

Budget Outlook and Process for 2017

Common Council

July 19, 2016

City Finance Department

Bright Spots and Future Challenges

- City's general fund reserves remain slightly below 15%
- 2016 estimated actuals – on track.
- Property value/net new construction growth will provide some revenue growth, but current law levy limits continue to place constraints on 2017 budget.
- Post-2017 expenditure commitments expected to grow faster than allowable levy growth under levy limits.
- Full implementation of 2016 CIP will fuel higher property tax increases
- Insurance Fund and Fleet Service Fund deficits.

First, closing the books on 2015

- Unassigned General fund reserves at 14.0% (down from 14.6% in 2014)
- City's policy target is 15%.
- Revenues up \$846,000 from budget
 - Property Taxes – Penalties/Interest on Delinquent Property Taxes -- \$346,000
 - Room Tax -- \$633,000
 - Fine/Forfeitures -- \$-400,000 (parking violations)
 - Charges for Services -- \$1.9 million (ambulance conveyance and engineering)
 - Licenses/Permits -- \$-286,000 (building permits)
 - Investment income -- \$-305,000 (mark-to-market down \$210,000)
 - Miscellaneous -- \$-1.0 million (reflects MUNIS adjustments and TIF reimbursement that will occur in 2016)
- Net expenditures up \$600,000 from budget (primarily fringe benefits and allocations to capital and other funding sources); contingent reserve down \$700,000 from budget.
- Unassigned Fund Balance at \$38.8 million (down \$1 million from 2014); General Fund Balance at \$54.5 million (down \$1.8 million from 2014)
- Cash deficit in Fleet Service Fund -- \$3.0 million advance from Capital Projects Fund
- Cash deficit in Insurance Fund -- \$1.1 million advance from General Fund

...and for 2016 (through May 2016)

- Revenues currently tracking \$1 million below budget.
 - Room tax -- \$-500,000
 - 1st quarter actuals up 4.2% over 2015 (compared to 18.7% in prior year; budget assumes 11% increase)
 - Building permits -- \$-450,000
- Expenditures expected to finish \$1 million under budget.
 - Fringe benefit projections
 - Snow events

But 2017 will present challenges...

- Advanced commitments = \$13.3 million.
- Allowable levy increase = \$10.8 million.
- Other revenue estimates = \$-1.0 million
- Gap = \$3.5 million
- Estimates could change due to updated revenue estimates, actual 2016 borrowing, and health insurance rates. WRS rates up 0.2% for general employees; 1.4% for protective employees.
- Estimates assume maximum allowable levy increase, which is 4.1% increase in taxes on the average value home. A 3% increase will add \$2.4 million to the gap.
- Estimates do not include funding for any new initiatives.

2017 Advanced Commitments

- Revenues down \$1 million

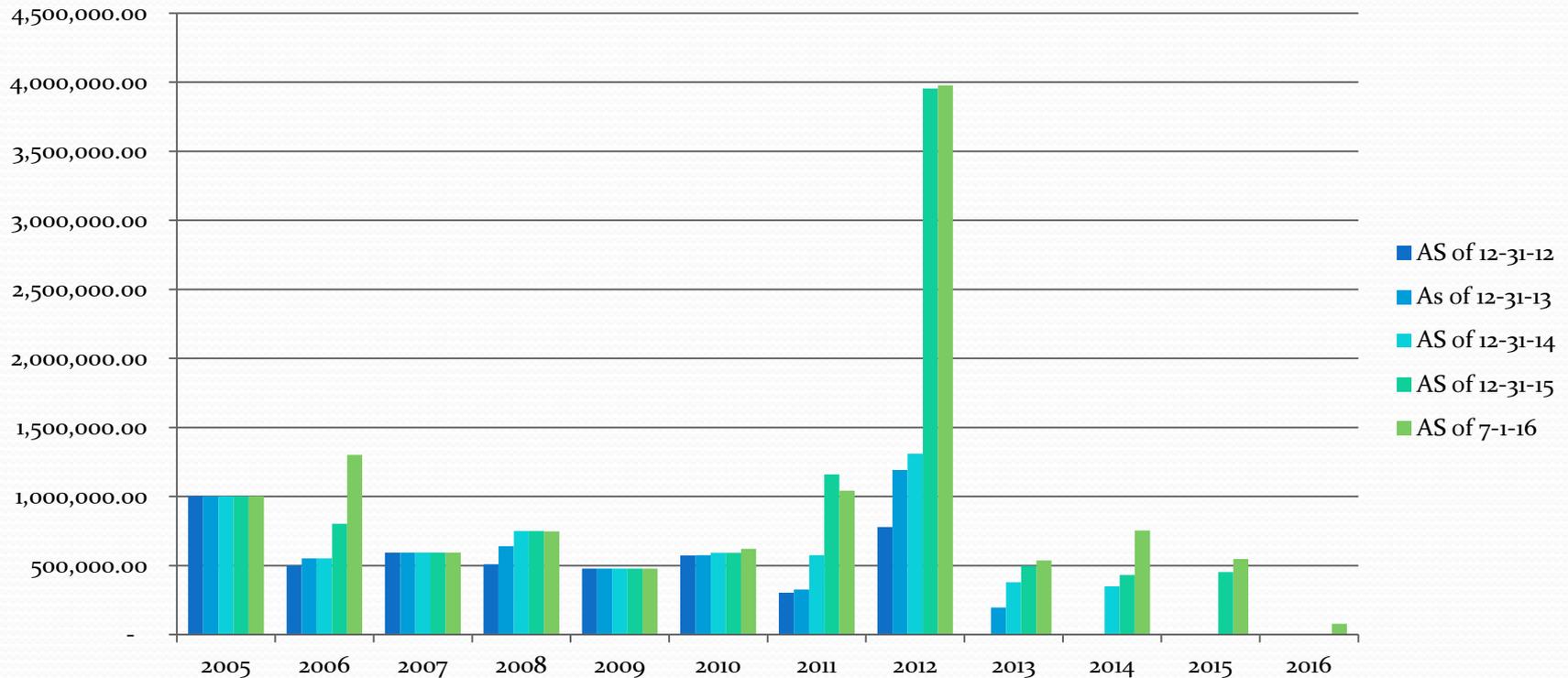
- Room tax= down \$900,000 (based on 1st Qtr 2016 and 30% max to gen'l fund)
- Building permits = down \$450,000
- Other = up \$400,000 (PILOTs, ambulance, recycling aid)

