

Budget Outlook and Process for 2016

Board of Estimates

July 13, 2015

City Finance Department

Bright Spots and Future Challenges

- City's general fund reserves at 14.6%
- 2015 estimated actuals on-track.
- 2015-17 proposed state budget cuts recycling aid.
- Property value/net new construction growth will provide some revenue growth, but current law levy limits continue to place constraints on 2016 budget.
- Post-2015 expenditure commitments expected to grow faster than allowable levy growth under levy limits.
- Full implementation of 2015 CIP will fuel higher property tax increases

First, closing the books on 2014

- General fund reserves at 14.6% (14.7% in 2013)
- City's policy target is 15%.
- Revenues down \$269,600 from budget
 - Property Taxes -- Attic Angels refund -- \$-740,000
 - Utility PILOTs -- \$-350,000
 - Fine/Forfeitures -- \$-600,000
 - Charges for Services -- \$600,000
 - Licenses/Permits -- \$-150,000
 - Investment income -- \$1.3 million
- Value of investments up \$1.8 million ("mark-to-market" adjustment)
- Net expenditures down \$2.6 million from budget (primarily fringe benefits and contingent reserve)
- Set-aside \$1.3 million for Attic Angels refunds for other taxing jurisdictions (expected receipt in 2016)
- Fleet Service Internal Service Fund -- \$3.5 million deficit due to asset depreciation expense issues.

...and for 2015 (through June 2015)

- Revenues currently tracking \$800,000 below budget.
 - Building permits
 - Fines and forfeitures
 - Room tax up
- Expenditures expected to finish \$1.1 million under budget, including contingent reserve balance.
 - Fuel savings
 - March 2015 pay increase
- Contingent reserve balance is currently \$1 million.

But 2016 will present challenges...

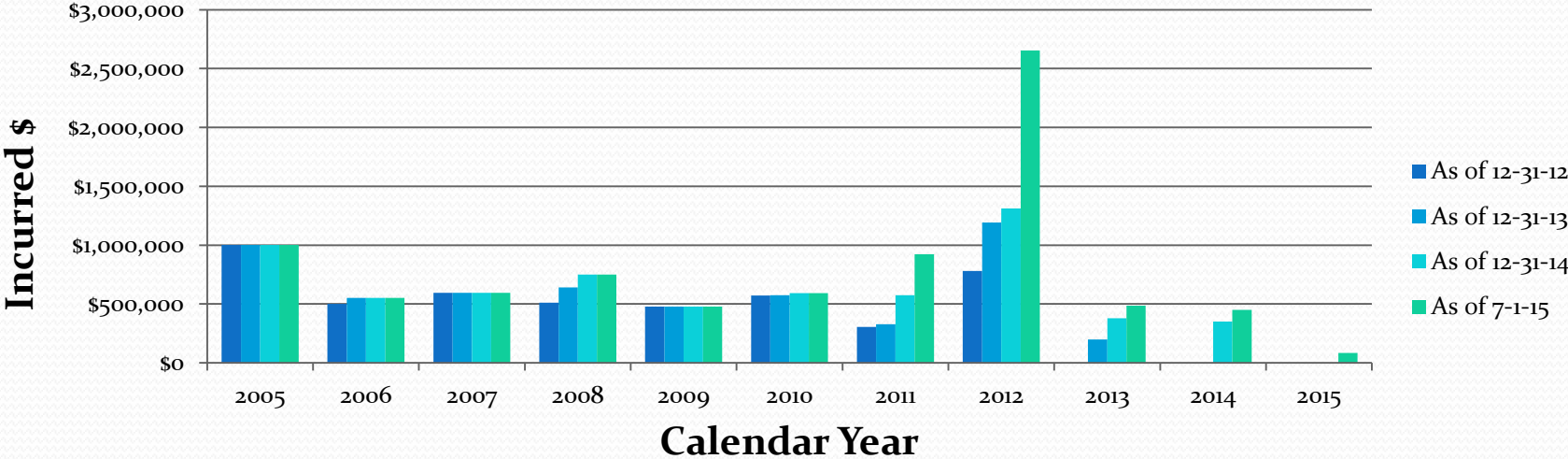
- Advanced commitments = \$14.8 million.
- Allowable levy increase = \$8.5 million.
- Other revenue estimates = \$-1.6 million
- Gap = \$7.9 million
- Estimates could change due to updated revenue estimates, actual 2015 borrowing, Attic Angels case, WRS rates, and health insurance rate and plan design changes.
- Estimates do not include recent state budget action on room tax.
- Estimates do not include funding for any new initiatives.

