Village Policy: VB-4

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Revised: August 28, 2006

Revised: August 22, 2005

POLICY TITLE: Budget Policies

AUTHORIZATION: Village Board Meeting 8-13-07

POLICY STATEMENT: **Balanced Budget**

For purposes of preparing the annual budget for the Village, a balanced budget refers to all revenues and beginning fund balances shall be equal to all expenditures plus ending fund balances. In most years, the revenues from all sources in the General Fund will be equal to all expenditures in the fund. Whenever revaluations occur or when funds are appropriated in one year and spent in a later year, than expenditures will exceed the revenues (when excluding the beginning and ending fund balances).

Budget Amendments

From time to time it becomes necessary to modify the adopted budget. The procedure for amending the budget depends upon the type of change that is needed.

One type of budget amendment brings about a change in the total appropriation for a department, function or fund. Examples of these changes include but are not limited to:

- the acceptance of additional grant money that becomes available;
- the appropriation of additional funding if expenditures are projected to exceed budgeted amounts;
- the addition of new programs which generate positive or neutral cash flows
- the transfer of appropriations from one fund to another when deemed necessary
- unforeseen emergencies

All budget amendments require Village Board approval with a two-thirds vote. The amendments must be published as a class one notice within 15 days of the approval.

Each year the approved and adopted budget reflects a balanced budget whereby an estimate of revenues and beginning fund balances are equal to estimated expenditures and ending fund balance. This basis of budgeting is referred to as the expenditures plus encumbrance method of budgeting. The budget is prepared in accordance with generally accepted accounting principles (GAAP). GAAP is used to report a more meaningful budget when compared to actual expenditures included in the CAFR. See pages 19 and 20, Budgetary Basis for more about the GAAP basis used in the budget.

Capital Projects Budget Policies

Funding for capital projects shall utilize available funding sources from (1) developer contributions, (2) grant funds and (3) general tax levy. If funding requirements are not met through such items, then fund transfers will be made from existing resources, if available, before utilizing any borrowing alternatives. It is the intent of the Village Board to pay the full cost of current services with current revenues or available fund balance and avoid borrowing for operating expenditures.

Funding for utility projects will be obtained through existing resources and/or borrowing through competitive bidding in the bond market. If any state trust funds are available and more cost efficient for use, then borrowing may be obtained from such funds.

The Village has developed a capital improvement plan that is reviewed and updated annually. In addition to these plans, a comprehensive development plan, CORP and a Park and Recreation Needs Assessment were adopted.

Each annual budget will provide for adequate funding of the portion of the long-term plans that will be constructed or purchased.

The Village will maintain its physical assets at a level adequate to protect the Village's capital investment and to minimize future maintenance and replacement costs. The budget will provide for the maintenance and replacement of the capital plant and equipment from current revenues.

Industrial acreage will be available within the Village to insure adequate development in accordance with the overall area development plans.

Revenue Policies

The Village will strive to maintain a stable revenue system. The goal is to minimize fluctuations from year to year from revenue sources and maintain a stable tax rate.

The Village will follow an aggressive policy of collecting revenues. Major sources of revenue are guaranteed from state aids and the August tax settlement with the County Treasurer.

The Village will review license and fee charges periodically in order to determine if the revenues adequately support the activities. User fees and charges will be established whenever deemed appropriate. Impact fee analysis shall be prepared to assure that costs of land development are borne by the developer.

Water, Sewer and Storm Water Utilities funds will be self-supporting through user charges. The Water fund is regulated by the Public Service Commission (PSC) and all rate changes are subject to their approval. The Sewer and Storm Water Utilities require Village Board approval for any rate changes. Delinquent water, sewer and storm water billings are added to property tax billings in the event of non-payment by November 15.

Fund Balance Reserve Policies

The General Fund policy for fund balance reserve was modified by the Village Board in 2007. The new policy establishes the fund balance to be between 35%-40% of the previous year's actual expenditures within the fund. All excess funds above this policy were transferred from the General Fund into a capital project fund titled Redevelopment Fund in 2007.

Reserves are established in the Water and Sewer Utilities in accordance with Revenue Bond Ordinance provisions. Funds will be reserved for equipment, major replacement and repairs in the Sewer Utility.

Debt Service Fund reserves are established for any revenues collected in excess of budget amounts or expenditure needs. Such reserves will be utilized against future debt retirement. None of the enterprise fund debt reserves are included in the Debt Service Fund.

The Revolving Loan Fund, which is a Special Revenue Fund, maintains a fund balance for the amount of loan funds collected. Such funds are available for future loans to business that qualify. The Village desires to loan all available funds thereby keeping fund balance to a minimum.

