Memorandum

FROM: Joshua J. Van Lieshout, City Administrator
Valerie J. Clarizio, Finance Director/City Treasurer

TO: Mayor and Common Council

DATE: September 28, 2016

RE: **PROPOSED 2017 GENERAL FUND BUDGET**

Enclosed please find the 2017 Draft Budget for your review and consideration. As you are aware the budget constraints imposed by Act 10 (2011 Budget Repair Bill), Act 32 (2011 Biennial Budget) and Act 20 (2013 Biennial Budget) continue. All required components continue to be incorporated into the city budget. Tax Levy increases are limited to the net increase in assessed value due to new construction or 0% whichever is higher. The net increase in assessed value available for increase for the City of Sturgeon Bay for the 2017 Budget is 1.258% which provides for an additional $77,186 in operating and capital tax levy. While this is significantly improved from years past, it is still insufficient to cover the change in cost for commodities, health insurance and labor.

You will be pleased to note that the attached budget meets the statutory limits and restraints as required by Acts 10, 32 and 20. Following and attached are summaries of the 2017 Budget:

2017 BUDGET GUIDELINES (as directed by Common Council in 2008):

- **NO** use of Fund Balance from General Fund
- **RETURN** all 2016 operating surpluses to Proposed Budge
- **NO** use of debt for Operating Expenses
- Use of Capital Fund Balance ONLY for Capital Assets
- Maintain **CURRENT** levels of Service

BUDGET HIGHLIGHTS:
Following are highlights of the Revenue, Expenditures and Capital Budget.

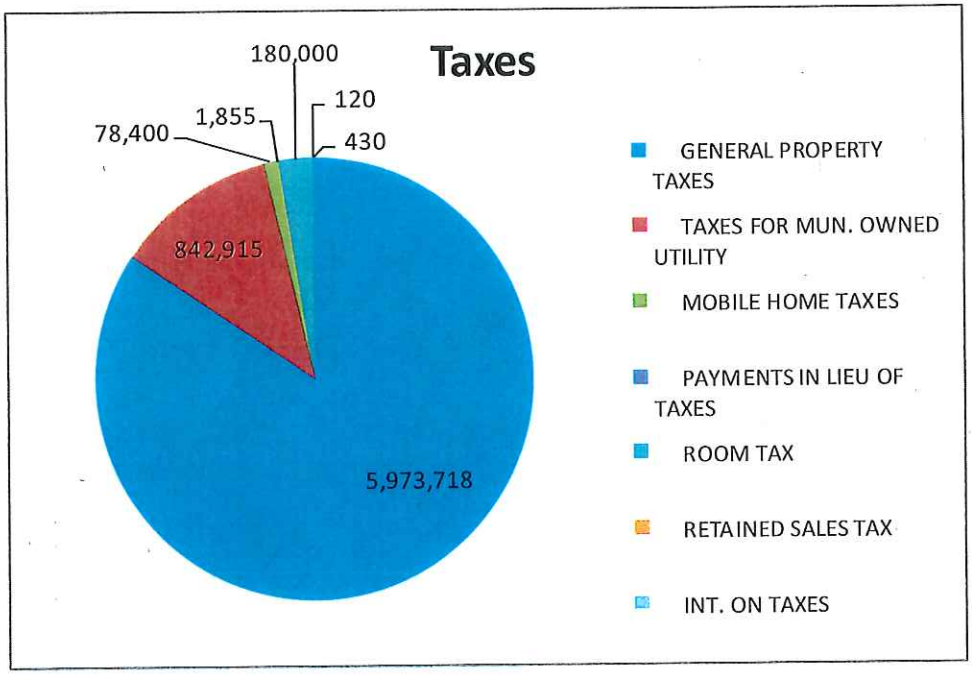
- **REVENUE:**
  Revenues for the 2017 Budget Year are $630,033 (6.7%) more than budgeted for 2016. The change in general fund tax revenue is due to a shift from capital levy to operating levy. This does not mean that the tax rate is increasing by this amount. Operating levy and capital levy is interchangeable, shifts between the two funds are not uncommon.

