

The state budget has been in the news a lot lately. And I get questions asking what it means for Evansville. There may be more questions than answers, but the questions are significant enough that I should attempt some answers. In this column I focus on fiscal (not policy) matters and how they would impact the City of Evansville (not county, school, or other jurisdiction).

BUDGET REPAIR BILL

The Budget Repair Bill was announced a couple weeks ago. Assuming it is adopted in essentially the same form, the bill has three major pieces: base wages, health insurance, and retirement contributions.

Base Wages

The ability of “general” employees to collectively bargain would be limited to only base wages (not overtime, wage steps, or shift premiums). General employees means all city employees except public safety employees (police and firefighters) and management (supervisory, confidential, managerial, and executive). Any contemplated increase in the total base wages would be limited to the amount of the Consumer Price Index (1.6% for 2010); a referendum would be required to increase base wages above the CPI.

This does not mean there would be an automatic hard-line on wage increases. City management would become more able (without collective bargaining) to enact step schedules, bonuses, or merit pay.

Employees are a significant part of our budget, and Evansville has looked to wages in controlling costs. Department heads have had two years of wage freezes, the 2011 budget expected wage freezes across the board for all employees, the police officers have recently negotiated no seniority step schedule in 2011, and several part-time positions have been eliminated in recent years.

Health Insurance

As of January 1, 2012, any municipality participating in the state health insurance plan would be prohibited from paying more than 88% of the premium, “except as otherwise provided in a collective bargaining agreement.”

The “otherwise provided in a collective bargaining agreement” term is significant. 1) Provisions of any existing CBA for general employees will continue during the term of the CBA; however, health insurance would not be a permissible subject of bargaining for a subsequent agreement. 2) Public safety employees would still be permitted to bargain over health insurance. 3) Non-represented employees would be subject to the 88% cap; note that department head contracts are not collective bargaining agreements.

Evansville participates in the state health insurance plan and currently pays 90% of premiums (single or family) for full-time employees. A few full-time employees opt not to receive health insurance, presumably because they have insurance through a spouse; these employees do not receive any additional compensation in lieu of insurance. Part-time employees are able to be insured through the city’s plan at a 75/25 or 50/50 split, but none choose to participate.

Retirement

For eligible employees, there are four classes of employees for calculation of retirement contributions. Based on actuarial and fiscal needs of the Wisconsin Retirement System, the contribution amounts are calculated each year. In 2011, the full retirement contribution for general employees (not the same definition of “general” discussed above) is 11.6% of earnings. Full contributions for elected/executive and protective service employees are higher.

Under the Budget Repair Bill, employees would be required to pay retirement contributions equal to half of the general employee rate (5.8% in 2011), except as otherwise provided in a CBA. As noted above, the “except as otherwise provided in a CBA” is significant language as department head contracts are not collective bargaining agreements.

Currently, Evansville pays the full amount of retirement contributions for eligible employees. This is not unique; nearly all cities, counties, schools, and state departments across the state pay the full retirement contribution. Based on the 2011 budget, reducing the City’s payment by 5.8 percentage points would result in significant savings.

BUDGET BILL

The discussion about cost savings enabled by the Budget Repair Bill is only half the equation. The state has a structural deficit around \$3 billion when it starts its fiscal biennium on July 1. Whoever was elected governor was going to need to address this. When budgeting for this year, we anticipated cuts to shared revenues, so we were not surprised when the governor and legislative leaders said there would be “large cuts to shared revenues” in the 2011-2013 Budget Report. The cuts to shared revenues are the second half of the equation.

About a third of Evansville’s general fund revenues come from the state. Some of these funds are targeted for specific purposes such as fire, recycling, or streets. Other intergovernmental revenues are unrestricted and usable for any public purpose at the city’s discretion, about 18% of the city’s general fund. The municipal aid program (formerly “shared revenues”) is the largest and most notable of these.

The following early estimates are based on a quick review of the Budget Bill, presented last week. These estimates are bound to change as we better understand the proposed budget over the coming weeks.

