

Memorandum

To: Village President Mark Sundquist and Board of Trustees

From: Karl Frantz, Village Administrator

Date: November 4, 2016

Re: 2017 Village Fund Budgets

General Fund

The proposed 2017 general fund revenue and expense budget is balanced at \$3,702,804. This is an increase over the 2016 budget in the amount of \$124,045 or 3.4%. The major contributing factors to the increase are a \$50,000 increase in annual hydrant rental/public fire protection[†] \$32,000 to perform a full revaluation of the Village, and a \$40,000 increase in debt service. The general fund is the chief operating fund of the Village.

The Village final general fund tax levy will increase .005% to \$2,563,496 or \$14,189 which reflects a \$25.00 increase on the Village portion of the property tax bill for a median valued Village home with an assessed value of \$588,000. This is the maximum amount the Village can increase the levy due to state imposed levy limits. The Village's major source of revenue to fund general operations is the tax levy. Currently levy limits are determined by the increase in net new construction in a municipality. For the Village this percentage is almost always less than 1%.

Multiple forms of state imposed levy limits that have been in place over the course of the last ten years have presented challenges for the Village financially. The Village has had to identify other funding sources in order to maintain services at a consistent level. One of those sources is fund balance or the Villages savings. In 2017, the Village is applying \$186,588 of funds to balance the budget. In 2016 the Village budgeted the use of \$88,416 of fund balance that will not be used due to increased revenues from permits. In addition, the Village realized \$297,000 in revenue from the sale of property that will be used in equal amounts over four years (\$74,250 per year) to apply to the budget, and the general fund will receive a repayment of approximately \$25,000

[†] Public Service Commission regulations require that water rate payers not pay the costs associated with over sizing of pipes to provide enough volume to fight fires. When rates are approved by the PSC the amount of public fire protection expense is calculated by the PSC and must be placed on the tax levy or if charged as a special fee the tax levy decreased by that amount.

from a \$143,000 advance from Tax Increment District 4. The above factors are what were used to decide on the appropriate level of fund balance application in 2017.

The Village is also using money that has accrued over time in the capital fund outside of debt to fund some equipment and computer purchases that up until now have been budgeted in the general fund. These items include a squad vehicle (\$28,960), police equipment (\$16,000) and computers (\$4,500) (See capital fund budget for more detail).

General Fund Balance

Fund balance is a critical component of Village finance and budgeting. It is important to have an adequate fund balance in order for the Village to be able to cash flow without the need for short term borrowing as well as to have reserves to deal with unforeseen expenses or emergencies that could arise. Having an adequate reserve also allows the Village to advance money to other funds that may have short term deficits or cyclical cash flows, such as the utilities and tax increment districts. Fund balance is also an important factor rating agencies look at when assigning a bond rating at times when the Village contemplates borrowing funds. The Village has an AA+ bond rating. That is the highest rating we can expect to achieve. AAA is impossible due to our small size.

On the other side of the equation, the Village does not want to accumulate excessive fund balance and be overtaxing property while having excess cash on hand. Over the course of the last four years the Village relied on over \$500,000 of one-time cash derived from fire equipment sales as a revenue source to balance budgets. In 2017, this source of revenue will not be available. However, the Village has received significant revenue from building permits from large commercial projects over the last few years. In 2016, almost \$150,000 total. A typical year without large projects permit revenue is more like \$30,000. In addition, in 2016 the Village sold a piece of property adjacent to Village Hall to facilitate a redevelopment project which brought in another \$297,000. It seems prudent to utilize some of these funds to help balance the budget while being cognizant of the fact that these revenues sources are one time and once the funds are used they cannot be replaced. With this in mind, the Village Finance Committee recommended that the \$297,000 in land sale proceeds be assigned to be used in equal amounts over the next four years to help balance the budget.

The Village as part of its Financial Policies and Procedures Manual has a policy to maintain an unassigned general fund balance that is between 15-25% of annual expenditures. At the end of 2015 unassigned fund balance was \$779,283 or 22% of 2016 budgeted expenditures. In addition, there is \$183,942 of nonspendable fund balance mostly in the form of advances to other funds that are expected to be paid back to the general fund over the next four years. Between the additional building permit and land sale revenue the Village may be able to maintain almost this level of fund balance next year, despite using \$186,588 to balance the budget.

Supporting Documentation

For more detail on the general fund budget please refer to additional documents in this binder. The Finance Committee minutes provide excellent and detailed background on the 2017 budget

from its initiation, refinement, to the final product. The entire line item budget is also included as well as line item budgets by department, accompanied by a departmental narrative that provides more insight into the operations of the departments, their accomplishments and future needs.

Debt Service, Water, Sewer, Stormwater, Waterfront, Pool, TID III, TID IV, Capital Funds

A line item budget worksheet is also included for each budget.

Debt Service Fund (300)

Debt service payments are \$893,330 excluding utility and TID debt that are accounted for in their respective funds. General tax levied debt as well as pool and water fund transfers for debt payments show as revenue and expense in this fund. Except for some occasional anomalies this fund should zero out each year. For details see the worksheet.

Water Fund (600)

The Village anticipated a rate increase in both the 2015 and 2016 budgets that did not occur, the main reason being a need to know the outcome of a prolonged rate case submitted by the City of Madison. The Village needed to know what new wholesale rates would be before submitting our own rate case. New rates reflecting a 49% increase were finally implemented beginning October 1, 2016. 2017 revenues are projected at \$619,444 and expenses at \$610,454. The 2017 water utility budget includes a \$65,000 advance repayment to the capital fund. The advance owed at the end of 2016 was \$381,046 and the utility will continue making these payments over the next 5-6 years. The Village has converted to monthly billing and also now offers ACH beginning with the October bill. Increased debt due to water main replacement as well as no rate adjustments since 2009 are the major reasons for the large increase. 65% of water utility expenses are attributed to the cost of water we purchase, debt service and fund advances we are repaying.

Debt service is in the \$200,000 annual range through 2018 and then drops to \$120,000-\$135,000 through 2024. The Village will be filing a new rate case to ask for relief on increased public fire protection expenses that are paid by the general fund.

Sewer Fund (200)

A rate increase of 19% was approved coinciding with the water rate increase. Capital projects and resulting debt and no rate increase since 2009 are the major factors necessitating the increase. The Village pays the Madison Metropolitan Sewer District for treatment costs that generally have increased 3% per year.

The 2017 budget projects both revenues and expenses of 354,414 this includes a \$32,651 payment for an advance from the capital fund that totaled \$76,794 at the end of 2015.

Debt service is in the \$100,000 range though 2018 and then drops to approximately \$60,000 through 2024. The Village lined a major sewer main along Lake Mendota in 2016.

Stormwater Fund (500)

The stormwater fund has a fund balance of approximately \$180,000. This cash accumulated in the early years of the utility when there were not many expenses. Over the last few years the utility has been drawing on its cash reserves. Debt service has increased as the Village has installed rain gardens and also replaced and extended pipe and inlets. Maintenance and up keep of rain gardens has also been paid for through this fund. We also pay for the crew's time sweeping streets and some leaf collection expense. This has been another way to fund expense outside of the tax levy, but municipalities may no longer do this going forward. As fast as municipalities can find ways to try and fund basic services through alternative methods, those in control at the state level legislate more prohibitions, usurping local control.