Taxes ($7,077,438): Tax revenues are comprised of seven sources, including general property, payments in lieu of tax (municipal utility and others), mobile homes, room taxes, retained sales tax (negligible value) and interest on taxes.

For FY 2017, Tax revenues, all sources are projected as follows:

	2015 ACTUAL	2016 ESTIMATE	2016 BUDGET	2017 BUDGET
GENERAL PROPERTY TAXES	5,265,031	5,427,155	5,427,155	5,973,718
TAXES FOR MUN. OWNED UTILITY	836,396	842,915	881,000	842,915
MOBILE HOME TAXES	69,475	78,400	68,960	78,400
PAYMENTS IN LIEU OF TAXES	1,836	1,855	1,780	1,855
ROOM TAX	195,681	175,500	175,500	180,000
RETAINED SALES TAX	124	125	120	120
INT. ON TAXES	1,069	430	600	430
TOTAL TAXES	6,369,612	6,526,380	6,555,115	7,077,438

Other sources of tax revenue, which are not generated by property taxes represent about 1/6th of all taxes, the principal sources are payments in lieu of tax from the Sturgeon Bay Utilities and room tax. SBU, a municipal owned utility makes payments to the city in lieu of paying taxes. The sum they pay is based on the value of their assets.



Intergovernmental Revenue ($1,469,450)
Intergovernmental revenues are funds that come from other agencies, principally the state of Wisconsin. Such revenues are usually tied to some state policy and are subject to reduction without any recourse by the municipality. For example, shared revenues are a tool used by the state to encourage municipalities to keep their levy's low, road aids for a certain base level of street maintenance and repair, etc. Other times, such intergovernmental revenues are paid to municipalities because a previous source of funding has been taken away, such as personal property tax on computers. For the year 2017:

- Shared Revenues and Transportation Aids have increased for 2017 by a combined total of $14,550, together these sources represent 95 percent of all intergovernmental revenues.
- Special patrol efforts, such as the marine patrol will continue to receive grant support in 2017. Grant support for marine patrol equals 70% of the cost of this program.
- Computer tax aid, which is reimbursement from the State for making computer exempt from personal property tax will continue in 2017 as well.

License and Permit Revenue ($137,250) is budgeted for FY 2017. Revenues for 2017 are expected to rise by about $12,685. The principal increase is in building permit revenue, a signal that perhaps we are in the tail of the great recession and homeowners are seeing either new construction or remodeling as financially feasible. Of all building (not zoning) permits, the City retains 15%, the balance is an expense to the building inspection service company, SafeBuilt. All of our fees for alcohol licensing, dog licenses and so forth are at the allowable maximums.

Fines and Forfeitures ($42,000) for 2017, staff is expecting a decrease in fines and forfeitures. It is very important to understand that the receipt of revenues from forfeitures is not an indicator of police activity. The revenues shown in this line are fines collected by the County Clerk of Courts and remitted to the City. If the county can't collect, neither does the City. The bulk of collected fines are associated with the police department, other fines for civil violations are included in this revenue line, including: noxious weeds, nuisances, zoning violations, etc.

We really don't want to see an increase in this category, in any circumstance. One of the objectives of policing and enforcement is to gain compliance, and modern policing attempts to do that first through education. Nontheless, sometimes a fine and penalty is needed and contact is insufficient to correct the behavior. OWI (operating while intoxicated) arrests are up in 2016 over 2015 and is a strong indicator that police are actively enforcing public safety laws that have an impact on all of us like no other.

Public Charges for Services ($171,130) are projected to increase for FY 2017 by $4,680. This is where receipts for items like player fees, ramp passes, dockage fees and so forth are recorded. Public Charges for Services are usually established when there is a specific service delivered to on an individual or focused user group. In, 2016, this revenue category had a decrease in expected revenue because, the Housing Authority changed the tax exempt status on one of their properties. Changes made to the schedule of fees earlier in the year would be reflected in this revenue category.

