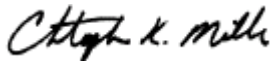



REQUEST FOR COUNCIL ACTION

Date: 07/22/13
Item No.: 12.a

Department Approval



City Manager Approval



Item Description: 2014 Budget Discussion – City Council Budget Guidance

BACKGROUND

At the July 15th and 18th City Council meetings, the Council received an overview of departmental priorities, challenges, and opportunities. These overviews were followed by a general discussion on various departmental-related topics that could potentially impact the 2014 Budget. The purpose of these initial forums was to provide the Council with a broad perspective on the short-term operational needs in 2014 as well as the longer-term, strategic initiatives that had been identified earlier this year.

The next step in the budget process is to receive guidance and/or directives from the City Council regarding the 2014 Budget. Staff will use this guidance to prepare a City Manager Recommended Budget to be presented at the August 19, 2013 Council meeting. More specifically, the Council is asked to identify the following:

- ❖ Maximum, not-to-exceed tax levy increase (statutory cap of 3% for 2014)
- ❖ The extent that cash reserves might be utilized
- ❖ High-priority budget items
- ❖ The extent that programs or services could receive reduced emphasis

To ensure that the 2014 City Manager Recommended Budget reflects the Council’s goals and objectives, it is crucial that the Council reach consensus on the items listed above. Each of the items listed above are discussed in greater detail below.

Maximum, not-to-exceed tax levy increase (statutory cap of 3% for 2014)

As noted at the June 10th City Council meeting, levy limits were reinstated by the State Legislature for 2014, capping the increase to 3% of the current levy less any LGA the City receives. The levy for debt service was excluded from this calculation.

Based on the 3% cap the levy limit increase is \$423,000. However, this is reduced by \$225,000 in newly-awarded LGA leaving us with a maximum net levy increase of \$198,000. Therefore, between the LGA and additional levy authority the City has up to \$423,000 in available new revenues.

If we levy the maximum of \$198,000, the property tax impact for a median-valued home that experiences an expected 3.5% valuation increase will be \$2.15 per month. In addition, the debt service levy is increasing by \$560,000 in 2014 which will bring the overall impact to \$4.47 per month.

35 Utilizing Cash Reserves

36 To the extent that the Council might consider the use of Cash Reserves to provide for the 2014 Budget,
 37 there are a number of public policy considerations that should be considered. The City’s Operating
 38 Budget Policy and Operating Fund Cash Reserve Policy highlight those considerations. They are
 39 included as *Attachments A & B* respectively.

41 The unassigned cash reserve levels as of December 31, 2012 are as follows:

	2013	12/31/2012	Target	Actual	\$\$ Over (Under)
<u>Fund</u>	<u>Budget</u>	<u>Reserves</u>	<u>Pct.</u>	<u>Pct.</u>	
General	\$ 12,836,937	\$ 5,568,600	40%	43%	\$ 433,825
Parks & Recreation	4,008,105	922,537	25%	23%	(79,489)
Community Development	1,045,990	367,417	35%	35%	1,321
Communications	374,698	591,108	20%	158%	516,168
Information Technology	1,562,060	226,365	20%	14%	(86,047)
License Center	1,195,295	790,951	20%	66%	551,892
Water	n/a	-	n/a	n/a	n/a
Sewer	n/a	1,476,000	n/a	n/a	n/a
Stormwater	n/a	2,974,000	n/a	n/a	n/a
Golf Course	n/a	315,000	n/a	n/a	n/a

43
44
45 Based on current operating trends, we do not expect any significant changes in these reserve levels in
 46 2013. With respect to the enterprise funds (water, sewer, etc.) there isn’t a specific target reserve level
 47 given that the reserves not only provide for day-to-day operations but also for capital replacements. As
 48 a result, they can fluctuate significantly from year to year.