We recently have made major improvements to a conveyance way to Lake Mendota in an area known as Big Foot Park but which should probably be more appropriately termed a stormwater and sanitary sewer access and conveyance area.

Revenues in 2017 are projected at \$155,095 and expenses are \$195,115. Debt service is in the \$100,000 range through 2018 and then drops to about \$80,000 through 2024.

Waterfront Fund (220)

The fund balance in the waterfront fund at the end of 2015 was \$43,511. Revenues in 2016 are projected at \$63,084 and expenses of \$69,358. A storm event necessitated emergency repairs that totaled \$9,185. This will act to decrease the fund balance.

In 2017 revenues are projected at \$68,119 and expenses are projected at \$61,566. It is possible that the Waterfront Committee will also increase fees.

Pool (210)

Fund balance at the beginning of 2016 was \$233,432. 2016 revenues were \$569,396 and expenses \$568,368. Debt service was \$119,000 in 2016 and is \$114,000 in 2017. Debt service then drops off to an average of about \$8,500 annually through 2030.

We have not yet received a budget from the Pool Committee so 2017 numbers will change. These are Administration estimates. 2017 expenses are projected at \$563,500 and revenues \$569,349.

TID III Fund (450)

Tax increment in 2016 is projected at \$535,558. Increased tax base of roughly \$10,000,000 from the 700 UBD project will significantly increase increment in 2017. Debt service is approximately \$500,000 per year. \$753,000 in debt for projects was issued in 2015 and the resulting fund balance at the beginning of 2016 was \$849,691. Approximately \$300,000 will be spent on the University Bay Drive widening project that is underway now and somewhere between \$150,000-\$200,000 will be reallocated to general debt service for 2016 road projects. The district will also begin paying a municipal revenue obligation to 700 University Bay Drive for a developer financed TIF incentive.

Near term future projects will include bike path extensions and completion of Marshall Court when and if additional redevelopment occurs. These projects will require additional borrowing. We have budgeted \$56,643 for a short extension of the bike path from University Bay Drive to the street running up to Marshall Court between 700 UBD and Arbor Crossing. We received a \$22,400 grant for that project also.

TIF IV Fund (470)

TIF IV has been advanced \$143,513 from the general fund. The Village also borrowed \$100,000 in 2015 for projects in TIF IV. The projects are associated with improvements to Locust Drive, bike path and sidewalks. Total debt in TIF IV is \$1,063,884, the vast majority of which is a development incentive for the Lodge I and Walnut Grove Shoppes. The TID began paying on that municipal revenue obligation in 2016 in the amount of \$91,284 annually.

It appears that TIF IV should be in a position to repay the advance in an amount of \$25,000 or more per year based on current annual revenue and expenses and will close with a surplus in excess of \$1,000,000.

Closure of the two tax increment districts in 2028-2031 will add significantly to the Village general tax base, increasing annual Village only collections by about \$400,000 based on certain assumptions including tax rates.

Capital Fund (400) and Borrowing Capacity

At the end of 2015 the Capital Fund had \$40,220 in debt proceeds. Those have since been exhausted and additional expenditures have been incurred, specifically 2016 road resurfacing projects. Debt proceeds from TIF III will be used to pay for that project.

The Village has started work to prepare for the construction of a storage building in 2017 at a cost in the range of \$500,000-\$600,000. The Village will need to borrow for this. If the need for additional borrowings arise this could be part of a larger issue and taken to market. If it is a stand alone borrowing we may want to utilize the State Trust Fund and then pay that off when we do a larger issue in the future, depending upon interest rates.

The Capital Fund had advanced \$457,840 of non-borrowed funds to the utilities the end of 2015. Use of these funds as available is at Village discretion. Payback in 2017 is expected to be \$97,000. In 2017, purchase of a chipper (\$45,000) squad vehicle (\$28,960), police equipment (\$16,000) computers (\$4,500) have been allocated to the Capital Fund. \$30,000 has also been added as a placeholder to resurface the Shorewood School walking path.

The Village has the capacity to add approximately on average \$1M of debt per year and stay within internal debt limits. For purposes of example only, the Village could consider a borrowing of \$2.5-\$3M in 2020 and a similar borrowing in 2023 for projects/facilities or multiple other borrowing amount and years could be considered also. The Village will still see a large drop in debt in 2024 and could then again start to embark on major street and utility reconstruction

projects on the west side of the Village when the recently resurfacing projects begin to show their age.

A Word of Thanks

Thanks to the Village President and Village Board, Finance Committee, Police Chief Dennis Pine, Crew Chief John Mitmoen, and Forester Corey George for all of their hard work on the budget and to all Village officials and staff for implementing and carrying out the budget each and every year.

A special thanks to Village Clerk Colleen Albrecht for all of her hard behind the scenes work, as well as Deputy Clerk Karla Endres and Administrative Assistant David Sykes for their help on the budget, its presentation and the production of this packet.

2017

Village of Shorewood Hills Budgets & Finances



Preserving and Enhancing the Community

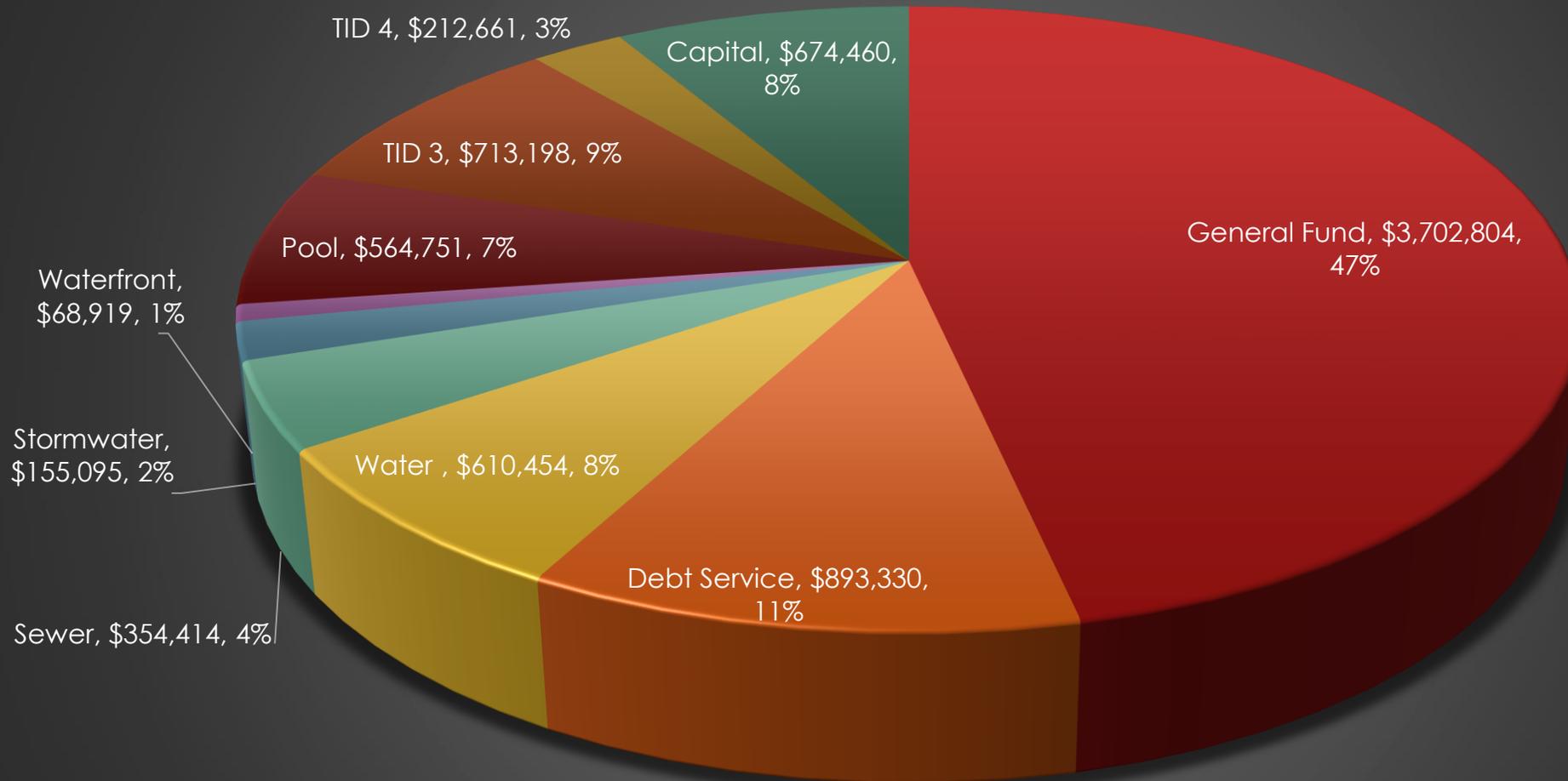
- ▶ What makes this a special place where people want to live?
- ▶ The basics
- ▶ The extras
- ▶ Interdependence. We are what we are partly because of what we aren't. We have what we have partly because of what we don't have.