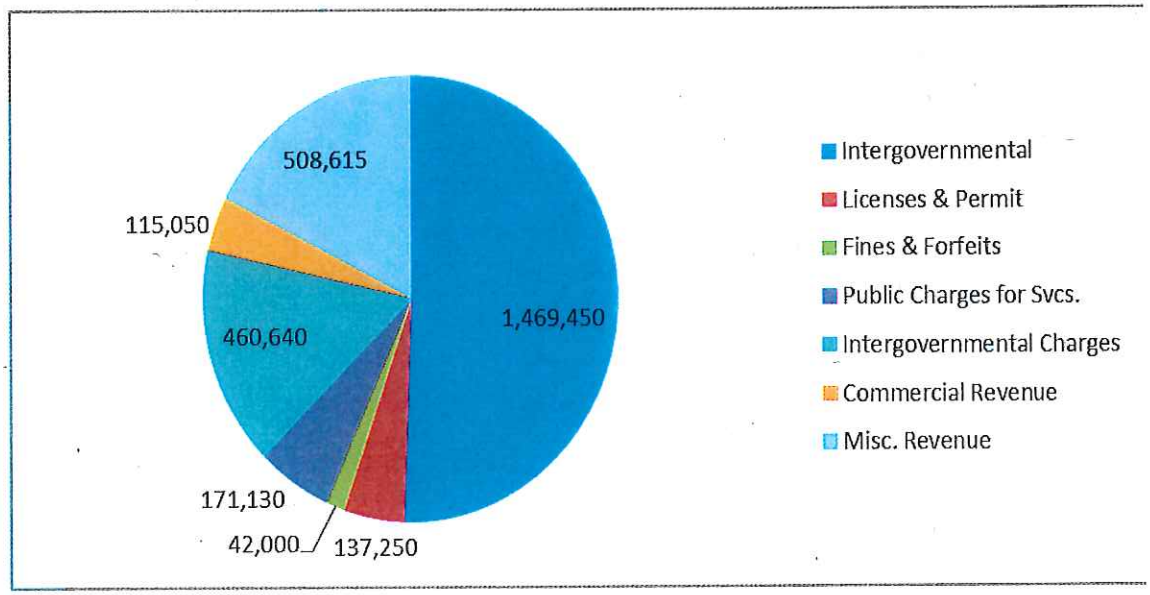
Intergovernmental Charges for Services ($460,640) are down slightly (2016 Budget $463,015). Intergovernmental Charges for Services is used for to show revenues from received by the City

from other governmental entities. For Sturgeon Bay, this is where we show revenues from the town of Sturgeon Bay and Sevastopol for contracted firefighting services.