- Operating costs up \$7.6 million

- Employee compensation = \$6.1 million (annualize July 2016 increase; 2.25% pay increases (police and fire assumption is 1%); 0.2% / 1.4% increase in WRS; 7.5% health insurance increase)
- Longevity / Education Stipend / 2014 Police & Fire Givebacks= \$1.1 million
- Biennial Elections Cycle = \$-625,000
- Fleet rates = up \$1.3 million (structural gap due to depreciation)
- Insurance Fund rates = up \$650,000 (rising premiums due to liability events)
- Metro = down \$1 million (addressing the Metro surplus on a long-term basis)

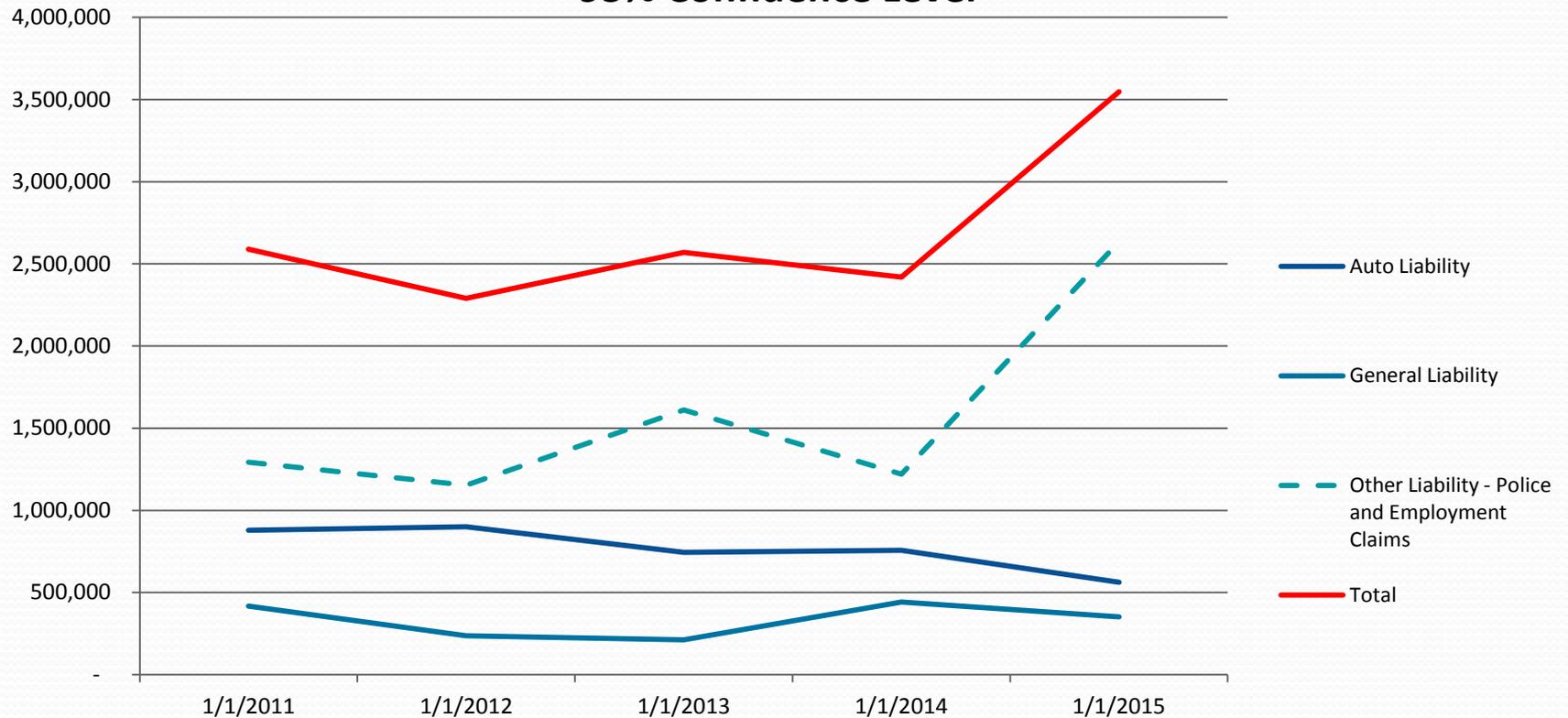
Recent Rapid Rise in Losses...