Funds of the Village

- ▶ General Operating
- ▶ Debt Service
- ▶ Water Utility
- ▶ Sewer Utility
- ▶ Stormwater Utility
- ▶ Pool Enterprise
- ▶ Marina Enterprise
- ▶ Tax Increment Districts (3)
- ▶ Capital Fund

All Village Funds

Total: \$7,950,086



Services Provided and What It Costs

Public Safety 24/7 \$1,669,699 41%

- ▶ Police Protection \$820,099 22%
 - ▶ Patrol
 - ▶ Traffic stops
 - ▶ Check property
 - ▶ Assist fire , EMS, other police, citizens
 - ▶ Parking
 - ▶ Traffic arrests
 - ▶ Training
 - ▶ 7.5 FTE
- ▶ Fire/EMS \$696,709 19% (includes Hydrant rental \$168,281)

Services Provided and What It Costs

Public Works 24/7 \$559,894 16%

- ▶ Pick up brush, greens and leaves
- ▶ Plow and maintain streets
- ▶ Sewer, water, stormwater separate funding
- ▶ Maintain equipment/facilities
- ▶ Respond to emergencies
- ▶ Open & close pool and parks
- ▶ Lots of odd jobs/projects
- ▶ 5 FTE

Services Provided and What It Costs

Utilities 24/7 \$1,159,983

- ▶ Water \$610,454 (65% debt, purchased water)
- ▶ Sewer \$354,414
- ▶ Stormwater \$195,115
 - ▶ Work performed by Public Works and Admin Staff

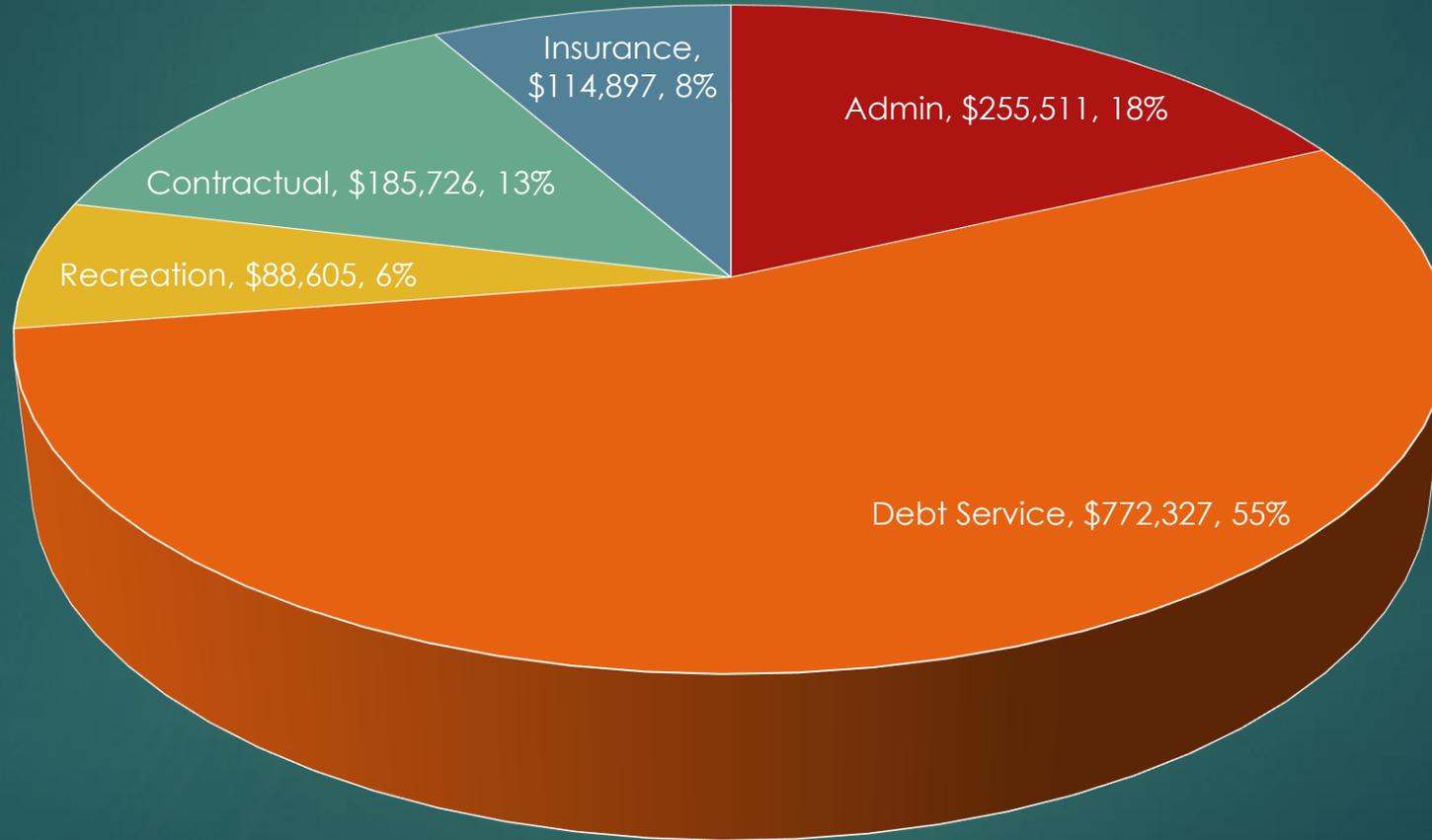
Services Provided and What It Costs

General Gov/Admin \$1,417,065 38% *

- ▶ Facilitate the Democratic Process
- ▶ Finance/Accounting
- ▶ Elections
- ▶ Planning/Development
- ▶ Administer recreation programs/pool/marina
- ▶ Management and oversight of funds/programs/departments
- ▶ Zoning compliance
- ▶ Assist residents
- ▶ Manage all funds
- ▶ Utility billing/Insurance/Human resources
- ▶ 4FTE

