

# ***CITY OF FOND DU LAC - Memorandum***

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**To:** City Council

**From:** Joseph P. Moore, City Manager

**Date:** August 28, 2020

**Subject:** Budget Communications – 2021 Proposed Budget

Our City’s budget for 2021, as summarized in this memo and further detailed in the attachments, is balanced, supports our varied missions, conserves financial resources, reduces debt, and protects our bond rating. Importantly, reviews of our financial management, by both external auditors and by bond rating agencies confirm the soundness of our internal controls and our long term financial credit worthiness. This budget focuses on the requirement to operate within state and local constraints while meeting the needs of our Citizens and positioning the City for a sound financial future.

The City’s 2021 budget forecasts a reduction in overall revenues and expenditures with a decrease in the equalized property tax rate in excess of 4%. The 2021 budget provides for all operational and capital departmental requirements, except for personnel additions to police and fire/rescue.

Notable highlights of property values:

- The equalized value of real and personal property continues to grow. For the first time ever the city’s total equalized value exceeded \$3 billion, increasing 5% over last year and nearly 20% since just 2015. Additionally, net new construction increased by over \$49 million, or 1.64% in the past year.
- The City’s Tax Incremental District (TID) portfolio continued to thrive, showing over 18% annual growth in value since last year. Each of the City’s 14 TIDs grew in value, equating to over \$23 million. The City’s TID portfolio accounts for just over 4% of equalized value, which is well within the statutory limit of 12%.

Notable highlights of the 2021 budget:

- The City will continue to provide the same level of services, with no eliminations or reductions.
- The City has demonstrated its ability to provide uninterrupted services during the COVID19 pandemic. We are prepared to continue the current extraordinary measures for the duration of 2021.
- The application of \$1.6 million of fund balance to the 2021 budget positions the City to maintain a reserve above its 15% policy requirement.

- Due to budget uncertainty at the State level related to the effect of COVID19, we are estimating a 5% reduction in State Shared Revenues and have reduced our anticipated intergovernmental revenues accordingly. Any reduction to what the City receives from the State will only occur if the State Legislature passes a Budget Repair bill in 2021.
- We are projecting a 50% reduction in investment earnings. Interest rates went from 1.8% in March down to 0.3% for July. Rates are not anticipated to rebound for 2021.
- In addition to contractually negotiated raises for union employees, we have budgeted for a 1.75% increase for non-represented employees.
- General fund spending decreased 0.7% compared to 2020.
- No projects or funds are included related to the Lakeside Park Master Plan.

For the 2021 budget the debt service effect on the levy limit calculation has stabilized with relatively little difference between 2020 and the upcoming year. In 2014 we implemented a strategy to accelerate our debt repayments by abandoning the practice of amortizing debt over a 10 year period with the intent to refinance the debt for an additional 10 year period thereafter, thus creating a 20 year life for most of our municipal debt. Since then we have committed to issuing debt and repaying it in 10 years.

We maximized the opportunity provided by the collapse in interest rates in the municipal debt market by refinancing roughly \$12 million in outstanding debt that was above current market rates. By virtue of this refinancing we eliminated all remaining balloon payments in our debt portfolio related to the previous strategy of stretching debt payments over a 20 year period.

This had the short term effect of increasing debt service payments on an annual basis, which also increased the levy, but in 2021 that effect subsides. As a result, we forecast a 4% reduction in the debt service fund allocation.

And, we are reaping the benefits such as;

- savings from reduced interest payments
- avoiding repayments for assets purchased we no longer have because the life of the repayments (20 years) outlasted the life of the asset
- eliminating the risk of adding debt at a rate in excess of our repayment for that debt and thereby invoking debt constraints for future CIPs due to the City's debt limit policy,

The City's statutorily imposed levy limit decreased from \$27,921,183 in 2020 to \$27,792,210 in 2021, or a decrease of 0.46%. A change in the accounting for TID financing debt in our levy limit calculation resulted in the decrease in levy limit. We are required to increase our levy to cover debt service, except for the debt service used to support TID financing, which is excluded from the levy adjustment calculation.

The 2021 budget preserves the State's Expenditure Restraint Program (ERP) payment to the City by insuring the total General Fund expenditures plus tax levy support to other funds meet the State's ERP limitations. As a result, the City will earn approximately \$900,000 from the State and has incorporated it into the budget as an intergovernmental revenue.

