FY2015 Budget Process

City Manager Vajda

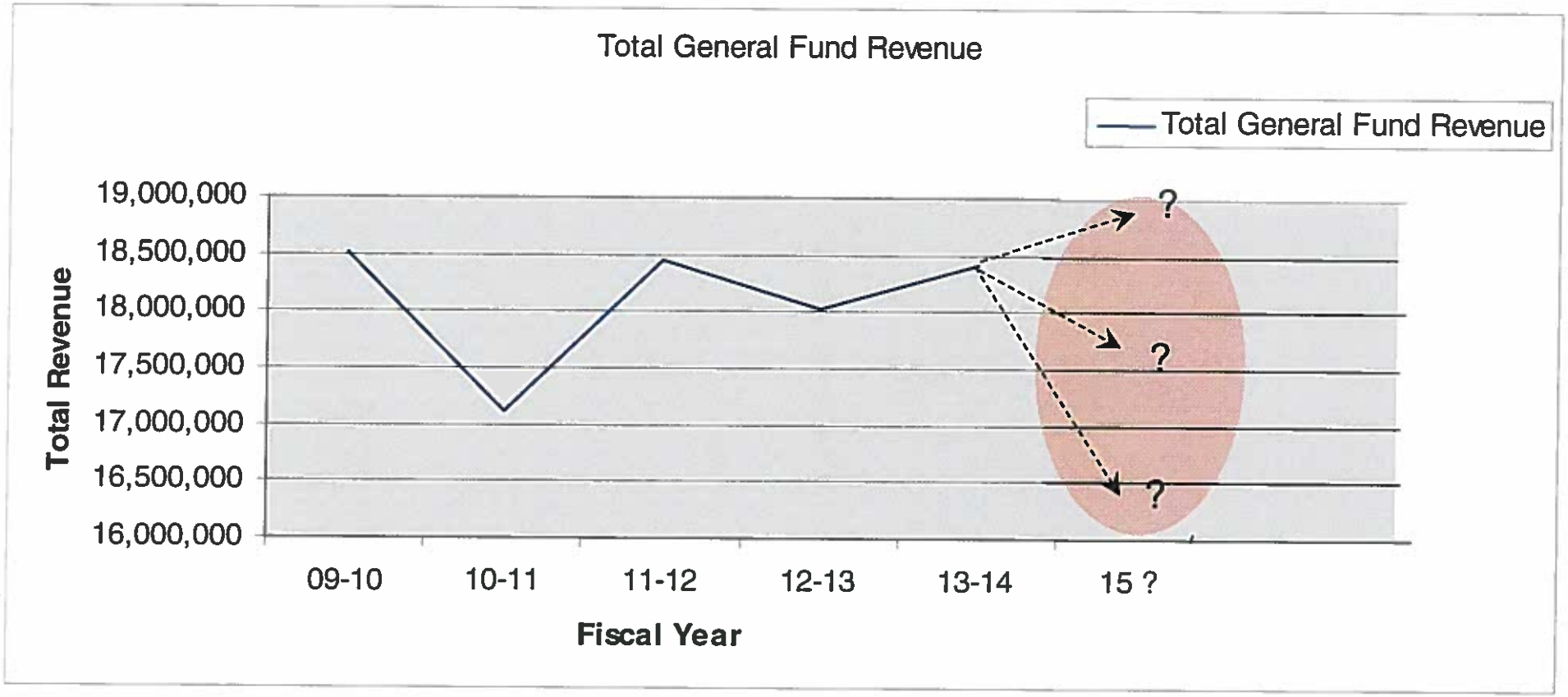
Chief Financial Officer Simpson

August 12, 2014

Balanced Budget Requirement

- **Most valuable asset – City Employees**
- **Public Health and Safety #1 Priority**
- **No New Taxes**
- Address Commission Approved priorities of the Strategic Plan
- Address Commission Approved Master Plan and Supplemental Plans
- No volatile revenue sources ("Betting on the come")
- No reliance on Fund Balance
- Per City Charter - Baseline Budget plus Supplemental Appropriations
- Preserve quality of services, versus reduced service levels

What Baseline Revenue Level?



