



CITY OF MIDDLETON

2020 Budget Kick Off Presentation

Finance Committee

July 16, 2019

Outline

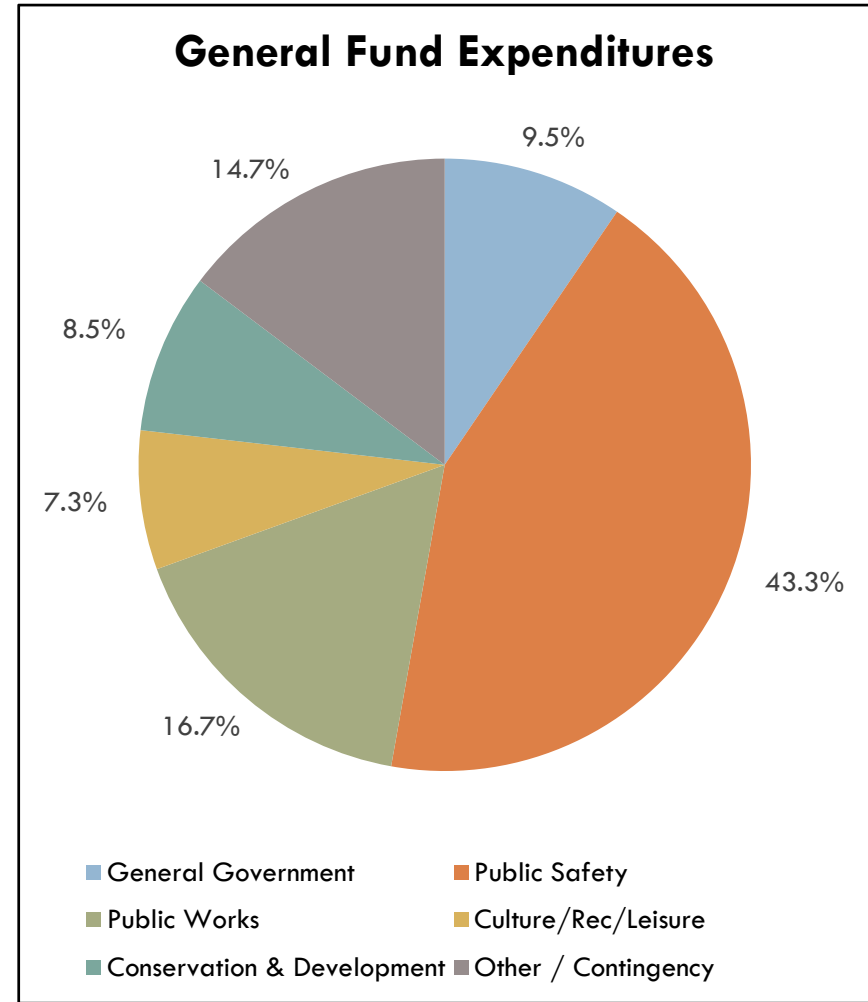
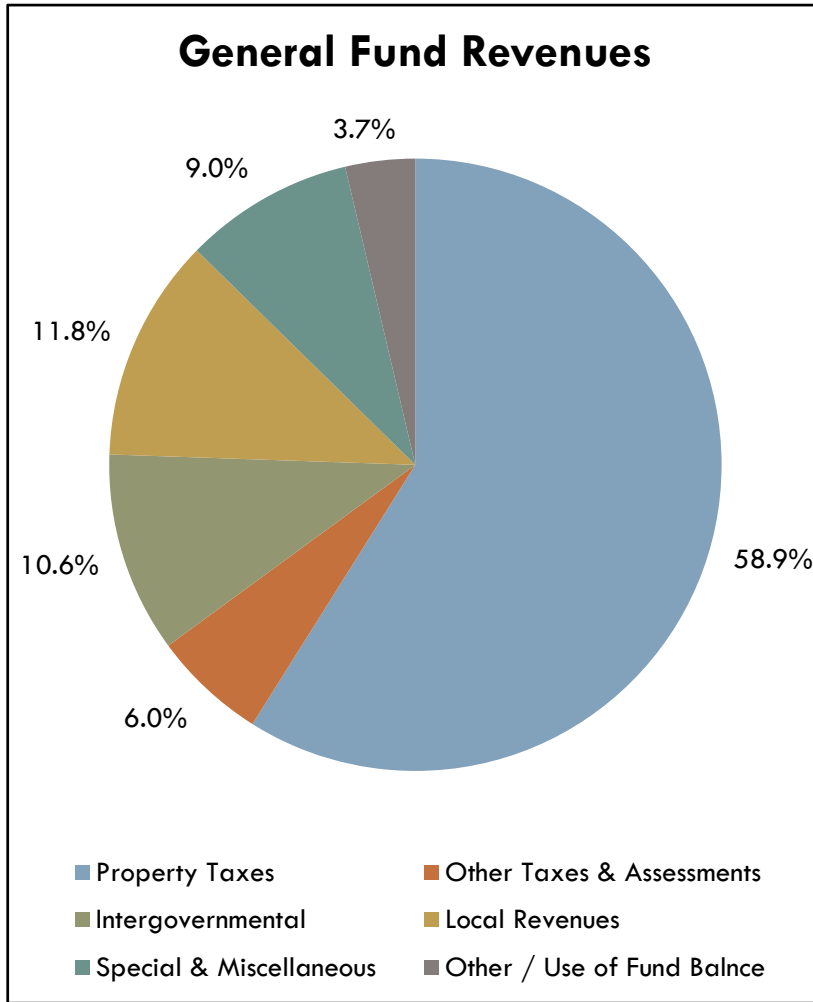
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- 2019 Budget Update
- Budget Challenges & Future Projections
- Potential Funding Alternatives
- 2020 Budget Timeline, Process, & Goals

