



Finance Department

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June 27, 2016

To: City of Madison Board of Estimates

From: David Schmiedicke, Finance Director
Laura Larsen, Budget Manager

Subject: 2016 First Quarter Projection

The Finance Department is continuously monitoring revenue and expenditure trends throughout the year. This report reflects projections based on actual revenues and expenditures in the first quarter. Trends become clearer in the second and third quarters. The year-end appropriation process in November and December is used to address deficits in agency appropriations and balances in internal service and other funds, as well as to manage overall General Fund spending levels consistent with the limits under the state Expenditure Restraint Program. Positive balances in the General Fund at year-end helps the City to maintain an unassigned General Fund balance consistent with its policy goals.

2015 Year End

Following 2015 year end, the unassigned fund balance is 14.6%, down from 14.8% at the close of 2014. The City's policy target is to maintain a 15% fund balance; preserving the 15% target is key component of the City's AAA bond rating.

2015 ended with a \$653,000 surplus in budgeted General Fund revenues. The table below provides an overview of surplus by revenue type.

2015 Revenue Surplus by Type

Revenue Type	2015 Year End
Prop Taxes: Penalties/Interest on Delinquent Property Taxes	346,000
Room Tax	633,000
Charges for Services (Ambulance Conveyance & Engineering)	1,900,000
License & Permits (Building Permits)	(286,000)
Investment Income	(333,000)
Fines & Forfeitures (Parking Violations)	(400,000)
Misc (Accrual adjustments)	(1,000,000)
TOTAL	\$653,000

Surplus revenue was offset by an increase in net expenditures above budget by \$600,000. The increase in expenditures is related to salary allocations to capital and other funding sources as well as fringe benefit costs. In 2015, \$700,000 was spent from the Contingent Reserve, the balance (\$500,000) was returned to fund balance.

2016 General Fund Revenue

Based on first quarter trends, General Fund revenue will end 2016 with a \$1.0 million deficit. The projected deficit is related to slower growth in Room Tax proceeds and building permit revenue than projected in the budget. Taken together, other revenues are generally on target. Investment income has generally been less than budgeted in prior years and year-to-date investment income appears to be generally stronger than last year; we generally will not know the full extent of investment income until after year end when the mark-to-market adjustment is calculated.

Room Tax: Projected Deficit \$500,000

Although Room Tax revenues continue to grow, the level of growth is not on pace with the 2016 projected amount. First quarter collections were up 4.2% compared with first quarter 2015; however, the 2016 budget assumed an increase of 11%. First quarter collections typically represent 17% to 21% of total collections for the year. The second quarter collections will give a much better sense of projected annual collections and data on actual collections will be available in late August.

Building Permits: Projected Deficit \$450,000

The number of building permits issued is consistent with prior years; first quarter growth was somewhat overstated due to timing of payments. It is expected that permit revenue will grow, but not at the level projected in the 2016 budget.

First Quarter Expenditure Overview

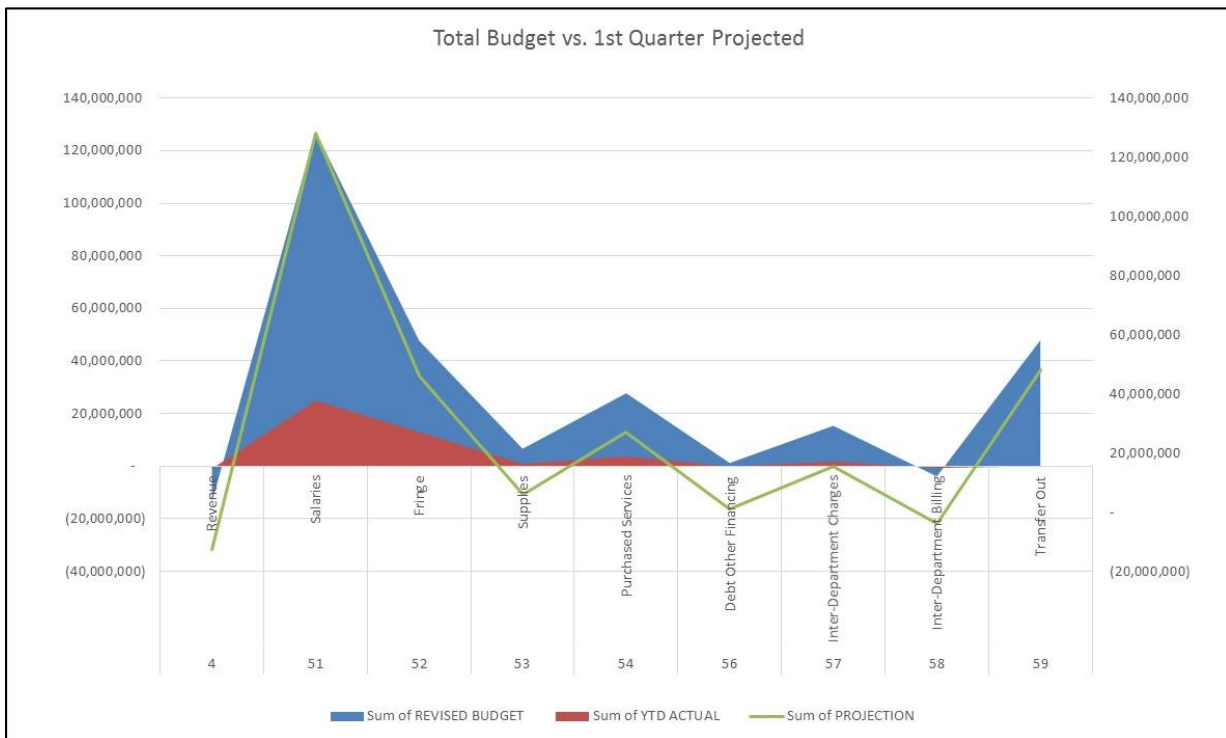
Through the 1st Quarter, expenditures are projecting a \$1.7 million surplus for all General Fund agencies. Projected surpluses within fringe and non-personnel expenditures are partially offset by deficits in agency-specific revenue and salaries.

