

MEMO:

October 7, 2021



To: Village Trustees, Finance Committee

From: David De Angelis, Village Manager
Monica Hughes, Finance Director

RE: Village of Elm Grove 2022 Budget

Attached is a draft of the 2022 operating budget and capital budget for the years 2022-2026 for review and discussion at the October budget workshops. The state has continued to impose levy limits for local municipalities for 2022. The allowable increase is based on the percentage of net new construction value for the municipality plus a number of adjusting factors. The 2021 levy increase using the Village's net new construction will allow a levy increase of \$140,465. Levies for debt obligations are outside of the levy limits. The total levy increase allowed is \$143,838 or 1.97%. The current proposed budget includes a levy increase of \$141,024 or 1.93%. Staff has made a number of changes in the capital budget which will be discussed below and allowed this budget to be in compliance. This current draft of the budget will allow us to meet the levy limits.

As demonstrated below the following change in tax levy dollars are included in this draft:

Change in Tax Levy by fund	
General Fund	263,450
Library	1,395
EMS	-
Debt Service	2,056
5 Year Capital Fund	(125,877)
Transportation Fund (new)	550,000
Sewer	(550,000)
Stormwater	-
total increase	141,024

The biggest factors contributing to the tax increase are increased contingency funds budgeted of \$100,000, an estimated increase to healthcare of \$62,500, a decrease in court fine and interest revenue, increases for legal fees and insurance. The current budget does not include an increase to employee wages. This is currently a year for contract negotiations with our police union. As has been the Village's practice no increases are proposed until an agreement can be reached.

Major areas effecting levy

Healthcare increase estimated at 10% with current coverage	62,500
Increase in contingency	100,000
Increase in general legal fees	15,000
Increase in workers compensation insurance	20,000
Increase d insurance for cyber coverage	5,500
Increase in 4th of July	11,500
Decrease in court fine revenue	40,000
Decrease in interest revenue	15,000
Capital Project funding decrease	(125,877)
Additional tax levy required	<u>143,623</u>

The current proposed levy would be a tax increase to the average homeowner of \$33.00. The budget also includes the development of a transportation fund to address the Village’s deteriorating road system in future years. This fund includes a levy of \$550,000 for the first year’s funding and the planned 2022 paving of Gebhardt Road including a pathway. The sewer levy was reduced from the 2020 level and the additional cost transferred to the sewer user fee. The budget includes user fees for sewer, stormwater, and garbage/recycling as in years past. The proposed fees would be \$951.88 up from \$757.66 the prior year, a \$194.22 increase. The cost per resident is then \$79.33 per month for the 3 services.

General Fund

The budget was developed to fund operations and services at existing levels. The general fund budget increased \$276,865 or 4.23%. As stated above this budget does not include any wage increases. Employee costs are the largest component of our operating budget accounting for \$5.470 million among all operations. A 2% increase is approximately \$85,000. The budget includes a 10% increase to health insurance. The estimated 10% increase and changes to employee levels of coverage result in increased health insurance costs of \$62,500. The Village has not received its renewal of the United Healthcare plan, we hope to receive it by mid-October. Our broker has indicated that he has seen market increase to renewals with United Healthcare of about 9%.

As noted the expenditures increased by \$276,865, other changes to note in the general fund;

- The budget includes an increase to contingency of \$100,000 which will be needed to fund employee wages increases and related expenses
- An increase of \$15,000 is included in legal fees to reflect the needed funding level during the past 3 years.
- Workers compensation insurance reflects a \$21,000 increase determined by a number of injury claims by Village in past 3 years.
- Cyber insurance was added to our general liability coverage in 2020 adding \$5500 to that line of coverage.
- Court fine revenue is budgeted \$40,000 lower than in 2020 representing collections received in the last 2 years and expected staffing changes in the police department
- The Village contracts with SafeBuilt for inspection services, permit revenue and expense are both budgeted with increases to reflect the building market, but have only a small positive affect on the levy.
- Interest revenue from Village funds on hand continue to be low reflecting the global economic market.

- The recreation department had a successful summer of operations in 2021. Programs and lessons were well attended. Pool attendance was higher than 2020 and substantially increased from years prior. The recreation committee and Village will be addressing a number of policies for use of our facilities in 2022. They have also requested maintenance and improvements to the changing areas and bathrooms at the poolhouse. These items are being researched by staff for options and costs. The capital budget includes \$40,000 to address this issue. Recreation revenue has been budgeted \$12,000 higher than 2020 but employee wages are also budgeted \$12,000 higher. Staffing is a challenge to the department, similar to all businesses, and the budget includes additional funding to insure the hiring of well qualified individuals and sufficient levels to meet higher participation in programs and facility usage.

Sewer Fund

The sewer budget reflects a current year capital charge of \$1,345,000 for 2022. This charge is based on the Village's equalized property values and MMSD capital budgeting. The Village is charged a rate per \$1,000 of equalized value. The capital charge changes annually as MMSD evaluates and priorities it's needed projects. This is an ongoing expense to Village property owners charged by MMSD. The Village has funded a substantial portion of this charge through the tax levy in the past. This year's budget includes a sewer levy of \$550,000, a reduction from the \$1,100,000 in the 2021 budget. The remainder of the fee is supported through user fees that are paid by all sewer users including non-tax entities. This budget includes, as in previous years, transferring \$100,000 from the sewer to the stormwater fund to set aside funds for green infrastructure work.

The current budget includes a residential sewer user fee of \$558.50 and increase of \$190.78 or 51.88 %. This increase is due to the reduced support through the tax levy which is allocated to transportation improvements and increased costs by MMSD for 2022.