49
50 Generally speaking Staff agrees with the guidance set forth in the Operating Budget and Operating
 51 Fund Cash Reserve Policies. However, it’s recognized that under unique circumstances the use of cash
 52 reserves to fund current expenditures is acceptable as long as there is a commitment to abstain from
 53 perpetually using reserves for on-going expenditures. In other words, the use of reserves for a
 54 warranted purpose should be accompanied by a plan to eliminate its use in a timely fashion.

55
56 Revisiting Budget Program Priorities

57 Absent specific Council direction to the contrary, the 2014 Budget will most likely be a ‘status-quo’-
 58 type budget given our fiscal restraints. If the Council has specific items that ought to receive high
 59 priority funding including new initiatives, then those items should be identified to ensure that they’re
 60 included in the Recommended Budget.

61
62 Similarly, the Council is also asked to identify any programs or services that could receive less funding
 63 in order to ensure the proper funding for high priority items.

64
65 Final Comments

66 At a number of prior Council meetings, Staff identified a number of major impact items that should
 67 receive Council consideration. The following tables summarize the projected budget reductions and
 68 potential budget impact items.

69
70

71 Projected Budget Reductions: Property Tax-Supported Programs

72

Budget Reduction Item	Description / Comments	2014 Amount
HRIS Software acquisition	Purchased in 2013; funding no longer needed (net)	\$20,000
Fire Relief contribution	City contribution obligation reduction	80,000
	Total	\$ 100,000

73
74 As shown in the table above, we are projecting \$100,000 in budgetary savings for 2014 due to reduced
75 obligations or for items that are no longer needed.

76
77 Potential Budget Impacts: Property Tax-Supported Programs

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Budget Impact Item	Description / Comments	2014 Amount
Debt obligations	Remaining portion of the Parks Renewal Bonds	\$ 560,000
Employee COLA	Based on 2% cost-of-living-adjustment (COLA)	185,000
Employee wage step increases	For eligible employees	100,000
Employer PERA mandates	Mandated contribution increase for Police, Fire	30,000
Employer healthcare increases	Based on a 3% Healthcare contribution increase	50,000
Employee wage adjustments	Based on Compensation Study	200,000
Police Patrol	2 Additional commercial patrol officers	140,000
Police Patrol	Additional overtime	10,000
Parks & Recreation	Volunteer Coordinator position	85,000
Parks & Recreation	Park Supervisor position	90,000
Police Patrol	Additional contractual Dispatch costs	65,000
General inflation	Inflation on supplies, professional services, etc.	100,000
	Total	\$ 1,615,000

79
80 As shown in this table, we are projecting approximately \$1,615,000 in potential new obligations for
81 2014 not including any new funding for the CIP. It should be noted that the debt service portion is
82 excluded from any levy limit calculations and will NOT count against the 3% maximum increases
83 allowed by State Statute.

84 **POLICY OBJECTIVE**

85 Receiving City Council guidance in advance of preparing the City Manager Recommended Budget is
86 consistent with past practices and promotes a deliberate, transparent, and effective budget process.

87 **FINANCIAL IMPACTS**

88 See information above.

89 **STAFF RECOMMENDATION**

90 Staff recommends that the Council provide budget guidance and/or directives to ensure that the City
91 Manager Recommended Budget reflects the Council's goals and objectives.

92 **REQUESTED COUNCIL ACTION**

93 Provide guidance and/or directives for the 2014 Budget.

94
Prepared by: Chris Miller, Finance Director
Attachments: A: Operating Budget Policy
B: Operating Fund Cash Reserve Policy

Operating Budget Policy

Purpose

The purpose of the City's Operating Budget Policy is to ensure that the City's annual operating expenditures are based on a stable stream of revenues. The policies are designed to encourage a long-term perspective to avoid pursuing short-term benefits at the expense of future impacts. The intent of this policy is to enable a sustainable level of services, expenditures, and property tax levies.

Scope

This policy applies most critically to those programs funded through the property tax, as fluctuations in this revenue source can have substantial impacts.

