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OFFICE OF THE CITY ADMINISTRATOR

To: Mayor and Common Council

From: William Jones, City Administrator

Date: November 1, 2018

Subject: **Adoption of an Ordinance Appropriating the Necessary Funds for Operation of the Government and Administration of the City in 2019**

On October 17th, the City of Mequon Appropriations Committee recommended adoption of the proposed budget for Fiscal Year 2019, which commences on January 1. As the City's 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 guide and communications device. Once adopted, the budget will authorize resources and establish a direction for the City's programs and services for the coming year.

The 2019 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 convened two workshop meetings in July and September to support development of the 2019 budget and discuss long-term financial planning. These meetings afforded City 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. During the workshops, staff provided the Council with an update regarding the status of the City's 2018 budget, and identified key considerations that would likely impact the 2019 budget. Additionally, portions of both meetings were dedicated to a review of the City's long-range capital needs, specifically with respect to facilities, roads and vehicles. Over the course of these two workshops, staff was directed to prepare a draft 2019 budget that:

- Includes the issuance of debt in 2019 to fund continued road improvements;
- Provides funding to address deferred maintenance within City facilities;
- Earmarks money to support long-range planning for City parks;
- Offers additional staffing support for the Department of Community Development;
- Results in no increase to the current tax rate of \$3.11/\$1,000 of assessed value.

Additionally, Committee members expressed a desire to learn more about departmental needs that might not be included for 2019, so as to make informed decisions regarding the overall proposed budget. Accordingly, several City departments prepared analyses outlining identified vulnerabilities

and potential opportunities within their respective areas of responsibility, which serve as the basis for considering additional supplemental funding in 2019 and beyond. Originally, these memoranda and a listing of supplemental funding options were shared with members of the Common Council at their workshop meeting on September 25, and again by the Appropriations Committee on October 17. In turn, staff has incorporated the input received during these meetings into the proposed budget that is submitted here for consideration.

2019 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, the Community Development Department, the Public Works Department, the Parks Department, Opitz Cemetery and the Weyenberg Library. The following two tables provide a summary of the 2019 General Fund Budget, which is balanced, honors all contractual commitments and maintains existing service levels.

General Fund Revenue

Revenues	2018	2019	Change	% Change
Taxes	\$9,969,115	\$10,797,254	\$828,139	8.3
Intergovernmental	2,040,377	2,136,089	95,712	4.7
Licenses and Permits	899,950	1,115,050	215,100	23.9
Public Safety Fees	870,300	883,880	13,580	1.6
Public Charges for Services	731,700	704,291	(27,409)	(3.8)
Other Revenues	1,353,500	645,000	(708,500)	(52.4)
Investment Income	60,000	75,000	15,000	25.0
Total Revenue	\$15,924,942	\$16,356,564	\$431,622	2.7

Within the recommended budget, property taxes comprise almost 66% 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 13.1% of its revenue from intergovernmental aid compared to a state-wide average of more than 20%. Building permit fees, which are the City's most elastic (variable) source of revenue, are again expected to grow in the coming year, due to continued development activity within the City.

General Fund Expenditures

Expenditures	2018	2019	Change	% Change
Salaries	\$8,516,022	\$8,882,271	\$366,249	4.3
Fringe Benefits	3,404,511	3,300,870	(103,641)	(3.0)
Other Staff Costs	60,550	71,845	11,295	18.7
Materials/Supplies	931,807	976,363	44,556	4.8
Purchased Services	1,391,662	1,486,675	95,013	6.8
Facility/Plant	496,990	508,050	11,060	2.2
Equipment/Leases	74,400	80,490	6,090	8.2
Library Grant	1,049,000	1,050,000	1,000	0.1
Total Expenditures	\$15,924,942	16,356,564	\$431,622	2.7

On the expenditure side of the ledger, personnel expenses are projected to climb a total of 2.3% in 2019. This is attributable to the need to assimilate various increases related to employee compensation, including contractual adjustments for unionized personnel in both the Police and Fire Departments, and a proposed cost-of-living/merit adjustment for the City's non-represented employees. As indicated, several spending categories, including *Materials/Supplies, Facilities/Plant, Purchased Services, and Equipment/Leases*, will see an increase in expenditures in 2019, after three successive years of reductions. Much of this growth is attributable to \$50,000 in funding for a new Parks and Open Space Master Plan.

