Results Madison Service Reengagement & 2023 Operating Budget

Agenda

- **Part 1: Results Madison Service Reengagement**
  - Overview of Results Madison
  - Understanding the Chart of Accounts
  - Updating budgetary Services

- **Part 2: Understanding the Operating Base Budget**
  - Review of key assumptions in developing the operating budget
  - Inter-departmental charges

- **Part 3: Navigating Munis and SharePoint**
  - Demonstration of forms

- **Part 4: Operating Budget Work Session (Optional)**
  - Informal drop-in session in breakout rooms

Part 2: Understanding the Operating Base Budget

- Budget Development Phases/ Levels
- Personnel Assumptions & Objects
- Internal Service Funds
- Cost Allocation & Inter-D Charges/ Billings
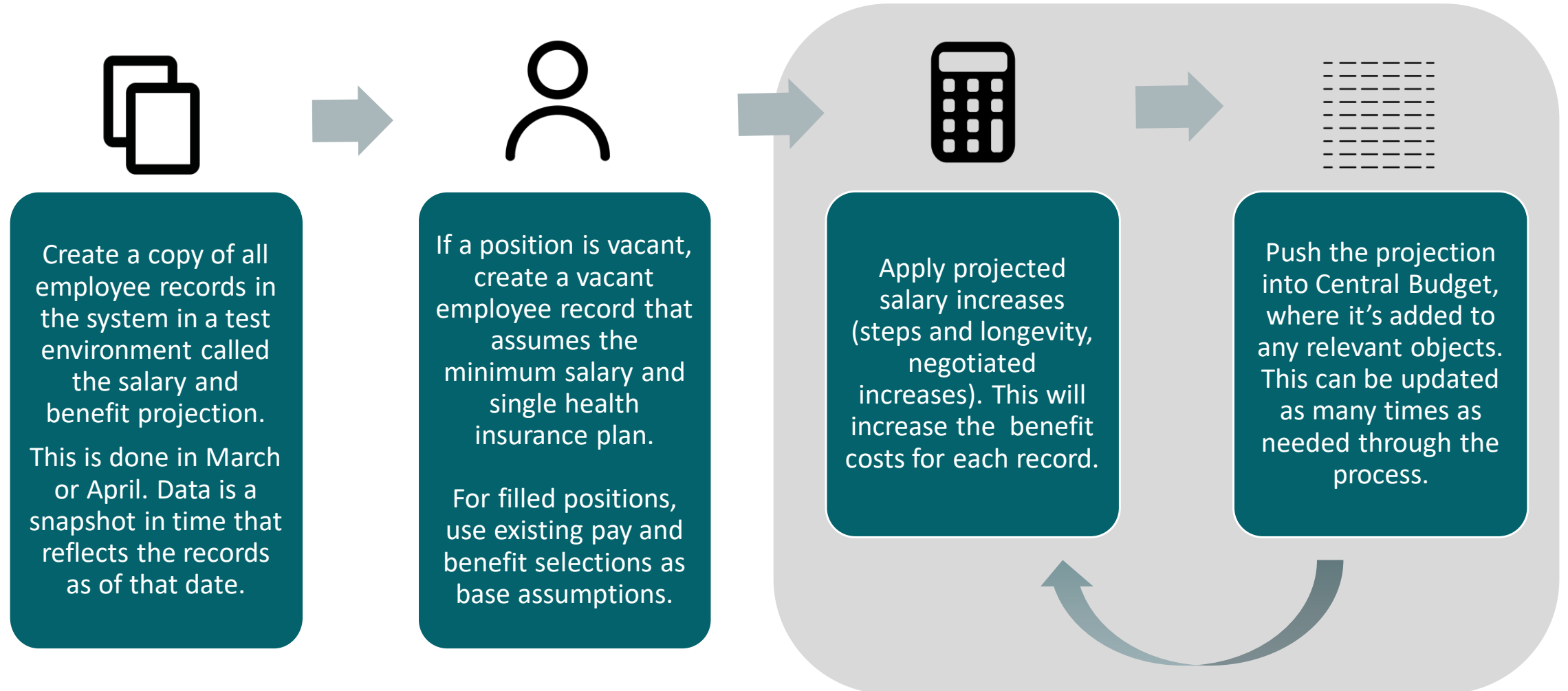
Budget Development Phases

- Budget team uses "Define/Start Budget Projection" module in Munis to start budget development.

