Annual Budget
For Calendar Year
2014

Vision
Service and Leadership that enriches the community.

Mission
To provide quality service and leadership that maximizes resources and responds to our community’s present and future needs.

Shared Goals

• Cooperation and Teamwork
• Honesty & Integrity
• Responsiveness and Reliability

These values demonstrate our commitment to professionalism.
City of Omaha Elected Officials

Jean Stothert  
Mayor

Pete Festersen  
District 1  
City Council President

Ben Gray  
District 2  
City Council Vice President

Chris Jerram  
District 3  
City Council Member

Garry Gernandt  
District 4  
City Council Member

Aimee Melton  
District 7  
City Council Member

Rich Pahls  
District 5  
City Council Member

Franklin Thompson  
District 6  
City Council Member
Department Officials

DEPARTMENT DIRECTORS
Paul Kratz.................................................................City Attorney
Mikki Frost............................................................Human Resources, Rights & Relations Director
Stephen Curtiss........................................................Finance Director
James Thele..........................................................Planning Director
Brook Bench.........................................................Parks, Recreation & Public Property Director
Bernard Kanger.....................................................Interim Fire Chief
Todd Schmaderer...................................................Police Chief
Robert Stubbe........................................................Public Works Director
Dana Markel.........................................................Convention & Tourism Director
Gary Wasdin........................................................Library Director

MAYOR'S EXECUTIVE STAFF
Marty Bilek..........................................................Chief of Staff
Carrie Murphy......................................................Deputy Chief of Staff - Communications
Cassie Seagren.....................................................Deputy Chief of Staff - Economic Development

Allen Herink, City Comptroller
Andrew Brott, Budget Manager

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Buster Brown, City Clerk
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City of Omaha
Budget Process

3/25/2013
OPERATING REQUEST PREPARED

4/15/2013
Submitted to Finance

7/5/2013
REVIEW BY FINANCE & SUBMITTED TO MAYOR STOTHERT

7/23/2013
Submitted to City Council

8/13/2013
PUBLIC HEARING

8/27/2013 & 9/10/13
CITY COUNCIL ADOPTED BUDGET

9/10/2013
CITY COUNCIL CERTIFIED TAX LEVY
THE BUDGET PROCESS

The procedure for the annual budget process, adoption of a tax levy, and amending the budget is specified in the following sections of the Home Rule Charter of the City of Omaha:

Section 5.04 Formulation and Submission of Budget
Section 5.05 Scope and Content of the Budget
Section 5.06 Consideration and Adoption of Budget by Council
Section 5.07 Tax Levy
Section 5.10 Transfer of Appropriations
Section 5.11 Emergency Appropriations

The following is a description of each of the steps taken to ensure compliance with the provisions of the Home Rule Charter and to incorporate modern fiscal management and municipal budgeting techniques.

Initial Budget Preparation and Request

The 2014 Budget process began approximately February 22nd, 2013 with the process of forecasting 2014 revenues and projecting inflationary increases in regard to fixed costs such as health care, utilities and basic commodities. With this information in mind, preparation of the 2014 Budget request by the Budget Division staff of the Finance Department was initiated.

In order to assist the Departments in the preparation of their request, the 2014 Budget database included the following: (1) all classified and full-time employees listed by classification and salary step as of March 2nd, 2013; (2) all non-personal service expenditure line items detailing 2012 expenditures and 2013 line item appropriations by organization; (3) a five-year average of expenditures for all line items; (4) a five-year annual expenditure history detailing by line item each division's expenditures through 2012; (5) 2014 wages calculated with fringe benefits based on current pay scales, projections, step increases and known contractual adjustments; (6) an instruction letter, FAQ, and inflationary guideline detailing budget information, instructions and various standardized rates to be used in the budget request preparation process. The budget instructions and other pertinent guides were posted as an electronic link on the budget module.

The database was opened to the departments, divisions and agencies on March 25th, 2013. The Budget Division of the Finance Department supplied technical assistance throughout the months of March and April to assist all departments in preparing their budget requests.

