



# VILLAGE OF SHOREWOOD

## REPORTS AND PRESENTATIONS TO VILLAGE BOARD

### Agenda Item: 2025 Budget Challenges Preview

Date: August 5, 2024

Presenter: Krisztina Dommer

Department: Finance

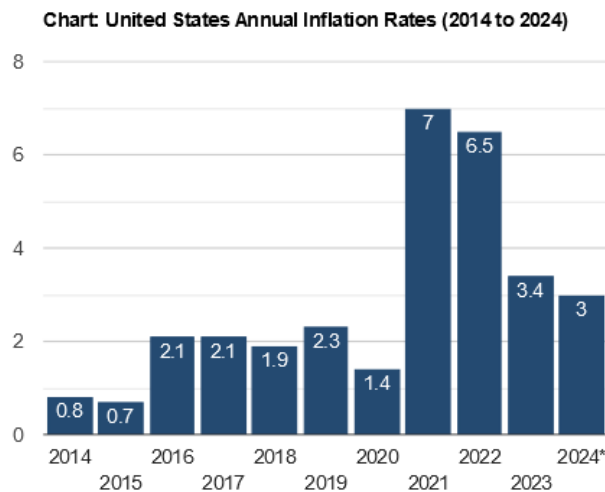
**Overview** – Over the 124 years that the Village of Shorewood has been a community, it has faced many challenges and seized many opportunities. Those years of operations and collaboration as a community have culminated in a mature community that is an attractive suburb of Milwaukee, with endless possibilities for support as a citizen.

The Village stands before a logistical and financial intersection at which services, required infrastructure improvements, and ongoing maintenance must be carefully positioned to achieve its goals. The main themes included in the Long-Range Plan and facing the village during the upcoming budget process include the following main initiatives.

Unfunded mandates for infrastructure have been issued from the Wisconsin DNR while we have used the fund balance previously available for debt service stabilization. Additionally, the expected bond interest rates are projected to increase, with a conservative estimate at 5%. As a comparison, through 2021 the Village has paid an estimated debt service interest average of between 2.5-3%, with most recent general obligation bond issuances in 2024 being issued at an average rate of interest of approximately 3.5-5.0%.

Additionally, the recent fluctuations in the inflation rates over the immediate past four years have not been considered as an increase in projected expenditures as part of the tax levy process. The result has been an increase in actual expenditures, which has been stabilized by a fund balance from previous years. With that stabilization amount coming to a halt at the same time as impacts from inflation impacting our labor force and market costs, it is important to recognize the impact of this as part of the village’s budget planning process in 2025.

For reference, here is a simple chart of the average inflation we have experienced over the past ten years.



US Bureau of Labor Statistics

As a result, the Long-Range Plan includes a projected shortfall of approximately \$700,000 for the 2025 budget year, assuming a 4% increase in expenditures budgeted and an increase in the property tax levy of 2% as historically experienced. One of the options to be considered is an increase in the property tax levy of up to 8% to provide the inflows necessary to cover the projected shortfall.

The village's current initiative and budget outlook includes the following items.

**Lead-service line replacement and water main reconstruction**

With the time-restrictive DNR requirements to replace lead-based lateral services and water main reconstruction, coupled with limited options to piecemeal the projects efficiently both from a cost and time measure, the Village must consider the possibility of taking more time to complete these required projects, as a realistic response.

Meanwhile, the village's aging infrastructure has resulted in additional pressure to increase costs to be financed.

**Public Works Building**

The age of Village infrastructure has resulted in a situation where immediate replacement of the Village's public works facilities is a nonnegotiable immediate need. Also, a project of such magnitude requires immediate action on planning and construction, to succeed as projected, prior to 2028.

**Street light replacement**

In June 2022, the Village Board voted to use ARPA funding to complete a street lighting system replacement plan. A presentation to the village board was made on June 3, 2024. The plan's recommended implementation schedule has been incorporated into the Village's Long Range Financial Plan with construction proposed over five phases beginning in 2025 and concluding in 2029.

**Concluding Sewer Projects**

Concluding projects include SEASCI Phase I, II, and III which were directly related to fixing the sewer infrastructure in the village's southeast corner. These projects began the initiatives toward reconstruction of sewer and water lines in this village area and were expanded to include new watermain and LSL replacement following adoption of Policy 44 Lead Service Replacement Program in response to the looming EPA requirements for mandatory LSL replacements.

**Lake Drive**

This WISDOT-coordinated project began in 2020 with project planning and process, with an estimated conclusion in 2025. Funding is shared for the project between the state department of transportation and the village.