*includes debt, insurance, contractual services

Clerk-Admin



Services Provided and What It Costs

Forestry \$1 69,036 5%

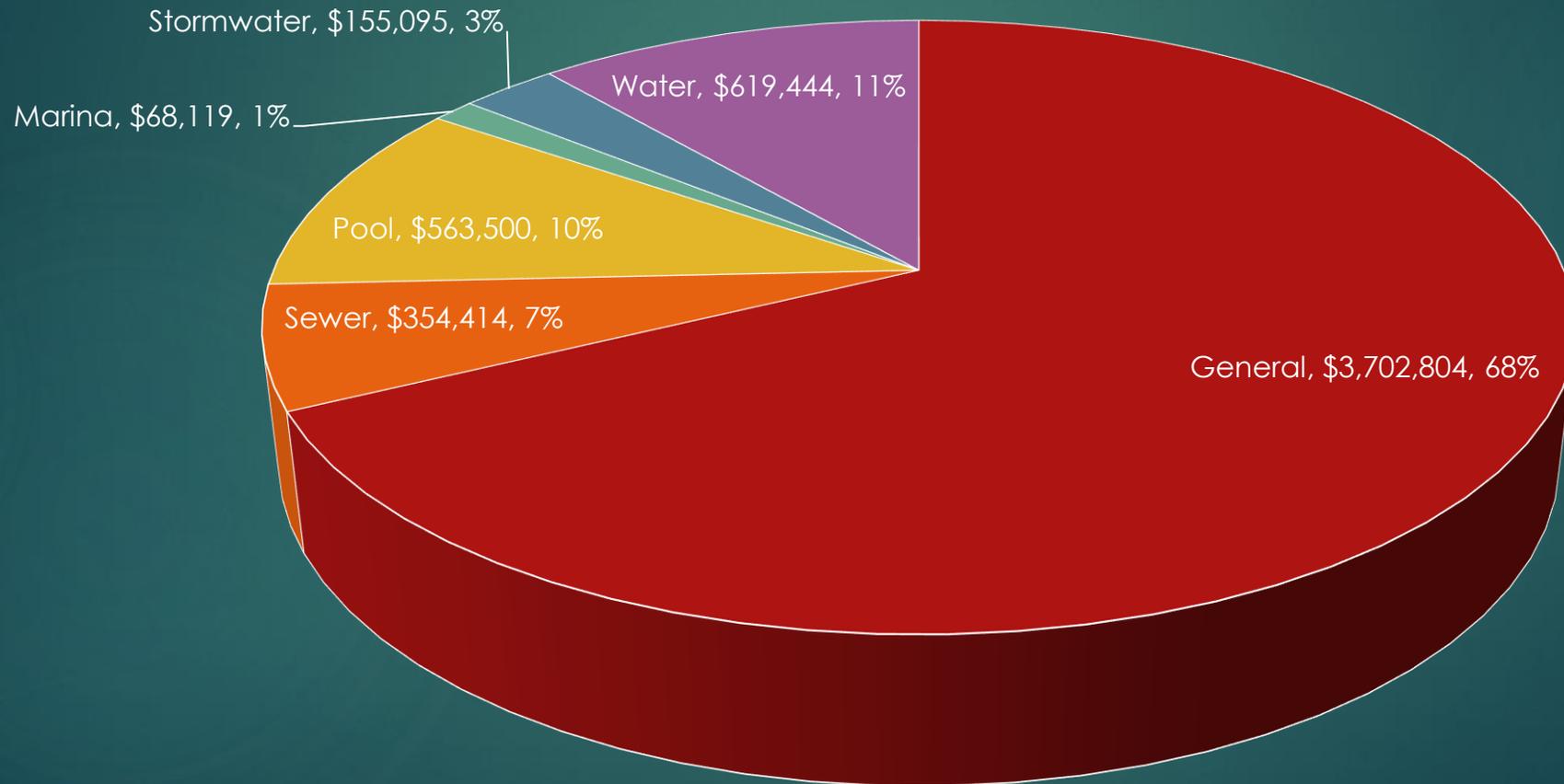
- ▶ Tree Removals
- ▶ Tree Maintenance
- ▶ Plantings
- ▶ Maintaining and improving parks and natural areas, facilities
- ▶ Invasive species eradication
- ▶ Maintenance of bio infiltration areas
 - ▶ 1 FTE with some assistance from Public Works

