

# Citizen Budget Partners

August 13, 2015

Robert Miller, Mayor

Carina Walters, City Administrator

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Is this  
who you think  
we are?

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Link to Video

<https://youtu.be/LO2eh6f5Go0>

Hopefully  
you will  
think differently!

• • • • •

# Overview

- August 13, 2015 – Introductions and Orientation
  - Introductions
  - What is the Citizen Budget Partners?
  - Why are we doing this?
  - Organizational Structure
  - Budget Process
  - Overview of Government Accounting
  - Overview Discussion of Legislative Issues
  - Discussion of TIF and Debt
  - Library Budget Discussion
  - Questions



# Overview

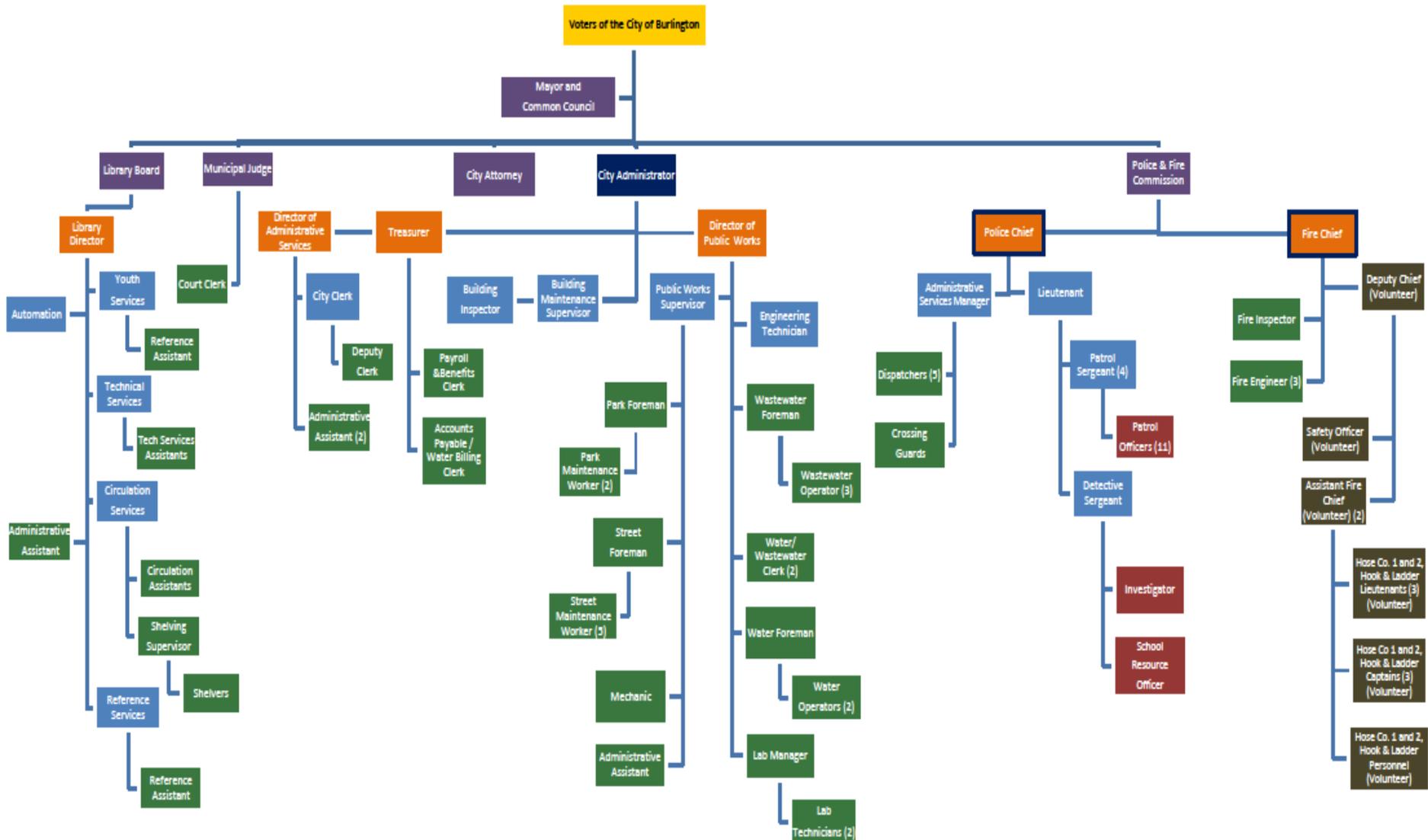
- The Alphabet Soup game in today's discussion
  - WRS (Wisconsin Retirement System)
  - DOR (Wisconsin Department of Revenue)
  - CPI (Consumer Price Index)
  - TIF District (Tax Increment Financing District)
  - TID (Tax Increment District)
    - TIF and TID are sometimes used interchangeably. TIF is the Financing and TID is the physical district.
  - TID OUT (Tax Increment District Out)
    - The overall value of the City without the TIF Districts
  - MIL Rate (per thousand rate)
    - How much tax you pay per \$1,000 of assessed home value
  - BMOP (Burlington Manufacturing and Office Park)