City of Madison Insurance Fund Liability Losses

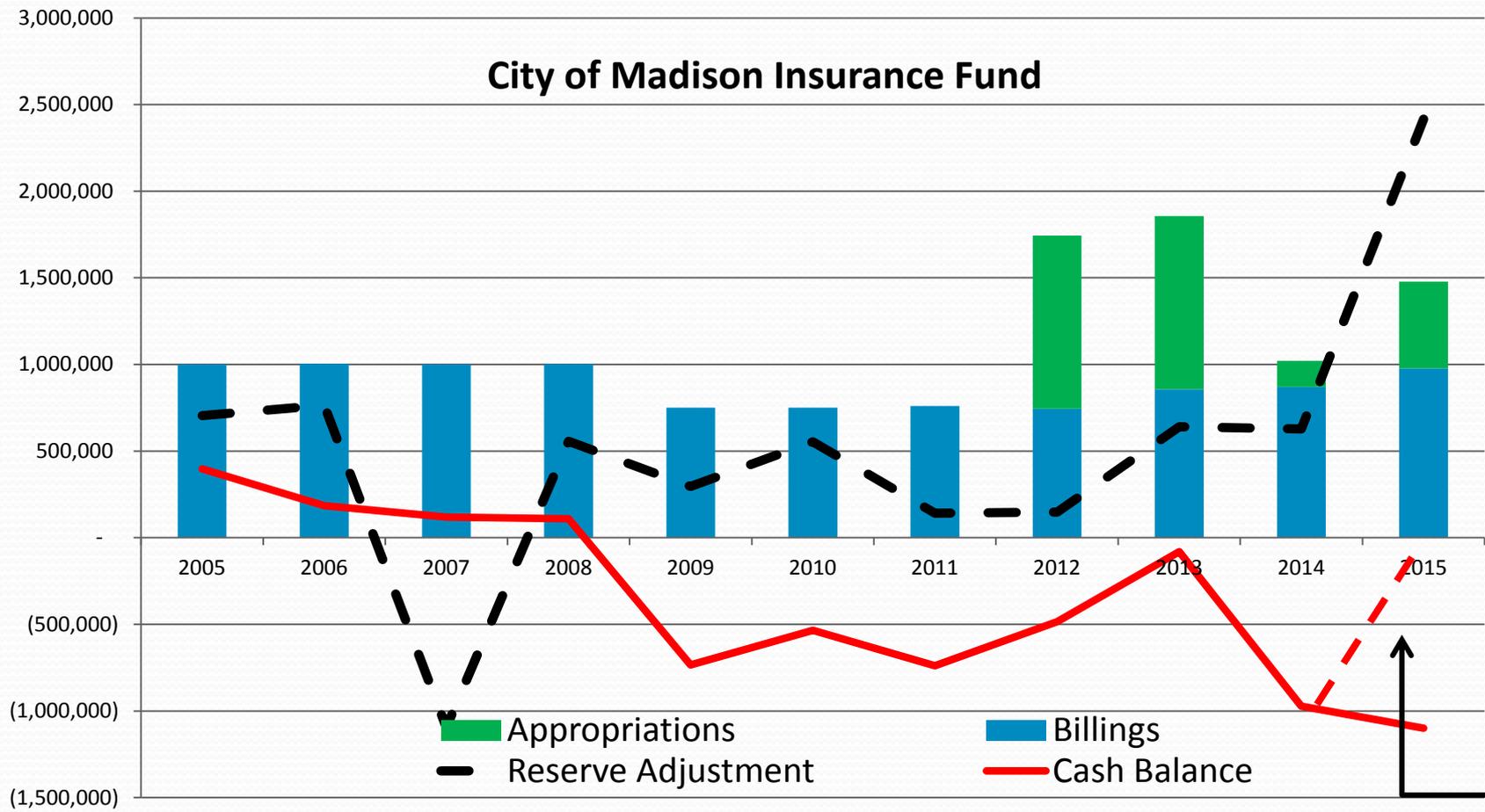


...has affected reserve requirements...

**City of Madison Liability Reserves by Coverage
95% Confidence Level**



...which has affected cash balances



Reserve adjustments not known until after year-end; \$1.2m advance from General Fund to Insurance Fund on 2015 financial statements

2017 Advanced Commitments (con't)

- One-time items from 2016 = \$700,000
 - Full funding (e.g., COPS grant positions, Engineering positions)
- Debt service and capital = \$5.0 million
 - \$4 million premium
 - Assumes \$86 million of borrowing (\$52 million less than authorized)

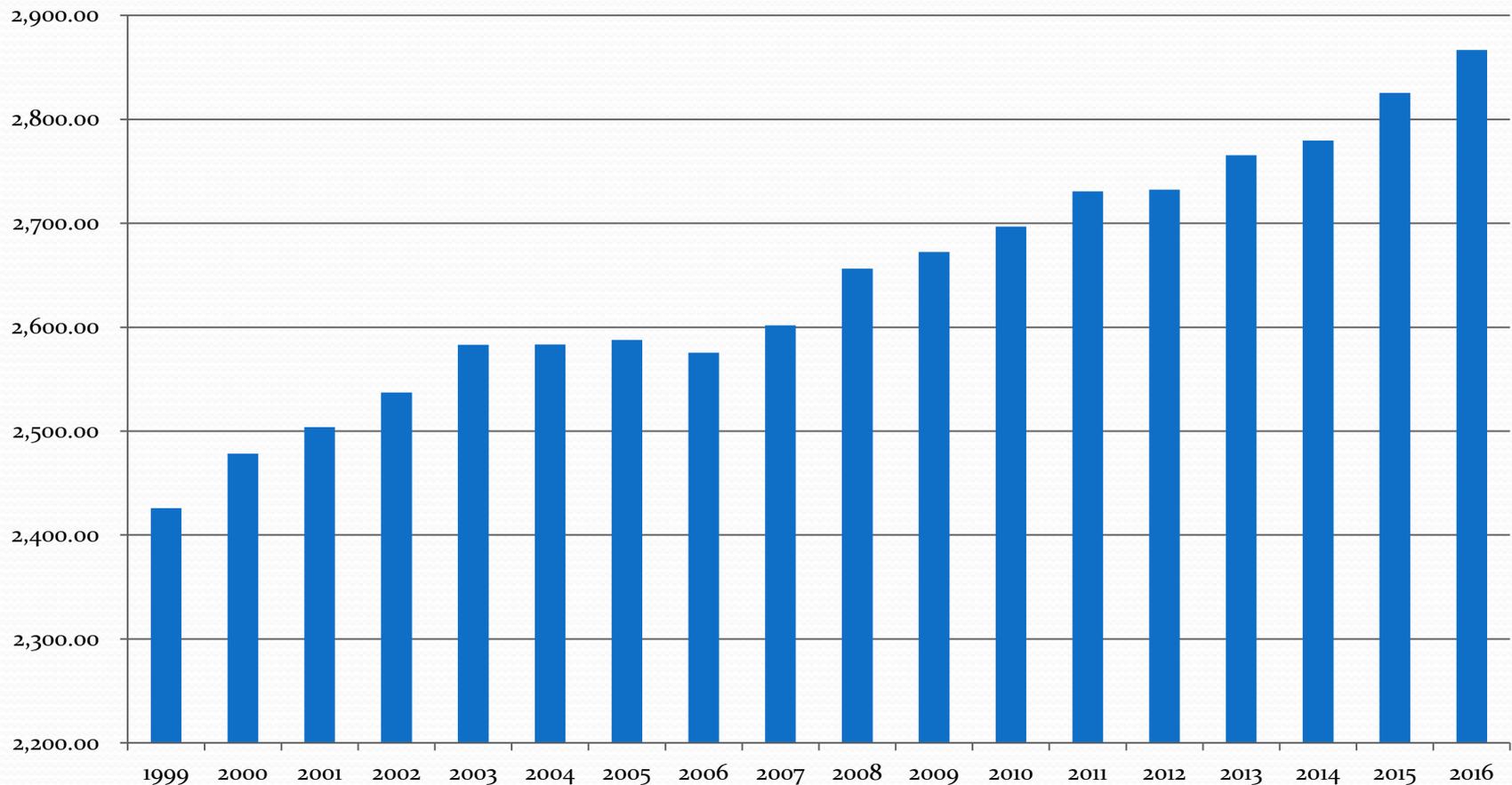
Strict State-Mandated Levy Limits

- Growth limited to net new construction; City's growth factor estimated at 2.16% for 2017 calculation (preliminary).
- City's unused carry-over from 2016 is \$987,500; rescinded/refunded taxes is \$400,000
- Debt service excluded from limits – each \$1.0 million of additional debt service (~ \$7.7 million of borrowing) = 0.5% added to levy, mill rate and taxes on average value home.
- Can exceed limits with referendum.

