Budget Outlook and Process for 2017

Board of Estimates

June 27th 2016

City Finance Department

Bright Spots and Future Challenges

- City's general fund reserves remain below 15%
- 2016 estimated actuals – on track.
- Property value/net new construction growth will provide some revenue growth, but current law levy limits continue to place constraints on 2017 budget.
- Post-2017 expenditure commitments expected to grow faster than allowable levy growth under levy limits.
- Full implementation of 2016 CIP will fuel higher property tax increases
- Insurance Fund and Fleet Service Fund deficits.

First, closing the books on 2015

- Unassigned General fund reserves at 14.0% (down from 14.6% in 2014)
- City's policy target is 15%.
- Revenues up $653,000 from budget (unaudited)
  - Property Taxes – Penalties/Interest on Delinquent Property Taxes -- $346,000
  - Room Tax -- $633,000
  - Fine/Forfeitures -- $-400,000 (parking violations)
  - Charges for Services -- $1.9 million (ambulance conveyance and engineering)
  - Licenses/Permits -- $-286,000 (building permits)
  - Investment income -- $-333,000 (mark-to-market down $210,000)
  - Miscellaneous -- $-1.0 million (reflects all accrual adjustments due to transition to MUNIS)
- Net expenditures up $600,000 from budget (primarily fringe benefits and allocations to capital and other funding sources); contingent reserve down $700,000 from budget.
- Unassigned Fund Balance at $38.8 million (down $1 million from 2014); General Fund Balance at $54.5 million (down $1.8 million from 2014)
- Cash deficit in Fleet Service Fund -- $3.0 million advance from Capital Projects Fund
- Cash deficit in Insurance Fund -- $1.1 million advance from General Fund

…and for 2016 (through May 2016)

- Revenues currently tracking $1 million below budget.
  - Room tax -- $-500,000
    - 1st quarter actuals up 4.2% over 2015 (compared to 18.7% in prior year; budget assumes 11% increase)
  - Building permits -- $-450,000
  - Investment income -- monitoring

- Expenditures expected to finish $1 million under budget.
  - Fringe benefit projections

But 2017 will present challenges…

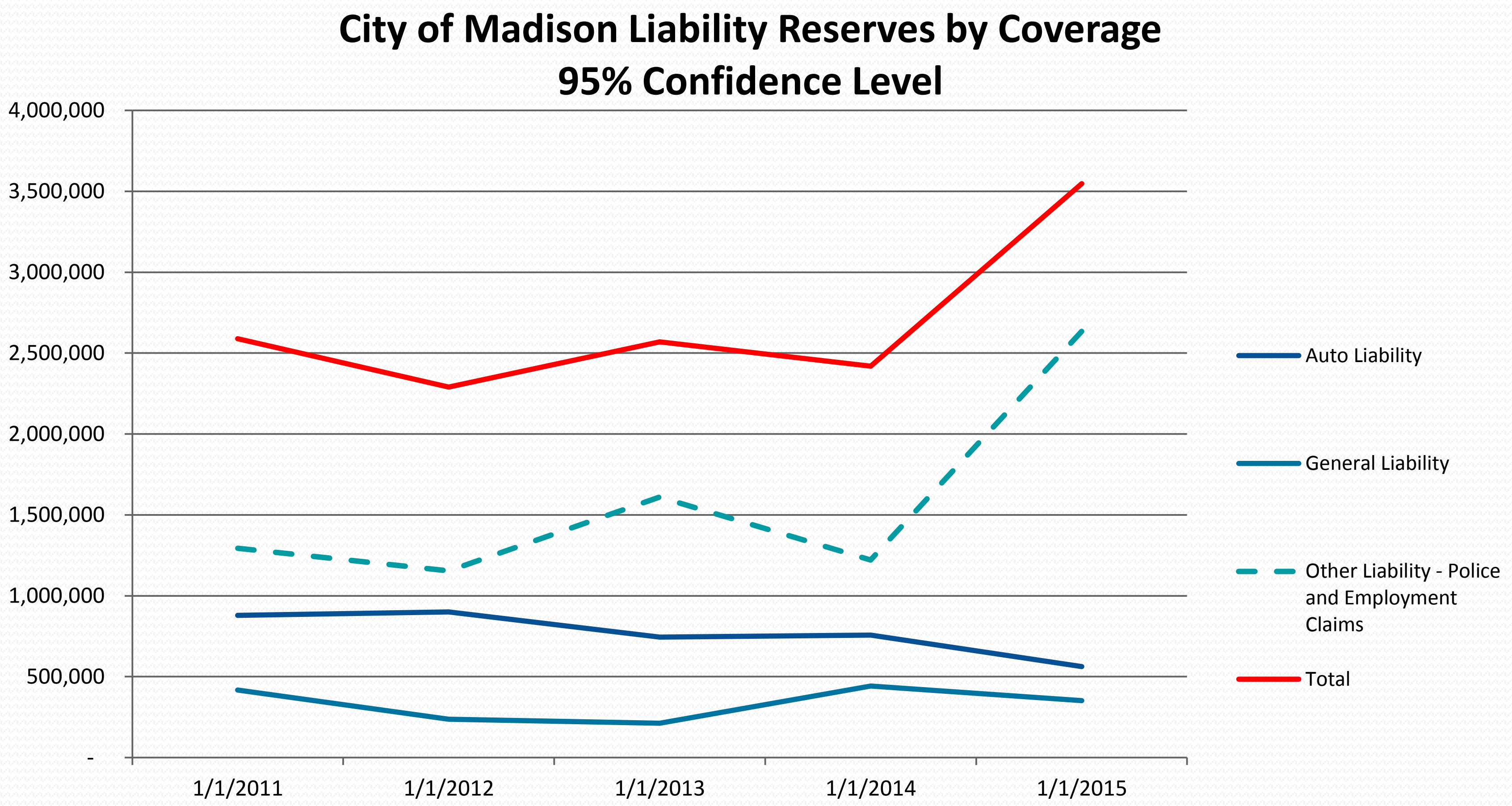
- Advanced commitments = $12 million.
- Allowable levy increase = $10 million.
- Other revenue estimates = $-1.0 million
- Gap = $3 million

