



MINUTES OF AN OFFICIAL MEETING:

Regular / Special Meeting: Finance Committee

Date and Time: Monday, October 17, 2022 at 6:30 pm

Location: City Hall, 2000 N Calhoun Rd, Common Council Chambers

Members Present: Alderman Dave Christianson, Alderman Bob Reddin, Alderman Jason Anderson, Alderman Mike Hallquist, Alderman Jerry Mellone, Alderman Kathryn Wilson

Members Absent: Alderman Scott Berg

Others Present: Mayor Steven Ponto, Alderman Chris Blackburn,, Director of Finance and Administration Robert Scott, Director of Human Resources Jim Zwerlein, City Attorney Jenna Merten, Director of Information Technology Kevin Beck, Fire Chief David Mason, Police Chief Jim Adlam, Director of Public Works Tom Grisa, Director of Community Development Dan Ertl, Director of Library Services Edell Schaefer, Director of Parks, Recreation and Forestry John Kelliher, Parks and Forestry Superintendent Gary Majeskie, Deputy Finance Director Sarah Kitsembel and Finance Manager Mary Reeves

1. Roll Call

Alderman Dave Christianson noted a quorum was present and called the Finance Committee meeting to order at 6:30 pm.

2. Announcements

The next regularly scheduled meeting is slated to be held on Tuesday, October 18, 2022.

Additional special Finance Committee meetings to review the proposed 2023 budget are scheduled for October 19 and October 24, 2022 both at 6:30 pm, in the Common Council Chambers, if necessary.

3. New Business

a) Mayor and staff presentation of 2023 Executive Budget.

Chairman Dave Christianson noted that the process used for budget reviews at this meeting would include an overview by the Mayor and staff of the executive budget, followed by brief presentations by department representatives present at the meeting and questions from the Committee. Following the presentation and question and answer period, the Committee will then take action to recommend a budget to the Common Council to be adopted at its November 15 meeting, including any motions for changes to the executive budget (unless additional meetings are determined to be necessary).

Mayor Ponto provided summary commentary from his 2023 executive budget message (full message can be found within the budget document located on the City website). He noted the following four broad themes in his remarks:

- a) Citizen survey feedback
- b) Property values and new construction value growth
- c) Budget challenges from inflation and levy limits
- d) Ongoing fiscal recovery

Citizen Survey

Mayor Ponto noted that the feedback from our citizens was very positive, with the survey showing that the Brookfield City government scored a 73 on the American Customer Satisfaction Index, putting the City in the high end of satisfaction across all types of businesses, not-for-profit organizations, and particularly other governments. Further, the 2022 overall score showed improvement from 2017, and City departments and services, the City's image, and customer service received very positive marks across the board compared to Wisconsin, Midwest, and national governments. He stated his belief that this reflects our dedicated employees prudently deploying the resources allocated to them by the taxpayers and the Council.

The Mayor further stated that the activities supported by the city government help maintain a community where people want to live and businesses want to locate, resulting in more resources being conveniently available to our residents, whether it be jobs, shopping, or other community amenities. The resulting investment in the community is demonstrated in the total property value of the City, with the 2022 equalized value for Brookfield being the fifth highest equalized value in the state (behind only communities with significantly higher populations). The total value grew 10% from 2021 to 2022 to just under \$9.1 billion.

Property Values and New Construction growth

Mayor Ponto then indicated that a large component of the property value growth is due to what the Wisconsin Department of Revenue refers to as "net new construction," or value of new construction during a calendar year less any demolition or destruction of buildings. For 2021, the Department of Revenue estimated that the City of Brookfield had \$145,000,000 in net new construction, the 3rd year in a row of an unprecedented number for the City of Brookfield and third highest ever.

He noted that the new construction activity in Brookfield has included luxury apartment projects which provide additional housing options for residents, particularly those who want to remain Brookfield residents but are looking for a more manageable housing choice. The new construction also includes development of office buildings, including the new buildings in the Golf Parkway Corporate Center in the Corridor development. The developer of that project recently acquired the vacated Boston Store property at Brookfield Square Mall and plans additional office buildings there as part of a potential mixed use development. The Mayor also noted the strength of Brookfield's single family home market.