- For 2023, we start with a copy of the 2022 adopted budget

- Five "Levels" of budget development
  - 1 – C2C
  - 2 – REQUEST
  - 3 – EXECUTIVE
  - 4 – FC
  - 5 – ADOPTED

Salary & Benefit Projection

Salary + Benefit Projection

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

Create a copy of all employee records in the system 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.

Salary + Benefit Projection

How was the 2022 salary calculated for a non-bargained employee that was employed in 2021, is still with the City, and made $50,000/year?

Example – for illustrative purposes only

Budget Phase	Salary and Benefit Projection Changes	Sample Reference Salary Calculation
Level 1 – Cost to Continue	• Added 1% for 2021 steps and longevity • Added 1% for 2022 steps and longevity • Added any negotiated increases (Police, Fire, Metro)	$50,000 + $500 + $505 = $51,005
Level 2 – Agency Request	• Agency requested to change payroll allocation, which changed the orgs that the position appeared on in Central Budget	Payroll allocation changed from 100% allocated to org 15110 to a new allocation, which split time 50% to 15110 and 50% to 15111
Level 3 – Executive	• Executive included 1% raise for GME in budget • Health insurance rate increase was added to projection and benefits were recalculated	$51,005 + $510 = $51,515 Health insurance costs adjusted based on rate
Level 4 – Finance	• Incorporate changes from Finance Committee amendments	
Level 5 – Adopted	• Incorporate changes from Common Council amendments	$51,515 was final reference salary

Salary + Benefit Projection

How was the 2022 salary calculated for an existing position that was <u>vacant</u> in 2021?

Example – for illustrative purposes only

Budget Phase	Salary and Benefit Projection Changes	Sample Reference Salary Calculation
Level 1 – Cost to Continue	• Vacant employee record was created at step 1 of the comp group/range • Added 1% for 2021 steps and longevity • Added 1% for 2022 steps and longevity	Reference salary established at $50,000 $50,000 + $500 + $505 = $51,005
Level 2 – Agency Request	• Agency requested to change payroll allocation, which changed the orgs that the position appeared on in Central Budget	Position allocation changed from 15110 (Finance Payroll) to 15111 (Finance Purchasing)
Level 3 – Executive	• Executive included 1% raise for GME in budget • Health insurance rate increase was added to projection and benefits were recalculated	$51,005 + $510 = $51,515 Health insurance costs adjusted based on rate
Level 4 – Finance	• Incorporate changes from Finance Committee amendments	
Level 5 – Adopted	• Incorporate changes from Common Council amendments	$51,515 was final reference salary

In this example, the position was budgeted at a reference salary of $51,515. If an agency filled this vacancy at a step higher than 1, the agency would need to find savings in their budget to support the additional cost of this position.

Salary + Benefit Projection

How was the salary calculated for a non-bargained position that was filled in early 2021, where the <u>employee retired</u> after the salary/benefit projection was created and had longevity and steps that increased their wages to $70,000?

Example – for illustrative purposes only

Budget Phase	Salary and Benefit Projection Changes	Sample Reference Salary Calculation
Level 1 – Cost to Continue	• Added 1% for 2021 steps and longevity • Added 1% for 2022 steps and longevity • Added any negotiated increases (Police, Fire, Metro)	$70,000 + $700 + $707 = $71,407
Level 2 – Agency Request	• NA	Employee retired, position was vacant and would be filled at $50,000
Level 3 – Executive	• Executive included 1% raise for GME in budget • Health insurance rate increase was added to projection and benefits were recalculated	$71,407 + $714 = $72,121 Health insurance costs adjusted based on rate
Level 4 – Finance	• Incorporate changes from Finance Committee amendments	
Level 5 – Adopted	• Incorporate changes from Common Council amendments	$72,121 was final reference salary

In this example, the position was budgeted at a reference salary of $72,114 due to the prior employee's longevity. The agency would likely fill this position at a lower level, resulting in salary savings for the agency in 2022.

Salary + Benefit Projection

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

Example – for illustrative purposes only

Budget Phase	Salary and Benefit Projection Changes	Sample Reference Salary Calculation
Level 1 – Cost to Continue	• NA	Position does not exist
Level 2 – Agency Request	• NA	Position does not exist
Level 3 – Executive	• Executive could add a position to the executive budget. Position will be budgeted at Step 1 of the appropriate comp/group range • Executive included 1% raise for GMEs • Health insurance rate increase was added to projection and benefits were recalculated	Position is added at Step 1 rate of $50,000 $50,000 + $500 = $50,500 Health insurance costs adjusted based on rate
Level 4 – Finance	• Incorporate changes from Finance Committee amendments	
Level 5 – Adopted	• Incorporate changes from Common Council amendments	$50,500 is final reference salary

