City of Montpelier FINANCE

America's Small Town Capital

October 21, 2016

TO: City Council Members
City Leadership Team

FROM: Todd Provencher, Finance Director

SUBJECT: **BACKGROUND INFORMATION FOR FY 18 BUDGET**

YEAR	VOTER APPROVAL
★ FY 17	80%
★ FY 16	80%
★ FY 15	75%
★ FY 14	75%
★ FY 13	70%

MUNICIPAL PROPERTY TAXES AND ECONOMIC INDICATORS

FIVE YEAR HISTORY - % Changes	FY13	FY14	FY15	FY16	FY17	AVERAGE
Property Tax Increases - Municipal	3.20%	0.50%	1.30%	2.80%	2.70%	2.12%
Median Tax Bill Increases - Municipal	3.00%	0.60%	1.30%	2.50%	2.50%	1.98%
Consumer Price Index (Annual)	2.00%	2.00%	1.3% Aug	0.20%	1.1% Aug	0.84%
City Employee Cost of Living Adjustment	0-2.5%	2-2.25%	1.5%-2.25	1.-2%	1.-2%	1.7% average*
Grand List (Property Values) – Municipal	0%	1.50%	0.70%	0.40%	1.00%	0.72%
Unemployment Rate – Montpelier	5.30%	4.00%	3.70%	3.20%	3.00%	3.84%
Total Budgeted Expenditures - General Fund	2.30%	2.70%	1.60%	4.20%	3.74%	2.91%
Property Tax Dollars Raised - Municipal	3.90%	2.30%	2%	2.70%	2.80%	2.74%

Note: In FY18 every 1% increase in the municipal tax rate adds 1.02 cents to the current tax rate and raises an additional $87,000

MUNICIPAL PROPERTY TAXES

Based on 2015 Grand List data, Montpelier has the 16th highest municipal tax rate (13th highest in the previous year) in the state (Barre City, Springfield, Rutland City, Windsor, St. Johnsbury, Newport, Brattleboro and Winooski are higher). When the education tax rates are included in the total, Montpelier has the 20th highest residential tax rate in the state, the same as the previous year.

The FY17 municipal tax rate increased from $.9958 to $1.0225 (up 2.68%).

For FY17 (fourth year), a Downtown Improvement Tax rate of $0.0515 was approved for downtown commercial properties.

INFRASTRUCTURE SUPPORT-CAPITAL IMPROVEMENT PROGRAM

The Capital Projects, Equipment and Debt Service Program costs will increase $166,300 (approx 2 cents) in FY18 as per the "Steady-State" plan.

Preliminary details for FY18:

Preliminary Debt Payments	$722,475
Annual Capital Projects	966,037
Equipment	515.000
Total (per Multi-year Plan)	$2,203,512

There is an approved borrowing of $710,000 in the current year for capital projects. The repayments on that loan are not included in the preliminary debt payments. The CIP Committee will meet in November to review the city's capital needs and recommend a plan for FY18 expenditures.

FY 18 GENERAL FUND NET OPERATING BUDGET

- ASSUME NO GROWTH IN NON-TAX REVENUE
- ASSUME NO GROWTH IN GRAND LIST
- PROJECT PERSONNEL SALARIES INCREASE OF 4.6% (COLA and step increases)
- ASSUME PERSONNEL BENEFITS TO INCREASE 3.7%

SUMMARY OF PRELIMINARY PROJECTIONS FOR FY18:

Note: This is a starting point only, before departments present their budget requests.

Increase in operating – Personnel Costs	$503,000	4.6% increase (city-wide)
Increase in CIP/Equipment/Debt	$166,300	CIP planned increase
Total increase in General Fund Budget	$669,300	5.17% of FY17 Exp Budget

To fund this $669,300 the municipal property tax rates would increase 7.69 cents which is a 7.52% increase.

EXPENSE TRENDS/PROJECTIONS - Details

Consumer Price Index – The Consumer Price Index "All Items" for the 12 months ending August 2016 increased 1.1%. The seasonally adjusted increase for the 6 months ended August 2016 increased 2.2%. The increases are driven primarily by the housing, transportation and medical care segments.

