



11333 N. Cedarburg Rd 60W
Mequon, WI 53092-1930
Phone: (262) 236-2942
Fax: (262) 242-9819

www.ci.mequon.wi.us

OFFICE OF THE CITY ADMINISTRATOR

To: Mayor and Common Council

From: William Jones, City Administrator

Date: November 1, 2016

RE: **Adoption of an Ordinance (2016-1481) Appropriating the Necessary Funds for Operation of the Government and Administration of the City in 2017**

On October 13, the City of Mequon Appropriations Committee recommended adoption of the proposed budget for Fiscal Year 2017, which commences on January 1. As the City's financial, spending blueprint for the upcoming fiscal year, adoption of the budget is undoubtedly the single-most important action taken by the Mayor and Common Council each year. This budget proposal entails all aspects of City operations and capital expenses except for the City's Sewer and Water Utilities. Moreover, it is intended to serve as an effective policy document, financial planning tool, operational tool and communication device. Once adopted, the budget will authorize resources and establish a direction for the City's programs and services for the coming year.

The 2017 budget works to synthesize several long-held policy interests of the Appropriations Committee, and consistent with past practice, adheres to key principles that have guided development of previous City budgets. These include:

- Maintaining a Low Property Tax Rate;
- Improving and Enhancing the City's Infrastructure and Other Long-Term Assets;
- Providing Excellent Public Safety Services;
- Expanding the City's Tax Base through a Strategic, Balanced Approach to Economic Development

This year, members of the Common Council and City Department Heads convened two workshop meetings in July and September to commence development of the City's 2017 budget and discuss long-term financial planning. During these meetings, staff provided the Council with an update regarding the status of the City's 2016 budget, and identified key considerations that would likely impact the FY2017 budget. Additionally, a portion of the July meeting was also dedicated to a review of the City's long-range capital needs, including infrastructure, equipment and facilities. In September, the Council's Appropriations Committee reviewed a first draft of the FY2017 budget, which contained both proposed and optional expenditure reductions aimed at maintaining a flat property tax rate for 2017. Following discussion, the Committee directed staff to consider other options for meeting the flat tax rate objective, including reduced capital spending for 2017, utilizing available capital project account balances and utilizing additional reserves from the General Fund. Collectively, these meetings afforded both staff and the Council with the opportunity to consider both short-term needs, as well as long-term matters of concern facing both the organization and the community-at-large. In turn, staff has incorporated the input received during these sessions into the proposed budget that is submitted here for consideration.

2017 Budget Summary

The City's General Fund is the principal operating fund for the City. The General Fund provides the funding for the operations of: the Mayor & Common Council, the City Administrator's Office, the City

Clerk's Office, Local Elections, the Human Resources Division, the City Attorney's Office, the Finance Department, the Assessor's Office, Information Technology, the Police Department, the Fire Department, Inspections, the Community Development Department, the Public Works and Highway Departments, the Parks Department, Opitz Cemetery and Weyenberg Library. The following two tables provide a summary of the 2017 General Fund Budget, which is balanced, honors all contractual commitments and maintains existing service levels.

General Fund Revenue

Revenues	2016	2017	Change	% Change
Taxes	\$10,268,517	\$10,175,983	(\$92,534)	-0.9%
Intergovernmental	1,843,819	\$1,845,268	\$1,449	0.1%
Licenses and Permits	993,450	\$892,400	(\$101,050)	-10.2%
Fines and Forfeitures	754,589	\$894,725	\$140,136	18.6%
Public Charges for Services	482,085	\$473,450	(\$8,635)	-1.8%
Other Revenues	1,411,000	\$1,648,000	\$237,000	16.8%
Investment Income	19,000	\$21,000	\$2,000	10.5%
Total Revenue	\$15,772,460	\$15,950,826	\$178,366	1.1%

Within the recommended budget, property taxes comprise almost 67% of general fund revenues. Mequon relies significantly on the property tax to fund its operations because other sources are not available to the City. For instance, the City receives about 9% of its revenue from intergovernmental aid compared to a statewide average of more than 20%. Building permit fees and other development-related revenue are projected to rise as the result of a trend analysis of past year revenue, and a projected increase in building activity.

