

FY2004 – FY2005 Budget

Balancing the FY 2004 and 2005 2YB

Achieving Long-term Structural
Balance

Boise City

April 2003

Presentation to City Council

- Background from the Six Year Financial Plan
- Decision Points: Key choices to achieve long term Structural Balance

Budget Process

1. Six Year Financial Plan (Strategic Plan)
2. Capital Improvement Plan
3. Budget Office Estimates
4. Department Budget Requests
5. Mayor's Budget Recommendation
6. City Council Budget Workshops
7. Formal Approval of Budget (Legal compliance)
8. Convert the adopted budget to the General Ledger

1. Six Year Financial Plan - **February 11, March 4 and 11**
 - Adopted economic assumptions (February 11)
 - Adopted financial and HR policies (March 4)
 - Adopted revenue and cost projection assumptions (March 4 and 11)
 - Approved BudDev guidelines: targets and formats (March 11)
 - Approved debt strategy (March 11)
2. Budget Office Estimates - **March 14 to departments**
 - Formats, targets, deadlines
3. Capital Improvement Plan **April 7**
 - Adopted capital priority plan and lists by fund and source
4. Department Budget Requests **April 17**
 - Base operating budget and decision units requests

5. Mayor's Budget Recommendation - **June 13 or 16**
 - Recommended allocations for capital, base operations, and decision units
6. City Council Budget Workshops - **June 23 - 27**
 - Strategic direction
 - Preliminary allocations for capital, base operations and decision units
 - Budget for Public Hearing
7. Formal Approval of Budget (Legal compliance)
 - Public Hearing (e.g., August 26 or September 2)
 - Certified property tax levy by September 4
 - Annual appropriation ordinance adopted by Tuesday, 9-30
8. Convert the adopted budget to the General Ledger

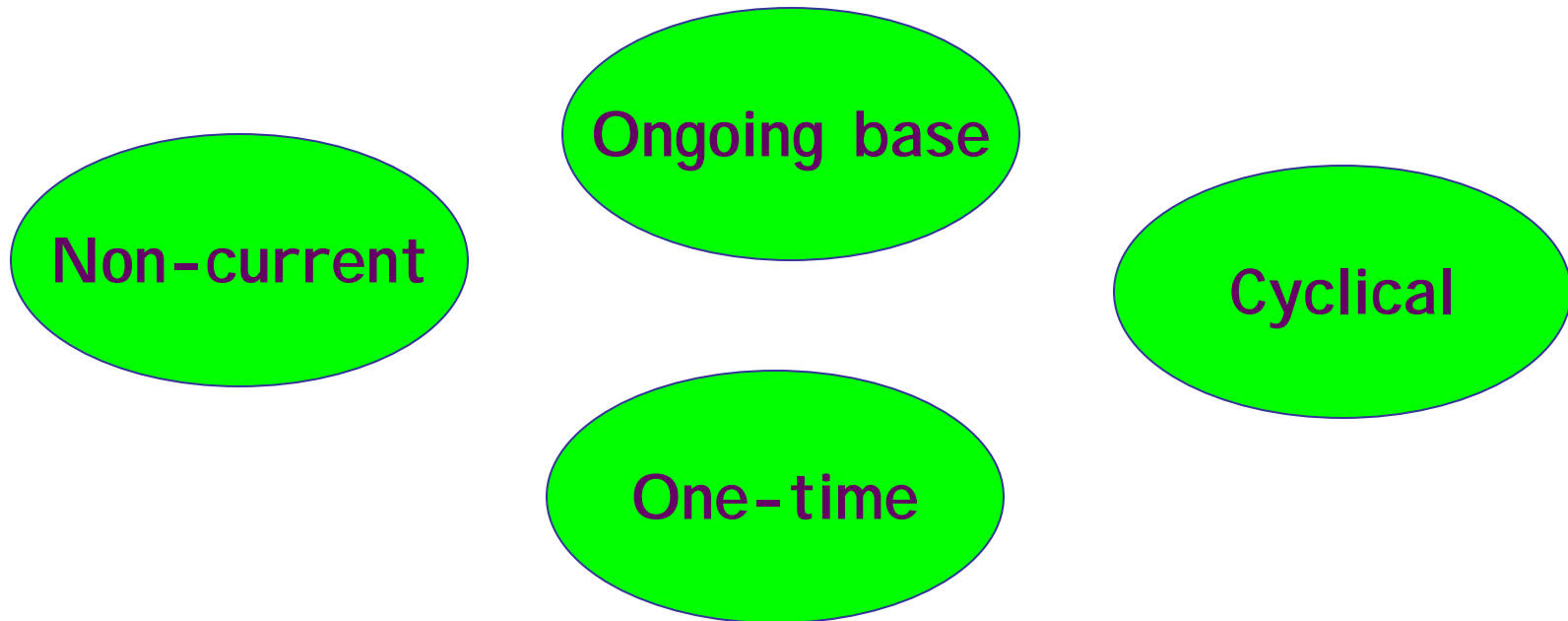
City Financial Position

- Each fund must balance with own resources (General Fund, Airport Fund, Sewer Fund, etc.)
- Annual budget – income and outgo (like your paycheck and bills)
- Balance sheet – long term obligations and assets (like your mortgage and net worth)

