Village of Fall Creek

Notice of Finance & Personnel Committee Meeting

November 4, 2019

1. **Call to Order**: 6:04 p.m., Village Hall Meeting Room, 122 E. Lincoln Ave., Fall Creek
2. **Roll Call**: Members Present: Chairman Chester Goodman, Joyce Aldrich, Tim Raap, Dane Zook. Members Absent: None. Also Present: Trustee Bob Jenkins. Staff Present: Police Chief Chad Dachel, Public Works Director Bryan Kaatz, Clerk-Treasurer Renee Roemhild. Also Present: Village Auditor Brock Geyen.
3. **Certify Open Meeting Law Requirements Have Been Met**: A notice of the meeting and an agenda was posted in the three public places & newspapers were notified.
4. **Adopt Agenda**:
   - MOTION (Zook/Raap) to adopt the agenda as printed. PASSED, without negative vote.
5. **Work on 2020 Proposed Budget**: Clerk-Treasurer Renee Roemhild introduced Village auditor Brock Geyen, stating he is present tonight for the committee's benefit, to provide a more educated financial understanding of any questions they may have because this year she has tried to do the budget process differently in an effort to give a clearer picture. Sometimes, looking at all the detail first (as we have traditionally done), makes it harder to see the bigger picture. This year's presentation will first discuss totals in broad categories (which meant the committee's initial meeting had to be held later than usual in order to get enough figures in to arrive at the totals), with an analysis of the changes over the years. Also new this year, more analysis will be given on the relation of the major funds (General, Water, Sewer, Debt Service) and their impact on each other.

   Many years ago, before State levy limits were put in place, Ehlers financial adviser Sean Lentz helped us understand management of the levy by looking at it in three categories - <u>**operation, capital, and debt**</u> - and targeting a slow, managed growth of 2% a year per category, as needed, rather than having large, periodic spikes that are too difficult for property owners to manage.

   When the State linked levy limits to "net new construction" in 2011, we were no longer allowed the 2%. This has been problematic because that requirement doesn't take into account standard inflationary increases in maintenance and operation costs, the vast changes we have experienced in health and worker's comp insurance, or employee wages. Initially, we were able to manage the restrictions because of two factors: 1) A big push to pay down debt had been in place for years. As timing would have it, that effort allowed the payoff of some debt which <u>freed up some levy capacity</u> and 2) <u>more capacity was earned</u> due to the successful efforts in economic development, with the addition of the cheese packaging plant. Conscientious management of costs and those two "helps" got us through many years of the levy limits without some of the detrimental effects some municipalities faced in having to cut employee positions. As the levy "freeze" continued, more strategies were needed which has resulted in dipping into the capital levy in order to cover the increasing operation costs. There has not been enough "net new construction" to handle the increased cost of doing business. The purpose in doing the budget "big picture" this year is to see the trend of what is happening to the levy proportions (the split between operation, capital, and debt). What are the proportions the committee/board wants? If we keep taking away from capital, will it result in the need for more debt, causing more interest costs? Returning to a cycle that we have worked very hard over the years to reduce.

   Also, the pressure in the finances of the Water & Sewer Funds has been increasing. Auditor Brock Geyen gave a big picture overview of the enterprise (water & sewer) funds, reviewing numbers from last year's audit saying the user fees are not high enough to cover both the operation and depreciation costs. He explained that depreciation is not a "current cash" expense, but rather looks at the value of the fund's assets depreciating over time with the intent money should be put aside to later pay for replacement of those items. Although it is not uncommon for a utility to not fully fund its depreciation expense, it is something that should be paid attention to. Roemhild stated there has been difficulty with cash flows the last couple years, so would like discussion on whether a rate increase is needed in order to not get into a declining financial position. The last sewer rate increase was in 2012, water in 2015. Geyen reviewed the different kinds of rate increase applications through the Public Service Commission of Wisconsin for water and stated the process for a sewer rate increase is established in the village ordinances.

The impact of the DNR requirement to construct the wastewater treatment plant (WWTP) in 2008 without having adequate financial reserves in place, put a huge burden on the Sewer Fund. The resulting rate increase was not received well by the public, even to the point of receiving comments from some who decided to move out of the Village that it was because water/sewer bills were too high. This caused the Village Board to be concerned that high utility rates were hurting economic development, thereby jeopardizing the overall financial health of the Village. For that reason, more caution has been in place whenever considering rate increases. President Goodman commented that hindsight is 20/20, and it's easy to look back and say how something should have been done differently, but the people before us did the best they could with the information they had at the time. That's all this current board can do as well. Some other local communities have now caught up to us on rates but finding the right balance between rates and having enough money to pay for what needs to be done is difficult. There are tough decisions ahead to consider how to keep the budget going and get the debt paid off.

