2024 Operating Budget Work Session #2

Understanding assumptions in the cost to continue budget

7/6/2023

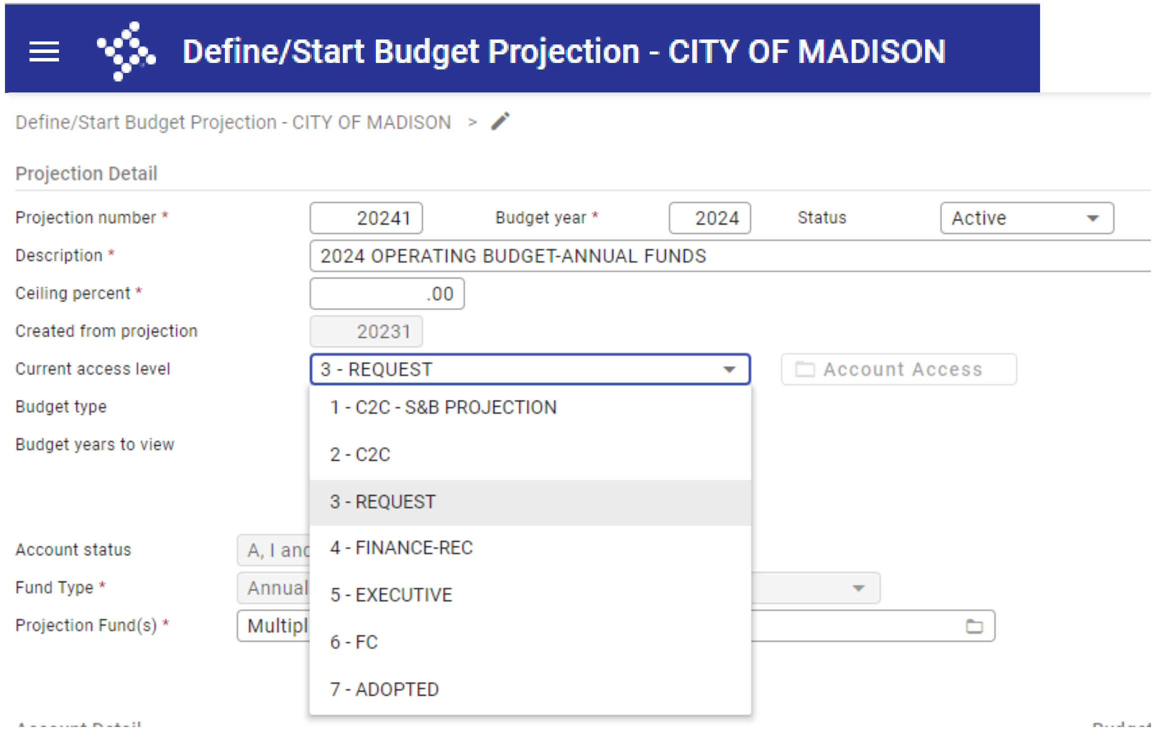
Agenda

- **Part 1: Assumptions in the Operating Budget**
  - Salaries and Benefits
  - Internal Service Funds
  - Cost Allocation
- **Part 2: Q&A**

Part 1 will be recorded. It is a public record subject to disclosure.
By continuing to be in the meeting, you are consenting to being recorded and consenting to this record being released to public record requestors who may see you, your home and your family members in the recording. You have the option to turn off your camera and participate with audio only.

Budget Development Phases

- Budget team uses “Define/Start Budget Projection” module in Munis to update Central Budget
- For 2024, we start with a copy of the 2023 adopted budget
- Seven “Levels” of budget development
  - 1 – C2C S&B PROJECTION
  - 2 – C2C
  - 3 – REQUEST
  - 4 – FINANCE REC
  - 5 – EXECUTIVE
  - 6 – FC
  - 7 – ADOPTED



Note on Levels:
2022 and earlier had 5 levels; 2023 had 6 levels
Be mindful if comparing years using Cubes

Salary & Benefit Projection

Salary + Benefit (S&B) Projection

What's the best way to budget salary and benefit costs for the coming year?

Create a copy of all employee records in Munis in a test environment called the salary and benefit projection.

This is done in March or April. Data is a snapshot in time that reflects the records as of that date.

If a position is vacant, create a vacant employee record that assumes the minimum salary and single health insurance plan.

For filled positions, use existing pay and benefit selections as base assumptions.

Apply projected salary increases (steps and longevity, negotiated increases). This will increase the benefit costs for each record.

Push the projection into Central Budget, where it's added to any relevant objects. This can be updated as many times as needed through the process.