Shared Revenues

Hats off to Curt Witynski, Assistant Director of the League of Wisconsin Municipalities. Curt predicted shared revenues would be cut in 2012, the second year of the state’s fiscal biennium. His reasoning was based on the fact that past cuts to the program had been held until the second year. This is significant because cities and counties set their annual budgets in November expecting to receive shared revenues already certified by the state. If the amount of shared revenue were later reduced in the middle of the fiscal year, the cities and counties would have limited options to react and adjust their budgets.

I have repeatedly said that sound fiscal policies (such as spending within our means, maintaining an appropriate fund balance, and not using one-time revenues for ongoing expenses) were our best preparation for anticipated cuts to shared revenues.

Eyeing the size of the state's structural deficit, we did not believe the advice from the League of Municipalities. We thought the cuts were coming in 2011 and took that into account when setting our budget. We are better positioned by preparing for 2011, but the state Budget Bill does call for the cuts to come in 2012.

Starting in 2012, funding for the municipal aid program would be reduced by approximately 8.8%, but the amount will vary from city to city. There is a cap of 50% on what any individual municipality would have cut. Working through a formula that considers population and tax base, I estimate our cut at **\$49,300**.

General Transportation Aid

The term "shared revenues" is something of a misnomer. What had been the shared revenue program was transformed into the county and municipal aid program in 2004, but the name is still used colloquially. It also is frequently used to collectively refer to all unrestricted intergovernmental revenues. Additionally, intergovernmental revenues targeted for specific purposes comprise a significant portion of the city's general fund budget. The point being: we were not quite sure what to expect of large cuts to "shared revenues."

Indeed, the Budget Bill includes significant cuts to a couple of other intergovernmental revenue programs. Starting in 2012, funding for general transportation aid would be reduced by around 10%. The amount will vary between cities and townships, and there is a cap of 15% on what any individual municipality would have cut. I estimate ours at 15% or **\$44,700**.

Recycling Grant Program

Another targeted program is state grants for recycling which offset a portion of the cost of running state mandated recycling programs. Funding for the grants will be eliminated starting in 2012. For us this is **\$26,400**. This is balanced by relieving cities of the mandate to run a recycling program. But, interestingly, it retains a ban on the landfilling of aluminum, paper, plastics, and other recyclables. The bill would shift the responsibility for recycling from municipalities to the residents who generate recyclable materials.

Evansville currently assesses all residences \$121 per year for weekly recycling and garbage collection and monthly leaf and brush collection. Everything else equal, the annual assessment charge would need an increase around \$14 per residence to cover the lost recycling grant. Alternatively, we might eliminate curbside recycling; although, I doubt there is the public or political interest to do so. Furthermore, our contract with Veolia for garbage and recycling collection runs through December 2013, so we would need to re-negotiate the contract to drop recycling. Another option could be to reduce or eliminate our curbside leaf and brush collection to cut expenses.

Debt Service Reduction

Starting with 2011 taxes, payable in 2012, if a city has a reduction in its debt service payments (for debt issued prior to July 2005) then the city would have to make a corresponding reduction to its property tax levy. We do anticipate a reduction in debt service payments around **\$131,000**.

During the 2011 budget process, we expected these lower payments would make 2012 easier than 2011. This was part of the reason for delaying capital expenses such as required radio equipment and a new squad car. So to lose the use of these savings would be difficult.

I should point out a question about the applicability of this part of the Budget Bill. Our reduced debt payments are on a bond originally issued in 2000 and refinanced in 2008. I suspect that this would be considered debt issued prior to July 2005, but it is possible that 2008 is the relevant date.

Assuming the Budget Bill's requirements do apply for us, there is a way to work with it. Payments for general obligation debt are exempt from levy limits. So we could issue short-term debt instruments to pay for necessary capital expenses. In essence, we lower the property tax levy as required under the Budget Bill and raise the levy to pay for the new debt with no change to property taxes. Paying issuance costs and interest for new debt would not be the best use of public dollars, but unfortunately it might be a gimmick we have to play.