- Estimates could change due to updated revenue estimates, actual 2016 borrowing, and health insurance rates. WRS rates up 0.2%.
- Estimates assume maximum allowable levy increase, which is 4.0% increase in taxes on the average value home. A 3% increase will add over $2 million to the gap.
- Estimates do not include funding for any new initiatives.

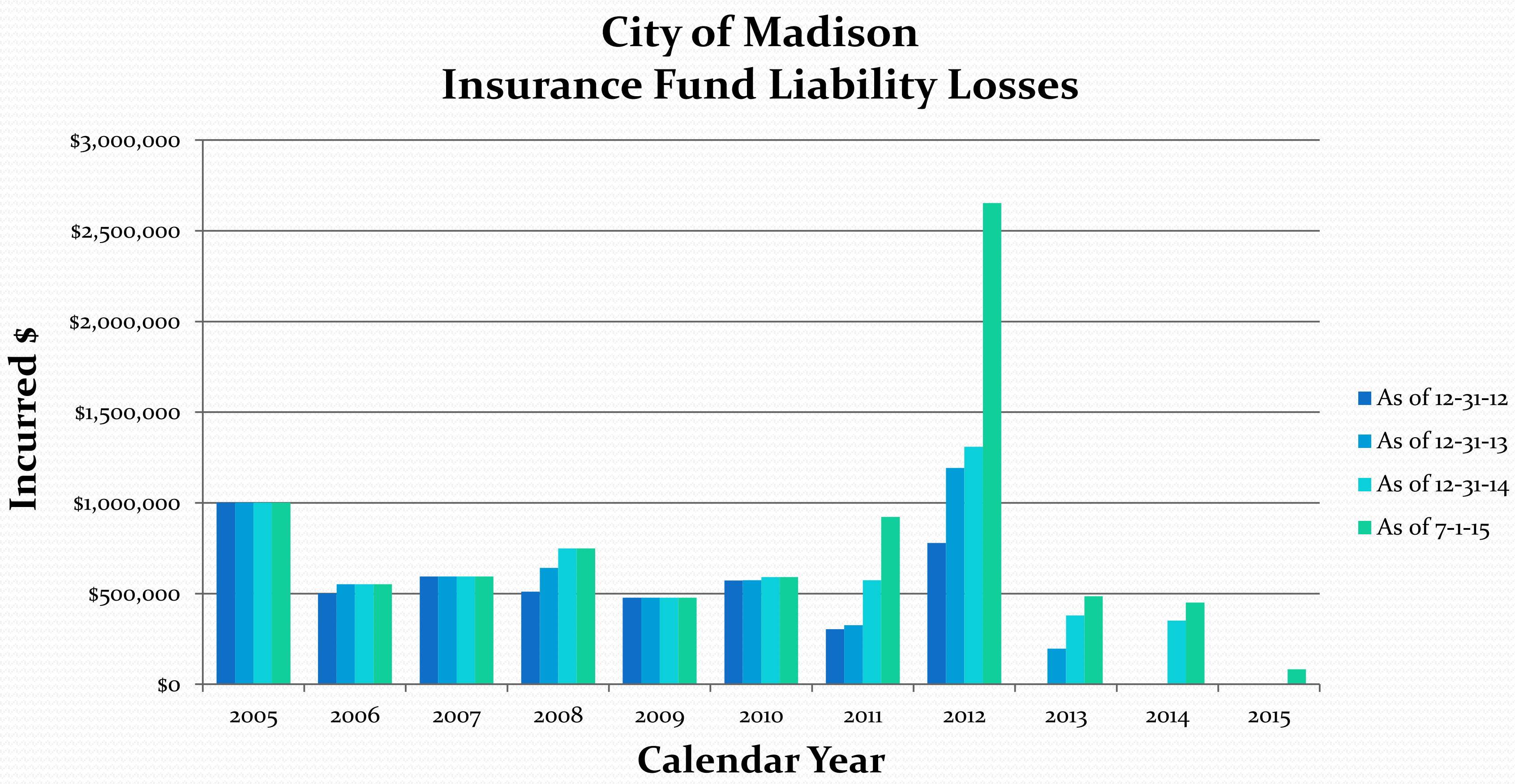
2017 Advanced Commitments

- Revenues down $1 million
  - Room tax= down $900,000 (based on 1st Qtr 2016 and 30% max to gen'l fund)
  - Building permits = down $450,000
  - Other = up $400,000 (PILOTs, ambulance, recycling aid)
- Operating costs up $7 million
  - Employee compensation = $5.6 million (annualize July 2016 increase; 2.25% pay increases (police and fire assumption is 1%); 0.5% increase in WRS; 7.5% health insurance increase)
  - Longevity / Education Stipend / 2014 Police & Fire Givebacks= $1.1 million
  - Biennial Elections Cycle = $-625,000
  - Fleet rates = up $1.3 million (structural gap due to depreciation)
  - Insurance Fund rates = up $650,000 (rising premiums due to liability events)
  - Metro = down $1 million (addressing the Metro surplus on a long-term basis)

Insurance Fund



Recent Rapid Rise in Losses



2017 Advanced Commitments (con’t)

- One-time items from 2016 = $700,000
  - Full funding (e.g., COPS grant positions, Engineering positions)
- Debt service and capital = $4.3 million
  - $4 million premium
  - Assumes $83 million of borrowing ($55 million less than authorized)