As the basis for calculating the ERP limit, the Consumer Price Index (CPI) provided for only the slightest increase in expenditures. Although, by increasing intergovernmental revenues, the ERP payment the City receives substantially reduces the use of fund balance.

The combined effect of a growth rate in equalized value of 5% and a levy decrease of 0.46%, produced a decreased equalized property tax rate of 4.5%. This is the second year in a row that the combination of equalized value and levy provided a decrease in the equalized property tax rate.

The following list highlights other areas that you may find worthy of special attention as you review the budget information for the coming year:

- The City's tax levy support to the library will increase by 1.75%.
- The City's tax levy support for the residential recycling program special revenue fund is increased by \$100,000 to offset no increase in State grant funding combined with higher contractor costs.
- There are no increases budgeted for 2021 Water Utility and Wastewater rates.
- There are no increases in residential solid waste collection fees.
- We approach 2021 with the Public Service Commission's approval of the City's Lead Service Line replacement program now permanently embedded in our planning for street reconstruction and lead pipe abatement.
- For the first time in the City's history we will enter a new year having achieved accreditation for all aspects of public safety. The 2021 budget will preserve and build upon the multi-year capital investment strategy in training, supplies and equipment to achieve this elite status.

Overall, I am very optimistic about the many good things happening within City government, our ability to deliver services with excellence and a positive attitude and for the tangible improvements others are contributing, such as expanding employment as well as new retail, commercial, dining and residential properties. The details for our 2021 budget, which follow, will give you a better understanding of how we intend to maintain that positive momentum in the context of revenue constraints coupled with growing debt service requirements.

### **General City Revenues**

Total combined general fund City revenues available to support general fund City operations and services for 2021 decreased by a total of \$240,514 or 0.7%. Some of the factors included in this figure are:

- **Property Tax Levy Limit**  
The 2021 budget complies with the state-mandated property tax levy limit. The property tax levy limit is allowed to increase by an estimated net new construction of 1.64%, plus the increase in general debt service principal and interest payments.
- **Fund Balance Applied**  
The 2021 budget applies \$1,127,432 more of available fund balance than the 2020 budget.

- **Interest Rates**  
Anticipated interest revenues decreased by \$357,000 due to the significant decline in investment interest rates.
- **State Shared Revenue**  
A 5% reduction in State Shared revenues resulted in a decrease of \$277,439.

### **Personal Services (Salaries, Wages and Benefits)**

Due to the service nature of City operations, approximately 70% of the City's budgeted operating costs are for employee salaries, wages and benefits. Of the workforce supported by the general fund, 58% remain part of a collective bargaining unit. The labor contracts for the Fire/Rescue, Police and Transit are in effect through 2021. Due to a combination of factors including changes in wages and benefits, employee turnover, and increases in health insurance costs, net total 2021 budgeted general and special revenue fund labor costs have increased by \$651,731 or 2.3% compared to the 2020 budget.

- **Wage Adjustments**  
Total salaries and wages for all general and special revenue fund employees is budgeted to increase by 2.6% or \$538,675 compared to the 2020 budget.
- **Health Insurance**  
The City's share of budgeted general and special revenue fund health insurance costs are increasing by \$64,802 or 1.8% compared to the 2020 budget.
- **WRS Pension Costs**  
The City's share of total budgeted general and special revenue Wisconsin Retirement System (WRS) pension costs increased by \$84,489 or 3.5% from 2020 to 2021. The 2021 WRS general employee employer-required pension rates remained flat when compared to 2020. Fire and police employer required pension contributions both increased 0.10%.

General, Transit, Police public safety and new employees in Fire and Rescue public safety employees share in the same 6.75% of salary share towards WRS pension costs and any WRS rate increases or decreases. Public safety employees in the Fire and Rescue Department hired before Act 10 negotiated to begin sharing in a portion of the employee share of WRS starting in 2018.

- **Personnel Changes**

No new positions are included in the 2021 proposed budget.

During 2019 and 2020 City Council meetings, we provided data during numerous input sessions and held extensive conversations with Council on the addition of 6 Fire/Rescue and 6 Police positions. Though the need for these 12 positions has been demonstrated and we believe validated, they have not been included in the 2021 budget because we cannot provide sufficient resources to fund them. In summary, the addition of these 12

positions would permanently provide for a fully staffed fourth ambulance and two additional police patrols.