Services Provided and What It Costs

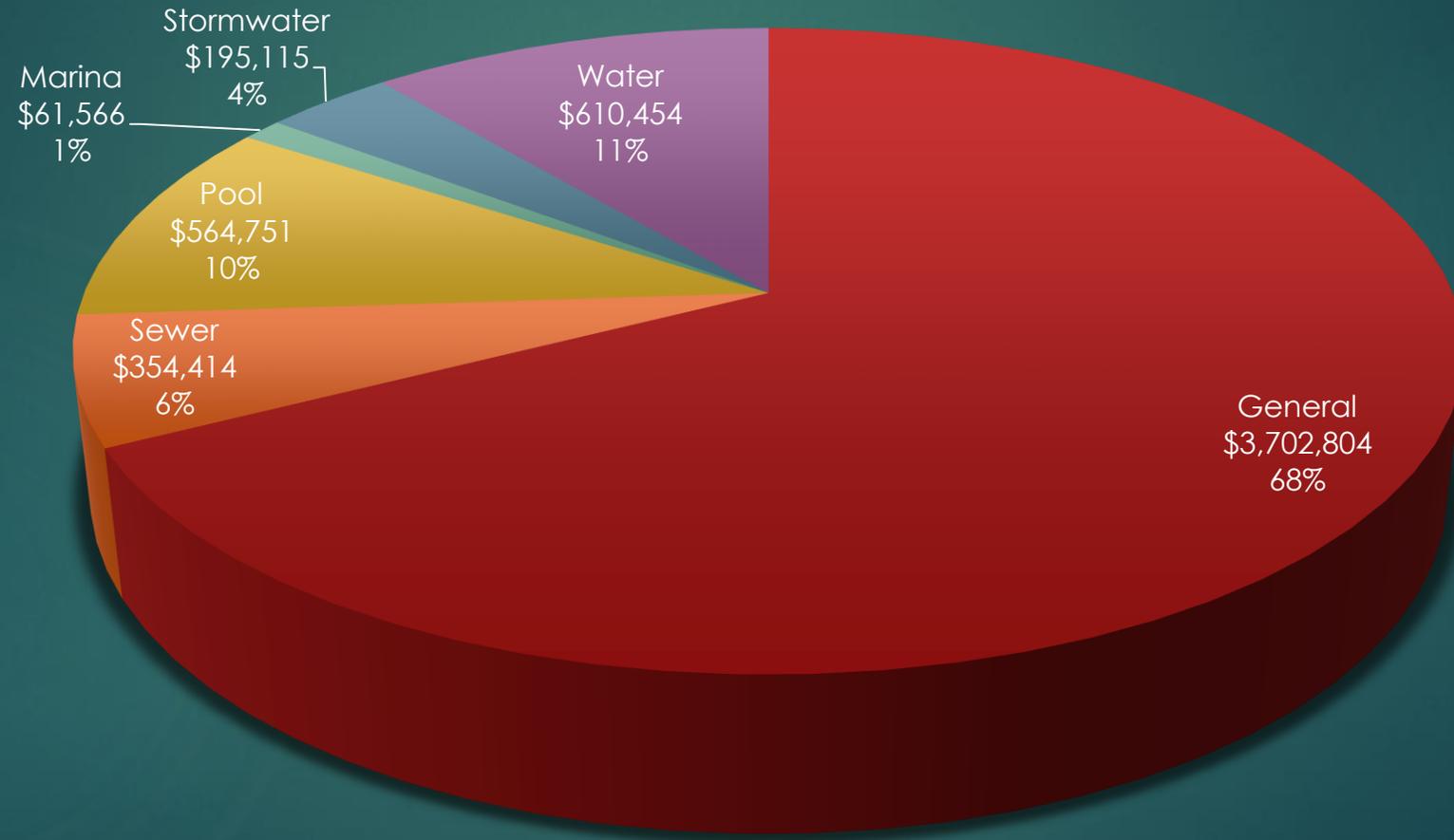
Amenities

- ▶ Pool \$563,500 (self funded)
- ▶ Marina \$68,119 (self funded)
- ▶ Parks and Natural Areas (Forestry, Public Works)
- ▶ Recreational Programming (Fees)

