



City of Grand Island

Tuesday, September 10, 2002

Council Session

Item I2

#2002-271 - Consideration of Approving 1% Increase to the Lid Limit

In 1998 the Nebraska State Legislature passed LB 989, which put a cap on the amount of restricted revenues a political subdivision can budget for. The restricted revenues that the City of Grand Island includes in the budget are Property Taxes, Payments in Lieu of Property Tax, Local Option Sales Tax, Motor Vehicle Tax and State Aid. Of these restricted revenues, property tax is the only revenue that the City can control. The increase in restricted funds authority using the 1% additional amount and the population growth (when available) is not an increase in budgeted revenues. It only provides the ability to increase restricted revenues, particularly property tax, in a future year if necessary. Approval is recommended. A MOTION is in order.

Staff Contact: David Springer

City Of
GRAND  **ISLAND**

*INTEROFFICE
MEMORANDUM*

*Working Together for a
Better Tomorrow. Today.*

DATE: August 6, 2002

TO: Ken Gnadt, Mayor
Councilmembers,
Marlan Ferguson, City Administrator
David Springer, Finance Director

FROM: Paul Mueller, Controller *pm*

RE: Adoption of additional 1% increase in restricted funds lid

Background:

During the Council budget meetings last year there were a lot of questions concerning restricted funds and the impact the restricted funds have on property taxes. Hopefully this will help clarify what restricted funds are all about.

In 1998 The Nebraska State Legislature passed LB 989, which put a cap on the amount of restricted revenues a political subdivision can budget for. The restricted revenues that The City of Grand Island includes in the budget are Property Taxes, Payments in Lieu of Property Tax, Local Option Sales Tax, Motor Vehicle Tax, and State Aid. Of these restricted revenues, property tax is the only revenue that the City can control. In other words, The City can levy any amount for property tax, subject to levy limits. The other restricted revenues are dependent on how much is collected or other formulas, i.e.: sales tax.

Discussion:

Each political subdivision budgets amounts for restricted funds. The total amount of these funds is reduced by restricted funds budgeted for debt service and inter-local agreements to come to a total restricted funds for 2002 – 2003.

Each year, the political subdivisions are allowed by State Statute to raise the base from the prior year by 2.5%. Political Subdivisions can also increase the base if the growth in taxable valuation is higher than the allowed 2.5%. This is called allowable growth and is increased by the difference between the growth percentage and the 2.5%. A third way to increase the base is to have the Political Subdivision governing board (City Council) vote to increase the base by an additional 1% over the allowable 2.5%. The allowable dollar increase is computed by taking the prior year base times the allowable %growth to come to a total restricted funds authority. The amount of unused restricted funds authority is carried over to the next year and added to the current year amount of restricted funds to be next years base.

The increase in restricted funds authority using the 1% additional amount and the population growth (when available) is not an increase in budgeted restricted revenues. It only **provides the ability** to increase restricted revenues in a future year if necessary.

Fiscal Implications:

Provides more fiscal flexibility in future years. Since the passage of the statute in 1998 through the 2002 - 2003 budget, we have lost approximately \$812,500 in unused restricted funds **authority**.

Recommendation: Pass additional 1% increase in restricted funds lid.

STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS



August 2, 2002



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Kate Witek
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Dear Council Members:

Deann Haeffner, CPA
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This letter is in regard to conversations held with Paul Mueller, City Controller, about the budget and the lid on restricted funds. Through our conversations, it was noted the City Council has not been approving the additional 1% increase to the base amount for lid purposes.

Don Dunlap, CPA
Asst. Deputy Auditor
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The lid on restricted funds can be difficult to understand so hopefully this letter will help explain how the additional 1% affects the lid on restricted funds. The lid on restricted funds limits the City on the amount of property tax and state aid that can be received in a fiscal year. The Legislature established the lid on restricted funds and allows the base amount each year to be increased by 2.5%, plus allowable growth, plus 1% if the governing body votes the increase. The base amount is then the maximum amount of property tax and state aid the City can receive. If the City is not at the base amount, the remaining amount is carried forward as unused authority.

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For example, the base amount for the 2001-2002 City of Grand Island budget after taking the 2.5% and allowable growth was \$17,596,164. The 2001-2002 restricted funds (property tax and state aid) for the City was \$17,091,432 which then resulted in unused authority of \$504,732. If the City Council would have voted the additional 1%, the base amount would have been \$17,766,176 and the unused authority would have increased to \$674,744. The City Council could have adopted the same budget and increased their base amount for future budget years without automatically increasing property taxes by an additional 1%. The additional 1% can sit in unused authority as long as the City Council determines but if there is some reason the City Council needs additional funds then the authority is there.