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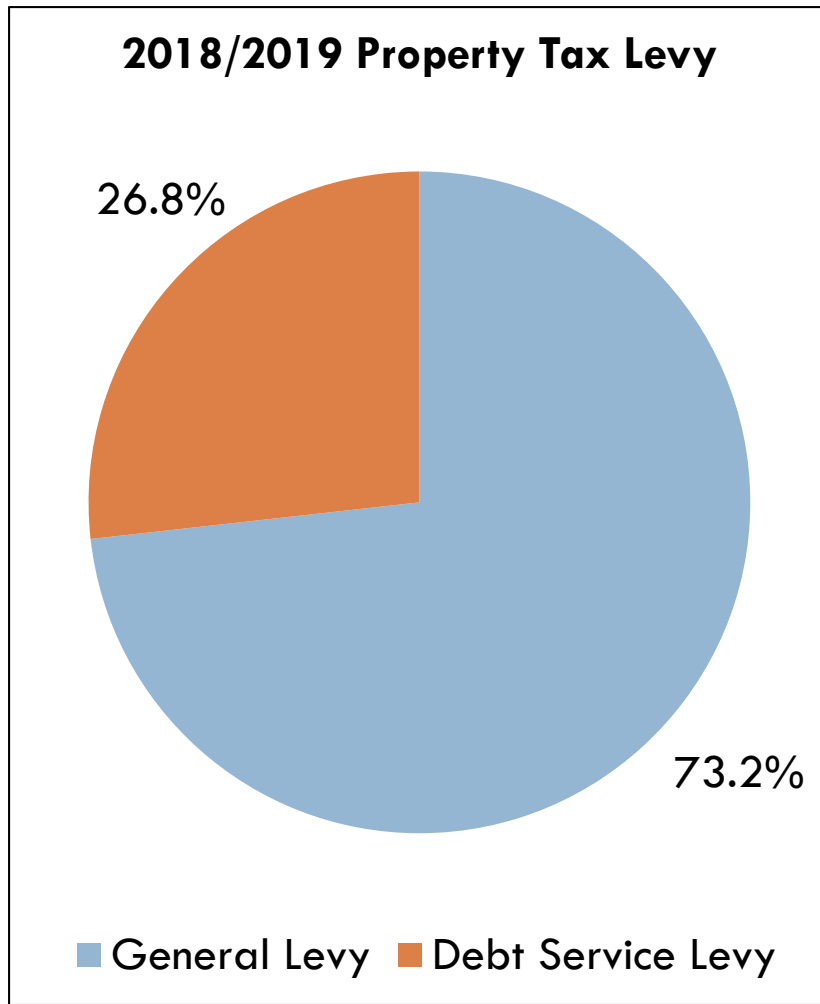
2019 Budget Update

2019 General Fund Revenues



2018/2019 Property Taxes

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Property Tax Levy

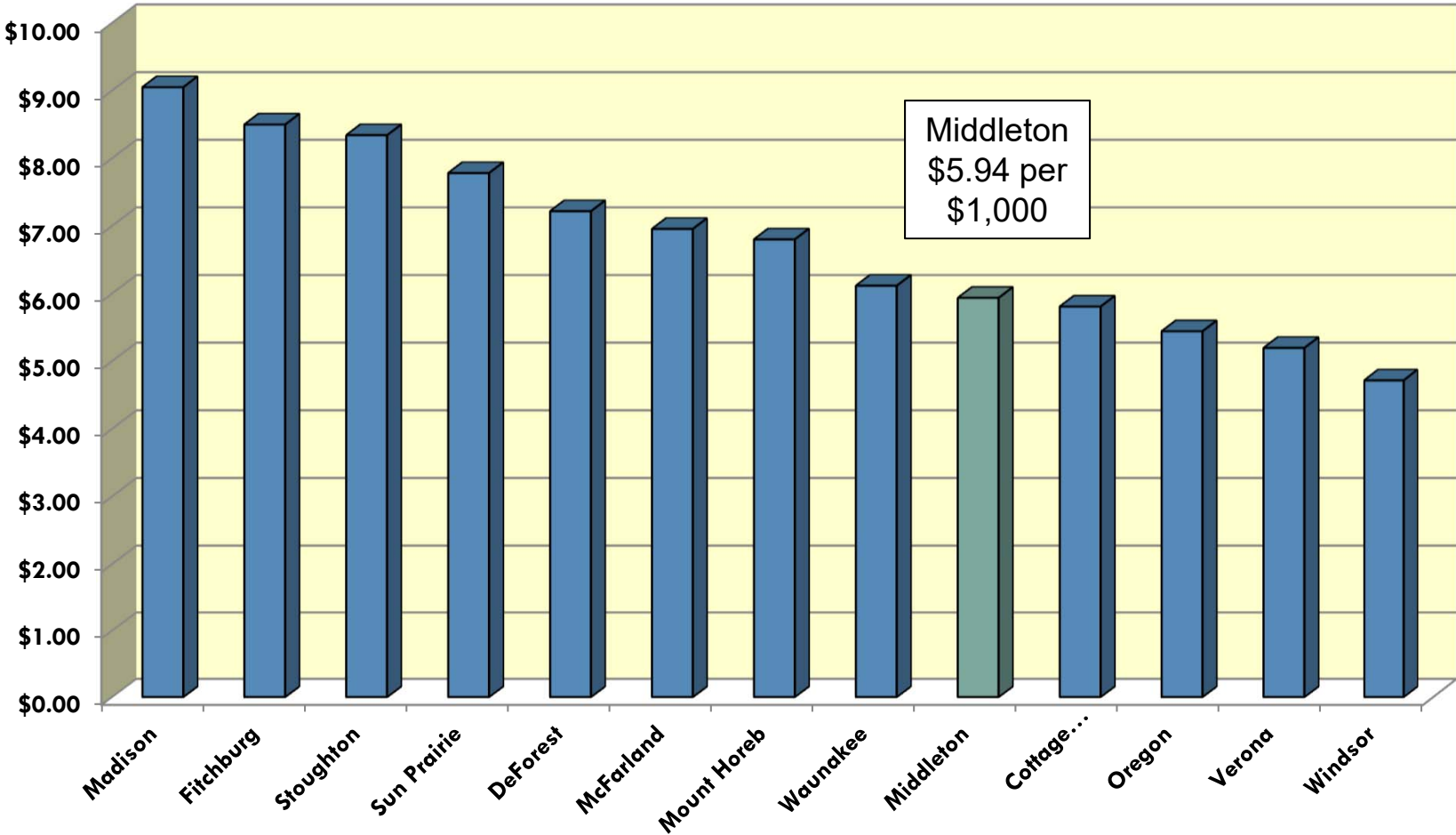
General	\$12,808,075
Debt Service	<u>\$4,682,218</u>
Total	\$17,490,283