Village Fund Revenues



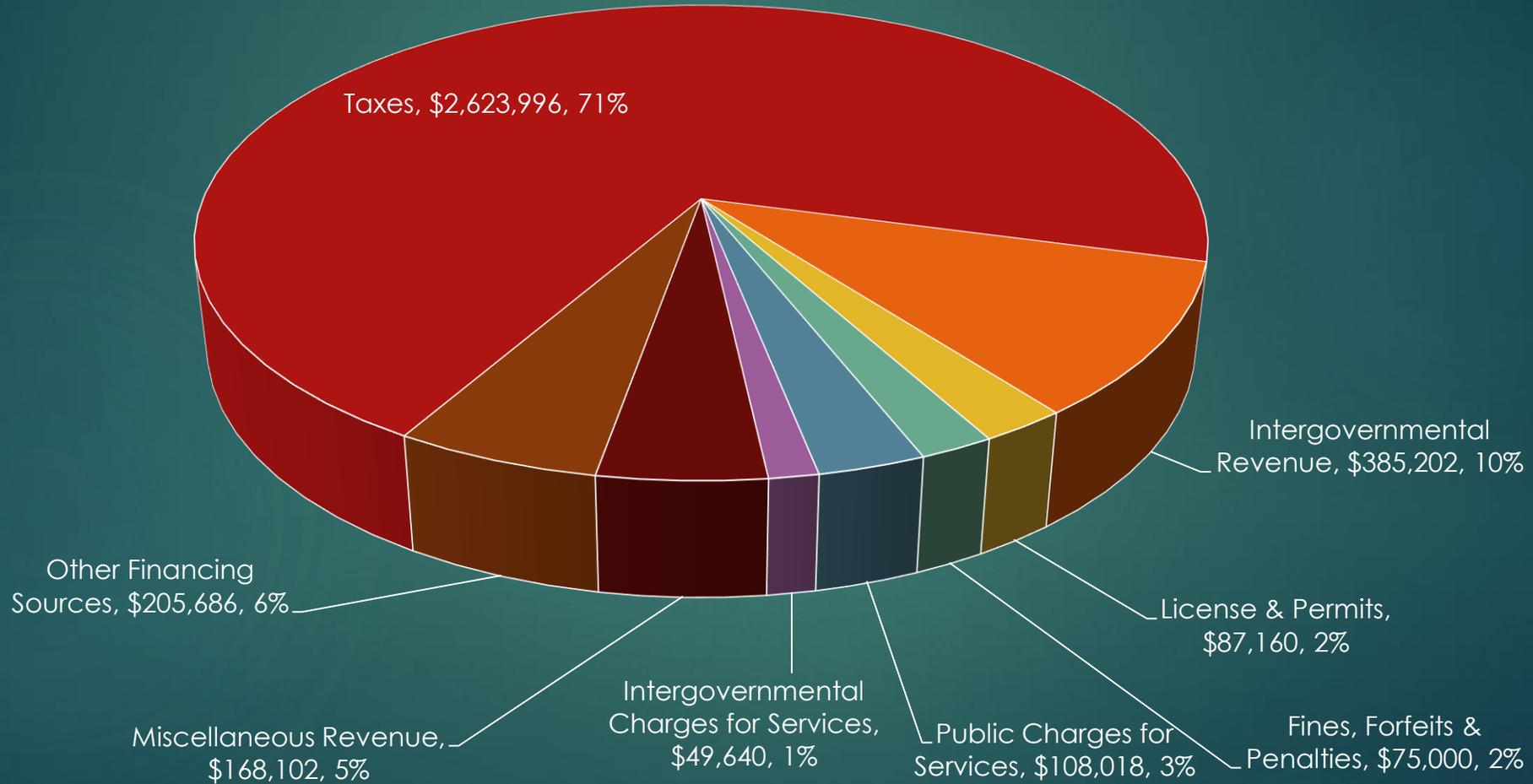
Village Fund Expenses



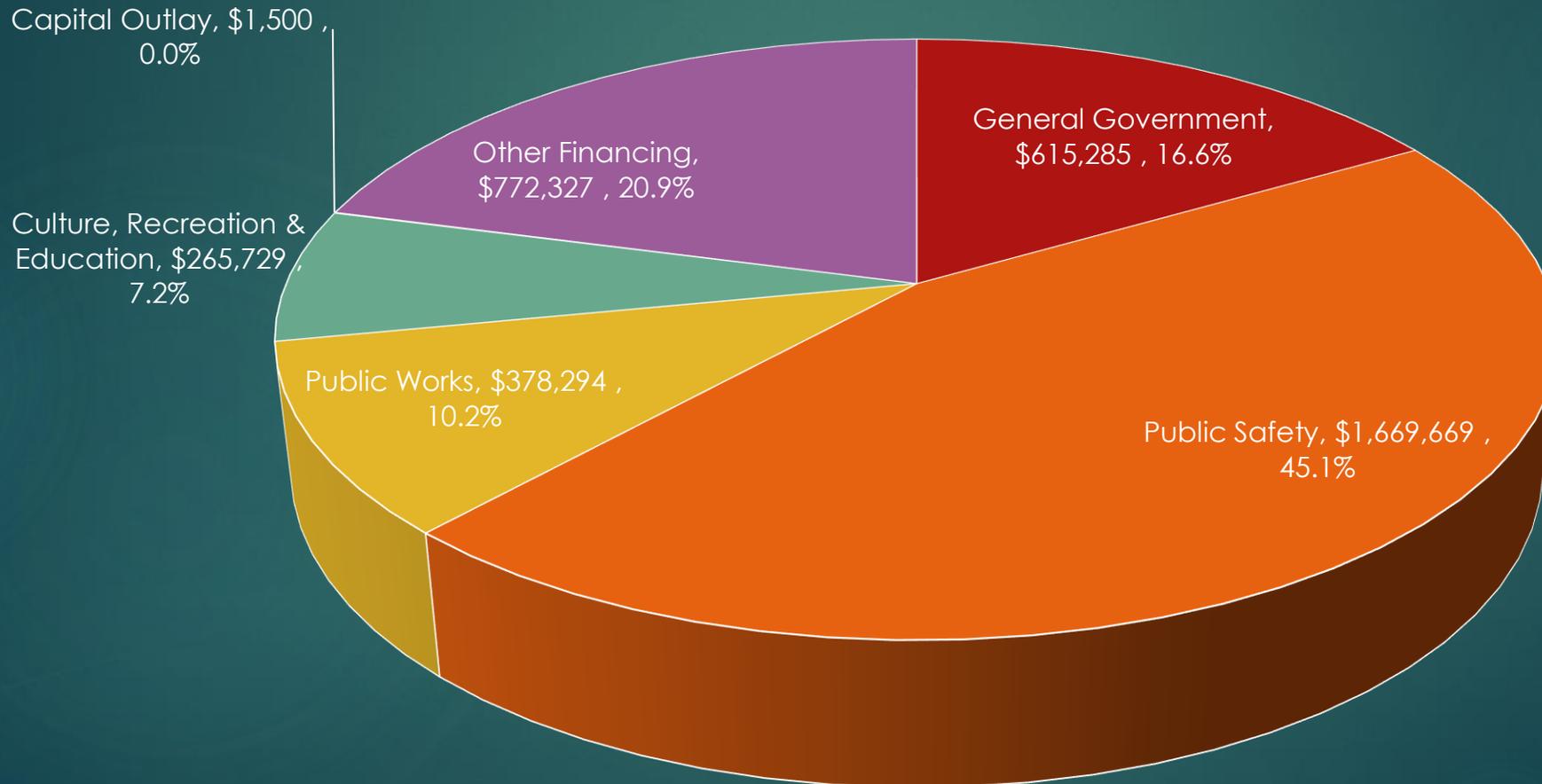
2017 General Fund

- ▶ 2016 \$3,578,759
- ▶ 2017 \$3,702,804 (+ \$124,045 3.4%)
- ▶ PFP \$50,000
- ▶ Revaluation \$32,000
- ▶ Debt \$42,000
- ▶ Allowable tax increase \$14,889

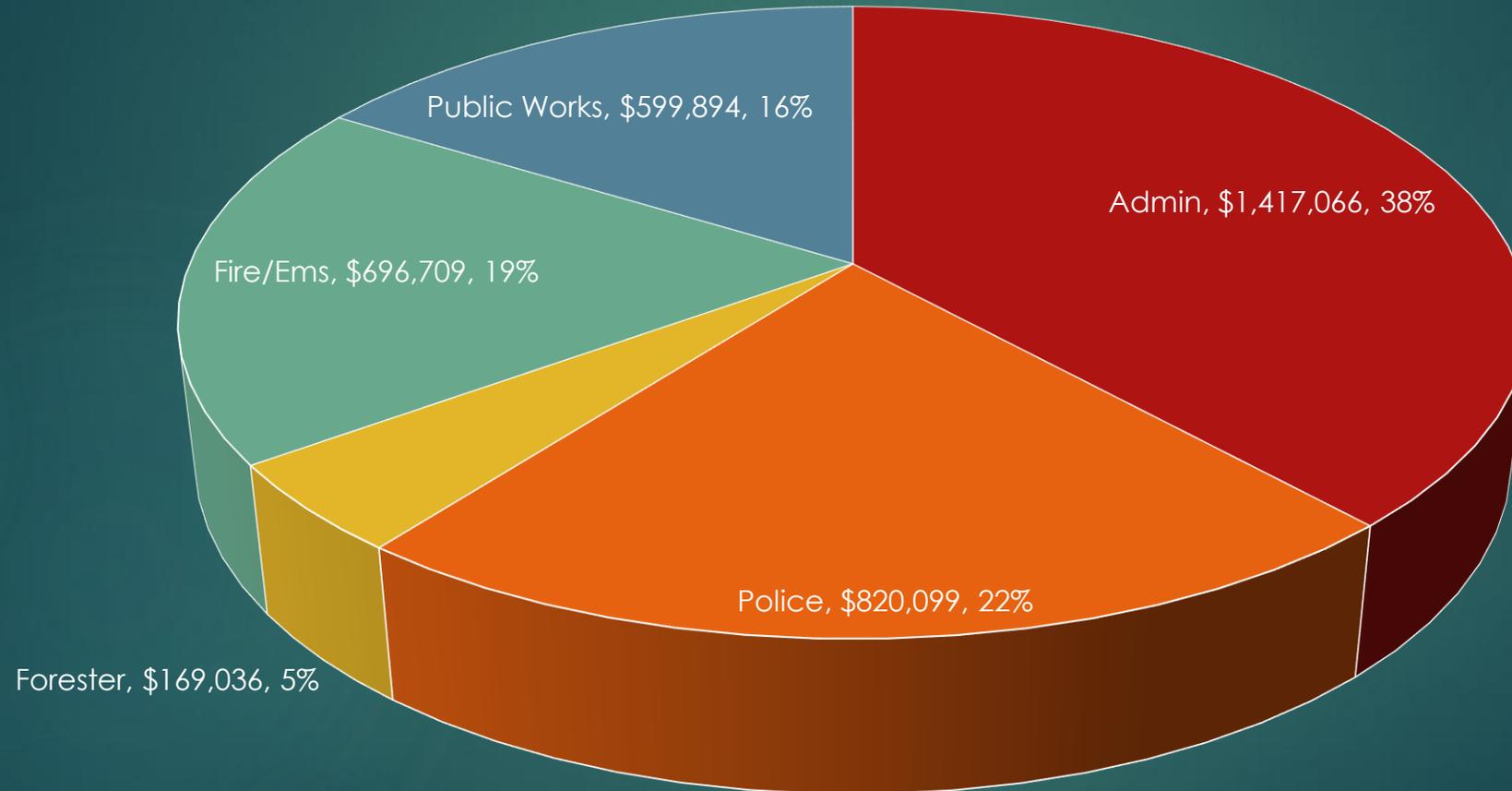
Revenue by Object Code



Expense by Object Code



Expense by Department



Forever Battling a \$150,000 - \$300,000 Gap

- ▶ Operating department budgets make do with less
- ▶ Shift of some capital costs out of general fund using residual capital funds
- ▶ Shift expenses to fees, utilities, TIF
- ▶ Few nickels and dimes

Making Ends Meet

- ▶ Levy Limits
- ▶ Use of fund balance
- ▶ Other revenue sources (re allocations)
- ▶ One time revenues
- ▶ Getting by until the picture improves
- ▶ Potential discussion about service level changes/going to referendum
- ▶ Organizational changes possible due to succession and retirements