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 \$14,612,354. 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. During 2018, the City's net new construction grew by \$70 million or 1.51%. The growth in new construction value accompanies a rise in equalized value. The City's equalized value increased slightly to an overall value of \$4.6 billion for 2018, which well exceeds the \$4.2 billion mark the City achieved several years ago. The recommended 2019 budget requests a total levy increase of \$689,371 or 3.2% over 2018. The following table shows a breakdown of the proposed 2019 levy.

Fund	Levy for 2018	% of Total	Proposed Levy for 2019	% of Total	Change
General	\$9,969,115	41.4	\$10,797,254	48.5	8.3
Sewer Utility	7,406,174	34.3	7,644,478	34.3	3.2
Capital Projects	1,376,819	6.4	1,155,000	5.2	(16.1)
Debt Service	2,815,353	13.0	2,660,100	12.0	(5.5)
Total	\$21,567,461	100.0	\$22,256,832	100.0	3.2

For 2019, the levy for the General Fund increases its relative share of the overall tax levy due to levy reductions in the Capital and Debt Service funds. As indicated, the proposed budget assumes no assignment of general fund balance compared to \$650,000 that was applied to balance the 2018 budget. The increase in the Sewer Utility levy is driven by the projected increase in the Milwaukee Metropolitan Sewerage District's (MMSD) Capital charge and an increase in debt service incurred in order to finance construction of the East Trunk Sewer Project. There is a slight levy increase to fund the Mequon-Thiensville Library in 2019, and a decrease for Capital Project spending, which is attributable to the fact that \$520,000 one-time fund balance proceeds were used in connection with completing a pay-as-you-go project to resurface a portion of Donges Bay Road. Despite this reduction, capital project funding for 2019 includes the establishment of a recurring funding stream for the repair and maintenance of City facilities equivalent to \$175,000. Additionally, the amount shown for debt service is for non-TID debt only. Even with the proposed levy adjustment, the City is still far 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. Per the following table, the proposed general tax rate of \$3.15/\$1,000 represents a change of approximately 1.1% from the \$3.11 tax rate approved for 2018. Under the proposed 2019 budget, a Mequon home assessed at \$400,000 will pay approximately \$1,260 in City taxes, an increase of \$14 from 2018. Additionally, property owners within the Sewer Service Area have a second line on their tax bill reflecting this Utility Fund's tax levy. For 2018, the projected mill rate increases from \$1.90 to \$1.94/\$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
2018	\$3.15 (est.)	\$1.94 (est.)
2017	\$3.11	\$1.90
2016	\$3.11	\$1.89
2015	\$3.05	\$1.90
2014	\$3.05	\$1.88
2013	\$3.05	\$1.76

Revenue

For 2019, property tax revenue totals \$22,256,832. As indicated in the following table, this represents an increase of \$689,371 or 3.2% more than the 2018 levy, an amount that nevertheless meets the requirements of the state's levy limit, 2013 Wisconsin Act 20.

Revenue Summary Information

Category	2018 Adopted	2019 Recommended	Difference	% Change
General Tax Levy	\$8,920,115	\$9,747,254	\$827,139	9.3
Sewer Debt/Cap Charge	7,406,174	7,644,478	238,304	3.2
Library Fund	1,049,000	1,050,000	1,000	.10
Capital Projects Fund	1,376,819	1,155,000	(221,819)	(16.1)
Debt Service	2,815,353	2,660,100	(155,253)	(5.5)
Total Tax Levy	\$21,567,461	\$22,256,832	\$689,371	3.2
Other Revenue	5,955,827	5,559,310	(396,517)	(6.7)
Total Revenue	\$27,523,288	\$27,816,142	292,854	1.1
Estimated City Tax Rate	\$3.11	\$3.15	\$0.04	1.1

Capital Projects Fund

Proposed tax levy supported (pay-as-you-go) capital spending in 2019 is rising by nearly 35% from the level approved for 2018. In all, pay-as-you-go capital funding totals nearly \$1,155,000 for 2019, compared to \$856,819 that was approved in 2018. While the table above includes a total capital projects figure of \$1,376,819 for 2018, \$520,000 of this amount was financed using one-time proceeds from the City's general fund reserves.

