

Budget Outlook for 2014 and Beyond

Presentation to Common Council

June 18, 2013

City Finance Department

Financial Policy Issues

- Use of reserves – develop a policy.
 - Avoid creating future structural deficit (i.e., use for one-time expenditures)
 - Reduce use of debt (e.g., use for assets with shorter life-cycle)
 - Maintain at 15% reserve target
 - Rating agency perspectives

Financial Policy Issues

(continued)

- Long-range financial planning (5 years and longer)
 - Operating and capital; revenues and expenditures
 - Establish priorities; connect to performance measures
 - Context for use of one-time windfalls.
- Periodic budget-to-actual reviews
 - Best practice / audit guidance
 - Board of Estimates role and responsibility

Operating Budget and Levy Limits

Bright Spots and Future Challenges

- City's general fund reserves continue to strengthen.
- 2013 estimated actuals on-track and slightly ahead of budget.
- New state budget provides aid increases; further reduces future revenue options.
- Current law levy limits will place severe constraints on 2014 budget.
- Post-2014 expenditure commitments expected to grow faster than allowable levy growth under levy limits.

First, the Good News for 2012

- General fund reserves increased by over 7% (from \$39.9 million to \$42.8 million).
- Reserves represent 16.9% of general fund expenditures; City's policy target is 15%.
- Revenues up \$2.5 million from budget
 - Ambulance fee -- \$232,600
 - Building Permits -- \$550,000
 - TIF Reimbursements-- \$384,200 (one-time)
 - Room tax -- \$517,400
- Net expenditures down \$1.8 million from budget (primarily fringe benefits and contingent reserve).
- Other changes of \$1.4 million offset net gain from positive revenue and expenditure variance (application of unassigned fund balance to budget; other classification changes in the total fund balance).

...and for 2013 (through May 2013)

- Revenues currently tracking \$1.6 million ahead of budget.
 - Building permits; parking violations
 - Room tax
 - Cardinal WHEDA Repayment; Cable TV fees
- Expenditures expected to finish at budget, excluding contingent reserve.
 - Health insurance -- \$688,000
 - ERP system maintenance -- \$300,000
 - Budget adjustments – minus \$800,000 (e.g., debt service savings, convert-to-pay, summer youth, snow and ice removal)
- Contingent reserve balance is currently \$900,000; timing and amount of Stagehands WRS case still uncertain.

But 2014 will present challenges...

- Advanced commitments = \$14.1 million.
- Allowable levy increase = \$5.2 million.
- Other revenue estimates = \$2.8 million (PILOT, bldg. permits, room tax, parking violations, cable franchise fees, general transportation aid)
- Gap = \$6.1 million
(2.5% of 2013 non-debt service budget; 5% excluding Police and Fire)
- Estimates could change due to updated revenue estimates, actual 2013 borrowing, fuel costs, WRS and health insurance rates (e.g., Affordable Care Act) and final action on state budget.
- Estimates do not include funding for any new initiatives.

2014 Advanced Commitments

- Revenues up \$2.8 million
 - State highway aid formula = \$300,000
 - Room tax = \$750,000 (assumes 7.5% lift in 2013; 100% of surplus to gen'l fund)
 - Building permits = \$750,000 (25% increase over 2013 budget; 6% over est.)
 - Utilities PILOT = \$640,000
- Operating costs up \$10.9 million
 - Employee compensation = \$8.4 million (3% rep / 2% non-rep pay increases; WRS contributions; health insurance)
 - Fuel costs and Fleet debt service = \$1.0 million
 - Fire Station staffing / SAFER / Fire Admin = \$700,000
 - Elections = \$540,000
 - Insurance / Workers Comp = \$200,000 (fully fund agency costs)

2014 Advanced Commitments (con't)

- One-time items from 2013 = \$1.1 million
 - Application of fund balance = \$850,000
 - Fleet car replacement cycle deferral = \$500,000
 - Accelerated Police Academy = down \$250,000
- Debt service and capital = \$2.1 million
 - Direct appropriation to capital = down \$4.9 million
 - Debt service = up \$7.0 million
 - Assumes \$65 million of borrowing (\$17 million less than authorized)

2014 – Allocating Reserves

- Estimated \$5.5 million available above 15% target by end of 2014
 - 2013 1st quarter estimates
 - WRS Stagehands settlement reserve
 - Expenditure of remaining WHEDA loan windfall
 - 2014 levy limit and advanced commitments
 - Assumes no emergencies / unanticipated events
- Rating agency perspective; avoid creating structural deficit; consider multi-year plan to keep on-going costs in line with on-going revenues.

Strict State-Mandated Levy Limits

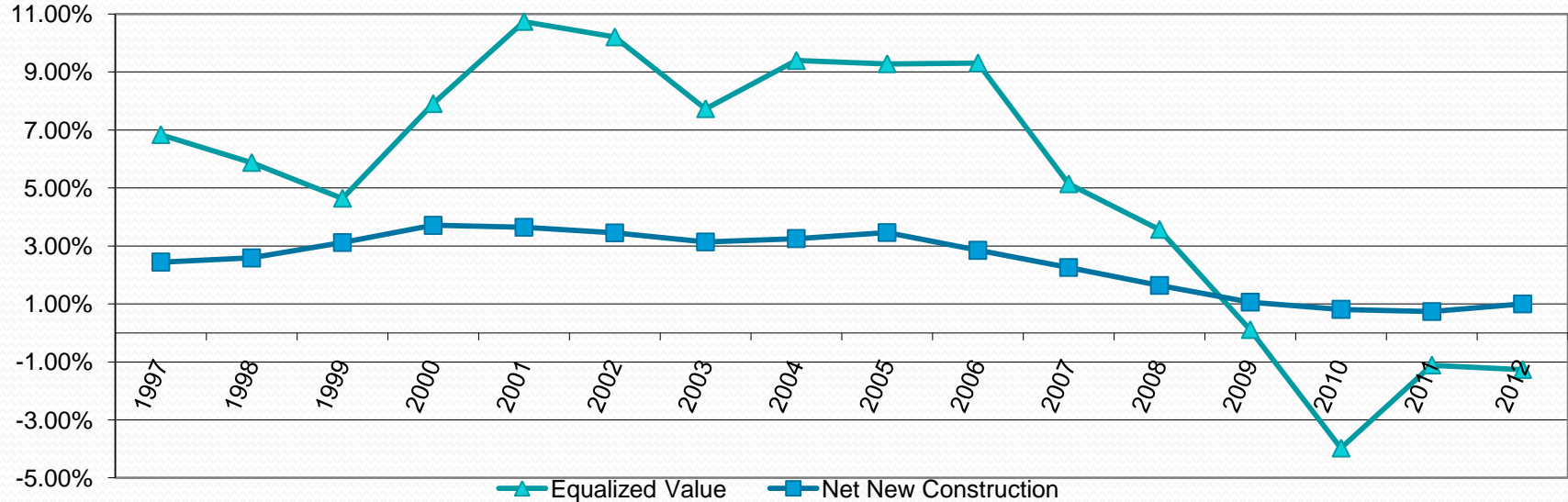
- Growth limited to net new construction; City's growth factor estimated at 1.0% for 2014 calculation.
- Levy limit reduced dollar-for-dollar by certain user fee increases (proposed state budget).
- City's unused carry-over from 2013 is \$96,289
- Debt service excluded from limits – each \$1.0 million 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.

