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OFFICE OF THE CITY ADMINISTRATOR

TO: Mayor & City Council (for review by the F&A Committee of the Whole)

Date: September 27th, 2019

RE: Proposed 2020 Budget

In conjunction with the FY2020 budget process, the City has scheduled three Finance & Administration "Committee of the Whole" meetings or "budget workshops". The first meeting occurred on Tuesday, September 3rd as scheduled. During that meeting, a significant volume of materials were provided, along with a visual presentation and narrative discussion. The materials that will be discussed at each subsequent meeting will be updated to incorporate any changes made at each of the budget workshops and redistributed to Council in advance of the subsequent meeting. As a reminder, these workshops are scheduled:

- Workshop 1 – Tuesday, Sept 3rd, 2019 5:30pm (Room 102 -103)
COMPLETE
- Workshop 2 – Tuesday, October 1st, 2019 5:30 pm (Room 102 -103)
- Workshop 3 – Tuesday, October 29th, 2019 5:30 pm (Room 102 -103)

It is our expectation that on or before the end of the third budget workshop, Council will approve a tentative budget, which will subsequently be presented at a Public Hearing prior to a regularly scheduled City Council meeting on or before Monday, December 2, 2018. Approval is generally accomplished by a resolution to approve the proposed 2020 City Budget.

The three-workshop approach was initiated in 2016 for the preparation of the 2017 budget. We believe it provides an interactive and informative process. As a reminder, since the budget workshops are part of F&A Committee meetings, some non-budget business may be necessary in conjunction with each meeting, but we will attempt to keep such business to a minimum.

At this second meeting, it is expected that the Committee of the Whole will provide a recommendation for the 2020 merit pool, which will then be incorporated into the subsequent draft of the budget. Also, since the initial meeting, the budget has been amended to include the two additional staff members as recommended by the PH&S and PR&A Committee of Council.

In addition, we have removed the duplicate entry identified for the Civic Orchestra, which was in the first budget draft. We have also updated the budget to reflect the annual increases in the city's various insurance coverages, such as Liability, Workers Compensation, Unemployment, D&O, Flood Insurance, Petroleum Tank, Notary, Fiduciary, Cyber liability, Public Employee Dishonesty bond, and our Commercial package.

I anticipate that we will forego the budget background and highlight which were extensively covered at the first meeting. If you have any questions about the information discussed at the first meeting, please do not be hesitant to ask. We are happy to go over the materials necessary to ensure a complete understanding.

After addressing the merit pool, Council will have the opportunity to review any specific purchases or programs identified in the 2020 budget proposal.

MERIT POOL

Inasmuch as the merit pool is a significant component of the proposed annual budget, it is one of the first items on the workshop agenda, and whatever direction the Council provides will be incorporated into the subsequent budget version. As described in the salary administration manual, Staff will provide information related to the CPI, Labor Indexes, surrounding Cities and our Current financial status.

The table below provides information as to the budgetary impact of the potential merit pool. The left-hand column lists the incremental potential percentage increases for the pool ranging from 1/2% to 4%. Moving from left to right, the first column provides the 2020 increase in compensation from each respective level of the potential merit pool. For example, a 3% merit pool would increase the 2020 non-FOP compensation by \$129,504. The next column describes the fully loaded 2020 budget increase. That is to say, the total increase in the 2020 resulting from the proposed merit pool, which not only includes compensation, but retirement, social security, and other payroll related expense. The next four columns allocate the increase in 2020 compensation between the four major funds. The last two columns are simply double the first two columns to reflect the full 12-month expense of a merit increase.

	2020 Budget Impact of Merit Pool	2020 Budget Impact of Merit Pool (Loaded Cost)	G e n e r a l	P u b l i c	C o m m u n i t y	P u b l i c	P e r s o n n e l	12 Month Impact of Merit Pool (Salaries)	12 Month Impact of Merit Pool (Loaded Cost)
0.5%	\$21,584	\$28,221	\$12,148	\$5,183	\$543	\$3,710	\$43,168	\$56,442	
1%	\$43,168	\$56,442	\$24,296	\$10,365	\$1,086	\$7,421	\$86,336	\$112,884	
1.50%	\$64,752	\$84,663	\$36,443	\$15,548	\$1,629	\$11,131	\$129,504	\$169,326	
2%	\$86,336	\$112,884	\$48,591	\$20,731	\$2,173	\$14,841	\$172,672	\$225,768	
2.50%	\$107,920	\$141,105	\$60,739	\$25,913	\$2,716	\$18,552	\$215,840	\$282,209	
3%	\$129,504	\$169,326	\$72,887	\$31,096	\$3,259	\$22,262	\$259,008	\$338,651	
3.50%	\$151,088	\$197,547	\$85,035	\$36,278	\$3,802	\$25,972	\$302,175	\$395,093	
4%	\$172,672	\$225,768	\$97,183	\$41,461	\$4,345	\$29,683	\$345,343	\$451,535	