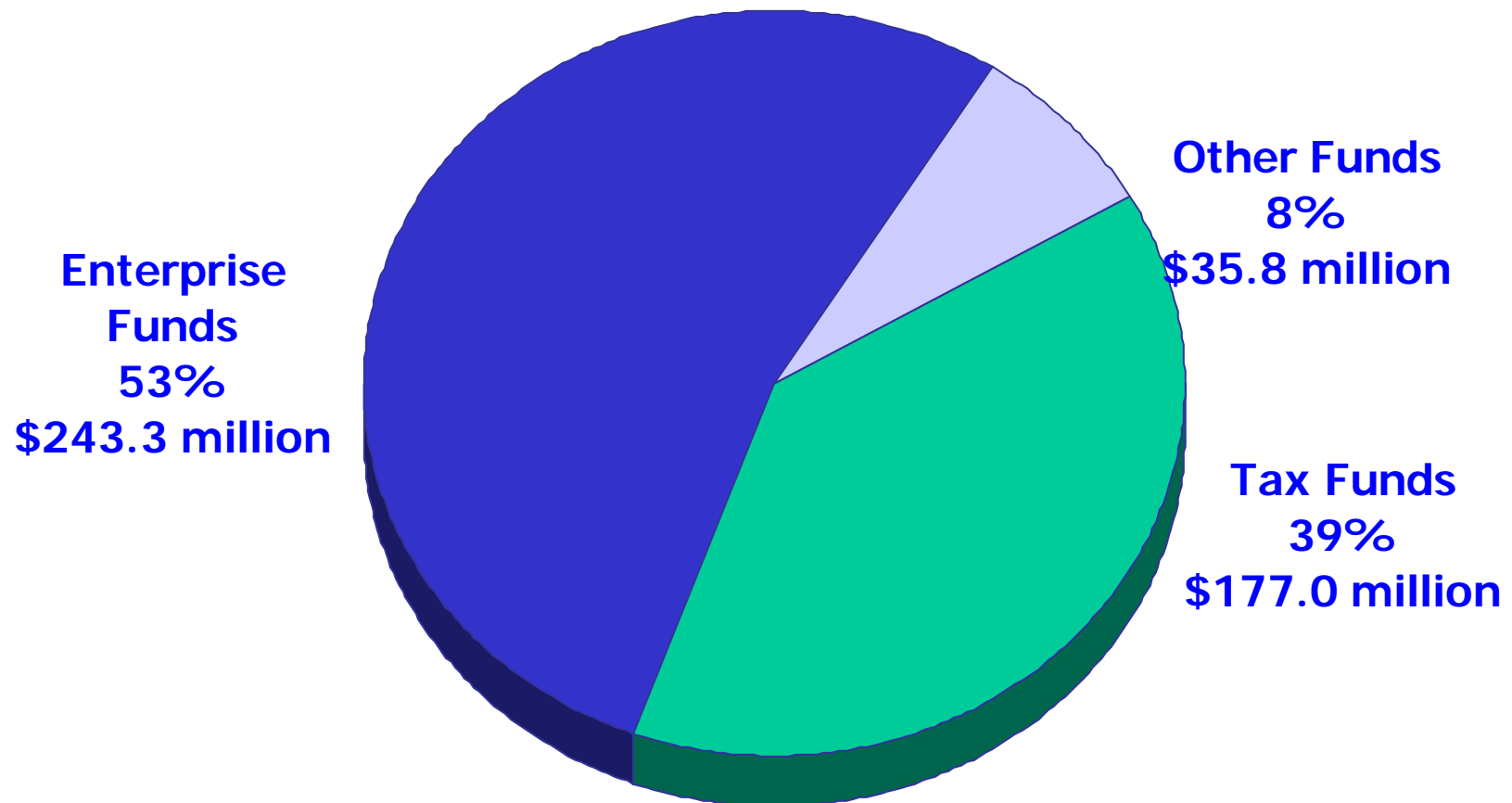
Structural Balance

Best Practice

- Match cost and revenue “types”
- Achieve balance over long term



FY 2003 City Annual Budget



\$456.1 million = all funds

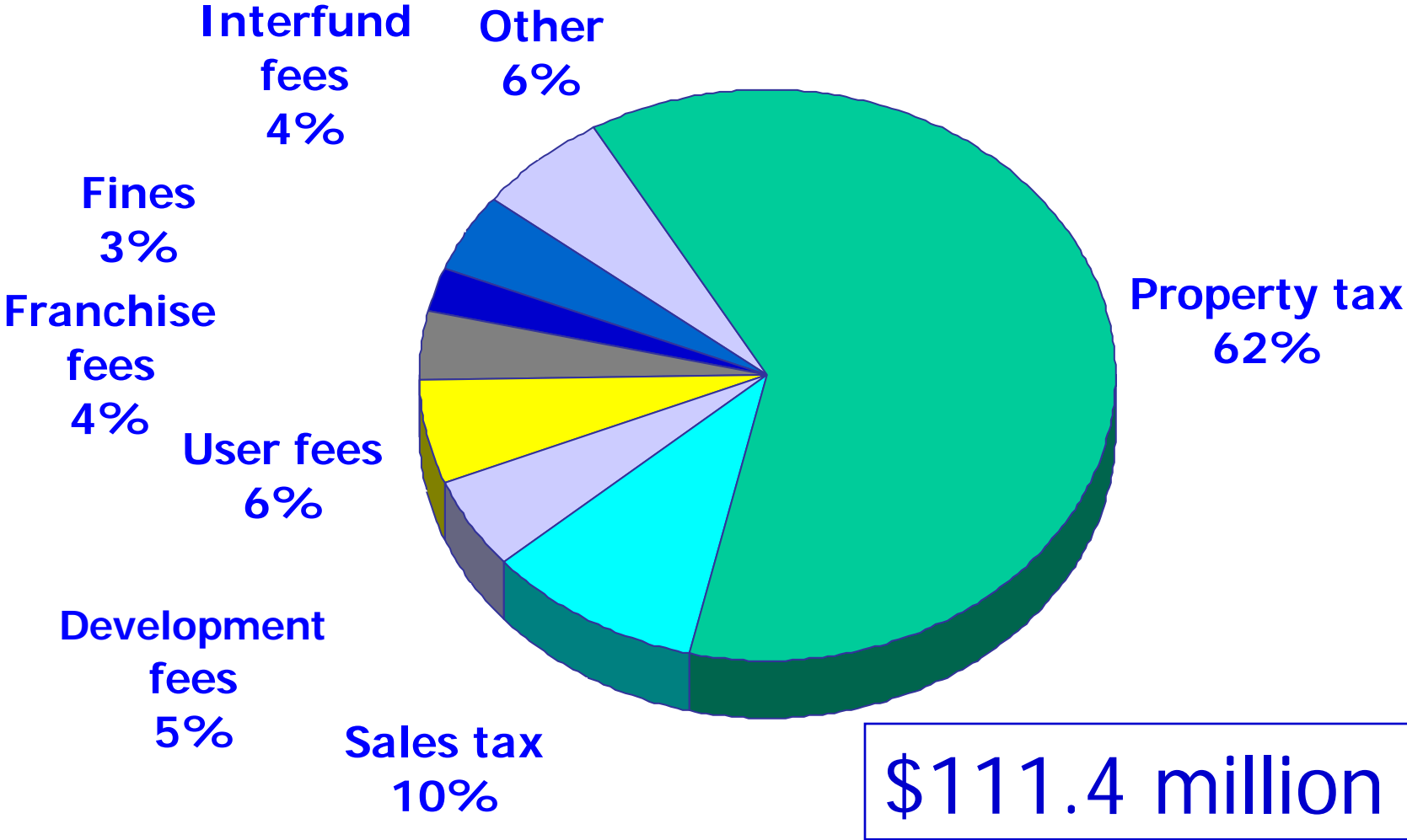
Focus
on the
Tax Funds

Background:

FY 2002 and 2003 Tax Funds

- FY 2002 – end the year “net zero”
- Revenues constrained by State code provisions
- Costs growing at faster rate than revenues
- No year end money at end of FY 2002
- FY 2003 – management cuts just to balance

FY 2003 General Fund Revenues



Revenues in FY 2002/03

The "losers"