Estimated City Levy for 2013/2014

- Net Taxable Property (preliminary)
 - Residential assessed values down 0.66%
 - Overall net taxable property values up 0.52%
 - Average value home down 0.5% to \$230,831
- With advanced commitments
 - Levy up 5.8%
 - Mill rate up 5.3%
 - Taxes on average value home up 4.8%
- With levy limits (and \$65 million in 2013 borrowing)
 - Levy up 2.7%
 - Mill rate up 2.1%
 - Taxes on average value home up 1.6%

Net New Construction has never exceeded 4% in last 15 years

Equalized Value -- Annual Growth and Proportion due to Net New Construction

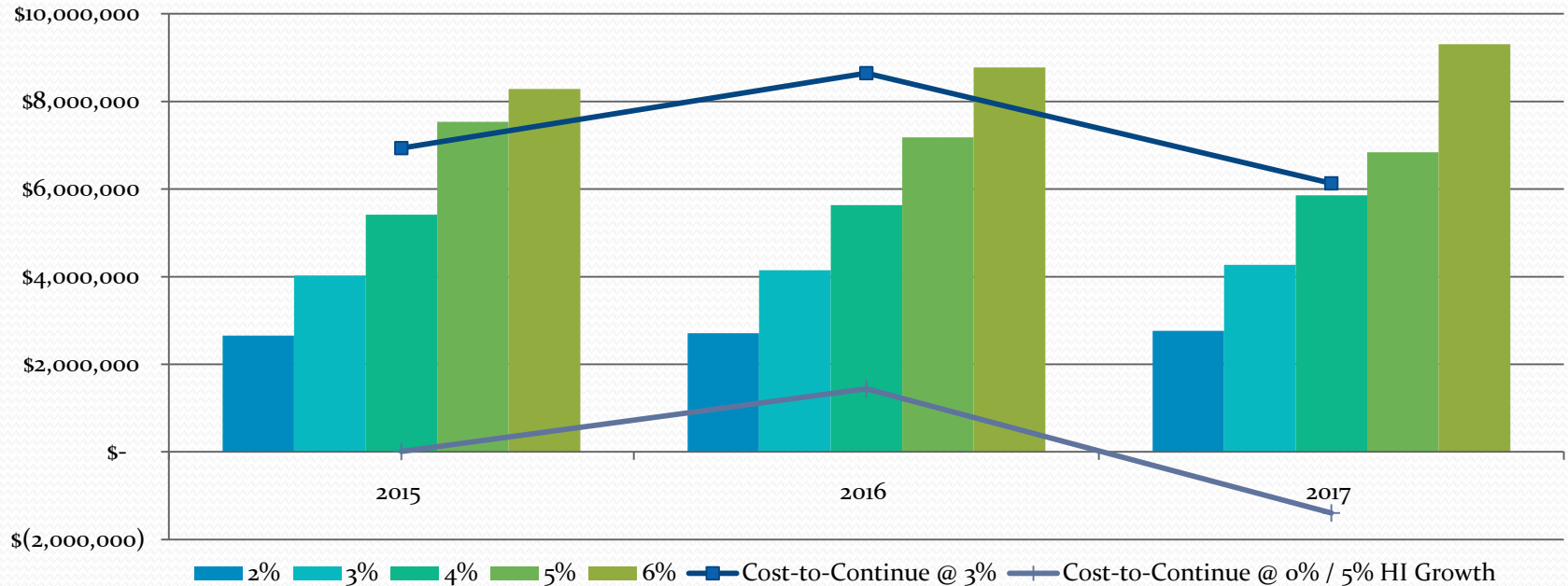


Cost-to-Continue Assumptions

- 0% to 3% annual general wage adjustments; health insurance premiums increase 5% to 10% annually.
- Funding to staff Fire Station 13 in 2015 after end of SAFER grant.
- Premium subsidy surplus exhausted after 2015.
- No significant changes in state aid or other non-levy revenues.
- Debt service projections based on 2013 Adopted Capital Improvement Plan.

Growth rate will affect ability to fund cost-to-continue

Net New Construction and Allowable Operating Levy Increases



Impact of Levy Limits

- Approximately \$22 billion in taxable property
 - 1% = \$220 million of new construction.
 - 6% = \$1.32 billion -- equivalent of 30 projects with \$40 million average assessed value of development *each year*.
- 50% of closed TID increments also increases allowable levy
 - Each \$100 million of TID increment generates 0.2% additional levy.
 - City currently has a total of \$400 million of TID increment open; most must remain open to pay for TID-generated costs.