BUDGET OVERVIEW

We are very pleased to submit a budget which is **\$1,671,834 revenue over expenditures**. The bulk of this surplus occurs in the General Fund, in the amount of \$1,671,775. We regularly report on sales tax receipts, and each of

us are well aware of the fundamental changes occurring in the retail industry. It is easy to inaccurately assess our financial position based on the sales tax conversation alone. The 2020 budget reflects **overall increased revenues in the net amount of \$557,156**. This net increase in overall revenues occurs despite a significant reduction in projected\budgeted *sales tax revenues*. The General Fund - Pooled Sales tax receipts have been consistent and are at 99% of budget through September of 2019. We have conservatively reduced the 2020 pooled sales tax revenue estimates by \$277,033 from the 2019 budgeted values. We have projected the 2020 pooled sales tax to be 1.34% less, (\$93,772) than the 2018 actual sales tax receipts, almost 4% below the 2019 budget levels, and yet we have still recognized an increase in overall General Fund revenues of \$728,752 above the original 2019 budgeted General Fund revenues.

We now have a full year of Public Safety sales tax revenues available to provide better estimates for 2020. We had initially been very conservative in projecting the Public Safety Sales tax revenues and we are expecting them to end 2019 roughly \$233,950 **higher** than budget. As such, consistent with our conservative budgeting approach for 2020, we are budgeting no additional growth, and using the 2019 estimated revenues of \$2,650,500 for our 2020 budget submission.

We have substantially reduced the projections for Parks and Capital Projects Sales Tax revenues by roughly 5% each, \$352,553 and \$238,500 respectively, from the 2019 budgeted values. Both budgets were impacted by the loss of sales tax revenues. The Parks Fund can be impacted most significantly by further reducing the annual debt service payments through 2025. Our approach was to be somewhat overly conservative and we would rather underestimate our 2020 revenues than to be at risk of underperforming inflated estimates.

It should also be noted that we had specifically identified multiple one-time, non-repeatable savings for the 2019 budget. We used Forfeiture funds to purchase body cameras (\$140,000), did not include police vehicles in the 2019 budget (\$340,000 early purchase was made in 2018), and several other items which were uniquely identified and described. All of these made the 2020 budget challenging, but our Department Heads were very cooperative and creative in developing this budget submission, which provides for a General Fund budget which is notably 8.5% revenues over expenditures, and an overall budget proposal which is 3.66% revenue positive.

I am quite pleased with the draft 2020 budget proposal. Staff has been working since mid-June in preparing the draft 2020 budget. There have been multiple iterations within each department to trim non-essential expenses. Even with very conservative revenue estimates, we are proposing a budget which is more than \$1.67 million in the black: **General Fund revenues exceed expenditures by \$1,667,775**. While the initial draft budget does NOT reflect the civilian merit pool, it DOES already include the scheduled annual increases for our police officers and sergeants as provided by our collective bargaining agreement, and yet, it is \$1.67 million revenue positive.

As you will gather from the information contained herein, we have been very conservative in our revenue projections. We have projected no growth from the projected 2019 pooled sales tax revenues, no growth in the majority of revenue sources, and limited growth in other revenue sources, each described below. In general, we are using the projected 2019 end of year revenue projections as our budgeted revenues for 2020. While this is very conservative, we'd rather utilize experienced revenue growth than prospective growth given our most recent experiences with erratic revenues.

