



TRANSMITTAL LETTER

Date: October 13, 2020
To: Mayor Toland and City Council Members
From: Sarah Karlsson, Finance Director and Scot Simpson, City Administrator
Re: 2021-2022 Biennial Budget Transmittal / Budget in Brief

EXECUTIVE SUMMARY

The City's biennial budget will be presented for review and approval by the Mayor and City Council in conjunction with a public hearing and second reading of the budget ordinance on November 10, 2020. The property tax levy adopted for 2021 is \$6,996,000 (City only). The result is a mill rate increase of 1.98 percent which is equal to the net new construction increase in Pierce and St. Croix counties combined.

The fiscal plan presented to City Council in August 2019 included a net levy increase in 2021 of three percent. The current adopted tax levy is a net zero percent increase. The typical levy target is between three and four percent for the City's share of property tax. The lower than projected tax levy is a direct result of the cost saving initiatives implemented in 2020 as a result of the COVID-19 pandemic, which are carried forward in to the 2021-2022 bi-annual budget.

The 2021-2022 budget includes a adopted tax levy increase equal to the 2021 net new construction allowing property taxes to remain flat for the average taxpayer.

As the mill rate is tied to the net new construction between the two counties, and assessed values continue to remain strong, the property taxes will remain flat for the average taxpayer.

The Council will review a draft of the budget in a workshop session on October 20 which includes the adopted tax levy for both the 2021 and 2022 budget years and a comparison to the City's approved fiscal plan and prior year budgets.

[Future Financial Sustainability](#)

The cornerstone of the 2021-2022 budget is future financial sustainability. This is not a new budgetary theme for the City and the historical fiscal stewardship of the City Council continues to benefit the City. The additional cost saving measures that were implemented based on City Council's direction and outlined in the [City's Crushing Covid Plan](#) to combat the financial impact of the COVID-19 pandemic are incorporated in the 2021-2022 budget. Areas of focus include:

- Ensuring adequate unassigned general fund reserves
- Maintaining an excellent credit rating
- Largely maintaining hiring freeze to save costs

2021-2022 Budget Themes are:

- Future Financial Sustainability
- Long-term Strategic Growth
- Continued Investment in Infrastructure

The focus on future financial sustainability is reflected in the funding across all departments inclusive of capital expenditures. Attention has been given to matching the funding to the Council's expectations for service levels and not lose sight of critical infrastructure investments such as street maintenance and improvements.

[Long-term Strategic Growth](#)

The second core tenet of the 2021-2022 budget is long-term strategic growth. The City plans to continue to make investments that support continued development of housing, industrial expansions, and those that best position the City for economic recovery as the pandemic impacts recede. This is demonstrated in the budget by adding an additional staff member to the Community Development Department in order to expand the efforts focused on growing the City's tax base, which will not only help decrease the overall tax burden for the City's taxpayers but also continue to ensure a thriving community. The ability of the City to increase staffing levels in the Community Development Department is directly related to the success of Whitetail Ridge Corporate Park. In addition, the capital improvement plan includes \$800,000 for funding improvements in the Ryan Nicholas DeSanctis Park neighborhood. These improvements will continue to fulfill the Council's vision for the Ryan Nicholas DeSanctis Park as the third regional park in the City in addition to Glen Park and Hoffman Park. The funding will also be used to continue to pursue the future development of the Mann Valley Corporate Park.

[Continued Investments in Infrastructure](#)

The City has a history of dedicating time and money to the ongoing maintenance of infrastructure and facilities in order to protect investments previously made and extend the life as long as possible. The budget process relies on the five-year fiscal plan as a complementary long-term planning tool to identify project affordability and timing. The adopted budget continues to fund ongoing

maintenance as well as some upgrade projects of City assets.