Fund Balance

- ▶ Policy of 15-25% of subsequent years expenses

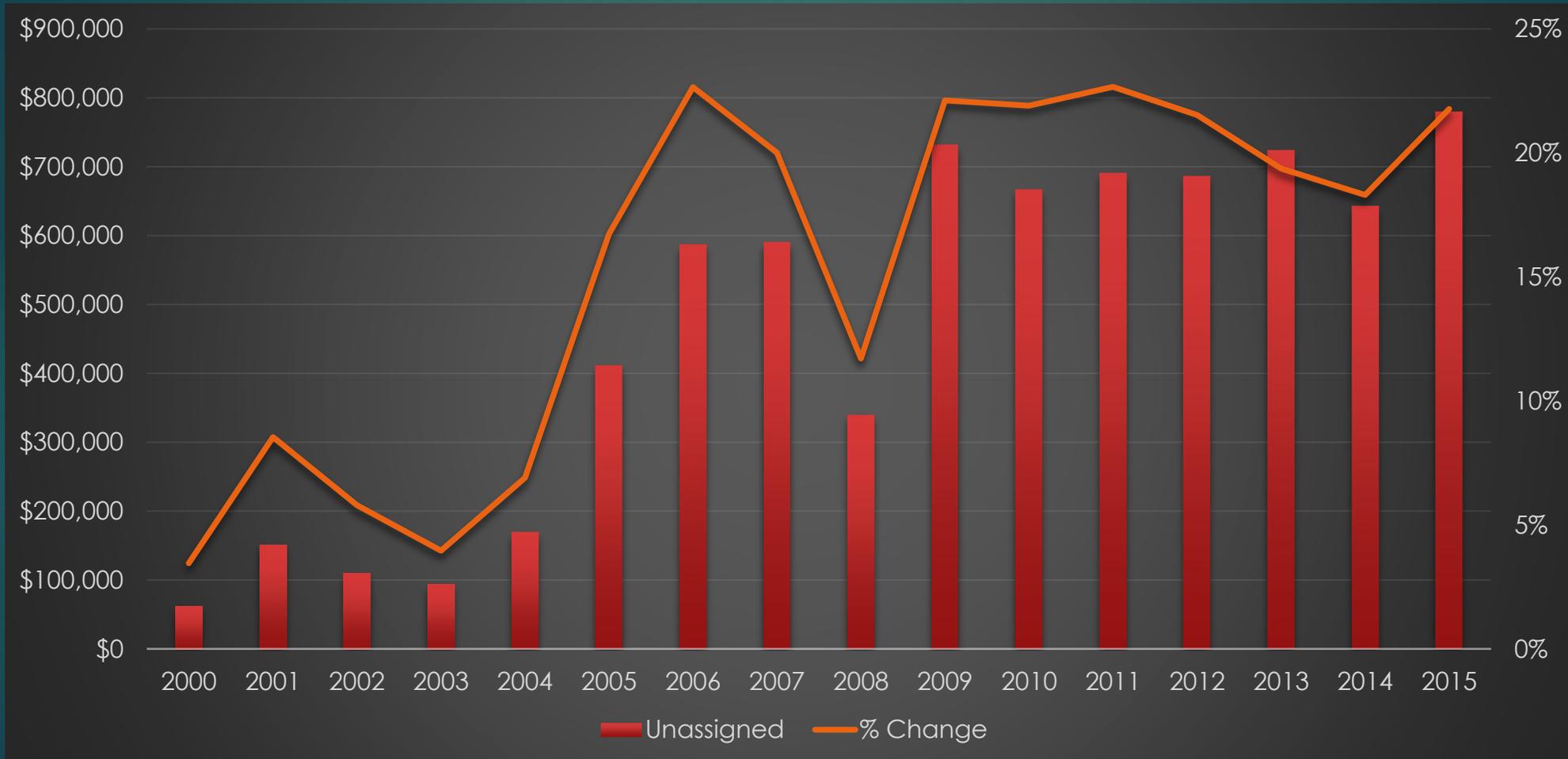
Historical Village Fund Balance

Year	Unassigned	Year	Actual Budget	% Change
2000	\$62,236	2001	\$1,803,789	3%
2001	\$150,763	2002	\$1,764,090	9%
2002	\$110,157	2003	\$1,898,969	6%
2003	\$93,849	2004	\$2,369,806	4%
2004	\$169,077	2005	\$2,451,351	7%
2005	\$411,695	2006	\$2,460,484	17%
2006	\$586,519	2007	\$2,589,531	23%
2007	\$589,610	2008	\$2,946,414	20%
2008	\$339,707	2009	\$2,902,303	12%
2009	\$731,447	2010	\$3,307,779	22%
2010	\$666,843	2011	\$3,044,465	22%
2011	\$690,446	2012	\$3,046,784	23%
2012	\$685,854	2013	\$3,185,810	22%
2013	\$723,404	2014	\$3,734,707	19%
2014	\$642,744	2015	\$3,512,354	18%
2015	\$779,283	2016	\$3,578,759	22%

Fund Balance Categories

- ▶ Non-spendable
 - ▶ Advances from General \$183,942 and Capital \$457,840
- ▶ Restricted
 - ▶ TIF and Borrowed Funds
- ▶ Committed
 - ▶ Pool \$233,424 and Waterfront \$35,405
- ▶ Assigned
 - ▶ General \$117,128
- ▶ Unassigned
 - ▶ General \$779,283

