

September 30, 2016

To: Ken Suer, Chairman
Financial Planning Committee of City Council

From: Wayne S. Davis, City Manager *WSD*

Subject: Financial Planning Committee Meeting October 3, 2016

As a reminder, the Financial Planning Committee is scheduled to meet on Monday, October 3 at 4:30 p.m. in City Hall. The agenda for this meeting is as follows:

1. Reallocation of Earnings Taxes – In order to ensure that future reallocation ratios support City operations for the short term and the long term, staff would like the opportunity to discuss proposed legislation with the Committee which would reallocate the City's Earnings Tax revenues effective February 1, 2017. Katie Smiddy, Finance Director, will be present to discuss the attached documents.
2. September 2016 Income Tax Reports – The Income Tax Reports for September will be presented at the meeting for the Committee's review and discussion. Staff will be prepared to answer any questions on this report at Tuesday's meeting.
3. Other Business–The purpose of this agenda item is to provide an opportunity to discuss any issue or ask questions that may be on your mind.

Also attached are the minutes from the September 6, 2016 meeting of the Financial Planning Committee for review and approval at Monday's meeting.

Should you have questions or concerns regarding the above agenda items, or have additional items to be discussed at the meeting, please do not hesitate to contact me.

c: Financial Planning Committee Members (2)
Mayor and City Council Members (4)
Katie Smiddy, Finance Director
Connie Gaylor, Administrative Coordinator
File



AGENDA

**October 3, 2016
Montgomery City Hall
10101 Montgomery Road**

4:30 P.M.

- 1. Call to Order**
- 2. Guests and Residents**
- 3. Communications**
- 4. New Business**
 - a. Reallocation of Earnings Taxes
 - b. September 2016 Income Tax Reports
- 5. Approval of Minutes: September 6, 2016**
- 6. Other Business**
- 7. Adjournment**

September 22, 2016

To: Wayne Davis, City Manager
 From: Katie Smiddy, Finance Director *KS*
 Subject: Reallocation of the Earnings Tax Revenues

Introduction

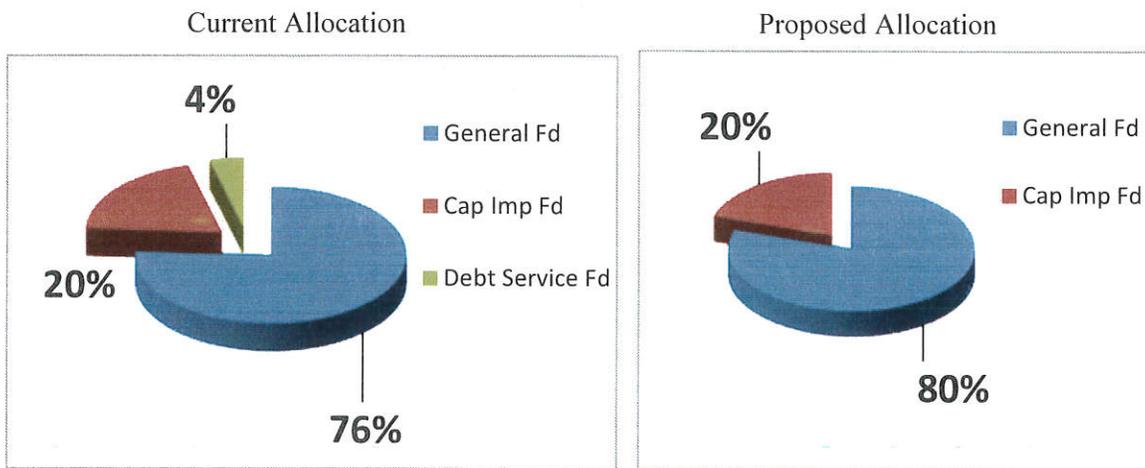
As proposed in the City’s 2017 Operating and Capital Budget with Five Year Forecast document, staff is requesting that City Council consider proceeding with legislation which reallocates the City’s Earnings Tax revenues effective January 1, 2017.

Background

To maintain the City’s goal of matching financial resources to strategic operations, and staying focused on continued stewardship of City resources in a prudent manner while delivering quality and outstanding services, the City successfully paid off all outstanding General Obligation Debt in 2015. In order to ensure that future reallocation ratios support City operations for both the short term and long term, the proposed reallocation will increase General Fund revenue levels in 2017. It is anticipated that there could be a future reallocation of Earnings Tax back into the General Bond Retirement Fund at some point in the future, depending on the City’s financial plans and the potential need for debt issuance for economic development projects.

