

Citizen Budget Partners

August 14, 2019

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Is this
who you think
we are?

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YouTube Video

Tim Hawkins – The Government Can

Hopefully
you will
think differently!

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Overview

- Introductions and Orientation
 - Introductions and Overview
 - What is the Citizen Budget Partners?
 - Why are we doing this?
 - Organizational Structure
 - Budget Process
 - Overview of Government Fund Accounting
 - Overview Discussion of Legislative Issues
 - Discussion of TIF and Debt
 - Administrative Budget Discussion
 - Questions



Overview

- The Staff Alphabet Soup game in today's discussion-because we hate acronyms
 - CBP (Citizens Budget Partners)
 - WRS (Wisconsin Retirement System)
 - W (Whatever dude)
 - DOR (Wisconsin Department of Revenue)
 - DNR (Wisconsin Department of Natural Resources)
 - CPI (Consumer Price Index)
 - OMG Oh my Goodness
 - COL or COLA Cost of Living Adjustment (provided by the Fed)
 - TIF District or TIF (Tax Increment Financing District)
 - TID (Tax Increment District)
 - TIF and TID are sometimes used interchangeably. TIF is the Financing and TID is the physical district.
 - MIL Rate (per thousand rate)
 - How much tax you pay per \$1,000 of assessed home value
 - BMOP (Burlington Manufacturing and Office Park)
 - GO (General Obligation – as in debt financing.)
 - WTF (Where's the Fire?)

What is the Citizen Budget Partners?

- A group of citizens that have been asked to participate in the City's budgeting process
- Consists of members selected by Alderman and Mayor who have an interest in the City budget.
- Upon conclusion of the meetings your feedback will be used in preparation of the draft budget for Common Council consideration, and;
- Policy Decisions for the upcoming year; 2020.

Why are we doing this?

- Increase transparency of the City's operations
- Seek feedback from you about programs and services
- Generate new ideas
- Help educate the public about the budget and the impacts on our residents
- Provide direct feedback to the staff and Common Council about city policy and priorities
- Learn how we can do this better next year

2020 Budget Process

July – City Finance Director Treasurer collects information and sends to Department Heads. Projections are created and reviewed for 2019. Draft Budget is created for Review at Citizen Budget Partner Meetings.

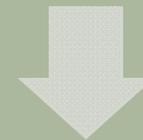
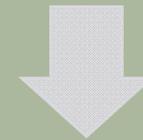
August – Citizen Budget Partners Meeting Held to review draft budgets, proposals, and provide input.

September – Department Head and Administrator meetings are held, draft budget revised with input from Citizen Budget Partners, and staff. Projections are updated.

October – Common Council Workshops are held, adjustments to budget are made based upon Common Council input.

November – Public Hearings are held, and Budget is Adopted by the Common Council.

December – Levy is Calculated, and tax bills are issued to property and business owners.



Overview of Government Accounting

- Fund Accounting:
 - Funds – Independent self-balancing set of accounts
 - Categorized to reflect major services provided by the fund
 - Reflects the source and use of revenue. Ensures that certain revenue is only spent on specific items.
 - City uses many “funds” for different purposes
 - Funds can have revenue and expenditures and can transfer either with other funds.

Overview of Government Accounting

- Fund Accounting:
 - General Fund – Most government functions. Taxes, Public Charges for Services and State Shared Revenue account for the majority of revenue. Expenditures include Public Safety, Public Works, Administration and Municipal Court.
 - Enterprise Funds – “Business-type” funds. Includes airport, water and sewer operations. Major source of revenue is user fees.
 - Other Funds – Library, Revolving Loan Funds, Park Development Fund, Self Insurance Fund, Equipment Replacement Fund, Debt Service Fund. Revenue sources can be other funds, loans or grants.