Noteworthy projects include continuation of a pay-as-you-go approach to road maintenance (e.g. crack sealing, pavement sealing, etc.) introduced in 2018 and sustained removal of dead or dying ash trees on public property and along City rights-of-way. Additionally, funding for city-wide building repairs totals nearly \$178,000 in 2019. This new, level funding stream is intended to help the City begin addressing deferred maintenance and identified capital replacement items contained within a comprehensive review of seven City facilities completed earlier this year.

The City has invested significantly in the maintenance of its local road system over the past decade, and despite forgoing a dedicated bond issue to continue improvements in 2018, the City plans to issue new debt equivalent to approximately \$4.5 million in 2019 to fund continuing rehabilitation or reconstruction of arterial/subdivision roads and parking lots. Over the next three years, this amount will be combined with a \$470,000 grant awarded earlier this year from the Wisconsin Department of Transportation to cover roughly half the cost of upgrading Cedarburg Road between County Line and Donges Bay Roads. As indicated during the Council's July budget development workshop, approximately \$1.8 million is needed annually to finance all aggregate work (maintenance and repairs) across the City's 212-mile road network.

The City of Mequon also has a long-standing tradition of maintaining sinking funds for capital equipment purchases such as automobiles, squad cars, large grass mowers, snow plows, public works trucks, fire trucks, ambulances and road equipment. In 2019, funding is earmarked at \$500,000, which represents an increase of \$30,000, or 6.4%, from 2018.

2019 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 2019 budget are the property tax levy limit, as described above, modestly increasing revenues from other sources, and some fixed costs rising faster than the consumer price index. In addition to maintaining existing service levels across the organization, the proposed 2019 budget:

- Fully funds the full-time Deputy Fire Chief position authorized in 2017 at \$115,000
- Finances a merit pay system instituted on January 1, 2018 for non-represented staff
- Appropriates \$175,000 in annual funding to address City-wide building repairs
- Converts a part-time Electrical Inspector to a full-time Building Inspector
- Earmarks \$50,000 for parks and open space master planning in calendar year 2019
- Reallocates \$40,000 in drainage funding to accelerate public ash tree removals
- Includes \$25,000 to support the organization's migration to Microsoft Office 365
- Provides \$10,000 in annual funding to support the City's Festivals Committee
- Balances proposed expenditures with recurring revenues, with no use of fund balance

Library Allocation

The 2018 budget also includes an appropriation of \$1,050,000 for the Weyenberg Library, which is virtually unchanged from 2018. 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 17, the Appropriations Committee met to consider the proposed 2019 budget. Following a review of supplemental expenditure options initially introduced in September, the Committee approved a recommendation to include additional positions in the 2019 budget, including a full-time Building Permit Coordinator in the Community Development Department's Inspections Division, and three part-time interns along with associated paramedic training in the Fire Department. Additionally, \$40,000 was added to the budget to assist the Police Department in managing its information technology resources and systems, through either a shared, dedicated or outsourced staffing position that is to be determined by early 2019. Accordingly, \$147,254 has been added to the budget recommended for adoption in 2019.

In total, the Appropriations Committee recommends 2019 expenditures of \$16,356,564, which is 2.7% higher than the 2018 adopted budget of \$15,924,942. With the referenced adjustments, the Committee recommended, by a 9-0 vote, the 2019 budget as summarized herein.

Recommendation

Adoption of the Proposed Ordinance