Personnel Cost Projections: Only the Fire Department union contract has been negotiated for FY18. Cost of Living Adjustments for those employees will increase 2% for FY18. Police and Public Works union contracts expire June 30, 2017. For preliminary budgeting purposes, I will assume the same increase for all staff.

When I add steps, staffing adjustments and known staff increases, the total salaries and wages will increase approximately 4.6%.

City-wide this means a $329,000 increase in employee wages. When I add the FICA/Medicare, Workers Compensation (assuming a 4% premium increase) and pension costs, this number increases to: $395,000

Other Employee-related increases:

Estimated Increase in VMERS Employer Contribution (.1%)	$8,000
Health Insurance (3.5% 2017, 10% 2018 rate increase)	$100,000
Subtotal Projected Other Employee-related Increases	$108,000
Total Projected Employee Wages and Benefit Increase	$503,000

The General Fund has 68% of Employee Salaries. Therefore, $342,000 of the personnel cost increase will be in the General Fund.

The final 2017 BlueCross/BlueShield health insurance premiums are being wrapped up. The proposal is expected to be much better than prior years. Our current expected increase is 3.5% compared to 17% in 2016. This can be attributed to a better claims history in 2016, active efforts by the employee wellness team representing the employees through "Montpelier University" with on-site programs. The integration of program staff from BC/BS has kept this program on track and productive. The city's employee health insurance committee will continue working to reduce increases in 2017 for our 2018 renewal but overall medical trend is approximately 6%. BC/BS has agreed to again assist funding of our wellness initiatives in 2017 through $6,000 in reimbursable expenditures under their Accountable Blue program. As Montpelier University has brought new life to employee wellness, establishing a city match of these funds in FY18 will continue to have a positive impact on our claims trend. In my projection above, I used a 3.5% increase in health insurance premiums for 2017 and budgeted a 10% increase for the first half of 2018 as there are always unknown variables that could negatively impact our experience.

Note on Health Insurance: There are currently no health exchange options for the city because our number of employees exceeds 100. There is no future option for large employers to join the exchange. There is uncertainty about the effect of the implementation of "Cadillac taxes" on the city's health insurance. Current legislation has postponed this tax until 2020, however it is unlikely this tax will ever be implemented as it is wildly unpopular. We will continue to monitor these issues and our options annually.

CVPSA – Continues to evolve with the expectation that dispatch services will be consolidated in FY18. I have not addressed budget considerations of this transfer as of this writing.

Supplies and Vehicle Fuel Costs – With oil prices continuing to be low there may be very little increase in the cost of supplies and vehicle fuel for FY18. This is a preliminary projection. The Management Team will be researching these cost as they develop their operating budgets.

Energy Costs - The City is always looking for opportunities to make energy conservation improvements and lock into fixed fuel prices when the market is favorable. The District Heat project is helping to control the cost of heating our downtown facilities using renewable resources. The Finance office is working with the Montpelier Energy Advisory Committee to monitor the city's baseline energy consumption and identify areas of savings. The Sharon and Broad Brook solar projects have now been implemented and credits to our electric utilities are expected to begin this month. As the CIP is reviewed and expenditures authorized, we should prioritize funding of improvements that move us toward the city's NetZero goal.

Grant Revenue –

Montpelier continues to receive state and federal funds for street improvements, the transit center and the bike path projects. State grants provide the majority of funding for the City's Community Justice Center and assist with seasonal work in the Parks Department. The Senior Center continues to receive corporate and foundation grants to support its work.

FUND BALANCE

The City's Fund Balance Policy states that the City Council's goal is to achieve a minimum unassigned fund balance equal to 15% of the budgeted General Fund expenditures." As of June 30, 2015 the unassigned fund balance was 7.78% ($902,023/$11,596,226) of the budgeted expenditures, an increase of .58%. Audit field work for the FY16 begins October 24, 2016. The FY16 audit report will be completed in December and will have final fund balance information.

DEBT

The Council approved a Debt Management Policy in September 2011 which helps guide the decisions regarding borrowing in FY17 and beyond. Budgeted debt service in FY17 is 5.6% of budgeted revenues. The policy threshold is 8.2%

COMMUNITY SERVICES

The Recreation Department transition is complete and continues to evolve. Continued discussions and planning over the coming months will illuminate the path toward a consolidation of resources between Recreation, Parks and Senior Center staff to benefit all Montpelier Residents.