Wasson Lane Reconstruction \$3.9 million

The City was awarded WisDOT Surface Transportation Program-Urban (STP-Urban) funds to reconstruct Wasson Lane and construct a roundabout at the intersection of Cascade Avenue and Wasson Lane. Wasson Lane was constructed in 1980 and served as the state highway route prior to construction of the Hwy 65/35 bypass. This project allows the City to rebuild the roadway and add additional measures for stormwater and groundwater drainage. It also allows the City to complete the intersection improvements to Cascade and Wasson by constructing the roundabout concept, adopted by Council approximately 10 years ago. The design phase will begin in 2021 with construction slated for 2024. STP-Urban funds will pay for 80 percent of the total project cost and 20 percent will be covered by City budgets.

Powell Avenue Bridge \$1 million

The bridge over the Kinnickinnic River on Powell Avenue needs deck replacement. The concrete deck is deteriorating with a notable change taking place over the winter of 2019/2020. The bridge has been posted to 10 Ton and is inspected weekly. WisDOT typically funds 80 percent for bridge deck replacement projects, while the municipality picks up the remaining 20 percent. Due to the need for a quick construction project in this location, design work will be funded 100 percent by the City and will take place in 2021. The City is pursuing WisDOT cost sharing slated for 2022. The deck replacement is anticipated to cost approximately \$1 million.

North Interceptor Project \$2.5 million

The sanitary sewer is important for livability and economic development. An upgrade to the sewer system in the northern section of the City is planned for 2022. This would involve construction of a new gravity flow sewer and removal of the North Main lift station due to future capacity issues. Other sewer improvements include upsizing the North Interceptor sewer. This project was originally planned for in the previous budget cycle but was deferred due to the investment needed in the aeration and front-end screening wastewater project reviewed and approved by City Council on 11/12/2019.

2021-2022 Adopted Budget Compared to Adopted Fiscal Plan

The property tax levy for each year is less than the fiscal plan presented to City Council in workshop sessions in 2019. As noted above, staff proposes a net zero levy increase compared to a net three percent levy increase per fiscal plan for 2021 and 2022, assuming net new construction remains consistent. This will result in \$369,954 less taxes levied than projected in the fiscal plan.

Fund Type	2021 Budget Year		2022 Budget Year	
	Per Fiscal Plan	Adopted 2021	Per Fiscal Plan	Proposed 2022
General Fund	\$4,667,498	\$4,766,883	\$5,241,907	\$4,834,132
Library Fund	855,000	855,000	850,000	850,000
Debt Service	1,293,166	1,149,287	963,782	1,067,654
Capital Projects	<u>306,100</u>	<u>224,830</u>	<u>323,500</u>	<u>383,214</u>
Total	\$7,121,765	\$6,996,000	\$7,379,189	\$7,135,000

The adopted 2021-22 budget totals \$82,552,737 which is a decrease of ten percent from the 2019-20 budget of \$91,355,642. A large portion of this decrease is related to the outsourcing of the EMS service to Allina Health effective in 2020 in addition to larger capital project investments made in the 2019-2020 budget cycle, such as the Glen Park improvements. The following table represents the total current biennial budget and adopted budget by fund type.

Fiscal Resources	2019-20	2021-22
	Adopted Budget	Adopted Budget
General Fund	\$ 21,801,831	\$ 23,186,940
Special Revenue Funds	9,146,298	10,312,902
Debt Service Funds	2,457,843	2,651,277
Capital Project Funds	9,905,392	1,629,531
Enterprise Funds	45,272,617	41,512,331
Internal Service Funds	<u>2,771,661</u>	<u>3,259,756</u>
TOTAL	\$ 91,355,642	\$ 82,552,737

Valuation

River Falls continues to see an increase in net new construction for both counties, with Pierce and St. Croix Counties realizing 1.09 percent and 3.51 percent growth, respectively.

Overall, the City's equalized value (market value) increased by 15 percent, or \$168 million for a total value of \$1.25 billion in 2020. The value increases were seen in both residential and commercial property values.