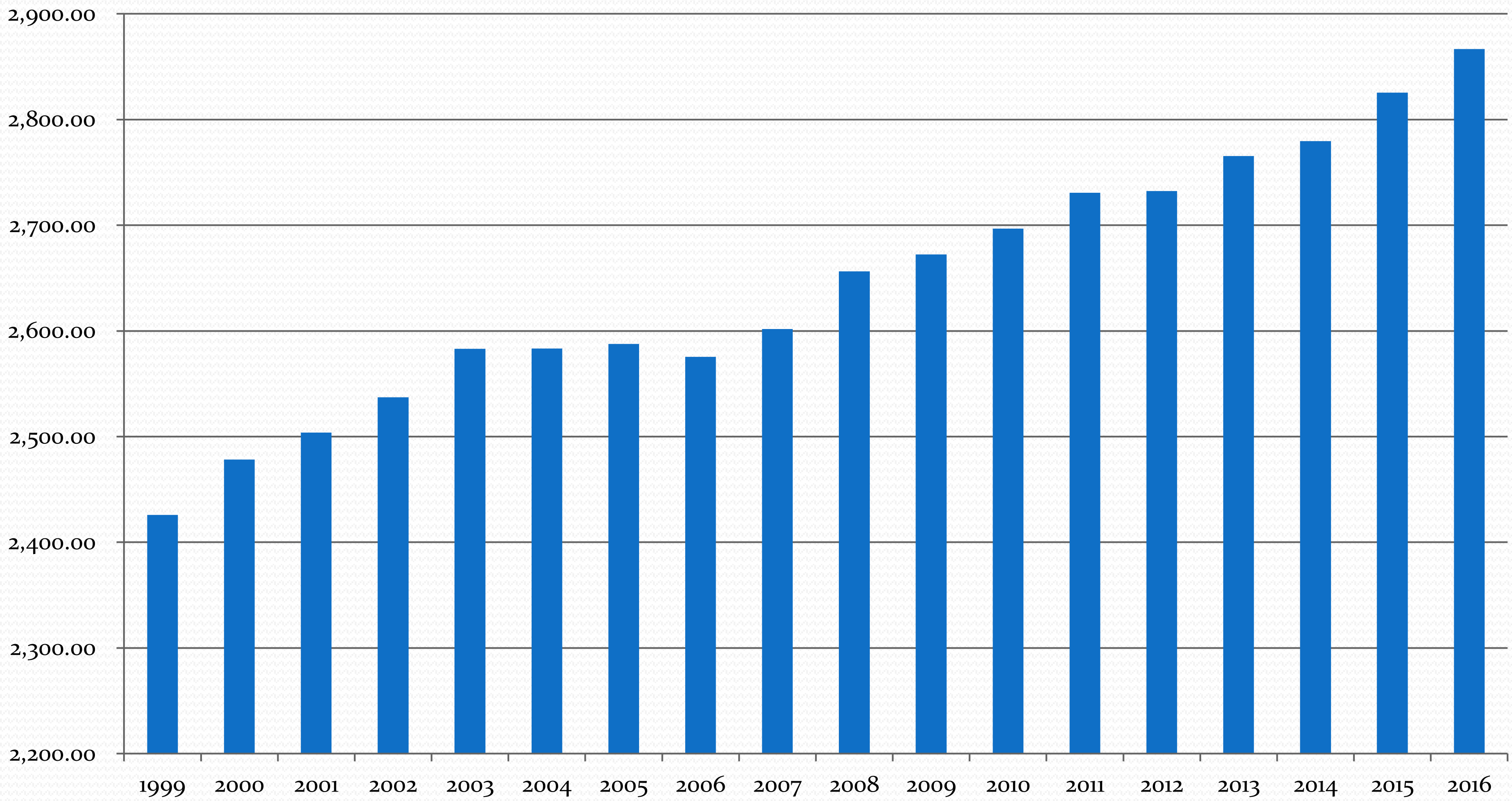
Strict State-Mandated Levy Limits

- Growth limited to net new construction; City's growth factor estimated at **<u>2.16%</u>** for 2017 calculation (preliminary).
- City's unused carry-over from 2016 is $987,500; rescinded/refunded taxes is $400,000
- 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.