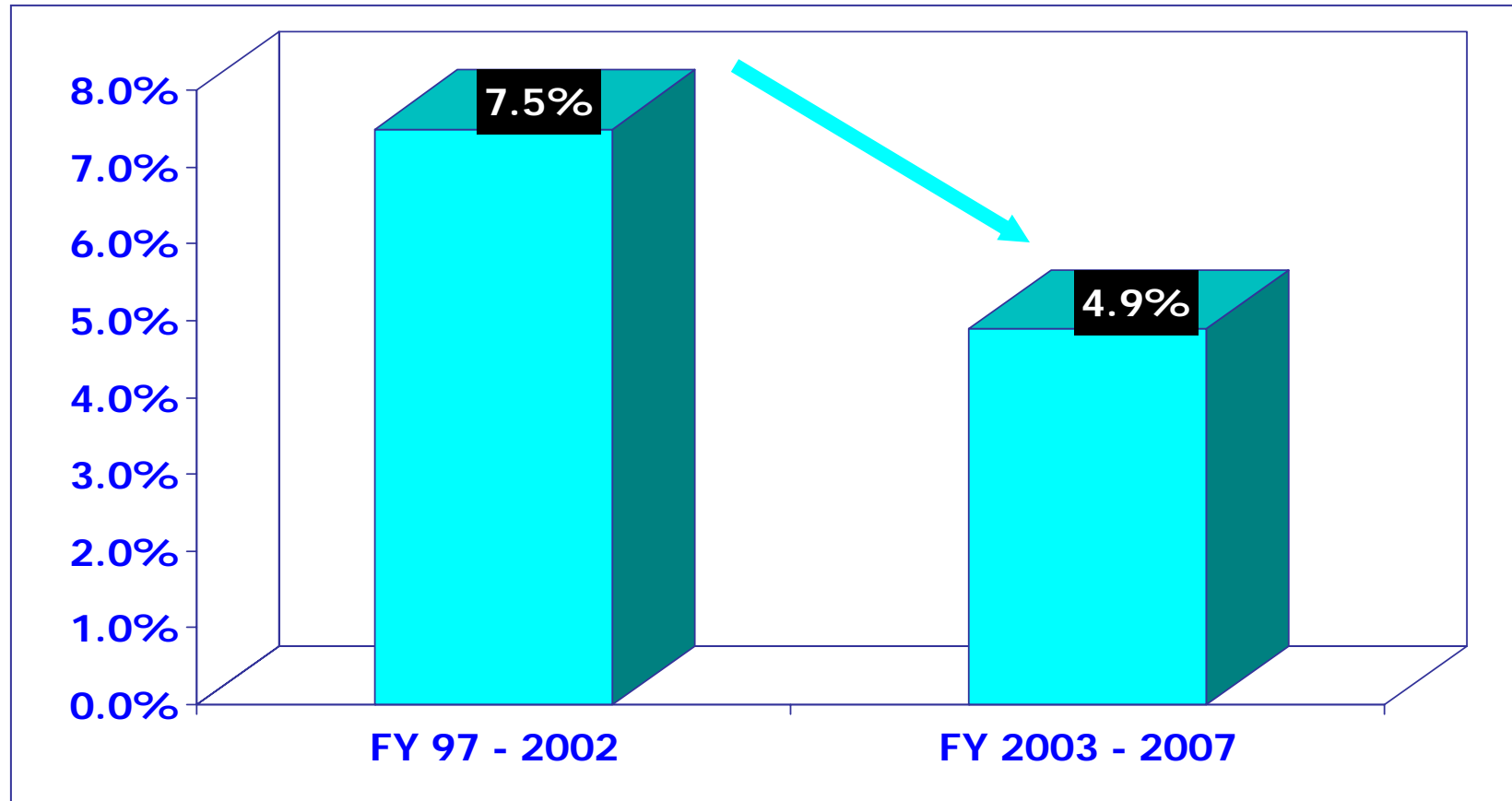
- Property tax – delinquent taxes and subsequent roll adjustment
- Development fees – down as projected
- Interest income – historical low rates
- Debt proceeds – delays related to judicial validation suit

Revenues in FY 2002/03

The “winners”

- Sales tax revenue sharing – strong QR4 (State’s QR1 03)
- Liquor tax – counter-cyclical nature of Alcohol consumption
- Franchise fees – related to PUC rates hikes (and consistent with Council policy)

