

# Budget Outlook for 2015

July 8, 2014

City Finance Department

# Bright Spots and Future Challenges

- City's general fund reserves have been brought back to 15%.
- 2014 estimated actuals on-track and slightly ahead of budget.
- 2013-15 state budget will provide additional transit aid in 2015.
- Current law levy limits will continue to place severe constraints on 2015 budget.
- Post-2015 expenditure commitments expected to grow faster than allowable levy growth under levy limits.

# First, closing the books on 2013

- General fund reserves at 14.7% (down from 16.9% in 2012); reduction reflects one-time allocations in 2014 budget combined with full value of investments (see below); City's policy target is 15%.
- Revenues down \$800,000 from budget
  - Ambulance fee -- \$-1.9 million
  - Building Permits -- \$1.2 million
  - Cardinal LLC -- \$417,300
  - Investment income -- \$-700,000
- Value of investments down \$3.4 million ("mark-to-market" adjustment)
- Net expenditures down \$2.2 million from budget (primarily fringe benefits and contingent reserve)
- Set-aside \$1.1 million for life insurance tax liability and Stagehands WRS liability
  - Life insurance tax liability resolved for \$814,517; consulting costs = \$51,364
  - Stagehands WRS liability still in litigation / ETF review.

# 2013 Comprehensive Annual Financial Report (CAFR)

- Net position (assets minus liabilities) improved by 1.4% due primarily to new/improved assets (88% of net position is due to capital assets).
- Long-term obligations increased from \$609 million to \$638 million (5% -- due primarily to added debt).
- \$71 million of long-term obligations related to employee benefits (comp absences; workers comp; other post-employment benefits -- OPEBs)
- More than half of \$22 million OPEB obligation is an “implicit subsidy” (retirees paying the same health insurance premium as active employees)
- 2013 CAFR now available on Finance Department website under “Financial Statements”

# ...and for 2014 (through June 2014)

- Revenues currently tracking \$1.2 million ahead of budget.
  - Building permits up \$500,000
  - Room tax up \$250,000 (based on first quarter only)
  - TID 32 equity payment of \$200,000
  - PILOT, Charges for Services, P-Card rebates and Shorewood Hills Fire pymt up \$325,000
- Expenditures currently expected to finish \$800,000 over budget
  - Snow and ice removal-- \$1.2 million (could be higher depending on severity of upcoming winter)
  - EAB -- \$365,000
  - Election costs -- \$185,000 savings
  - Other -- \$570,000 (police convert-to-pay; compost fee)
  - Fringe Benefits – continue to refine projections, currently under budget.
  - Contingent reserve – assumes \$724,000 balance (includes pending resolutions for community gardens facilitator and MGE rate case consulting)

# But 2015 will present challenges...

- Advanced commitments = \$15 million.
- Allowable levy increase = \$5.8 million.
- Other revenue estimates = \$4.9 million (PILOT, bldg. permits, room tax, parking violations, transit aids; decline in fund balance applied)
- Gap = \$4.3 million  
(2 % of 2014 non-debt service budget; 4% excluding Police and Fire)
- Estimates could change due to updated revenue estimates, actual 2014 borrowing, fuel costs, WRS rates, and health insurance rate and plan design changes.
- Estimates do not include funding for any new initiatives.

# 2015 Advanced Commitments

- Revenues up \$4.9 million

- State transit aid = \$650,000 (reduces amounts needed for Metro levy subsidy)
- Room tax= \$2m (assumes 7.5% increase in 2014; 100% of surplus to gen'l fund)
- Building permits = \$1.15m (29% increase over 2014 budget; 11% over est.)
- Utilities PILOT = \$700,000

- Operating costs up \$11.7 million

- Employee compensation = \$7.7 million (3% pay increases -- police and fire in contract; others are a goal); 0.5% drop in WRS; 10% health insurance increase)
- Fleet debt service and fuel costs = \$1.0 million
- Fire Station staffing / SAFER / Fire Admin = \$1.1 million
- EAB and Tipping Fee Schedule = \$1 million
- Convert-to-Pay / Longevity / Education Stipend = \$1 million

# 2015 Advanced Commitments (con't)

- One-time items from 2014 = \$1.3 million
  - Overture subsidy = \$750,000
  - Fleet car replacement = \$300,000
  - Annualize 2014 items (i.e., new positions) = \$250,000
- Debt service and capital = \$2.0 million
  - Direct appropriation to capital = down \$4.1 million
  - Debt service = up \$6.1 million
  - Assumes \$68 million of borrowing (\$45 million less than authorized)