Range of Budget Gap

Current Assumptions: \$6.1 million

Optimistic: \$3.9 million

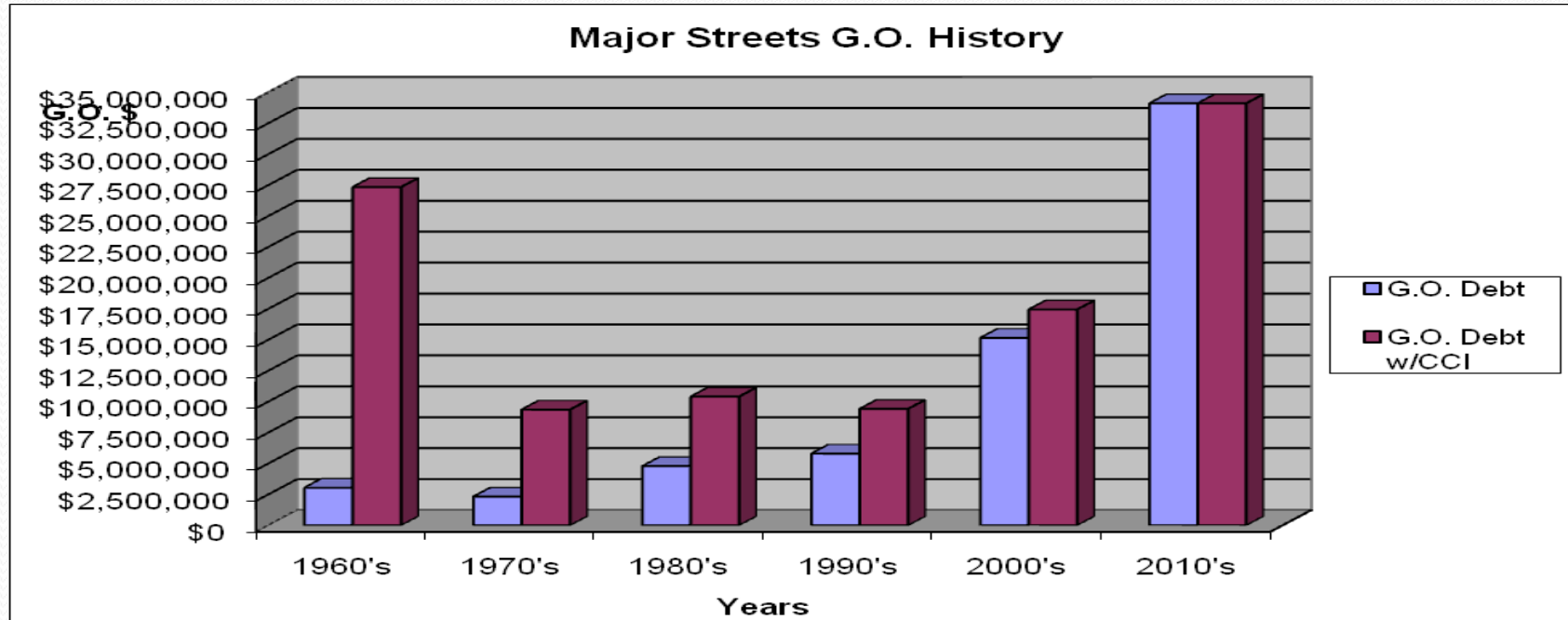
- 5% health insurance increase
- Lower fuel costs
- Phase-in insurance and WC funding

Capital Budget and Debt Service

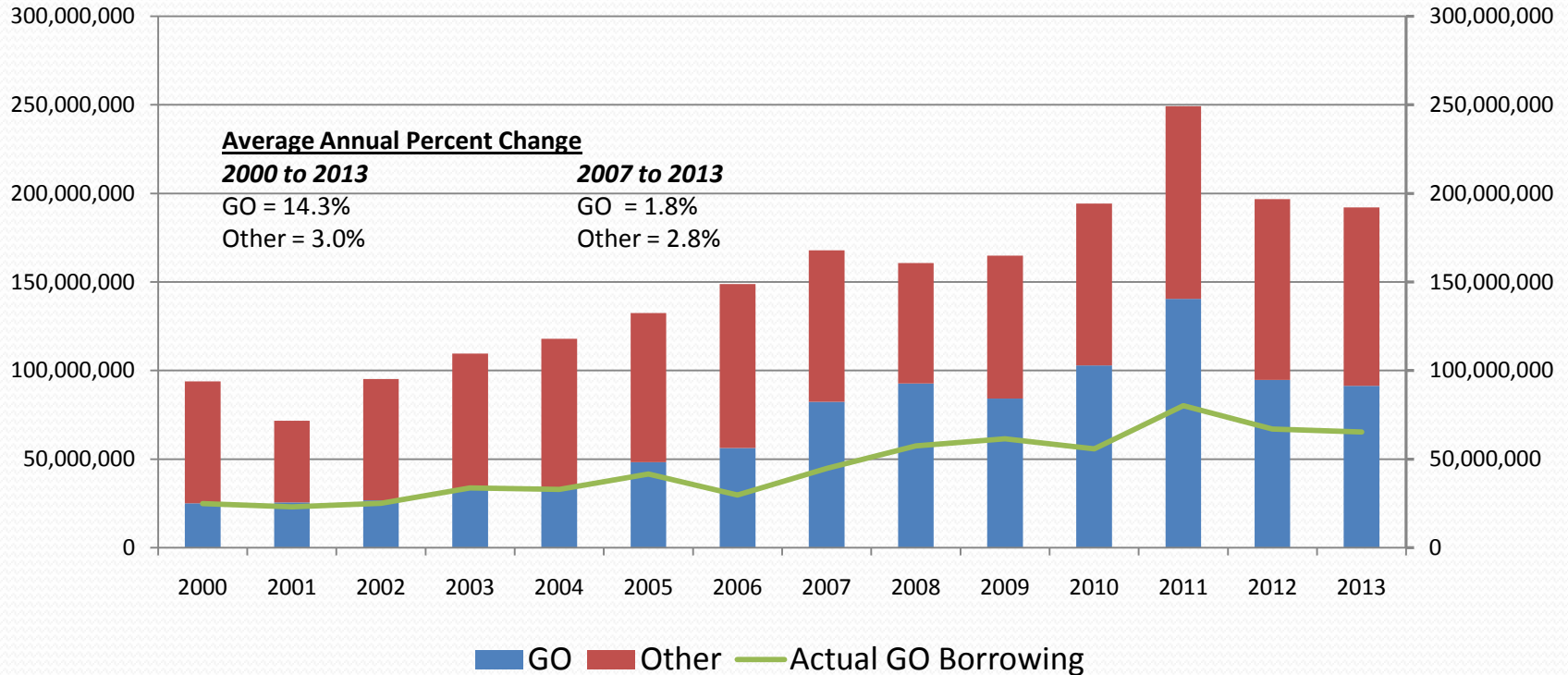
Bond Ratings and Debt Structure

- City's GO Debt has the highest quality rating.
- Usually repay bonds within 10 years (compared to 20 years for most communities).
- Sizeable general fund reserves (City at 16.9%; average of highest quality municipal issuers is 25%).
- Strong financial, debt and budget management practices.
- Strong economic base.