**TID #5 Project and Oakland Avenue**

Reconstruction of N. Oakland Avenue was originally scheduled for 2029, and the Village Board funded the project with TID 5 proceeds in 2022 before TID closure. The roadway reconstruction was delayed due to SEASCI Phase I, II, III and Lake Drive construction requiring Oakland as an alternative detour route. Watermain, LSL replacement and bicycle/pedestrian accommodations were also included, expanding the project scope. The village will continue to monitor and remain conservative about the construction costs to the greatest extent possible on these projects.

**Village Resource Capacity Considerations**

With so many competing priorities and new projects on the horizon, there has already been additional time that staff have dedicated to beyond typical job duties. While our Village's mindset has remained that of collaboration and resilience, it is important to consider the sustainability of possible new projects and initiatives considering the current landscape and existing projects and initiatives.

**Service Considerations**

As funding and employee capacity are divided among competing efforts, the additional cost of such endeavors will increase the Village's future costs. With limited capacity on both sides, additional projects would require an increase in employee capacity to successfully manage new mandates and requirements. Additionally, funding will have to be planned and secured to cover the costs of the project, in addition to the additional cost of employee capacity.

A resulting byproduct of this reality is the usual 2% or less property tax levy by the Village to fund current services and planned projects will be impacted by any new initiatives. The resulting possible choices being a shift or delay in the project landscape or an increase in the property tax levy during a time the Village is facing an increase in utility rates to finance project upgrades as required by the state DNR. A reevaluation of service levels with a focus on defining core

services.

### **Competitive Employee Marketplace**

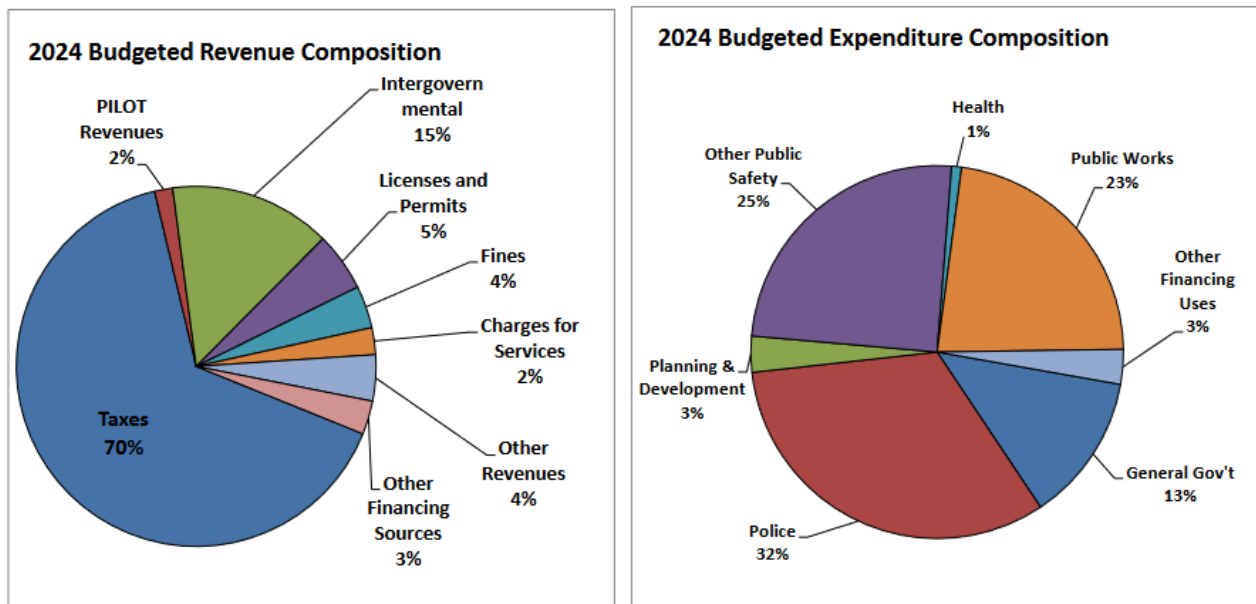
Organizations are reexamining how they recruit, develop, and retain talent considering the constant changes in the landscape. Given these developments, the north shore market is looking at a minimum of 3% increase in salaries for the 2025 budget period.

It is important to keep in mind that even if budgeted salaries are updated overall by 3%, a new employee addition can easily increase the overall budgeted salaries by a greater percentage. North Shore Fire Department is currently considering adding employees as part of its budget planning process. If new employees are added to the overall budget of this jointly financed entity, this would increase the village's portion of the financing cost of that service as well.

