**CLERK-TREASURER**
**CITY OF WEST LAFAYETTE**

# MEMORANDUM

**TO:** **Council**

**FROM:** **Clerk-Treasurer Judy Rhodes**

**SUBJECT:** **2008 Budget Ordinances (Ordinance Nos. 22-07 and 23-07)**

**DATE:** **July 30, 2007**

The budget is presented in two ordinances.

The appropriation ordinance, Ordinance No. 22-07, sets department and fund budgets. It reflects the budget requests as filed by the Mayor. The Council may reduce any item in the appropriation ordinance, but it may increase an item only if the Mayor concurs.

Ordinance No. 23-07 sets the tax levy and tax rate for each of the property tax funds. This ordinance is based on Council action on **Line 1**, **Line 2**, **Line 11 and Line 12** of the Budget Form 4-B.

**Line 1** is determined by the action of the Council on the appropriation ordinance, Ordinance No. 22-07.

**Line 2** is the 2007 budget appropriation remaining to be spent from July to December of this year. The Council may reduce the remaining appropriation by a reduction resolution. Resolution No. 23-07, a resolution to reduce the 2007 budgets of the General Fund and the Parks & Recreation Fund, has been filed. This results in an corresponding increase in the operating balance on Budget Form 4B.

**Line 11** is the operating balance. It must be zero or a positive number on all non-property tax funds in order for the 2008 budget to be funded as requested. If Line 11 is a negative number, cuts must be made either in the 2008 budget request or in the current 2007 budget. The Council may set the operating balance in each fund.

**Line 12** is the tax levy. Funds with a tax levy are: General, Parks & Recreation, Police Pension, Fire Pension, Cumulative Fire, Cumulative Capital Development, and Fire Truck Lease Funds. The Council may change the levy allocated to each fund, Line 12 by changing the operating balance, Line 11.

Significant assumptions used in preparing the 2008 budget are as follows:

1. The total maximum levy is to be collected. The City will receive an automatic increase in our maximum levy as a result of the assessed value (as of March 1, 2007) in the geographic area that was annexed. The ratio of the assessed value of the City with the enlarged geographic area to the assessed value of the City without the additional annexed area is the levy adjustment factor. The factor increases the maximum levy. With no annexation, the 2008 maximum levy for the City would be estimated to grow by 3.7% to $7,479,350. This is the base amount we used to compute the budget. We may receive an additional $100,000 to $130,000 increase to the maximum levy because of the annexation. <u>This is separate from our annexation levy appeal.</u> The increase is a permanent addition to the maximum levy that is subject to annual increases. The amount of the automatic levy increase will not be known until our preliminary budget order is provided (1782 Notice). None of this possible increase is included in our maximum levy estimate for the budget.

2. An excessive levy appeal will be filed to increase the maximum levy for part of the costs of providing services to the newly annexed area. The levy appeal will be $600,000. The appeal is included in our maximum levy estimate for the budget. Without an appeal, the City would be $321,103 short in funding the General Fund budget. With the appeal, the City will have $278,997 of funds to cover costs of annexation services to be incurred in the years to come. The fiscal plan called for six fire fighters, five police officers, and three sanitation workers. The 2007 budget added three fire fighters and three police officers. The 2008 budget funds these positions and one sanitation worker. A copy of the fiscal plan for the annexation is attached (Annexation Fiscal Plan, November 9, 2005). The excessive levy appeal will become a permanent addition to the maximum levy that is subject to annual increases.

   The Council must first adopt a resolution approving the excessive levy appeal. The appeal must be filed with the Department of Local Government Finance DLGF) by September 19. The appeal is heard by the DLGF's Local Government Tax control Board. The appeal may be reduced by the Board. The City may request that the appeal is reduced at the hearing or after review of its preliminary budget order (1782 Notice).

3. The General Fund budget assumes $150,000 in additional revenue in 2008 from anticipated trash fee increases effective at the beginning of 2008. The Council should anticipate working on this legislation in the fall of 2007.

4. Employees have been moved to reduce expenses in the property tax funds resulting in shifts of $153,810 from the General fund and $57,380 from the Parks

Fund, while EDIT personnel expense increased $55,240 and WWTU personnel expense increased $98,750

- Brenda Lorenz, Morton Center Director, has been moved from the Parks & Recreation Fund to the Parks Nonreverting Operating Fund.

- Jeremy Grenard, Assistant City Engineer, has been moved from 50% EDIT/ 50% WWTU to 100% WWTU. This position is now only on the WWTU salary ordinance.

- Jim Everette, Data and Project Administrator, has been moved from the EDIT Fund to WWTU. This position is now only on the WWTU salary ordinance.