During the period of March 25th through April 15th, 2013 the preparation of budget requests was performed by all departments, divisions and agencies. There were some extensions permitted. The preparation of fund statements and supporting schedules reflecting 2012 Actual and 2013 Budget information was performed by the Budget Division. Revised forecasts of 2013 and 2014 revenues were prepared. These forecasts were reviewed by the Finance Director. The formal final date for submission of all budget requests via the database to the Budget Division was April 15th, 2013.
THE BUDGET PROCESS

Capital Improvement Program

The Capital Improvement Program (CIP), a requirement of the City's Home Rule Charter, is a policy document and financial plan which outlines the City's proposed capital projects for a six-year period. The CIP is designed to guide financial management of capital resources, policy planning and inter-departmental coordination through application and implementation of specific City goals.

Various City departments submit proposed capital improvement projects to the Mayor's Capital Improvement Program Task Force. This Task Force evaluates each of the proposed projects, assigns a preliminary priority ranking, and determines the proposed financing source(s). The prioritized list is then submitted to the Capital Improvement Priority Committee. Representatives from the Finance Department are members of both of these committees and provide financial guidance as to the total dollars available for capital expenditures for each of the six-years of the program. The first year of the program is proposed as the administration's capital budget and is incorporated into the City's annual budget. The final Capital Improvement Program plan is sent to the City Council for their review, consideration and adoption.

Budget Review by the Mayor

The departments and divisions of City government, and various agencies, submitted their 2014 budget requests to the Budget Division of the Finance Department as required by Section 5.05 (1) of the Home Rule Charter. The requests are recorded, tabulated, reviewed, and analyzed. Based on this analysis, the Finance Department makes recommendations concerning the requested amounts and also prepares an updated estimate of revenues based on current rates for taxes, fees, charges, licenses and permits. This information is then presented to the Budget Committee, which is typically comprised of the Finance Director, Mayor, Mayor's Chief of Staff, Budget Manager, and any other representative the Mayor's office desires to be included in the budget analysis. At this point in the budget preparation process, it is usually the case that requested appropriations exceed projected revenues.

This information is then analyzed and consolidated by the Committee. It is the Mayor's task to determine priorities, assess current and future needs, make long range plans through integration of the Capital Improvement Program, and review staffing levels, requested appropriations and projected revenues. This review for the 2014 Budget was conducted by the Mayor in the time frame of May 7th, 2013 to July 5th, 2013 in conjunction with the Mayor's staff, the Finance Director and department and division heads. (Due to the election of a new Mayor and the timing of the change in office, the Mayor Elect was also involved with the review of the budget prior to taking office). In accordance with Section 5.04 (2), the Mayor then makes all final decisions concerning staffing levels, funding levels for all departments, divisions and outside agencies, capital improvements, revenue estimates, and any changes in tax rates, cost recovery fees and other charges. This financial plan then comprises the Recommended Budget which is sent to the City Council for review, consideration and adoption.

Introduction of the Recommended Budget

The Recommended Budget is presented to the City Council for its consideration no later than thirty days before the tax levy certification date in accordance with Section 5.04 (3) of the Home Rule Charter. The Mayor introduces the Recommended Budget at a regularly scheduled meeting of the City Council by reading aloud a budget message. The text of this budget message, comparative data for the current and immediately past budgets, and all other statements and schedules as required by Section 5.05 of the Home Rule Charter, are included in the printed budget document. Upon submission, the budget becomes a public record and is open to public inspection. The 2014 Recommended Budget was presented to the Omaha City Council on July 23rd, 2013.
THE BUDGET PROCESS

Budget Review by City Council

After the introduction of the Recommended Budget, the City Council begins its deliberations and review of the financial plan approved by the Mayor and the Mayor's staff. Consideration of the budget by the City Council is required by Section 5.06 of the Home Rule Charter and is accomplished through a series of budget hearings which are open to the public and news media. All budget hearings are held in the City Council Conference Room or other appointed locations and a schedule of the hearings are posted in advance. At the budget hearings, the Finance Director presents an overview of the budget to inform the City Council of various changes, assumptions, and increases and decreases included in the Recommended Budget. Each department director in turn then presents opening remarks concerning the budget for his/her department, and responds to questions and receives comments from the individual council members. At the end of the budget hearing, the Finance Director presents concluding remarks representing the administration’s position and answers any questions that may have arisen during the course of the hearings. Upon conclusion of the budget hearings, the City Council is then prepared to receive citizen input and to submit budget revision resolutions in preparation for final adoption of the budget.