City Tax Rate per \$1,000

General	\$4.27
Debt Service	<u>\$1.56</u>
Total	\$5.83

Tax Rate Comparison

2017 Tax Year / 2018 Budget Year Equalized Tax Rates



2019 General Fund Projections

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Interest Income

□ 2019 Budget	\$205,000
□ Projection (conservative)	<u>350,000</u>
□ Additional revenue	145,000

Capital Reserves Funded by Surplus

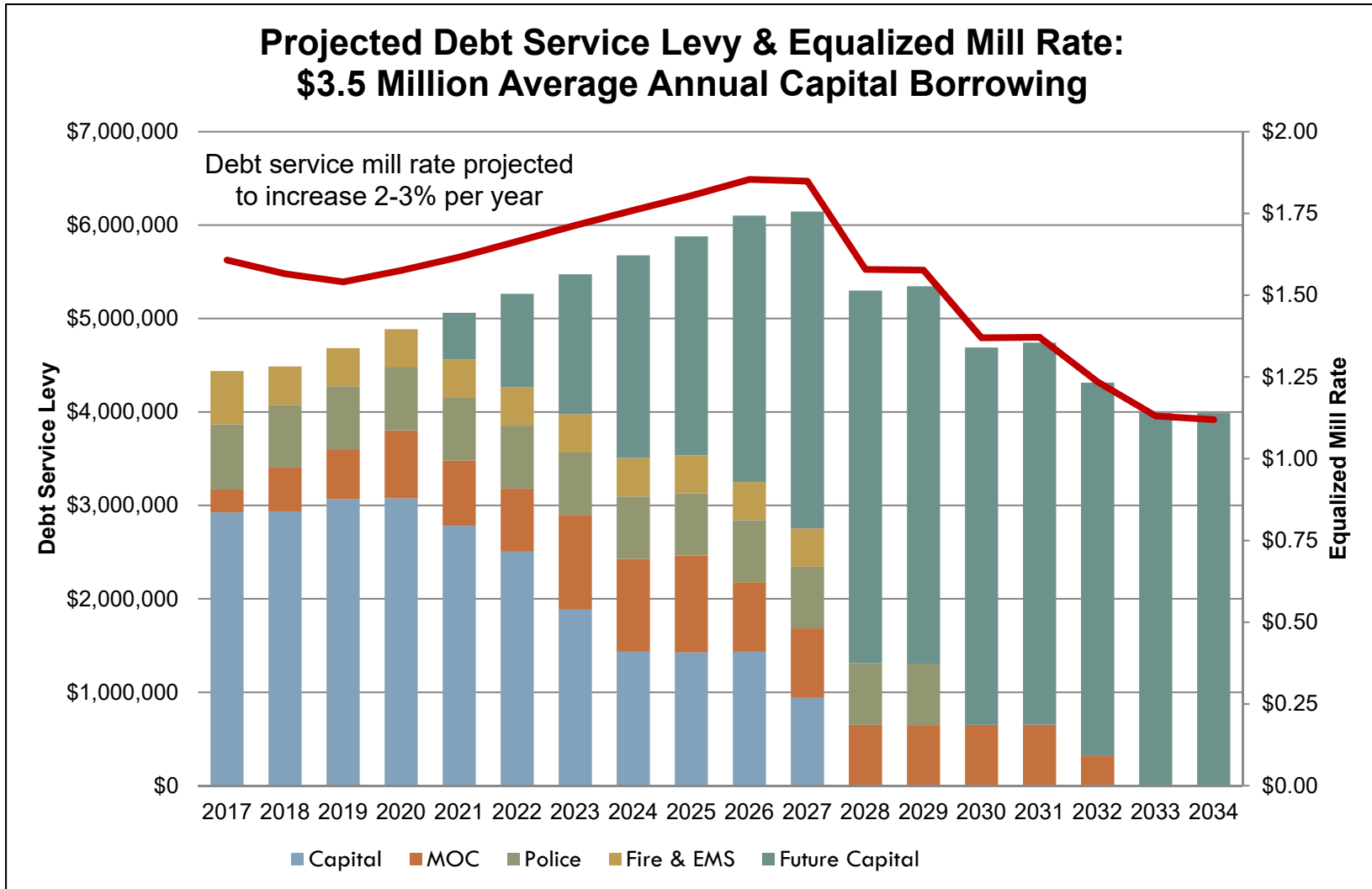
□ Fire District capital reserve (\$158,500 built into 2019 budget)	\$32,150
□ EMS ambulance replacement (recommend target of \$80,000)	80,000
□ Amount needed to fund target levels	\$112,150

Capital Borrowing Plan Projection

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	2019 Budget	2020 Projected	2021 Projected	2022 Projected	2023 Projected
Street Projects	\$1,991,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000
Vehicle Replacement Plan	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000
Other Admin/IT/CS Bldg. Insp/Library	\$98,130	\$50,000	\$50,000	\$250,000	\$200,000
Other Police & EMS	\$313,636	\$350,000	\$500,000	\$200,000	\$200,000
Other Public Works & Water Resources	\$117,300	\$100,000	\$100,000	\$100,000	\$100,000
Other Public Lands & Conservancy	\$469,500	\$500,000	\$350,000	\$450,000	\$500,000
Total Borrowing	\$3,489,566	\$3,500,000	\$3,500,000	\$3,500,000	\$3,500,000

Debt Service Projection



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Budget Challenges & Strategies

Budget Challenges

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1. Fully fund Fire and EMS capital reserves without the use of annual surpluses
2. Fund sufficient assigned fund balance to cover future compensated absences (sick accrual) benefits
3. Phase out TID 3 cost recovery payments by the end of the TID expenditure period in 2025
4. Balance the 2020 budget with below average net new construction and levy limit increase
5. Balance future budgets while addressing future staffing demands of a growing community

Challenge #1: Fire & EMS Capital Reserves

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- Challenge: Fully fund Fire and EMS Capital Reserves in the budget without the use of surplus funds
- Potential Strategy:
 - ▣ Use additional interest income projected in 2020 to fully fund annual targets
 - ▣ Surplus interest income can be used to pre-fund capital reserves to cover years with lower interest income due to a decrease in interest rates

Fire District annual capital reserve target	\$190,650
EMS ambulance annual capital reserve target*	\$80,000
Total annual capital reserve funding target	\$270,650