Overview of Government Accounting

- Fund Accounting:
 - In the General Fund, it is recommended that 25% of annual expenditures remain in a reserve – known as “Unreserved Fund Balance” or simply “Fund Balance” – equivalent to approximately 3 months of expenditures.
 - For the City of Burlington, there are no externally required balances i.e. “Restricted Assets” in the General Fund. A restricted asset is typically cash held for a specific purpose.
 - There are “Restricted Assets” in the Enterprise Funds. Clean Water Fund and Safe Drinking Water Fund loans require a certain dollar amount set aside for future payments of debt. Typically 10% of the total loan and 1/12th of the next year’s principal payment and 1/6th of next year’s interest payment.

Overview of Fund Accounting

- How does a Municipality get the money it needs to operate?

- The Levy & Taxes

LEVY

- Each year, the city determines its budget for City services (Public Utilities and the Library are separate). The amount of money needed to fund the budget, debt payments (or debt service), and TIF Districts (more on this later) is called the levy.
- The City levy is the amount of money charged as City property taxes to the residents of the City of Burlington.
- In addition to the City's levy, there are other "Taxing Jurisdictions" also charging levies: The County of Racine (or Walworth), Gateway Technical College and Burlington Area School District. As of 2016, the State of Wisconsin no longer charges a levy.

TAXES

- All these amounts added together generate the overall levy which then is divided by the Assessed Value of the entire City to create a MIL rate. The MIL rate then generates the tax you pay each year, based on your property's individual Assessed Value.
- Your property taxes are then reduced overall by State credits, Lottery Credits and First Dollar credits. Those credits are paid to all the taxing jurisdictions by the State each year to make the levy whole to each jurisdiction.
- The City's responsibility is to collect those taxes through the end of February of the budget year, then pay the proportionate share that has been collected to each taxing jurisdiction; once in January (collected through December 31, and again in February collected through January 31st).
- Second installments are paid to the County after January 31st. The County then collects the remaining taxes and settles the final tax payments to each taxing jurisdiction in August.

Overview of Fund Accounting

- How does a Municipality get the money it needs to operate?
 - The Levy & Taxes
 - 2 CITY LEVY COMPONENTS
 - The City Levy is comprised of two components, the Operations Levy, or the money needed for the budget and the Debt Levy, or the money needed to pay the current year debt. It does not include Water or Sewer as those items are funded by user fees. The Levy on the tax year pays for the expenditures in the next year, i.e. taxes charged against property as 2018 property taxes pay for 2019 city expenditures.
 - The 2018 Levy was as follows (City only)
 - \$6,685,059 for operations
 - \$1,278,353 for Debt (or debt service)

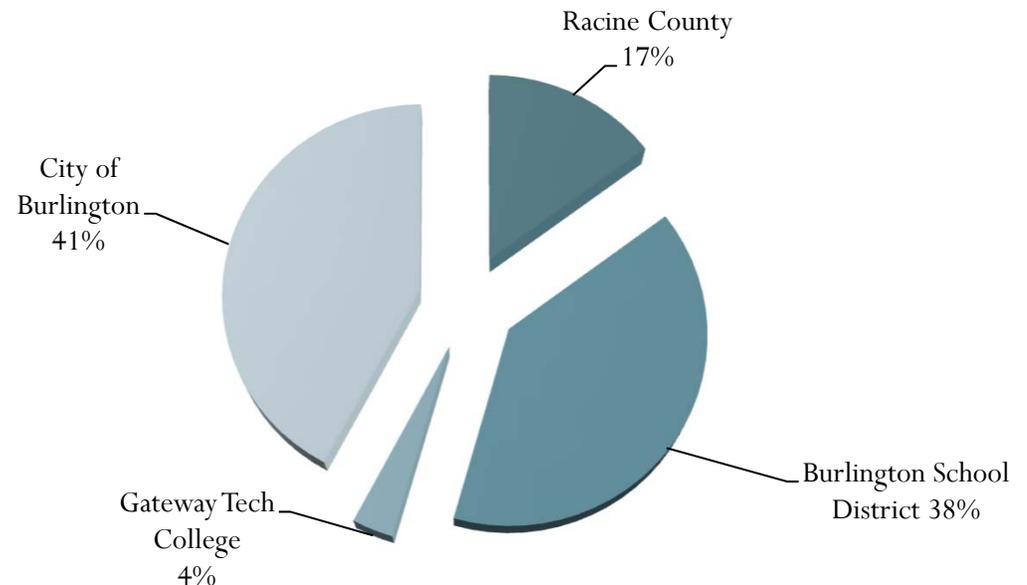
The City, by statute has limits on the amount of operational budget that can be levied, called levy limits. Debt is only limited by the amount needed to pay the General Obligation debt for the current year.

