



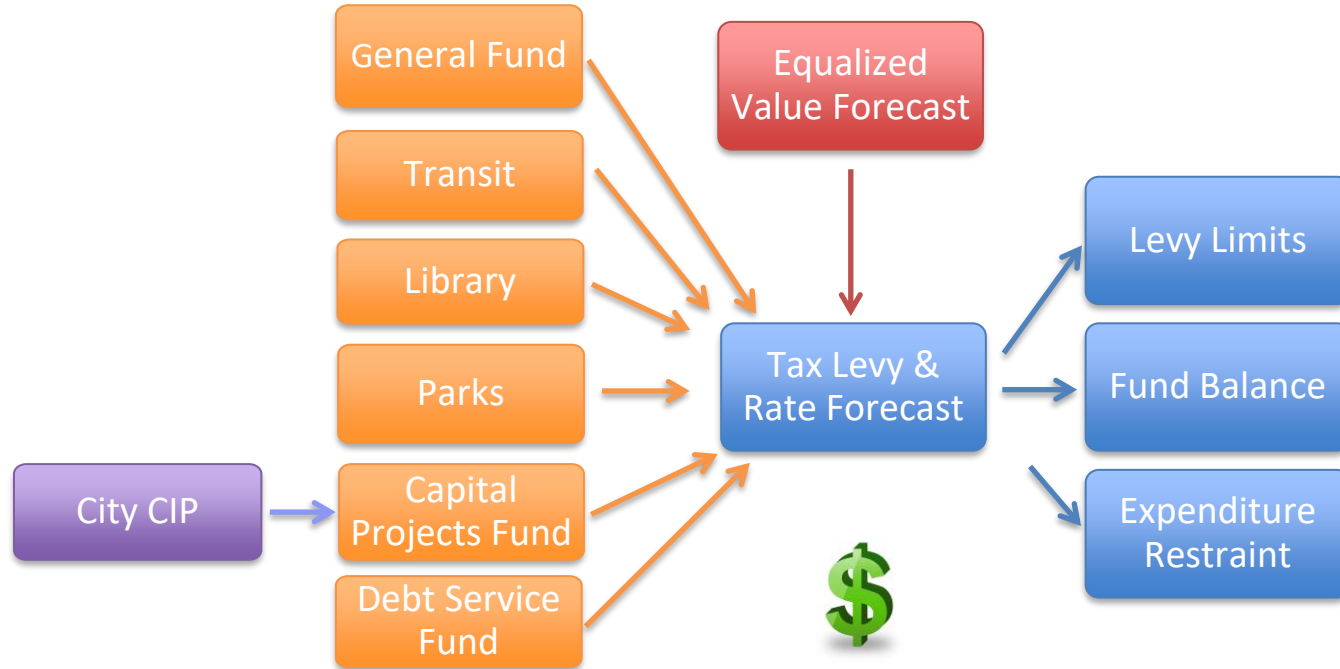
City of Sheboygan
Financial Management Plan - Operating

September 19, 2022

Objectives

- Tax Supported Funds Model Overview
- Long Range Model Goals
- Bond Rating Information
- Operating Fund projections
- Levy Limits & Expenditure Restraint Program
- Overall Impact on Property Taxes
- Summary Comments

FMP Architecture – Tax Supported Funds



Long Range Model Goals

1. Provides an estimate of future tax levy requirements, and associated tax rate, based on a set of assumptions.
2. Supports the political decision-making process regarding service levels, capital spending and financial management.
3. Helps identify potential financial pressure points in advance of their occurrence.

Bond Rating Information

Moody's Rating Methodologies for Local GO

30% Economy/Tax Base

10% Tax Base 10%

10% Full Value Per Capita 10%

10% Wealth (median family income)

30% Finances

10% Fund Balance (% of revenues)

5% Fund Balance Trend (5-year change)

10% Cash Balance (% of revenues)

5% Cash Balance Trend (5-year change)

20% Management

10% Institutional Framework

10% Operating History

20% Debt/Pensions

5% Debt to Full Value

5% Debt to Revenue

5% Moody's-adjusted Net Pension Liability
(3-year average to Full Value)

5% Moody's-adjusted Net Pension Liability
(3-year average) to Revenue

Bond Rating Information (cont.)

March 18, 2022 Credit Opinion

- ASSIGNED RATING = Aa2
- CREDIT STRENGTHS:
 - ✓ Strong financial position
 - ✓ Growing tax base
- CREDIT CHALLENGES:
 - ✓ Elevated fixed costs
 - ✓ Growth in property tax revenue constrained by strict state-imposed revenue limits

Bond Rating Information (cont.)

