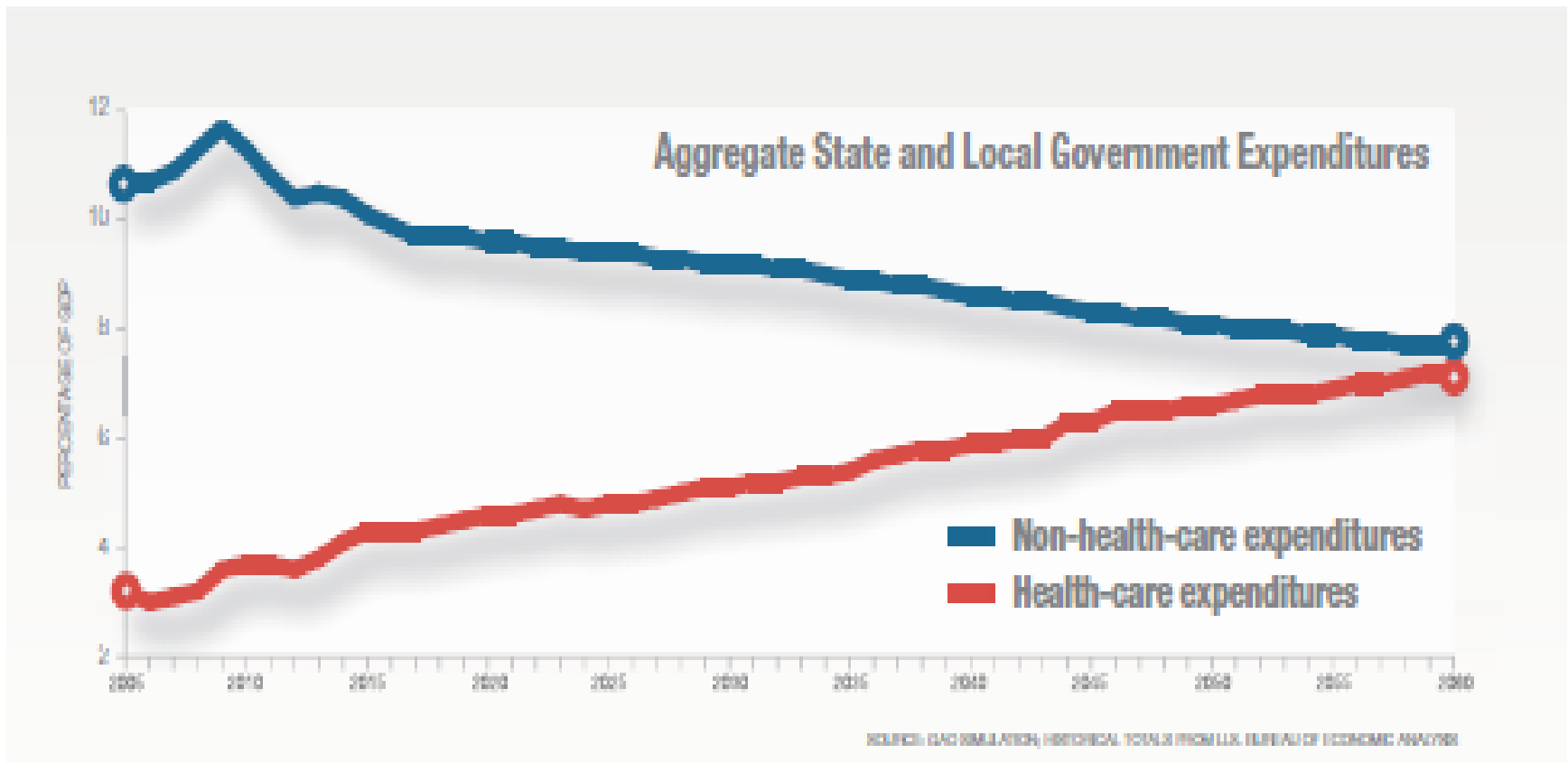
Background

- Mayor, Council and BOE have the statutory and fiduciary responsibility to make appropriations and establish and monitor budgets.
- Outside auditor (Baker Tilly) has noted that governmental accounting best practices call for continuous improvement in the level of budget-to-actual review by governing bodies.
- Budget and management best practices, along with fundamental demographic and governmental finance changes, call for long-term planning.

GAO Long-Range Forecast – Declining Balances



Health care projected to crowd out other investments



Long-Range Planning

- City's strategic goals and vision.
- Growth and development goals and tax-base impacts; TID interactions.
- Levy limits and other revenue constraints.
- Forecasts of other general fund revenue (e.g., room tax, building permits)
- Projections of long-term costs (e.g., wages, health insurance, pensions, fuel, capital budget / debt service / operating costs)
- Estimated service levels based on demographic changes.
- Adequacy of reserves and fund balances.
- Planning horizon(s).