The final assessed values of \$967,211,200 shows an increase of \$18.3 million over the prior year, or 3 percent growth, with the majority of the growth occurring in St. Croix County. This is due to both an increase in construction and consistent market values for existing properties.

State Shared Revenues and Expenditure Restraint Program

State shared revenues decreased from \$776.8 million in 2003 to \$668.7 million in 2020 for cities, villages, and towns. The impact of the COVID-19 pandemic on the State's ability to provide shared revenues is still unknown. The assumptions used when creating the budget are based on estimated aid provided by the Wisconsin Department of Revenue as of September 2020 and assume no increase in aid in the next two-year period.

The Expenditure Restraint Program (ERP) provides unrestricted aid to qualifying municipalities that limit growth in spending. The budgetary increase of General Fund expenditures for 2021-22 will most likely fall within the allowable criteria (3.4 percent in 2019 for 2020) for the program. The City will receive \$110,000 in 2021 from this program and is expected to receive a similar amount in 2022 based on the adopted two-year budget. Historically, the City has not met the eligible guidelines for this funding and this additional funding is a direct result of the cost cutting measures and continued hiring freeze.

The City is projected to receive over \$200,000 in additional funding over the two-year budget period from the States' expenditure restraint program

Other Revenue Highlights

Transportation Aids

General Transportation Aids are calculated based on a formula using factors such as road mileage, six-year average costs, and other financial factors as reported annual in the Municipal Financial Report (Form C) which is filed annually. The amount received in 2019 was \$667,856 and approximately \$700,000 is expected to be received in 2020. Additional funding was approved by the Governor in 2020; and therefore, staff deemed it reasonable to use a historical average in order to arrive at an estimate for 2021 and 2022. Using the historical average payout as a basis, the amount of \$650,000 was added for 2021 and 2022. Staff was notified on September 30, 2020, that the estimated payment for 2021 would be \$652,159. The final calculation for 2021 will be provided by the Department of Transportation in December of 2020.

Ambulance Fund

The City's ambulance service will be outsourced to a third party in November 2020. The City is contracting with Allina Health who will be providing this service on a going forward. The City will also facilitate the services for neighboring townships and the City of Prescott. Included in the 2021-2022 budget are the contract costs as well as the passthrough revenues and costs from the townships and the City of Prescott. In addition, Allina Health will rent the existing Ambulance building and rental income of \$38,400 per year is included in the budget. The fund is expected to have an unrestricted fund balance of \$340,000 as of January 1, 2023.

Electric Utility Fund

The impact of the pandemic on the electric utility fund has been material, as key customers such as the University of Wisconsin – River Falls and the River Falls School District, have been forced to close for parts of this year. While it is staff's hope that this will not occur in 2021, as a conservative measure, the 2021 budget assumes a period of shut down for these key customers similar to what was experienced in 2020. The 2021 and 2022 budgets also include the Public Service Commission recommended rate increase that was effective as of October 2020.

Storm Water Fund

The storm water fund is currently maintaining sufficient revenue levels for the maintenance of the ponds and other storm water activities. Due to increased development in the City, no fee increases are planned for the 2021-2022 timeframe. Rates will be reviewed in 2022.

Solid Waste Fund

The solid waste fund includes the revenue and expenses for the contracted refuse and recycling collection for residential properties serviced by Advanced Disposal. In September 2020, the City Council agreed to renew the contract with Advanced Disposal for an additional five-year term. The new fee structure, as reviewed and approved by the City Council, was included in the budget. The fund also covers the costs of spring and fall cleanup, compost grinding, and other solid waste related costs. The budget includes the Compost and Recycling (CORE) fee of \$1.25 per month. This fee allows for continuation of the current services of composting, spring and fall cleanup events as well as the electronic recycling event.