Replacing 1960's Infrastructure

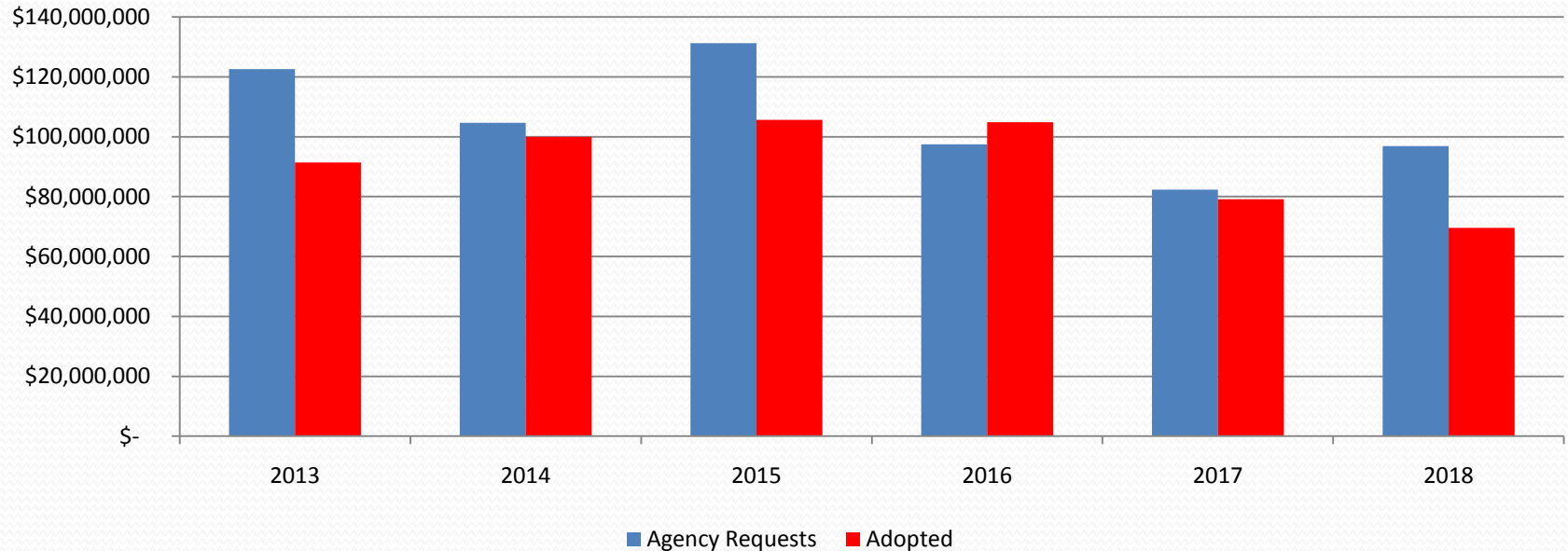


Adopted Capital Budgets 2000 to 2013



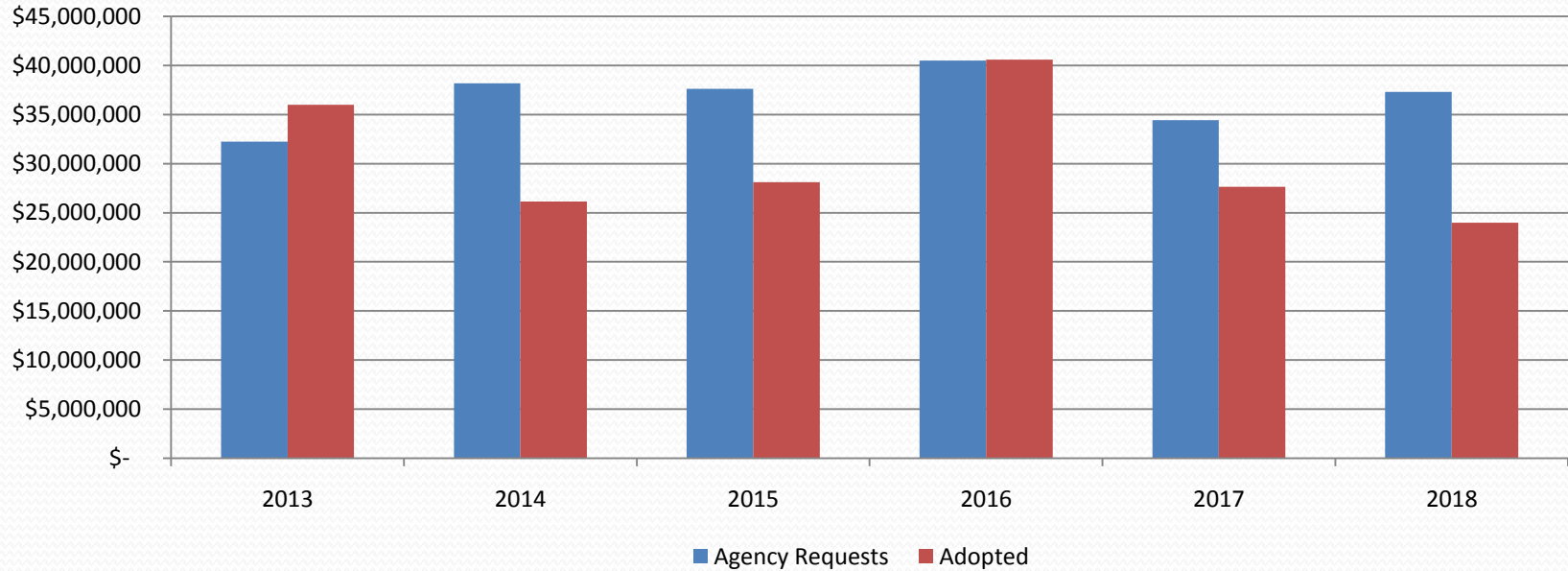
2013 Adopted Capital Improvement Plan

GO Borrowing



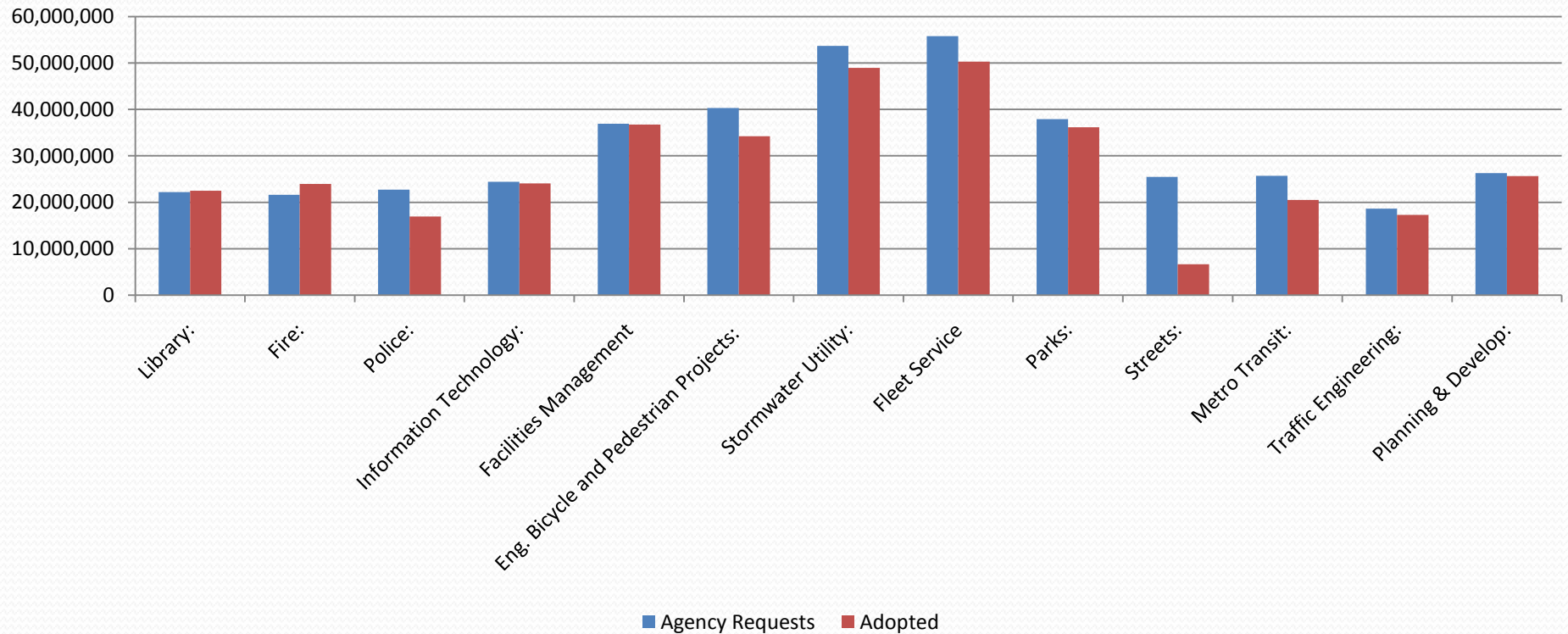
2013 Reauthorizations -- \$22.8 million; \$10.3 million related to cash management.

Major Street Reconstruction



2013 CIP Reauthorizations – \$12.7 million; \$10.3 million related to cash management

Other Agencies – CIP 6-year Total



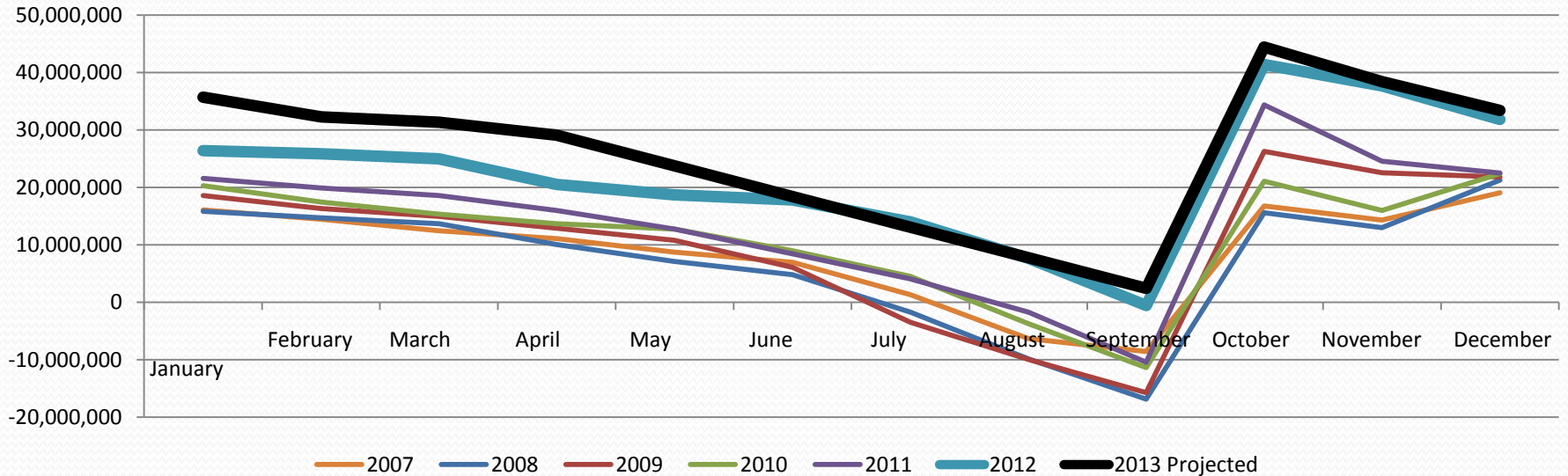
2013 Reauthorizations -- \$10 million

2013 Reauthorizations

- Cash Mgmt -- \$10.3 million
- Mjr. Streets --\$2.4 million
- Library -- \$40,000
- Fire -- \$329,225
- IT -- \$490,000
- Facilities -- \$700,000
- Sewer -- \$725,000
- Ped / Bike -- \$830,000
- Storm -- \$2.8 million
- Fleet -- \$26,000
- Parks -- \$648,500
- Streets -- \$1.25 million
- Metro -- \$59,467
- PCED -- \$1.7 million

Capital Projects Fund -- Projected Cash Balances

\$65 million projected borrowing vs. \$91 million authorized
Capital Projects Fund Monthly Cash Balance