18% Increase in Positions since 1999

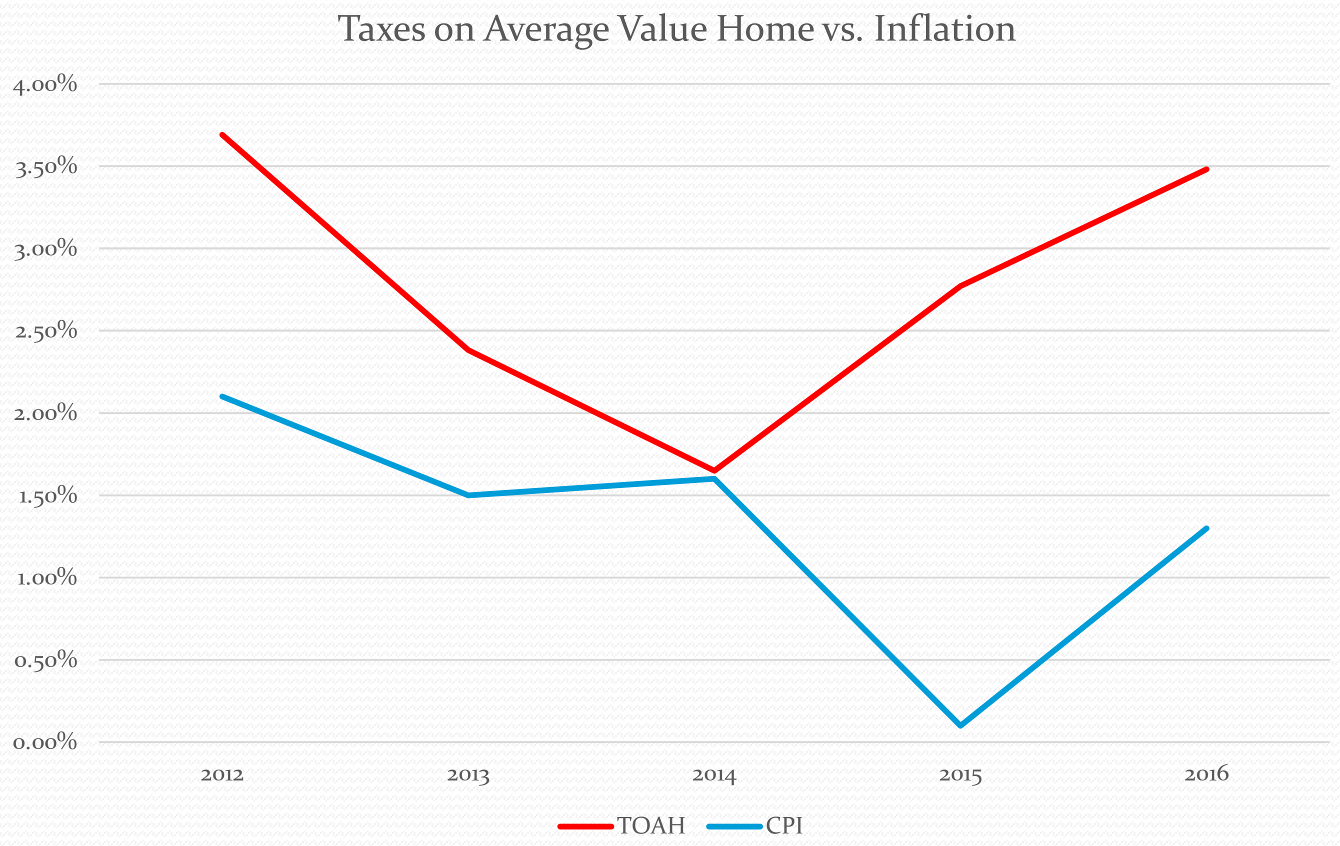
Same rate of growth as city population

Growth focused in a few agencies



Excludes Overture and Public Health; does not adjust for transfer of services between agencies (e.g., Facilities Maintenance consolidation into Engineering added 20.5 FTE positions in 2008)