Compensation, Benefits and Staffing

Compensation and Benefits

The City has one bargaining unit which represents the Police department officers. The settled contract for 2021 includes a two percent wage increase. Employees share in the required pension contribution, with all employees projected to pay 6.75 percent of qualified wages for 2021. The City matches this amount for non-represented general employees and pays 11.85 percent for police officers.

The City contracts with HealthPartners for medical and dental insurance. The 2021 premium increased 12.9 percent. With the annual City cost of \$2 million per year for premiums, any increase can negatively affect the budget. Currently, employees are paying 12.5 percent of premium for a high deductible plan. In 2020, employees out of pocket maximum and deductible increased.

Dental premiums did not increase for 2021 and are shared 50/50 with employees.

Staffing

As noted above, key cost saving initiatives and strategies put in place in 2020 as a result of the COVID-19 pandemic have carried forward to the 2021-2022 budget including a continued hiring

freeze along with not backfilling, and/or eliminating, vacant positions as they arise. Budgeted vacant positions are expected to remain open in 2021 and serve as another funding contingency source, should the economic outlook worsen further.

The largest reduction in overall City staff is occurring as a result of the outsourcing of the EMS service to Allina Health which is reducing total City staff by 25 FTEs.

Description	Increased (Decreased) Budgetary Cost w/Benefits 2021-22	Funding Source
Reduction in Vacant Library Positions (2 FTE)	(236,175)	Library Fund
Reduction in Vacant Fire Officer (1 FTE)	(210,000)	General Fund
Reduction in Vacant Streets Maintenance Position (1 FTE)	(177,098)	General Fund
Reduction in 0.5 FTE Vacant Police Officer Position	(92,000)	General Fund
Reduction of City Forester to 0.5 FTE	(86,791)	General Fund
Reduction of Enterprise Funds Support Staff (1 FTE) (1/1/2022)	(81,824)	Various Enterprise Funds
Addition of 1 FTE in Community Development	226,200	General fund

The budget does include one additional position in the Community Development Department. This additional position is designated to foster further economic growth in the community and expected to allow the City to review and update its comprehensive plan over the next two years. The table C above illustrates the major staffing changes included in the 2021-2022 adopted budget aside from the EMS transition.

Capital Improvement Program

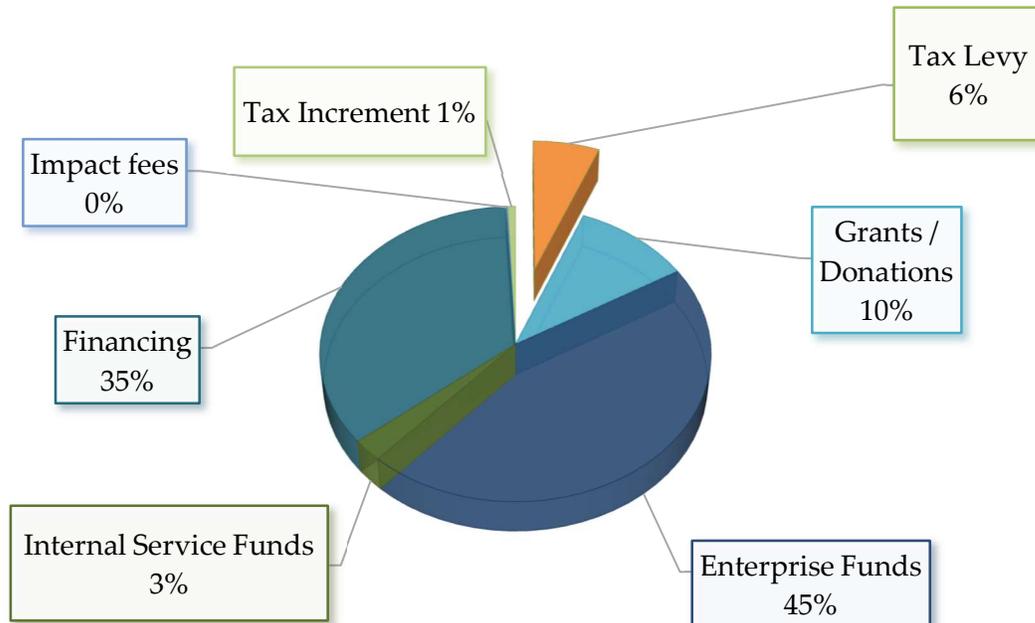
The City has capital improvement funds for projects and for vehicle replacements. The major projects provided in the following table have been funded in the budget based on a adopted 2021 Capital Improvement Plan. Typically, a multiyear capital improvement plan is reviewed and approved by City Council. However, as a direct result of economic uncertainty surrounding the COVID-19 pandemic, a one-year capital improvement plan was prepared and incorporated in to the bi-annual budget. The 2021 adopted capital plan was based on the [2019-2023 Capital](#)