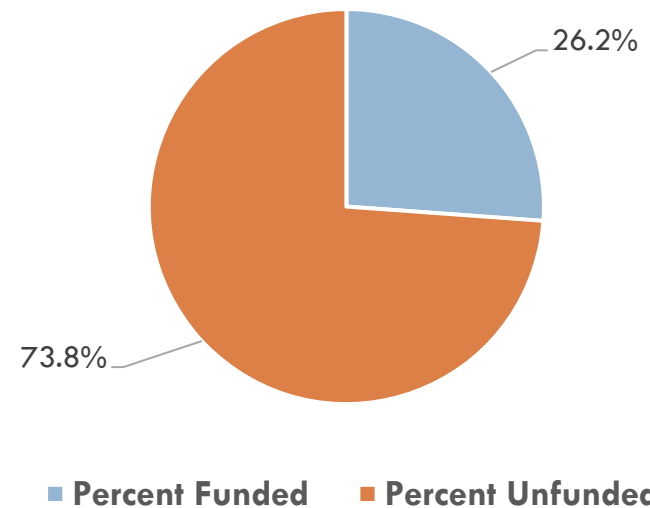
Funding included in 2019 general fund budget	\$158,500
Additional funds needed	\$112,150
2019 budgeted interest income	\$205,000
2020 projected interest income	\$317,500

* Based on 2019 costs, 10-year life cycle and 3% annual inflation

Challenge #2: Compensated Absences

- Challenge: How to fully fund the City's liability for employee sick accruals?
- Potential Strategy:
 - ▣ PVGC repays \$2.35 million in advances over 5 years
 - ▣ Advance repayments will reduce nonspendable fund balance
 - ▣ The freed up fund balance could be assigned to fund future sick accrual benefit costs

GF Sick Accrual Liability



Total GF share of sick accrual liability	\$2,937,384
Assigned (unallocated) fund balance	\$768,210
Unfunded GF sick accrual liability	\$2,169,174

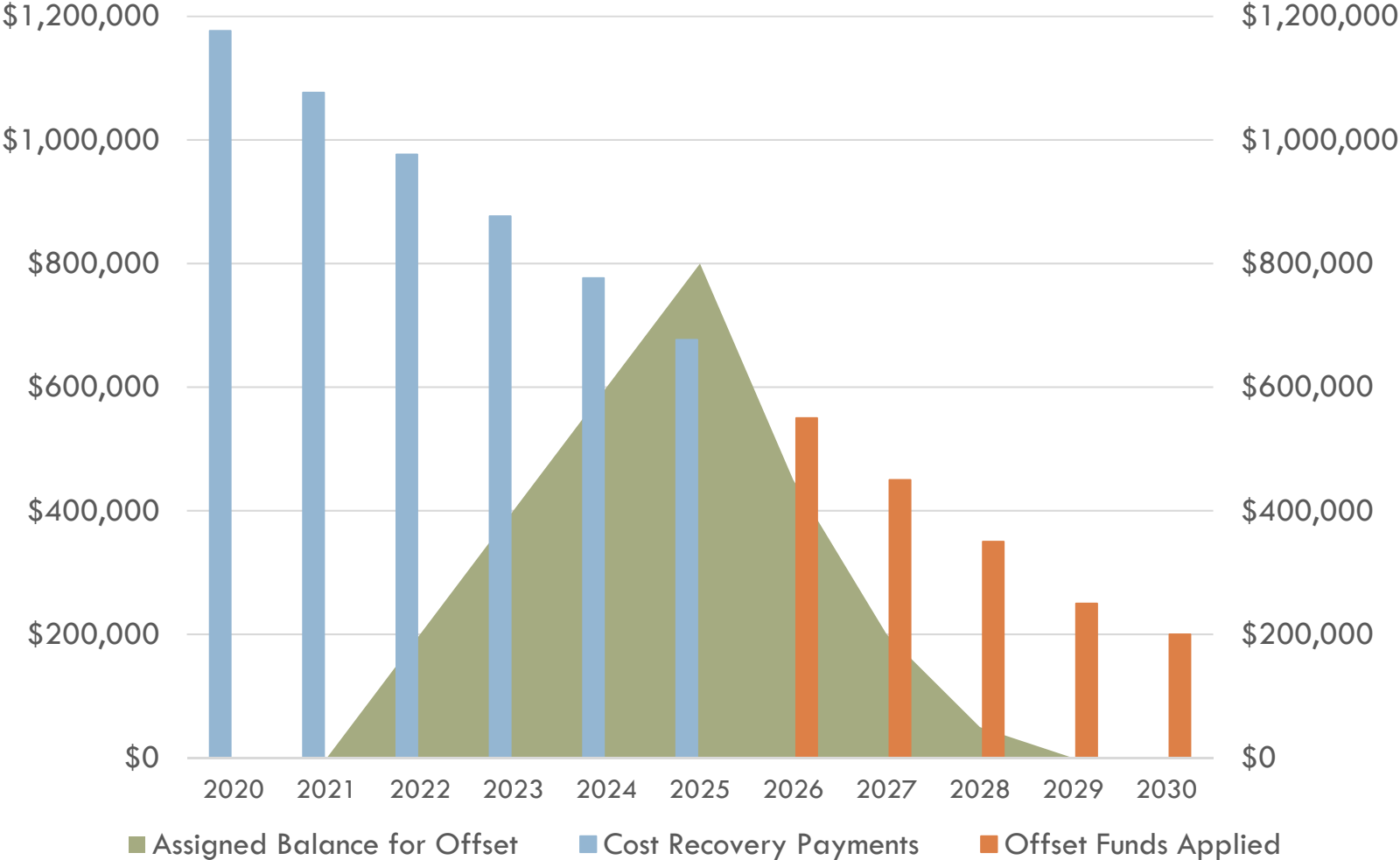
Challenge #3: Phase-Out TID Cost Recovery

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- Challenge: Phase-out TID Cost Recovery payments to the general fund by 2025
- Potential Strategy:
 - ▣ Use a TID subtraction in 2020 to generate a levy limit adjustment in 2021 for the 2022 budget
 - ▣ Assign fund balance from the levy limit adjustment in 2022-2025
 - ▣ Use the assigned funds to offset the cost recovery payments starting in 2026