18% Increase in Positions since 1999

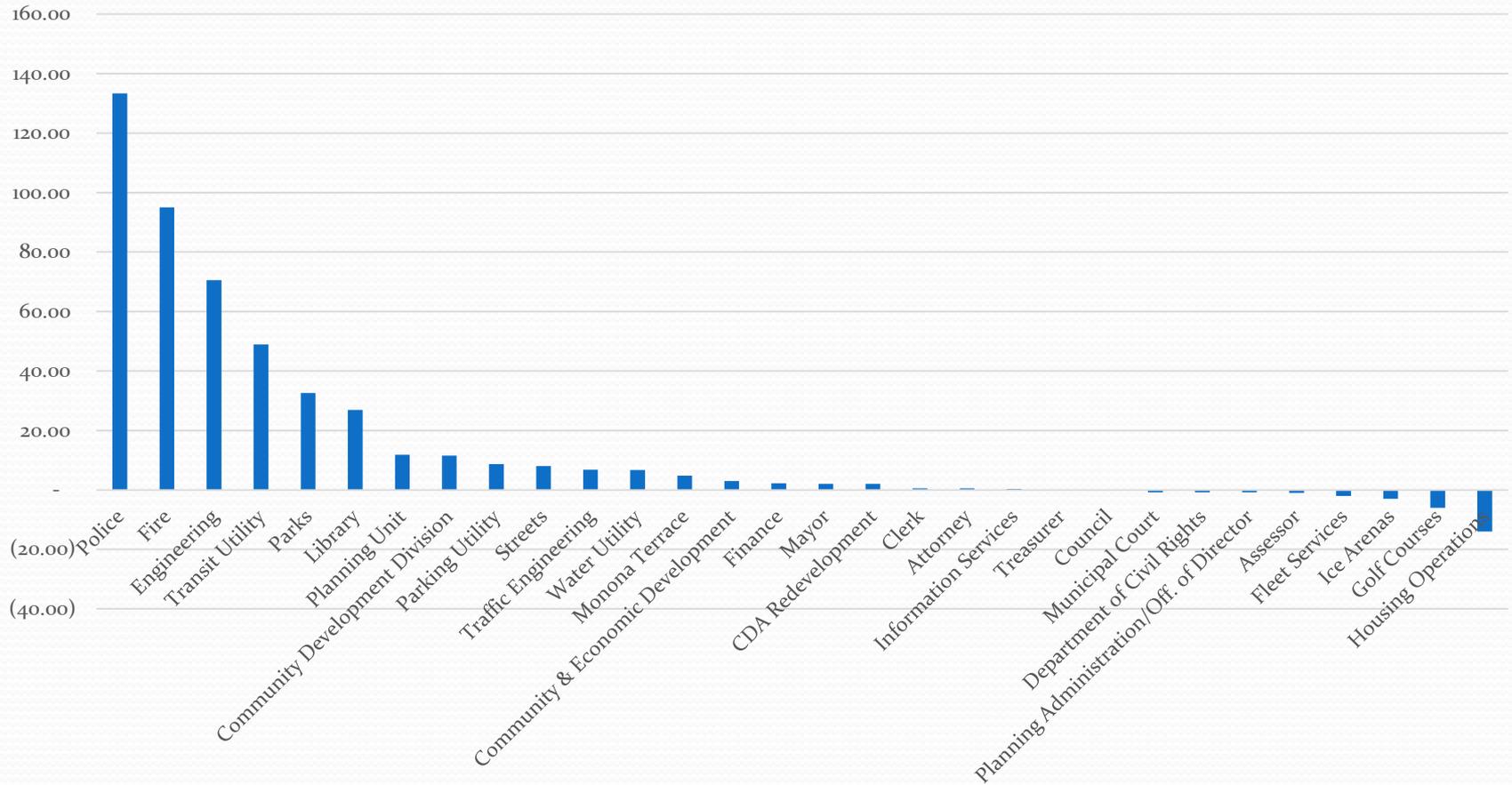
Same rate of growth as city population

Growth focused in a few agencies

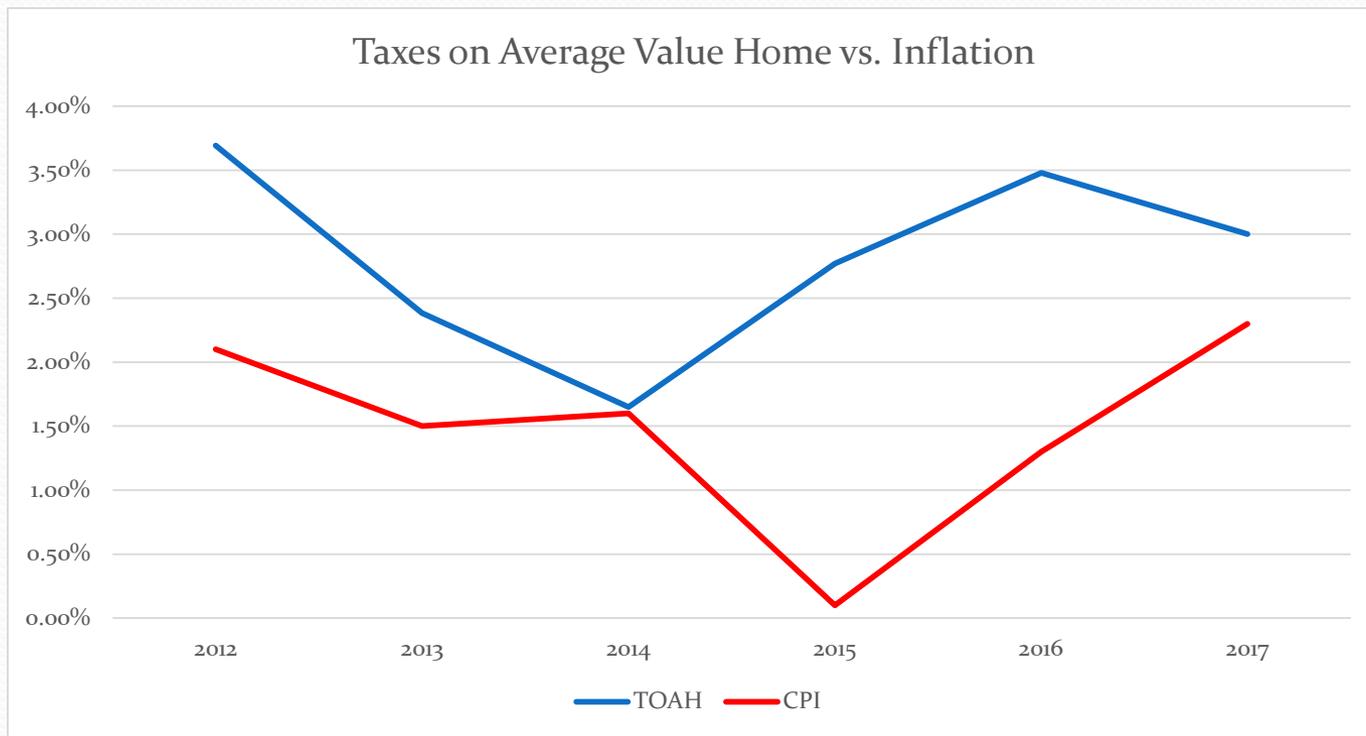


Excludes Overture and Public Health; does not adjust for transfer of services between agencies (e.g., Facilities Maintenance consolidation into Engineering added 20.5 FTE positions in 2008)

FTE Change by Agency



Taxes and Inflation



2017 Taxes on Average Value Home is Mayor's goal of 3%

