



REPORT TO VILLAGE BOARD

AGENDA ITEM: Budget Amendment #2 – Adjustment to Debt Service Fund Budget and Other Fund Budgets

MEETING DATE: April 14, 2025

PRESENTING COMMITTEE: APC & Village Board

COMMITTEE CONTACT:

STAFF CONTACT: Interim Finance Director-John Jacobs

REPORT PREPARED BY: Interim Finance Director-John Jacobs

AGENDA ITEM: Budget Amendment #2 – Adjustment to Debt Service Fund Budget and Other Fund Budgets

OBJECTIVES: Identify options to amend the 2025 Debt Service Fund budget for the revenue shortfall in the Debt Service Tax Levy for budget years 2024 and 2025. Also, amend Internal Equipment Replacement Fund budget for downpayment on the cost savings Dump Truck which was approved previously by the Village Board in 2025 for \$140,000 (truck has been ordered), and the final payment for Box/Plow for Truck will appear in the 2026 budget for \$160,000.

ISSUE BACKGROUND/PREVIOUS ACTIONS:

- 2024 adopted budget: The adopted 2024 budget amount for the Tax Levy in the Debt Service Fund was \$193,012, when the actual number should have been \$732,428. (short \$539,416)
- 2025 adopted budget: The adopted 2025 budget amount for the Tax Levy in the Debt Service Fund was \$110,636, when the actual number should have been \$794,578. (short \$683,942)

A 2-year error was made in the assembling of the Debt Service Fund budget for both 2024 and 2025. The amount of the tax levy portion allocated for Debt Service funding had been under-reported and presented to the Village Board for adoption incorrectly in both Nov 2023 and Nov 2024.

All TID (tax increment district) debt payments (for both principal and interest costs) are budgeted and expended in each individual TID fund. The property tax increments received from each TID does pay for the debt payment obligations each year. I verified this information with our financial auditors (CLA), and they confirmed that since 2006, each TID is paying for its own debt obligations. The TID tax increment revenue and the TID debt service costs have all been budgeted and recorded properly in past years, including 2024. The Village's Debt Service Fund only records non-TID and non-utility debt service payments.

The problem occurred when a line appeared that was called “**DUE FROM TID’S**” was inserted into the 2024 budget, and then reoccurred in the 2025 budget as a “revenue line item” in the Debt Service Fund. Since the TID Funds are funding each of their own debt service payments, there would have been no reason for the TID Funds to transfer monies to the Debt Service Fund at all.

Therefore, the Debt Service Fund has a 2024 budgetary revenue item of \$632,307.50 that was never going to materialize. Similarly, the Debt Service Fund has a 2025 budgetary revenue item of \$1,563,285.50 that was never going to materialize either.

In conclusion of the background information, the 2024 Tax Levy for the Debt Service Fund was “understated” by \$539,416 (and never placed on the Dec 2023 property tax bills properly). Similarly, the 2025 Tax Levy for the Debt Service Fund was “understated” by \$683,942 (and never placed on the Dec 2024 property tax bills properly). When I reviewed the 2020 -2023 budget years, the Tax Levy for the Debt Service Fund was correctly shown and budgeted as \$700,000 - \$1,162,002 annually. It is an obvious error that was made in the assembling and presentation to the Village Board for the 2024 and 2025 budget years for the property tax levy necessary for the Debt Service Fund.

The Village has committed to a predetermined debt payment schedule, in which the proper amount of property taxes are to be levied to cover the annual debt service payments for preexisting debt.

PROPOSAL:

- **Solution for the 2024 budget (and 2024 fiscal year audit):** The Village’s 12/31/2023 fund balance for the prior year was \$595,895, and could absorb the \$539,416 tax levy shortfall that occurred in 2024. No further action would be necessary. However, this will bring the Village’s Debt Service Fund balance down to roughly a \$40,000 amount as of 12/31/2024.
- **Solution for the 2025 budget:**
 - Utilize the uncommitted dollars from the 2024B General Obligation Notes that remain for 2025 CIP and TID projects. That uncommitted balance is slightly over \$1.7 million at this present time. We would not halt any of the Kronenwetter Drive or sewer lift station projects that are already on track to be completed during 2025.
 - Utilize some of the present unused budgetary dollars from the 2025 General Fund budget, due to staff vacancies and other cost savings or projects that could be delayed for the remainder of 2025; and instead, the deferred budgetary items would then reappear in the 2026 budget.
- Solutions that are not highly recommended at this time would be:
 - Refinance existing general obligation, to either stretch out the debt service payments to additional years (adding to interest costs) or raising the present interest rates to higher current interest rates.
 - Transfer monies from the General Fund fund balance, because the General Fund is already advancing \$2.5 million to TID #1, and does not have the capacity to transfer any additional funds to another fund at this time.