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
$51,515 *Projection includes steps/ longevity/ other adjustments included at all phases of the budget*	$51,515 *Projection includes steps/ longevity/ other adjustments included at all phases of the budget*	$72,121 *Steps and longevity of employee resulted in higher reference salary*	$50,500 *Added in Executive phase, 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 ~2% 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 April, 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 position after budget adoption

Internal Service Funds

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

2023 Cost to Continue Budget: $20M

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

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

Major components of the Fleet Rate include:
- Depreciation
- Interest
- Fuel
- Maintenance

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 2023 Fleet Rate

Basic Steps	EXAMPLE
1. Calculate Fleet Service Cost to Continue, factoring in inflation, fuel prices, etc.	2023 Cost to Continue = $20.6 million
2. Calculated 3-year average of prior Fleet charges by org code; prior year rates included calculations for depreciation, interest, fuel, and maintenance	Streets 3-Year Average (General Fund Only) = $7.7million
3. Calculated agency share of total fleet budget (as a percentage of total)	$7.7 million / $17.9 million Fleet average budget = 43.2%
4. Used agency share to allocate costs in 2023	43.2% * $20.6 million = $8.9 million
5. Make some manual adjustments as needed	Adjusted for additional Town of Madison and to remove budget from obsolete org codes

Budget Team is planning to do additional analysis on depreciation & assets to adjust fleet rate for future years.

Internal Service: Insurance & Workers Compensation (WC)

Insurance and WC funds provide coverage against claims*	**Risk Management and Budget Team allocates costs across user agencies**	**Insurance & WC show up in the budget and actuals the interdepartmental billing/ charges majors**
2023 Cost to Continue Budget: $3.6m insurance; $4.3m WC Most of budget is for cost of insurance premiums and claims; risk management personnel and other expenses are also charged to the funds	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	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

Basic Steps	EXAMPLE	
1. Calculate cost to continue for Insurance and WC, net of any revenues	Insurance = $2.75m Workers Comp = $3.75m	
2. Calculate agency percentage of cost of insurance/ WC fund	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
3. Agency percentage of cost * Insurance/ WC Cost to continue	Agency X accounts for 10% of Insurance costs 10% agency share * $2,750,000 = $275,000 charge Agency percentages of total costs range from 0.02% to 35.0% -- highly variable based on factors listed above.	

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 2022 → based on 2021 actuals → used for 2023 budget development

Continuous Improvement

- Budget team is planning to work with consultant and agencies to update metrics for next year.

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?

- Salary & Benefits projection will be updated throughout the process.
    - Review position allocations and submit updates if needed
    - Notify your budget analyst if there are any anomalies (e.g. positions from other agencies in your budget); those will be corrected at FinRec and will not affect your target

- 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 will balance transfers in/out and ID charges/ billings as part of FinRec

- 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

We try to find a rational basis for all assumptions, but acknowledge that our processes still rely on subjective judgement. We are constantly refining our cost to continue review process, projections, and models to produce more accurate base budgets.

Part 3: SharePoint and Munis Navigation

- Navigating SharePoint forms
- Navigating Central Budget

SharePoint

- Submit one form per service on SharePoint
  - On Network: http://share/sites/Finance/Budget/SitePages/Operating.aspx
  - Off Network: https://share.cityofmadison.com/sites/Finance/Budget/SitePages/Operating.aspx
- Use Microsoft Edge for best functionality
- You can save and return to your work
- You can use last year's request as a reference
  - May be helpful for "Activities performed by this Service" and other questions
  - https://www.cityofmadison.com/finance/budget/2022/operating#agency-requests
- SharePoint Landing Page has reference materials
  - Budget Projection Cube
  - Position Allocation Report
  - Equity in Budget Guide

Munis

- Line Item budget must be entered in "Central Budget" module
- Two Projections
  - 20231-Annual Funds: Primary projection for 2023
  - 20232-Multi-Year Funds: grant fund (1220) and restricted fund (1250)
- Detail Entry required for increases to agency revenues; pending personnel, and grants
- Full instructions on SharePoint
- Use wildcard symbols to help navigate & search for accounts

Symbol	Description	Example
:	Range	54210:54520
<, <=	Less than, Less than or Equal to	<54210, <=54210
>, >=	Greater than, Greater than or Equal to	>54210, >=54210
|	Or	54210|53115|54520
*	Wild Card	54*
?	Single-Character Wild Card	54?10