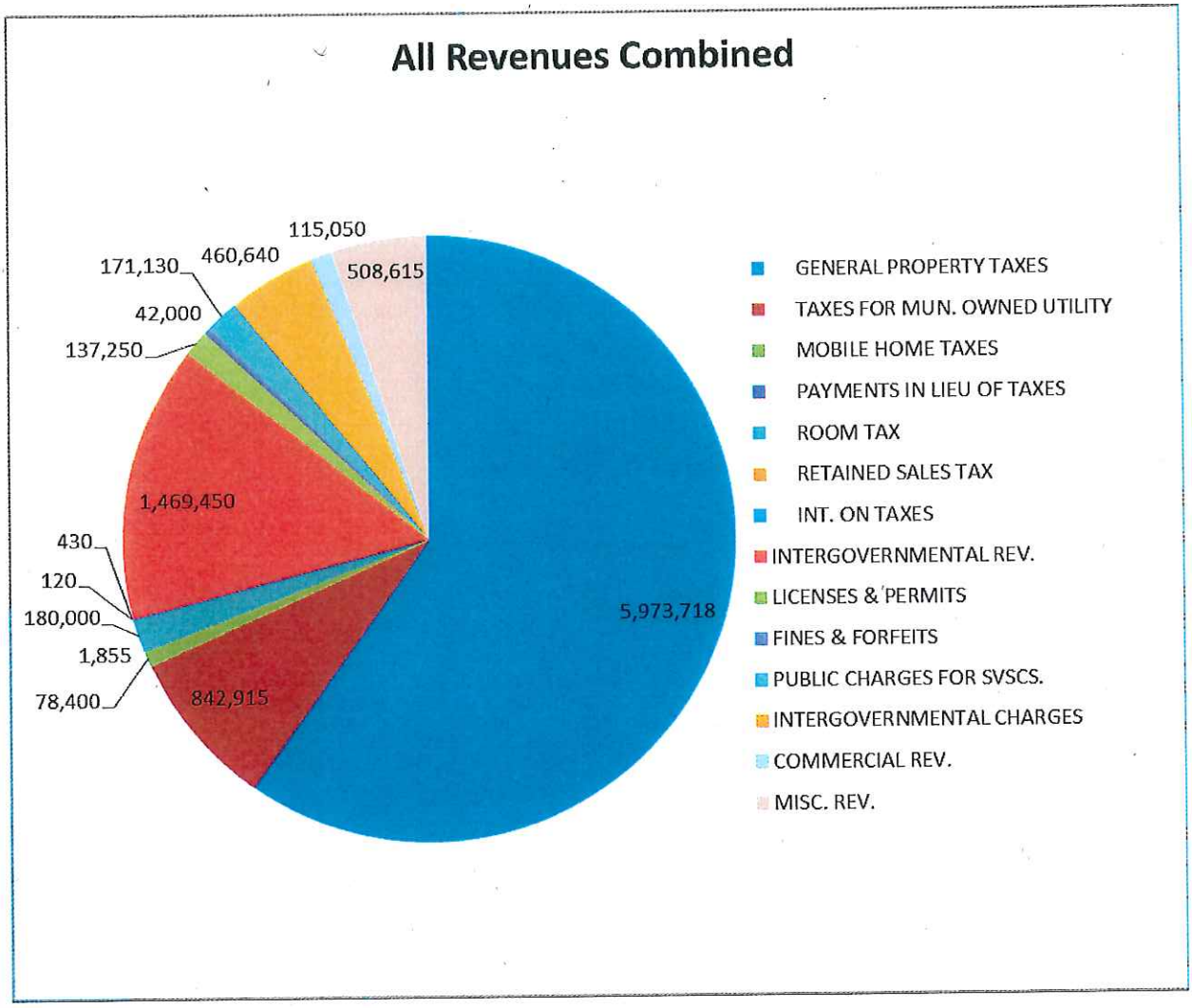
Commercial Revenue ($115,050). Commercial Revenue is category of receipts where we show, items that are not entirely "public" in nature and more closely aligned with commerce. For example, leases between the city and a private entity, sale of city assets (land, mulch, recycled pavement, etc.) and private grants. This revenue category is projected to grow by $11,830. Growth in this category is driven by the city cost recovering for special services associated with events such as the triathlon, century ride, SBVC events and so forth.

Miscellaneous Revenues ($508,615) are expected to rise in 2017. The bulk of this revenue covers employee contributions for retirement and health fringes. Our public safety employees do contribute to their retirement, although they aren't mandated to do so. Also, it is expected that the employee's share of the premium for health insurance will rise in 2017. Of note, the state of Wisconsin was budgeted to reimburse the City $37,000 for additional public safety time in conjunction with construction of the round-a-bouts, this revenue was shown in in 49999 Miscellaneous Revenue in 2016 and will not be repeated in 2017. The City did collect the full amount from WisDOT approximately, $40,295.