# 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 preparing the draft budget for Common Council consideration, and;
- A multi year strategic planning session is also in progress.

# 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



# 2016 Budgeting Process

**July** – Budget Office Collects Information and sends to Department Heads. Projections are created and reviewed for 2016. 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

**December** – Budget Adopted

# 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.

# Overview of Government Accounting

- Fund Accounting:
  - General Fund – Most government functions. Taxes and shared revenue account for the majority of revenue. Expenditures include Public Safety, Public Works and Administration
  - Enterprise Funds – “Business-type” funds. Includes airport, water and wastewater operations. Major source of revenue is fee based.
  - Other Funds – Library, Revolving Loan Funds, Park Development Fund

# Overview of Government Accounting

- Fund Accounting:
  - In the General Fund, it is recommended (and City practice) that 25% of annual expenditures remain in a reserve – Known as “Unreserved Fund Balance” or simply “Fund Balance”
  - 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 1/12<sup>th</sup> of the next year’s principal payment and 1/6<sup>th</sup> of next year’s interest payment.

# Overview of Fund Accounting

- How does a Municipality get the money it needs to operate?
  - The Levy & Taxes

## LEVIES

- Each year, the city determines it's 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), the State of WI, Gateway Technical College and Burlington Area School District.

## TAXES

- All of these levies added together generate the overall tax you pay each year. They are evenly distributed among all of the parcels in the City.
- The City's responsibility is to collect all of those taxes, then pay the proportionate share that has been collected to each taxing jurisdiction; once in January and again in February.
- The County then settles the final tax payments to each taxing jurisdiction in August.
- Your property taxes are 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.

# Property Tax Information

- City of Burlington MIL Rate in 2014 was \$8.8107. Overall net tax rate in 2014, County of Racine was \$22.9661 (net includes state credits)
- For an average household assessed value of \$172,000:
  - City Tax was: \$1,515.32 gross before state credit
  - Net Tax bill was \$3,950.15 after state credit
    - Total bill of \$3,950.15 is further reduced by Lottery and First Dollar credits if applicable.

## Net Tax Dollars-approximate

State of WI: \$40

Racine County: \$632

Burlington Schools: \$1,620

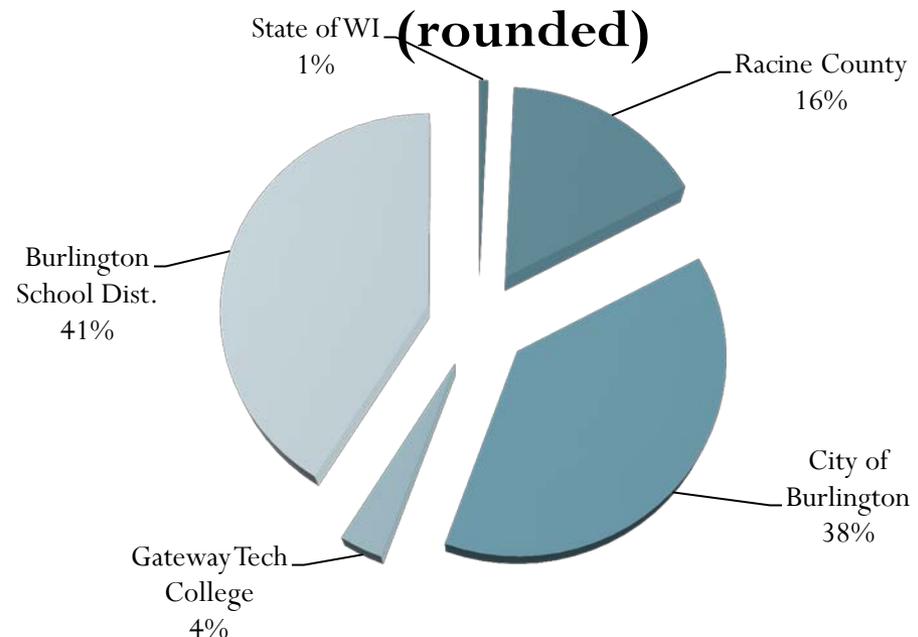
Gateway Technical: \$143

City of Burlington: \$1,515

TOTAL: \$3,950.15

*Tax bill is further reduced by Lottery and First Dollar Credits*

## Tax Dollar Distribution



# Overview

- August 13, 2015
  - Discussion of Legislative Issues
  - Discussion of TIF and Debt
  - Library Budget Discussion
  - More to come next week on Budget Detail
  - Questions