TIF No. 2, another Special Revenue Fund, is used to account for revenues collected for the TIF district and subsequently transferred to Debt Service Fund for annual debt payments. The Fund balance fluctuates based on the debt schedule and revenue collections in any given year.

Capital Project Funds maintain ongoing fund balances for accumulation of funds until major equipment or construction projects can be funded. The amount of the fund balance will vary from year to year depending on the timing of the equipment purchase or the construction project.

Investment Policies

During 1996, the Village Board adopted a formal investment policy. Under the investment policy, the objective of each investment will be prioritized by safety, liquidity and return on investment.

Short-term investments required for daily operating needs are handled with a local bank. Such funds are maintained in interest bearing accounts and insured by FDIC and State Guarantee fund up to $500,000. The Village will seek to obtain collateralization for investments over $500,000 of deposits.

Long-term investments (funds available for more than 30 days) are placed into Certificates of Deposit with the financial institution offering the highest guaranteed yields and the Wisconsin Local Government Investment Pool. The policy allows for investment in U.S. government securities but not government agencies.

Debt Policies

The Village long-term borrowing is limited to capital improvements for new infrastructure. Short-term borrowing has not been utilized by the Village. All general obligation debt is limited by state statute to 5% of equalized valuation. Referendum will only be used on capital projects for bonding indebtedness if the state mandated debt limited will be exceeded for borrowing related to construction projects or asset purchases.

During the 1993 budget, the Village adopted a policy to limit borrowing to new construction projects only after utilizing all available funds and will strive to pay for all reconstruction through tax revenues. This policy has been successfully utilized in each year since adoption. New borrowing will only be allowed when a revenue source to pay for the borrowing is identified and utilized in order to limit tax rate growth.

The Village utilizes outside council and consultants for completing debt issues and proper disclosure of financial condition in bond prospectus. Financial data is obtained from the most recently audited financial statements. Other pertinent prospectus information is gathered from State of Wisconsin, Brown County and Village records and sources.

Special Assessment Policies

The Village Board has established by resolution (last revision June 1994) a special assessment policy; however, each project is reviewed on a case by case basis in order to obtain the most equitable assessments and financing for residents, developers and the taxpayer.

Generally, the policy states that developers pay 100% of all infrastructure costs. Fronting property owners pay assessments based on frontage footage over a ten year period with interest charged daily at 5¾%. Properties with more than 90 feet of frontage are granted deferral of assessments on the footage over 90 feet until the property is used or otherwise ownership transferred. Interest is charged on such deferrals.

Purchasing Policies

By State statutes, the Village must use competitive sealed bids for all public construction of $25,000 or more. This process shall be done in accordance with state statutes for publication in authorized Village newspaper, bid invitations, opening and evaluating bids, and awarding the bids through Village Board approval. Competi-tive bidding procedures will also be utilized for all equipment purchases in excess of $25,000. The procedure will include a bid specifications sheet, inviting all qualified suppliers in writing to submit quotes, quotes being evaluated concurrently and awarding the bid. Purchases of less than $25,000 are made through various criteria:

- Informal telephone quotations
- Negotiated purchases
- Published price lists
- Emphasis placed on local businesses

All invoices are presented to the Village Board for approval before payment is made except for certain situations. These situations include, but are not limited to, payroll and related liabilities, refunds, payments for health and dental benefits and any emergency payments for appropriated budget items with the approval of both the department head and administrator.

Pension Funding and Reporting Policies

The current budget shall include amounts sufficient to cover all pension liabilities. All permanent employees expected to work over 600 hours a year are eligible to participate in the Wisconsin Retirement System. Covered employees are required by statute to contribute 5.9% of their salary (5.0% for Protective Occupations with Social Security) to the plan. The Village is making these contributions to the plan on behalf of the employees. The Village is required to contribute the remaining amounts necessary to pay the projected cost of future benefits. Employer required contribution under this plan is 4.5% (10.0% for protective with social security).

Deferred Compensation Plan

The Village offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits deferral up to $15,000 not to exceed their annual salary. The annual contribution amount will be adjusted per federal law. This plan is administered by an independent organization.

Employee Policies

The Village seeks to employ the highest qualified personnel for positions available and resources provided. The Village has two employee unions covering (1) public works and parks department (DPW) employees and (2) clerical employees. Contracts with these unions generally cover a two or three year period. The current contracts expire December 31, 2007.

The Village also has established policies for non-union employees. Such policies include vacation, and paid time off; fringe benefits; wage adjustments and wage scales; hiring and termination procedures; non-discrimination, sexual harassment and other similar policies and grievance procedures. In the event union contracts do not cover an issue, the non-union policies become effective.