Summary of other non-tax revenues



All Revenues Combined



2016 VS. 2017 GENERAL FUND REVENUES

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TAXES FOR MUN. OWNED UTILITY	836,396	842,915	881,000	842,915
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RETAINED SALES TAX	124	125	120	120
INT. ON TAXES	1,069	430	600	430
INTERGOVERNMENTAL REV.	1,478,063	1,469,120	1,468,545	1,469,450
LICENSES & PERMITS	151,844	158,875	124,565	137,250
FINES & FORFEITS	53,998	41,645	50,000	42,000
PUBLIC CHARGES FOR SVSCS.	180,685	177,937	166,450	171,130
INTERGOVERNMENTAL CHARGES	464,112	463,020	463,015	460,640
COMMERCIAL REV.	141,243	113,395	103,220	115,050
MISC. REV.	457,691	498,520	420,630	508,615
APPROPRIATED BALANCES	1,910,879	1,824,515	1,824,515	1,411,042
Total Revenues	11,208,127	11,273,407	11,176,055	11,392,615

❖ **EXPENDITURES:**

Expenditures for the 2017 General Fund Expense Budget are $10,478,505 and represent an increase of expenses of $98,505, a less than 1.0% increase from that budgeted for 2016.

Features of the 2017 General Fund Expense Budget are:

Personnel

Like any service business, the bulk (70%) of the city's annual operating budget is comprised of personnel related expenses. The City has, through the years made efforts at containing labor costs by investing in equipment and technology that can reduce our employee needs by taking advantage of modern equipment, technology and techniques that increase speed, efficiency, and accuracy. The City has done this while investing in community and economic development as well.

- No new positions are being created or eliminated in this budget, the total FTE (full, part time and seasonal) headcount is planned to remain steady at 64.6 FTEs and 15 permanent part-time employees.
  - Municipal Services: 18
  - Fire: 14 career and 15 permanent part time fire fighters
  - Police: 20 sworn and 2 civil
  - Administration: 5
  - Community Development /Engineering: 5.6

- The budget includes a 6.8% pension contribution from all non-public safety employees.

- Non-Represented employee wages include a 2% base increase.

- Over the past few years, reduced benefits including in-network vs. out-of-network restrictions and additional out of pocket contributions by employees have been recognized. In the year 2017 and going forward, non-represented municipal employees will be contributing an additional five percent towards their health insurance premiums. I believe our bargaining unit employees will join in this contribution.

  With the assistance of our health insurance provider and insurance advisors the city has undertaken a wellness and consumer education initiative aimed at improving our overall improved rating and lowering costs. Principal points of the effort:
  - Smarter consumer choices by education health plan participants of choices in the health care market place
  - Directing employees to make better use of lower cost services versus in clinic or emergency room appointments
  - Wellness rewards program offered by Network Health, called Millennium
  - Quarterly all staff meetings dealing with a variety of wellness topics including: diet, consumerism, and lifestyle.

  No one expects that the City will miraculously decrease heath care costs in one year due to a wellness program. The aim of the program is to begin to change the culture, drive smart consumerism by the employee and promote wellness as a lifestyle. Hopefully we all win, employees feel better and have a better quality of life and both the employee and employer see the costs of health insurance stabilizing or becoming predictable.

- The Police overtime budget has returned to 2015 levels. Overtime continues to be an area of special attention, FMLA continues to be on our radar, and fortunately we did not have (yet) any major cases. Management will monitor overtime and act appropriately to provide the established level of service without undue additional cost.

- With respect to public safety (police and fire), one major incident, be it fire, major investigation or otherwise could drive the overtime expenses beyond those stated in the budget. We don't plan for those incidents to happen in the budget, to do so would unnecessarily inflate public safety costs.

Commodities

- The commodities budget, $508,990 remains relatively flat, showing a slight decrease of $10,910 over 2016 budget. Commodities include unglamorous items like office supplies, printing, mulch, paint, tires, petroleum and road salt. Commodities present the smallest portion of the operating budget, about 4.8 percent of total.