Levy limits and inflation

Mayor Ponto continued his remarks by noting that the growth in new construction also provides some benefit for the 2023 budget, as the City's tax levy can grow by 1.77% under the property tax levy limits imposed by the state. However, the spike in inflation over the past year, with the year over year change in the consumer price index of 8.8%, points out the problem with levy limits and the framework for funding local governments in Wisconsin. Despite significant construction growth, it is nowhere near the amount to keep up with inflationary pressures affecting all areas of the City budget, including salaries, health insurance, fuel, utilities, and other costs.

He further emphasized the uncertainty with regard to future City budgets due to levy limits, the ebb and flow of economic cycles, and the reality that recent development trends are unlikely to continue at the same pace. Even if inflation moderates in future years, the structure for financing local government needs to be changed. Mayor Ponto stated the intention to work with other communities and the League of Wisconsin Municipalities to lobby the state government to modify the framework for local government finance to continue necessary citizen services – the same services ranked highly in this year's survey.

Ongoing fiscal recovery

Mayor Ponto reminded the Committee that in the near term the levy limit rules will not be changing. However, there is some positive news for the 2023 budget. Although still short of pre-COVID expectations, hotel room tax collections continue to rebound, which allows for more room taxes to be directed towards Brookfield Conference Center debt payments for 2023, eliminating the need for property tax support. Besides meeting that obligation, there are additional room tax revenues available to support the general City budget. Other funding sources showing improvement for 2023 are ambulance fees and investment

income, with a silver lining in the Federal Reserve's actions to fight inflation by hiking interest rates being significantly higher expectations for investment revenue.

He outlined that although hotel taxes and investments are showing recovery, those sources are still short of pre-pandemic levels, and as a result, a portion of the City's allocation of American Rescue Plan Act (ARPA) funding to support 2023 expenditures is again proposed. Such use is consistent with the provisions of ARPA since the City lost revenue due to the pandemic and can utilize these funds to pay for government services to bridge the gap while the affected funding sources continue to recover. However, the Mayor noted that such funds will not be available after 2024.

In conclusion, Mayor Ponto highlighted the funds directed towards maintaining City facilities and infrastructure for 2023, including additional operating budget funds for pavement maintenance, and also for projects in the City's long term capital improvement plan, including park trails, stormwater, bike path, street, and utility projects. He further stated his confidence in the City government to work together to find solutions to the challenges we face and will continue to make Brookfield a premier community.

Director of Finance and Administration Scott then provided a summary of the fiscal components of the proposed budget (a full executive summary can be found within the budget document located on the City website). He noted that given the revenue challenges being faced by the City, there could be no substantial expansion of programs nor additional staffing requests without identification of other funding sources or other means. Included in the 2023 budget is one additional Police officer position to serve as a school resource officer for Wisconsin Hills middle school, funded by the Elmbrook Schools.

Director Scott went on to describe other cost issues and initiatives considered as part of developing the 2023 budget, as follows:

- i. Salary budgets include the estimated impact of salary adjustments as per the budget parameters established by the Finance Committee. General fund salary budgets are increasing 4%, reflecting cost of living adjustments for non-represented employees and estimated adjustments for union contract changes for sworn public safety staff (contracts under negotiation). The impact of ongoing turnover in staff, particularly for public safety departments, also affects salaries as the budgeted salaries for new employees include the effect of moving through steps per the salary ordinance or union contracts.
- ii. An area having a negative impact on the 2023 budget is an increase in the City's contribution rates for Wisconsin Retirement System (WRS) employer contributions, as the Employee Trust Funds board increased contribution rates by approximately 10% for all employee classes, largely due to expected increases in benefit payments as the workforce ages and more employees in the WRS statewide retire and access pension benefits.
- iii. The City has been working to manage the cost of employee health insurance for several years. The 2023 budget includes a 10% increase for premium equivalent charges to department budgets based on preliminary projections from the City's insurance consultant, reflecting higher than expected health claims experience, primarily resulting from numerous high dollar claims, and inflationary pressure from health care cost trend. Staff will continue to work with the City's health care consultant to manage health insurance costs, including further promotion of the high deductible plan option implemented in 2018. Employee election of the high deductible option is now more than 15% of health plan participants.
- iv. Risk management charges for the general fund are decreasing \$57,000 (7%), due mainly to lower costs for workers compensation coverage. Workers compensation reflects a lower experience modification factor, due to lower claims years in 2019, 2020 and 2021 than in recent years and returning to more typical experience for the City, plus the effect of lower standard workers compensation rates.
- v. Energy (natural gas and electricity) budgets reflect an overall increase for the general fund budget of \$79,000, or 15.5%, reflecting in particular natural gas costs that began in early 2022.

