



DATE: August 21, 2015
TO: Mayor and City Council
FROM: Jamie Verbrugge, City Manager
RE: 2016 Preliminary Levy Analysis

Attachments:

- A. Proposed 2016 Preliminary Levy and General Fund Budget Projection model
- B. Presentation 2016 Preliminary Property Tax Levy dated August 17, 2015
- C. Worksheet on Internal Service Fund changes

ISSUES

2016 Budget Preparation:

- a. Provide Council with updated information as it relates to the proposed Preliminary 2016 Property Tax Levy and Proposed 2016 General Fund Budget.

2016 Budget Process Update

Property Tax Impacts – Rules of Thumb

Pay 2016 – Median Value Home = \$219,700 (assumes levy of 6%)

Residential – Value up 6%, City property taxes up 5% $(\Delta T = \Delta V - 1\%)$

Commercial – Value up 14.5%, City property taxes up 14.5% $(\Delta T = \Delta V)$

Pay 2015 - Median Value Home = \$206,900

Residential – Value up 10%, City property taxes up 5% $(\Delta T = \Delta V - 5\%)$

Commercial – Value up 1%, City property taxes up 5% $(\Delta T = \Delta V + 4\%)$

2016 General Fund Budgeting Process

2015 General Fund Budget to Conceptual 2016 General Fund Budget

As 2016 was the second year of the two year budget cycle, the historical process was to review the 2016 “Conceptually approved” budget and determine where changes could be made to reflect updated economic changes and the needs of the city to continue to maintain service levels. One of the things I’ve learned in reviewing the 2016 Conceptual Budget is that increases to operating costs represented a continuation of service at the level approved for 2015.

The increase to Salary and Benefits (which primarily includes obligated increases for union contracts and increased health insurance premiums) was 2.91%. The increase to Operational Costs (which includes supplies, training, and other non-personnel expenditures) was only 1.48%. The increase to Internal Charges was 8.69%. As indicated during discussion at the study session on August 17, the relatively large increase in Internal Charges reflects a need to recapitalize many of our internal service funds which were held below necessary investment levels as a management strategy to contain costs during the downturn and recovery.

A prevailing question of City Council during the discussion was around the theme of “what are we buying” for the increases in the Operating Budget. For the 2016 Conceptual Budget, the answer to “what are we buying” is essentially continuation of service delivery at its 2015 level.

2016 Conceptual General Fund Budget to Proposed 2016 General Fund Budget

The table below that displayed Levy Category Changes showed the General Fund Levy (which accounts for tax-supported city services and operations) in this way:

2015 Approved	\$42,681,276
2016 Conceptual	\$45,147,792
2016 Preliminary	\$45,608,927

So, if the answer to the question of “what are we buying” for the 2016 Conceptual Budget is the cost of maintaining service at current levels, the next question is what are we buying in the 2016 Preliminary – which is \$461,135 more than originally requested.

Year	General Fund	Debt Service	Tax Abatement	Recreational Facilities	Fire Pension	Strategic Priorities	PMP Overlay	Total	Percentage Change
<i>2015 Approved</i>	42,681,276	4,041,425	555,449	1,371,995		363,536	958,134	49,971,815	4.00%
<i>Change from 2014</i>	1,722,525	(164,491)	54,399	70,113		152,615	87,103	1,921,991	
<i>% Change in Category</i>	4.2%	-3.9%	10.9%	5.4%		72.4%	10.0%	4.0%	
<i>% of Total Levy</i>	85.4%	8.1%	1.1%	2.7%		0.7%	1.9%		
<i>2016 Conceptual</i>	45,147,792	4,329,612	839,347	1,445,874	500,000	-	1,053,947	53,316,572	6.69%
<i>Change from 2015</i>	2,466,516	288,187	283,898	73,879	500,000	(363,536)	95,813	3,344,757	
<i>% Change in Category</i>	5.8%	7.1%	51.1%	5.4%	100.0%	-100.0%	10.0%	6.69%	
<i>% of Total Levy</i>	84.7%	8.1%	1.6%	2.7%	0.9%	0.0%	2.0%		
<i>2016 Preliminary</i>	45,608,927	4,047,516	813,535	1,445,874	500,000	-	1,053,947	53,469,799	7.00%
<i>Change from 2015</i>	2,927,651	6,091	258,086	73,879	500,000	(363,536)	95,813	3,497,984	
<i>% Change in Category</i>	6.9%	0.2%	46.5%	5.4%	#DIV/0!	-100.0%	10.0%	7.0%	
<i>% of Total Levy</i>	85.3%	7.6%	1.5%	2.7%	0.9%	0.0%	2.0%		
<i>Change from Conceptual</i>	461,135	(282,096)	(25,812)	-	-	-	-	153,227	

As part of my first year with Bloomington, departments were requested to submit memos outlining the needs and wants of the department, the changes from 2015 to the 2016 Conceptual and changes from 2016 Conceptual to 2016 Requested. This process generated a listing of needs and wants totaling greater than \$3 million above the 2016 Conceptual Budget. Each department discussed these needs and wants with me throughout this summer during their departments’ budget meeting. This process was a great way for me to gain an understanding of the functions,

responsibilities and financial needs of each department. Unfortunately, the magnitude of wants could not be funded. Each department was then requested to review their list of needs, determine if they could manage without the funding and then prioritize the items the departments determined to be critical to maintain service levels and to meet new business process the Council has authorized (e.g., Organized Collection). Each of these essential needs is in the process of being critically reviewed, as there continue to be more needs than funding capacity. And it is important to stress again, that these are identified needs to maintain services. They are not new initiatives, other than those directed by Council.