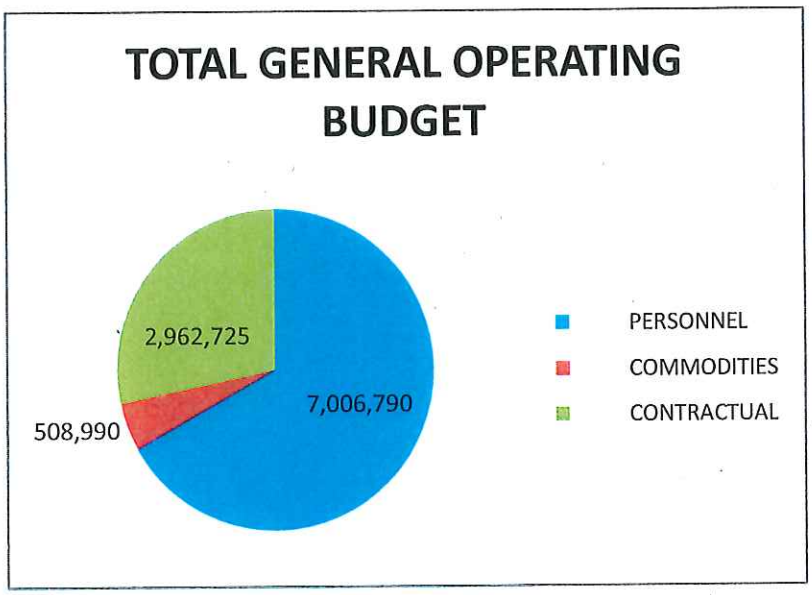
Contractual

- The contractual category the operating budget has a slight decrease for 2017 of $102,230. Contracted expenses comprise about 25% of the operating budget.

- One notable and significant change is the impact of 2007 Wisconsin Act 42 has had on our cable franchise agreement. Nine years after the law eliminating local franchise agreements was enacted the city was given notice by Charter that they are going to begin to charge the city for internet connectivity and use of the dark fiber that connects our municipal buildings to the county and the rest of the world. The City, along with other users of the dark fiber including Door County and Sturgeon Bay School District, have been attempting to negotiate with Charter to acquire the fiber to no avail.

- In the 2017 budget, we are planning on having to pay a monthly fee to charter, along with a fee to WISCnet, the City's internet service provider, a fee we should have been paying for several years but, somehow have avoided.

- During 2017 and in preparation for 2018, we hope to have either acquired the existing fiber network or constructed our own in cooperation with Door County and the Sturgeon Bay School District using accumulated excess revenues in the Cable TV Fund. Working with Door County IS Department, other options were evaluated and a cost benefit performed. Acquiring or owning the fiber showed a relatively short payback of between six and seven years when compared to continuous service charges.