Mary Avery
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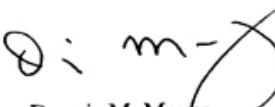
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If you have any questions or concerns, don't hesitate to contact our office at (402) 471-2111.

Mark Avery, CPA
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Sincerely,

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Legal Counsel
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Dennis M. Meyer
Budget Coordinator

DMM:jsh

cc: Mayor
City Council
Marken
Legal

On Tuesday evening, the City Council will be voting on whether or not to approve the 1% lid increase. We did a survey to determine what some of the other Nebraska cities were doing. As you can see by the results below, virtually every city we surveyed has approved the measure, with the exception of Waverly, which has an extremely high growth rate:

Alliance	Approved 1% increase in budget authority for the past two years.
Alma	Approves this every year.
Blair	Has used this in the past. Did not propose it this year, as they are carrying an unused authority equal to about 75% of actual taxes levied. They also traditionally have 4-10% new valuation annually.
Columbus	Has always passed the lid but doesn't use it.
David City	Have approved it for three years, and will likely to it again this year.
Gering	Has approved the 1% increase since the lid law was enacted.
Gothenburg	Approve this every year.
Kearney	Approves the 1% increase every year.
Laurel	Approved.
La Vista	Has approved the increase each year, even though they are not using their full authority.
Minden	Has approved the increase every year.
Ogallala	Has approved the increase every year.
Papillion	Approved.
Ralston	Approved.
Seward	Has approved the increase every year, but has never used it.
Sidney	Has approved this the past three years.
South Sioux City	Has approved the increase every year, but has never used it.
Springfield	Has approved the increase every year, but has never used it.
Sutton	Has approved this every year, and will likely do so again this year.
Waverly	Their growth rate has been so rapid, they have never needed it, however, if growth were to slow down, they would consider it.
Wayne	This issue is also on their agenda – they will likely approve it.

Marlan.....the Kearney City Council has automatically passed the additional 1% every year. We've made them very aware of the fact that we've been living on reserves over the past several years to balance the budget. We simply showed them the decline in reserves and how rapidly we would eventually be hitting the wall. They see the problem clearly, and I never miss an opportunity to emphasize that the spending lid is our biggest crisis. The problem in Kearney is not the levy lid or a lack of money. The problem for Kearney is a severe spending lid that now is preventing us from keeping up with basic services with such rapid growth. That provision in the formula for growth is a joke. We've never seen any significant help from it. Until we "fix" the inequities in the Lid Laws, the 1% is practically the only remedy we have to take care of our own problem. If you still have some cushion with your reserves, consider how rapidly that is going to decline with growth, inflation, insurance increases, loss of interest income, etc., etc..

RESOLUTION 2002-271

WHEREAS, pursuant to Neb. Rev. Stat. §13-519, the City of Grand Island is limited to increasing its total of budgeted restricted funds to no more than the last prior year's total of budgeted restricted funds plus population growth plus two and one-half percent (2 1/2%) expressed in dollars; and

WHEREAS, §13-519 authorizes the City of Grand Island to exceed the foregoing budget limit for a fiscal year by up to an additional one percent (1%) increase in budgeted restricted funds upon the affirmative vote of at least 75% of the governing body; and

WHEREAS, the Annual Budget for Fiscal Year 2002-2003 and Program for Municipal Services in the Lid Computation FY 2002-2003 supported by the detail relating to restricted revenue accounts, purposes an additional increase in budgeted restricted funds of one percent (1%) as provided by the statute; and

WHEREAS, approval of the additional one percent (1%) increase in budgeted restricted funds is prudent fiscal management, does not increase authorized expenditures and is in the best interests of the City of Grand Island and its citizens.

NOW, THEREFORE, BE IT RESOLVED BY THE MAYOR AND COUNCIL OF THE CITY OF GRAND ISLAND, NEBRASKA, that upon affirmative vote by more than 75% of the City Council, of budgeted restricted funds for Fiscal Year 2002-2003 shall be increased by an additional one percent (1%) as provided by Neb. Rev. Stat. §13-519.

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Adopted by the City Council of the City of Grand Island, Nebraska on September 10, 2002.

RaNae Edwards, City Clerk

Approved as to Form ? _____ September 6, 2002 ? City Attorney
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