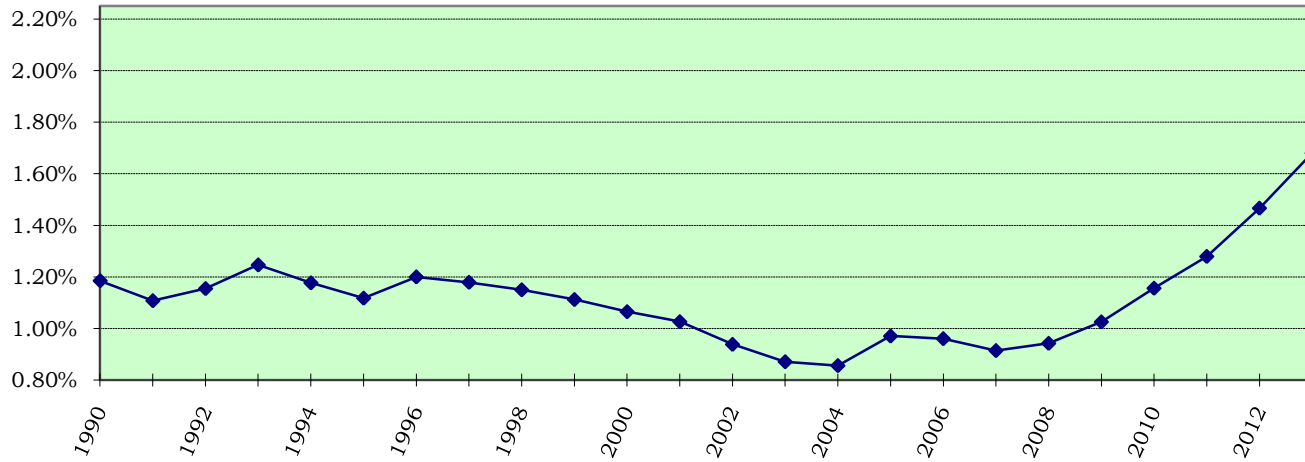


General Obligation Debt as Share of Property Value

Since 2008:

Citywide property values have decreased 2.8%

City's debt has increased 69%

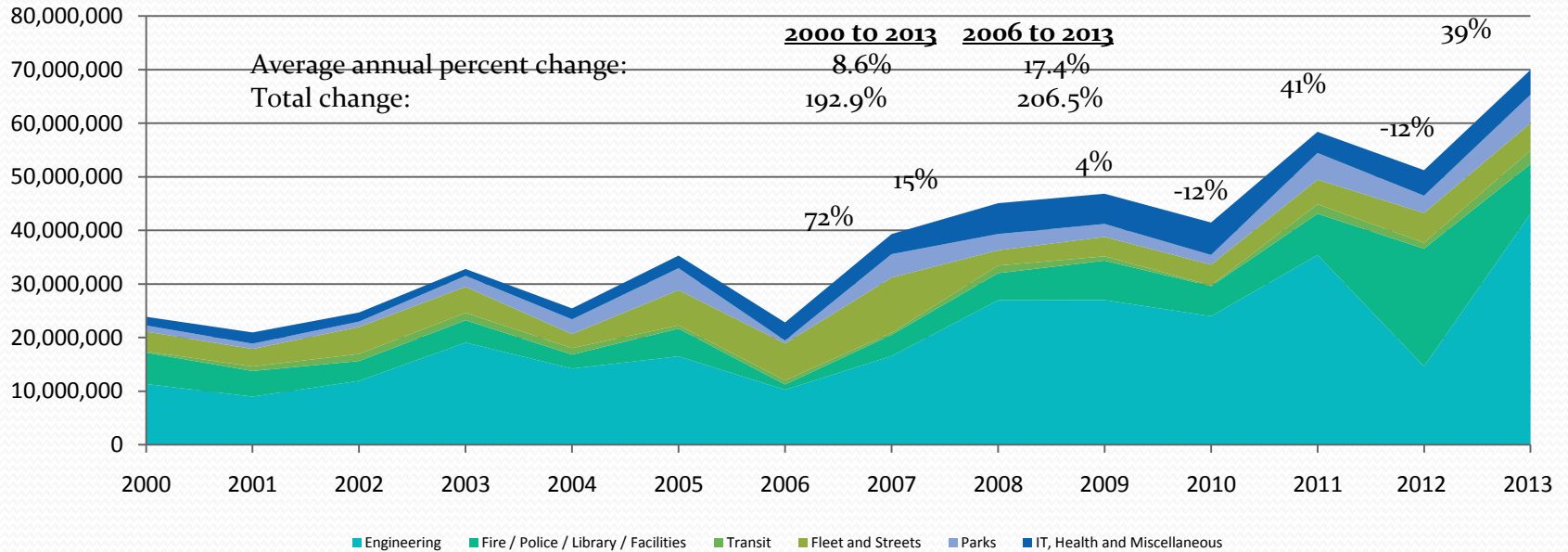


WI Constitution limits total GO debt to 5% of equalized value.

Pace of Debt Issuance has Increased

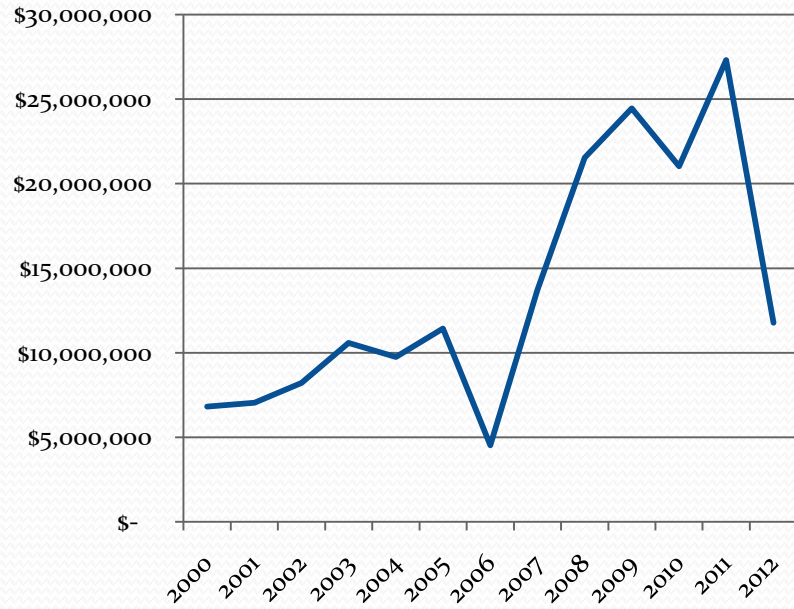
Change in Actual GO Debt -- 2000 to 2013