RECOMMENDED ACTION: Recommend Village Staff to present a combination of options to the Village Board at the 4/14/2025 Board meeting in which to resolve the Debt Service budgetary shortfall of \$683,942 for the 2025 budget, which includes the following:

- General Fund 2025 budgetary savings
 - Move \$100,533 tax levy (TID #1 transfer) to Debt Service Fund
 - Move \$145,000 tax levy (Public Works savings-salt, etc.) to Debt Service Fund
 - Move \$20,000 tax levy (Treasurer savings) to Debt Service Fund
- Eliminate \$200,000 Capital Projects tax levy; move to Debt Service Fund; estimated 12/31/2025 fund balance in Capital Projects Fund = \$835,393 (including \$412,140 of 2024B G.O. Note proceeds which would be unused)
- Eliminate \$86,000 Internal Equipment Replacement Fund tax levy; move to Debt Service Fund; estimated 12/31/2025 fund balance in Equip. Replacement Fund = \$51,589. Capable of transferring funds from Capital Projects Fund during 2026 budget year.
- Transfer a portion of the unutilized borrowing proceeds from the 2024B General Obligation Debt Issue (\$57,000) for the 2025 debt service INTEREST payments for 2024B G.O. Notes. Borrowing funds cannot be used towards PRINCIPAL payments. Transfer \$57,000 from Capital Projects Fund to Debt Service Fund.

- Reduce Expenditure Budget downward by \$469,140 for savings on Kronenwetter Drive project in Capital Projects Fund.
- Reduce Expenditure Budget downward by \$111,775 for not completing other Capital Improvement Road Projects in 2025. **However, \$125,000 would REMAIN in budget for Other Capital Projects in the Capital Projects Fund.**
- Add \$140,000 budget for cost savings for ordering Dump Truck (downpayment for ordering in 2025), previously approved by Village Board in 2025. This would ADD \$140,000 to Internal Equipment Fund Expenditures. **Note: The \$160,000 cost for the Box/Plow for the Dump Truck would be included in the 2026 budget, and approved by the new Village Board in Nov. 2025.**

Since the original 2025 budget was adopted in November 2024 by the present Village Board, then the corrected action needed for the 2025 Debt Service Fund budget should be addressed and resolved by the outgoing Village Board, before the new incoming Village Board members have their first meeting on 4/28/2025.

ATTACHMENTS (describe briefly):

- Pages A-E: 2020-2025 adopted budgets for the Debt Service Fund and the (4) TID Funds.
- Pages F-I: Detailed Debt Payment Schedule – by Type of Issue & by Funding Source. We will focus on the “Debt Service Fund – Tax Levy” schedule of numbers at the meeting. The 2026-2028 budgets require a tax levy of \$778,000-\$800,000 annually. Then the debt payments will begin to decrease to \$551,000 in 2029, and continuing to decrease further in later years, unless future debt is added.
- Page J: 2024 & 2025 Property Tax Levy for the Village (from Village’s 2025 budget)
- Page K: Historical and Future Property Tax Levies for 2011-2024 Budget Years. Please note that the 2021-2024 Debt Service Fund Tax Levies were already known at the time that the 2020 budget was adopted. These annual debt service tax levies were supposed to be in the \$668,665 - \$1,113,193 range for those years of 2021-2024.
- Page L: 2012-2023 Quick Glance data for the Village of Kronenwetter, per the Wisconsin Department of Revenue’s website/dashboard. I will briefly mention the historical trends for the total general obligation debt, total debt service, and general property tax levies from this chart.
- Page M: Historical & Proposed Future Property Tax Levies for 2020-2026 Budget Years (excluding TID’s)
- Page N: Debt Service Fund: 2023-2026
- Page O: Summary of 2024B G.O. Notes – Used of Project Costs
- Page P: General Fund: 2023-2025 Fund Balance & 2025 Original & Proposed Amended Budgets
- Page Q: Capital Projects Fund: 2023-2026
- Page R: Internal Equipment Replacement Fund: 2023-2026