	2015 ACTUAL	2016 ESTIMATE	2016 BUDGET	2017 BUDGET	VARIANCE 2016-2017 (FAVORABLE)	PERCENT CHANGE	PERCENT OF TOTAL
GENERAL GOVERNMENT							
PERSONNEL	1,165,253	1,124,390	1,120,100	1,142,125	22,025	2.0	10.9
COMMODITIES	23,136	23,575	28,425	29,265	840	3.0	0.3
CONTRACTUAL	856,116	2,122,965	2,210,055	2,110,595	(99,460)	-4.5	20.1
TOTAL GENERAL GOVERNMENT	2,044,505	3,270,930	3,358,580	3,281,985	(76,595)	-2.3	31.3
POLICE							
PERSONNEL	2,188,328	2,330,265	2,368,020	2,432,640	64,620	2.7	23.2
COMMODITIES	74,966	62,305	85,700	75,300	(10,400)	-12.1	0.7
CONTRACTUAL	97,875	101,425	97,800	95,205	(2,595)	-2.7	0.9
TOTAL POLICE	2,361,170	2,493,995	2,551,520	2,603,145	51,625	2.0	24.8
FIRE							
PERSONNEL	1,627,342	1,716,400	1,640,905	1,688,675	47,770	2.9	16.1
COMMODITIES	54,436	54,030	56,250	55,050	(1,200)	-2.1	0.5
CONTRACTUAL	148,036	152,750	154,565	155,400	835	0.5	1.5
TOTAL FIRE	1,829,815	1,923,180	1,851,720	1,899,125	47,405	2.6	18.1
HEALTH & SANITATION							
PERSONNEL	111,542	103,980	117,020	119,685	2,665	2.3	1.1
COMMODITIES	11,973	14,200	19,850	18,750	(1,100)	-5.5	0.2
CONTRACTUAL	22,529	22,000	25,500	25,500	-	0.0	0.2
TOTAL HEALTH AND SANITATION	146,044	140,180	162,370	163,935	1,565	1.0	1.6
STREETS & HIGHWAYS							
PERSONNEL	628,073	700,770	725,025	664,175	(60,850)	-8.39	6.3
COMMODITIES	188,725	214,900	224,150	221,550	(2,600)	-1.16	2.1
CONTRACTUAL	258,789	282,105	292,570	284,640	(7,930)	-2.71	2.7
TOTAL STREETS & HIGHWAYS	1,075,587	1,197,775	1,241,745	1,170,365	(71,380)	-5.75	11.2
PARKS & RECREATION DEPARTMENT							
PERSONNEL	497,880	532,965	541,470	679,115	137,645	25.42	6.5
COMMODITIES	98,317	93,660	104,100	107,650	3,550	3.41	1.0
CONTRACTUAL	100,499	98,090	110,380	110,800	420	0.38	1.1
TOTAL PARKS & RECREATION	696,696	724,715	755,950	897,565	141,615	18.73	8.6
MISCELLANEOUS							
PERSONNEL	230,448	274,300	282,605	280,375	(2,230)	-0.79	2.7
COMMODITIES	950	1,175	1,425	1,425	-	0.00	0.0
CONTRACTUAL	167,910	171,895	174,085	180,585	6,500	3.73	1.7
TOTAL MISC.	399,308	447,370	458,115	462,385	4,270	0.93	4.4
TOTAL GENERAL OPERATING BUDGET							
PERSONNEL	6,448,866	6,783,070	6,795,145	7,006,790	211,645	3.11	66.9
COMMODITIES	452,503	463,845	519,900	508,990	(10,910)	-2.10	4.9
CONTRACTUAL	1,651,754	2,951,230	3,064,955	2,962,725	(102,230)	-3.34	28.3
GRAND TOTAL	8,553,124	10,198,145	10,380,000	10,478,505	98,505	0.95	100.0

❖ **CAPITAL:**

Capital budgets and Capital Plans are used to plan for and track and manage the purchase of fixed assets with a life expectancy of more than five years. Capital budgets use a variety of revenue sources ,including tax levy, debt, grants and other types of support. Like operating budgets, capital budgets often carry positive fund balance that can either be restricted for designated uses or not. Sturgeon Bay maintains a rolling six year capital plan. The capital plan is tied closely to the city's debt service and levy plan as well. The objective being to limit variability in capital, levy and debt service plans; thus giving city residents and leaders year to year predictability in the levy.

The Proposed 2017 Capital Budget is balanced, in that revenues equal expenses. The expected capital expenses for 2017 are $2,705,695. In FY2016, we amended the capital budget to take advantage of a multi-year savings on SCBA units in the fire department. The City also billed for and received payment for 3rd Party capital expenses (SBU) associated with street & utility reconstruction projects, bringing the effective 2016 Capital Budget expenses to $2,663,815. The difference between the 2017 Capital Budget and expected 2016 year end capital budget is an increase of $41,880.

Since the inception of levy limits in Wisconsin, our ability to make changes in the operating budget has been significantly curtailed, community investment and development happens in capital budgets.

The 2017 Capital Budget features the following:

- Levy of $539,080 a decrease of $292,735.(The city did not forgo levy, but shifted to the general fund).
- Operating transfers of $207,000 (Fund balance transfer from Cable TV for Fiber Optic Network)
- Debt Proceeds in the amount of $1,523,000 (Sale of bonds or State Trust Fund Loans)
- $293,815 in applied fund balances and excess revenues from 2016.

On the expense side of the budget, the Capital Budget aims to make the following investments in 2017.