S&B Adjustments by Level/ Phase

Budget Phase	Salary and Benefit Projection Changes
Level 1 – C2C S&B Projection	• Snapshot of employee records taken on April 10, 2023 • Annualize 2023 COLAs and other wage adjustments • Add 2024 COLAs and other wage adjustments
Level 2 – C2C	• Make technical corrections but no major changes to projection • Level is used to reflect other cost to continue adjustments, such as insurance & workers comp
Level 3 – Request	• Agencies may request allocation changes, but should not edit permanent wages, health insurance, wage insurance, FICA, WRS
Level 4 – Finance Rec	• Make technical corrections to positions • Update benefits based on new rates (available in late summer/ early fall)
Level 5 – Executive	• Incorporate executive decisions on agency requests
Level 6 – FC	• Incorporate Finance Committee amendments
Level 7 – Adopted	• Incorporate Common Council amendments

Salary Assumptions

Steps & Longevity

- Average Step and Longevity increase is 1% across the City, though actual employee increases will vary
- We apply a flat increase of 1% to all employees base wages

Cost of Living Adjustments (COLAs)

- 2023 budget included 5% COLA increase for general municipal employees (GMEs)
  - 2% implemented at beginning of 2023 and is included in base wage
  - 2% effective July 2023 and 1% effective November 2023 – needs to be added to base wage
- 2024 budget assumes 4% increase for GMEs
  - 3% associated with bargained increase for protective service
  - 1% “Catch Up”

Benefits Assumptions

Health Insurance

- Filled positions: Assume employee maintains the same plan in 2024 (i.e. if employee was enrolled in a family plan at the time of the snapshot, budget for a family plan in 2024)
- Vacant positions: Assume single health insurance
- Rate change: Assumes a 10% increase compared to 2023 Revised Budget; Amount is budgeted in direct appropriations (GF/ Library/ Fleet); Rates will be known later in the fall and will be updated in the projection; Enterprise agencies will have to cover increases in their budget

Retirement (WRS)

- WRS calculated as a percentage of reference salary (6.8% for GMEs in 2023)
- Rate change: Assumes a 5% rate increase, budgeted in direct appropriations (GF/ Library); Rates will be known later in the fall and will be updated in the projection; Enterprise agencies will have to cover increases in their budget

FICA

- FICA calculated as a percentage of reference salary (7.65%)

Salary + Benefit Projection (Example 1)

How is the 2024 salary calculated for a non-bargained employee that was employed in 2023 at step 3 of their Comp Group/ Range, is still with the City, and has a base salary of $50,000/year?

Example – for illustrative purposes only

Budget Phase	Salary and Benefit Projection Changes	Reference Salary Calculation
Level 1 – Cost to Continue S&B Projection	Annualize 2023 COLAs and wage adjustments • Add 1% for 2023 steps and longevity • Add 2% COLA effective July 2023 • Add 1% COLA effective November 2023 Add planned 2024 COLAs and wage adjustments • Add 0.2 pay periods • Add 1% for 2024 steps and longevity • Add 4% COLA for 2024 (includes 1% GME Catch up)	2023 Adjustments: $50,000 + $500 + $1,010 + $515 = $52,025 2024 Adjustments: $52,025 + $400 + $524 + $2,118 = $55,068

Salary + Benefit Projection (Example 2)

How is the 2024 salary calculated for an existing position that was vacant in 2023?

Example – for illustrative purposes only

Budget Phase	Salary and Benefit Projection Changes	Reference Salary Calculation
Level 1 – Cost to Continue S&B Projection	Vacant employee record is created at step 1* of the comp group/range Annualize 2023 COLAs and wage adjustments • Add 1% for 2023 steps and longevity • Add 2% COLA effective July 2023 • Add 1% COLA effective November 2023 Add planned 2024 COLAs and wage adjustments • Add 0.2 pay periods • Add 1% for 2024 steps and longevity • Add 4% COLA for 2024 (includes 1% GME Catch up)	Reference salary established at $47,000 2023 Adjustments: $47,000 + $470 + $949 + $484 = $48,904 2024 Adjustments: $48,904 + $376 + $492 + $1,991 = $51,763

*Vacant positions are always budgeted at Step 1. If an agency wants to fill at a higher step, will need to manage salary savings to support the additional cost of this position.

Salary + Benefit Projection (Example 3)

How is the salary calculated for a non-bargained position that was filled in early 2023, where the employee retired after the salary/benefit projection was created and had longevity and steps that increased their wages to $60,000?

Example – for illustrative purposes only

Budget Phase	Salary and Benefit Projection Changes	Reference Salary Calculation
Level 1 – Cost to Continue S&B Projection	Annualize 2023 COLAs and wage adjustments • Add 1% for 2023 steps and longevity • Add 2% COLA effective July 2023 • Add 1% COLA effective November 2023 Add planned 2024 COLAs and wage adjustments • Add 0.2 pay periods • Add 1% for 2024 steps and longevity • Add 4% COLA for 2024 (includes 1% GME Catch up)	2023 Adjustments: $60,000 + $600 + $1,212 + $618 = $62,430 2024 Adjustments: $62,460 + $480 + $629 + $2,542 = $66,081

In this example, the position is budgeted at a reference salary of $66,081 due to the prior employee’s longevity. The agency would likely fill this position at Step 1 with no longevity (~$51,763), resulting in salary savings for the agency in 2024.