More on this on another slide....

Property Tax Information

- City of Burlington MIL Rate in 2018 was \$8.56. Overall net tax rate in 2018, County of Racine was \$20.55 (net includes state credits)
- For an average household assessed value of \$196,200 (2018 Average Residential Value):
 - City Tax was: \$1,679.42 gross before state credit
 - Net Tax bill was \$4,031.91 after state credit
 - Total bill of \$4,031.91 is further reduced by Lottery and First Dollar credits if applicable.

Tax Dollar Distribution



Net Tax Dollars-approximate

Racine County: \$685

Burlington Schools: \$1,507

Gateway Technical: \$161

City of Burlington: \$1,679

TOTAL: \$4,032

Tax bill is further reduced by Lottery and First Dollar Credits

Budget vs. MIL Rate vs. Assessed Value

BASE EXAMPLE	Assessed Value of the City		\$ 800,000,000.00		
	Budget needed to operate		\$ 5,000,000.00		
	City's Effective MIL RATE; (Budget / Assessed * 1000)		\$ 6.25		
	AVG Home Value		\$ 172,000.00		
	Gross Tax		\$ 1,075.00		

Examples will be compared to the base Example

INCREASE ASSESSED SAME BUDGET	Assessed Value of the City		\$ 850,000,000.00		
	Budget needed to operate		\$ 5,000,000.00		
	City's Effective MIL RATE; (Budget / Assessed * 1000)		\$ 5.88		
	AVG Home Value		\$ 172,000.00		
	Gross Tax		\$ 1,011.76	REDUCTION	

Same budget, higher overall City value, lower taxes.

INCREASE ASSESSED INCREASE BUDGET	Assessed Value of the City		\$ 850,000,000.00		
	Budget needed to operate		\$ 5,312,500.00		
	City's Effective MIL RATE; (Budget / Assessed * 1000)		\$ 6.25		
	AVG Home Value		\$ 172,000.00		
	Gross Tax		\$ 1,075.00	SAME TAX	

Higher budget, higher overall City value, Same taxes.

DECREASE ASSESSED SAME BUDGET	Assessed Value of the City		\$ 775,000,000.00		
	Budget needed to operate		\$ 5,000,000.00		
	City's Effective MIL RATE; (Budget / Assessed * 1000)		\$ 6.45		
	AVG Home Value		\$ 172,000.00		
	Gross Tax		\$ 1,109.68	HIGHER TAX	

Same budget, lower overall City value, higher taxes.

Overview

- Discussion of Legislative Issues
- Discussion of TIF and Debt
- Library Budget Differences
- Administrative Departmental Budgets
- Questions?



Wisconsin Acts 10, 20, 32 and Later

- Act 10 – eliminated negotiating power of Unions in state government for all but base wage, except for police and fire unions. Allowed for Union Certification by its members.
 - Burlington has 2 labor unions: LAW for police officers – excluding command staff and Firefighters Local for Fire Engineers.
- Act 20 - Controls the amount that can be levied against property.
 - Levy can be increased by net new construction, recapture of closed TIF values, issuance of new debt, annexation or referendum.
 - Net new construction, state-wide is averaging 1% or less. City of Burlington 2018 Net New Construction was .689%.
 - The amount of the Levy increase is further limited by old debt retirement and other factors, without referendum.
 - In addition the Expenditure Restraint option has strict compliance in order to receive additional shared revenue: Overspending a budget percentage increase figure supplied annually by the Department of Revenue (DOR) can result in a further cut to State Aid.