The table below represents the expenditure budget for a proposed 2016 General Fund at the Preliminary Property Tax Levy of 7.0%.

Expenditure Areas	2015 Orig Budget	% of total	2016		2016 Request	Change from Conceptual	% of total	Change Btw 2014 & 2015	Btw 2015 & 2016 Conceptua	Change Btw 2015 & 2016 Request
			Conceptual	% of total						
Wages and Benefits	45,731,848	71.47%	47,062,146	70.39%	47,792,302	730,156	70.35%	3.21%	2.91%	4.51%
Operational Costs	8,422,758	13.16%	8,547,645	12.78%	8,953,059	405,414	13.18%	-0.02%	1.48%	6.30%
Internal Charges	17,614,568	27.53%	19,145,107	28.63%	19,380,200	235,093	28.53%	9.49%	8.69%	10.02%
Transfers, Contingency, Est. Unspent, & Chrgs	(7,778,492)	-12.16%	(7,893,444)	-11.81%	(8,194,828)	(301,384)	-12.06%	5.51%	1.48%	5.35%
Total	63,990,682	100.00%	66,861,454	100.00%	67,930,733	1,069,279	100.00%	4.13%	4.49%	6.16%

As shown in the grey column above in the **Wages and Benefits** category the capacity shown is \$730,156 and the needs listed below exceed that capacity even with non-property tax revenues paying for some of those costs. There are small incremental other wages and benefit costs that generally impact the second year budget cycle.

Wages and Benefits										
Police Dept. - Five police officers					611,000					* South Loop Development Fund (SLDF) transfer In
City Manager - Reallocation of positions to Gen. Fund					66,000					
Legal - Increase pending Prosecution salary study					36,000					
Finance - Organized Collection/Payroll					25,850					* net of charge outs
Community Services - Public Health Part-time					33,000					
Community Services - Human Services Program Coord.					100,000					
Public Works - Civil Engineer charged to South Loop					112,000					* SLDF (in charge outs)
Public Works - Parkkeeper charged to South Loop					88,000					* SLDF (in charge outs)
					1,071,850					

The same capacity issue occurred in the **Operational Costs** area. The model above reflects the change of \$405,414 which only represents a portion of the cost needs departments listed to maintain normal operating services and only a portion of the costs needed for the Park Asset Inventory.

Operational Costs	
City Manager- Organizational training and development	110,000
Fire - equipment and training, fire call increase	184,000
Community Services - Human Services dishwasher, contracts	35,000
Community Services - Cultural Arts Park Asset inventory	100,000
Public Works - road salt	110,000
Public Works - retaining walls, light poles	120,000
	659,000

For the **Internal Service** costs charged to the General Fund, the Facilities Fund requested additional funding to fix critical park buildings and the Insurance Fund is requesting an additional \$50,000 for losses. At the 7% Preliminary Tax Levy, the capacity above reflects only \$235,093.

Internal Charges	
Facility Fund - add'l charge for critical park buildings	400,000
Insurance Fund - add'l charges for loss	50,000
	450,000

Summary

In the proposed General Fund Budget Projection Model (attached) a placeholder amount of \$434,972 for additional reductions has been listed in the expenditure area to force the budget to a 7%. In each of the areas of Wages and Benefits, Operational Costs, and Internal Services charges additional reductions of needs will be analyzed during the budget season.

The remainder of Levy Category Changes are a combination of obligated and Council-directed levies:

- Debt Service and Tax Abatement levies are required based on previous policy decisions.
- The levy for Recreational Facilities is to provide tax support for aquatics facilities and the arts center.
- Levies for Fire Pension, Strategic Priorities and PMP Overlay are at Council discretion.

The Fire Pension has been included as a levy in 2016 to begin moving an obligated annual operating cost to a consistent tax-funded position, rather than relying on “positive performance” and/or Strategic Priorities. This process has been modelled to slowly build the tax levy base for Fire Pension over the next few years.

The PMP Overlay levy is based on Council prioritization in the past to continue reinvesting in necessary maintenance to road infrastructure. There are alternatives to funding PMP Overlay, primarily through the implementation of franchise fees for utilities to operate in the City’s rights of way, which would allow this levy to be reduced or eliminated and it would enable to funding of the enhanced PMP program addresses trail maintenance..

The Strategic Priorities levy directs funds to areas prioritized by the Council which are beyond basic city services. This category is not funded by levy dollars in 2016 due to the need to meet the obligations of the other levies and maintain a total levy that is acceptable to Council.

It is clear that Council has priorities, which staff supports, which would benefit from a stable levy source. Concern has been expressed about the continuation of directing “positive performance” at year-end to the Strategic Priorities Fund and how “positive performance” is derived. Staff is projecting declining “positive performance” for a couple of reason: (1) the General Fund already has a significant accounting for “Estimated Unspent” within the operating budget and it is unlikely that much more will be captured through vacancies or unutilized expenses; and, (2) the Council-approved policy in December 2014 regarding the Fund Balance/Working Capital goal means that funds will first be directed there.

Recommendation

- A. Provide direction on the proposed 2016 Preliminary Property Tax Levy at 7.0% to maintain service levels and new services.
- B. Provide direction on the Preliminary General Fund Budget of \$67,930,732.