Salary + Benefit Projection (Example 4)

How would the salary be calculated for a non-bargained position that is created through the budget process?

Example – for illustrative purposes only

Budget Phase	Salary and Benefit Projection Changes	Reference Salary Calculation
Level 6 – Finance Committee	Position could be added through an amendment. Position will be budgeted at Step 1 of the comp/group range. Position would not receive 2023 steps & longevity increase, but will include annualizing 2023 and 2024 COLAs Annualize 2023 COLAs and wage adjustments • Add 2% COLA effective July 2023 • Add 1% COLA effective November 2023 Add planned 2024 COLAs and wage adjustments • Add 0.2 pay periods • Add 1% for 2024 steps and longevity • Add 4% COLA for 2024 (includes 1% GME Catch up)	2023 Adjustments: $47,000 + $940 + $479 = $48,419 2024 Adjustments: $48,419 + $372 + $488 + $1,971 = $51,251

Comparing Reference Salaries

- The examples above show how the same position can have different reference salaries depending on whether the position is filled or vacant, the current employee's salary, and other factors
- Salary & Benefit projection is a snapshot in time – it does not reflect staffing changes in real time
- Budget team "pushes" updates throughout budget development to capture changes
- Reference Salary may not reflect employee's actual salary

Example 1: No change in Employee or Position	**Example 2:** Position is vacant	**Example 3:** Employee retires after projection is created	**Example 4:** New position created
$55,068 *Starts at Current Step (3)* *Projection includes steps/ longevity/ other adjustments included at all phases of the budget*	$51,763 *Starts at Step 1* *Projection includes steps/ longevity/ other adjustments included at all phases of the budget*	$66,081 *Starts at Step 5 + Longevity* *Steps and longevity of employee resulted in higher reference salary*	$51,251 *Starts at Step 1* *Added via FC amendment, so did not receive the step and longevity increases included in cost to continue*

Salary Savings & Pending Personnel

Salary Savings (51111) and Pending Personnel (51113) objects help budget for turnover and position changes that are not captured in the projection.

Salary savings (51111):

- Calculated at 0% - 4% of perm wages
- Assumes agencies will have turnover/ vacancies, which will result in a savings on salary costs
- Reduces base budget
- Example:
  - Perm Wages = $100,000
  - Salary Savings = ($2,000)
  - Total Budget = $98,000

Pending Personnel (51113):

- Placeholder for anticipated changes that have not been added to position records
- Examples:
  - Position reclassified by resolution in June, after salary & benefit projection is created
  - Position added by Finance Committee or Common Council amendment
  - Certain benefits that are not calculated in the projection
- Budget will be moved from 51113 to correct object after budget adoption

How does this apply to agency budget development?

- Permanent Wages and some benefits (Health Insurance, Wage Insurance, WRS, FICA) are calculated through S&B Projection and are uploaded into Central Budget.
- Agencies should **NOT** update the following objects that are updated through the projection. Any agency changes entered during request will be overwritten by subsequent S&B projection updates.
  - Permanent Wages – 51110
  - Health Insurance – 52410
  - Wage Insurance – 52413
  - WRS – 52510
  - FICA – 52610
- Agencies should **NOT** update salary savings (51111)
- Agencies may add expenses in Pending Personnel (51113) if needed to reflect reclassifications or other personnel changes. Review budget kick off guidance for allowable personnel changes.

Internal Service Funds

Fleet, Insurance, Worker’s Compensation

Internal Service Funds (ISFs)

- Internal service funds are used to account for services performed by one department to support internal operations of other departments. ISFs allocate costs across user departments and across funds, including general and enterprise funds.
- Charges are developed based on the cost of services provided. Internal Service Funds operate on a ‘break-even’ basis and do not make a ‘profit’ from charging other agencies.
- The City of Madison has 3 internal service funds: Fleet, Insurance, and Worker’s Compensation

Internal Services: Fleet

Fleet Service provides a city-wide service of maintaining ~1,600 City vehicles

2024 Cost to Continue Budget: $21.6M

Includes personnel, fuel, equipment, and other costs to maintain a safe fleet; cost to continue factors in projected fuel increases and inflation.