- $213,000 to either construct a new fiber optic network used for data transmission between the City and Door County or acquire the existing dark fiber network initially installed as part of the cable television franchise agreements. The City, through an intergovernmental agreement with Door County makes use of Door County's IT services, including: servers, redundant back up, data storage, telephone service, Police and Fire IT needs and end user support as well as Utility owned conduits beneath Sturgeon Bay.
- Continue to add to the property revaluation fund ($10,000)

- Replace and improve building security cameras at City Hall. Currently many of the buildings security devices are the same age as the building (10 yrs.). Several cameras are of poor resolution and the recording and storage equipment is insufficient, the lock system is also original to the building and is no longer supported, we are planning to replace that aspect of the system in 2018. We believe we have an obligation to provide safe work place, having effective security measures in place is a part of that obligation. The serviceable components from the existing system will be repurposed to provide an additional measure of security in other municipal buildings.

- The City is planning to replace two squad cars in 2017, phasing out the last Ford Crown Victoria and our first Explorer. Squad cars typically have a useful life of three to four years. ($81,000)

- Various Police equipment including: replacement radios, firearms maintenance, and office furniture is also slated for purchase.($24,300)

- Fire Department Building Repairs, include doors, windows and locks at the West Side Station Equipment including: turn out gear replacement, helmet replacement, truck radios, rescue ropes, and defibrillator replacement. All of these items, while small have a useful life of more than five years and are sufficient enough in expense to warrant capitalizing their purchases.($31,550)

  Two vehicle purchases are planned for 2017. The ladder truck at $980,000 has been a part of capital replacement plan for many years. The current truck has been in service for 30 years, the expected life of a truck in this service duty is 20 years. The truck is inspected annually, however every year inspections reveal a need for additional investment. The truck does not meet the minimum pumping requirements which could lead to the truck being taken out of service indefinitely. Our ISO rating relies in part upon the City having a fully operational aerial truck. The replacement truck will be in a "quint" configuration, meaning it can perform multiple tasks from one platform. Having a truck in this configuration enables the Fire department respond for effectively and operate with less manpower.

  The second vehicle purchase is a replacement of the vehicle assigned to the Fire Chief. This vehicle replaces a 2003 Tahoe that is at the end of its useful service life, the replacement expense is budgeted at $48,000.

- Continued Annual Storm Sewer outlay $120,000. Having an effective storm sewer system is critical for managing rain events and runoff quality.

- Solid Waste is replacing a refuse lift arm for one of the garbage trucks and several totes. The Capital Fund will be reimbursed from the Solid Waste Enterprise Fund ($26,000).

- Regular capital maintenance continues along with street, park and equipment improvements and replacements:
  - Resurfacing and Base Repair ($360,000).
  - Duluth Avenue Design/Reconstruction ($26,000).

- Continued Annual Slurry Seal/Crack Filling at $85,000.00 (2013 - $40,000, 2014-$82,000, 2015-$83,000, 2016-$84,000). An effective maintenance program is essential for maximizing the life of city streets.
- Alleys/parking lots ($32,000).
- Curbing and Sidewalk Replacement ($125,000).
- New Curb and Gutter Installation ($30,000).
- New sidewalk installation ($30,000).
- Replacement of one work truck ($37,000) and two mowers ($25,000).
- Garage doors are a perpetual replacement item and are shown at $10,000 for the next several years.
- Little Lake will continue to see investment and progress in 2017 ($60,000).
- A variety of expenses for the ice rink, ball field fencing, and parking lot repair total $22,000.
- Sawyer Park parking lot lighting is in bad condition. Several efforts have been made repair the fixtures. The fixtures are at the end their useful life. They will be replaced with more efficient, easier to service lighting. The cost is estimated to be $55,000, this is being paid for from accumulated excess launch ramp revenues.
- Under the terms of the City/County intergovernmental agreement concerning the Sturgeon Bay Branch of the Door County Public Library, the city is obligated to partner with capital expenses. The Library will be replacing their roof in 2017 to the tune of $47,445.

Important Budget Dates:

Monday, Oct. 3, 2016	4:00PM Community Room	Budget Workshop
Monday, Oct. 10, 2016	4:00PM Community Room	Budget Workshop
Monday, Oct. 17, 2016	4:00PM Council Chambers	Council Presentation
Tuesday, Nov. 8, 2016	4:00PM Council Chambers	Budget Hearing/Adoption