- vi. Similarly, fuel (gasoline and diesel) costs have accelerated over the past year, and the 2023 budget, based on historical usage and Federal government estimates of future prices, is up \$127,000 (28.8%) compared to 2022.
- vii. 2023 is an off year for statewide elections (total of two elections vs. four budgeted for 2022). As such, the 2022 Elections budget is decreased to reflect the lower number of elections.
- viii. One area with modest expansion is in the Public Works pavement maintenance program (within the operational budget). In 2017, the Engineering division analyzed street pavement maintenance conditions and provided a series of reports to the Board of Public Works. The analysis concluded that the condition of the City's streets has been declining as prior budgets had nominal increases. Compared to the original 2022 budget, the proposed 2023 budget adds another \$245,000 for various types of pavement maintenance and also considers the increase in contractual costs experienced in 2022, resulting from inflation and petroleum costs.
- ix. The new contract for collection of garbage and recyclables that started in January 2022 includes a provision for increased costs based on inflation and fuel factors. Given higher overall inflation and fuel costs, the 2023 budget includes the maximum increase in contracted costs of 6.1% for garbage and 5.1% from recyclables.

Director Scott then touched on the long-term financial outlook, noting that application of the levy limits referenced by the Mayor into the City's financial forecasting model indicates a concerning gap in future years between the forecasted allowable levy, and the level of funding that would be necessary to maintain existing levels of City services. Although non-tax revenues have shown some recent growth, there are limited prospects for significant growth, particularly in comparison to higher inflation expectations. As a result, the Council and City administration will continue to be faced with identifying funding alternatives and creative methods of maintaining City services at existing levels, absent changes in state law or other dynamics. Such alternatives likely will require consideration of levy limit referenda as permitted under state law as previously reviewed with the Committee.

Director Scott indicated that the executive budget was developed in accordance with state statutes, City code and the City's financial policy regarding budget development, with parameters established by the Finance Committee at its June 21 meeting. Departments developed budget requests throughout July and August and certain boards and commissions reviewed budget information during that period as well. Following the Finance Committee review meetings this evening and on October 19 and 24 (if necessary), the Committee's recommended budget will be presented to the Council for adoption on November 15, preceded by the official public hearing.

Director Scott noted the proposed general fund expenditure budget change is 5.86% compared to the 2022 budget, which exceeds the expenditure parameter established by the Committee (still under the state ERP limit), due in large part to the cost factors noted previously (pension contributions, health insurance, fuel and utility costs, pavement, maintenance, garbage/recycling collection costs), as well as the additional school resource officer. Although the expenditure change is under the ERP limit for 2023, the City's equalized tax rate has fallen below \$5/1000 and therefore we will not qualify for this state aid in 2024 either. This is a direct result of the limits on the City levy combined with the 10% increase in equalized value.

Director Scott stated that the total City budget, including operations, utilities, debt payments and capital spending, is \$105 million, representing a 10% increase in total City spending, mainly due to the inflationary impacts noted earlier, plus increased capital project spending for a variety of City and utility infrastructure improvements. He went on to state that the proposed tax levy is increasing 0.81%, resulting from new construction value growth but offset by a decrease in the debt service factor resulting mainly from the elimination of the property tax subsidy for conference center debt service (\$300,000). The total City levy of \$42,275,000 is within the projected levy limit. The average homeowner would pay about \$3 less in taxes to fund City services for 2023, with the overall tax bill is projected to decrease \$140 for the average home, net of lottery and first dollar credits, due to a lower projected school levy.

Director Scott then provided summary comments regarding various fiscal aspects of the proposed budget, including the revenue impacts for the general fund budget. The room taxes budget for the general fund is up \$400,000 compared to 2022. Overall, expected 2023 room tax collections have been allocated to the general fund (\$1.1 million), Conference Center debt service (\$1.8 million), and economic development (\$559,000), including funding of the base contract with Visit Brookfield of \$432,000. He noted that state shared revenues are flat and that there are no expenditure restraint program revenues for 2023 due to not meeting the limit for the 2022 budget.