March 18, 2022 Credit Opinion (cont.)

- WHAT COULD CHANGE THE RATING UP:
 - ✓ Strengthened resident wealth and income
 - ✓ Declines in total leverage
- WHAT COULD CHANGE THE RATING DOWN:
 - ✓ Tax base contraction
 - ✓ Material narrowing of operating reserves

Bond Rating Information (cont.)

RATING FACTORS OF COMPARABLE COMMUNITIES

Municipality	Current Rating	Overall Debt Burden	Direct Debt Burden	Payout, 10-Years	Direct Debt Per Capita	Overall Debt Per Capita	Average Annual Growth FV	Undesignated Gen. Fund % of Total Op. Rev.	% of Exp. for Debt Service	Adj Gross Inc Per Return (2020)	Adj Gross Inc as % of State (2020)	Per Capita Eq. Value (2022)	Eq. Value TID - IN (2022)	Population (2022)	Last update
Sheboygan	Aa2	3.18%	1.82%	77.60%	\$1,249	\$2,184	7.01%	59.10%	10.99%	\$48,248	78.43%	\$77,003	3,860,866,200	50,139	08/29/22
Beloit	A+/A1	4.72%	4.72%	81.55%	\$1,357	\$3,087	8.58%	44.82%	30.77%	\$41,058	66.74%	\$72,202	2,654,129,100	36,760	08/29/22
Fond du Lac	AA-	5.21%	2.37%	99.70%	\$1,778	\$3,912	5.30%	20.55%	16.22%	\$55,631	90.43%	\$83,270	3,703,015,500	44,470	11/10/21
Janesville	AA	3.47%	1.69%	98.59%	\$1,561	\$3,212	6.48%	21.63%	17.25%	\$55,010	89.42%	\$108,689	7,195,842,200	66,206	07/11/22
La Crosse	Aa2	4.36%	3.18%	75.10%	\$2,535	\$3,475	6.00%	29.00%	28.40%	\$50,502	82.09%	\$98,376	5,131,278,800	52,160	08/29/22
Manitowoc	AA-	3.18%	2.68%	87.40%	\$1,798	\$2,137	6.81%	24.93%	24.55%	\$49,191	79.96%	\$77,254	2,682,419,000	34,722	03/28/22
Oshkosh	Aa3	5.65%	3.04%	81.75%	\$2,226	\$4,137	5.89%	35.62%	24.06%	\$50,745	82.49%	\$66,976	4,460,244,100	66,595	08/29/22
Wausau	Aa3	4.05%	2.29%	92.07%	\$1,957	\$3,466	4.66%	29.17%	25.62%	\$57,023	92.69%	\$915,629	36,807,379,001	40,199	04/15/22

Source: Moody's Investor's Service Most Recent Credit Reports & Village or City Audits, State of Wisconsin (DOR)

Bond Rating Information (cont.)

Rating Impact on Interest Rates

Effect of difference between Aa2 rating and A+ rating increase in Interest Rates									
Comparative Sale Information									
(Assuming Current Rates and Sale Occuring in 2022)									
	General Obligation Notes, 2022 Actual Structure					General Obligation Notes, 2021 with A+ Scale			
	\$2,195,000					\$2,195,000			
	Dated 4/13/22					Dated 4/13/22			
YEAR	Prin (4/1)	Yield	Interest	Total	YEAR	Prin (4/1)	Yield	Interest	Total
2022					2021				
2023	270,000	1.300%	60,234	330,234	2022	270,000	1.600%	62,736	332,736
2024	100,000	1.550%	37,980	137,980	2023	100,000	1.700%	39,078	139,078
2025	100,000	1.700%	36,355	136,355	2024	100,000	1.850%	37,303	137,303
2026	250,000	1.800%	33,255	283,255	2025	250,000	1.900%	34,003	284,003
2027	230,000	1.900%	28,820	258,820	2026	230,000	2.000%	29,328	259,328
2028	245,000	2.000%	24,185	269,185	2027	245,000	2.050%	24,516	269,516
2029	220,000	2.100%	19,425	239,425	2028	220,000	2.100%	19,695	239,695
2030	270,000	2.150%	14,213	284,213	2029	270,000	2.150%	14,483	284,483
2031	330,000	2.200%	7,680	337,680	2030	330,000	2.200%	7,950	337,950
2032	180,000	2.250%	2,025	182,025	2031	180,000	2.400%	2,160	182,160
TOTALS	2,195,000		264,171	2,459,171	TOTALS	2,195,000		271,250	2,466,250
Additional Interest Expense									7,079
Note: Compared the City's 2022 borrowing interest rates to an "A+" rated issue near to the date of the City's sale.									