There are a few important topics that dominate the proposed 2020 budget and should be independently identified:

- 1) The budget submission is net revenue positive.
 - a. **General Fund** as proposed is **\$1,667,775 REVENUES OVER EXPENDITURES**
 - b. **Public Safety Fund** is net zero. (by design, this fund is heavily subsidized by the General fund, with a proposed transfer in of \$7,869,529.)
 - c. **Parks Fund** as proposed is **\$76,153 REVENUES OVER EXPENDITURES**
 - d. **Capital Projects Fund**, as proposed is **-\$72,094 REVENUES OVER EXPENDITURES**, (e.g. expenditures exceed budgeted revenues) dipping slightly into the excess fund reserves.
- 2) As we have strategically elected to maintain liquidity in our assets, we expected that our investment income would be significantly reduced. However, we have experienced that, by having more than \$4 million in pre-paid debt set aside, we have benefited from a substantial increase in investment income.
- 3) The debt in the Capital Projects fund was completely retired in 2019. There is no debt service payments for Propositions R & S in the 2020 budget. Those funds have remained in the Capital Projects fund, somewhat offsetting decreased sales tax revenues, but funding the scheduled and anticipated expansion of capital projects.
- 4) The budget reflects the City's strategy for a level debt service using previous set-asides for debt pre-payment. In total, more than \$4 million has been set aside to reduce annual debt service payments and to retire debt earlier than scheduled.
 - a) With the current level of pre-payments, the last year (2022) of debt service for City Hall Certificates of Participation has been completely funded. In addition, the annual debt payments in 2020 and 2021 have been reduced to \$1,073,880. With the scheduled debt service payment in 2020, we have only ONE additional year (2021) to fund the remaining City Hall debt.
 - b) With the current level of pre-payments, the debt service in the Parks Fund has been reduced to \$2,984,200 annually through 2025. Thereafter, the

annual debt service remains below \$970,000 through 2031. Council's approved strategy is to create lower, level annual debt service payments through 2025, when the annual debt payments decrease by 2/3rds.

- c) It should be noted that, should Council elect to set aside additional funds from the excess Fund Reserves above the 40% policy threshold, the annual debt payments described in a & b above could be further reduced. This simply provides additional flexibility and capacity to fund routine growth. Once again, Staff recommends that, if Council desires to set aside additional funds for debt prepayment, it do so from the accumulated General Fund – Fund Reserves at the end of 2019 when year end estimates are more readily available and such set aside should NOT be part of the 2020 budget. As has been discussed in previous years, debt pre-payment can be set aside directly from Fund Reserves, and should not be budgeted as a future budgeted expense, which then has an effect to unnecessarily increase the 40% reserve policy threshold by 40% of any additional set aside funding.
- 5) The proposed budget includes the addition of Revenues associated with the Information Technologies contract with adjacent Cities, as well as the addition of the approved technician and compensation increases for existing staff.
- 6) While not affecting the 2020 budget submission, Council will separately consider the annual funding of the Snow Removal Reimbursement (\$163,012) and the Emerald Ash Borer (\$560,000) programs from excess fund reserves, in the amount of \$723,012 prior to the end of 2019. If funded, these programs will reduce the fund balance, but not impact the annual budget.
- 7) The proposed budget already INCLUDES the 2020 compensation increases for the FOP employees, which is 2.43% for Police Officers and 2.51% for Sergeants.
- 8) The proposed budget DOES NOT INCLUDE any merit increases in compensation for non-FOP employees. Per City Policy, the F&A Committee will make a recommendation on the value of the merit pool and that value will be included in the next version of the 2020 budget.
- 9) You may recall during budget workshop #3 for the 2019 budget, staff identified a number of additional final reductions, many of which were identified as one-time, non-repeatable reductions due to specific circumstances.

In summary:

The budget submission includes the impact of the contracted compensation increases for Police Officers and Sergeants (2.43% & 2.51% respectively).

The budget submission does not yet include funds for the merit pool for other (non-FOP) employees. The value of the merit pool is to be recommended by the F&A Committee of the Whole.

The budget submission projects Revenues in excess of Expenditures in the amount of \$1,671,834, broken out as follows:

General Fund	\$1,667,775
Parks Fund	\$ 76,153
Public Safety	\$ 0
Capital Projects	-\$ 72,094

Based on the proposed budget, the General Fund – Fund Reserve for the end of 2020 will exceed the 40% policy threshold by more than \$4 million, after funding the EAB program, the Snow Removal Reimbursement Program, and the merit pool. If Council is so inclined, Staff would recommend setting a portion of these excess fund reserves aside at the end of 2019 for additional debt pre-payment. Such set aside should not be part of the 2020 budget, but an independent decision based on the City’s finances at the end of 2019.

Staff looks forward to Tuesday’s scheduled budget workshop. If you have any questions or require additional information, please let me know.