Funding these positions from internal sources would mean reducing departmental budgets across the board in order to transfer additional funds to Fire/Rescue and Police. These permanent reductions, totaling around \$1.3m, would significantly impact other services provided by the City.

We concluded that there are no additional revenues available to the City from external sources and that the reductions to non-public safety services would be crippling to them. As a result, we will offer a proposal to the City Council to raise revenue via referendum. Such a referendum could be submitted to the electors as early as the spring election of 2021 with the Council's approval.

If such a referendum were approved by the electors at any time in 2021, the levy limit it would authorize would not affect the 2021 budget. Instead it would provide for additional revenue in 2022. Thus the hiring of any newly authorized firefighter/paramedics and police officers would begin no earlier than January 2022.

Split between the 2021 Fire/Rescue and Police budgets is \$40k to be used to hire a consultant to assist the City in preparing for a 2021 referendum, should Council wish to approve that option for acquiring the necessary funding for police and fire. All other financial and operational procedures currently in place for Fire/Rescue and Police will remain throughout 2021.

From all indications, there are no changes on the horizon from the State Legislature pertaining to levy limits, the expenditure restraint program or shared revenue. As a result of no expected changes to these factors, it is anticipated that these constraints will affect this, and subsequent years, budgets. It is reasonable to assume, given that levy limits do not account for inflation, that these constraints will exert even more pressure in the coming years. These pressures make personnel additions even more difficult to accommodate without external funding sources.

### **Services, Materials and Supplies Expenditures**

Total budgeted general and special revenue fund contractual services, materials and supplies and utility costs are decreased by \$32,382 or 0.3% compared to the 2020 budget.

### **New or Increased Expenditures**

New or increased expenditures included in the 2021 operating budget are as follows:

- **City Manager**  
Nonrecurring \$50,000 cost for updating the City's Emergency Management Plan.

### **Transit Local Share Funding**

Transit receives approximately 56% of its operating funds from Federal and State formula grants. As a part of each grant, Transit is required to provide a local share amount, which for the City

requires allocation of tax levy dollars. As Transit expenditures rise, the amount of local share also rises.

In 2020, the Transit received \$1.7 million in CARES Act funding for Transit operations. These funds can be used to offset only a portion of the local share dollars required. In order to comply with Federal and State formula grants, tax levy support to Transit reduced by \$75,000 with the intent to use CARES Act funding as a replacement.

### **Capital Funded by Operations**

The 2021 budget continues funding of annually recurring capital projects funded by using operating revenues rather than long-term debt. Capital financed by tax levy in the 2021 budget is \$1,972,765 compared to \$1,724,500 in the 2020 budget (see the capital improvement plan for detail). Responsible budgeting of operating costs as well as the amount of available general fund balance allow for the significant pay-as-you-go financing of capital projects.

- **Police**

Police squad video and body worn camera system funding of \$255,000 is included in the 2021 Capital Projects budget. These funds will allow for the replacement of the existing police squad video system that was implemented in 2014 and is nearing the end of its life expectancy. While replacing squad video, the Police Department intends to provide a complete recording system and incorporate body worn cameras. Body worn cameras allow the department to capture and preserve the critical data from incidents outside the reach of in-squad cameras. This will help determine training needs and mitigate department and City liability.

### **Capital Funded by General Obligation Debt**

The amount of general capital projects funded by general obligation (G.O.) debt included in 2021 is \$11,115,500, with various Street Reconstruction projects, and the Lincoln & Thomas Pump Station Upgrade being the largest. This figure represents 8.1% of the City's projected overall G.O. debt level at the end of 2021. Please see the capital improvement plan for details.

- **Public Works**

Public Works capital improvement plan for 2021 includes a continued increase in funding for street maintenance projects throughout the city, in order to extend the linear miles repaired, with an emphasis on the lowest rated pavements. The amount increased from \$270,000 in 2019 to \$650,000 in 2020 and \$700,000 in 2021. The additional money will allow for three-times as many chip sealing or overlay projects to be completed than have been normally scheduled.

- **Police**

The Police Department is currently utilizing off-site long term storage for evidence and property. As an accredited agency, our Police Department collects and preserves evidence according to best practices and industry standards. During the self-assessment phase of obtaining accreditation, it became apparent that the current physical space at the Police Department no longer provided adequate space and physical make-up to store large/long term evidence according the industry standards.