Without proper financial planning for employee retention, projects and services at the village will not move forward. The village must implement a plan to bring salaries up to market level to remain competitive and at a level of quality required by the community. That will be higher than a 3% increase in several cases.

In short, to be proactive in a response to the labor market, it is recommended that the budget process starting in 2025 include consideration of a salary revaluation considering market realities.

### **General Fund Revenue and Expenditure Composition**



Funding from property taxes has historically made up approximately 70% of the Village's annual budget. However, other funding sources from intergovernmental revenues (state aids approx. 15%), licenses, permits, fines, and other charges (approx. 15%) have all remained flat over the years, with assumed minimal increases of 1% built into the long-range planning and budget process.

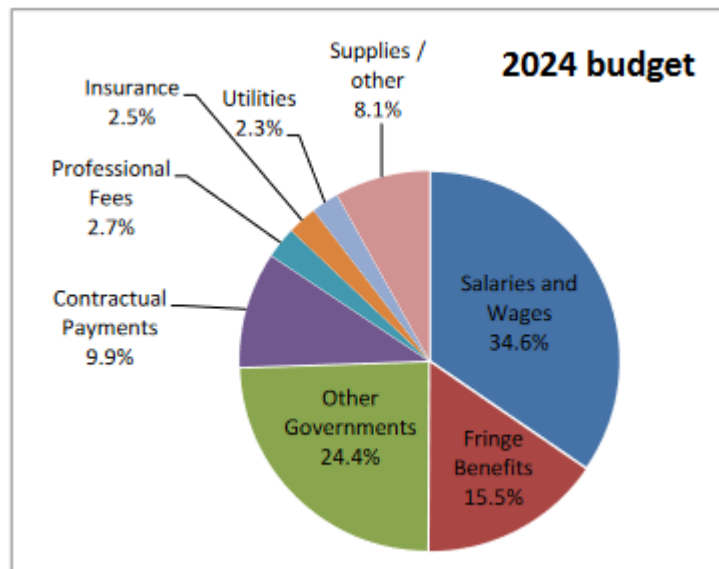
As revenues have remained flat, costs have increased in accordance with market increases over the years. Removing the effects of debt service, expenditures have increased 3.5-4% between 2017-2023 each year. With revenues remaining flat into the future, it is obvious why a 2% flat increase in property taxes assessed could prove to be a challenge to sustain.

This is the first time in its history that the Village has had to look at the overall landscape in this way. That means that there is no playbook for the upcoming budget process, including the long-range planning process. Village staff has proactively provided information in the form of long-range planning schedules, for the board to begin the learning process around the various aspects of paths into the future.

At this time in the process, it is recommended that the long-range plan be utilized as an assisting tool in the 2025 budget process. With so many priorities ahead and considering our current landscape, we must consider the future ahead at a high level and dive into the details of the budget to collaborate on a solution that works for the short and long-term.

For example, it is helpful to know the history of the village's debt stabilization that has ended with the 2024 budget cycle. With this resource coming to an end for supplementing the village budget, various funding resources must be considered to solve the challenges of competing projects and costs in the immediate and long-term future.

In times like these, a return to the basics becomes of importance, considering strategy and direction for the Village overall, while keeping in mind any immediate triage needs that would provide an immediate benefit. Those items specifically are a new public works facility and the required DNR lead-service line replacements and water mains.



A final annual budgetary challenge is the allocation of a smaller percentage of costs that remain discretionary. Nearly half (50%) of the annual operating costs of the general government are comprised of staff salary and benefit costs.

The market standard currently being utilized in the Milwaukee Northshore community is 3%. However, this could become a greater increase if some entities increase staff salaries by a greater amount in their budget process. For example, North Shore Fire Department is considering increasing staff capacity which would result in a greater than 3% increase.

Another approx. 25% of the annual costs are for contractual intergovernmental services, like the Health Department, Dispatch, and North Shore Fire Department that the village does not directly manage. Finally, almost all of the remaining 25% are for core operational service-related items like refuse disposal, street maintenance, crossing guards, village attorney, village assessor, auditing services, grounds and parks grass cutting and landscaping maintenance, and computer software and licensing fees for municipal systems, insurance, and utilities.