Financial Impact

The current earnings tax allocation is: 76% of Earnings Tax revenues to the General Fund, 4% to the General Bond Retirement Fund and 20% to the Capital Improvement Fund. The proposed reallocation would provide 80% of the Earnings Tax revenues to the General Fund, 0% to the General Bond Retirement Fund and 20% to the Capital Improvement Fund as presented below:



The proposed allocation would provide the General Fund, over the next five years, with approximately \$1,700,000 in redistributed tax revenues to support operations while continuing to meet targeted fund balances in the General Fund, and Capital Improvement Fund. Attached for your information are the cash flows for year 2017 through 2021 which have been copied from the Annual Operating Budget document which estimates targeted fund balances for these two funds for years 2017 through 2021.

Exhibit A- the General Fund is estimated to maintain an operating reserve of 16 months in 2017 reducing to 11 months in 2021.

Exhibit B -the Capital Improvement Fund is estimated to maintain a cash balance ranging from \$2.9 to \$3.5 million for years 2017 through 2021, which is in excess of the target balance of \$1 million.

Recommendation

It is recommended that City Council consider placing this item on the agenda for the first reading at the November 2 Council Business Meeting, second reading December 7 with final passage at the January 4, 2017 Business Meeting. This suggested timeline provides staff adequate time to incorporate the proposed reallocation into the 2017 Operating and Capital Budget.

City of Montgomery
Proposed reallocation of Earnings Tax effective 1/1/2017
9/26/2017

Exhibit A

General Fund	2015	2016	2017	2018	2019	2020	2021	
Beg Cash Balance	13,988,889	13,224,151	13,654,389	13,308,501	12,747,230	11,974,316	11,696,437	11,696,437
Revenues:								
GF Revenue	9,928,281	9,780,339	9,911,669	9,952,086	10,057,554	10,952,825	10,212,646	
Additional Income Tax 4%	-	-	333,777	340,453	347,262	354,207	361,291	
Transfers In								
Total Revenues:	9,928,281	9,780,339	10,245,446	10,292,539	10,404,816	11,307,032	10,573,937	
Expenses								
Total Operating Expenditures	8,199,019	8,801,101	9,892,328	10,098,210	10,429,029	10,835,911	10,970,594	
Total Expenses	8,199,019	8,801,101	9,892,328	10,098,210	10,429,029	10,835,911	10,970,594	
Transfers Out	2,494,000	549,000	699,006	755,600	748,700	749,000	853,400	
End Cash Balance	\$ 13,224,151	\$ 13,654,389	\$ 13,308,501	\$ 12,747,230	\$ 11,974,316	\$ 11,696,437	\$ 10,446,380	
Reserved Fund Balance			824,361	841,518	869,086	902,993	914,216	
Operating Reserve (in months)			16.14	15.15	13.78	12.95	11.43	

Exhibit B

Capital Improvement Fund		2015	2016	2017	2018	2019	2020	2021
Beg Cash Balance		4,147,550	4,039,174	3,239,322	2,980,311	2,947,369	3,362,220	3,529,521
Revenues:								
GF Revenue		1,806,000	1,833,068	3,301,133	2,052,429	2,069,453	7,831,648	2,250,694
Total Revenues:		1,806,000	1,833,068	3,301,133	2,052,429	2,069,453	7,831,648	2,250,694
Expenses								
Total Capital Improvements		1,914,376	2,632,920	3,560,144	2,085,371	1,654,602	7,664,347	2,223,283
Total Expenses		1,914,376	2,632,920	3,560,144	2,085,371	1,654,602	7,664,347	2,223,283
Transfers Out		-	-	-	-	-	-	-
End Cash Balance		\$4,039,174	\$3,239,322	\$2,980,311	\$2,947,369	\$3,362,220	\$3,529,521	\$3,556,932

These Minutes are a draft of the proposed minutes from the Financial Planning Committee of City Council meeting. They do not represent the official record of proceedings until formally adopted by the Financial Planning Committee of City Council. Formal adoption is noted by signature of the Chair within the minutes.

City of Montgomery
Financial Planning Committee
September 6, 2016

Staff Present

Wayne Davis, City Manager
Katie Smiddy, Finance Director
Tonyia Burnett, Assistant Finance Director
Julie Kipper, Customer Service Representative

Council Committee Members Present

Ken Suer, Chair
Mike Cappel
Ann Combs

The meeting of the Financial Planning Committee of City Council convened in Council Chambers at 4:30 p.m. with Chairman Suer presiding.