Budget Year	Offset Funds Applied	Assigned Balance for Offset
2022	\$0	\$200,000
2023	0	400,000
2024	0	600,000
2025	0	800,000
2026	550,000	450,000
2027	450,000	200,000
2028	350,000	50,000
2029	250,000	0
2030	200,000	0

Use of Levy Offset for TID Cost Recovery



Challenge #4: Balance 2020 Budget

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2020 Budget Limitations

- Property Tax Levy Limits
 - ▣ Growth based on net new construction with no inflation factor
 - ▣ 2020 budget limit estimated at 1.5% (down from 3.0%)
- Flat State Aids
 - ▣ No increases in shared revenues or expenditure restraint funding
 - ▣ Exempt computer & personal property aid frozen
- TID 3 Cost Recovery
 - ▣ Final payment year is 2025
 - ▣ City has been decreasing the amount by \$100,000 per year
- Health Insurance
 - ▣ Medical loss ratio has been trending close to 100%
 - ▣ No premium cap for 2020

2019/2020 Property Tax Levy Limit

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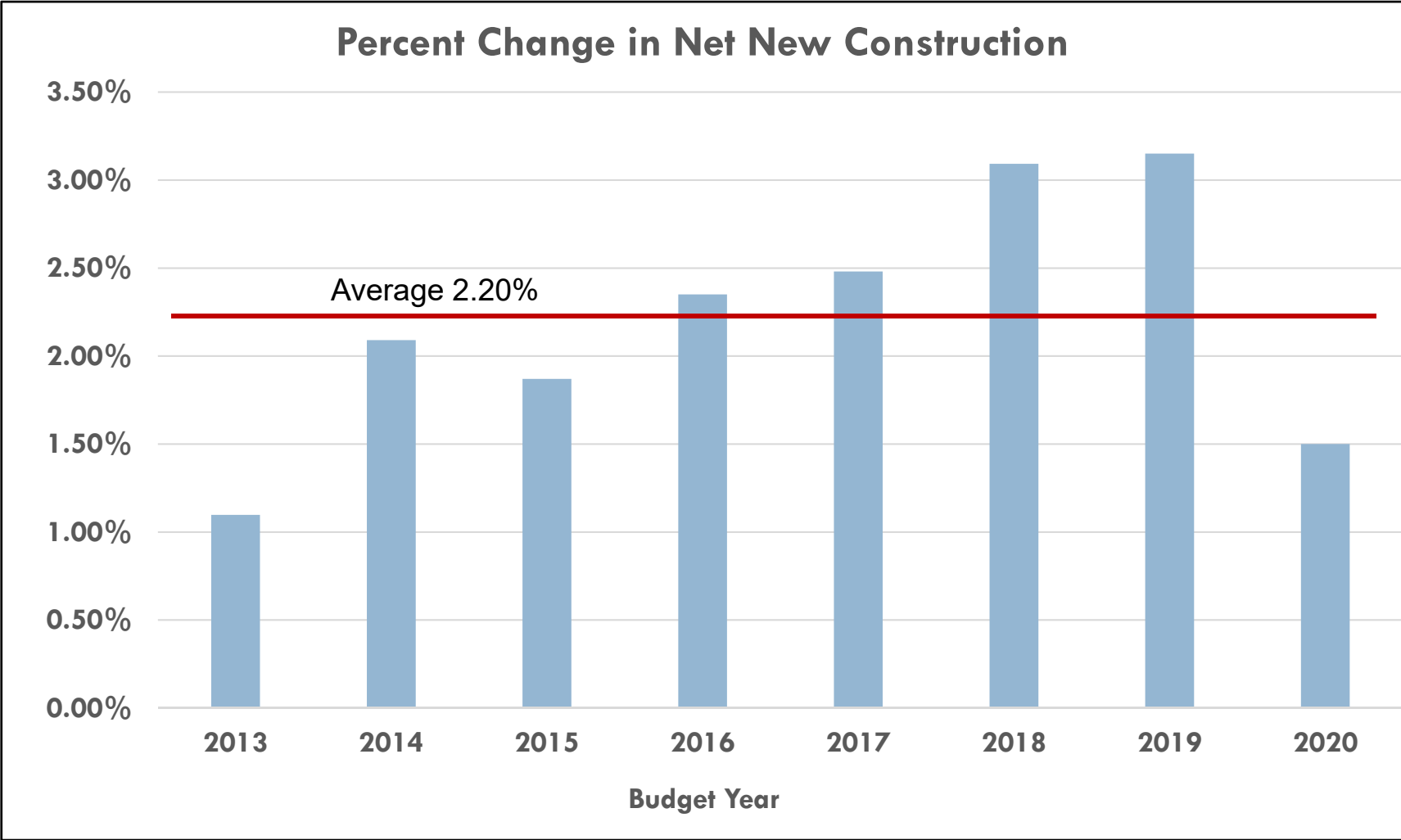
Levy Limit Formula

- Levy growth limited to increase in net new construction
- Exclusions for debt service, transfers of services, annexations, and emergency expenses
- 2019 Budget used total allowable levy: \$17,490,293

2019/2020 Levy Limit Calculation

- Estimated Net New Construction: 1.50%
- Projected allowable non-debt levy increase: \$190,000

Change in Net New Construction 2013-2020



2020 GF Budget Resources

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- Public Fire Protection Direct Billing
 - ▣ Direct billing of public fire protection started mid-2019
 - ▣ General fund will save an additional \$245,000 in 2020
- General Transportation Aids
 - ▣ State budget increases funding by 10% (city share TBD)
- Interest Income
 - ▣ Additional revenue projected for 2019 and 2020
- Golf Course Advance Repayments
 - ▣ PVGC plans to repay \$2.35 million from 2019 to 2023

2020 Major Projected Changes in Sources & Uses of Funds

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Additional Revenue and Cost Reductions

□ Direct bill public fire protection (1/2 year)	\$245,000
□ Property taxes (est. 1.5% net new cons.)	\$190,000
□ General transportation aids (~10% inc.)	\$100,000
□ Building plan review net income	<u>\$50,000</u>
Total	\$585,000