Revenue growth

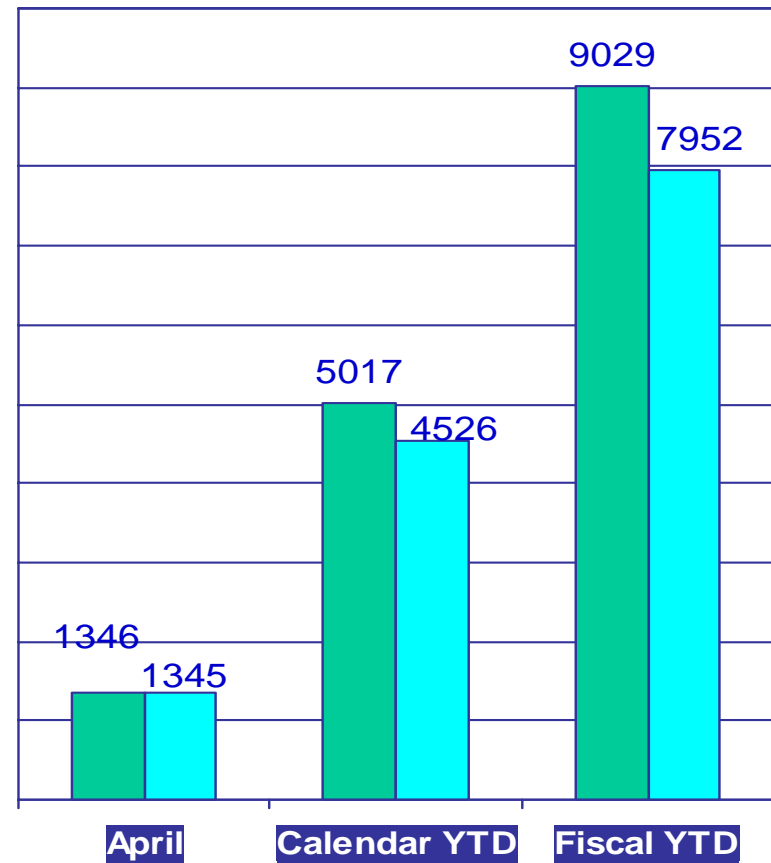


Boise Development

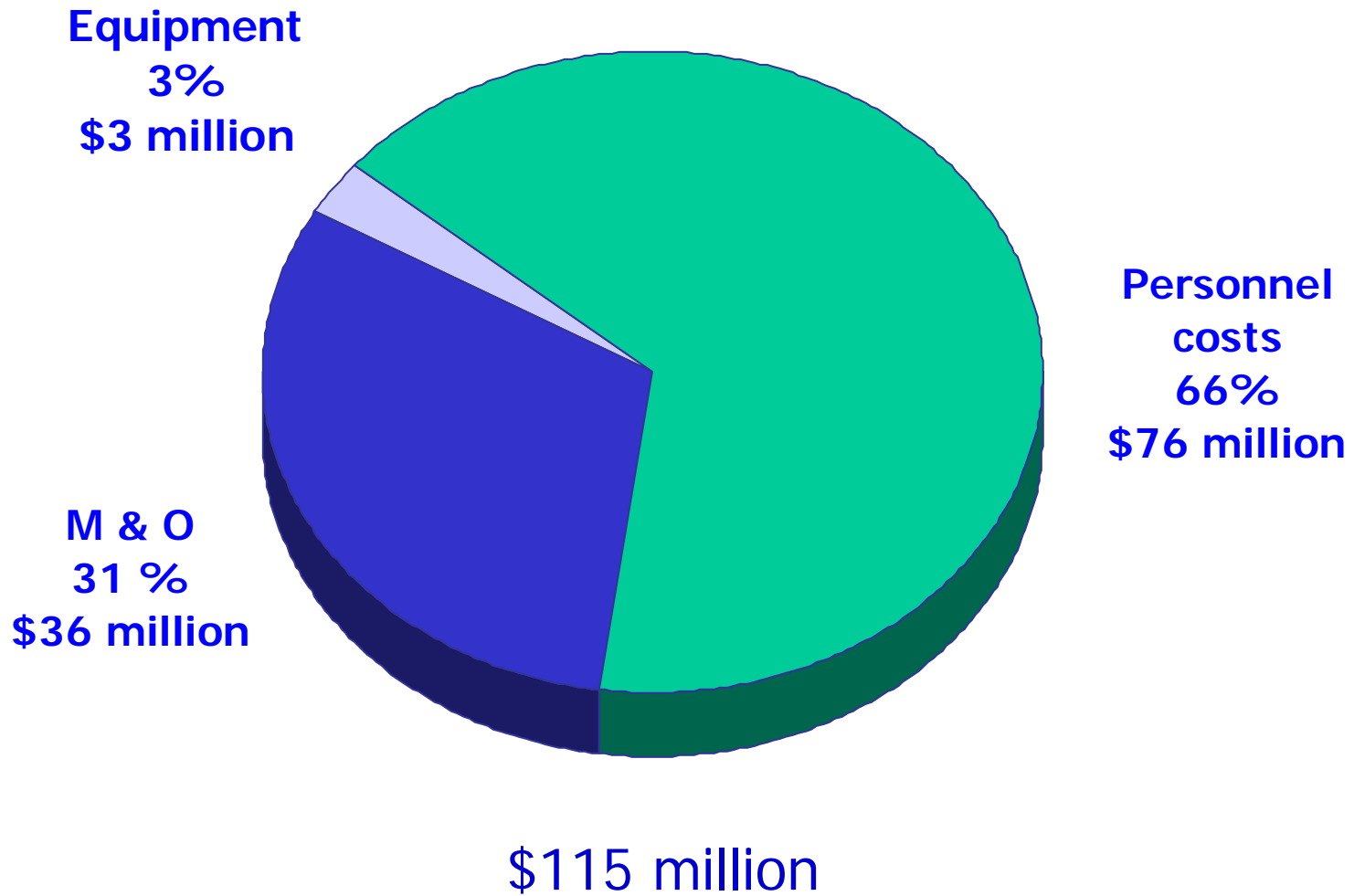
Construction Report



Permits Issued



FY 2003p General Fund Costs



Cost issues in FY 2002/03

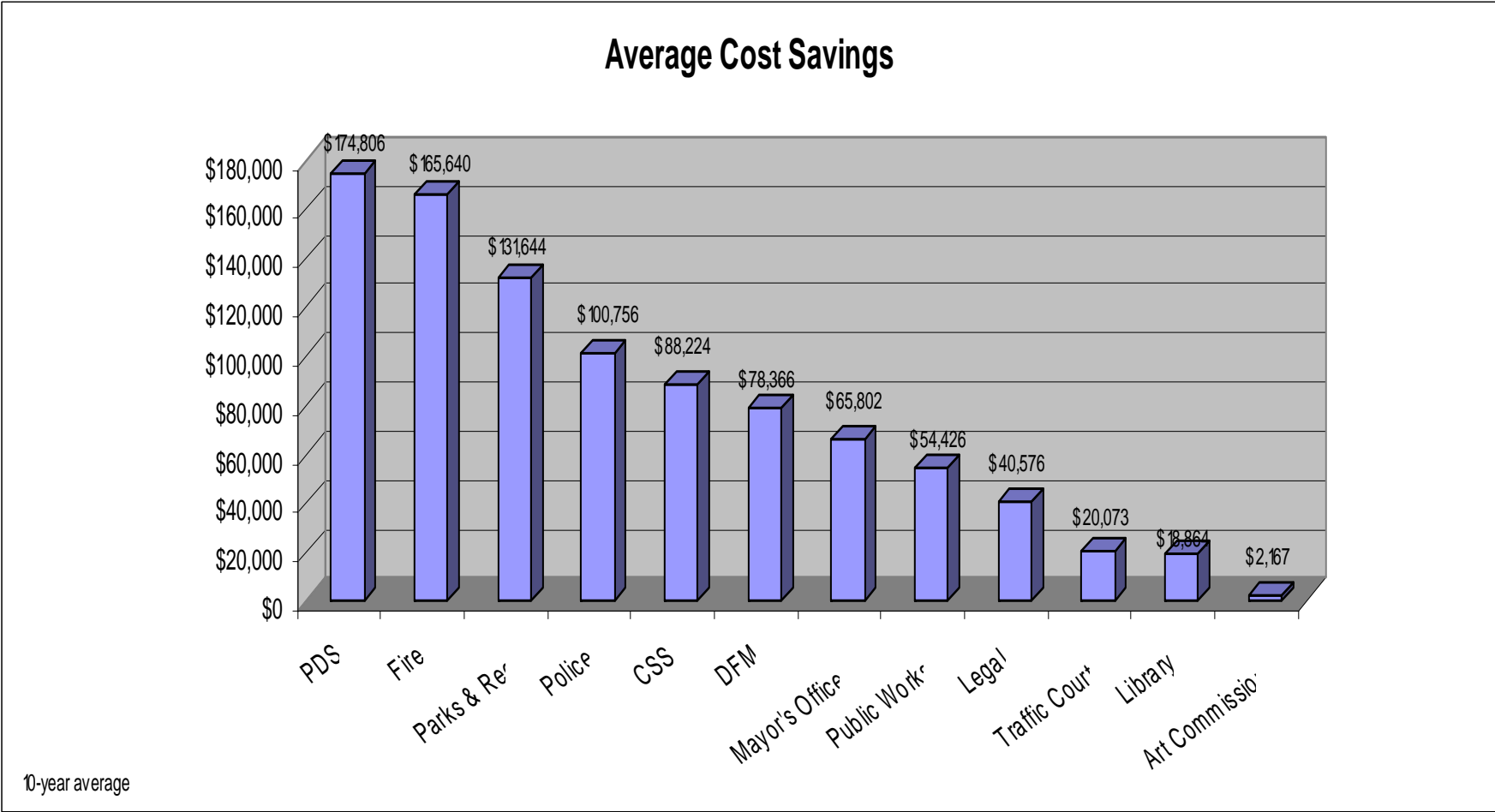
- Compensation costs – Salary increases, medical benefits, fire union contract
- Utility increases
- Contract agencies
- Security and IT
- Department savings – “management target”