New Business

Review of the 2017 Operating and Capital Budget

Ms. Smiddy presented the Committee members with a copy of the 2017 Operating and Capital Budget.

Ms. Smiddy stated that the proposed Budget accomplishes these key objectives:

- Continues stewardship of City resources in a prudent manner while delivering superior services;
- Follows priorities from 2016 strategic plan for new initiatives;
- Provides additional resources for the City's capital assets; specifically, technology improvements, street/sidewalk/curb infrastructure maintenance and enhancements to the parks.

She stated that this information would be discussed in more detail when City Council is scheduled to meet to conduct its formal review of the 2017 Operating and Capital Budget and the 2017-2021 Capital Improvement Program on September 14, 2016.

Ms. Smiddy gave a brief overview of the highlights in the 2017 Operating and Capital Budget:

Revenues

A. Income Tax:

- Up 7% from 2015 collections
- Staff estimates Income Tax revenues will be 4% higher (\$8.8 million) than 2015.
- For 2017 and outer years, staff is conservatively forecasting a 1% increase

B. Real Estate Tax:

- Assessed valuation in 2016 went from \$516 million to \$521 million.
- With the steady number of tear downs taking place and continued property enhancements, staff has forecasted an annual increase of 1% for 2017-2021. The tri-annual appraisal is to be conducted by Hamilton County in 2017.

C. Other Revenues (Investments, Gas Tax, Motor Vehicle Tax, Local Revenue Fund)

- Revenues are anticipated to remain relatively flat for 2017-2021

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Financial Planning Minutes
September 6, 2016
Page 2

General Fund

Ms. Smiddy stated that the ending balance of the General Fund is projected to be \$12.9 million or 5% less than the 2016 budgeted ending fund balance of \$13.6 million. This savings is a result of the 2016 year-end estimates projected to be lower than the 2016 budget for Police, Recreation, Special Events, Development, and General Government.

Fire Fund

This fund is financed by a 5.44 mill property tax levy, which supports the City's fire, and emergency medical services operations. In 2017, the ending cash balance is estimated to be \$3.2 million. At current staffing and operational levels, a replacement levy for fire and emergency medical services may need to be considered in 2018 or 2019.

Vintage Club Tax Increment Financing (TIF) Fund

Ms. Smiddy stated that in 2014, the City began paying debt on \$13.2 million of Special Obligation Bonds issued for construction of the public parking garage and the Vintage Club Boulevard. The City anticipates funding improvements on the North side of the development in 2017, which will require the issuing of \$6.5 million in TIF revenue bonds. The debt associated with this project will be paid from tax increment revenues associated with the residential development and commercial improvements developed on both the north and south portions of the Vintage Club commercial developments. Debt Service in 2017 is \$819,000, with a principal of \$300,000 and interest of \$519,000.

Total City Revenues

Total City revenues for 2017 are forecasted at \$26.7 million compared to \$18.2 million for 2016. This \$8.5 million difference, or 47.1% increase, is mostly attributable to the \$6.5 million in anticipated bond proceeds for the public improvements at the Vintage Club. The remainder is due to \$1.3 million in grants anticipated for traffic signal upgrades and sidewalk improvements, which are scheduled for 2017. General Fund Revenues are projected to increase 1% from 2016 due to estimated increases in both income tax and property tax collections in 2017.

Total City Expenditures

Total City expenditures are projected to be \$28 million, which is an increase of \$9.7 million from the 2016 forecasted expenditures. A majority of this increase, (\$6.5 million), is due to the cost associated with the acquisition of land and construction of public garage and roadways at the Vintage Club. The remainder of the increase is due to:

- A. General Fund (\$1.2 million)
 - Police Department (\$400,000)
 - Development (\$200,000)
 - City Administration (\$150,000)

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Financial Planning Minutes
September 6, 2016
Page 3

- Finance (\$55,000)
- Public Works (\$50,000)
- Community and Information Services (\$61,000)
- General Government (\$100,000)

These increases are primarily due to increases in personnel related costs, which consisted of increases in health, dental and life insurance premiums and pay increases.