2016 Advanced Commitments

- Revenues down \$1.6 million
 - Building permits = down \$750,000
 - Other = down \$800,000 (PILOTs, parking violations, citations, state recycling aid)
- Operating costs up \$10.4 million
 - Employee compensation = \$8.6 million (3% pay increases (police and fire in contract; others are a goal); 1.5% increase in WRS; 7.5% health insurance increase)
 - Longevity / Education Stipend / 2014 Police & Fire Givebacks= \$1.9 million
 - Biennial Elections Cycle = \$475,000
 - Fuel = down \$1.2 million
 - Fleet rates and Insurance premiums = up \$1.3 million (two to three year phase-in to address significant deficits)

Recent Rapid Rise in Losses

City of Madison Insurance Fund Liability Losses



2016 Advanced Commitments (con't)

- One-time items from 2015 = \$3.4 million
 - Prem. Stab. Fund = \$1.3 million
 - TID 32 Equity Payment = \$190,000
 - Full funding (e.g., neighborhood police officers and COPS) = \$1 million
 - March 2015 Pay Increase = \$808,000
- Debt service and capital = \$2.5 million
 - \$4 million premium
 - Assumes \$77 million of borrowing (\$70 million less than authorized)
 - Borrowed \$57 million in 2014

Strict State-Mandated Levy Limits

- Growth limited to net new construction; City's growth factor estimated at 2.23% for 2016 calculation.
- City's unused carry-over from 2015 is \$288,273
- 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 2015/2016

- Net Taxable Property (preliminary)
 - Residential assessed values up 4.0%
 - Overall net taxable property values up 4.73%
 - Average value home up 3.5% to \$245,894
- With levy limits (and \$77 million in 2015 borrowing)
 - Levy up 4.2%
 - Mill rate down 0.5%
 - Taxes on average value home up 2.9% (\$66)

Impact of Levy Limits

- Net new construction increased from \$371 million in 2013 to \$525 million in 2014; 2016 levy limit factor a ratio of 2014 net new construction to 2014 equalized value.
- Estimated net new construction factor = 2.23%
 - 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 2015 general fund budget, excluding debt service and capital.