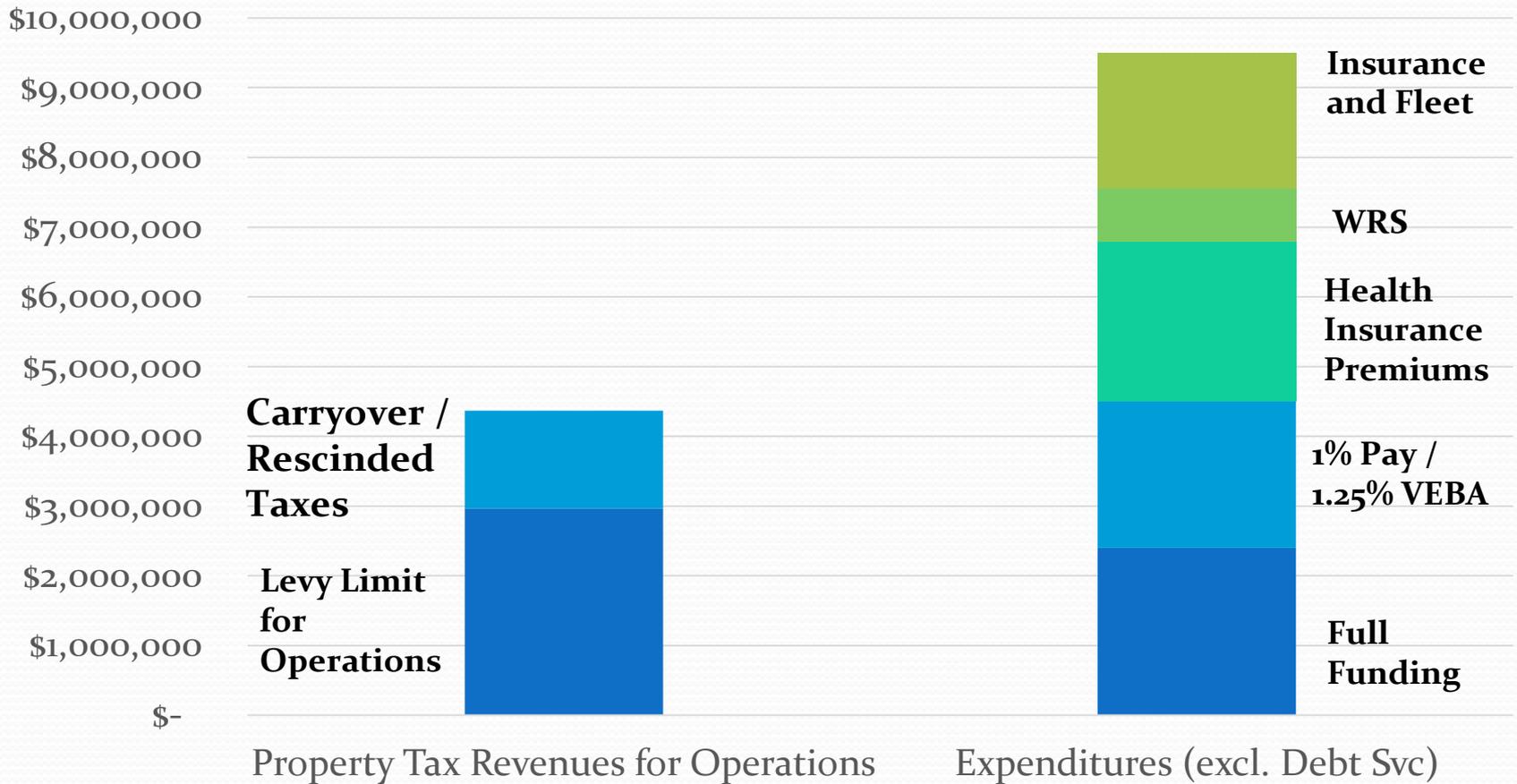
Estimated City Levy for 2016/2017

- Net Taxable Property (preliminary)
 - Residential assessed values up 4.5%
 - All real property up 5.0%
 - Overall net taxable property values up 4.6%
 - Average value home up 3.6% to \$254,693
- With levy limits (and assumed \$86 million in 2016 borrowing)
 - Levy up 5.1%
 - Mill rate up 0.5%
 - Taxes on average value home up 4.1% (\$97) – at 3% (\$70), gap increases by \$2.4m
 - Estimated Inflation
 - 2016 = 1.3%
 - 2017 = 2.3%