Director Scott further noted that state transportation aids are increasing 2%, or \$60,000 due to higher aidable street costs in recent years, and that the 2023 budget includes \$100,000 in funding for the Local Road Improvement Program, which is available every other year. FEMA aid included in the budget is a full year of the SAFER firefighter grant.

Director Scott went on to indicate that budgeted building permit revenues are consistent with projected 2022 actual amounts. The budget for parks revenue has been increased to reflect a change in the fee structure to better recover the costs for park maintenance/setup for use of facilities. Finally, budgeted investment revenues are budgeted at expected continuation of higher money market returns, which are exponentially higher than that forecasted for 2022.

Lastly, Director Scott pointed out that the proposed budget includes \$700,890 in applied surplus as a funding source, covering the \$350,000 contingency appropriation, non-recurring parks capital costs, funding for deputy assessor transition, and replacement of the expenditure restraint revenue lost for 2023 (earmarked from 2021 surplus).

Director Scott stated the capital budget (exclusive of the wastewater and water utilities) totals \$5.4 million, supported by \$3.7 million in general city borrowing. Combined with \$700,000 of borrowing to finance the 2022 horizontal grinder purchase, the projected 2023 bond issue exceeds the from budget parameter due to need to shift funding for grinder and fire pumper to debt to maintain vehicle replacement funding for future equipment needs. Other sources of funding include the Greenway Trail fund and the Stormwater fund. He highlighted the section of the budget document that describes the capital budget with the most significant projects being park improvements, including Greenway Trail work (\$2,105,000) and bike paths, including reconstruction of existing paths (\$1,350,000).

Director Scott noted that the wastewater and water utility budgets include typical funding for capital improvements (treatment plan upgrades and water main extensions), along with status quo operations. The wastewater utility is expected to have a second rate adjustment effective mid-year 2023, following a similar adjustment in 2022, and the simplified rate adjustment effective for the water utility in the 4th quarter 2022 will have a full year impact in 2023. He then concluded his remarks with comments about non-major fund budgets, noting that the Parks development fund includes transfers out for Greenway Trail projects and parks maintenance salary costs. Other transfers out include ARPA funds transferred to the General Fund, and the Computer Replacement fund includes replacement of replacement of public safety mobile data computers, replacement of City phone system, and Municipal Court software replacement. The vehicle replacement fund anticipates two highway patrol trucks; 4 one ton dump trucks for Highway and Parks, Recreation and Forestry; Fire incident command van; and replacement of 5 police squad cars, plus the addition of one squad related to the additional school resource officer. Finally, he noted that the debt service fund shows a decrease in general debt service expenditures, as debt balances are trending lower, but that decrease is offset by an increase of \$60,000 in the transfer to subsidize TID No. 4 bonds. Also included in the debt service budget is the conference center related debt service fund, which includes the elimination of the tax levy subsidy previously noted. 2023 room tax collections budgeted in the conference center debt service fund would be used for 2024 conference center debt payments.

- b) Review of department operating and capital budgets.
- c) Review of other fund budgets as applicable (debt service, non-major funds, internal service funds).

The department heads in attendance then gave brief presentations regarding their respective areas of budget responsibility. Committee members then discussed the departmental operating and capital budgets,

along with any related non-major fund budgets, and questioned staff present on various items and points requiring clarification.

d) Recommendation on proposed 2023 budget to the Common Council.

Motion by Aldermen Mike Hallquist, second by Alderman Jerry Mellone, to approve the 2023 executive budget as presented and recommend adoption by the Common Council, and to direct staff to prepare the necessary ordinances for budget adoption. There was no discussion nor amendments offered, and a vote was then taken on the motion on the floor, which carried 6-0. As a result, the tentatively scheduled October 19 and 24, 2022 meetings are not needed.

4. Adjournment

Motion by Alderman Mike Hallquist, second by Alderman Jason Anderson, to adjourn the meeting at 9:05 pm. Motion carried 6-0.

Respectfully Submitted:

Robert Scott

Director of Finance and Administration