Wisconsin Acts 10, 20, 32 and Later

- What does that all mean?
 - Due to the Expenditure Restraint program, which represents about \$215,000+ in State Revenue to the City, the City cannot increase its budget by more than 60% of net new construction, plus cost of living (COL), but no more COL than about 2% General Fund expenditure increase. To qualify for an Expenditure Restraint payment in 2021 uses the 2020 vs 2019 Budget year. Not Actuals – Budgets!
 - If the General Fund budget is over the Expenditure Restraint limit, the City loses the funding. It is all or nothing, no pro-rated amount.
 - The City DID qualify for a 2019 Expenditure restraint payment as the 2018 budget was just under the limit of 4.3% compared to the 2017 budget. The City MAY qualify for a 2021 Expenditure Restraint payment depending on where net new construction and cost of living adjustments come in from the State and where the 2019 vs 2020 budget falls. The City DID NOT qualify for an Expenditure Restraint payment in 2020.

Wisconsin Acts 10, 20, 32 and Later

- What does that all mean?
 - Due to Levy Limits, the city cannot raise funds to pay for the budget more than the Levy Limit Calculation. In 2018, the net new construction percentage of .689% increased the tax allowed to be levied by \$40,597.
 - An additional amount due to TID closures was added to the levy per statutes. This also increased overall values in the City. This is the reason for the lower overall MIL rate on the 2018 tax bills compared to 2017. \$20.55 vs \$23.37.
 - The City can levy fully for its debt payments with no restriction. This is required by Bond covenants. \$1,278,353 was levied for debt in 2018.
 - The constraints, as limited by state law, are designed to keep taxes as low as possible and requires the City to do more with less.

Wisconsin Acts 10, 20, 32 and Later

- What does that all mean?
 - At some point expenditures could be over revenues, which taps the reserve (fund balance) and the City would have to go to referendum for a large tax increase.
 - Economic development and growth are other solutions to this issue.
 - TID closure is also another tool that will help. It will give the City the ability to gain a higher levy (but still lose expenditure restraint dollars), levy for debt for projects that have been pending all while maintaining the current MIL rate
 - Effectively, the overall value of the City has been increased making more tax dollars available to the General Fund.

Other Acts that impact Levy

- ACT 32 Modified Act 10 to allow some additional negotiation on Insurance premiums, but not plan design.
- Subsequent acts have also placed further restrictions on levies
 - If a new fee is created that was originally funded by the levy, the overall levy must be reduced by the total amount of the revenue generated by those fees.
 - As an example, trash/garbage pickup could be moved as a special charge to the tax bill at a fixed amount per year.
 - The total savings to the general fund, or the anticipated total annual cost for trash/garbage must be calculated and the levy reduced by this amount.
 - City expends \$552,000 annually on trash. If the City moves that cost to the tax payer as a special charge on the tax bill, the levy must be reduced by \$552,000, thereby reducing taxes.
 - Net effect to property owner – it is the same tax bill.
 - Stops a municipality from retaining the dollars for operations and thereby increasing the overall revenue to the City.

Overview

- Discussion of TIF and Debt



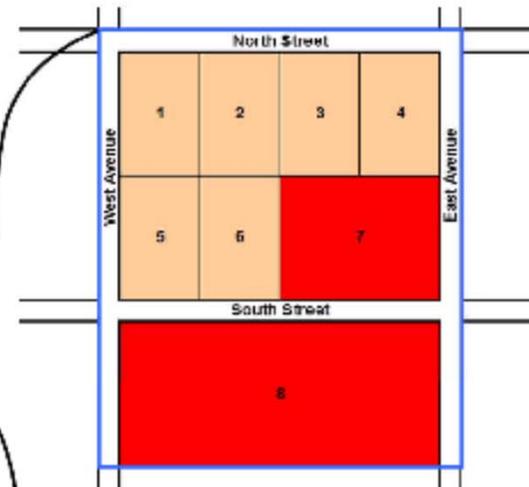
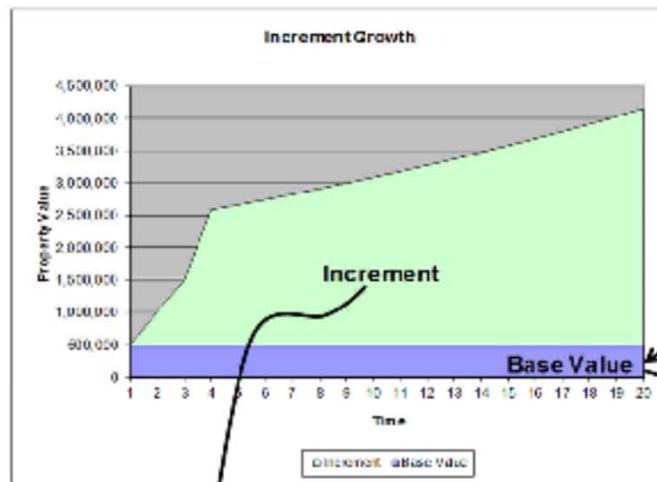
TIF Districts and how they work