General Fund Expenditures

Expenditures	2016	2017	Change	% Change
Salaries	\$8,040,400	\$8,302,841	\$262,441	2.3%
Fringe Benefits	\$3,263,970	\$3,472,834	\$208,864	6.1%
Other Staff Costs	\$70,415	\$62,495	(\$7,920)	-11.2%
Materials/Supplies	\$1,146,371	\$1,010,906	(\$135,465)	-12.3%
Purchased Services	\$1,516,411	\$1,435,539	(\$80,872)	0.6%
Facility/Plant	\$534,746	\$497,696	(\$37,050)	-8.2%
Equipment/Leases	\$151,832	\$119,586	(\$32,246)	-18.0%
Library Grant	\$1,048,315	\$1,048,929	\$614	0.1%
Total Expenditures	\$15,772,460	\$15,950,826	\$178,366	1.1%

On the expenditure side of the ledger, salary expenses are projected to climb a total of 2% in 2017. This is attributable to the need to assimilate various increases related to employee compensation, including market-based salary adjustments not previously applied following a Classification & Compensation Study in 2014, adjustments for public safety personnel in both the Police (expiring collective bargaining agreement) and Fire (increasing call volume) Departments, and a proposed cost-of-living adjustment for the City's non-represented employees. Conversely, and thanks to the efforts of staff through the departmental budgeting process, savings and efficiencies have been achieved across multiple spending categories, including *Materials/Supplies*, *Purchased Services*, *Facility/Plant* and *Equipment/Leases*.

Property Tax Impact

The City's general tax levy is comprised of three funds: the General Fund, the Capital Project Fund and the Debt Service Fund. Combined, the total levy of these three funds is \$12,939,303. The state's limit under 2013 Wisconsin Act 20, allows for an increase to the levy attributed to new development, or 0%, whichever is greater. As in the past, the levy limit does not apply to a municipality's debt service on general obligation debt authorized on or any time after July 1, 2005. The City's new construction grew by \$75 million or 1.72%. The growth in new construction value accompanies a rise in the City's equalized value. The City's equalized value increased slightly to an overall value of \$4.5 billion for 2016, which well exceeds the \$4.2 billion mark the City achieved several years ago. The recommended 2017 budget requests a levy increase of \$582,770 or 2.82% over 2016. The following table shows a breakdown of the proposed 2017 levy.

Fund	Levy for 2016 Budget	% of Total	Proposed Levy for 2017 Budget	% of Total	Change
General	\$9,220,202	44.6%	\$9,127,054	42.9%	(\$93,148)
Sewer Utility	\$7,147,372	34.6%	\$7,264,437	34.2%	\$117,065
Library	\$1,048,315	5.1%	\$1,048,929	4.9%	\$614
Capital Projects	\$743,000	3.6%	\$848,002	4.0%	\$105,002
Debt Service	\$2,511,010	12.1%	\$2,964,247	13.9%	\$453,237
Total	\$20,669,899	100%	\$21,252,669	100%	\$582,770

For 2017, the levy for the General Fund declines as a share of the overall tax levy. The increase in the Sewer Utility levy is driven by the projected increase in the Milwaukee Metropolitan Sewerage District's (MMSD) Capital charge. There is a slight increase proposed to fund the Mequon-Thiensville Library, and an increase of 4% for Capital Projects. Finally, debt service continues an upward trend. The amount shown is for non-TID debt only. It should be noted that even with the proposed levy adjustment, the City is still below the cap allowed under State levy limits.

The tax rate, or mill rate, is determined by levy and tax base. The City continues to see growth in real property valuation over the recent past. Per the table below, the proposed general tax rate of \$3.11/\$1,000 represents an increase of 1.97% from the previous fiscal year. Property owners within the City's Sewer Service Area have a second line on their tax bill reflecting the Sewer Utility Fund tax levy. For 2017, the mill rate increases from \$1.89 to \$1.90/\$1,000.

Levy Year	General Assessed Tax Rate: \$X.XX/\$1,000 of Assessed Value	Sewer Assessed Tax Rate: \$X.XX/\$1,000 of Assessed Value
2016	\$3.11	\$1.90
2015	\$3.05	\$1.89
2014	\$3.05	\$1.88
2013	\$3.05	\$1.76
2012	\$3.04	\$1.79
2011	\$3.04	\$1.87

Revenue

For 2017, property tax revenue totals \$21,252,669. As indicated in the following table, this represents an increase of \$582,770 or 2.8% above the 2016 levy, an amount that nevertheless meets the requirements of the state's levy limit, 2013 Wisconsin Act 20.

Revenue Summary Information

Category	FY2016 Adopted	FY2017 Proposed	Difference	% Change
General Tax Levy	\$9,220,202	\$9,127,054	(\$93,148)	-1.01%
Sewer Debt/Cap Charge	\$7,147,372	\$7,264,437	\$117,065	1.64%
Library Fund	\$1,048,315	\$1,048,929	\$614	0.06%
Capital Projects Fund	\$743,000	\$848,002	\$105,002	14.13%
Debt Service	\$2,511,010	\$2,964,247	\$453,237	18.05%
Total Tax Levy	\$20,669,899	\$21,252,669	\$582,770	2.82%
Other Revenue	\$5,505,693	\$5,974,245	\$468,552	8.51%
Total Revenue	\$26,175,592	\$27,226,914	\$1,519,874	4.02%
Estimated City Tax Rate	\$3.05	\$3.11	\$0.06	1.97%

Capital Projects Fund

The total levy for the Capital Project Fund budget in 2017 is \$848,002 up 14% from last year's \$743,000. Projects selected for inclusion in the budget come from capital improvement plans developed by staff. Noteworthy projects include continued funding of a formal drainage way rehabilitation program and for removal of dead or dying ash trees on public property. Additionally, \$199,000 has been earmarked to establish a Capital Reserve Fund, to assist in addressing longer-term capital replacement needs that will be identified in connection with completion of a Capital Asset Management Plan in 2017.