Department Savings FY 2002

		FY 2002			Budget-to-Actual	
Department	Cost Savings	Revenue Gain	Net Tax Support Savings	10-Year Average Cost Savings	6-Year Average Revenue Gain ***	
Planning & Development	\$551,309	(\$251,424)	\$299,885	\$174,806	\$1,040,968	
Fire	\$403,788	\$44,410	\$448,198	\$165,640	\$121,319	
Parks & Recreation	\$107,282	(\$22,917)	\$84,365	\$131,644	\$72,834	
Mayor's Office	\$75,760	\$2,706	\$78,466	\$65,802	(\$6,521)	
Customer & Support Servic	\$57,007	(\$58,715)	(\$1,708)	\$88,224	(\$58,755)	
Human Resources **	\$46,537	\$1,427	\$47,964			
DFM	\$45,195	\$1,009	\$46,204	\$78,366	(\$3,773)	
Legal	\$43,648	(\$4,192)	\$39,456	\$41,193	(\$10,913)	
Library	\$36,155	\$30,926	\$67,081	\$18,864	\$18,621	
IT Division **	\$22,931	(\$115,513)	(\$92,582)			
Public Works	\$16,438	\$32,907	\$49,345	\$54,426	\$46,287	
Police	\$0	\$49,570	\$49,570	\$100,756	(\$19,694)	
Art Commission *	(\$23,186)	(\$52,614)	(\$75,800)			
TOTAL	\$1,382,864	(\$342,420)	\$1,040,444	\$919,721	\$1,200,373	