# What Does the Budget Repair Bill Do? (Act 10/Act 32)

- WRS Pension Contributions
  - Prohibits municipalities participating in the Wisconsin Municipal Retirement System from paying the employee contribution to the WRS unless they are required to do so in a collective bargaining agreement.
  - Prohibits Collective Bargaining Units and Municipalities, after expiration of current contract to negotiate on anything other than Wages and CPI. Act 32 further refined this to include Insurance contributions, but not plan types

# What Does the Budget Repair Bill Do? (Act 10/Act 32)

- WRS Pension Contributions
  - Requires general municipal employees to make an employee contribution equal to 50% of the required contribution.
  - In 2014 the required contribution to WRS was 13.6% of Gross Wages.
  - The City contributed 6.80% of Gross Wages. A higher amount is contributed for protective service employees.
  - The 2016 WRS 50% contribution rate is 6.60% of Gross Wages.

# What Does the Budget Repair Bill Do? (Act 10/Act 32)

- WRS Pension Contributions
  - Represented Police Officers are exempt from this requirement. Managers of both the police and fire departments are also exempt. (Modified by Act 32), unless negotiated in a contract renewal.
  - Efforts are in place to bring Police Officers, through their contract, up to the WRS contribution level as paid by all other City employees (50% of the General contribution).
  - WRS contributions are higher for protective service employees. In 2014 the City's WRS contribution was 9.71% for Police and 13.31% for Fire Engineers.
  - These are higher due to no Social Security (except for Fire Chief) being withheld in Fire and Job Risk for Police Officers.

# What Does the Budget Repair Bill Do? (Act 10/Act 32)

- WRS Pension Contributions
  - Officers under a contract who are hired after July 1, 2011 will be required to contribute to WRS at the general employee rate (2016 is 6.60%) effective January 1, 2012.
  - The prior LAW contract that expired December 31, 2014, required a 4.5% contribution by Police Officers.
  - The current LAW contract requires officers, command staff to contribute 5.1% effective July 1, 2015, the 6.60% or whatever the current general contribution rate is up to 7% effective July 1, 16.
  - The current LAW contract expires 12/31/2016.
  - The current LAW contract requires a 1.5% increase in Police Officer salary effective January 1, 2016.

# What Does the Budget Repair Bill Do? (Act 10/Act 32)

- Collective Bargaining
  - Municipalities are prohibited from collectively bargaining with unions representing general municipal employees on any issue other than total base wages.
  - Base wages for represented staff can only increase by the amount of the Consumer Price Index (CPI), unless approved by referendum
  - Unions must certify their existence each year in order to negotiate base wages. 51% of existing members must vote yes.
  - If a union cannot certify, the union cannot exist to represent employees.

# What Does the Budget Repair Bill Do? (Act 10/Act 32)

- Health Insurance Contributions
  - The City is not on the State insurance plan.
  - The City is self-insured and there are no changes required to our health insurance plans.
  - Self insurance is managed by a third party provider (Auxiant) and claim payment service (Health Payment Systems).
  - The City has two plans:
    - A traditional 90/10 PPO plan. Employees pay 10% of the premiums
    - An High Deductible H.S.A plan. Employees pay no premiums.
      - 2,000 Single deductible and \$4,000 Family deductible
    - City also contributes funds towards employee deductibles on the H.S.A.
      - \$1,000 for single and \$2,000 for Family.

# What Does the Budget Repair Bill Do? (Act 10/Act 32)

- Net Impacts

2016 Budget impact will be for Fire and Police departments as those departments will contribute more to WRS system with the negotiated contribution rate.

Savings to the City are yet to be determined, but in general 1.2% of payroll will be saved over 2014. Overall payroll for Police is 1.7 Million, which is a savings of \$20,400 to the general fund.