Risk Management

The Village has purchased commercial insurance policies for various risks of loss related to torts, theft, damage or destruction of assets; errors and omissions; injuries to employees; or acts of God. In addition to the purchased insurance, the Village has a Health, Dental and Short-term Disability Self-Insurance Fund. The Village full-time employees and their dependents are eligible for medical and dental benefits. Board members are eligible for dental benefits but must pay the premiums through payroll deduction. Only full-time employees are eligible for short-term disability. Funding is provided by charges to Village departments and employees. The program is supplemented by stop loss protection, which limits the Village's liability exposure.

Tax Incremental Districts

The Village has established three Tax Incremental Districts (TID or TIF). TIF #2 is currently accounted for as a Special Revenue Fund. TIF's #3 and #4 are both accounted for as a Capital Project Funds. All of these TIF's were established in accordance with Wisconsin Statutes. Tax revenues generated from the increased property valuations for properties located within the TIF are used to repay all costs associated with the TIF. TIF expenditures can be made up to five years prior to the statutory closure date of the TIF.

TIF #2 is currently collecting tax increment and special assessments to repay TIF expenditures. This TIF expended over $20 million of costs and is expected to recapture these costs in 2011 or 2012.

TIF #3 was created in January 2006 for the Village Center project. Costs related to this TIF are expected to be incurred over the next 10-15 years after an anchor store has been obtained for the site. This TIF is a mixed-use TIF expecting both residential and commercial development to create a downtown center.

TIF #4 was created in 2007 to account for cost related to redevelopment along the US Highway 41 and 29 interchange area. Costs are expected to be incurred over the next ten years in this area. Large retails stores are expected to anchor shopping centers within this TIF district.

All of the TIF's are subject to reporting and audit requirement outlined in state statutes. It is possible additional TIF's will be created in the near to fund other redevelopment.

Budgetary Basis

The Village prepares a budget for all fund types within the comprehensive budget document. By law, the Village is required to make appropriations for funds affecting the tax levy (which are the General Fund, Debt Service Fund and Capital Projects Funds). Listed below are all of the funds contained in this budget document and the accounting method used for budgeting purposes.

Modified Accrual Basis

General Fund, Special Revenue Funds

Debt Service Fund, Capital Project Fund

Accrual Basis

Enterprise Funds

Internal Service Fund

The modified accrual basis of accounting is a method of recording revenues when susceptible to accrual (i.e. when they become measurable and available) and recording expenditures when the liability is incurred, except for principal and interest on long-term debt. In the accrual basis of accounting, transactions are recognized at the time they are incurred, as opposed to when cash is received or spent. The budgetary basis is the same basis of accounting used in the comprehensive annual financial report (CAFR).

Wisconsin state statutes 65.90 (2) require budgets to be prepared that show a "list (of) all existing indebtedness and all anticipated revenue from all sources during the ensuing year and shall likewise list all proposed appropriations for each department, activity and reserve account during the said ensuing year." This budget document includes all of the above listed funds. The following paragraphs give a brief description of all funds that are subject to appropriations. Also, Act 203 passed by the State in April 2006, requires revenue and expenditure totals for impact fees be published annual in advance of the budget hearing.

Program Results Reporting

The annual budget is used as a means of reporting results of various programs and department goals and objectives. Part of the continued development of such reporting has been to identify and standardize the criteria for output measurements and quantifiable and measurable goals and objectives. Effort is being made to add more data each year.

General Fund

This fund accounts for all activity that is not included in any other fund within the Village. The following pages explain in detail the departments that are accounted for in the General Fund. Some of these departments include policy, fire, finance, public works, parks and recreation.

Special Revenue Funds

The Special Revenue fund contains two funds, the Revolving Loan fund that accounts for block grants and subsequent loans and the TIF. Collections of loans are accounted for in the Revolving Loan Fund. The loan fund is allowed to keep $750,000 of subsequently collected grant proceeds for future loans. The TIF (as explained above) accounts for tax incremental revenues and subsequent transfers to Debt Service Fund.

Debt Service Fund

This fund accounts for principle and interest payments on all general obligation debt. The proprietary funds debt is excluded from the debt service fund. Revenues used to offset the debt service requirements include transfer

of funds from the TIF and interest earned on investments. Tax levies are made for full funding of debt service requirements.

Capital Projects Funds

The following pages explain in detail all of the projects that are included in this year's budget. These projects include four separate types of funds: (1) park development fund; (2) developer projects for new subdivisions; (3) capital improvements fund; and (4) capital outlay for purchases of equipment.

Enterprise Funds

There are four funds accounted for as enterprise funds. All enterprise funds are to be self sufficient from user fees. User fees should be sufficient to cover all operating expenses, interest and principal payments of debt service, reasonable rate of return and amounts to fund future replacement projects of infrastructure or capital assets.