Additional Expenditures and Revenue Reductions

□ COLA (2%) & 2019 wage adjustments	\$200,000
□ Health insurance & potential merit adjustments	\$150,000
□ Cost recovery reduction	\$100,000
□ Full year impact of 2019 mid-year positions	\$85,000
□ Elections: presidential election year	<u>\$50,000</u>
Total	\$585,000

Challenge #5: Balance future budgets while meeting the needs of a growing community

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- Due to levy limits, the City's largest revenue source (property taxes) can only grow by the amount of net new construction with no adjustment for inflation
- Annual inflation is projected at 2%
- Other major revenues sources are generally stagnant (state aids) or declining (TID cost recovery)
- In total, the City's general fund revenues are projected to grow at 1.6 to 1.8% per year which is below the rate of inflation
- A recession could exacerbate problems with slower growth and decreases in other revenues
- **Net Effect = The City will likely not have funds for additional staffing without alternative revenues**

General Fund 5-Year Forecast Base

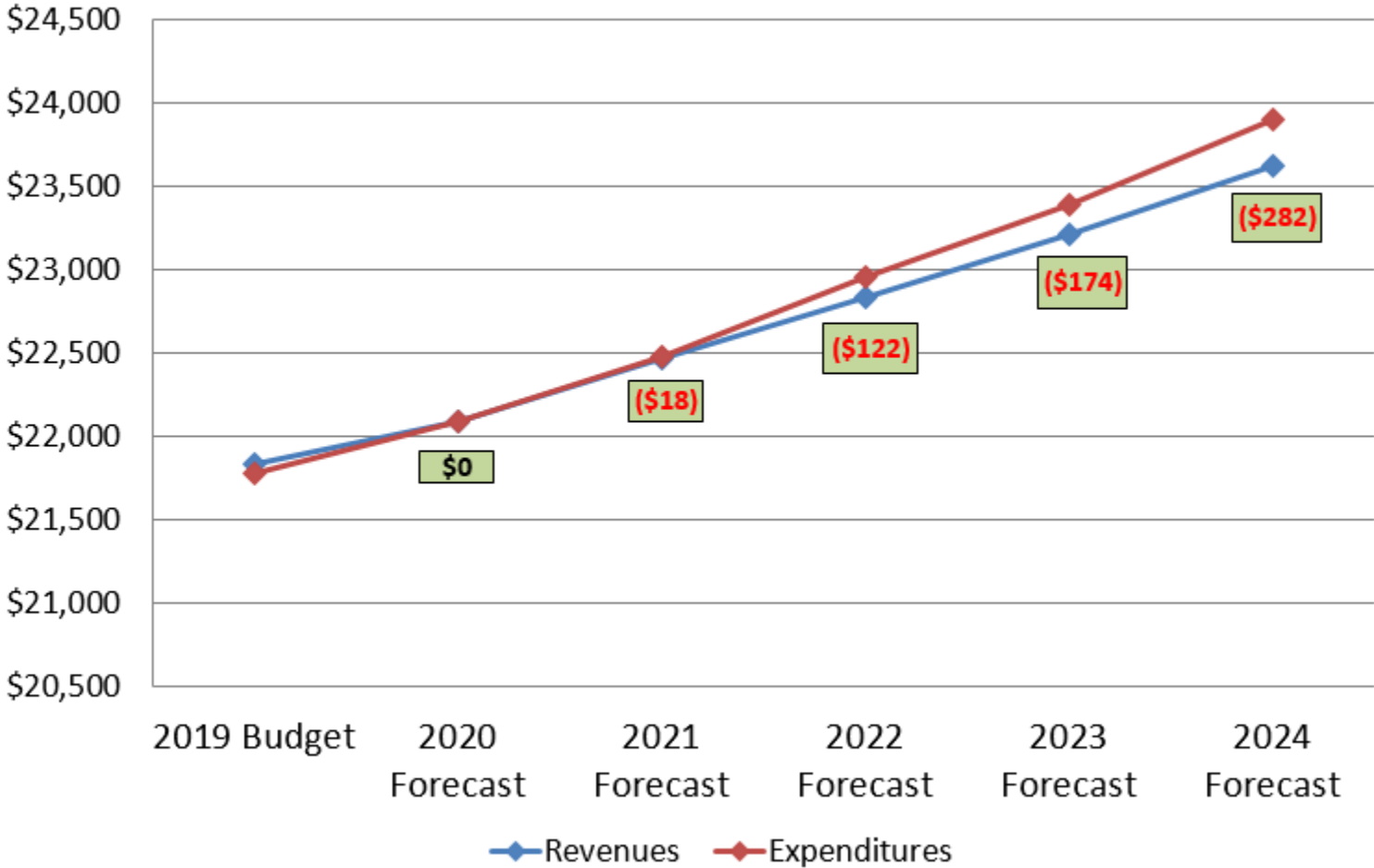
(2021-2024 Net New Construction = 2.25%)

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<i>(Numbers shown in thousands)</i>	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
General Fund Revenues					
Property Tax (2.25%)	\$12,998	\$13,289	\$13,582	\$13,880	\$14,201
TIF Cost Recovery (- \$100/year)	1,177	1,077	977	877	777
<u>Other Revenues</u>	<u>7,921</u>	<u>8,099</u>	<u>8,275</u>	<u>8,458</u>	<u>8,648</u>
Total Base Revenues	22,095	22,464	22,833	23,215	23,625
Change	260	369	369	381	410
Percent Change	1.2%	1.7%	1.6%	1.7%	1.8%
General Fund Expenditures					
Wages (2%)	\$9,535	\$9,724	\$9,918	\$10,115	\$10,316
Benefits (3%)	3,143	3,236	3,333	3,433	3,535
<u>Operating & Other (0-3%)</u>	<u>9,418</u>	<u>9,521</u>	<u>9,704</u>	<u>9,841</u>	<u>10,056</u>
Total Expenditures	22,095	22,482	22,955	23,388	23,907
Change	312	387	473	433	518
Percent Change	1.4%	1.8%	2.1%	1.9%	2.2%
BUDGET GAP	0	(18)	(122)	(174)	(282)