Potential Revenue Changes

- Michigan Tax Tribunal Cases
- Major Taxpayer business decisions
- PPT replacement revenues
- MEDC Freeze Emergency CDBG funding
- New State Property Tax Credits
- Greatly diminished Road Funding

Impact :
Significantly less tax dollars collected, and less revenue provided by the state

Expense Changes Impacting Budget

- Police Fire Pension Employer Contribution (300% increase)
- Minimum Wage Increase
- Energy Cost Increases (8% Electricity, Motor Fuel)
- Freeze Emergency Charges
- Federal Healthcare (ACA) Cost Increases
- Commodity Price Increases (Water/Wastewater Chemicals, etc.)

Impact :
Significantly higher costs

Budget Management Strategy

- Similar to Capital Investment Plan (CIP)
  - Baseline Budget + Supplemental Appropriations
  - Baseline budget identifies authorized items as funding situation permits
  - Tranches managed over course of fiscal year
- Conservative
  - Easier to add revenues than cut
  - Sustainable
- Scalable
  - Supplemental appropriations over time as issues are resolved and revenue becomes non-volatile

“Zero-Baseline Budget” Process

- Past years used “Incremental” process
  - Departmental managers justify only variances versus past years
  - Assumption that the "baseline" is automatically approved
- “Zero-Based” process
  - Every line item must be reviewed
  - Independent determination of need, as well as increases/decreases in specific line items

Process Trades

- Advantages
  - Drives managers to find cost effective ways to improve operations
  - Detects inflated budgets
  - Increases staff motivation by providing greater initiative and responsibility in decision-making
  - Identifies and eliminates wasteful and obsolete operations
- Disadvantages
  - Time-consuming
  - The amount of information influencing the budgeting process is substantially different than that used for incremental budgeting

Zero-Base Criteria and Guidance

- Review needs based upon City Commission Strategic Plan and Master Plans
- Review time-based requirements for financial resources
- Evaluate potential additional revenue sources (I.E., increase fees, etc.)
- Balance short-term/long-term benefits and consequences