The financing package we received from Rural Development in 2008 for the WWTP was the best available at that time, including grant money and a low interest loan. However, even with a 40-year amortization schedule, the annual debt service payment calculated to $190,000. (The prior year, the entire Sewer Fund budget for operation, depreciation, and debt was $193,000. So this one payment was doubling the expense budget.) In 2017, when the economy was better and the loan balance had been reduced by 9 years of payments, a multi-faceted debt refinancing strategy was implemented. The remaining WWTP debt was divided into two issues. $1.5 million as General Obligation debt (G.O. debt has a lower interest rate, but the State limits how much G.O. debt a municipality can have) and $700,000 of Utility Revenue debt. This strategy benefitted in two ways: 1) lowered the annual P&I by $35,000 and 2) saved over $1.3 million dollars in interest, taking 12 years off the term of the loan.

However, the term of the loan was still a concern because the loan wouldn't be paid off until the year 2036, at which time the WWTP would be getting due for replacement. If there were no funds set aside at that time, the financial burden we just went through would be repeated. Two strategies were adopted in November/December 2017 that would result in further savings in debt interest and then set aside funds for the replacement WWTP:

1) Annually use $30,000 of the Sewer Fund's reduced P&I debt payment as an additional payment to the $700,000 loan (because it has the higher interest rate). When that loan is paid off, to set that money aside in a Reserve Fund for the replacement of the WWTP.

2) Because the General Fund is in a better financial position than the Sewer Fund and is concerned that the high water/sewer rates negatively impact economic development, to assist the Sewer Fund with $50,000 annually for the same purpose described above. ($40,000 coming from the Debt Service Fund, $10,000 coming from General Fund.)

Those two strategies alone would cut the term by 14 years (from 20 to 6 years), saving $250,000 in debt interest costs. Then continuing the supplement payment and putting the money that would have been used to pay the debt payment into savings for those remaining 14 years would accumulate $1.9 million plus interest, a financially responsible move to be better prepared for future capital costs that are unavoidable.

Geyan further discussed the levy limits, explaining the State is basically telling you they don't want you to increase property taxes unless there is new taxable property in the Village. If there is, they allow you to add that to your calculation of how you come up with the levy. If you go over the imposed limit, it is a dollar for dollar penalty on the state aid they give you (State Shared Revenue). One adjustment to the levy limit calculations that some municipalities factor in is the debt service adjustment. The State allows you to add an adjustment for debt so you will be able to pay your debt service payments, but the Village has not used that adjustment yet. To this point, the Village has lived within their base limit.

Debt Service Budget: The debt levy for General Fund has been at approximately $59,000 for several years. There will be new debt coming for the McKinley Avenue reconstruction project. Options for paying for that include:

- reducing other expenses to allow for this additional cost,
- discontinuing some/all of the supplemental payment for Sewer Fund, or
- using the levy limit adjustment explained above.

Main Budgets (General, Water, Sewer):

- Grouped together to show full cost of expenses that are split between the three funds.
- Initial analysis keeps many accounts the same as last year, so the initial focus is on broader categories. Committee/Board then to review/modify details as desired.
- Are the broader categories of personnel, departments, utilities, commercial insurance, professional services, economic development, and capital at the level desired by the committee/board?
- Personnel: Wages, Payroll Tax, and Retirement: For beginning discussion, no changes except slight increase for election poll workers.
- Employee Benefits: Health – Current provider is Group Health. Our broker got several quotes and is recommending Group Health again this year. The deductible is changing from $3,500 single /7,000 family to $3,825/7,650 because the H.S.A. limits changed. The maximum out-of-pocket did not increase. About a 9% premium increase (approximately $7,500 annual increase). Big picture: Village's share of the health insurance has increased significantly over the last several years. In 2020 proposed budget-$135,000, 2019-$127,500, 2018-$108,000, 2017-$94,000. Over 4 years, an increase of 43%.
- Departments: Initially kept at the same level as last year, with the exception of Fire Protection and Ambulance
- Ambulance Service: Will be increasing over the next several years at a level higher than the State's expenditure restraint program will allow. To not lose expenditure restraint in the future, will use all available this year, counteracting with the revenue account *Fund Balance Applied* that will not be spent.
- Utilities: Projecting a 6% increase.
- Commercial Insurance: Expect worker's comp will be going down because our experience modifier when down. Expecting 2% increase on commercial package, and 5% on property.
- Professional Services, Economic Development, Capital-Slight increases for audit and legal services.
- There will be a new fund started for Garbage Services.

The committee asked questions to Auditor Geyen. The department heads detailed requests were discussed. The committee will meet again tomorrow night for further work.

6. **Adjourn**:
   - MOTION (Zook/Aldrich) @ 8:20 p.m. PASSED, without negative vote.

Renee Roemhild, Clerk-Treasurer