2013 reflects adopted capital budget
excludes TIF, refinancing of WRS and refunding bonds

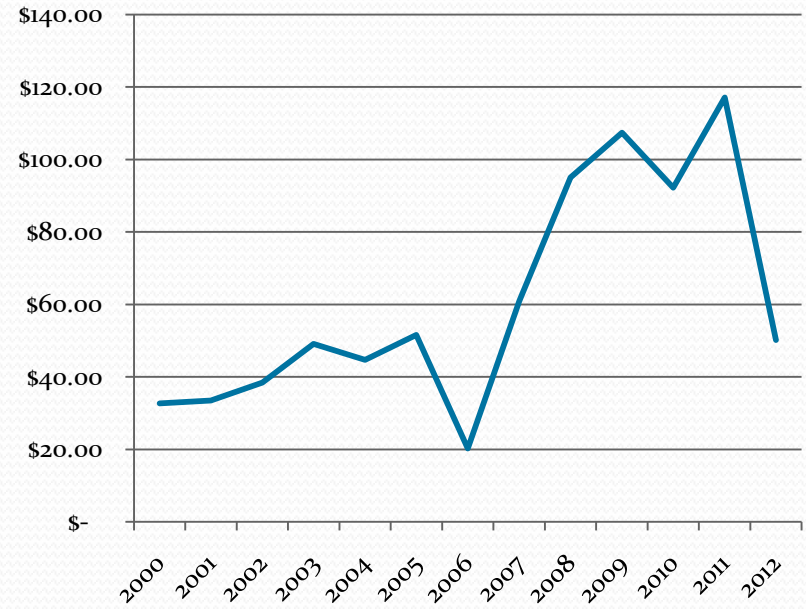


Investment in Major Streets

Total Borrowing

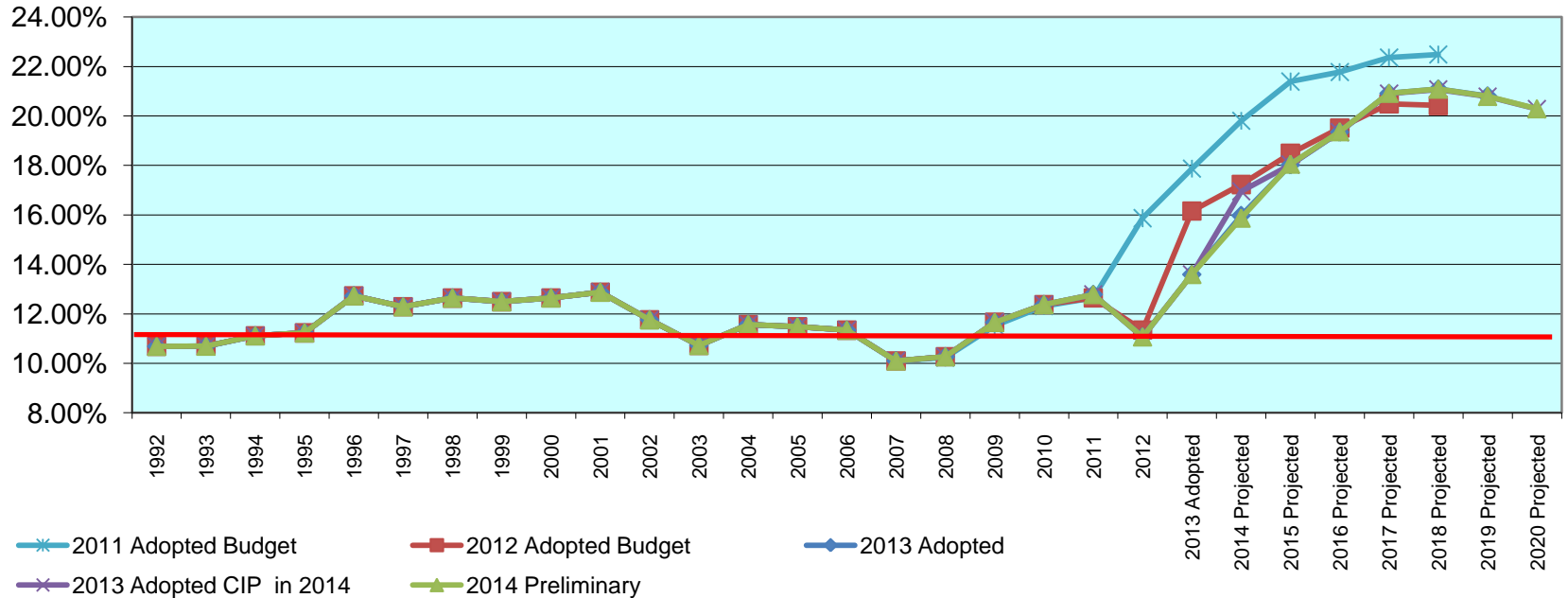


Per Capita Borrowing

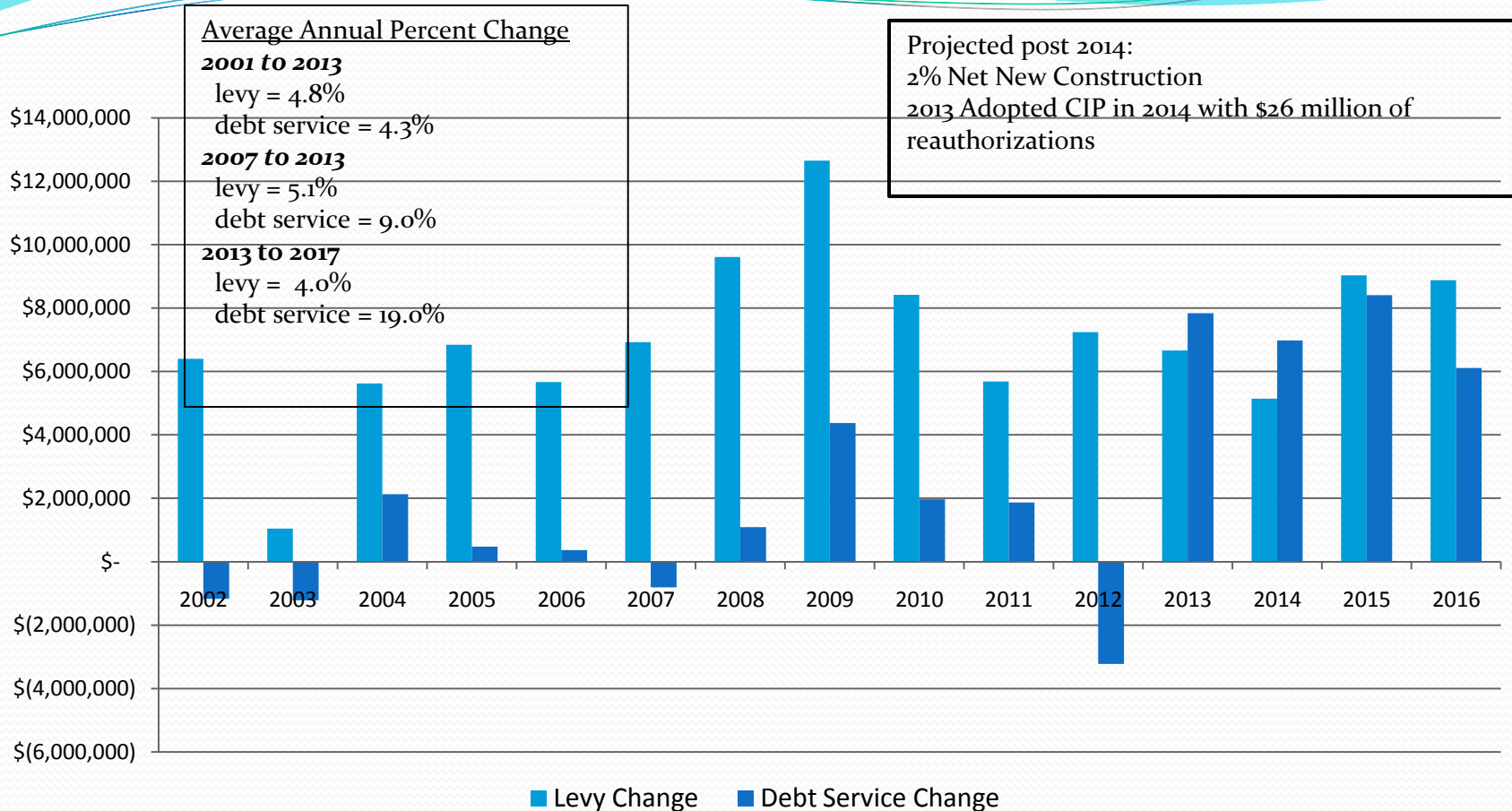


Estimated Debt Service Share

Ratio of Debt Service to Total General Fund Expenditures



Debt Service Share of Levy Increase



Key Issues in 2014 CIP / Capital Budget

- Lag between project authorization and actual expenditure of funds.
- Fire Administration funding in 2014-15 (\$13.5 million).
- Fire training and new SE fire station not programmed (\$10 million)
- Public Safety Radio
 - TE now projecting lower costs and longer replacement cycle
 - \$20 million programmed in 2015-2017; may be closer to \$11 million
- Metro – declining federal capital grants will add to GO burden.

Key Issues in 2014 CIP / Capital Budget

(continued)

- Major Streets -- \$26 million (vs. \$23.2 m in 2013 excluding reauths)
 - Resurfacing streets – \$3.65 million (up \$1.9 million -- 100%)
 - CTH M -- \$3.2 million (down \$1.9 million)
 - E. Johnson Street -- \$2.4 million (new)
 - Milwaukee St. Bridge -- \$1.3 million (new)
 - South Point Road -- \$1 million (new)
 - Pavement condition goals have been achieved in all three general street categories (arterials, collectors, local); significant improvement since 2001; may be entering “maintenance” (vs. catch-up) mode.

Key Issues in 2014 CIP / Capital Budget

(continued)

- Parks -- \$7.6 million (vs \$5.3 million in 2013)
 - Garver -- \$1.8 million
 - Breese Stevens -- \$1.2 million
- PCED – \$6.9 million (vs \$9.6 million in 2013)
 - Neighborhood Centers -- UDAG in 2013 not yet expended; \$400K GO in 2014
 - TIF -- \$5 million undesignated in 2014
 - Block 800 Development and Union Corners

Key Issues in 2014 CIP / Capital Budget