2016 1st Quarter by Major

Major	Revised Budget	YTD Actual	Year End Projection	Difference
Agency-Specific Revenue	(13,469,419)	(890,861)	(12,457,702)	(1,011,717)
Salaries	127,302,136	24,943,035	127,999,045	(696,909)
Fringe	47,766,908	13,019,338	45,978,716	1,788,193
Supplies	6,646,686	922,000	6,007,036	639,650
Purchased Services	27,750,970	3,767,489	26,969,564	781,406
Debt & Other Financing	1,210,039	-	985,039	225,000
Inner Dept Charges	15,393,192	1,777,017	15,393,700	(508)
Inner Dept Billings	(3,890,874)	(681,795)	(3,861,022)	(29,852)
Transfers Out	47,959,967	-	47,959,967	-
Total	256,669,605	42,856,224	254,974,343	1,695,262

Note: The table above does not include the General Fund transfers for Metro, Library, Municipal Court, and Public Health.

The chart below provides a visual depiction of the 1st Quarter projection. As demonstrated in the chart, there was limited expenditure activity during the first quarter. This can be partially attributed to the warm winter.



The table below provides an overview of 1st Quarter expenditures by agency. The primary driver in the deficits included below is associated with projected overages in personnel spending. The “Undefined” category at the bottom of the table reflects a reserve for miscellaneous fringe benefits paid throughout the year. These funds will offset the projected deficits identified by agency below and will be allocated in the year-end appropriation.

2016 1st Quarter by Agency

<u>Major</u>	<u>Revised Budget</u>	<u>YTD Actual</u>	<u>Year End Projection</u>	<u>Difference</u>
Assessor	2,489,175	496,662	2,274,972	214,203
Attorney	2,766,556	515,893	2,687,378	79,178
Building Inspection	4,441,412	859,402	4,224,877	216,535
Civil Rights	1,450,352	272,534	1,291,535	158,817
Clerk	1,895,757	390,367	2,016,727	(120,970)
Common Council	554,998	113,726	508,371	46,627
Community Development	10,517,441	1,012,085	10,785,474	(268,034)
Economic Development	1,462,477	207,866	1,177,098	285,378
Employee Assistance Prg	337,144	77,027	338,927	(1,783)
Engineering	3,662,468	637,216	3,678,107	(15,639)
Finance	3,589,531	719,674	3,520,716	68,814
Fire	48,706,390	10,551,898	49,671,595	(965,205)
Human Resources	1,566,299	399,718	1,506,127	60,171
Information Technology	6,199,309	1,686,955	6,076,969	122,340
Mayor	1,339,412	238,330	1,216,491	122,921
Parks	13,527,118	3,219,252	13,438,518	88,599
PCED Office of Director	684,436	128,837	707,680	(23,244)
Planning	2,730,295	702,757	2,779,774	(49,479)
Police	67,512,205	14,461,025	68,595,612	(1,083,407)
Streets	24,982,520	4,512,781	23,600,618	1,381,902
Traffic Engineering	5,655,254	1,248,748	6,276,772	(621,518)
Treasurer	515,204	86,063	538,820	(23,616)
<u>Undefined</u>	<u>50,083,855</u>	<u>317,408</u>	<u>48,061,181</u>	<u>2,022,674</u>
Total	256,669,605	42,856,224	254,974,343	1,695,262

The subsequent sections outline the projection assumptions by major expenditure type.

Agency-Specific Revenue

The 1st Quarter projection anticipates a \$1.0 million deficit in agency-specific revenue. The projection is based on current year trends and prior year actuals. The primary sources of the deficit are fire and elevator permits and technical adjustments to base revenue assumptions.

Agency-Specific Projection

(\$ in Millions)

Total Budget	13.50
YTD Actual	0.89
Year end Projection	12.46
Difference	(1.01)

Fire & Elevator Permits: Projected Deficit \$259,000

Revenue from fire and elevator permits continue to underperform based on the

budgeted levels. The projection assumes 2016 revenue will be consistent with 2015 levels.

Technical Adjustments: \$870,000

Various agency budgets include revenue sources that are inconsistent with prior year actual amounts. The projection assumes these items will end 2016 at levels consistent with prior year actuals.