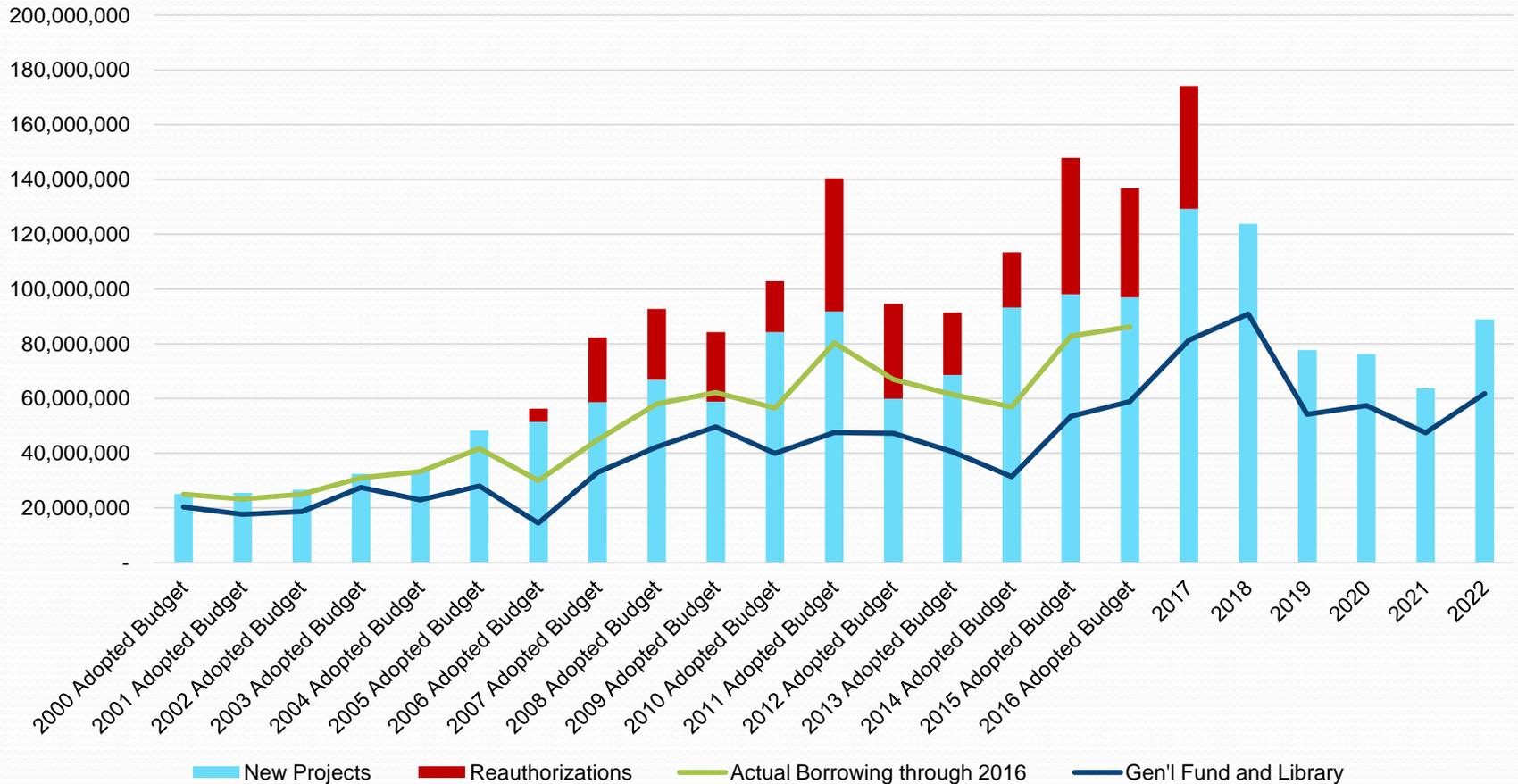
Impact of Levy Limits

- Net new construction similar to 2016
- Estimated net new construction factor = 2.16%
 - Applied to levy net of total GO debt service (levy and non-levy supported)
 - Adds \$3.0 million of levy capacity for operating budget = 1.3% increase over 2016 general fund budget, excluding debt service and capital.
- Carryover and Refunded Taxes provisions add another \$1.3 million.
- Debt service adds \$6.5 million (~\$1 million helps operating budget – e.g., TIF)