### **Expenditure Restraint**

Wisconsin Act 12 made changes to state shared revenues, thereby providing additional funding resulting in increased expenditures. As a result, if a community qualified for expenditure restraint for their 2023 budget, they will qualify for their 2024 budget and receive payment even if over the usual expenditure restraint levels. The form the village filed in 2024 established a new baseline to determine whether the village will be able to meet the criteria required to receive a payment in 2026 in relation to restraint related to the 2025 budget.

Qualification criteria dictates that the:

1. Equalized municipal tax rate must exceed \$5.00 per thousand of value.
2. General fund budget expenditure change from the previous year's budget must be less than the allowable percentage increase provided by the Wisconsin Department of Revenue ("DOR") which is equal to the sum of the Consumer Price Index (CPI) for the prior 12 months ending August 31, plus 60% of net new construction percentage for the current budget year (up to a maximum of 2.0%).

Historically, the DOR has distributed notices to communities in October of each year. Since the most recent year previous to Act 12 was for the 2023 budget limit, by reference that limit for the Village of Shorewood was 7.8%

Finance has estimated that an approx. 2% increase in property taxes levied as part of the budget process would still leave the village with a 17% (\$1.7 million) shortfall in expenditures (covered by revenues) as compared to previous years' budgets. Since debt service costs are projected to increase due to recent projects beginning in the fiscal year 2025 budget, operating and capital project costs would be facing a significant cut of approx. 17% of the village's overall budget. To summarize, this is the current landscape the village is facing if the historically flat 2% overall targeted increase in the property tax levy is maintained, and the projects remain as planned in the long-range plan for the 2025 budget.

### **Low Impact Expenditures:**

The following is a list of several items that had been previously presented as potential budgetary savings measures for elected officials to consider, and their estimated fiscal impact. Please keep in mind that implementing any of these items only addresses the issue for the next budget cycle.

Additional cuts would have to be made in future years. As a result, the impact of these adjustments during the 2025 budget process would be ineffective in a manner that could impact having adequate time to address the significant budget concerns around the next corner.

- 1) Eliminate the COLA wage adjustment for non-union staff. Estimated fiscal impact: \$45,000.
- 2) Increase staff contributions for health insurance by 20% (from 10% to 12%) for wellness participants. Estimated fiscal impact: \$15,000 per year.
- 3) Reduce legal fees by not requiring the Village Attorney attend Village Board or Planning Commission meetings unless presenting a specific topic. Estimated fiscal impact: \$15,000 per year.
- 4) Discontinue the staffing of lifeguards at Atwater Beach. Estimated fiscal impact: \$37,000 per year.
- 5) Discontinue bare pavement practices for winter maintenance to reduce salt costs: Estimated fiscal impact \$10,000 per year.
- 6) Discontinue snow removal in the Business District (labor costs). Estimated impact: \$20,000 per year.
- 7) Discontinue natural lawn care maintenance. Estimated fiscal impact: \$20,000 per year.

### **High Impact Considerations:**

To move the needle on the upcoming budget for 2025, the village must consider more substantial solutions such as the following:

1. Parking utility dissolution – approx. \$475,000
2. Capital equipment replacements and improvements timeline adjustments
3. Long-Range Plan project timeline adjustments, considering debt service planning
4. Tax levy adjustments up to 8%.
5. Consideration of refuse, leaf and yard waste planning to foster financial sustainability.
6. Evaluate the implementation of a \$20.00 per year wheel tax to support ongoing road maintenance. Estimated fiscal impact: \$150,000 per year.
7. Consider allocating the costs of roadway reconstruction to water and sewer utilities and cover through user charges.

### **Motions:**

If the Village Board wishes to include any of these revenue diversification items in the 2025 budget, a motion to add them to items for future consideration would be appropriate so that the Village Board may vote on implementing these items within the next 90 days, prior to the development of the 2025 budget.

### **Village of Shorewood Budget Plan**

The 2024 Calendar for 2025 Budget has been published for the department heads and the timeline is as follows:

1. Department head review of draft quarterly financial reports (the 2Q) scheduled to be released July 22-26.  
***Completed review with all departments July 29, 2024.***
2. Capital Replacement Equipment Requests due August 5<sup>th</sup>.
3. Baseline operating budget materials and budget outlook will be provided to department heads on August 12th.
4. Capital Budget Due August 12th.
5. Department head preparation of 2025 operating budget drafts is Due August 19.
6. Capital Budget Review August 19-22
7. Review and submission of the 2025 budget draft is scheduled for August 29-September 5.
8. ***The 2025 budget request will be presented to the Village Board on September 16.***
9. The Village Board will vote on the final public hearing and 2025 budget adoption on November 18.