[Improvement Plan](#) approved by the City Council in 2018; as well as the revised 2020 Capital Improvement Plan and input from each department and the Executive Team. An additional four-year plan will be reviewed and approved in 2021. The fiscal plan was used as a base for the for 2022 capital spending to ensure that proper spending was reflected in the 2022 budget. These budgeted amounts will serve as parameters to work from when the Council determines the capital project priorities in 2022 and beyond. The Council will be asked to review and approve projects that exceed \$50,000 even if they are included in the biennial budget.

Capital Improvement Plan 2021		
Capital Projects	2021 Estimated Cost	Funding Source
DeSanctis Park Phase 2	800,000	Borrowing
Electric maintenance projects	655,000	Enterprise Funds
Police Building Design and Construction	450,000	Borrowing
Automated Meter Infrastructure (AMI)	331,000	Enterprise Funds
Water/sewer maintenance projects	308,000	Enterprise Funds
South Wasson Lane Reconstruction - Cascade to Cemetery	210,000	Tax Levy / State of Wisconsin
FERC Licensing and Decommissioning - Powell Falls Dam	175,000	Enterprise Funds
IT Infrastructure and Software	163,500	Internal Service Funds / Enterprise Funds
Golf View Channel	160,000	Grant / Enterprise Funds
Abandon South Lift Station	135,000	Enterprise Funds
Sterling Hill Disc Golf Course	75,000	Donations
Powell Avenue Bridge	60,000	Tax Levy
Sidewalk Infill - 1300 South Main to Wells Park	25,000	Tax Increment District
Improvements to Neighborhood Parks	11,000	Park Impact Fee / Tax Levy
Library Ventilation Design	5,000	Library Fund
Total	3,563,500	
Vehicle Replacement	Cost	
Utility Vehicles	165,000	Enterprise Funds
Fire Safety House Replacement	135,000	Donations
Replacement police vehicle	44,500	Tax Levy
Total	344,500	

Alternative funding sources are used extensively for capital projects, with only six percent of the 2021 projects funded by the annual property tax levy.

CAPITAL PROJECT FUNDING



Allocations, Transfers, and Repayments to General Fund from Other Funds

Cost Allocations

Cost allocations for Human Resources, Administration-Finance, Building Maintenance and Technology Services are included in the 2021-2022 budget. Allocations are based on factors such as number of employees, fund expenses, number of computers and telephones, and square footage. This is a continuation of past practice. For 2021-2022, allocations to the EMS fund were reduced accordingly.

Use of Fund Balance Reserves

The adopted budget includes the use of existing cash on hand when appropriate. No planned use of fund balance is anticipated or budgeted in the General fund for the 2021-2022 fiscal years. Other funds have a budgeted use of fund balance, such as the \$25,400 parking improvement fund, which is a drawdown of parking meter revenues that will be used for parking lot improvements. The total amount of fund balanced use budgeted for the two years is comparable to prior year with exception of the EMS fund. In the previous budget the most significant planned use of fund balance is in the Ambulance fund (\$473,094) which was noted in previous budgets as “not sustainable long term”, with the new agreement with Allina Health, the fund is expected to have an unrestricted fund balance of \$340,000 as of January 1, 2023.