Basic Costs exceed Levy Limit

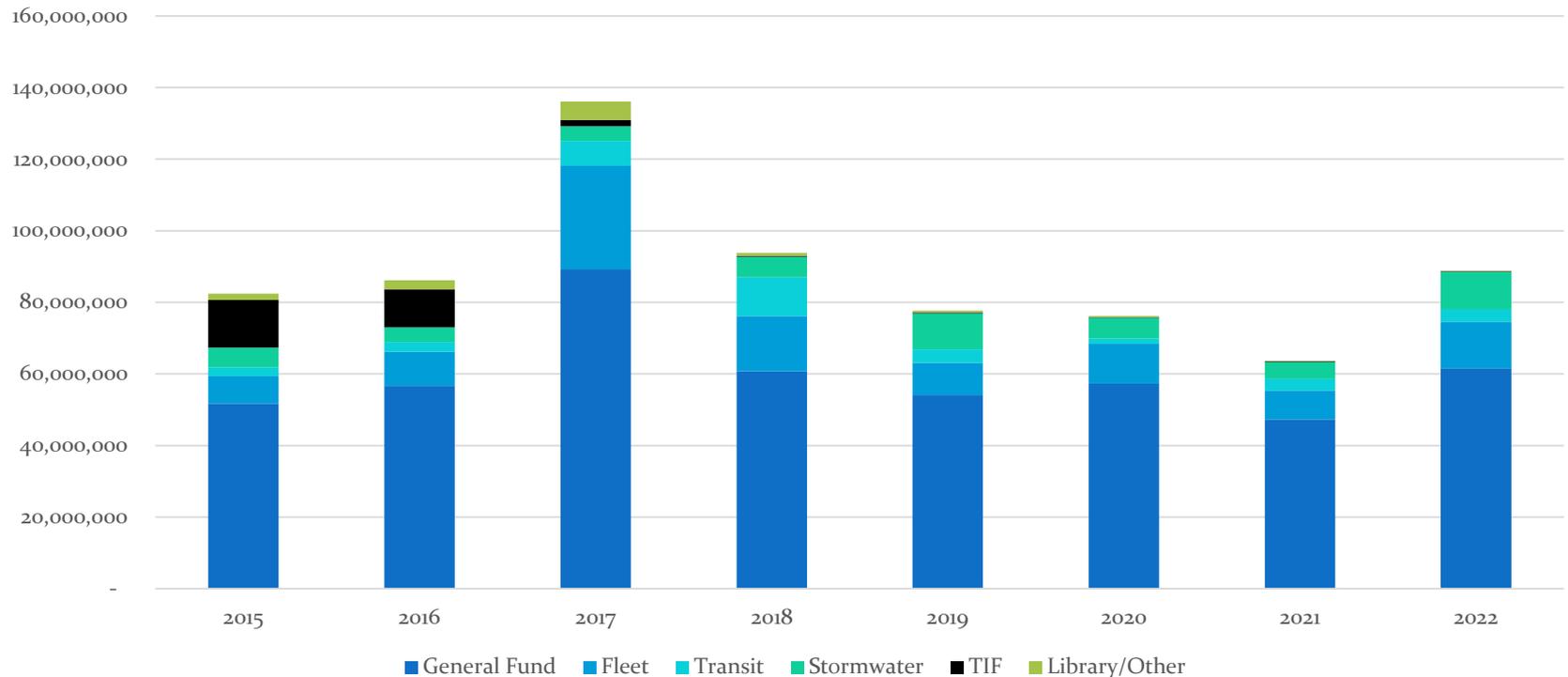


GO Debt – 2000 to 2022



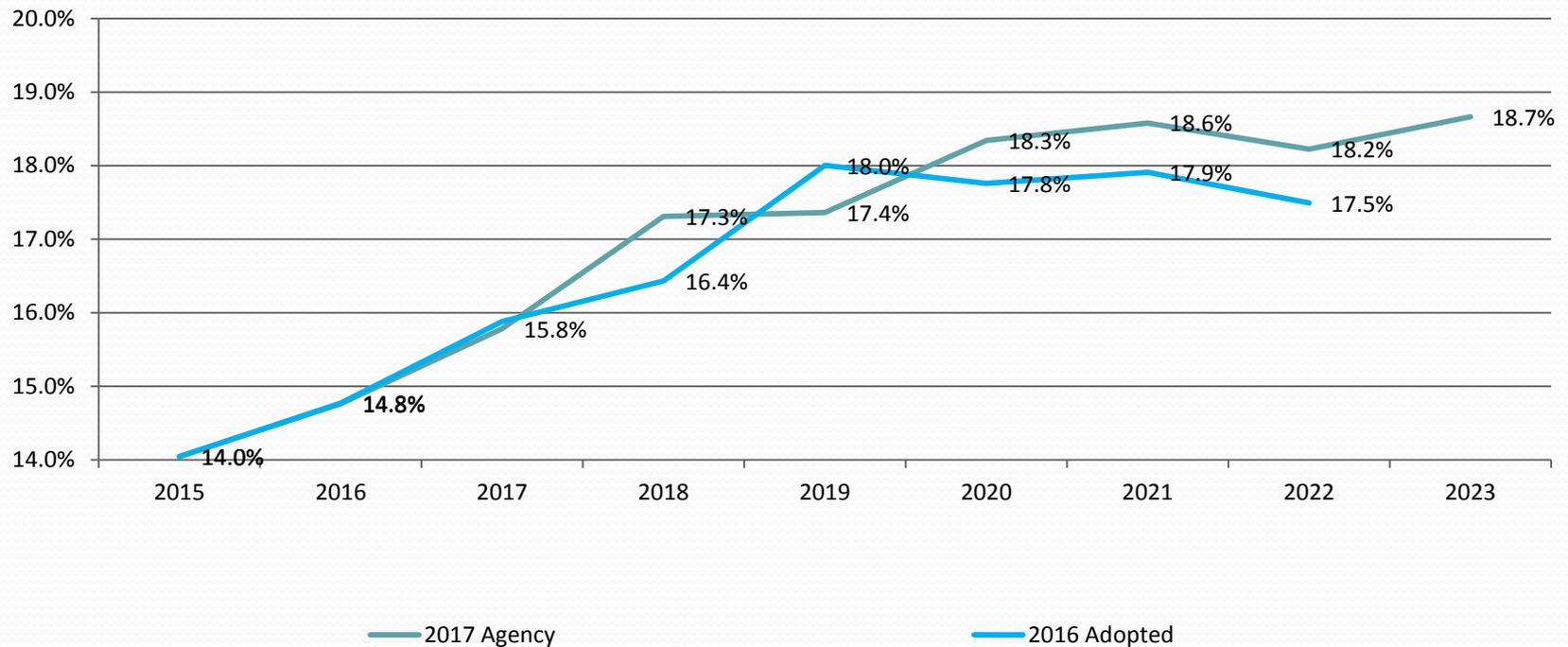
Large Projects in 2017 and 2018

Estimated GO Borrowing -- Requests
Assumes 67% of authorized amounts borrowed in 2017 and 2018
Those amounts reflected in 2019-2022