# What Does the Budget Repair Bill Do? (Act 10/Act 32)

- Prohibits increases in the tax levy for operating purposes for the next two years
  - 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 .8%. 2014 City of Burlington Net New Construction is lower at .262%. Preliminary 2015 Net New Construction is 1.4%.
  - Amount of Levy Limit increase are further limited by old debt retirement and other factors, without referendum.
  - In addition, strict compliance with Expenditure Restraint: Overspending a percentage increase figure supplied annually by the Department of Revenue (DOR) can result in a further cut to State Aid. Usually slightly lower than Cost of Living.

# What Does the Budget Repair Bill Do? (Act 10/Act 32)

- What does that all mean?
  - Due to the Expenditure Restraint program, which represents about \$235,000 in State Revenue to the City, the City cannot budget more than roughly 2% General Fund expenditure increases each year.
  - If the General Fund budget is over the Expenditure Restraint limit, the City loses the funding. It is all or nothing, no pro-ration.

# What Does the Budget Repair Bill Do? (Act 10/Act 32)

- 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 2014, the net new construction percentage of .262% increased the tax able to be levied by \$14,493.
  - The City can levy fully for its debt payments with no restriction, and is required by Bonds & Loans. \$200,000 was levied for debt in 2014.
  - 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.

# What Does the Budget Repair Bill Do? (Act 10/Act 32)

- 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.
  - TIF 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.

# Overview

- August 13, 2015
  - Discussion of TIF and Debt



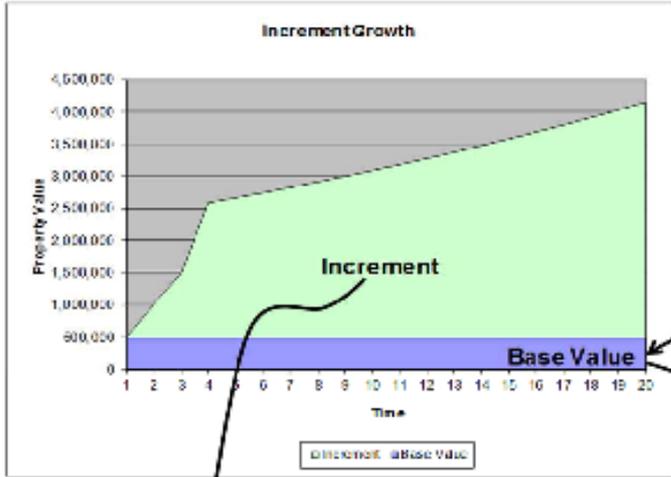
# TIF Districts and how they work

- 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
<b>Total</b>	<b>20.00</b>

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
<b>Total</b>	<b>20.00</b>

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 (Downtown Redevelopment). TID 3 remains an active TID for the City of Burlington (Major area is Highway 36/Milwaukee Ave. corridor)
- ER TID 1 eliminated a blighted, polluted area and added useful infrastructure – Hampton Hotel & Parking Structure.
- TIF District 3 and ER TIF District 1 close in 2017-2018.
  - Revenue Sharing from TIF 3 to ER TIF 1 will allow both districts to close early.
- TIF District 5 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:

- 2014 is the base year and property is in a TIF District, the full tax amount of \$22,966 is paid to all the taxing bodies at the \$22.9661 MIL rate for 2014.
- In 2015, if the value of the assessed property increases to \$1,500,000 due to improvements and the tax rate remained the same at \$22.966 in the county, the total tax on the property would be \$34,449.
- The amount of the BASE TAX of \$22,966 would be paid to the taxing jurisdictions and \$11,483 which is the tax on the “increment” would be put into the TIF District fund for improvements.
- If the Value is reduced below the base, the taxing bodies still get the base value, 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, tax payers 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 4, it was determined that the TID value was 6% of the total equalized value. In 2012 the levy was increased by 3%.
- The closure of a TID has the effect of increasing the overall base value (called TID OUT) of the city and reducing overall taxes.
- Formula for determining these values are all done by the DOR and provided as limits to the Municipalities sometime in October.
- QUESTIONS ON TIF?

# Debt Issuance and Debt Service

- City is rated by Standard & Poors (S&P) as AA-. 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.
- City is limited to the amount of general debt it can issue. Calculated at 5% of equalized value. That amount in 2014 was \$40,362,280. City’s outstanding General Debt was \$18,810,00.

# Discussion of Library Budget

- Relationship of the Library to the City of Burlington
  - Treated like a department of the City in function
  - Only allocated dollars 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 for the past few years has been \$405,500.
  - 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

- August 13, 2015
  - Questions



NEXT WEEK:

Please Complete the Survey for the next meeting

In-Depth Budget Overview and Discussions

Departmental Budget Presentations