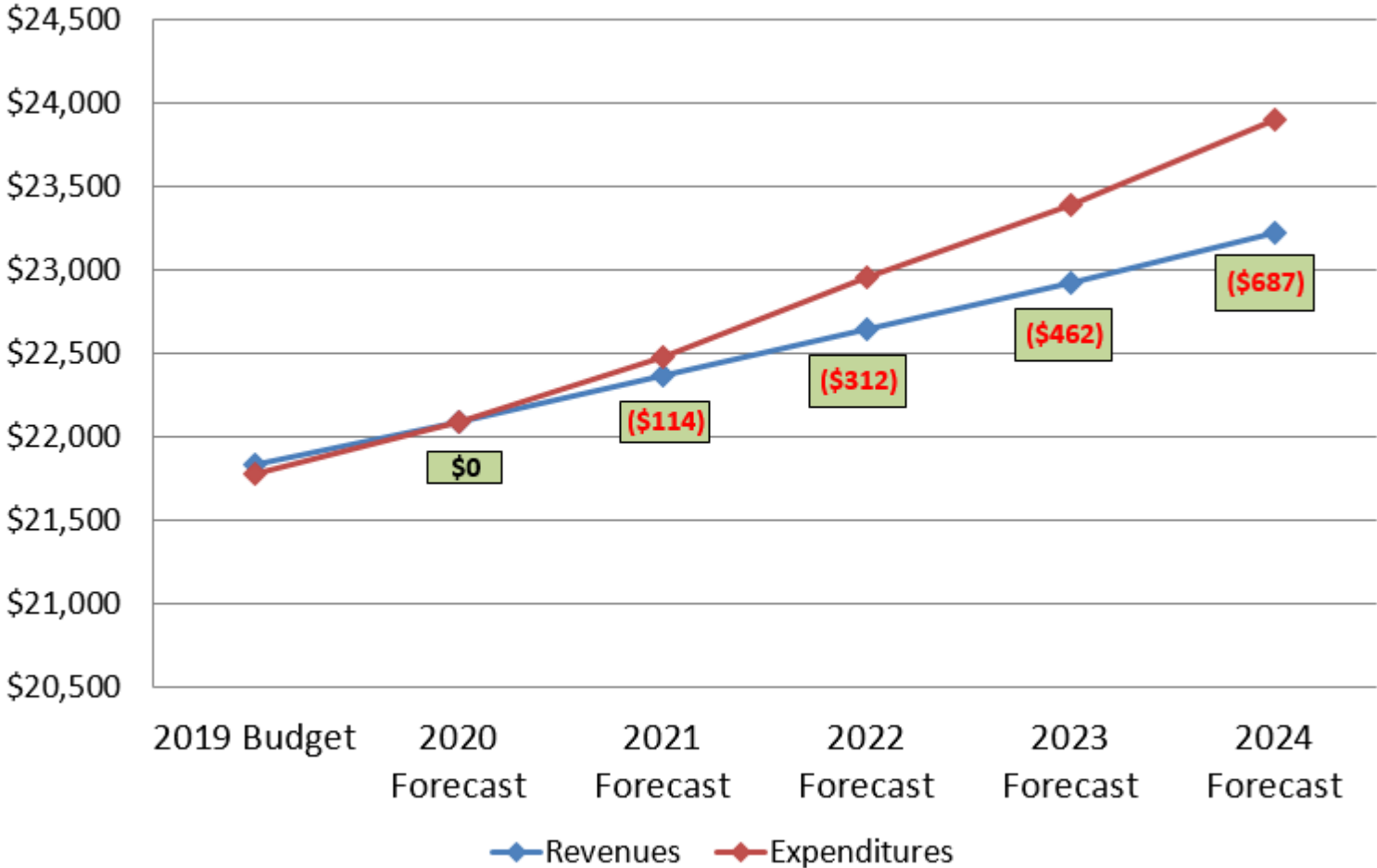
General Fund Forecast: Base Growth (2021-2024 Net New Construction = 2.25%)

Forecasted General Fund Budget Gap (in Thousands)



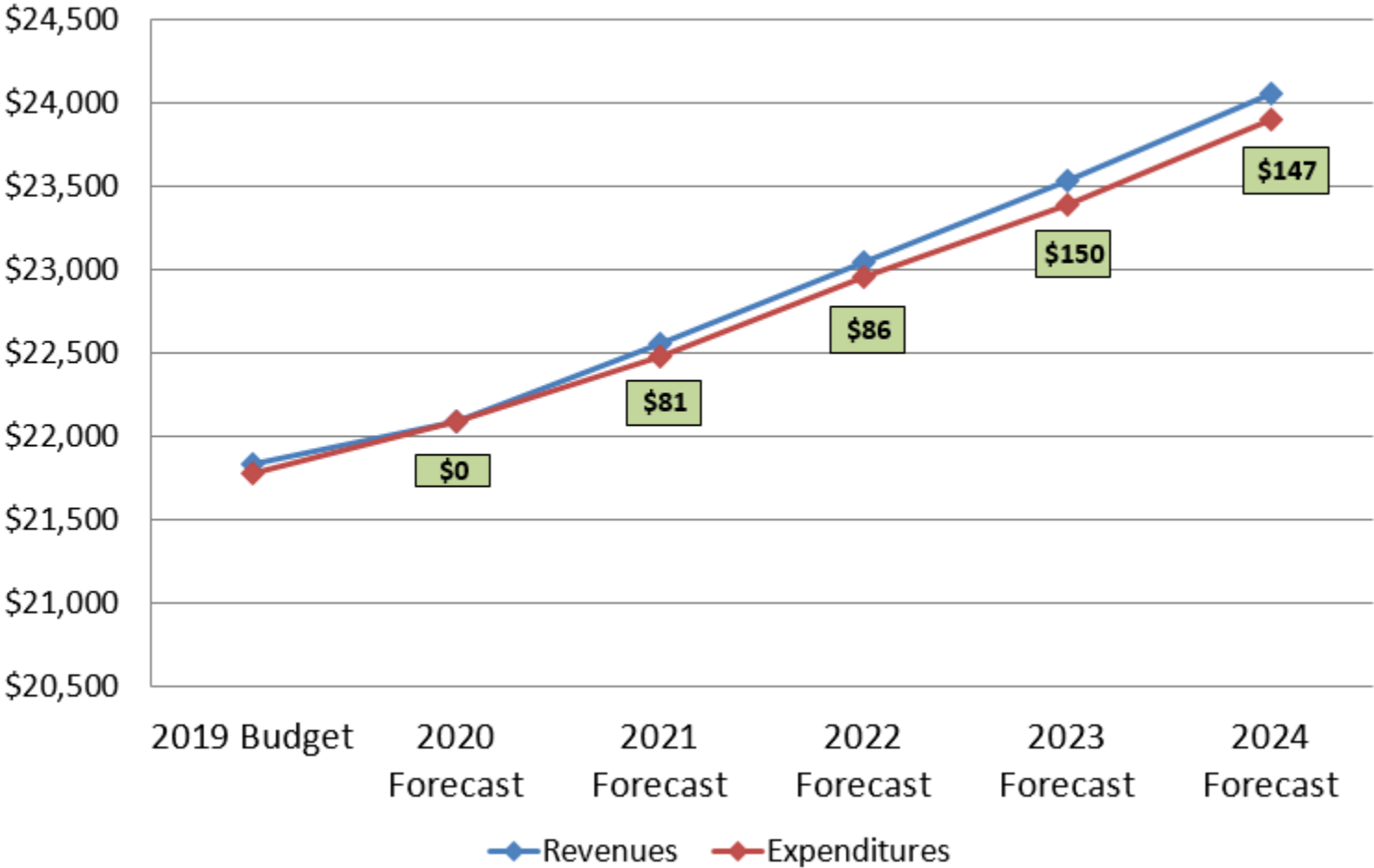
General Fund Forecast: Low Growth (2021-2024 Net New Construction = 1.50%)