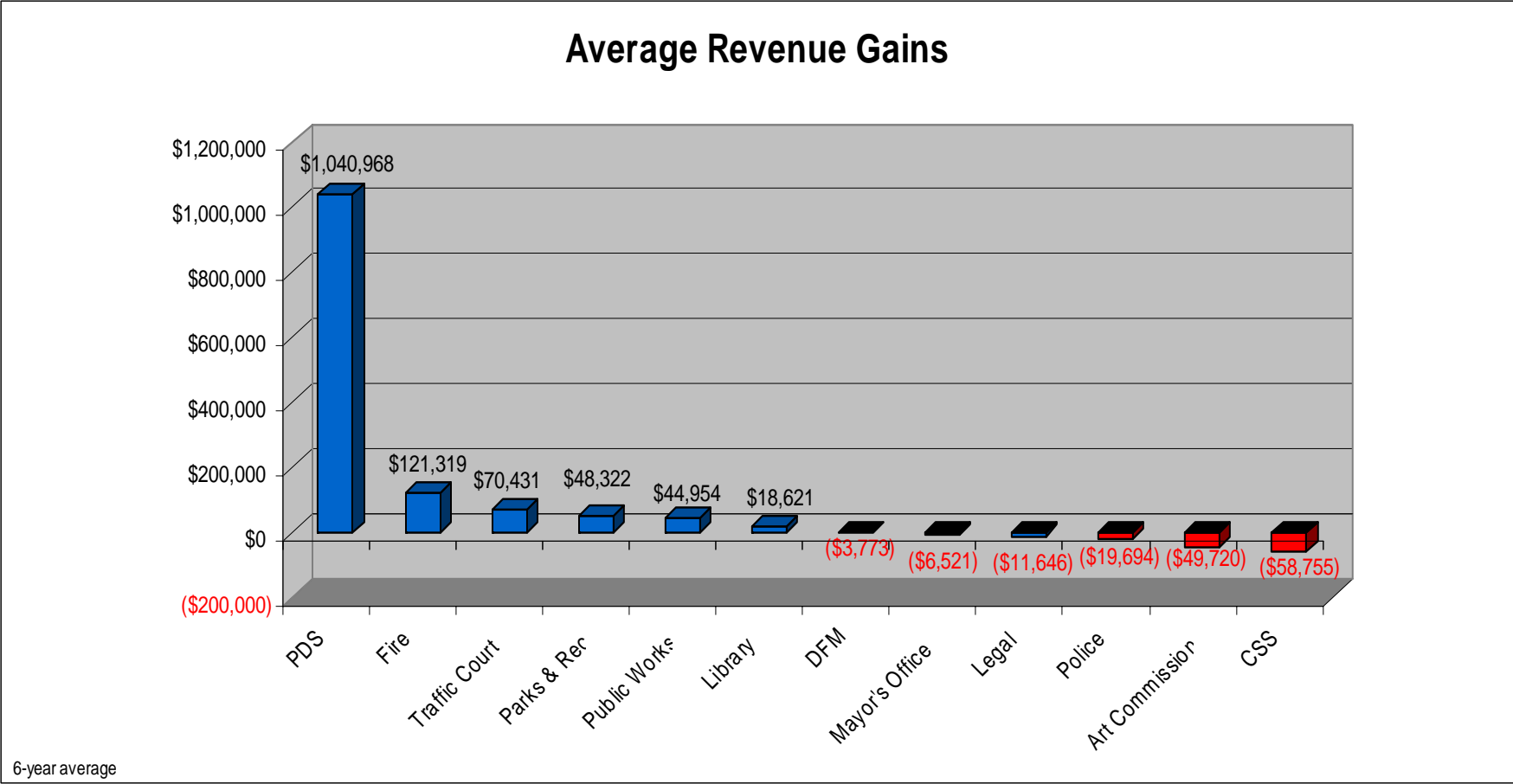
Department Savings

5 year average

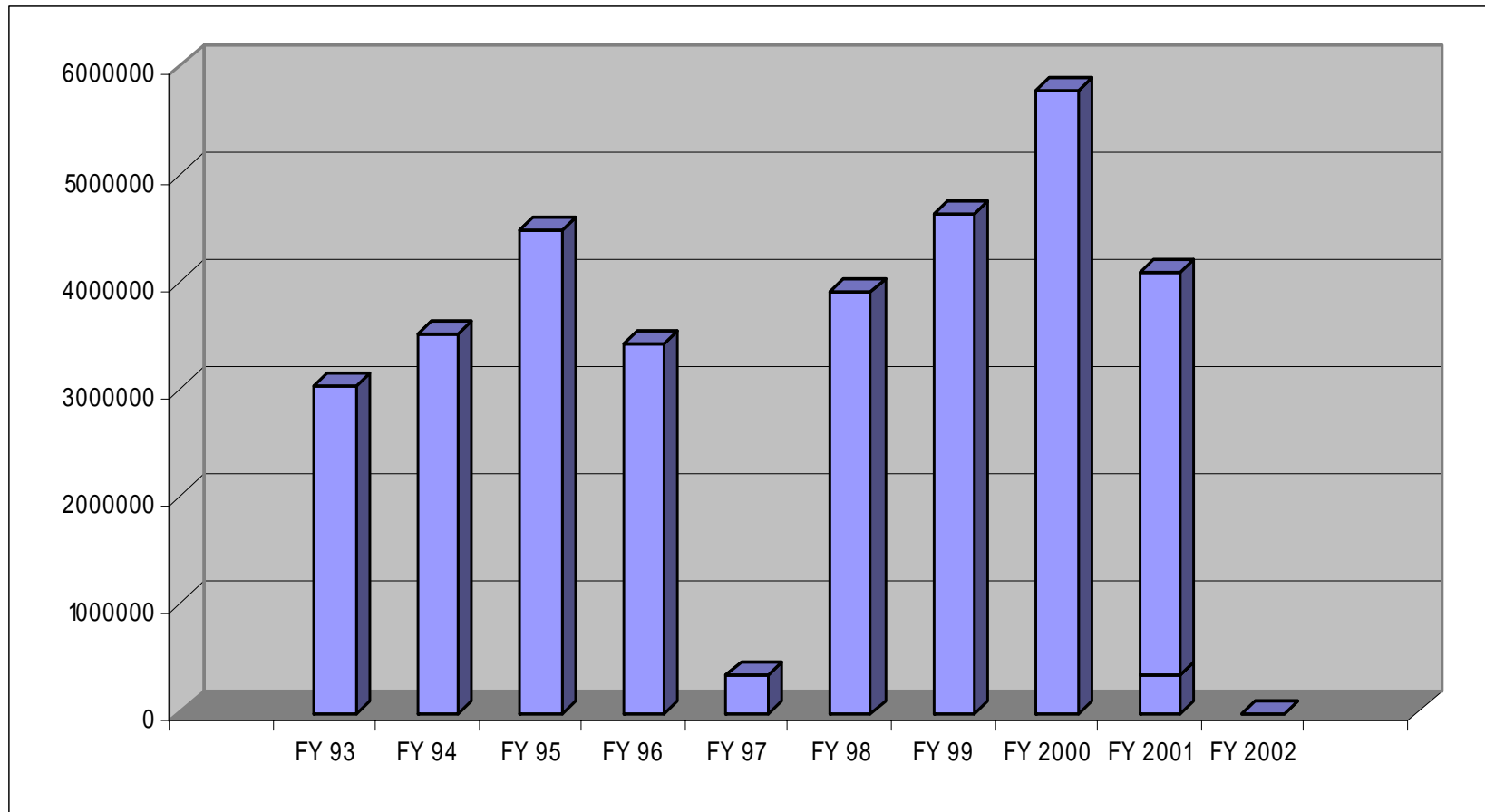


Department Savings

5 year average



End of Year Available Funds FY 93 to FY 2002



Tax Funds in FY 2003 April 2003

- Revenues – turn around has not happened
- Cost pressures – management target of \$850 thousand to balance
- Delay projects (Police HQ/precinct, 2 library branches, 3 fire stations and ladder truck) in order to balance budget

Focus on FY 2004 and 2005
2YB

FY 2004 and 2005 2 YB

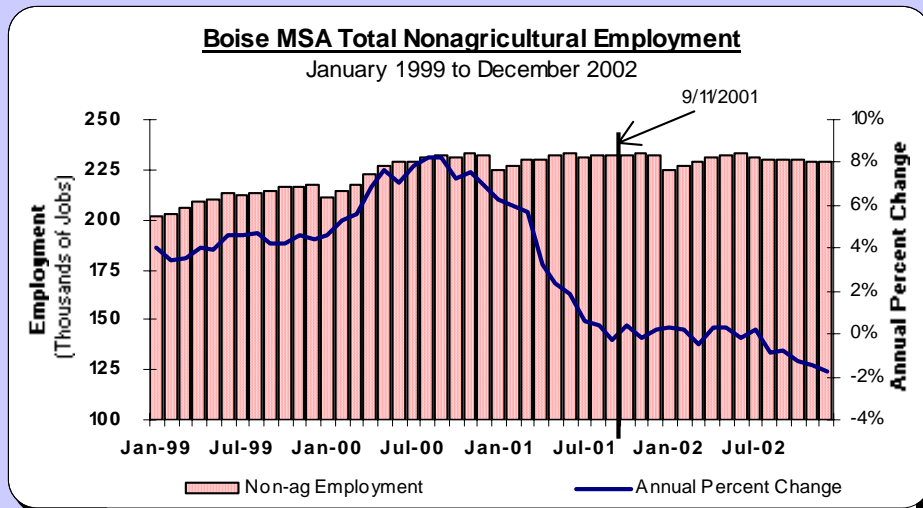
- Economic & Revenue forecast transmitted March 5th
 - Micron property tax case – potential 2005 impact
 - Cable franchise fee – potential losses
 - Annexation revenue of enclaves and “boundary cleanup” areas – possible additional revenue
 - Water franchise fee – possible additional revenue
- Cost issues
 - Decision points for general Council discussion and direction
 - Key issue: How extensive should proposed cut options be developed and presented? (range of expectation)

Economic Forecast

By John Church
February, 2003

Current Economy

Boise's first recession in 20 years.



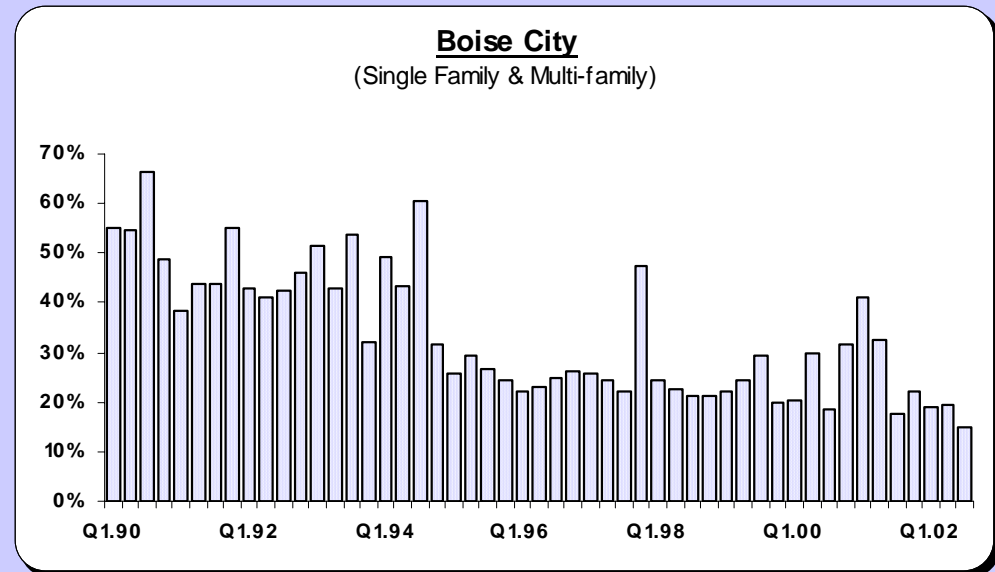
- First employment losses posted in over 20 year.
 - *Boise posted a near 1.5% employment loss in 2002*
- High tech industries have contributed to economic slowdown in Boise.
 - *Technology downturns*
 - *.com implosion*
 - *National and global economic slowdown*
- Population dynamic changing
 - *Canyon County increasing share of housing market*

Economic Outlook

(2003-2007)

Slow economic growth.