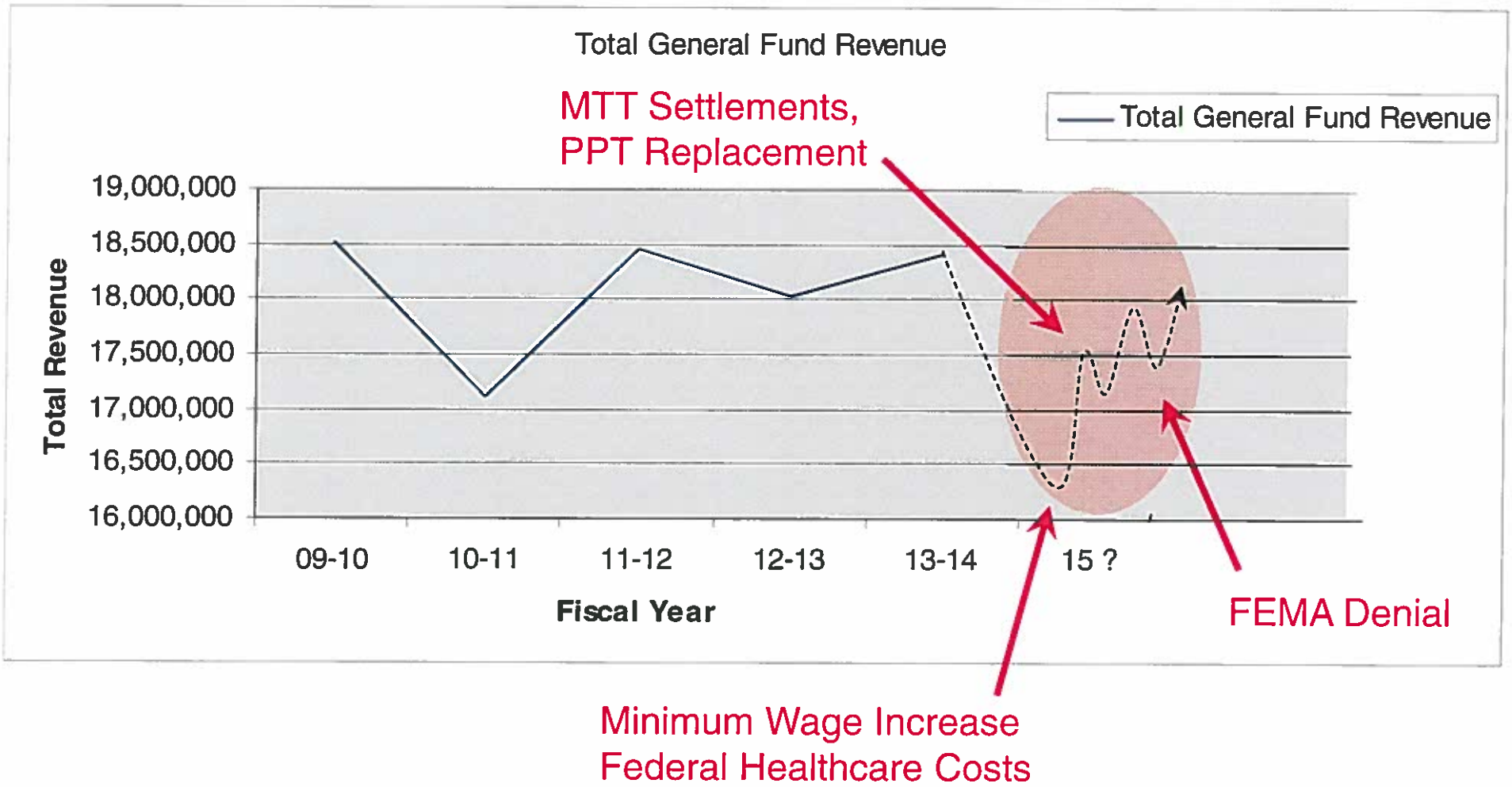
Appropriate Risk Mitigation

- "Structural" versus "Dynamic"
  - Structural – Examples – Federal/State mandates, State Revenue Sharing, Minimum Wage, Federal Healthcare reform
  - Dynamic – Examples – Tax Tribunals, Emergency Spending, Actuarial fluctuation, commodity prices
- Requires appropriate mitigation
  - Avoid short-term solutions for long-term problems
  - Must deliver sustainable balanced budgets

