

**MAYOR'S INTRODUCTION
TO THE
FISCAL YEAR 2014 BUDGET**

Overview

This letter conveys the Fiscal Year 2014 budget for the City of Missoula, a budget which includes modest increases to essential programs, expands others based on our ability to fund without tax increases, maintains essential services and honors our contracts with employees.

And, as always, this budget is built on the tenets of our strategic plan to maintain a fiscally sustainable city, to maintain harmony between our natural and built environments and to ensure an excellent quality of life for all Missoulians.

The highlights:

General Fund

We're estimating that because building permits have been increasing over the last two years we'll have more new tax revenue from growth in our tax base than we had last year, although we are not sure what that amount will be. In FY13, our taxable value growth gave the City \$275,008 more tax revenue, in FY12 our growth in tax revenue was \$388,082, in FY11 our tax revenue grew by \$671,312 and in FY10 we grew by \$1,080,713.

We're proposing a pay-as-we-go budget that covers the basics with a modest tax increase and, if growth numbers support new requests, we'll fund them in the priority detailed on the attached list of new requests. The Council can adopt a budget that funds these new requests within some sideboards we are providing on the attached spreadsheet.

I appreciate the effort Council members took to make requests in March; this budget provides little funding for those requests based on revenues, but I gave those requests careful consideration and would note that I'm not recommending funding for a number of my priorities because of revenue constraints.

Here's the breakdown:

Tax Levies					
	FY 14	FY 13	Increase	% in Dollars	% in Mills
General Fund Budget	21,905,287	20,204,318	1,700,969	7.77%	3.59%
Health Ins Levy	4,402,365	4,152,365	250,000	5.68%	0.37%
GO Bond Debt Service Levy	<u>1,183,767</u>	<u>1,699,774</u>	(516,007)	-43.59%	-2.14%
	27,491,419	26,056,457	1,434,962	5.22%	1.82%
Park District	584,236	510,788	73,448	12.57%	
Road District	<u>685,901</u>	<u>353,510</u>	332,391	48.46%	
	1,270,137	864,298	405,839	31.95%	1.38%
Total	28,761,556	26,920,755	1,840,801	6.40%	3.20%

We are proposing a 3.20% increase in our City taxes (includes both property taxes and special district assessments), which will largely fund contracted wage increases for union and non-union employees. The other large increase in the general fund budget is the addition of 19 new employees in Development Services, which is a product of moving those expenses and associated revenue from the City's portion of the old Office of Planning & Grants budget.

In addition, we're recommending incremental funding for our Community Quality of Life Initiative's community resource officers to be hired at mid-year; a risk-management position to help us continue our efforts to temper liability and injuries while saving money; an assistant finance director to help through the transition as Brent Ramharter retires; funding for a coordinator to steer our efforts to end homelessness; additional assistance for the Missoula Cultural Council to coordinate a comprehensive community calendar; and a long-overdue increase in funding for Missoula Aging Services, which sees increasing needs while federal and state support slips away.

Health Insurance Fund

Outside of the General Fund, we are proposing an additional \$250,000 be levied in the health insurance fund. We continue to buy down a deficit in the health fund that was a product of unprecedented claims in FY10 and FY11. The current deficit as of the end of FY 2012 was (-\$245,840).

We are continuing conversations with Allegiance Benefit Plan Management to find and implement ways to cut costs while ensuring that our employees have access to health care. We'll be working with our employees and unions to explore the possibilities as we navigate the complex waters of health care.

Other revenue

For FY14, as in FY13 and FY12, with a completed and updated cost-of-services study in hand, the City will recommend that business licensing, engineering and certain fire inspection services be recovered at the cost it takes to deliver those services with a projected trending of these fees at 3%. Certain planning fees are recommended to be increased 3% also to recover at least 50% and up to 100% in some cases of the City's actual costs and match County planning fees. We will take the time to review these proposed fee increases in committee with the City Council, and we will recommend that a public hearing on these proposed fee adjustments be held this spring. We think we'll generate \$80,500 in FY14 from these changes. We will also recommend that the City Municipal Court increase the assessed City surcharge by \$2 to help cover the ever-increasing costs of prosecution.

We are also recommending an increase in assessments for the park and road districts, including the Council-initiated sidewalk program, which are detailed in the attached spreadsheet showing the funding of new requests.

Credit ratings and accounting practices

Standard & Poor's and Moody's, our ratings agencies, recently completed an updated review of several of our City credit ratings. All of the City's ratings were reaffirmed and sustained thanks to sound practices, policies and management.

Standard & Poors also recommended that future budgets plan to increase the General Fund year-end unassigned fund balance to \$2.98 million (which is 7 percent of the General Fund budget per the City's adopted financial policy). Our present unassigned fund balance for the General Fund as of June 30, 2012 increased from \$1.2 million to \$1.94 million, or 4.6% of expenditures. A little discussion concerning the fund balance of the General Fund is likely worthwhile. At the end of this past fiscal year (FY12), the total fund balance of the General Fund was \$4,562,625, which represented 10.72 percent of total General Fund expenditures and transfers out. The unassigned portion of the fund balance for the General Fund was \$1,940,474, or 4.6% of total General Fund expenditures and transfers, but the actual spendable portion (restricted/assigned/unassigned) was \$3,330,323 or 7.82% of total expenditures and transfers out. Seven special purpose funds under General Fund control were removed from the Special Revenue fund category in FY 2010 and moved to special purpose General Fund accounts in FY 2011. This

increased the overall beginning General Fund balance to \$3,539,384 from \$2,088,984 in FY 2010. The remaining increase in fund balance in FY 2011 (\$130,803) was achieved by asking offices to hold back in making expenditures and by the receipt of additional revenues, especially taxes and charges for services. General Fund departments were asked to hold back on spending by 2%, which was more than sufficient to offset any revenue declines that might have occurred. In FY 2012, the fund balance increased by \$892,038, mainly due to significant realized expenditure savings.