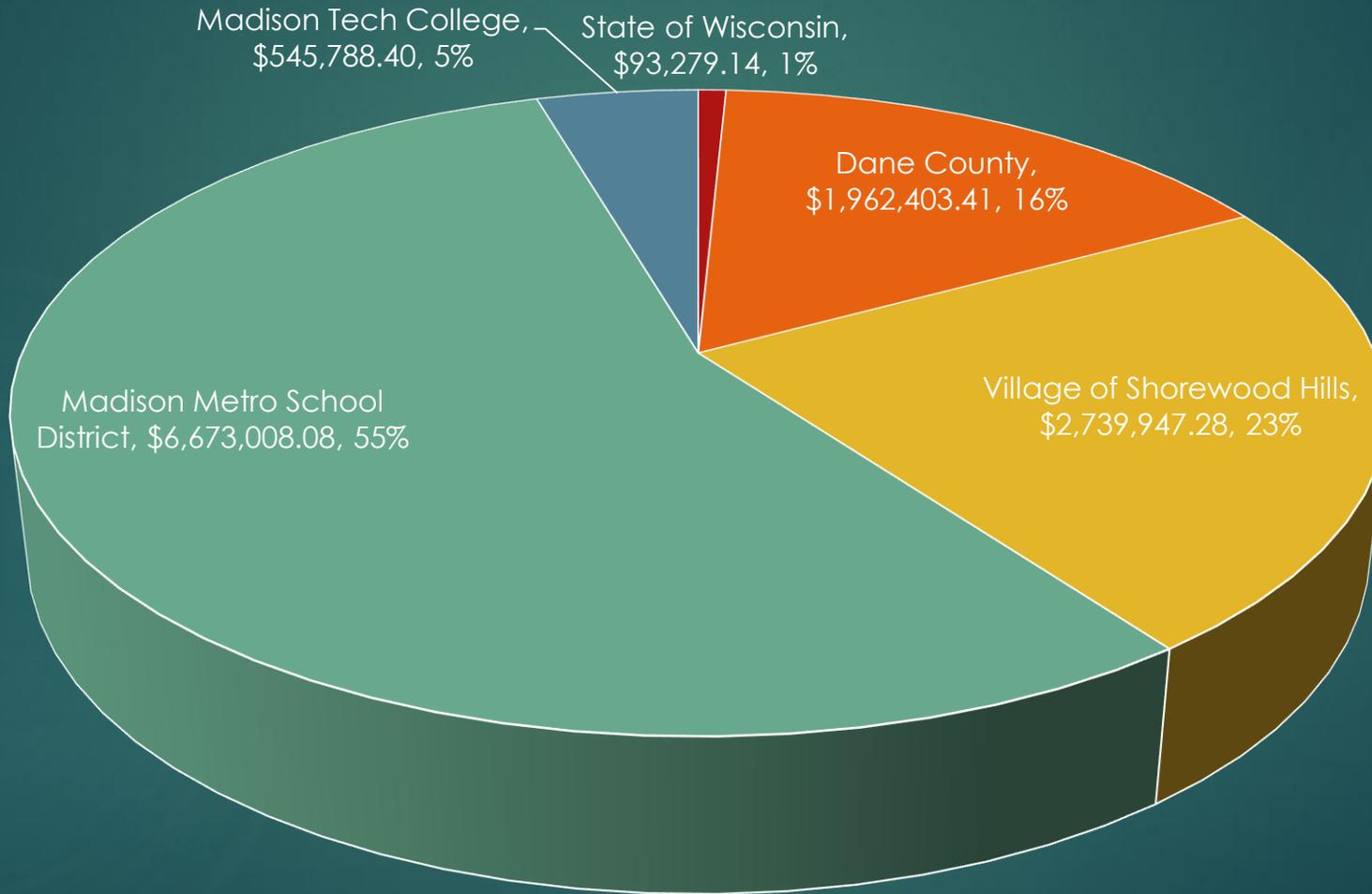
Fund Balance-Unassigned



Taxes

- ▶ Equalized Value Impact
- ▶ \$25.00 increase on \$588,000 home
- ▶ 23% of total

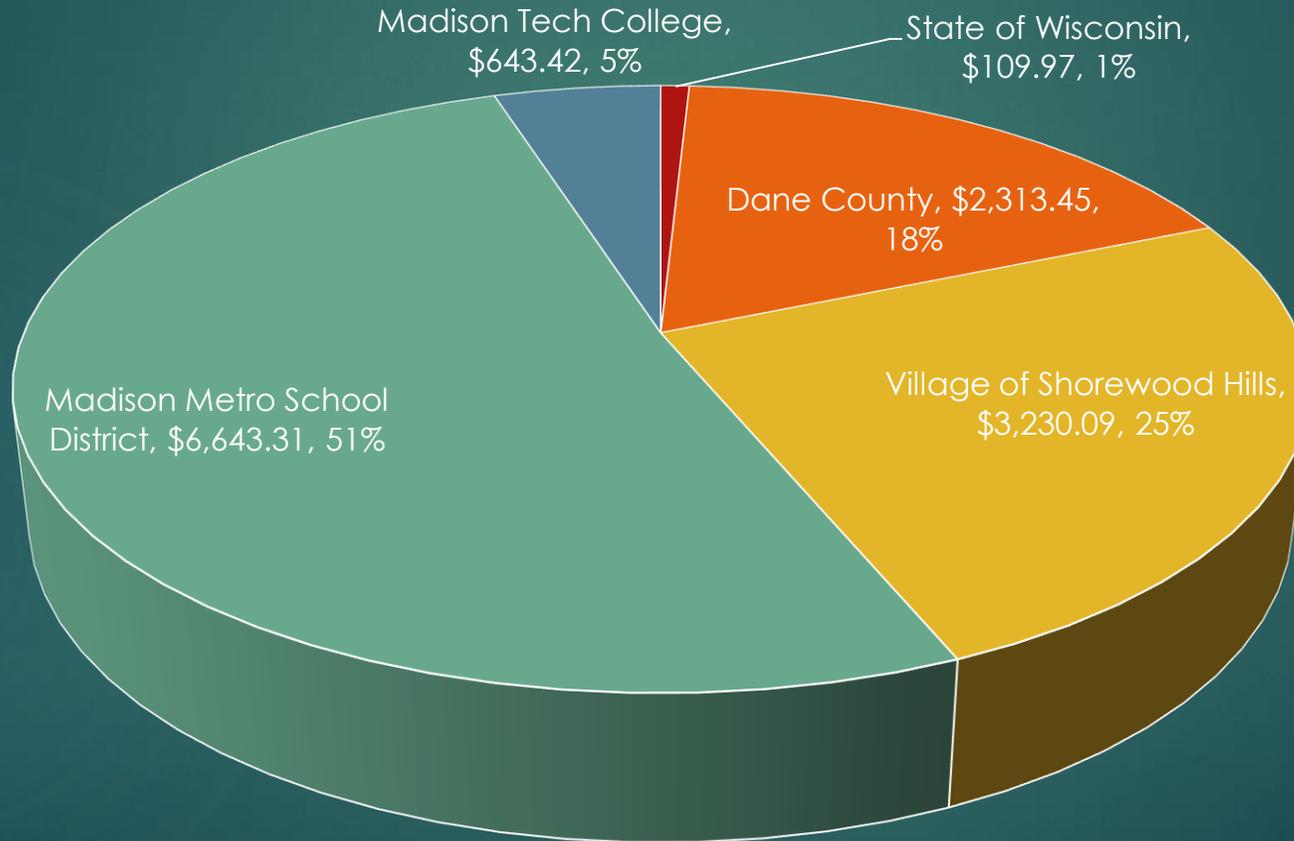
General Taxes



“Your Tax Bill”

(Based off a \$588,000 home)

\$12,940.24



Tax Increment Districts

- ▶ The basics
- ▶ Two closed, three in place III, IV, V
- ▶ One more planned VI
- ▶ Base Value TID III \$12,845,900. Projected \$69,495,403. Total Increment \$14,530,000. \$270,000 in Village taxes after closure in 2028.
- ▶ Base Value TID IV \$8,265,800. Projected \$23,051,657. Total Increment \$4,384,763. \$117,000 in Village taxes after closure in 2031.
- ▶ Base Value TID V \$3,751,000. Projected \$15,166,564. Total Increment \$5,269,236 Village taxes after closure in 2043 \$53,458.

Debt

- ▶ Levied \$700,000 range through 2024 then drops quickly
- ▶ Utility debt \$250,000 range through 2024 then drops quickly
- ▶ Tax supported debt not to exceed 20% of annual operating expenses
- ▶ Village could on average annually borrow about \$1M per year and stay within all limits. For example \$2.5M in 2020 and \$2.5 in 2023.

The Past/Future Near and Far

- ▶ Facilities
- ▶ Infrastructure
- ▶ Equipment maintenance replacement maintaining service levels
- ▶ Organizational Change and Succession