Uses of Fund Balances			
Fund	2021	2022	Projected Fund Balance 1/1/2023
Parking Improvement Fund	(5,200)	(20,200)	36,655
Fire Impact Fee Fund	(38,936)	(11,677)	(57,026)
Library Fund	0	(59,087)	72,155
Storm Water fund	(97,935)	(9,148)	489,704
Information Technology Fund	(77,142)	0	144,786
Business Development / Tourism	(10,831)	(4,866)	(661,353)
Maintenance Fund	0	(21,368)	6,291

The Stormwater Fund is budgeted to use fund balance in 2021 to pay for the Golfview Channel reconstruction. The Library is budgeted to use fund balance in 2022 in the amount of \$59,087. This is a direct result of a projected reduction in county grant funding in 2022. The Library receives funding from both Pierce and St. Croix County under ACT 10 based on circulation of materials. The basis for the funding is on a two-year lag. As such, the reduced circulation in 2020 due to the pandemic will impact the funding received in 2022. There is sufficient fund balance to cover the expected shortfall.

Stabilization Planning

Consistent with the findings of our fiscal plan process, “sinking funds” continue to be a valuable tool and were successfully used for the acquisition of funding for the self-contained breathing apparatus (SCBA) equipment in 2014. Sinking funds are essentially money set aside to pay for large expenses in the future. In the 2021-2022 budget, a sinking fund is again used for the Fire Department’s future purchase of SCBA equipment

Tax Increment Districts (TIDs)

The availability of tax increment financing is one of the major tools used for economic development. As the City expands and establishes more tax increment districts, it becomes imperative to closely monitor and plan the development of each district. One of the major projects completed was to review each district, set development goals and a long-term strategy that ensures the success of each district. Up-to-date information on the City’s tax increment districts is available on the [City website](#).

The current increment value for *Tax Increment District #5* (Whitetail Ridge Corporate Park) is \$27.5

million. The expenditure period for this district has ended, and the revenues received through the termination date will be used to pay project costs and reimburse the General Fund for advances and interest. A portion of the debt service for the Sterling Ponds Corporate Park land purchase is paid from this tax increment district. This district was extended for an additional three years to 2024 in order to fully reimburse the General Fund for previous advances. The current budget includes \$455,272 of General Fund reimbursements monies planned to be used to fund the additional economic development position.

The City approved *Tax Increment District #6* (Spruce Street) in 2005, and the current increment value is \$9.9 million. Projected increment revenues are budgeted at \$186,000 each calendar year. Debt service costs associated with the district in excess of available increment revenues are paid by advances from the General Fund.

Tax Increment District #7 was terminated at the end of 2018.

Tax Increment District #8 was created in 2010 for the area north of Cascade Avenue and west of Main Street. The current increment value is \$3.9 million and recent development in the district will generate an estimated increment of \$65,000 in 2021 and 2022. The district was created with pay-as-you-go financing, with the developer being reimbursed for upfront costs as increments become available. The current development agreement provides reimbursement up to \$486,000 over a 20-year period. Future tax increment revenues are expected to provide funding for the Glen Park bonds issued in 2018.

In 2011, development in the commercial downtown district prompted the establishment of *Tax Increment District #9*. This district borders Walnut Street, Main Street, ½ block south of Cascade Avenue and along Lake George. The district will use future tax increments for funding upgrades to utilities, storm water, and pedestrian trails in the area. The development agreement is a pay-as-you-go arrangement with a maximum increment of \$686,000 returned to the developer. The district has an increment of \$4.1 million with estimated fund revenue of \$70,000, which is the minimum guaranteed payment from the developer.

In 2014, the area encompassing the Sterling Ponds Corporate Park area was approved for *Tax Increment District #10*. Debt service costs for the acquisition of land and construction costs to develop the property are included in the 2019-20 budget. With new development constructed in 2016, the increment of \$24.9 million will provide \$832,00 in revenue in 2021-22.