# Strict State-Mandated Levy Limits

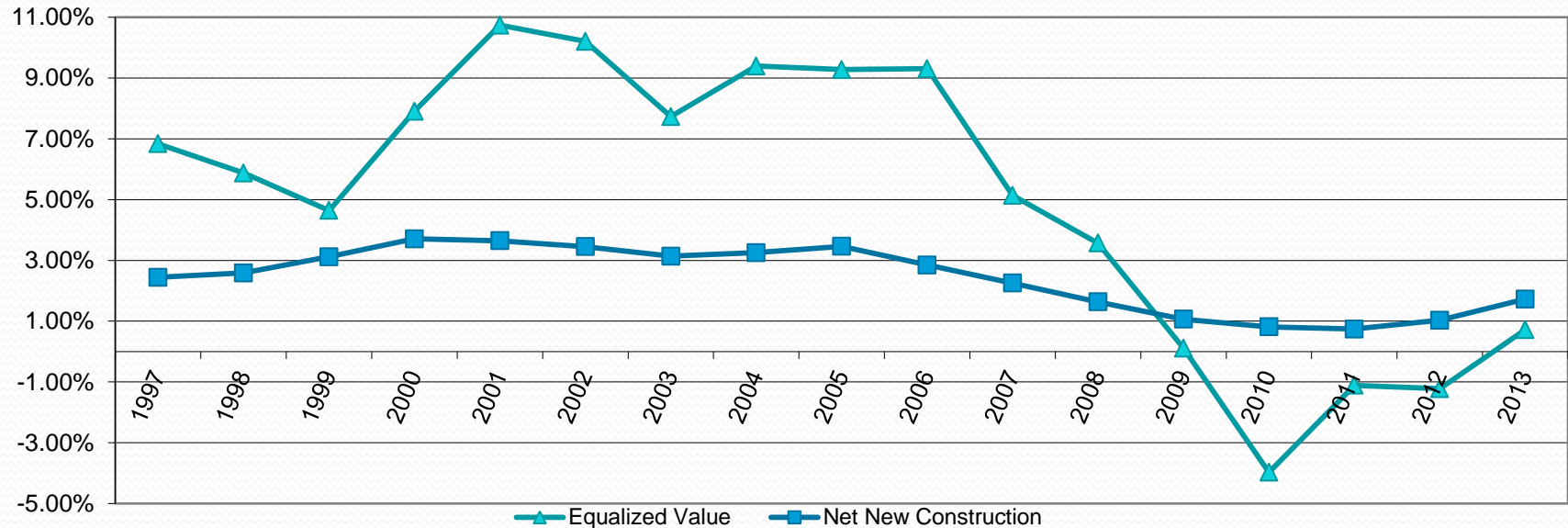
- Growth limited to net new construction; City's growth factor estimated at 1.72% for 2015 calculation.
- City's unused carry-over from 2014 is \$3,737
- Debt service excluded from limits – each \$1.0 million of additional debt service (~ \$7.7 million of borrowing) = 0.5% added to levy, mill rate and taxes on average value home.
- Can exceed limits with referendum.

# Estimated City Levy for 2014/2015

- Net Taxable Property (June 27 estimates)
  - Residential assessed values up 3.1%
  - Overall net taxable property values up 3.1%
  - Average value home up 3% to \$237,678
- With levy limits (and \$68 million in 2014 borrowing)
  - Levy up 3%
  - Mill rate – no change
  - Taxes on average value home up 3%
- Levy limits will require an estimated \$4.3 million cut (4% of non-debt service budget excluding Police and Fire) in the cost-to-continue of city services.