B. Special Revenue (\$700,000)

- \$400,000 increase in Fire Department Capital equipment including replacement of 2006 ambulance, replacement of turnout gear, replacement of building generators and one of 10 HVAC units
- \$100,000 for funding Environmental Impact Areas
- \$55,000 for increase in Street maintenance and repair
- \$45,000 for increase in Municipal pool expenditures
- \$68,500 for increase in arts and amenities fund

C. Debt Service (\$200,000)

- Increase of \$200,000 for Vintage Club Tax Increment Financing Annual Debt Service payment

D. Capital Improvements (\$900,000)

- Due to planned improvements in construction of the new Public Works facility

Ms. Smiddy gave a brief overview of significant program changes reflected in the 2017 proposed budget. Operating and Capital budget highlights include:

A. Preservation of capital assets

- Annual Street maintenance repair costs (\$1.1 million)
- Sidewalk construction on Ross Avenue (\$200,000)
- Installation of a sidewalk on the east side of Montgomery Road from Weller Road to Bethesda North Hospital (\$622,000)
- Additional infrastructure projects
- Drainage projects
- Guardrail and sidewalk repair
- Design fees for sidewalk installation and building renovation at the Public Works facility

B. Consistent with the City Strategic Plan, funds have been budgeted for park improvements in the Parks capital maintenance, capital equipment and operating equipment accounts beginning in 2017. Some of the capital projects programmed for construction in 2017 are as follows:

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Financial Planning Minutes

September 6, 2016

Page 4

- Replace irrigation transfer pump at Weller Park (\$15,000)
- Resurfacing basketball courts at Weller park (\$10,000)
- Resurfacing tennis courts at Weller park (\$15,000)
- Asphalt Repairs throughout various parks (\$10,000)
- Parking lot repairs throughout various parks (\$10,000)

Mr. Davis stated that in an effort to address potential decreases in the City's General Fund balances in the future, City staff has and will continue to evaluate cost containment measures within the organization. Mr. Davis noted examples of work that has occurred and will continue to occur in the future as follows:

- Utilization of Health Care benefits team
- Merit based pay plan
- Process improvement techniques (LEAN)
- Extensive use of grant funds to leverage tax dollars
- Great use of volunteer resources
- Maintain target fund balances
- Performance measures to analyze the value of City services

August 2016 Income Tax Reports

Ms. Smiddy presented a report on the August 2016 Income Tax collections. She explained that for the month of August 2016, the City's total income tax receipts were \$602,901, which is a decrease of \$71,442 or 10.5% compared to the actual amount collected in August 2015 of \$674,343. Ms. Smiddy stated that the variance is attributable to the changes by House Bill 5, which has caused a shift in the date patterns of how the payments are being paid. This decrease will not adversely impact our income tax revenue projection for 2016. Ms. Smiddy further explained that year-to-date revenues were higher than estimated revenues by \$92,201 exceeding estimated revenues by 7.68%.

Resolution Accepting Amounts and Rates

Ms. Smiddy explained that it is necessary for City Council to pass a Resolution that will accept the rates and amounts determined by the Hamilton County Budget Commission. Ms. Smiddy stated that the 2016 estimated amounts for the General Fund is 4.5 mils, or \$2,287,800 and the Fire/EMS Levy Fund is 5.55 mils, or \$1,918,192 for a total of \$4,205,992. Ms. Smiddy stated that the City has not yet received a copy of the Resolution from the Hamilton County Budget Commission, but it is anticipated that they will be available for the October Business Session of City Council. Ms. Smiddy stated that staff is recommending that City Council consider the Resolution accepting the amounts and rates as determined by the Hamilton County Budget Commission at the September 21 Work Session for the purpose of placing it on the October Business Session agenda for approval that evening.

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Financial Planning Minutes
September 6, 2016
Page 5

Other Business

Mr. Davis discussed the possibility of a future vehicle purchase for the Police Department. The proposed vehicle would be an F-150 truck with a cover installed over the truck bed, which would allow for more versatility in transporting equipment.

Chairman Suer inquired about any upcoming plans to build a carport for the police department vehicles. Mr. Davis stated that there was nothing currently in place, but there is a possibility to purchase additional land for this purpose. Ms. Smiddy stated that it was built in to the 2017 Budget under Capital Projects. Chairman Suer stated that it would definitely be worthwhile to keep the police and emergency vehicles covered from inclement weather, especially during the winter months.

Minutes

Mrs. Combs moved to approve the minutes of the August 1, 2016 meeting of the Financial Planning Committee. Mr. Cappel seconded. The Committee unanimously agreed.

Adjournment

Chairman Suer requested a motion to adjourn the meeting. Mr. Cappel moved for adjournment. Mrs. Combs seconded. The Committee unanimously agreed.

The Financial Planning Committee meeting adjourned at 5:15 p.m.

Chair