As a result, included in the 2021 Capital Projects budget is \$747,500 to purchase and harden the off-site facility currently being used. The location and size of the site will also allow for future expansion as City needs and priorities change.

### **Other G.O. Debt Considerations**

The G.O. debt the City issues in 2021 will continue to be for a term of 10 years. This practice more closely matches the useful lives of the assets or projects acquired with the debt to the debt repayment terms. The City's bond rating agency, Standard & Poor's, also looks more favorably on shorter debt repayment terms.

G.O. debt payments and the property tax levy required for debt service have now stabilized. The overall G.O. debt level, including new debt for general capital projects, ranges from \$81.4 million in 2024 to \$85.5 million in 2023, with the average debt balance from 2021-2025 at \$84.0 million .

### **Utility Debt**

The Water Utility will borrow for several projects over each of the next five years, with the largest projects being Water work performed as part of annual Department of Transportation projects. The average payment of \$3.7 million of principal annually over the next five years is higher than the new projects funded by debt, resulting in the Water Utility debt decreasing from \$27.4 million in 2021 to \$20.0 million in 2025.

The Wastewater Utility will borrow for several large phosphorus compliance projects over some of the next five years, with the largest three being \$10.4 million in 2022 for treatment process and plant modifications/biosolids dryer design, \$24.5 million in 2023 for EQ storage tank/biosolids dryer construction and \$14.9 million in 2025 for WQT/filters/biogas utilization construction. These large projects will result in the Wastewater Utility debt increasing from \$19.8 million in 2021 to \$48.4 in 2025.

### **Utility Rates**

The 2021 budget does not include Water or Wastewater Utility rate increases. The 2016 Water rate increase was the first increase since 2010. Wastewater Utility rates included in the 2021 budget remain at the same level as 2009.

### **Use of General Fund Balance**

A goal of the 2021 budget is to maintain a general fund balance for working capital purposes of at least 15% of budgeted expenditures, in keeping with City policy. \$1,607,863 of available general fund balance will be applied to the 2021 budget. The resulting unassigned general fund balance remaining after balancing the 2021 budget is estimated to be \$6,448,559 or 19.3% of budgeted annual general fund expenditures. The amount of fund balance applied to the 2021 budget is subject to adjustment as the balancing figure for any revenue and expenditure adjustments made as this budget is adopted and thereafter.

### **On the Horizon (For the Future)**

Budget challenges will persist in 2021 and beyond. Some of the challenges facing the City in its 2021 budget and beyond include:

- We expect that property tax levy limits will remain in effect for the foreseeable future. The levy limit is allowed to increase only by the rate of growth in net new construction, in addition to any increases necessary to cover increasing debt principal and interest payments.
- We have identified only one viable option for generating the revenue required to grow the police and fire departments capabilities. A successful referendum is necessary in response to previous and forecasted increases for service.
- We are concerned that the effects of COVID19 tempered our employees' and their families' willingness and ability to obtain medical services. Thus the demand for such services dropped significantly in 2020. Our concern, as it pertains to the 2021 budget and beyond, stems from our uncertainty about how the demand for those services and their associated costs could increase as deferred medical needs are addressed.
- Implementation of the Lakeside Park master plan remains uncertain. Both the results of the feasibility analysis, due for publication later this year, and the possibility of direct legislation in the spring of 2021 could significantly impact what will be planned for investment and construction in 2021.
- While our Wastewater Treatment & Resource Recovery Facility (WTRRF) has taken great strides in promoting biological phosphorus removal (BPR), the facility was not designed for this. Phosphorus compliance is regulatory driven by the development of the total maximum daily load study. Future investment will need to be made in our facility to meeting the regulatory requirements, and will be informed by the recently completed WTRRF master plan.
- Scheduled increases in the City's general obligation debt principal and interest payments over the next five years will result in increases in the property tax levy to pay for the increasing debt payments. As noted above, although the debt payments increase over the next few years the amount of outstanding G.O. debt balance is declining.

### **Acknowledgements**

I wish to thank the City Council and the City staff for their cooperation and team spirit in this process. I would like to especially thank the staff of the Comptroller's Division for their efforts in preparing and compiling the budget documents.

Please feel free to contact me or the Director of Administration if you have any questions regarding the 2021 Proposed Budget.



Joseph P. Moore  
City Manager