



VILLAGE OF FOX POINT

MILWAUKEE COUNTY

WISCONSIN

VILLAGE HALL

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To: Village Board

From: Scott Botcher, Village Manager

cc: Michael Pedersen, Assistant Village Manager

Date: November 2, 2016

Re: 2017 Budget Workshop Fund Balance Utilization Discussion

Following last week's workshop, I wanted to re-examine some of the revenue recognition, fund balance utilization and expenditure restraint questions which were raised. After spending a substantial amount of time reviewing the questions, I held discussions with both the League of Wisconsin Municipalities General Counsel as well as the Village's Audit staff.

If you recall, my primary goal was to utilize some fund balance as our cash reserves have grown, all while keeping the levy flat and maintaining eligibility for expenditure restraint payments (estimated to be \$110,091 in 2017). I think I have a solution, which I summarize following:

The fundamental precept of this change is the dedication of transportation aids to the Capital Fund for fiscal year 2017. This allows us the following:

One: Dedicating some of these revenues (\$400,000) to the Capital Fund rather than the General Fund reduces our Capital Fund borrowing requirement by the equal amount, or, in this case, \$400,000.

Two: Removing \$400,000 of transportation aids in the General Fund creates a shortfall in the same amount until fund balance proceeds are applied. The application of General Fund fund balance proceeds to make up this \$400,000 shortfall is a way to "release" fund balance proceeds while maintaining a flat levy and keeping expenditures the same, thus maintaining our eligibility for expenditure restraint payments in the amount of approximately \$110,000.

General Fund Revenues		
\$	(400,000)	Street aids
\$	400,000	Fund Balance Applied
\$	-	Change General Fund Revenues

Capital Fund Revenues		
\$	400,000	Street aids
\$	(400,000)	Monies NOT borrowed
\$	-	Change Capital Fund Revenues

As you can see, no expenditures have been changed; this is simply a revenue recognition exercise. My expectation is that this will be a one year endeavor. I do not want to continue to use General Fund fund balance unnecessarily, so I would expect that in 2018, General Transportation Aids will once again be recognized within the General Fund. In future fiscal years, I would utilize fund balance revenues in combination with a responsible level of borrowing.

I had extensive discussions with the General Counsel of the League of Wisconsin Municipalities and our Village's Auditor in regards to this exercise. In my discussions with our Auditor, she indicated that this activity was acceptable to her, and that her only concern was that the Village not make it an annual habit to utilize fund balance revenues to support the General Fund. She indicated that it was acceptable to use these aids in the Capital Fund in 2017 and move them back to the General Fund in 2018 as far as the audit was concerned. That being said, she fully understands that this exercise is not to support the General Fund, but is an activity to simply release fund balance proceeds while maintaining expenditure restraint eligibility.

As a side comment, the Auditor did mention that a number of her clients (and I believe this to be a sizable number) have made the financial decision to forgo expenditure restraint proceeds as eligibility appears to be increasingly restrictive. If you recall, I have communicated in the past about recent actions of the Wisconsin Department of Revenue in applying new and very restrictive interpretations to municipalities across the state, revoking eligibility for some. I've been clear that we need to prepare for these restrictions as our eligibility could be revoked in the future.

In the future, and it could be as soon as the next fiscal year, the Village of Fox Point might consider making the same decision if it is in our overall financial best interest to do so, especially given the ever decreasing amounts of expenditure restraint dollars which appear to be forthcoming.

If we kept our levy flat and applied fund balance proceeds, our expenditures would increase; but my recommendation is to NOT increase expenditures without a need to do so.

CONTEMPLATED PROPOSED BORROWING				
	Original Proposal		New Proposal	
Capital	\$	1,191,208.00	\$	791,208.00
Storm	\$	360,154.00	\$	360,154.00
Water	\$	776,588.00	\$	-
Total	\$	2,327,950.00	\$	1,060,718.00

FUND BALANCES						
	Original Proposal		New Proposal		Change	
General	\$	1,197,573.00	\$	1,197,573.00	18.20%	18.20%
Storm	\$	485,247.00	\$	485,247.00		
Water	\$	1,837,477.00	\$	1,060,889.00		

Finally, having given the matter some additional thought, I would apply \$776,588 in Water fund balance proceeds to contemplated Water Fund capital projects, thus reducing the borrowing requirement within the Water fund in the same amount. I believe that this should mitigate any requirement for water rate modification as a result of this project. Suffice it to say that should the Village continue water system improvements in the future, water rate modifications will likely be necessary.

Given these modifications, the amount of borrowing and fund balance would change. The following chart reflects these changes.

Water Fund		
\$	(776,588)	Borrowing
\$	776,588	Water Fund Balance Applied
\$	-	Net Revenue Change

In closing, you might recall that members of the Board have asked me what might be significant forthcoming challenges for the Village of Fox Point. We have several local issues at various levels of deliberation; the pool, the library, the LX club; however, you recall my answer was the most

significant forthcoming challenge for the Village of Fox Point was the simple reality that the State of Wisconsin will not leave us alone.

This is true for every municipality in the State, and this revenue recognition exercise stands as a stark example of what I meant. The Village engages in very responsible fiscal management. We have increased our fund balances through alternative revenue generation, treasury management, and prudent expenditure restraint. We have done so with a levy cap in place that this year gave us only an additional \$5,800 in levy authority. With all this in place, we have to go to this extent to simply try to utilize our fund balance while maintaining eligibility in a program that is supposed to incentivize us to restrain our expenditures, which is what we have already been doing.

For some municipalities, this structure is not sustainable.

In a nutshell, State law and the inconsistencies in incentives are maddening.

We restrain our expenditures; we increase alternative revenue sources; we build up fund balances through responsible fiscal management and then when we want to spend these earned fund balances, not borrow money (and debt service levies are not restricted) while maintaining expenditure restraint eligibility, we have to go to these lengths to do so.

I don't know where this is all going eventually, but as I told you, this appears to be all part of the game and we will play it as well as we can until the rules are changed, and then we will play it some more.

Thank you for your consideration and please contact me directly if you have any questions. Best wishes.