The first enterprise fund is the water fund that accounts for the revenue charged and expenses incurred related to the water utility operations. The Village has three operating wells and three water towers. The Village has over 75 miles of water main in the ground. Revenues for the fund are generated from user charges to customers and public fire protection fees from the general fund.

The second enterprise fund is the sewer fund that accounts for all revenue and expenses related to the sanitary sewer utility. Revenues are derived from user charges to customers and expenses include fees paid to the Green Bay Metropolitan Sewage District (GBMSD) for use of sewer lines, treatment and annexation fees, as well as other operating expenses. The Village sewer utility does not treat sanitary sewer waste but deposits the waste into the GBMSD's sewer lines for their treatment facility to treat.

Both the water and sewer utility should have replacement programs for infrastructure and capital equipment that are sufficient to replace all assets through user fees and charges. This budget identifies five years of capital improvements that will be made through existing resources.

The third enterprise fund is the storm water utility fund that began accounting for this fund January 1, 2005. This utility accounts for the costs associated with storm water utility assets, infrastructure, user fees, and cost related to maintenance and operation of the utility.

The fourth enterprise fund is the golf course, known as the Village Greens. The Village purchased the golf course in December 1996. The operations of the golf course include green fees for the nine-hole course, restaurant operations (primarily a Friday night fish fry and beverage sales), merchandise sales and cart rental revenues. The Village Board has adopted a policy to fund Park Capital Improvements with $100,000 of net income from the golf course operations.

Internal Service Fund

This fund accounts for the fees charged the general fund, enterprise funds and capital project funds for self-funded insurance programs. This fund and the related activity are explained on a previous page under the caption Risk Management.

Long-term Planning

In conjunction with the preparation of the 2008 budget, extensive work was done on long-term planning. Future projections have been made on factors of growth in assessed

and equalized valuations, TID valuation growth, expenditure increases, funding levels for capital projects, levy support for debt service and many other factors affecting future budgets. These projections were made primarily to determine the timing of various capital projects for prioritization and their future tax impact.

Various assumptions were used in the long range planning process. Many goals were derived from the process, seven of which are listed below:

1. Continue to fund major reconstruction projects and capital outlays with cash reserves and future tax levies. No plans for future borrowing for these needs.
2. Continue to fund current service levels and any new state or federal mandates.
3. Funding for debt service will be eliminated in the year 2010, the year non-TID debt service ceases.
4. Maintain a steadily declining tax mill rate.
5. Continue to fund a computerized revaluation once every three years.
6. Continue to evaluate infrastructure through the state's PASER evaluation process on a bi-annual basis.
7. As part of the Capital Project Funds annual budget, department directors evaluate major assets for scheduled future replacement and repairs over 20 years.

Long-term financial goals are centered on continued growth from new residential, industrial and commercial construction as well as redevelopment of commercial areas. In order to maintain a steadily declining tax mill rate, new assessed valuation created each year will need to be approximately $21-$35 million. To be able to add additional personnel without increasing taxes will require even more growth. Future budgets may require years of tax mill rate increases to allow for increased personnel needs.

Given the Village is only about half developed, continued growth will only be limited by demand and economic factors that are beyond the Village's control. The Village recently hired a consultant to determine potential for commercial growth. The consultant's outlook on commercial growth was excellent given the Village was lacking in every industry (retail and wholesale) when compared to other municipalities within Brown County and that personal income of the area would support new commercial businesses in Howard.

Documents created during this process are not all included within this budget document.

Acceptable Construction Practices

Discussion has occurred about proper engineering design of intersections. Intersections can contain stop lights, stop signs, roundabouts or other forms of engineering designs deemed acceptable practice. The designs are made for many purposes that include costs, and available resources, traffic calming, proximity to existing intersections and other factors that may be unique to the streets involved.

The Village Board accepts all forms of intersection design and construction that is deemed appropriate for the streets involved. No type of design or construction will be eliminated from possible use in the Village.

Rest of the Budget

The remaining pages of this budget document represent the financial and narrative information related to this 2008 budget document. The remaining pages also contain data on performance measures, various statistics, a glossary of terms and other information.

It is the hope of the management of the Village of Howard that all parties reading this budget document will be well informed of the financial matters and overall operations of the Village as well as a better understanding of the policies which are used to shape the budget process.

The following page is included in the budget as a worksheet to determine the tax levy and serves as the posted legal notice required for the budget public hearing. Listed are the proposed expenditures for 2008 by fund offset by the anticipated revenue sources (excluding property taxes); the result is the tax levy. At the bottom of the following page is a state required disclosure of Park Impact Fee Fund revenues and expenditures for the public hearing notice published in the local paper.