2025 Operating Budget Update

Finance Committee
June 10, 2024

Agenda

- 2025 Operating Outlook & Long Range Forecast
  - Cost to Continue Revenue Assumptions & Expenditures
  - One-time funding
  - Budget Gap
  - Long Range outlook
  - Council Guiding Principles

Current Estimated Budget Gap
(General and Library Funds)

Estimated Expenditures = $431.4 million

Total expenses are $26.0 million (6.4%) higher than 2024 adopted budget. Major changes:

- + $14.5m: Salary + benefits increases
- + $2.7m: Metro subsidy increase
- + $500k: PHMDC subsidy
- + $5m: Placeholder for GF Debt Service
- + $1.47m: Citywide Purchased Services increases for technology costs (software maintenance contracts, PCI compliance, and credit card processing fees)
- - $1.22m: Adjusts expenses for odd-year election cycle

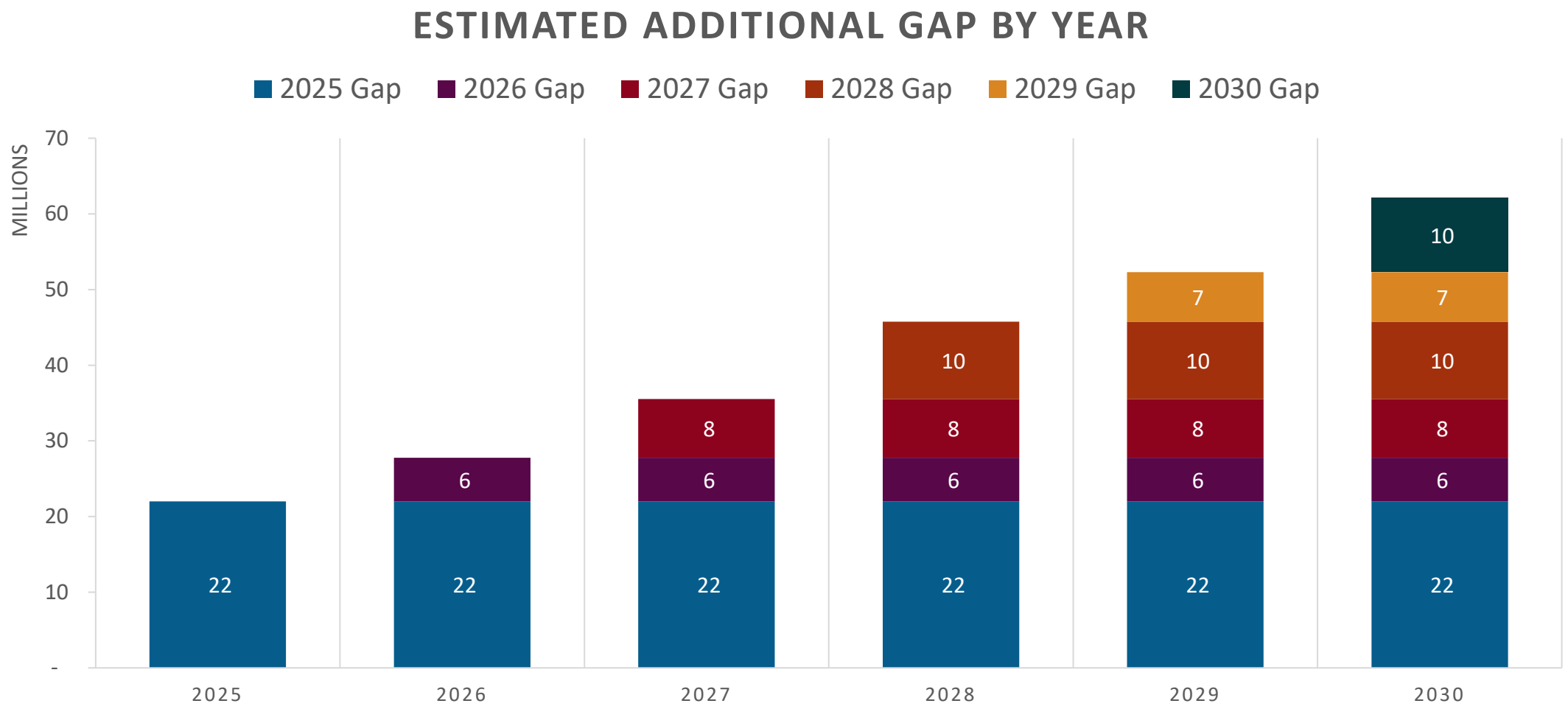
Estimated Revenues = $409.4 million

Total revenues are $4.0 million higher than the 2024 adopted budget. Assumptions:

- + $12.6m: Levy increase
- + $6.0m: Increase in interest earnings
- + $1.0m: Increase in ambulance conveyance fees
- - $17.9m: Removing one-time sources ($9.2m fund balance, $5.6m ARPA, $3.1 TID)

Current Estimate = $22.0 million

Long-Range Outlook



Cost to Continue Adjustments: Categorized Adjustments (GF + Library)

Category	Assumptions
Personnel Costs	$14.5m increase in salaries and benefits • Annualizes 6% GME increase phased in during 2024 (4% catch up effective January 2024; 2% catch up effective July 2024) • Adds 3% increase for GMEs and protective service based on negotiated agreements • General and Library funds GME 3% - $3 million includes benefits • Includes 1% step and longevity increase • Annualizes positions funded for partial year in 2024 • Includes funding for potential position reclassifications submitted to Human Resources • $2.97m placeholder for health insurance rate increases; $500k placeholder for WRS rate increases (held in direct appropriations)
Elections	• Removes $1.22m for elections ($990k election officials; $226k supplies and postage)
Direct Appropriations	• Adds $5.0m placeholder for Debt Service
Facilities & Utilities	• Adds $489k for higher gas (+15%) and electricity (+5%) costs, Building Use charges (+10%)
Technology Costs	• Adds $68,625 for PCI Compliance • Adds $1.44m for software maintenance contract increases • Adds $30,000 for credit card processing fees
ARPA	• Removes $1,225,600 transfer in to cover various CDD community agency contracts