Citizen Input

The City Council set a public hearing date of August 13th, 2013 at 7:00 p.m. in the Legislative Chambers of the Omaha/Douglas Civic Center. Section 5.06 of the Home Rule Charter stipulates that the public hearing must be held at least ten days prior to the tax levy certification date. The public hearing was held in the evening hours to provide as many citizens as possible with the opportunity to offer testimony to the City Council. The budget presentation generates press coverage. Daily newspapers, internet, television and radio stations report budget highlights and statistics. Following the budget presentation, copies of the Mayor's Recommended Budget are available to the general public for visual inspection and study at the twelve public libraries, in the City Clerk's office and in the Finance Department. The budget is also posted on the City of Omaha website.

Adoption of the Budget and Tax Levy Certification

After the public hearing, the City Council may, by resolution, make changes to the Recommended Budget. Certain stipulations, however, do exist. Section 5.06 of the Home Rule Charter provides that the City Council may revise the expenditure side of the budget by increasing, decreasing, inserting or deleting appropriation items, except that it cannot reduce appropriations for debt service. Expenditure revision resolutions require a simple majority for passage. The City Council may also introduce resolutions to revise revenue estimates; however, these revision resolutions require an affirmative vote from five of the seven council members. After all amending resolutions have been acted upon, the City Council adopts a final budget resolution by majority vote. The Mayor may veto any of the budget revision resolutions and the City Council may sustain or, with five affirmative votes, override the Mayor's veto. By adopting the budget, the City Council authorizes appropriations by department, division, agency or account for the ensuing budget year. The Charter provides that the budget, as adopted, be reproduced and copies made available to the general public and governmental agencies. Copies of the adopted budget are made available to the public at the twelve public libraries, the City Clerk's office and the Finance Department. The budget is also posted on the City of Omaha website.

After adopting the budget, but no later than October 15th of 2013, the City Council must certify a tax levy. Section 5.07 of the Home Rule Charter provides that the City Council, on the basis of the final budget, shall adopt a resolution certifying a single City of Omaha tax levy for the ensuing fiscal year. The single City of Omaha tax levy certified in any year is limited to $.6125 per $100 of actual taxable value for the City's General Fund plus whatever tax levy is necessary to pay principal, interest and administrative expenses on the indebtedness of the City, and for the satisfaction of judgments and litigation expenses against the City.
THE BUDGET PROCESS

The 2014 Budget was adopted on Tuesday, August 27th, 2013, and Tuesday, September 10th, 2013. On September 10th, 2013 the City Council certified a single tax levy rate of $.49922 per $100 of actual valuation for 2014 consisting of $.28447 for the General Fund, $.19281 for the Debt Service Fund, $.00600 for the Judgment Fund and $.01594 for the Redevelopment Fund.

Amending the Budget

The Home Rule Charter provides for amending the budget through the provisions of Sections 5.10 and 5.11.

Basically, there are three types of budget transfers, each requiring a successive level of authority. First, the Mayor may, at any time, transfer an unencumbered appropriation balance or portion thereof between appropriations of the same division. Second, transfers between divisions in the same department may be authorized by resolution of the City Council. Third, transfers between departments/agencies may be authorized by ordinance of the City Council.

Public comment on resolutions are heard before the City Council votes on the resolution. Public comment on ordinances are heard after the second reading of the ordinance. Ordinances are advertised in a newspaper of public circulation after the first reading of that ordinance.

To meet a public emergency threatening serious loss of life, health or property, the City Council may, by ordinance, make emergency appropriations or transfers. An ordinance may be passed as an emergency measure after one reading when the City Council finds that an emergency exists pursuant to the Home Rule Charter, Section 2.13. If there are no unappropriated monies available, the City Council may, by ordinance, authorize the issuance of emergency notes.
The City of Omaha is proud to present a balanced budget for 2014 that reflects the contributions of many. After facing an initial general fund shortfall of approximately 28 million dollars those contributions have materialized into a comprehensive annual budget.