- A Tax Increment Financing District or “TIF District” is the main vehicle used by Wisconsin Cities and Villages to improve areas of the city to attract Residential, Commercial and Industrial growth. Also called a “TID” or Tax Increment District, most commonly is used to create industrial or commercial areas and less commonly to create residential areas, unless it is a major subdivision.
- The city uses these areas to create infrastructure: roads, parkways, water, sewer, storm water, parks, etc.
- The financing for a TID is done through tax increments. These increments affect all taxing jurisdictions in the city: Technical College, School District, County, State and City. Basically the City collects the full tax rate and places the money into the specific TIF District Fund.
- The DOR regulates TIF Districts by limiting the total TID values to 12% of the overall value for any new TID.

TIF Districts and how they work

- When a TIF District is established, a “base” value is assessed and created.
- Every year as new assessments are issued, the TIF District is re-valued based on state guidelines.
- Any increase or decrease in value is called the “increment”
- As MIL rates and tax rates are calculated each year, the taxes for the BASE VALUE of the TID are paid to all taxing bodies.
- The taxes for the “Increment” are retained by the City in a TIF Fund to be used for improvements in the TID
- When a TID is closed, the value of the property and improvements goes to the overall value of the city and the full value of taxes is then paid to all taxing bodies.

How Does TIF Work?



	Mill Rate
TID	20.00
Total	20.00

The TID receives taxes on the increment value at the combined rate of all taxing entities

	Mill Rate
Local	8.50
County	4.00
School	7.50
VTAE	2.00
Total	20.00

All taxing jurisdictions continue to receive their share of the tax levy on the base value of the TID

TIF Districts and how they work

- A TID Does not increase or decrease property taxes to residents
- A TIF District is set up with contiguous parcels of property
- Purpose of a TIF District is generally for infrastructure improvements to attract development.
- TID can also be used to eliminate “Blighted” areas and can be designated an Environmental Remediation TID or ER TID – state statutes apply.
- TIF District life span is typically 20 years

TIF Districts and how they work

- TID life span can be “extended” by Council action
- TID life span can be “closed early” by Council action
- City of Burlington closed TID 4 (BMOP) in 2010 and opened ER TID 1 in 2010. ER TID 1 contained the vacant parcel next to the parking structure, the Hampton Inn and the parking structure. TID 3 was opened in 1998 and contained the Hwy 36/Milwaukee Ave corridor and several neighborhoods in Burlington.
- ER TID 1 eliminated a blighted, polluted area and added useful infrastructure.
- TIF District 3 and ER TIF District 1 closed in March 2018.
 - Revenue Sharing from TIF 3 to ER TIF 1 allowed both districts to close early.
- TIF District 5 was created in 2014 and contains the Aurora Development only.