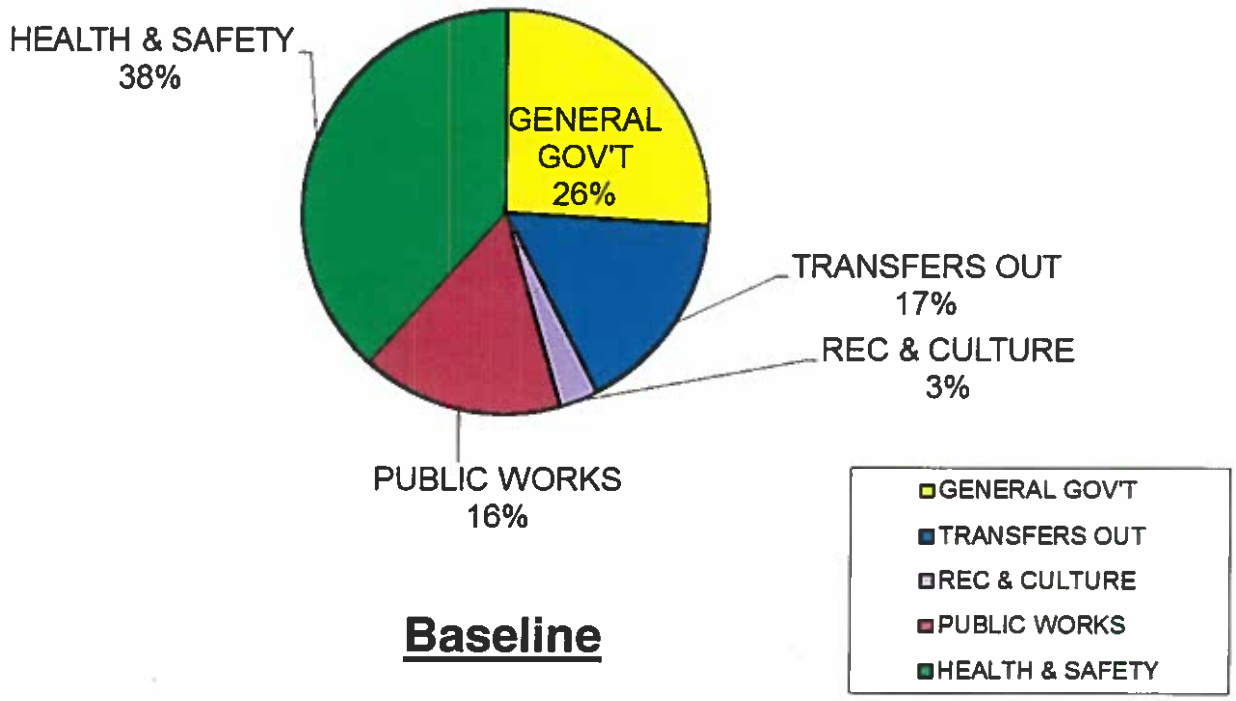
FY2015 Marquette Process

- CFO and CM initiate budget development processes
- Initial submissions are evaluated; CFO determines Zero-Base review Required
- CFO sets “top-line” Budget reduction target based upon level of volatility
  - For FY2015, this level was established as 10%
- CFO and CM conduct iterative Departmental Reviews to evaluate recommendations
- Final Budget reductions/consolidation incorporated in CM Budget recommendation

Budget Process Example



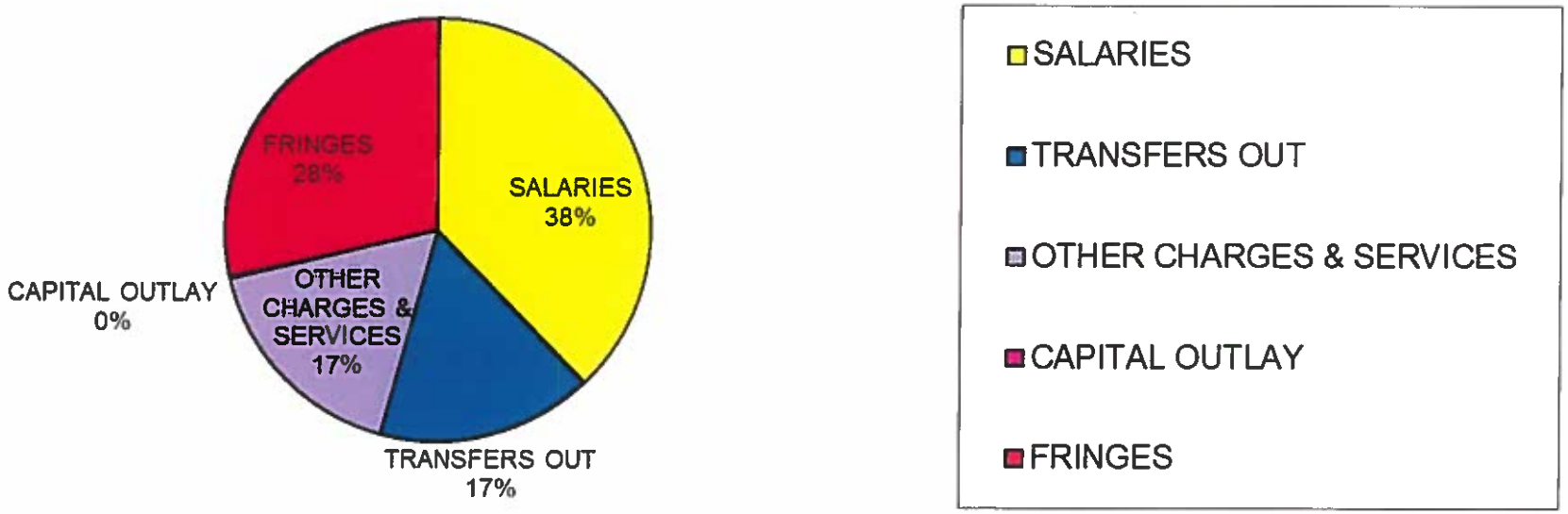
CITY OF MARQUETTE
General Fund Expenditures By Function
Requested FY 2015