Four staff were moved from the General Fund, Department of Development, to the EDIT Fund:

- Betty May, Financial and Code Assistant
- Curtis Cunningham, Nuisance and Housing Inspector
- John Kincaid, Housing Inspector
- Vikki Watkins, Housing Inspector

5. Pension Funds: The use of the property tax levy for pensions is reduced from $250,000 in 2007 to $200,000 in 2008. No draw downs from the PERF equity accounts are anticipated in 2008 because of two unexpected developments: (a) Pension relief distributions have substantially increased based on state-wide revisions to actuarial estimates; and (b) Only half of the fire fighters who enrolled in the DROP are likely to actually participate. Temporary loans from the WWTU to the pension funds will be necessary again for cash flow purposes in 2007. A review of the pension funds will be provided at Pre-Council. The Council determines which option(s) it wishes to utilize for addressing the upcoming unfunded pension obligations by allocation of the levy and draw down of the PERF subaccounts.

6. The December 31, 2008 unappropriated cash balances should be targeted with the Mayor and Council reaching some consensus on the levels. The cash balance worksheet (VII-1) shows how the operating balances have been distributed for purposes of preparing Ordinance No. 23-07. Remember that we normally spend less than budgeted and the resulting unspent funds will increase the actual operating balances.

    - The Parks & Recreation Fund operating balance has been set to $0. The actual operating balance for 2008 will depend on the amount of unexpended funds as of December 31, 2007. Parks & Recreation will continue to require substantial temporary loans from the WWTU, and to a lesser extent Parks NRO, for cash flow purposes.

- The operating balance of the General Fund was set in the following manner: (a) allocate the levy to the pension funds as described above; (b) fund the Parks & Recreation Fund budget at $0 operating balance; (c) fund the Cumulative Fire levy at the minimum needed to prevent reduction in the controlled levy; (d) set the annexation levy appeal at $600,000; (e) designate the remainder, $278,997, as the operating balance for the General Fund.

7. $650,000 in additional operating balances have been added for the purpose of increasing the published levy and tax rate in the General Fund (+$600,000), Parks & Recreation Fund (+$50,000). In addition, the CCD tax rate has been set to $0.0331, resulting in an $1,541,139 operating balance (+$48,400). The higher advertised amount in the General Fund will ensure that any automatic maximum levy increase (item #1) can be utilized.

   If the Council changes the levy allocated to each fund, the amounts to be advertised would be correspondingly changed. Once the budget, levy, and tax rate are published, they can only be reduced. As in past years, my recommendation is that sufficient operating balances be published so that we can ensure that the budget, operating balances, and tax rate desired can be funded, and that the maximum levy can be collected. If the Council chooses <u>not</u> to allow additional amounts and prefers to limit the operating balances prior to the budget hearing, any budget cuts subsequently made can be addressed by additional appropriation ordinances enacted starting in January, 2008. Sufficient appropriations will be available, in any case, to fund City operations at the beginning of 2008.

8. The Council sets the levy and tax rate for each property tax fund, and thereby the operating balance. If the Council does approve advertising the levies and tax rates with additional amounts as described in item #9, then the Council should indicate how the levy, and thereby the operating balances, are to be distributed or designate the person(s) who will make such a decision following the DLGF 1782 Notice. The 1782 Notice is typically provided in January or February of the new budget year. The DLGF requires that changes in the allocation of operating balances be made within 14 days after the preliminary budget order is issued. <u>The final decision about utilization of the automatic levy increase and the excessive levy appeal will be made at this time.</u>

9. As in previous years, we will publicize the expected tax rate. Please refer to the comparison of the 2007 and proposed 2008 tax rate and tax levy (page VII-2 in your 2008 Budget Book). Our current certified assessed valuation (AV) is $1,050,204,880. Our current tax rate is $0.7248/ $100 AV. The tax billing abstract this spring reported a higher assessed valuation of $1,072,250,840. If assessed valuation from the annexation area contributes $15 million to $20 million, and the pre-annexation City grows 1.2 % to 0.72%, respectively, the 2008 assessed valuation would be $1.100 billion. (The Wabash Assessor reports a large number of appeals pending so it is difficult to estimate the growth in

assessed valuation.) The expected 2008 tax rate would then be estimated as \$0.7595/\$100 AV, or 4.81 cents greater. This is a 6.6% increase over the current rate, assuming that the increase in the maximum levy from the appeal and from the geographic factor is \$600,000 in total.

10. To assure the state-mandated budget mechanics do not work to the City's detriment, I would prefer not to increase the estimated assessed valuation for legal advertisement purposes. I have used 95% of our certified assessed valuation, or \$997,694,636 in computing the advertised tax rate.

11. The State considers the Major Moves Fund a subaccount of the MVH Fund. These funds will be combined when the final budget forms are submitted to the DLGF. Since the Major Moves Fund has no budget for 2008, this does not create a problem in advertising the budget.