



Meeting: Village Board
Meeting Date: 5/23/11
Agenda Item: 8a

Mission Statement

Delivering quality services in a courteous, cost-effective and efficient manner.

VILLAGE BOARD MEETING STAFF REPORT

REPORT TO: Burt R. McIntyre, President
Village Board of Trustees

REPORT FROM: Robert Bartelt, Village Administrator

AGENDA ITEM: Report on 2012 Preliminary Budget Work

BACKGROUND INFORMATION

The Village has been notified by the state (through Act 10) and the League of Wisconsin Municipalities that two state aid programs will be drastically cut in 2012 and that the state will be modifying the tax levy restrictions for municipalities in 2012. The discussions on the actual levy limit in 2012 appear to be continuing (Will the limit be the greater of the percentage of growth or 0% with the percentage now being discussed as possibly being 1%; also, will any unused levy limit from previous years be allowed to be carried over in 2012?).

The current information submitted to the Village from the two sources above indicates the Village will be cut the following state revenue sources in 2012:

General Transportation Aids cut	\$123,025
Municipal Aid program cuts	<u>\$238,061</u>
Total	<u>\$361,086</u>

The Village was also notified in 2011 that the recycling grants for 2012 would be eliminated. There is discussion at the state level to maintain some form of the recycling grant program in 2012. For 2011, the state has notified the Village that recycling grant aids will be cut approximately \$20,000. Staff is anticipating that at least \$20,000 will be reduced in the 2012 budget for recycling grants bringing **the total anticipated reduction in state aids in 2012 to approximately \$381,000.**

Other items that are currently scheduled to affect the operating budget in 2012 are existing contracts that have scheduled cost increases. The three largest contract cost increases in 2012 are for the following services:

Brown County Sheriff	\$59,052
Veolia - garbage and recycling	\$18,144
Teamster labor unions	\$52,570 (not all of this cost in the General Fund)

I will be working with the County Sheriff to discuss the cost provision escalators in the current contract to determine if there is any room for negotiating a lower increase in 2012 with extending the contract that is set to expire 12/31/12. I have been working with Teamsters to determine if they have any interest in making similar concessions in their current contract in exchange for an extended contract beyond the schedule 12/31/13 expiration.

Staff has been working for some time on ways to reduce the tax levy in 2012 through reduced spending, deferred spending, revenue increases and various other ideas and suggestions for maintaining the tax levy at a similar level as 2011. Staff has also obtained some suggestions from board members on items to adjust in the 2012 budget. An attempt will be made to include all of the staff and board suggestions into the preparation of the 2012 budget document.

The first item to discuss with the Village Board will be the fire protection fees. The Public Service Commission establishes fire protection fees in the water rates as part of their established rate structure for the Village of Howard Water Department. The rate structure dictates all utilities to charge for public fire protection fees as part of their municipal water utilities. The municipal utilities have some flexibility into how the fees are charged. Currently in Howard there are \$397,000 of the fire protection fees being charged by the Water Utility to the General Fund, and the remaining balance of almost \$659,000 is being charged to water utility customers.

Under the current rate structure, only water customers are charged for the \$659,000 portion of the fire protection fees and non-utility customers only pay a small portion of the \$397,000 placed onto property tax bills through the General Fund. Staff has contacted the PSC regarding the possibility to move the \$397,000 from the General Fund and place this fee onto the water bills. The PSC has indicated this change can be made to the existing rate structure through application. Also, the PSC has indicated that non-water utility customers can also be made to pay the fee through monthly water bills. A listing of all non-water utility parcels would need to be generated by staff and submitted to the PSC to determine the new rate structure for the water utility charges for fire protection.

Staff has been working with financial consultants Ehlers on possible refinancing of water and sewer revenue debt in an effort to lower interest cost to customers. With the principal payments being due and payable on August 1, the refinancing cannot be made until later this summer. Ehlers has estimated the refinancing could save customers annual principal and interest payments ranging from \$67,000 to \$101,300. The savings would be accomplished for two primary reasons: (1) lower market interest rates on debt and (2) changing the debt from revenue debt to general obligation debt (also causing lower interest rates as the debt would become tax exempt). The lower annual debt payments would be used to reduce utility rates to customers.

Currently, a typical residential water utility customer pays \$7.30 per month in fire protection fees. To remove the \$397,000 from the General Fund, add non-water customers (estimated to be 400 parcels) and reduce future debt payments, is estimated to have the effect of adding approximately \$3.30 to a monthly water utility customer and cause non-water customers to begin to pay monthly fire protection. Until a full rate study is performed, we would not know the full impact of the proposed changes, since we don't know the affect of adding non-water customers to monthly fire protection fees or what the actual interest rates on refinancing will be.

I would like to have some Board discussion on the feasibility of removing all of the fire protection fees from the General Fund and adding to the water bills. Moving the \$397,000 would go a long way to offset the reduction in road aids and shared revenue being forced down to the Village by the State of Wisconsin.

I will continue to work on existing contracts to determine if any reductions in costs can be obtained in 2012 by renewing contracts. I will also continue to work on other cost-reduction items and report back at future board meetings. I plan to have regular budget meetings in the summer months of 2011 so that the entire 2012 budget process would be completed prior to the determination of the next village administrator in August.

Another item to mention is the anticipated savings from having employees pay half the cost of pension contributions. Act 10 passed this measure and is still working its way through the courts with no definite date of resolution. Staff anticipates the item to be resolved in 2011 with the employees paying half the cost of pension contributions, currently at 5.8%. All employees represented by the two Teamster union contracts will not be required to pay the pension contributions until their existing contracts expire on 12/31/13 unless contract modifications are made.

I believe the non-union employees will be required to pay half of their cost of pension contributions upon the conclusion of Act 10's resolution through the courts. Staff has calculated the amount non-union employees will be paying in 2012 will be approximately \$60,000 with not all of these funds in the General Fund. This law change will help to alleviate only a portion of the state's cuts in shared revenues and transportation aids. I am also looking at other ways to reduce payroll expenses into 2012 and beyond; these items will be discussed in more detail in the coming weeks.

Overall, I anticipate the 2012 budget process will be a challenge for staff and the board to create a budget that continues to maintain village budget policies and state-mandated levy limits. Staff does anticipate tax levy increases for noted construction improvements that occurred in 2010 based on completed work from our assessor. Staff is still working on the final changes in assessed value to determine how much of a levy increase would be allowed based on growth.

There are several other options available to assist in maintaining a lower levy in 2012. These items will be discussed at upcoming board meetings.