Salaries

The 1st Quarter projection anticipates a \$696,000 deficit in salaries. The primary drivers behind the deficit are costs associated with the 2016 election cycle, leave payouts for retirements and public safety employees, and the charging of salaries between the General Fund and other sources. The deficits outlined below are partially offset by fully funded vacant positions. As of June 9th, there are 116 funded vacant positions spread across General Fund agencies.

The projection does not take into account the July 3rd pay increase for civilians. The pay increase will increase the project deficit by approximately \$400,000.

Salary Projection	
<i>(\$ in Millions)</i>	
Total Budget	127.30
YTD Actual	24.90
Year end Projection	128.00
Difference	(0.69)

Election Overtime: Projected Deficit \$25,000

Costs associated with the 2016 election cycle are on track to exceed the budgeted amounts. The annual overtime budget is \$25,000, year-to-date the agency has spent \$21,000. Staffing for Election Officials in the April election exceeded the budgeted amount. The Clerk’s Office anticipates they will exceed the budgeted staffing costs for the November election as well.

Leave Payouts: Projected Deficit \$1.2 million

The projected deficit is driven by retirements and leave payouts within the Fire and Police Departments. Within the Fire Department there have been 19 retirements (this figure includes individuals who have announced but are still working) through the first 5 months of 2016. The total leave payout for these employees was \$353k. An additional \$91k has been paid out to current employees through the convert to pay agreement in place for Firefighters.

Within the Police Department, officers receive a payout for remaining leave balances upon their retirement. Additionally, current officers are given the option to convert up to 18 leave days to pay at any point during the year. Through the 1st Quarter the total cost for these payouts totaled \$292k. The 2016 projection assumes vacation convert to pay amounts will be consistent with prior years.

Charging of Salaries: Projected Deficit \$1 million

Prior to 2015, salary amounts charged to other funding sources (capital projects, grants, etc.) were handled as end of the year transfers. Under the payroll allocation

methodology utilized in MUNIS, payroll amounts are charged to other funding sources throughout the year based on actual tasks performed. First quarter trends indicate the General Fund is absorbing a larger portion of salary costs than was assumed in the budget.

Police & Fire Overtime

The table below summarizes the 1st Quarter projection for Police and Fire overtime spending. Both agencies are trending slightly above budget.

Police & Fire Overtime		
<i>(\$ in Millions)</i>		
	Police	Fire
Total Budget	2.80	0.86
YTD Actual	0.48	0.08
Year end Projection	2.89	0.88
Difference	(0.88)	(0.19)

Fire: Projected Deficit \$19,000

First quarter trends showed callback overtime slowing; however, as we have moved into the second quarter scheduled leave has increased resulting in an uptick in callback overtime. The Department anticipates this trend will continue for the remainder of the year.

Police: Projected Deficit \$88,000

Overtime per pay period averaged \$107,000 in the first quarter. This trend has continued through the first two months of the second quarter. Based on these spending levels, Patrol overtime will end the year nearly at budget (\$2.8 million), an increase of \$200,000 from 2016.

The greatest variable related to Police overtime will be fall campaign activity. Dependent upon potential candidate and surrogate activities, overtime costs associated with the events may range between \$20,000 and \$200,000.

Fringe Benefits

The 1st quarter projection anticipates a \$1.7 million surplus in fringe benefit expenses. The primary driver behind the surplus is savings in health insurance, WRS, and FICA associated with the previously discussed vacant positions.

Fringe Projection	
<i>(\$ in Millions)</i>	
Total Budget	46.77
YTD Actual	13.02
Year end Projection	45.98
Difference	1.79

Supplies & Purchased Services

The surpluses in non-personnel expenditures are driven by savings in the snow budget and lower than anticipated energy costs.

Snow Budget: Projected Surplus \$643,000

The projection assumes 4 additional snow events in the fourth quarter. In the first quarter the City experienced 2 general plow snow events, the budget is based on 6 annual snow events. The anticipated cost for additional snow events includes potential overtime and contractual costs; no additional supplies will be necessary due to the current inventory of on-hand snow materials.

Energy Costs: Projected Surplus \$195,000

Energy Cost Projection

(\$ in Millions)

Total Budget	3.87
YTD Actual	0.81
Year end Projection	3.68
Difference	0.195

The majority of savings (\$136,000) are being realized within the Fire Department. The 2016 budget anticipated the new water usage rates that went into place in 2016. The projection is consistent with 2015 actuals, which resulted in a \$78,000 surplus in the Fire Department budget.

Inter Departmental Billings & Charges

The Inter-departmental expenditures are projected to end the year at budget. Many of these expenditures are automatic charges generated by agencies.

The budget assumes all agencies with Fleet appropriation will be billed up to the budgeted amount. Through the first quarter, Fleet is projecting a slight deficit being driven by overstated revenues (trade-in allowance and sale of assets) and vehicle repair charges exceeding the budgeted amount. These factors are coupled with 2016 depreciation costs that exceed the budgeted amount. The year end appropriation may include an adjustment to increase fleet appropriations within agencies to ensure the current deficit within the Fleet fund does not continue to grow.