- **Population growth projected to be 1.1% annually through 2007.**
- **Employment gains projected to be 1.9% in 2003, and 2.3% to 2.5% through 2005.**
- **Service and trade industries to lead recovery in late 2003.**



Economic Events

(2003-2007)

- **War with Iraq.**
- **Micron layoffs.**
- **Further corporate downsizing.**

These events take the economic outlook for the Boise MSA in 2003 from one of modest positive economic growth to a revised forecast that 2003 will be the second year of an overall economic decline for Boise. (John Church 3/5/03)

Revenue Projections

(Tax Supported Funds)

By Budget Office
February 2003

Revenue Projection Overview

- Property Tax
 - Construction slowdown will impact “new construction roll”.
 - Foothills Levy sunset with FY 2003 levy.
 - Micron 2002 tax assessment appeal.
- Sales Tax
 - Modest sales tax revenue growth.
 - Legislative decisions in 2003.
- Liquor Tax
 - Premium liquor boosting sales.
- Development Fees
 - Flat FY 2002 building level projected to continue.
- Franchise Fees
 - Gas franchise fees reflect 29% rate reduction.
 - Cable projected to remain flat.
 - Electric franchise based on pre-rate hike levels plus population growth.

Revenue Watch Items

- **“New Construction” values** – development activity at 2002 levels.
- **Judgment levy issues** – Micron property tax appeal.
- **Sales tax revenue sharing reductions** – State Legislative action.
- **Sales tax revenue sharing and property tax overdue payments – significant layoffs.**
- **Loss or reduction of cable franchise fees** – FCC or court decisions.
- **Development fees** – housing and commercial development slowdown.
- **Fine revenue** – municipal court changes.
- **Internal user fees** – significant scrutiny by contract agencies and enterprise funds to reduce their cost.
- **User fees for economically sensitive services** – lower discretionary income.
- **Interest income** – historical low rates.

Revenue Opportunities

- **Annexation of enclaves and “no cost” areas**
- **Water franchise fee increase**
- **Fees for services**


Department Budget Preparation

- Developing budgets using targets based upon “zero increases” in HR, M and O and equipment
- Developing cost contained budgets
- Will develop service/cost cut proposals **
- Will also propose some cost increases to address workload increases and priority needs (e.g., police calls for services, park usage, Information Technology (IT), security, special audit recommendations)

Structural Balance

- Balance base revenues and base costs throughout the 6 year planning window
- Manage through FY 2004 and 2005 during very tight fiscal situation to achieve net zero or better
- Key: FY 2006 bottom line must be positive sufficiently to address necessary workload cost increases (\$1-2 million in good times)

Boise City 6 Year Projections: Decision Points to balance the 2YB

March 19, 2003	FY 2001a	FY 2002a	FY 2003p	FY 2004	FY 2005	FY 2006	FY 2007
Total General Fund Revenues	105,795	105,341	111,438	113,868	117,992	122,617	127,488
(increase over the prior year)	13.5%	-0.4%	5.8%	2.2%	3.6%	3.9%	4.0%
Base Salary costs	47,758	51,657	55,193	56,028	56,833	57,343	57,343
Medical insurance costs (2003 costs)	6,015	6,667	8,038	8,616	8,616	8,616	8,616
Other benefits (base costs)	10,569	12,340	12,899	13,029	13,108	13,344	13,344
All Human Resources costs	64,342	70,664	76,130	77,674	78,558	79,303	79,303
Decision point A and B: 2 % Compensation increase with employee involvement							
Decision point A: Compensation increase: Medical @ 15 %				969	2,407	4,061	5,962
Decision point B: Compensation increase: 2 % comp				652	1,317	2,085	2,852
M & O	31,955	28,993	28,657	26,713	26,334	26,334	26,334
Decision point C: M & O inflationary increase							
				534	1,071	1,619	2,179
Debt	4,339	2,524	4,872	5,602	5,602	5,602	5,602
BUS City subsidy	2,829	3,073	2,725	2,509	2,509	2,509	2,509
Decision point D: BUS federal grant replacement							
				892	892	892	892
Equipment	3,693	3,685	3,224	3,224	3,369	3,369	3,369
Decision point E: Equipment inflationary increase							
				64	133	204	280
Decision point F: Workload and service changes							
				500	1,000	1,500	2,000
Decision point K: Techniques to balance - Service cuts; ATB cuts or revenue increases							
				-	-	-	-
Total General Fund costs	107,158	108,939	115,608	119,333	123,192	127,478	131,281
(increase over the prior year)	13.6%	1.7%	6.1%	3.2%	3.2%	3.5%	3.0%
End of Year Operating Result	(1,363)	(3,598)	(4,170)	(5,465)	(5,200)	(4,861)	(3,793)
End of Year Capital Result	7,664	46	0	0	0	0	0
End of Year Result (use of f/b)	6,301	(3,552)	(4,170)	(5,465)	(5,200)	(4,861)	(3,793)
Balancing actions in 2003 (February 18, 2003)			4,157				
5 % Cash Flow designation (Keep at 3.9 %)				414			
Decision point G: Use 2YB one time money to reach 5 %							
					1,506	214	190
Decision point H: Risk and Workers Comp reserves							
				433			
Net Projected Result at Year End including Balance Sheet Changes			(13)	(6,312)	(6,706)	(5,076)	(3,983)
Decision point I: Operating costs for 2 libraries and ladder truck company							
				2,377	2,377		
Decision point J: Debt service for police HQ, 2 libraries, fire stations and ladder truck							
				2,500	2,500		
Net year end operating and capital result				(1,435)	(1,829)	(5,076)	(3,983)

Using the “What If” tool
to model and analyze
choices

“What If” tool to model and analyze choices

Boise City 6 Year Projections: Decision Points to balance the 2YB							
March 19, 2003	FY 2001a	FY 2002a	FY 2003p	FY 2004	FY 2005	FY 2006	FY 2007
Total General Fund Revenues	105,795	105,341	111,438	113,868	117,992	122,617	127,488
(increase over the prior year)	3.5%	-0.4%	5.8%	2.2%	3.6%	3.9%	4.0%
Base Salary costs	47,758	51,657	55,193	56,028	56,833	57,343	57,343
Medical insurance costs (2003 costs)	6,015	6,667	8,038	8,616	8,616	8,616	8,616
Other benefits (base costs)	10,569	12,340	12,899	13,029	13,108	13,344	13,344
All Human Resources costs	64,342	70,664	76,130	77,674	78,558	79,303	79,303
Decision point A and B: 2 % Compensation increase with employee involvement				646	1,604	2,698	3,965
M & O	31,955	28,993	28,657	26,713	26,334	26,334	26,334
Decision point C: M & O inflationary increase				267	533	1,070	1,619
Debt	4,339	2,524	4,872	5,602	5,602	5,602	5,602
BUS City subsidy	2,829	3,073	2,725	2,509	2,509	2,509	2,509
Decision point D: BUS federal grant replacement					-	-	-
Equipment	3,693	3,685	3,224	3,224	3,369	3,369	3,369
Decision point E: Equipment inflationary increase				64	133	204	280
Decision point F: Workload and service changes				500	1,000	1,500	2,000
Decision point K: Techniques to balance - Service cuts; ATB cuts or revenue increases				(250)	(500)	(500)	(500)
Total General Fund costs	107,158	108,939	115,608	116,949	119,142	122,089	124,480
(increase over the prior year)	3.6%	1.7%	6.1%	1.2%	1.9%	2.5%	2.0%
End of Year Operating Result	(1,363)	(3,598)	(4,170)	(3,081)	(1,150)	528	3,008
End of Year Capital Result	7,664	46	0	0	0	0	0
End of Year Result (use of f/b)	6,301	(3,552)	(4,170)	(3,081)	(1,150)	528	3,008
Balancing actions in 2003 (February 18, 2003)			4,157				
5 % Cash Flow designation (Keep at 3.9 %)				321			
Decision point G: Use 2YB one time money to reach 5 %					1,396	147	120
Decision point H: Risk and Workers Comp reserves				433			
Net Projected Result at Year End including Balance Sheet Changes			(13)	(3,835)	(2,546)	380	2,888
Decision point I: Operating costs for 2 libraries and ladder truck company				2,377	2,377		
Decision point J: Debt service for police HQ, 2 libraries, fire stations and ladder truck				2,500	2,500		
Net year end operating and capital result				1,042	2,331	380	2,888