# Net New Construction Trending Upward; Has Never Exceeded 4%

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



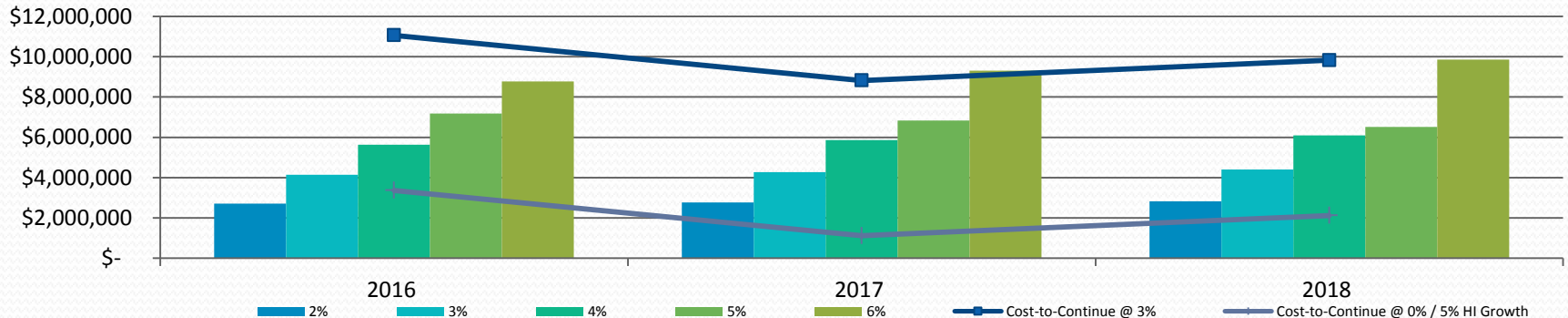
# Impact of Levy Limits

- Net new construction increased from \$223 million in 2012 to \$371 million in 2013; 2015 levy limit factor a ratio of 2013 net new construction to 2013 equalized value.
- Estimated net new construction factor = 1.724%
  - Applied to levy net of total GO debt service (levy and non-levy supported)
  - Adds \$2.3 million of levy capacity for operating budget = 1% increase over 2014 general fund budget, excluding debt service and capital.

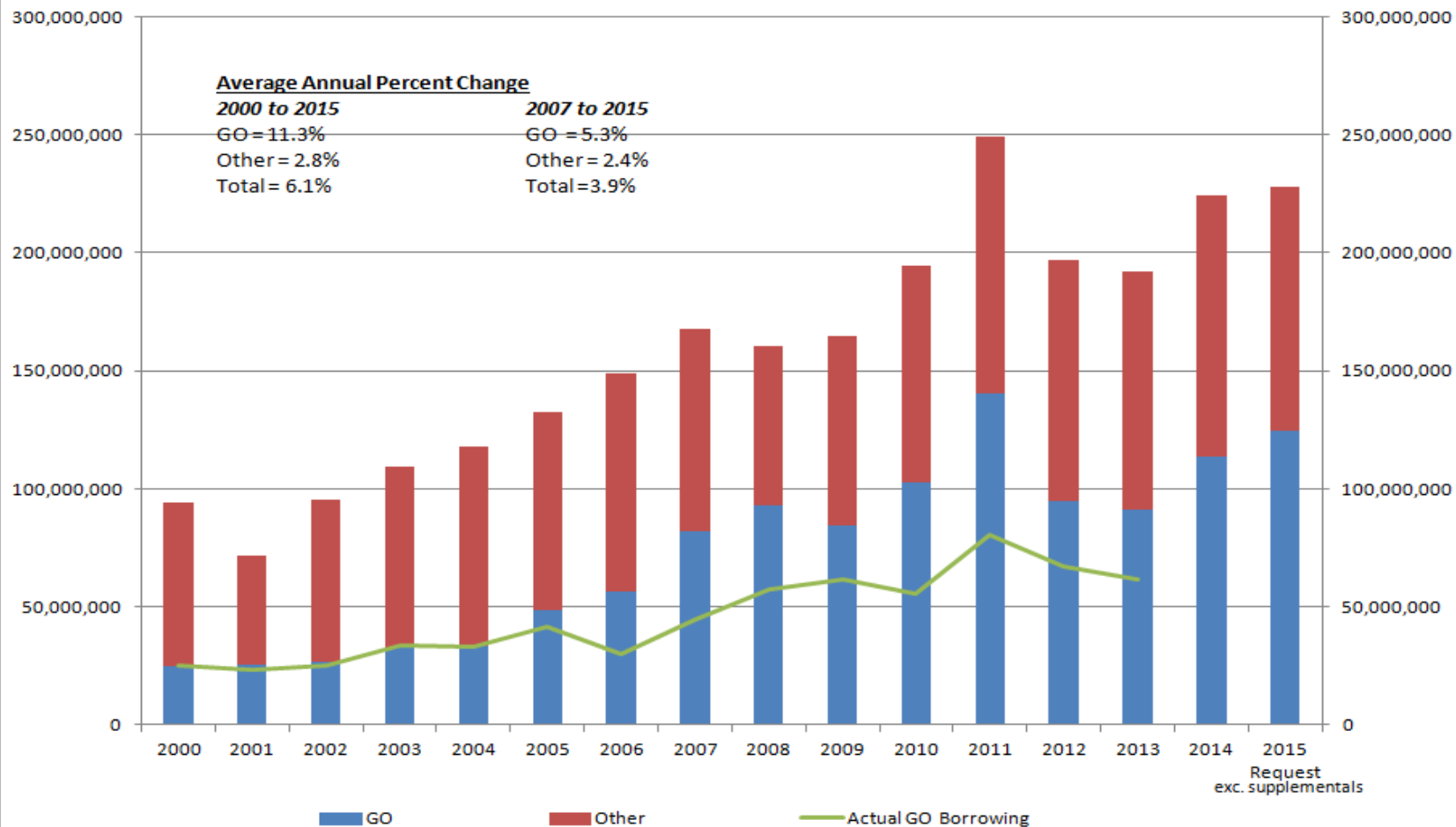
# Meeting Cost-to-Continue Dependent on Compensation and New Construction