Taxes and Inflation



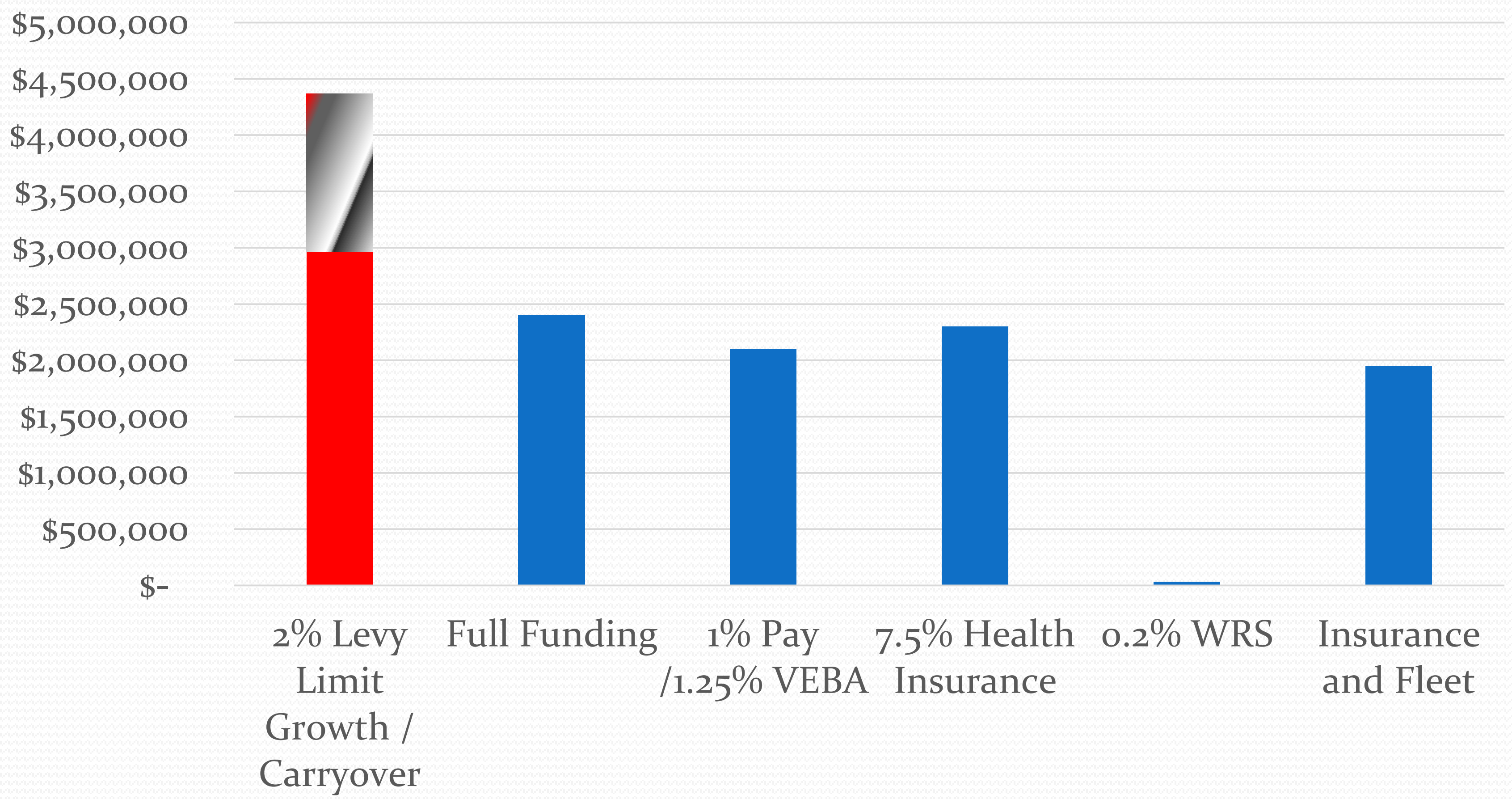
Estimated City Levy for 2016/2017

- Net Taxable Property (preliminary)
  - Residential assessed values up 4.5%
  - All real property up 5.0%
  - Overall net taxable property values up 4.6%
  - Average value home up 3.6% to $254,693
- With levy limits (and assumed $83 million in 2016 borrowing)
  - Levy up ***5.2%***
  - Mill rate up 0.6%
  - Taxes on average value home up ***4.1%*** ($97) – at ***3% ($70)***, gap increases by $2m
  - Estimated Inflation
    - 2016 = 1.3%
    - 2017 = 2.2%

Impact of Levy Limits

- Net new construction similar to 2016
- Estimated net new construction factor = 2.16%
  - Applied to levy net of <u>total</u> GO debt service (levy and non-levy supported)
  - Adds $3.0 million of levy capacity for operating budget = 1.3% increase over 2016 general fund budget, excluding debt service and capital.
- Carryover and Refunded Taxes provisions add another $1.3 million.
- Debt service adds $6.5 million (~$1 million helps operating budget – e.g., TIF)

Levy Limit and Basic Costs



Mayor's Budget Instructions

Service Budget Proposals

1 Proposal/Service

Proposal Purpose

- Help agencies to begin connecting service budget proposals with measurable goals

Proposal Questions

- Identify customer served by service
- What are the service's 2017 goals & how will this improve the quality of the service
- Planned 2017 initiatives

Savings Scenarios

- Goal of Approach: Generate creative solutions for generating long-term savings to the base budget
- Provide agencies with 2 options for presenting savings scenarios

<u>Option 1:</u>
<u>Efficiency Investments</u>
Propose investment opportunities to be paid back through future savings

<u>Option 2:</u>
<u>Flat Reduction</u>
Present a 2.5% reduction plan that doesn't include layoffs

Savings Scenarios

Option 1:

- Identify areas of investment that can be repaid by future savings
- Proposal will identify cost of investment & number of positions or savings mechanism that will be used to pay back investment
  - *Savings will also include year in which they will be realized*
- Investment must be paid back within 3 years

Option 2:

- Identify 2.5% reduction plan
- Plan cannot include abolishment of filled positions
- Citywide 2.5% reduction= ~$6.0m

Operating Budget Key Dates

June 6th
- Operating Kickoff

June 13th-15th
- Agency Goals Meetings

July 13th
- Systems Open

July 20th
- Operating Proposals Due

Oct 2nd
- Executive Budget Released

Oct 10-12th
- BOE Operating Dates

Nov 14-15th
- Council Adoption