Other details of note

- 1) The General Fund proposed revenue will fund an estimated \$50.9 million of General Fund expenses.
- 2) Funding anticipated from HB124 (the entitlement bill) is projected at \$6,975,900, which incorporates an expected 3.5% increase over the funding provided for the past two years (FY12 and FY 11).
- 3) The Building Inspection Fund has continued to recover nicely as economic conditions continue to improve in the construction portion of the Missoula economy, although we had previously reduced the staffing by four positions in that office several years ago. We will again be able to take on the cost of replacing vehicles for the inspectors, and we recently upgraded the permitting system software, a cost that will generate many benefits to both the building community and City staff. The Building Inspection Division has also been able to increase its staffing by 1 FTE this past year.
- 4) Impact fees are again expected to generate approximately \$900,000 of revenue for FY14, the same amount expected for FY13. The City is permitted to levy what is necessary to fund voter-approved General Obligation (GO) Bond debt service. In FY14, the City will levy \$516,533 less than in FY13 (10.56 mills in FY14 compared to 15.72 mills for FY13). This significant reduction, added to the General Fund and Health Fund increases, represents a total levy increase of 1.82% for FY14. For the owner of a property valued at \$225,000, the increased tax burden, including the Road and Park Districts, will result in an overall tax increase of 3.2%, an additional tax of \$22.40 a year or 6 cents a day.
- 5) The reduced debt service in FY14 was achieved by refinancing the Aquatics GO debt.
- 6) Unlike the last few years, funds collected at the City-owned Missoula Cemetery are scheduled by City ordinance to be deposited with 50% going to the City's General Fund and 50% to the cemetery's Perpetual Care Fund. This is a change, as the cemetery during the past four years helped shore up the reduced fee revenues that the General Fund had experienced by allowing 100% of the cemetery revenue to be deposited into the City's General Fund.
- 7) We have attempted to be conservative in estimating revenues to this point. This has been especially difficult over the last five years when revenues were declining in several of the years. The recovery of certain revenue streams for the last few years is indicative of an improving local economy.
- 8) Capital Improvement Program: We are recommending General Fund support of \$1,150,023 for FY14, which compares to \$1,024,913 in FY13. In FY14, the required General Fund fixed payments plus the scheduled General Fund vehicle replacements plus the scheduled remodel/movement of the Neighborhoods office to the Mayor's Office are all budgeted for in the FY14 General Fund CIP. There are many Non-General Fund CIP projects and vehicle replacements that were not affected by the extremely tight funding in the General Fund this year.
- 9) Fuel and energy costs: The General Fund baseline budget appears to be adequate this year.
- 10) This General Fund budget includes payroll increases (\$1,510,898) that are larger than in FY13 due to the inclusion of the City's new Development Services group in the General Fund and the fact that FY14 has 2,088 hours to budget for compared to 2,080 in FY13. The budget also contemplates an additional level of support for the City's health insurance plan (\$250,000).
- 11) The budget also accounts for an increase in one-time costs for elections of \$121,620, which could possibly be reduced by \$60,000 if there is no need for a primary election.
- 12) It also includes the prior commitment to improve Caras Park in conjunction with the Missoula Downtown Association (\$100,000 in FY 13 and \$75,000 in FY 14).
- 13) It also includes a significant special Road District funding increase associated with the start-up of a sidewalk support program as proposed in Public Works Committee with a first-year commitment of \$376,703 of City support.
- 14) It includes use of \$669,937 of unused taxing capacity +\$228,993 of tax trending allowed.

- 15) It includes use of special districts to fund additional engineering support for an expansion of the curb-sidewalk program and additional debt service support for the expansion and improvement of covered storage at the City's central maintenance facility along with additional Park District support for conservation lands, maintenance of the new Silver Park, median-greenway maintenance, aquatics program support and ongoing support of Caras Park improvements.

Fund Balance

We are projecting an FY13 year-end fund balance in the General Fund of about \$4.6 million. We are currently projecting that the FY14 year-end fund balance should be the same. Our recommendation is that any additional revenues that develop over the course of the budget process be applied first to rebuild the fund balance, a critical component of good credit with our lenders and a reserve for handling fiscal problems that surface without warning.

Summary

This budget includes all General Fund departments and divisions, the Missoula Redevelopment Agency, the Wastewater Treatment Facility, the Building Division and the Missoula Parking Commission, as well as all other special revenue and debt service funds. I want to extend my sincere thanks to all those who helped us assemble and balance this budget. This includes department and division heads and administrative staff; the Finance office staff led by Brentt Ramharter, Charlene Angelly, Marcile Echeverry, Leigh Griffing and Scott Paasch; and the budget team, reduced in size this year to include Brentt Ramharter, Bruce Bender, Gail Verlanic, Carl Horton and Jack Stucky. The Finance team made it all work while experiencing a variety of challenges, and I really appreciate the team's extra efforts.

I think this is a balanced approach to meeting our needs, expanding some of what we do based on citizen requests for service and maintaining a strong, competent workforce. Thank you for your consideration.

Sincerely,

John Engen
Mayor