Outcome-based Budgeting

- Aligns resources with results
- Integrates strategic planning, long-range financial planning, and performance management.
- Ultimately replaces traditional system of budgeting
 - Focus on goals rather than last year's spending
 - Fund priority outcomes rather than agencies and programs
 - Develop proposals to achieve results rather than requests for allocations to spend.
 - Concentrate policy discussion on services to keep rather than on programs to cut.
- Why do it?
 - Address fiscal constraints
 - Reward innovation
 - Make the budget process more transparent

Organizational Effectiveness Measures

- Project of the Mayor's Quality and Sustainability Steering Committee
- Builds on Madison Measures
- Five pilot agencies to identify service outcomes, factors that affect those outcomes, and metrics that provide for accurate decision making.
 - Fire
 - IT
 - Metro
 - Water Utility
 - PCED
- Organizational Development and Training working with the pilot agencies to identify organizational effectiveness measures.
- Next steps
 - Continue to work with five pilot agencies on connecting services to outcomes and developing performance measures; connect to 2014 budget requests.
 - Expand the effort to additional agencies
 - Work toward phased implementation of outcome-based budget process for 2015 budget

Short-term Management

- State constitution and laws dictate much of the city's revenue options (uniformity of taxation, levy limits, broad-based taxes, user fees, license, etc.).
- Very little margin to fund on-going commitments; new programs need to be carefully considered.
- Budget process becomes even more important given the limited revenue options; new programs funded outside the budget process may not allow adequate prioritization and could create structural gaps in the following budget year.
- Contingent reserves and mid-year appropriations should only be used in emergency situations; consider defining emergency in policy statement.

Budget Process / Structural Issues

- Application of reserves to budget:
 - \$3.2 million (premium stabilization fund = \$2.3 million, exhausted by 2016)
- Multi-year commitments to specific wage increases.
- One-time savings / revenues for on-going needs:
 - Police and sedan vehicle deferrals (\$475,765 in 2014)
 - SAFER grants for new fire station ops (\$636,700 in 2014)
- Mid-year one-time appropriations for on-going programs:
 - Yard waste drop-off site (\$38,336)
 - Low-income bus pass (\$55,000)
- Establishing new programs outside of budget process.
 - Emerging Opportunities program (? in 2014)
 - Summer jobs grants (? in 2014)
 - LEAP Program (proposed) (\$60,000 in 2014)

Fund Balance Policy

- Reserves are a sign of good financial management – cash flow; emergencies; revenue volatility (e.g., investment earnings; room tax); expenditure volatility (e.g., fuel costs).
- Currently have a goal of 15% of general fund expenditures; current balance at 16.9%.
- Policy could be expanded to define when and how balance should be used.

Estimated General Fund Unassigned / Undesignated Balance

		% of <u>Budget</u>
December 31, 2012 Unassigned Fund Balance	\$ 42,820,297	16.9%
Potential Changes to Fund Balance		
WRS Stagehands (set-aside)	(500,000)	
Mark-to Market Adjustment (preliminary)	(4,000,000)	
Water Utility Advance Repayment	765,000	
Estimated 2013 Variances	<u>1,580,000</u>	
	(2,155,000)	
December 31, 2013 Unassigned Fund Balance	\$ 40,665,297	15.6%

Budget-to-Actual Reviews

- Finance Department has provided periodic updates on status of budget (typically at mid-year and again at year-end).
- Best practices call for more frequent updates.
- Expect to phase-in a formal quarterly review (2nd, 3rd and 4th)
- Electronic budget-to-actual pivot table has been developed and will be available soon on the Council's intranet.

2013
Estimated General Fund Revenue Variances
 (as of July 29, 2013)

General Fund Revenues			
	Payment in Lieu of Taxes		171,413
	Room Tax -- Debt Service Reestimate and Refinancing Cost		\$ (212,000)
	Room Tax -- 2012 Actuals		\$ 422,000
	Ambulance Fees (preliminary)		(1,000,000)
	Parking Violations		150,000
	Licenses and Permits		\$ 500,000
	Miscellaneous -- Cardinal WHEDA Loan Repayment		\$ 418,000
	Cable TV Fees		\$ 200,000
	Shorewood Hills Fire Services Contract		\$ 95,000
	State Municipal Services Payment		<u>\$ (48,900)</u>
	Total General Fund Revenue Variance		<u>\$ 695,513</u>

2013
Estimated General Fund Expenditure Variances
 (as of July 29, 2013)

General Fund Expenditures			
	Fringe Benefit Costs -- Health Insurance reestimate		\$ 688,000
	Debt Service		\$ 183,000
	Police Convert to Pay		\$ (500,000)
	Police Purchased Services and Fleet Costs		\$ 200,000
	Fire -- Recruit Class / SAFER grant timing		\$ (155,000)
	Fire -- Fire Supervisors WRS retroactive pay		\$ (50,300)
	Fire -- Purchased Services		\$ (140,000)
	Metro -- Salaries / OT / Benefits		\$ (52,000)
	Treasurer -- Lower revenues due to delay in monthly WU billing		\$ (50,000)
	Summer Youth Employment		\$ (183,900)
	Emerging Opportunities Program		\$ (200,000)
	CDI Payment (pending)		\$ (34,000)
	Brentwood Office Space		\$ 72,000
	LEAP and Northside Economic Development (pending)		\$ (70,000)
	ERP Maintenance		\$ 300,000
	Streets -- Recycling Revenues		\$ 200,000
	Streets -- Snow and Ice Removal Estimates		\$ (250,000)
	Remaining Uncommitted Contingent Reserve Balance Available		\$ 927,000
	Total General Fund Expenditure Variance		\$ 884,800
	Net of Projected General Fund Budget Variances		\$ 1,580,313

Next Steps

- Regular reviews of budget status.
- Review of Comprehensive Annual Financial Report (CAFR)
- Develop draft policies for consideration by BOE and Council:
 - Fund balance
 - Long-term financial planning
 - Structural balance
 - Budget process