**Budget Drivers:**

- **Revenue**
  - Sales tax continues to increase at a steady pace between 1-3% per year post recession. The City continues to remain cautiously optimistic regarding sales tax growth. Unfortunately, LB775 and LB312 refunds are projected to increase from actual 2012 refunds of $8.5 million to approximately $12 million in 2014. Due to these increase of refunds, net sales tax receipts are projected at $135.4 million, or basically the same level as the 2013 budget. Sales tax continues to be a major revenue source for the general fund at around 40% of revenues.
  - Property tax valuations are forecasted to be basically flat when compared to the 2013 budget.
  - Sales tax and property tax were basically flat from 2013 to 2014, and this made balancing the budget very challenging.
  - The Restaurant tax continues to perform well, helping to offset the stagnant growth of sales tax and property tax. Restaurant tax is projected at $27.7 million in 2014, an estimated increase of 8% over 2013.
  - Several extraordinary items in 2014 caused overall General Fund revenues to increase 5.8%. The Elkhorn Fire District service contract was accounted for properly, which increased both expenses and revenues by $4.3 million. The Tobacco tax agreement with the University of Nebraska Medical Center also increased both expenses and revenues by $3.7 million. The General Fund revenue increased by only 3.3% when taking these into account.

- **Expenditures**
  - Labor costs: A majority of the City of Omaha’s General Fund is used for labor costs, all of which are under contract. Most of the City employees do not have union contracts for 2014 with the exception of the Fire Department. The Fire Department wages are built into their budget based on the contract (which includes a 2.9% increase), but most other departments continue to use the 2012 wage scale for 2014. For the latter we have budgeted the following wage increases in a wage adjustment account (totaling $8,146,906 for all funds):
    - Civilian Personnel: 2%
    - Police Personnel: 2%
    - Civilian Pension: 5%
  - Health care costs: The City of Omaha has faced rising health care costs that have played a significant impact on the budget. The City employs approximately 2,600 individuals in our active headcount for which health insurance is provided as a benefit of employment. The City also provides approximately 2,800 retirees with health insurance until age 65. The 2014 budget
Budget Message - Continued

includes a 7.3% increase for health insurance for both employees and retirees. The 2014 budget includes approximately $60 million allocated for health insurance without including employee reimbursements.

- Utilities: The City of Omaha maintains over 222 facilities including police stations, fire stations, libraries, public swimming pools, ice arenas, golf courses, wastewater treatment plants and pump stations, maintenance facilities, and others. These facilities add up to approximately six million square feet of building space. The 2014 budget includes the following increases:
  - OPPD estimated increase is 9% over 2012 expended (4.5% annually appx.)
  - MUD water increase of 10% over 2012 expended (5% annually appx.)
  - MUD natural gas assumed flat
  - Gasoline estimated at $3.40 per gallon

Status of Major Financial Challenges

The City of Omaha continues to make hard choices and meet challenges through both phased-in and disruptive changes that in the long run will improve efficiency of the City and support sustained execution of its mission.

- **Combined Sewer Overflow Program (CSO):**
  - Draft plan completed in fall 2007 to deal with this federal mandate.
  - Cost estimated at $1.5 billion (current dollars) over 15-20 years.
  - Annual Sewer Fee rate increases through 2014 have been adopted.
  - Construction deadline extended 3 years due to flooding.
  - Largest Public Works project in the history of the State of Nebraska.

- **Civilian Pension Systems:**
  - Civilian plan is underfunded.
  - Annual contribution increases were implemented for 2006-2012 for civilian groups; negotiations continue to develop a solvency plan for the system. Even with these contribution increases the plan remains seriously underfunded.
  - The civilian union contracts expired at the end of 2012. Negotiations will include provisions to stabilize the system.
  - The budget includes an appropriation for the City match which will help stabilize the long term funding of the plan.