11 Decision Points

(a) = projections previously presented
to City Council with 6 Year
Financial Plan on March 5th

(b) = choices needed to balance the
budget - structurally

Choices:

Decision points "A" and "B"

- Employee compensation:
 - a. Fund 2 % salary increases and 15 % medical insurance costs (equals about another 3% of salary increases with benefit load)

or
 - b. Fund general employee increase at lower level to balance the budget – choose between medical and salary increases

Background

- Combine salary increase and medical insurance increase into compensation increase for 04 and 05
 - State employees have not received increases
 - Cost for union medical insurance equivalent of 2 % of compensation in 2004
 - City general employees received significant increases to move toward market in 2001 and 2002 and 4 % in 2003
 - Find ways to reduce medical insurance increase below 15 % and ask for employee input in the choices of ways (self funding insurance, new IRS rules that encourage employees to save health costs, etc)
 - If choice between salary increase and maintaining medical at similar level?
- Could authorize one time, lump sum salary awards to recognize performance - but avoid base cost increase – using one time 04 and/or 05 \$

Choices:

Decision point "C"

- M and O inflationary increases:
 - a. Provide 2 % increase to reflect higher cost of supplies and materials
 - or
 - b. Go a year with no increase - "zero increase"
M & O budgets resulting in 2 or 3 percent less purchasing power because of inflation

Background

- Inflation has increased over 2 % in trailing 12 months
- Departments are building budgets with “zero increase” M and O “targets” and can report their conclusions
- Departments can identify “service impacts” of the “zero increase” M and O budget – what can’t get done – for Council review

Choices:

Decision point "D"

- BUS Federal Grant Loss Replacement:
 - a. Replace \$892 thousand in lost federal operating grant with City tax subsidy to maintain current routes and services

or

 - b. Cut costs of bus - recognizing the difficulty of replacing the federal funds in this economic period

Background

- In the past, the City has replaced lost federal grant funds with tax funded subsidy
- ValleyRide has asked the federal government to change law to allow federal operating support to cities like Boise
- ValleyRide has asked the State Legislature for a funding source for transit. That may not occur for some time.
- Without federal or state funding, route and service cuts may be necessary unless the City could bridge the time gap.
- The City could consider using one time money to bridge a year or two until federal, state or regional solutions are achieved.

Choices:

Decision point "E"

- Equipment inflationary cost increases:
 - a. Provide a 2 % inflationary cost increase to maintain replacement at level similar to past years
 - or
 - b. Fund "zero increase" to maintain equipment fleets as well as possible with a 2 – 3 percent loss to inflation

Background

- Maintaining the fleet is important – lesson from 70s and 80s
- Zero increase budget includes replacement. Departments will address the impact of the zero increase budget.
- One time funds could perhaps be used to fund cost savings through more efficient equipment
- 4th Ladder truck is debt funded (\$800+ thousand)

Choices: Decision point “F”

- Workload and service changes:
 - a. No new services – no new staff to meet increased need/demand for current services
or
 - b. Few selected priority cost increases to meet increased demand for current services or other priority needs (budget “enhancements”)

Background

- Departments may have workload demand increases ... police calls for services, parks usage, etc... that require with cost increases to maintain current services
- New services or activities... security, information technology, internal audit, etc.

Choices:

Decision points “G and H”

- Fund balance “reserves” for liabilities:
 - a. Fund below City targeted reserve levels
or
 - b. Use one time money to increase reserves

Background

- Annual base cost increases for the “5 %” cash flow designation, reserves in liability and workers compensation are in the base budget.
- One time money that would be needed to fund the gaps includes:
 - \$1.25 million to achieve the 5 % cash flow ‘reserve’.
 - \$433 thousand to achieve the 90 % in the liability reserve.
 - \$2.5 million to achieve the 90 % in workers compensation.

Choices:

Decision point "I"

- Operating costs for future libraries and fire ladder company:
 - a. Plan to operate 2 library branches and a fire ladder company beginning in 2006 – use savings from delay as one time money

or
 - b. Delay to 2007 to achieve structural balance

Background

- Deferring creates one time money in the interim.
Cutting creates base money going forward.
- Base operating budgets for the two library branches equals \$700,000 each (in FY 2003 dollars)
- Base operating budget for the new third fire ladder company equals \$980,000 (in FY 2003 dollars)
- Fire would like to proceed in FY 2003 to implement the new ladder company using a current truck

Choices:

Decision point "J"

- Debt service earmarked for Police, Library and Fire capital facilities and equipment:
 - a. Continue debt plan for 6 facilities and ladder truck
 - or
 - b. Use any debt base savings to reduce the cost of the current 30 year debt

Background

- If one or more issues were voted, taxes could cover the debt service for the voted issue.
- Because the \$2.5 million was freed by extending the length of existing debt, it seems important to use any of the \$2.5 million not needed for debt to reduce the debt liability.
 - Existing refinancing debt could be “bought down” through a variety of means – including placing funds in escrow until debt is able to be called.

Decision point K: Options to balance the base budget

- Council can shape the targeted 2YB and FY 2006 bottom line amounts through the 11 decision points.
- The bottom line in 2006 is a key indicator of the extent of the challenge to departments
- Identify the level of cut options departments should provide

Background

- The decision points are City wide
- Departments can also identify service cuts
 - (2 % service level cuts would total about \$2.2 million)
- Departments can also identify the impact of across the board cuts
 - (1 % ATB cuts would total about \$1.1 million of General Fund or \$250K of M&O)
- Assignments can also be made to reduce costs through studies and projects, such as, for example:
 - Reduce medical insurance costs (HR with employee input)
 - Use one time money to buy down future costs **
 - Establish assignments to cut costs through innovation – such as “voice over IP”