Policy

- ❖ The City will pay for all current expenditures with current revenues. The City will avoid budgetary procedures that balance current expenditures at the expense of meeting future years' expenses. Specifically, accruing future year's revenues shall be prohibited. Practices to be avoided include postponing expenditures, rolling over short-term debt, and using reserves to balance the operating budget
- ❖ The operating budget will provide for adequate maintenance of capital plant and equipment, and for their orderly replacement.
- ❖ A proportionate share of the administrative and general government costs incurred by the general operating fund of the City shall be borne by all funds as is practicable. Such administrative charges shall be predetermined and budgeted annually
- ❖ New programs or proposals shall be reviewed in detail by City staff and both a policy and fiscal analysis shall be prepared prior to budgetary inclusion, and provided to the City Council for its review
- ❖ A request for a program or service expansion or reduction must be supported by an analysis of public policy implications of the change
- ❖ A request for new personnel must be supported by an analysis demonstrating the need for the position based on workload measures, comparative staffing levels, and City and department priorities
- ❖ A request for purchase of new (additional) capital equipment must be supported by an analysis demonstrating that the value of the benefits of the equipment is greater than the cost of the equipment over its expected life
- ❖ As specified under City Code section 103.05 all general purchases and/or contracts in excess of \$5,000 must be separately approved by the Council

In recognition of industry-recommended budgeting practices, the City has established the following budget controls:

- ❖ The City will maintain a budgetary control system to ensure adherence to the budget
- ❖ The Finance Department will prepare regular reports comparing actual expenditures to budgeted amounts as part of the budgetary control system. These reports shall be distributed to the City Council on a periodic basis.
- ❖ Department heads shall be primarily responsible for maintaining expenditures within approved budget guidelines that are consistent with approved financial policies

Implementation

The budget as approved meets the above criteria and as a result, the above policies are considered to be implemented

Operating Fund Reserve Policy

Purpose

- ❖ To provide a cushion against unexpected revenue and income interruptions
- ❖ To provide working capital by ensuring sufficient cash flow to meet the City's needs throughout the year

Policy

- ❖ The City will maintain a general fund reserve of 35-45% of the general fund's total annual operating budget. This ensures that the City has adequate funds on hand to provide for operations between bi-annual property tax collection periods. Any surplus beyond the required general fund reserve may be transferred to another reserve fund with a funding shortfall
- ❖ The City will strive to create a reserve in the Recreation Fund to equal 25% of the annual recreation budget. This reserve will provide a cash flow cushion and reduce the inter-fund borrowing expense to the Recreation Fund. Because of more frequent cash inflows, a 25% reserve will be adequate to support the daily cash needs of the fund
- ❖ The Community Development Fund is supported solely by building permit fees and charges. Because the economic environment has a major effect on this Fund, a fund balance of 25-50% of the annual budget is a reasonable target. It is expected that as economic downturns take place, this reserve will provide for a transition period during which the Council will be able to assess and to better match operations with the economic need
- ❖ City enterprise funds shall have operating cash reserves sufficient to provide for monthly cash flow, and for a reasonable level of equipment and infrastructure replacement. Major reconstruction or system upgrades, may need to be funded from enterprise revenue bonds. Annual utility rate reviews will be made in regard to projected operating expenses and capital improvements. The Council will, on an annual basis, establish rates in accordance to operating cost recovery and the projected capital improvements
- ❖ All other operational funds e.g. License Center, Information Technology, etc. are expected to operate with positive reserve balances of 10-25% of the annual operating budget. Each operational fund shall be reviewed on an annual basis to assure the fund balance is in line with the fund's objectives
- ❖ In the event the minimum fund balance drops below prescribed levels, the City shall dedicate new incoming property tax or program revenues (where applicable) in an amount sufficient to bring fund balance levels back into compliance within three fiscal years

- ❖ Unless otherwise directed by the City Council, monies held in individual Funds shall be expended first from restricted fund balances, second from committed fund balances, then from assigned fund balances, before using unassigned fund balance

Implementation

All fund reserves shall be reviewed each year at the time of the annual budget preparation for the purpose of complying with this policy. Budgets shall be prepared on an "All Resources" basis, so that the City Council and Community can readily discern the current and projected management of all reserves.