Stormwater

The stormwater budget reflects the \$100,000 transfer from sewer representing the MMSD savings from opting out of the green infrastructure. The budget also includes a project for the stabilization of the Underwood Creek banks. The Village has received a grant for \$225,000 for this project which is estimated at \$425,000. The project began in 2021 and construction is expected to be completed in 2022 and \$375,000 in project costs are included in the budget. The stormwater fee is proposed at \$136.98, a 1% increase as recommended in the schedule provided by Ehlers when bonds were issued. Any increase in the fee creates a decrease in the allowed tax levy per state law. The fee pays for a portion of the general obligation debt undertaken for our stormwater management plan plus some of the operational costs. The Village is expected to collect \$454,000 in fees for the stormwater fund in 2022. The final debt payment will be made in 2025 which would provide additional funding for future stormwater projects.

Library

The library budget will increase 1% in 2022 and require an additional tax levy \$1395. The library budget maintains the service levels of past years with small increases in electronic materials offset by savings on the copy machine whose lease is completed and we now own. The library gift fund is a separate fund maintained by the library board and supported with donations. The gift fund contributes to additional materials, programing and equipment.

EMS

The EMS budget reflects a 2% overall increase but no increase to the tax levy. The EMS department is expected to come in under budget in 2021 due to reduced costs of Police EMT wages because of open police positions. The EMS fund is maintained separately and unused funds from one year can be used to

address future year needs. The EMS department had requested in the capital budget to purchase Lifepak 15 defibrillator with capnography for \$10,250 and a training manikin for \$10,000. The budget includes using available funds to purchase this equipment and removing it from the capital budget.

Capital Fund

During the September capital budget workshop the proposed items were reviewed and discussed. The levy required at that time was \$671,000. As discussed at the meeting the Village is being challenged by high equipment/ infrastructure replacement costs with limits to levy increases and other revenue sources. Projects are evaluated and prioritized within the limits of the Village funding.

Street repaving has been noted by the Village Board and community as an area that should be addressed. During the past year the Village considered funding/planning options including a transportation utility fee. After the study of the utility staff felt this was not the best option for the Village of Elm Grove, mainly due to our high residential base and major commercial venues being a Bluemound Road, which is a state highway to which the Committee concurred at the last capital budget meeting. An option was presented to transfer more dollars to the sewer utility fee, as is common for other communities, and devote tax levy dollars to a new transportation fund that can address our road system. This budget reflects that use of levy dollars and a new transportation fund segregating funding for roads and allowing for longer term planning.

In an effort to address the state imposed levy limit and meet the needs identified in the capital budget, staff has identified and incorporated 3 changes to the initial capital budget reviewed by the committee. The changes are noted below:

Savings to Tax Levy	Description of Change
\$20,250	Move 2 EMS equipment items from capital budget and finance through operating funds available. Donated funds will also be used if needed.
\$15,800	Purchase in 2021 the demo front end loader available to public works with available funds and advancing 2 years of user fees. The solid waste user fee includes \$7500 annually for this replacement (memo attached on demo available)
\$27,500	Purchase in 2022 the PLoader used for brush pickup with funds on hand and advancing 2.5 years of user fees. The solid waste user fee includes \$11,000 annually for this replacement
Total Savings \$63,550	Reduces levy from \$671,000 to \$607,450

Debt Service

The Village is currently levying for the 20 year general obligation bonds issued to support the splash pad, HVAC replacement and Watertown Plank Road pathway. The levy also includes the state trust fund loan payment for the excavator purchase in 2020. The Village’s other outstanding debt issuance is for the stormwater project. The cost of this debt is supported through the stormwater utility fee and the tax increment on the TIF district. This debt was refinanced in February of 2012 to take advantage of the favorable interest market providing substantial savings. The Village’s tax increment district will not provide an increment large enough to support its debt obligation for 2022 and additional funds will need to be advanced from general fund and the sewer fund. The debt service fund is estimated to have advanced

\$850,000 in funds to the TIF at the end of 2021. When this advance is paid back these funds will be available for other debt obligations.

TIF Fund

As stated above the TIF was originally created to fund part of the flood management project and then amended to provide support for the Heritage development. The value of the original area has seen little increase in value since 2004 and does not support the future debt payments which were scheduled to escalate with increased value. The increment generated from MSP/Heritage is estimated to be \$193,500 which will be used to repay the funds advanced to build the municipal water system and the Pay-Go obligation to the Heritage as agreed in the project plan. A payment plan has been developed to repay these obligations and will be evaluated annually if changes are needed. The Pay-Go obligation is only payable if increment from this development is available.

As noted the original TIF does not support its debt obligations currently and funds are being advanced to it with an interest charge. Currently the TIF is forecasted to pay back its Pay-Go obligation to the Heritage in 2024, final payment on the original general obligation debt will be made in 2025 and then funds will be available to payback the advances by 2028. The TIF has a closure date of 2031 but the Village is considering requesting an extension, as allowed by the state, and an amendment to the project plan to daylight the Underwood Creek from Watertown Plank Road to Wall Street as was identified in the original plan. Village staff are working with financial advisors to put together a request for an extension of this funding mechanism and have also received initial support of the Joint Review Board.

Summary

As noted in prior years the Village policy has been to prepare a draft of the budget for discussion in detail during October. At the same time, certain important budget elements are not yet finalized and estimates must be used until further information is provided. There are still a number of items that staff will continue to look at during the next few weeks and may provide additional information at upcoming workshops. This represents current information available for the 2022 budget. As additional information and numbers become available they will be provided to the committee for their review. As noted this is a preliminary draft for review and discussion. Changes will be incorporated as additional information is available and/or recommendations made during the October review.