Baseline

CITY OF MARQUETTE
General Fund Expenditures By Type
Requested FY 2015

Baseline



FINANCIAL IMPACTS OF CURRENT TRIBUNAL CASES

City of Marquette
Summary of Tax Tribunal Cases
Tax Revenue

	General Fund	Senior Services
WE Energies	$1,107,251	$25,970
Schramm Properties	11,117	261
MGH/DLP	258,582	6,065
Country Fresh	5,086	119
P&O Investment	694	16
Total	$1,382,730	$32,431

Decrease in Baseline Capital Outlay Reflects Lower FY15 Debt Cap Recommendation

General Fund:	FY 11 Actual	FY 12 Actual	FY 13 Actual	FY 14 Budget	FY 15 Request
Wages	6,054,738	6,418,117	6,649,310	6,883,860	7,162,810
Fringes	4,130,928	4,548,562	4,715,786	5,254,965	5,397,385
Supplies & Services	2,953,683	2,621,835	3,404,719	3,554,190	3,230,575
Capital Outlay	502,869	993,775	321,927	792,680	51,950
Debt Service	1,066,436	1,283,634	1,113,421	1,196,090	1,278,825
Transfers Out	2,667,434	1,113,900	1,406,507	1,780,580	1,852,275
	17,376,088	16,979,823	17,611,670	19,462,365	18,973,820

	FY 11 Actual	FY 15 Request	$ Variance	% Variance
Wages	6,054,738	7,162,810	1,108,072	18.3%
Fringes	4,130,928	5,397,385	1,266,457	30.7%
Supplies & Services	2,953,683	3,230,575	276,892	9.4%
Capital Outlay	502,869	51,950	(450,919)	-89.7%
Debt Service	1,066,436	1,278,825	212,389	19.9%
Transfers Out	2,667,434	1,852,275	(815,159)	-30.6%
	17,376,088	18,973,820	1,597,732	9.2%

	FY 14 Actual	FY 15 Request	$ Variance	% Variance
Wages	6,883,860	7,162,810	278,950	4.1%
Fringes	5,254,965	5,397,385	142,420	2.7%
Supplies & Services	3,554,190	3,230,575	(323,615)	-9.1%
Capital Outlay	792,680	51,950	(740,730)	-93.4%
Debt Service	1,196,090	1,278,825	82,735	6.9%
Transfers Out	1,780,580	1,852,275	71,695	4.0%
	19,462,365	18,973,820	(488,545)	-2.5%

General Fund Cost Increases between FY14/FY15

- All staff Wages up $278,950 (2% Inflation Rate)
  - About $40k of wage increases due to State Minimum Wage increase
- Police/Fire Retirement up $211,170
  - Actuarial calculation changed for FY15
- Utilities (Power, Gas, etc.) up $25,000
  - CC-approved rate increases, market volatility
- Projected Cost to mitigate MTT cases up $150,000
- Un-reimbursed City-Wide cost for Freeze Emergency $1.5million

Summary

- *The proposed FY2015 Budget puts Marquette in a strong position to mitigate unprecedented economic uncertainty, control spending, hold taxes at current levels, and invest in initiatives that promote growth and the potential to revitalize our economy*

- *It does so in a fiscally responsible manner that is consistent with the City Charter, and will keep our City fiscally sound while providing the best level of service possible to all constituents of the City of Marquette*

Questions?