Forecasted General Fund Budget Gap (in Thousands)



General Fund Forecast: High Growth (2021-2024 Net New Construction = 3.0%)

Forecasted General Fund Budget Surplus (in Thousands)



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Alternative Funding Sources

Funding Alternatives Discussed in the 2019 Budget process

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- Public Fire Protection Direct Billing
 - ▣ *Implemented in 2019*
- Increase Storm Water Utility Fees & Scope
 - ▣ *Fees increased in 2019 for flood recovery*
- Impose a City Wheel Tax
 - ▣ *Still available, would be on top of Dane County wheel tax*
- Create a Special Charge for Refuse and/or Recycling Service
 - ▣ *Refuse fee would require a referendum*
- Referendum to Exceed the Levy Limit

Funding Alternative: Wheel Tax

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- ❑ Municipalities & Counties may collect a vehicle registration fee
- ❑ Funds must be used for transportation purposes
- ❑ WisDOT collects the fee and keeps \$0.17 per vehicle
- ❑ In 2018 there were 20,836 vehicles registered in Middleton
- ❑ A \$20 fee would generate about \$415,000

Current Municipal Wheel Tax Fees

- Appleton (city; \$20)
- Arena (township; \$20)
- Beloit (city; \$20)
- Bellevue (village; \$20)
- Eden (village; \$20)
- Evansville (city; \$20)
- Fort Atkinson (city; \$20)
- Gillett (city; \$20)
- Green Bay (city; \$20)
- Iron Ridge (village; \$10)
- Janesville (city; \$20)
- Kaukauna (city; \$10)
- Lodi (city; \$20)
- Manitowoc (city; \$20)
- Milton (city; \$30)
- Milwaukee (city; \$20)
- Montello (city; \$20)
- New London (city; \$20)
- Platteville (city; \$20)
- Portage (city; \$20)
- Prairie du Sac (village; \$20)
- Rice Lake (city; \$20)
- Sheboygan (city; \$20)
- Tigerton (village; \$10)
- Waterloo (city; \$15)

Revenue Alternative: Refuse & Recycling

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- Many area municipalities have a special charge paid on the tax bill for refuse / recycling
- A special charge only applies to properties receiving the service, the tax levy applies to all tax paying properties
- A referendum is required to avoid a negative levy limit adjustment for a new refuse collection fee (does not apply to a new fee for recycling)

Area Refuse/Recycling Fees

Municipality	Annual Residential Fee
Cottage Grove	\$51.31
Fitchburg	\$161.00
McFarland	\$116.16
Stoughton	\$165.00
Sun Prairie	\$123.00
Verona	\$170.00

City of Middleton 2019 Budget

Refuse Levy-Supported	\$545,000
Recycling Total Cost	\$303,987
Recycling Revenue	(\$69,138)
Recycling Levy-Supported	\$234,849

Funding Alternative: Referendum

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- ❑ Municipalities may exceed the levy limit if approved by a referendum.
- ❑ The referendum must identify the purpose of the increase and specify if it is one-time or ongoing.
- ❑ A referendum must be approved by resolution after the community knows the allowable increase under the levy limit (August 1)
- ❑ A referendum for the 2021 budget (2020 tax year) could be included in the 2020 November election.
- ❑ Statewide only about 17 municipalities have passed referendums increasing their levy limits.

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Budget Timeline & Process

Budget Process

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- Budgets Requests: Base plus Decision Items
 - ▣ Revenue Base = projected revenue w/o new fees or changes in rates
 - ▣ Personnel Base = cost of authorized positions & benefits
 - ▣ Operating Base = 2019 budget level
- Admin/Finance meetings with departments to review requests prior to presentation to Finance Committee
- Departments present their budget requests
- Following presentation of requests, Admin/Finance will prepare scenarios for consideration by FC/PC

Budget Timeline Key Dates

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- July 16: Budget Kickoff Meetings
- August 9: Capital Requests Due
- August 23: Operating Requests & Narratives Due
- September 4: Finance Cmte. Review Capital Imp. Plan
- September 9: Budget Book Distributed
- Sept 11 & 19: Finance Cmte. Review Dept. Requests
- October 2: Joint Finance & Personnel Cmte.
- October 10: Finance Cmte. (Public Hearing Recom.)
- October 15: Regular Council: Authorize PH Notice
- November 13: Special Council: Budget Public Hearing
- November 19: Regular Council: Budget Approval

Potential Budget Goals / Direction from the Finance Committee

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- ❑ Qualify for Expenditure Restraint Program in 2020
- ❑ Utilize the full capacity under the levy limit program
- ❑ Continue funding the Capital Improvement Plan with \$3.5 million in annual general capital borrowing
- ❑ Continue full funding of the Vehicle Replacement Plan
- ❑ No new personnel in 2020
- ❑ Develop 5-year staffing plans to show future staffing needs
- ❑ Begin discussions of a potential operating budget referendum in 2020 or other alternative revenue sources