(continued)

- Facilities -- \$1.9 million for MMB planning / design in 2014
- Fleet -- \$10.8 million (vs \$3.2 million in 2013)
 - Vehicles -- \$6 million (vs. \$2.1 million in 2013)
 - Fire Maintenance facility -- \$2.4 million (land purchased in 2013; new project)
 - Fleet Maintenance facility -- \$1.5 million
- ERP System can be deferred to 2015 (\$1.25 million)
- Biodigester – \$20 million cost; funding mechanism yet to be determined.

Capital Budget Instructions

- Do not exceed CIP from 2013 Budget
- New projects not in CIP should not be in formal request but submitted as a supplemental request.
- Realistic timing of 2014 projects; more accurate allocation of costs over multiple years.

Capital Budget Instructions

- Prepare project reduction plans that total 10% of 2013 CIP GO amounts in 2014 and a cumulative 10% of 2013 CIP GO amounts from 2014 to 2018; deferred projects should not be included in the reduction plan.
- Revenue bond (Water and Sewer) programs should prepare similar plans.
- Plans should describe implications of proposed reductions.

Points to Consider -- Debt

- Use of debt has increased over the past several years.
- Pressure on city revenues due to debt repayment will increase.
- Future debt authorization will need to be carefully managed in the context of essential services, state aid and City's economic base.

Points to Consider -- Overall

- Increase pace of development within City's overall aesthetic and quality of life goals.
- Avoid diversions of existing general fund revenues.
- Explore user fees and other non-levy revenue sources.
- Carefully review need for new programs and positions.
- Limit use of reserves / windfalls to one-time items and emergencies.
- Seek ways to increase program efficiencies (e.g., performance management, health care cost containment).
- Limit general wage adjustments.