- **Retiree Health Care Benefits:**
  - Accounting standard (GASB 45) requires the liability to be recorded for promised retiree health care benefits.
  - The unfunded actuarial liability is approximately $449.4 million.
  - The City continues to negotiate with bargaining groups to increase premiums paid by employees and reduce health costs.
  - The City has decided to continue to fund this liability on a pay as you go basis.

- **General Fund:**
  - Growth for both property tax and sales tax revenues continue to lag below inflation rates.

- **Reserves:**
  - The City passed an Ordinance that commits set funding of the City’s Cash Reserve Fund each year. Appropriations of $250,000 in 2011, $750,000 in 2012, $750,000 in 2013 and $200,000 in 2014 will increase the reserve to pre-2009 levels. Such reserves will help ensure the City’s bond rating, as well as protect the City against potential tax increases by providing reserves to draw upon in the event of unexpected loss of revenues or unexpected expenditures.

Commitment to Efficiency and Effectiveness

- A Police recruit class is scheduled for the spring of 2014.

- 2014 will be the last year of the Vehicle Replacement Program for the Police Department Black & White Cruisers. This program allows for the systematic replacement of black and white cruisers based on age, condition, mileage, and maintenance costs. During 2012 through 2014 the city will replace all 242 black and white cruisers, reducing overall maintenance costs and increasing the police department’s ability to respond to citizen’s requests. It is anticipated that this program will be extended in 2015.
• In 2014 the Police Department will begin stepped up enforcement of towing abandoned and dead storage vehicles. This action will both clean up neighborhoods and increase City revenue.

• In 2014, the City plans to purchase 755 portable radios for the Police Department. These radios will replace aging units that have exceeded their useful life. The radios will be used throughout the department. The $3.6 million purchase will be funded by the issuance of lease purchase bonds.

• In 2014, the City will continue to implement the centralization of parking management into a single entity within the Public Works Department based on recommendations contained in the 2011 Parking Management Plan. A new facilities management contract was bid in 2013. This centralization is expected to reduce the net operating deficit by $1.2 million over the next 2-3 years.

• Street resurfacing is a priority in the 2014 budget, and additional funding for this activity has been provided.

• The Library will maintain normal operations in 2014. All branches will remain open and operating hours will not be reduced.

• As a cost saving measure in 2014 the Parks Department will provide mowing and snow removal services to all libraries.

• The Planning Department continues to implement an on-line Plan Renewal, Licensing, and Code Enforcement system through the use of Acella software. The City will leverage this software application in other departments to provide for on line permitting in Public Works and the Fire department. Acella software is used by over 500 government entities nationwide for permitting, licensing and asset management. The use of the Acella Software represents our commitment to e-government initiatives to better serve our citizens.

• We have set aside funds for demolition of dilapidated homes in our city that breed unwanted, and in some cases criminal, activity. There are currently over 650 properties waiting on demolition funds. This funding for demolition is as follows:

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund</td>
<td>$257,000</td>
</tr>
<tr>
<td>Special Assessment</td>
<td>$300,000</td>
</tr>
<tr>
<td>CDBG</td>
<td>$200,000</td>
</tr>
<tr>
<td>Habitat for Humanity</td>
<td>$200,000</td>
</tr>
</tbody>
</table>

**Conclusion**

The City of Omaha is a vibrant community that is blessed with a strong economic base and low unemployment. Even so, the City faces many fiscal challenges in 2014. We have attempted to address those challenges using our available resources without a tax increase, compiling an Adopted Budget that reflects the priorities of our citizens.
Good afternoon. It is a pleasure and an honor to be with you today.

Since our swearing in on June 10th, we have all been very involved in the 2014 budget process. Thank you all for your input, ideas and concerns this past month as we worked to balance 2014 general fund budget requests with anticipated revenue for next year.

The 2014 budget year is framed by two very important facts: flat or declining revenues and initial requests by our departments for significant increases in spending.

First, let me comment on expected general fund revenues, nearly two-thirds of which are made up of two revenue sources – the city sales tax and property tax.

Next year, in 2014, we estimate property tax revenue will be flat. This is due, of course, to an expected decline in property assessments in the year ahead. The assessment outlook alone requires we budget and manage operations knowing taxpayers have not seen valuation growth that was typical in much of Omaha’s recent history.

