

MAYOR'S INTRODUCTION TO THE FISCAL YEAR 2013 BUDGET

Overview

This letter conveys the Fiscal Year 2013 budget for the City of Missoula and is consistent with the goals 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.

This budget restores some necessary, but unsustainable, cuts to maintenance budgets, honors our commitments to our employees through contracts and policy, manages the continuing challenge of providing a quality health-insurance plan for the people who serve our citizens, and invests in enhancing our partnership with neighborhoods, improving our effectiveness in development services and enhancing Missoula's competitiveness as we work to grow and attract quality businesses that provide family wages.

I heard a criticism of my remarks at the State of the Community that I've taken to heart: an audience member wondered why I didn't thank the many volunteers throughout the community who engage every day in making our city a better place to live for all of its citizens.

I take none of those folks for granted, nor do I imagine our place working without them. In fact, I want more folks to have the opportunity to fully engage in our community.

I'm not committed to growing our economy purely for the sake of commerce, and I'm not committed to improving the way we plan for and permit development purely for the sake of growth. I'm committed to those programs, and to all of the community-building work the city does everyday, to restore an old-fashioned ideal.

I believe in the middle class.

I believe that when folks don't have to make choices between food and shelter, transportation or medicine, working a second job or watching a kid's soccer game, they get to make better choices about how they live in their community, how they contribute and care for one another and our place.

Growing great jobs and sustaining a great place to live are not mutually exclusive.

I hope this budget reflects that notion.

The important details:

General Fund

We're estimating new tax revenue from growth in our tax base in the amount of \$350,000. This estimate is based on our experience over the last three years. In FY 12 our taxable value grew by \$388,082; in FY11, our taxable value grew by \$671,312; and in FY10, we grew by \$1,080,713.

We are proposing a 3.28% increase in our City tax levy, which will largely fund contracted wage increases for employees. Last year, aside from salary increases, virtually no new tax-funded requests were funded, except for mandatory expenses associated with elections that occur in alternating budget years and the investment in the Missoula Economic Partnership, which was a net increase of \$80,000 dedicated to business development in our budget. Please note that last year was the first increase in our General Fund levy in two years and that in FY10 and FY11, we reduced our operating budget by a total of 6 percent.

Health Insurance Fund

Outside of the General Fund, we are proposing an additional \$250,000 be levied in the health insurance fund. Unprecedented claims during FY10 and FY11 eroded the plan's rainy-day fund and, without additional funding, the plan will become insolvent. (A \$2.3 million surplus at the end of FY10 was spent down by \$2.6 million by the end of FY11, generating a deficit of \$330,000.) We should end the year better than last year and should be even or ahead by the end of FY13.

Finance and Human Resources staff have been working closely with Chief Administrative Officer Bruce Bender and consultants to look at ways we can temper expenses while fulfilling our obligation to employees. I'm also working closely with our benefit plan manager to understand alternatives to business as usual.

We're committed to maintaining a three-month fund balance, but the demands of simply stabilizing the plan in FY12 had to override the need to maintain a three-month reserve for the FY12 budget. We're honoring our commitment to rebuild the fund balance with a one-time transfer of \$350,000 in FY 13.

Other revenue

We're continuing our policy of cost-recovery for business licensing, engineering and certain fire inspection services, proposing a 4-percent increase to reflect the increased cost of service in FY13. Certain planning fees are recommended to be increased 4%, as well, but we don't recover all of those costs as a matter of policy. We think we'll generate \$152,000 in FY13 from these changes.

In a dramatic change in the way Municipal Court is managed, we're estimating that court-generated fines and surcharges will increase in excess of \$500,000 in FY 13 compared to the preceding year.

Credit ratings and accounting practices

Standard & Poor's and Moody's, our ratings agencies, continue to reaffirm and sustain our good credit, which includes AA- for general obligation debt and A+ for general fund debt.

Other details of note

- 1) The General Fund proposed revenue will fund an estimated \$46.1 million of expenses.
- 2) Funding anticipated from HB124 (the entitlement bill) is projected at \$6,740,000, the same level as for FY12. This funding stream will likely not increase for another year.
- 3) The Building Inspection Fund has continued to recover nicely as economic conditions continue to improve. We will again be able to take on the cost of replacing vehicles for the inspectors and to upgrade the permitting system software.
- 4) Impact fees are again expected to generate about \$900,000 of revenue for FY13, the same amount expected for FY12. To date, we've collected about \$617,000.
- 5) The City is permitted to levy what is necessary to fund voter-approved General Obligation (GO) Bond debt service. In FY13, the City will levy slightly less than in FY 12, (15.51 mills in FY13 compared to 15.74 mills for FY12). This slight reduction, added to the general fund and health fund increases, represents a total levy increase of 3.28 percent for FY13. With the increase in special district levies, the owner of a property valued at \$225,000 will pay an additional 8 cents per day in city taxes.
- 6) At least for one more year, all funds collected at the City-owned Missoula Cemetery are proposed to be deposited into the General Fund, as they had been in the past to shore up the reduced revenues that the General Fund has experienced over the last three years.
- 7) We have attempted to be conservative in estimating revenues to this point. This has been especially difficult during the last four years when revenues were declining in several of the years.
- 8) Capital Improvement Program: We are recommending General Fund support of \$1,024,913 for FY13, which compares to \$956,558 in FY12. In FY 13, 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 FY13 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.
- 10) This budget includes payroll increases (\$943,960) and additional support for the City's health insurance plan (\$250,000)
- 11) Includes increased annual equipment lease costs (\$130,000)
- 12) Accounts for loss of grant support for 5 police officers, several firefighters and lower fees in certain critical General Fund revenue accounts (\$746,866)
- 13) Prior commitment to improve Caras Park in conjunction with MDA (\$100,000)
- 14) Accounts for the improved levy position in the health insurance fund (+\$167,000)

- 15) Possibility of starting up a sidewalk support program as proposed in Public Works Committee with first-year commitment of \$300,000 of City support. This may be able to be increased due to the fact that the second-year cost increases for FY14 are less. This program wouldn't actually need to be funded until FY14, as it takes that long to sort the costs out from the previous year's work.
- 16) Use of \$450,000 of unused taxing capacity, \$350,000 of tax revenue growth and \$260,000 of tax trending allowed by statute
- 17) Use of special districts to fund additional snow-plow assistance and GPS units for the Road District plus enhanced park, playfield and median maintenance for the Park District.

Fund Balance

Standard & Poors also recommended that future budgets plan to increase the General Fund year-end unassigned fund balance to \$3.1 million (which is 7 percent of the General Fund budget per the City's adopted financial policy).

We are projecting an FY12 year-end fund balance in the General Fund of about \$2.55 million. We are currently projecting that the FY13 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 increase 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 Code Division and the Missoula Parking Commission, as well as all other special revenue and debt service funds. Thanks as always go to Bruce Bender and Finance office staff led by Brentt Ramharter, Charlene Angelly, Marcile Echeverry, Leigh Griffing and Scott Paasch. I also appreciate the critical role managers and employees throughout our organization play in making our budgets work.

Thanks to the Missoula City Council, too, for your thoughtful consideration of this recommended budget.

Missoula continues to be a great, distinct place. This budget, I hope, helps us fulfill our obligation as stewards of all that Missoula has to offer.

Sincerely,



John Engen
Mayor