In 2015, *Tax Increment District #11* was established in the City's Industrial Park. The district was created based on possible development of the seven-acre vacant parcel at the intersection of Mound View and Summit streets. The City is actively pursuing the development of the seven-acre parcel. Increment of \$1.2 million in 2021 and 2022 will provide an estimated \$12,421 in increment revenue in 2021-22.

In 2016, *Tax Increment District #12* was created to encourage development in the Mann Valley

area. The district is approximately five acres on County Road MM near Radio Road. The current increment value is \$2.4 million, and the estimated tax revenue is \$40,000 per year.

Tax Increment District #13 was created in 2018. It is an overlay district which encompasses the vacant lots in the Whitetail Corporate Park that will be able to provide increment revenues for improvements to Paulson Road to the interchange, and also some projects related to Sterling Ponds Corporate Park. Increment of \$263,810 is budgeted for the two-year period of 2021-2022 with increment value of \$12.2 million.

Tax Increment District #14 was created as a partial overlay district in Tax Increment District #7, which is expected to terminate at the end of 2018. This new district is smaller in size and has two housing development projects expected to be completed in 2021. Increment of \$1.6 million in 2021 and 2022 will provide an estimated \$272,646 in increment revenue in 2021-22.

Tax Increment District #15 was created in 2020 and is located at 1300 South Main Street. The TID is currently zoned for and will become a multiple family high density residential development. Borrowing is planned to fund park and neighborhood improvements during the two-year budget.

The 2021-2022 budget includes two new TIDs compared to the prior budget: TID 15 and TID 16. They will contribute \$1 million of improvements to their neighborhoods.

Tax Increment District #16 was created in 2020 and is located near the DeSanctis Park area. The TID encompasses approximately 100 acres which is zoned for a variety of uses. The principal use for a portion of the TID is a multi-family living complex. The budget includes \$800,000 of debt expense related to improvements of the park area.

Fiscal Plan

The City's approved [fiscal plan](#) was adopted in November 2019 for the fiscal years 2020-2024. The fiscal plan uses historical trend data that stems from the City's history of consistent property value growth of one to two percent, as well as known changes in major revenues. The City's share of local government aids from the State of Wisconsin contribute approximately 18 percent of General fund revenues. The fiscal plan assumes a decrease in aid revenue of one percent for each year of the plan. Expenditures are assumed to increase by two percent for salaries and one percent for general operating costs.

The fiscal plan included a net levy of three percent for 2021 and the adopted budget has zero percent net levy.

A comparison of the adopted fiscal plan to the 2021-2022 budget is as follows:

2021-2022 Budget Year			
	Per Fiscal Plan	Adopted Budget	Difference
General Fund	\$9,909,405	\$9,601,015	\$(308,390)
Library Fund	1,705,000	1,705,000	0
Debt Service	2,256,949	2,216,941	(40,008)
Capital Projects	<u>629,600</u>	<u>608,044</u>	<u>(21,556)</u>
Total	\$14,500,954	\$14,131,000	\$(369,954)

CONCLUSION

The current and projected financial impact of the COVID-19 pandemic on the country, the State and the City was fundamental in the 2021-2022 budget development. The impact of the pandemic on the taxpayers was central to the decision to recommend a tax levy tied to the net new construction between the two counties; as the property taxes would then remain flat for the average taxpayer, while allowing the City to still meet the needs of its community and provide the expected level of service.

This budget ordinance approving the 2021 property tax levy will be presented for approval to the City Council on November 10, as well the 2021-2022 biennial budget.

Staff is pleased to present a budget that follows our long-range fiscal strategy, considers current economic climate, maintains investment in our existing infrastructure, and provides a similar level of municipal service as in previous years, with a continued emphasis on long-term financial sustainability.