Also for 2014, we project net city sales tax revenues to be a big challenge. City sales tax collections alone are projected to increase $4 million dollars or about 3%.

However, when netted against much higher LB 775 and LB 312 payments made to the State of Nebraska, our net sales tax figure will remain unchanged-or flat, when compared to the 2013 budget. The best information we have from the State of Nebraska is that our LB 775 and LB 312 payments next year for refunds based on economic development activities will increase to $12 million dollars, from the $7.5 million dollars budgeted for 2013.

However, we do project that because of growth in other general fund revenue categories, overall revenues to the general fund will increase by approximately 3.8%. Some of these categories are harder to gauge – such as revenues from the “restaurant tax” – so we must be particularly vigilant next year in tracking revenues and adjusting our spending plans accordingly.

So, with no change in tax rates, you can see the revenue picture is very tight. Now, what about the spending side?

In early June - shortly after I was elected – the previous mayor provided our transition team and me the preliminary department budget spending requests from the budget process he started earlier in the year.
Total requests for general fund spending from all departments were nearly 10% higher than budgeted for 2013. This difference between requested spending and expected revenues was over $20 million dollars. It was clear that level of spending would not be sustainable and we started our work to resolve this significant budget gap.

With a tax increase out of the question, we focused on the spending side. We asked departments to pare back their budget requests to meet new targets and the cooperation and creativity was encouraging. As you know, I reduced the budget of the Mayor’s Office by 10% for 2014 over 2013 to set an example of cost cutting and working with less. I gave every department just two guidelines, do not violate labor contracts and do not compromise public safety.

The general fund budget I propose to you today eliminates the initial budget gap of over $20 million dollars. This was accomplished by reducing initial spending requests from every department – including initially nearly $13 million dollars less for the fire department, maintaining current tax rates, and applying a surplus from the 2012 budget to the 2014 budget.

Several extraordinary items in 2014 will cause overall General Fund spending to appear higher and should be noted. As opposed to previous years, the Elkhorn Fire service contract is now being accounted for properly, therefore increasing both expense and revenues $4.3 million dollars.

The Tobacco Tax agreement with the University of Nebraska Medical Center also increased both expense and revenues by $ 3.7 million dollars. Since these extraordinary items are essentially pass-throughs, the net general fund spending as proposed in this budget will increase just 3.3%.

Another challenge we will work to address in the months ahead is the increasing cost of health care for our employees and retirees. Our budget recommendation for overall health care costs for 2014 is $59.5 million dollars, an increase of over $5 million dollars compared to2013. That’s up over 7% in just one year.

Several of you share my goal of moving all city employees to the same health care plan. This move alone will provide significant savings to the taxpayers while ensuring consistent treatment for all employees for this important benefit.

My proposed fire department budget is worth special mention. In the last five years, the fire department has been over budget by a total of approximately $30 million dollars.

The original 2014 requested budget by fire was over $96.5 million dollars, which represented over a $14 million dollar or 17% increase from the previous year. I have reduced the requested increase by approximately $6 million dollars.

My 2014 budget goals for this department were to stop this overspending and provide the department a budget that was realistic; one that could be achieved with strong management and diligent oversight.
The fire department budget contemplates some layoffs, taking rigs out of service, some demotions, and moving some personnel from the bureau to suppression.

There are never any easy decisions when it comes to reducing public safety spending. I believe we have recommended an approach that addresses longstanding budget and spending issues while maintaining a level of public safety in our fire department that the citizens expect.

In summary, our first budget fills a budget hole with lower spending instead of new or higher taxes, addresses longstanding problems with the fire department budget, and provides reasonable funding in the remaining areas of general fund operations.

While each year we have a budget schedule to adhere to, please be assured our efforts to streamline, consolidate, and become more efficient will be a yearlong process. In fact, we are already pursuing changes that we hope to incorporate in our 2015 budget.

It is my goal, over the next several budget years, to gradually increase the sworn strength in the Omaha Police Department.

As a former council member, I respect the important job you now have to scrutinize the budget and make changes you believe are important. You will find your ideas and creative thinking are welcome, and I look forward to working with you in the weeks ahead.
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