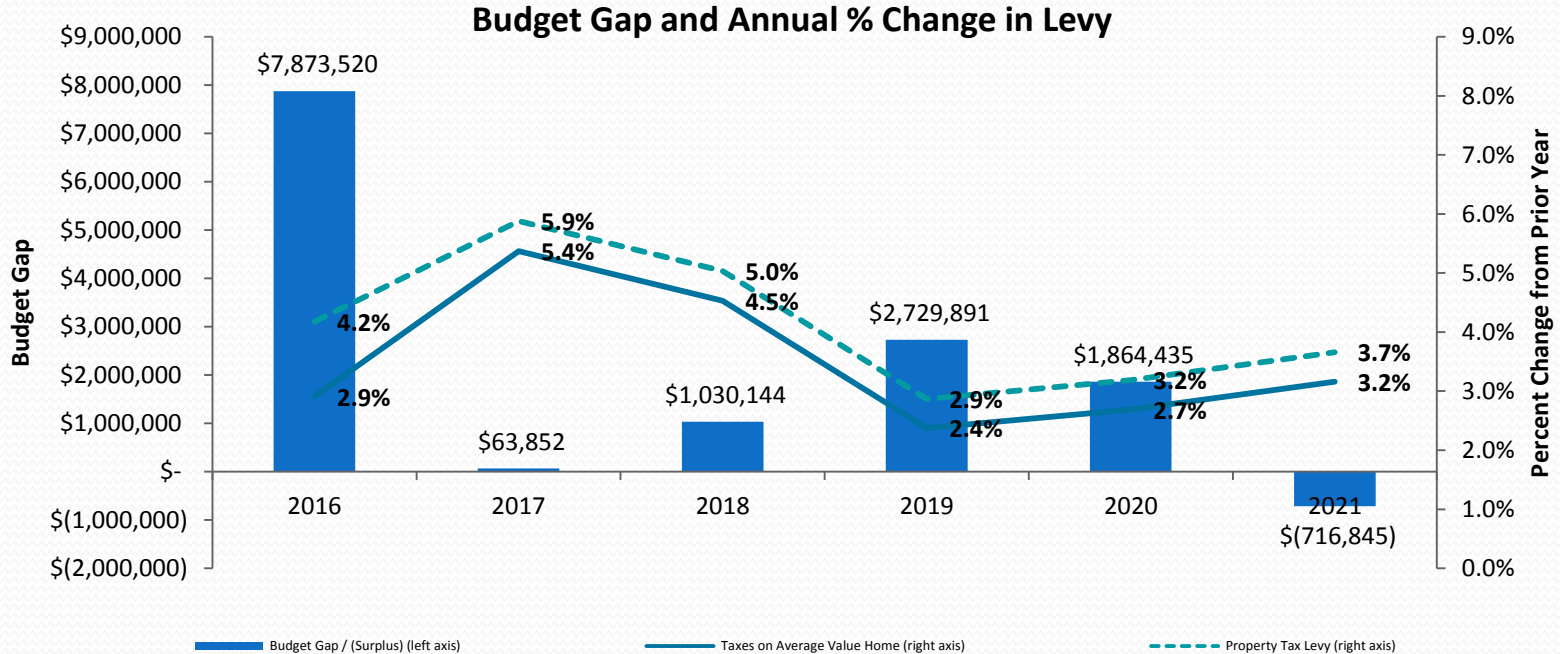
Expenditure Restraint Impacts

- Expenditure restraint program will limit allowable growth in non-debt service spending to an estimated 1.5%.
- Further limits amount of non-debt service cost growth, which is primarily compensation.
- Options are available to address in 2016; however, possibly causes 2017 expenditure limit issues.

Long-Range Forecast Model

Post 2016 Factors:

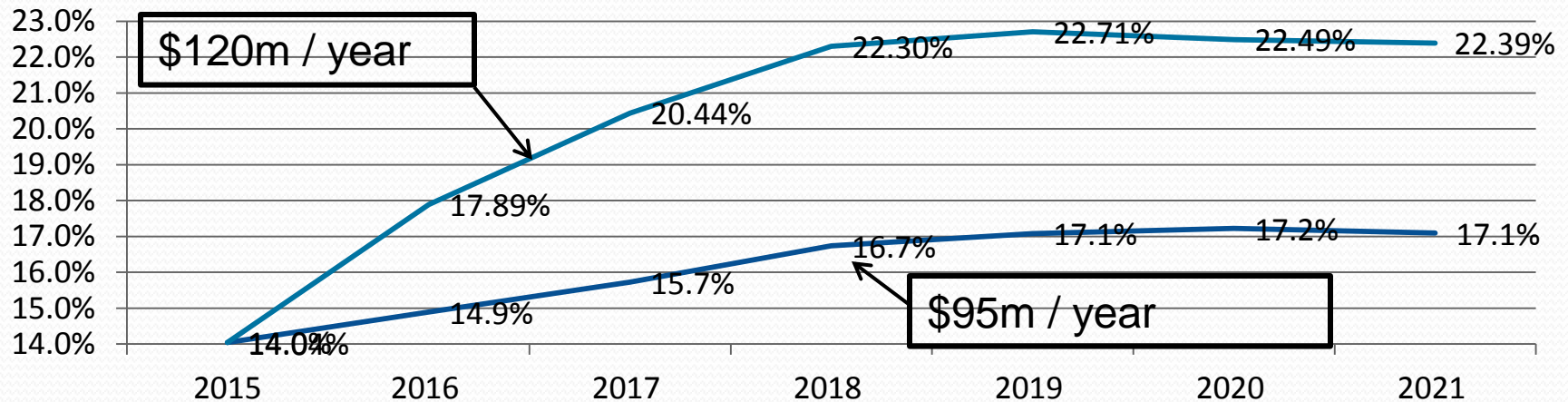
2% Salary Growth; Health Insurance Plan Design Changes; Capital Project Delays / Changes
Factors are examples.



Borrowing Level = Rate of Increase in Prop. Taxes

2014 borrowing = \$57 million

Debt Service Share of General Fund Expenditures



— Debt Service Share of GF Expenditures @ 3% Spending Growth

— Debt Service Share of GF Expenditures -- 2015 Adopted

2016 Operating Budget Instructions

- No growth, except for cost-to-continue.
- Exceptions:
 - Longevity and steps
 - Cost-to-continue items from 2015
 - Already bargained pay increases
- 3% reduction plans
- Supplemental requests allowed