Cost to Continue Adjustments: Categorized Adjustments (GF + Library)

Category	Assumptions
Metro Subsidy	• Adds $2.7m to Metro subsidy (2025 total: $18,225,000)
PHMDC Subsidy	• Adds $500k to PHMDC subsidy
Fleet Rate	• $1.4 million increase. Highlights: $758,000 debt; $435,000 repairs and supplies; $211,000 salaries and benefits; $207,000 decrease fuel. ($645,000 increase without debt adjustment)
Insurance & Worker's Comp	• Adds $95,500 ($485,000 increase in Insurance, $389,500 decrease in Worker's Comp)
Professional Services	• Adds $125,900 for contractual increases
Park Maintenance	• Adds $48,175 for operationalizing completed capital projects • Adds $128,900 for Mall maintenance, Door Creek Shelter & Country Grove Shelter operations
Office of Independent Monitor	• Reduces budget by $65,500 to remove one-time start-up funding.
Cost Allocation	• Updated plan increases billings to enterprise agencies by $469,000.

Cost to Continue Adjustments: Salary & Benefits Increase (GF + Library)

- 2024 Adopted Salaries & Benefits: **$253.9 million**
- 2025 Cost to Continue Salaries & Benefits: **$268.2 million**
  - Represents a **5.63% increase** over 2024 Adopted Budget

Category	Additional Amount in 2025
2025 Steps & Longevity (calculated at 1%)	**$2.0 million**
3% COLA for all employees	**$6.1 million**
Benefits (includes placeholder for 11% increase in health) • Health Insurance • Commissioned Benefits (Retiree health, accidental death and dismemberment) • WRS • FICA • Wage Insurance & VEBA	**$5.7 million** • $3.0m • $430,000 • $1.65m • $544,000 • $66,500
Reclasses; COLA and benefits for Hourly, Overtime, Premium Pay	**$500,000**

Salary Savings and Budget Efficiencies

Salary Savings

- 7.2% vacancy rate in first 5 months of 2024
- Created tiered structure in 2024 so small agencies with less turnover are not adversely impacted
  - Fewer than 20 FTEs = 0%
  - 20 – 49 FTEs = 0.5%
  - 50 – 99 FTEs = 1.0%
  - 100 – 199 FTEs = 3.0%
  - 200+ FTES = 4.0%
- 2025 salary savings = $5.6m in GF + Library (3.2% of perm wages)

Budget Efficiencies

- Actual underspend varies by agency, but citywide average for last 3 years is 3.8%
- Cost-to-continue includes 2024 1% “savings” -- $3.2 million

What options does the City have?

The operating budget must be balanced. How much we spend (expenditures) cannot be more than the money we bring (revenues).

Reduce Expenditures

Closing the budget gap through cuts alone will have significant operational impacts and will result in less services to residents.

- Reduce all/most agencies
- Cut specific programs or services
- Cut positions (layoffs) or reduce employee compensation (for example, saving $22 million would require cutting 220 positions).

Increase Revenues

The City's options for raising revenues are limited by the State. For example, we cannot levy a local sales tax or income tax.

- Create new special charges
- Increase existing local revenues (e.g. fines, fees)
- Ask voters to increase the property tax ("levy") through a voter referendum

Council Guidance on 2025 Budget

Legistar 82456, adopted April 16, 2024

Values and Priorities

1. Maintaining services to residents
2. Preventing layoffs or furloughs of city staff.
3. Maintaining wage parity for general municipal employees
4. Meeting the needs of a growing city.
5. Choosing the most progressive revenue options that consider housing affordability.

Guidance on Developing 2025 Budget

1. Evaluate service levels, staffing and fiscal impact.
2. Seek ways to increase efficiencies in operations.
3. Explore a reduction in expenditures from cost-to-continue levels that does not compromise services to residents.
4. Develop referendum language to increase property tax to meet some or all of deficit, as well as options to replace existing non-property tax revenues.
5. Prepare options other than property tax, including special charges
6. Develop a multi-year plan, including options for new, or increasing existing, fees and charges.
7. Consider the level of overall general obligation borrowing in 2025 capital budget to reduce rate of growth in property taxes
8. Develop a community engagement plan to educate the public.

Key Dates for 2025 Budget Development

(All dates in 2024)

	Capital	Operating
Kick-Off Meeting	Tuesday, March 19 11:00am	Monday, June 17 1:00pm
Agency Requests Due	Friday, April 19	Friday, July 19
Agency Briefings with Mayor's Office	May 8 – 17	August 12 – 14
Executive Budget introduced to Common Council (CC)	Tuesday, September 10	Tuesday, October 8
Finance Committee (FC) Briefings	September 16 – 17	October 14 – 15
FC Amendment Meeting	September 30	October 28
CC Amendment Week	October 30 – November 8	
CC Budget Adoption Meetings	November 12 – 14	

Detailed Calendar – June and July

Date	Activity
June 10	2025 Operating Budget Update to Finance Committee
June 17	Operating budget instructions to agencies
June 18	2025 Operating Budget Update to Council
June 24	Broad options discussion with Finance Committee
July 2	Briefing and Discussion at Council; Referendum resolution introduced
July 8	Referendum resolution discussed at Finance Committee
July 16	Referendum resolution discussion
August 6	Last scheduled Council meeting before 70-day deadline for referendum ballot resolution