TIF Districts and how they work

Using an example of a property with an assessed value of \$1,000,000:

- \$1,000,000 in assessed value becomes the BASE VALUE
- 2018 is the BASE YEAR and property is in a TIF District, the full tax amount of \$20,550 times the 2018 MIL Rate of \$20.55 is paid to all the taxing jurisdictions.
- In 2019, the value of the assessed property increases to \$1,500,000 due to improvements and the tax rate increased to \$21.50, the total tax on the property would be \$32,250.
- The amount of the tax on the BASE VALUE would be \$21,500 ($\$1,000,000 \times \$21.50 / 1,000$). This amount would be paid to the taxing jurisdictions and the remainder of the total tax, or \$10,750 (which is the tax on the “increment”) would be put into the TIF fund for payment of the improvements.
- If the Value is reduced below the BASE VALUE, the taxing bodies still get the base value at the current MIL Rate, but the TID will get a negative increment or no additional money.
- If the “Decrement” continues for a period of time, the TID is considered Distressed and may be re-evaluated to change the original base and values.

Similar calculations are done for each year of the life of the TID. Only the amount of the increase or decrease is added or subtracted to the TIF fund. As noted previously, taxpayers are not paying any more or less tax due to the TID, the only effect is on where the tax money goes. The taxing bodies do not get the increment, the TID Fund gets the tax dollars, managed by the City.

TIF Districts and how they work

- At the close of a TID a final value is calculated
- A percentage of the TID value compared to the total Equalized value of the City is also calculated.
- The City can claim $\frac{1}{2}$ of this percentage as an additional levy increase.
- For TID 3 and the ER TID that closed in 2018, it was determined that the TID final values were 26% of the total equalized value over the base value. In 2018 the levy was increased by 13%. (plus the net new construction amount as discussed earlier).
- The remainder of the 13% was portioned to debt payments as planned and a MIL rate Reduction.
- The closure of a TID has the effect of increasing the overall base value of the city and reducing overall taxes by reducing the MIL rate.
- Formula for determining these values are all done by the DOR and provided as limits to the Municipalities sometime in October.

TIF Districts and how they work

- This is a complicated topic involving many factors.
- Two of the last three TIF Districts in the City performed better than expected and allowed decreases in the MIL Rate.
- One of the TIF Districts underperformed due to its size and what was actually valued in the TID (ER TID 1), but increment sharing from TID 3 as allowed by statute, helped us to successfully close the two Districts in 2018.
- TIF District 4 closed in 2012 and was also successful.
- TIF District 5 is a special legislation district which will close in 2021/2022.
- The TID Closures over the last 10 years have all had excess increment, which is paid out proportionately to the other taxing jurisdictions.
- QUESTIONS ON TIF?

Debt Issuance and Debt Service

- City is rated by Standard & Poor's (S&P) as AA- for General Obligation (GO) debt – or debt covered by the full faith and taxes collected by the City. This gives the city favorable borrowing rates. Currently about 2-4%, depending on the source. Rating is based on Fund Balance, business operations, GAAP guidelines and discussions with S&P on the “state of the City” – new business, job retention, growth, future expenditures, etc.
- City issues Tax Exempt and Non-Tax-Exempt bonds for major improvement projects, then pays the investors over a 10- or 20-year period an amount of Principal and Interest. Payments are made generally twice per year – spring and fall. These payments are called “Debt Service” and is a fund maintained by the city.
- Other types of loans are backed by the revenue streams of the Utility, or TIF increments. The City's Water Utility is rated by S&P at A-
- City is also limited by statute to the amount of General Obligation (GO) general debt it can issue. It is calculated at 5% of the equalized value which in 2018 was \$941,440,600. The allowable GO debt total in 2018 was \$47,072,030. The City's outstanding GO Debt was \$25,680,000 at the end of 2018.

Discussion of Library Budget

- Relationship of the Library to the City of Burlington
 - Treated like a department of the City in function
 - Allocated a fixed dollar amount from the General Fund for operation
- How the fiscal budget for the Library is different from other City departments
 - Budget is approved by the Library Board and managed by Library staff.
 - City, by council decision, contributes to the Library budget each year.
 - Amount of contribution in 2019 was 417,665.
 - The Library is fully responsible for their own spending, but uses City services such as Accounts Payable, Payroll and Human resources.
 - City cannot dictate how the Library spends their budget, controlled by the Library board.

Overview

- Administrative Department Budget



Overview

- Questions



NEXT WEEK:

JIMMY JOHN'S!

Departmental Budget Presentations