The City of Mequon has a long-standing tradition of maintaining sinking funds for large capital purchases such as automobiles, squad cars, park maintenance mowers and equipment, snow plows, public works trucks, fire department equipment, ambulances and road equipment. In 2017, funding is earmarked at \$495,000 which represents a decrease of \$71,000 from 2016.

The City has invested significantly in the maintenance of its local road system over the past eight years and this approach will continue in 2017. In May 2015, the Council approved a general obligation note of \$7.1 million with an eye toward programming nearly \$2 million per year in road improvements from 2015-17. Accordingly, it is anticipated that \$1.7 million in road projects will again be budgeted, planned and completed in 2017.

It is also anticipated that the City's commitment to improving its long-term assets will be furthered through construction of a new Combined Public Works Facility, which is expected to be completed in the spring of 2017. In 2016, the City issued \$8.9 million in general obligation debt to pay for construction of the new Combined Facility, which will consolidate departmental operations from three separate building into one centralized facility.

2017 Budget Highlights

Each year the budget process looks to reassess objectives, goals, and the means for accomplishing them. It is through this effort that the budget is arguably the single most important policy document produced annually. The three main factors that helped shape the proposed 2017 budget are the property tax levy limit, as described above, modestly increasing revenues from other sources, and many fixed costs rising faster than the consumer price index. In addition to maintaining existing service levels across the organization, the proposed 2017 budget also contains new initiatives that are intended to address some of the more immediate short-term needs identified within the organization, as follows:

- \$92,000 to complete staffing analyses in the Police & Fire Departments, respectively, and to hire a new full-time Police Officer during the latter half of 2017;

- \$25,000 to fund completion of a comprehensive Capital Asset Management Plan for City-owned facilities, equipment and infrastructure;
- \$199,000 to establish a Capital Reserve Fund, which will be used to address capital repair and/or replacement needs identified within the new Asset Management Plan.

In sum, the proposed position modifications will result in an adjustment of the City's overall FTE count from 111.00 to 111.75.

Library Allocation

The 2017 budget includes an appropriation of \$1,048,929 for the Weyenberg Library, which is unchanged from 2016. The Library receives annual allocations from Mequon and Thiensville to support operations, and this amount maintains the City's exemption from the County library tax.

Appropriations Committee Action

On October 13, the Appropriations Committee met to consider the proposed 2017 budget. Following a review of supplemental expenditure reductions proposed by staff as well as other funding requirements identified by each Department, the Committee approved a recommendation to restore a number of the expenditure reductions that had been initiated to achieve a flat tax rate budget and to establish a reserve fund to address future capital spending needs. In all, expenditures were adjusted upward by \$667,692 through the use of an additional \$400,000 in fund balance and a nearly \$0.06 adjustment to the City's tax rate, equivalent to \$267,692. Following is a list of the expenditure adjustments approved by the Appropriations Committee on October 13:

Expenditure Adjustments - Approved 10/13/2016	Tax Levy	Fund Balance
Sunrise Rotary Club Membership - City Administrator	\$765	-
Police Department Training	\$1,000	-
City Hall Rug Maintenance Contract	\$2,338	-
Police Department Capital - Equipment	-	\$5,000
Fire Department Capital - Equipment	-	\$6,000
Public Works Capital - Roadway Light Replacement	-	\$10,000
Common Council Salaries & Mayoral Cell Phone	\$11,589	-
Police Department Capital - Vehicles	-	\$20,000
Cedarburg Road Striping in 2017	\$25,000	-
East Side Fire Station Sleeping Quarter Upgrades	-	\$30,000
Ash Tree Removals on Public Property	-	\$40,000
Fire Department Capital - Vehicles	-	\$45,000
Public Works Department Capital - Vehicles	-	\$50,000
Police Officer Position/Public Safety Staffing Studies	\$92,000	-
City Parking Lot Replacement Fund	-	\$130,000
Establishment of a Capital Reserve Fund	\$135,000	\$64,000
TOTAL	\$267,692	\$400,000

The enumerated adjustments have since been included in the budget that was approved by the Appropriations Committee and is recommended for adoption by the Common Council.

In total, the Appropriations Committee recommends 2017 expenditures of \$15,950,826, which is 1.1% higher than the 2016 adopted budget of \$15,772,460. With the referenced adjustments, the Committee recommended, by a 6-3 vote, the 2017 budget as summarized herein.