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City Budget Team calculates a "Fleet Rate" to allocate costs across user agencies

Allocates costs based on 3-year average of actual fleet costs

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Fleet rate shows up in the budget and actuals in the interdepartmental billing/ charges majors

In the Fleet budget, the Fleet Rate is an ID Billing to Agencies (58)

In user agency budgets, the Fleet Rate is an ID Charge from Fleet (57)

Developing the 2024 Fleet Rate

Basic Steps	EXAMPLE
1. Calculate Fleet Service Cost to Continue, factoring in inflation, fuel prices, depreciation, etc.	2024 Cost to Continue = $21.6 million
2. Calculate 3-year average of prior Fleet charges by org code and agency	Streets 3-Year Average (General Fund Only) = $8.3 million
3. Calculated agency share of total fleet budget (as a percentage of total)	$8.3 million / $19.1 million Fleet average budget = 43.3%
4. Used agency share to allocate costs in 2024	43.3% * $21.6 million = $9.4 million
5. Make some manual adjustments as needed	Ex. removing obsolete org codes

Internal Service: Insurance & Workers Compensation (WC)

Insurance and WC funds provide coverage against claims*

2024 Cost to Continue Budget: $3.2m insurance; $4.0m WC

Most of budget is for cost of insurance premiums and claims; risk management personnel and other expenses are also charged to the funds

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Risk Management and Budget Team allocates costs across user agencies

Insurance:
- 50% average losses for prior 5 years
- 20% property values
- 30% agency size by budget

WC
- 50% average losses for prior 5 years
- 50% risk exposure based on position class codes

→

Insurance & WC show up in the budget and actuals the interdepartmental billing/ charges majors

In the Insurance and WC budgets, shown as an ID Billing to Agencies (58)

In agency budgets, shown as an ID Charge from Insurance/ WC (57)

Cost is spread across all agencies

*City Insurance and WC funds do not cover all City claims; for example, Metro has separate auto policy and CDA has separate property policy

Developing the 2023 Insurance & WC Charges

<table>
<tr><th>Basic Steps</th><th colspan="2">EXAMPLE</th></tr>
<tr><td>1. Calculate cost to continue for Insurance and WC, net of any revenues</td><td colspan="2">Insurance = $3.15m
Workers Comp = $4.00m</td></tr>
<tr><td>2. Calculate agency percentage of cost of insurance/ WC fund</td><td>Insurance
- 50% average losses for prior 5 years
- 20% property values
- 30% agency size by budget</td><td>WC
- 50% average losses for prior 5 years
- 50% risk exposure based on position class codes</td></tr>
<tr><td>3. Agency percentage of cost * Insurance/ WC Cost to continue</td><td colspan="2">Agency X accounts for 10% of Insurance costs
10% agency share * $3,150,000 = $315,000 charge

Agency percentages of total costs range from 0.02% to 35.0% -- highly variable based on factors listed above.</td></tr>
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Questions? Contact Eric Veum, Risk Manager eveum@cityofmadison.com

Cost Allocation Plan & Other Inter-Departmental Charges

Cost Allocation Plan

Purpose

- The Cost Allocation Plan identifies the cost of **indirect** services provided by central service depts. It does not include direct services.
- The Plan is used to claim indirect costs as charges against non-general fund agencies.

Process & Timeline

- Plan is developed by an external consultant (MGT) based on data provided by City agencies. Budget team facilitates data collection and enters Cost Allocation in Munis.
- Cost Allocation Plan developed in 2023 → based on 2022 actuals → used for 2024 budget development

Continuous Improvement

- Budget team is continuing to work with consultant and agencies to update metrics

Cost Allocation Plan Steps

1. Identify central service departments that provide support to other departments.	**2. Identify grantee or benefitting departments** that receive services from others.	**3. Collect data on the allowable actual expenditures** of central service depts., based on metrics.	**4. Allocate the allowable expenditures** of central service depts. to grantee depts.
Primarily admin agencies that support city-wide operations • Attorney, Civil Rights, EAP, Finance, HR, IT Includes some public works functions that are not direct billed • Engineering facilities, TE radio services	Plan includes **all** city departments, as they all receive services from central service depts. Note: Plan includes general fund depts, even though we do not charge GF agencies through the Plan.	Budget team facilitates data collection; data is provided by agencies. Plan uses quantifiable data (e.g. # of FTE positions, # of devices) Some services are hard to quantify; some metrics are proxies for services.	Consultant determines indirect costs based on data provided. Budget team enters ID Charges in enterprise agency budgets to recover cost of services provided by General Fund agencies.

How does this apply to agency budget development?

- In general, agencies cannot change centrally calculated ID Charges/ Billings.
  - Internal Service Fund charges (Fleet, Insurance, Workers Comp)
  - Cost allocation plan
  - Building Use and other charges
  - Budget staff will balance transfers in/out and ID charges/ billings as part of Level 4 – Finance Recommendations

- Agencies cannot independently decide to charge another agency for services.
  - If you think there is a justification for a charge, contact your budget analyst to discuss
  - You cannot charge services to meet your budget reduction target