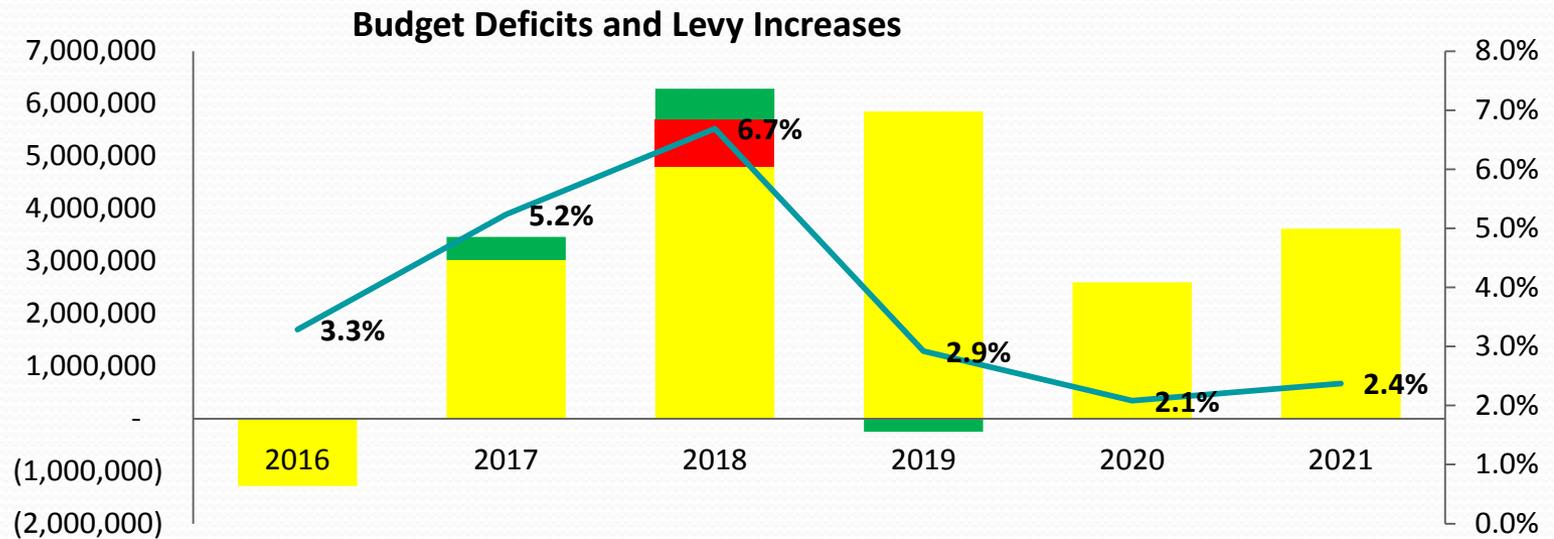
Rising Share to Debt Service

Debt Service Share of General Fund Expenditures



Historical City Goal has been 12.5%

Deficits and Tax Increases



Remaining Levy Limit (Surplus)/Deficit

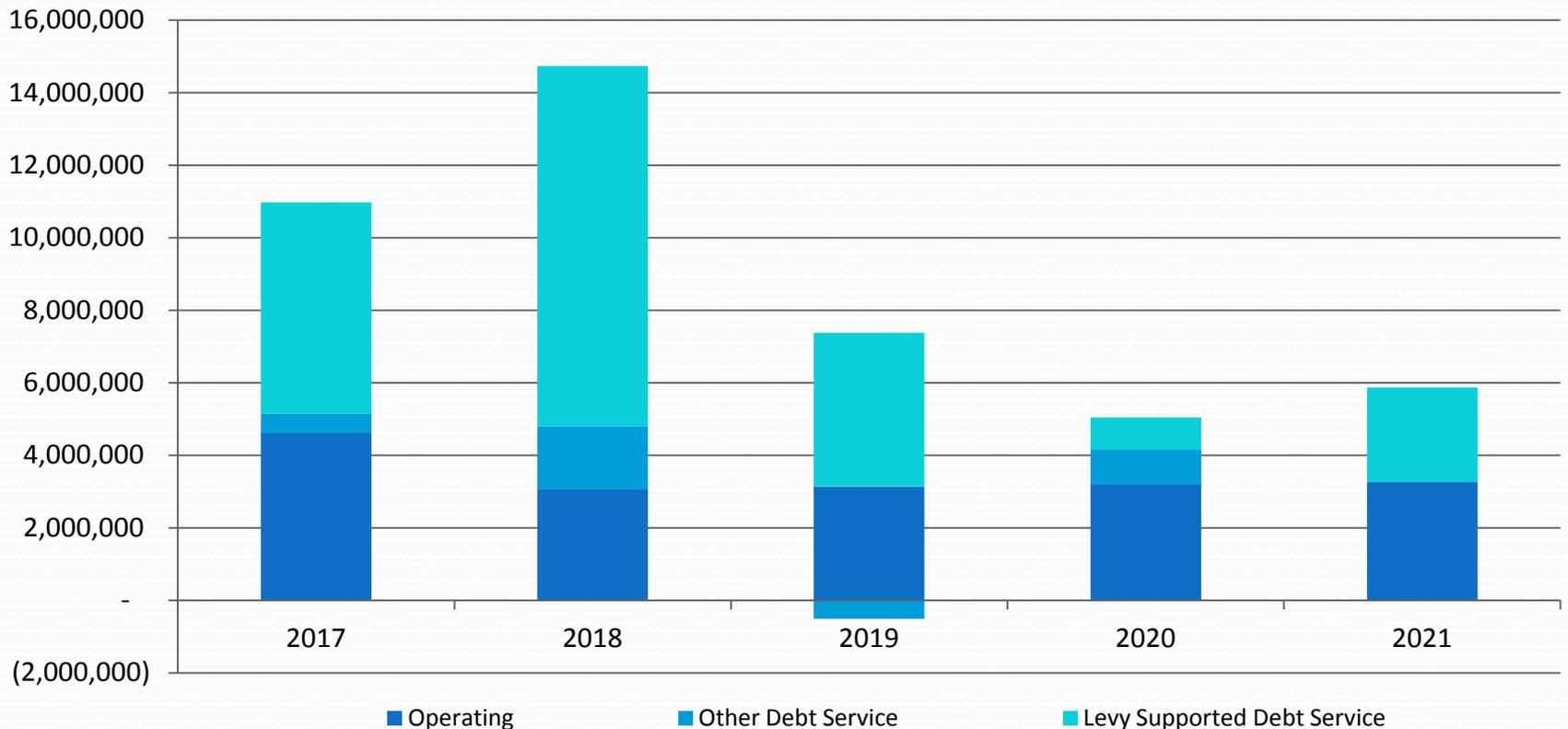
FS 14 / Training Center

Midtown

Property Tax Levy

Debt Service and Tax Increase

Components of Levy Increase



Mayor's Budget Instructions

Service Budget Proposals

1 Proposal/Service

Proposal Purpose

- Help agencies to begin connecting service budget proposals with measurable goals

Proposal Questions

- Identify customer served by service
- What are the service's 2017 goals & how will this improve the quality of the service
- Planned 2017 initiatives

Savings Scenarios

- Goal of Approach: Generate creative solutions for generating long-term savings to the base budget
- Provide agencies with 2 options for presenting savings scenarios

Option 1:

Efficiency Investments

Propose investment opportunities to be paid back through future savings

Option 2:

Flat Reduction

Present a 2.5% reduction plan that doesn't include layoffs

Savings Scenarios

Option 1:

- Identify areas of investment that can be repaid by future savings
- Proposal will identify cost of investment & number of positions or savings mechanism that will be used to pay back investment
 - *Savings will also include year in which they will be realized*
- Investment must be paid back within 3 years

Option 2:

- Identify 2.5% reduction plan
- Plan cannot include abolishment of filled positions
- Citywide 2.5% reduction=
~\$6.0m

Operating Budget Key Dates