- 3% annual general wage adjustment; health insurance premiums increase 10% annually.
- Premium subsidy surplus exhausted after 2015.
- No significant changes in state aid or other non-levy revenues.
- Debt service projections based on 2014 Adopted Capital Improvement Plan.
- Lower cost to continue assumes no pay increases and 5% annual growth in health insurance premiums

## Net New Construction and Allowable Operating Levy Increases

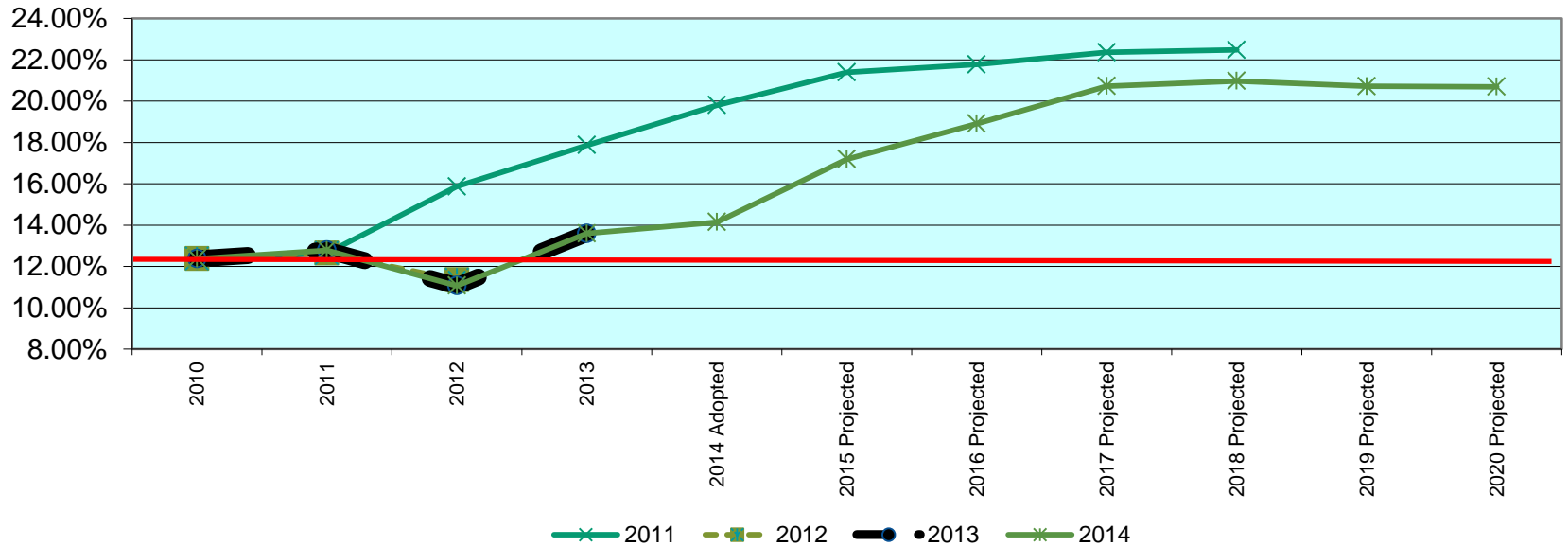


## Adopted Capital Budgets 2000 to 2014



# Projected Debt Service

## Ratio of Debt Service to Total General Fund Expenditures



# Mayor's Budget Instructions

- No growth from 2014 budget, with exceptions for certain cost-to-continue items.
- 3% reduction plans.
- Supplemental requests allowed.
- Agency requests due August 4<sup>th</sup> to Finance.