Levy Limit

In recent years, there has been a limit on the city's ability to increase its property tax levy; due largely to new construction, we have been able to stay well within limits with little to no problem. The current levy limit is the greater of 3% or the amount of net new construction, with an allowance that any limit "unused" in the prior year could be carried forward. Under the Budget Bill, the property tax levy would be limited to the greater of 0% or the amount of net new construction, and no carry forward of "unused" levy limit. A referendum would be required for a larger tax increase. I estimate the net new construction at **1.7%** for Evansville.

Other Fiscal Matters

The Budget Bill contains a number of fiscal provisions of somewhat lesser significance for the city. The city would no longer be required to maintain past its funding levels for the Library. There is some tightening of the formula calculation for the Expenditure Restraint Program, but the potential impact is indeterminate at this point. The state would increase its funding to reimburse municipalities for tax exempt personal property within in the community, such as computers, but this is likely less than a couple hundred dollars for Evansville.

DEALING WITH IT

The cuts are significant and will be difficult, but I believe they are manageable. The Budget Repair Bill's contributions for retirement and health insurance total around \$125,000 calculated across the board. But the Budget Bill's revenue cuts of \$120,000 are not across the board; they are limited to the city's general fund. When enterprise funds and departments insulated by maintenance of effort requirements are taken into account, the city's savings for retirement and health insurance are closer to \$35,000.

Mismatched Sources and Uses

Much of the city's activities (and labor expense) are completely revenue supported rather than the general fund. This includes the Water & Light Utility, wastewater treatment, stormwater, and recycling. These activities do not rely on property taxes or unrestricted intergovernmental revenues. Cutting labor expenses in these categories would be cost savings and may allow some rate reductions, but they do not balance with cuts to the general fund. This may necessitate some service changes or restructuring to bring sources and uses into alignment.

Timing of Contributions

A similar mismatch is one of timing; provisions of the Budget Repair Bill effect different groups of employees differently. Assuming the Budget Repair Bill passes in essentially the form proposed, department heads would begin contributing to their retirement pensions this year. This begins saving money in 2011 for cuts coming in 2012.

Collective bargaining agreements with the city's two police unions have recently been completed. Even though the Budget Repair Bill exempted police from mandatory employee contributions for retirement, we did negotiate phasing in a partial employee contribution for retirement in 2012 and 2013. We also negotiated freezing the seniority step schedule in 2011; this was a one-time wage concession around \$20,000.

We continue to negotiate with the largest city employee union.

Maintenance of Effort

Maintenance of effort requirements effectively shield some departments from cuts to the general fund. Currently, the city is required to abide by a maintenance of effort for the library or else be disqualified for other funding through the county. As noted above, the Budget Bill would repeal this requirement. Also under current law, the city is also required to abide by a maintenance of effort for public safety operations (law enforcement, fire, and ambulance). There is a separate bill which would repeal this maintenance of effort restriction.

NEXT STEPS

Obviously, neither the Budget Repair Bill nor the Budget Bill has been enacted yet. But they are expected to have the votes to pass in essentially the same form as proposed.

We're still trying to understand the full implications of the governor's proposals. We get regular analysis through the League of Wisconsin Municipalities, Municipal Electric Utilities of Wisconsin, and other sources. Later this week, Jim Brooks (alderperson and member of the city's Finance Committee) and I will attend a conference about the Budget Repair Bill. The conference is hosted by the Wisconsin Public Employer Labor Relations Association with an impressive list of legal experts participating in a panel discussion.

The Budget Repair Bill contains a requirement that the city adopt an employee grievance policy. Similarly, with its proposed changes in health insurance and retirement contributions, I expect we will need to thoroughly review personnel policies and contracts.

After the spring elections in April, the City Council and all department heads will conduct some strategic planning during a Committee of the Whole meeting. Because of the temporal and

department mismatches, I expect that we will examine multi-year projections to align the expenses and revenues. Beyond the cold fiscal realities, I hope this strategic planning will be used as an opportunity to streamline and provide better service for our residents and businesses.

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