- The impact of the Bond Rating is more meaningful with larger par amounts of debt issues.
- The City's issue was smaller which did not produce a large savings.

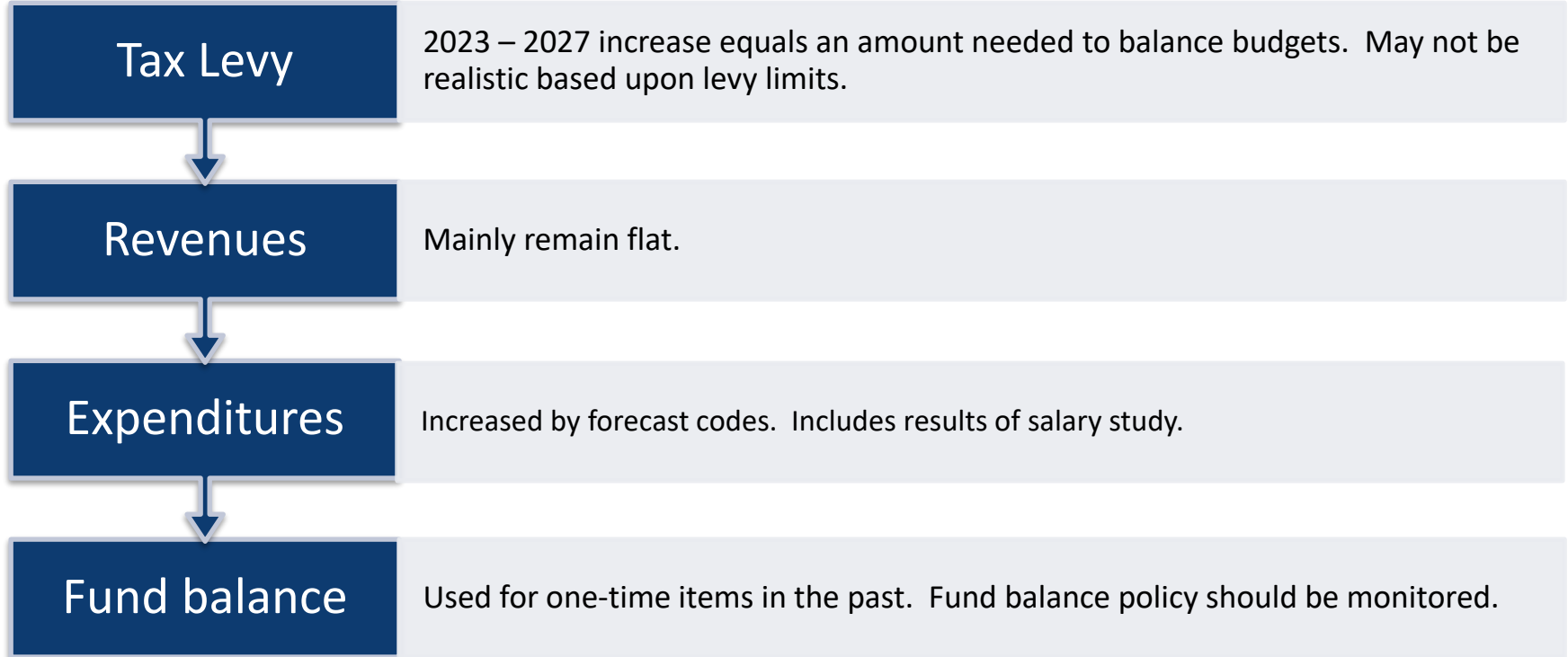
Equalized Value Projections

Valuation Year	TID Increment	TID Out		TID In		Net New Construction
		Equalized Value	Percent Change	Equalized Value	Percent Change	Percent
Historical	5 - Average		7.63%		8.14%	1.590%
2018	154,240,200	2,655,662,300	6.52%	2,809,902,500	7.26%	0.440%
2019	189,986,000	2,729,253,300	2.77%	2,919,239,300	3.89%	0.335%
2020	218,417,200	3,080,099,100	12.86%	3,298,516,300	12.99%	2.886%
2021	267,971,500	3,156,346,500	2.48%	3,424,318,000	3.81%	2.908%
2022	276,931,500	3,583,934,700	13.55%	3,860,866,200	12.75%	1.380%
Projected						
2023		3,665,651,894	2.28%	3,938,083,524	2.00%	1.250%
2024		3,914,143,232	6.78%	4,016,845,194	2.00%	1.250%
2025		3,992,426,097	2.00%	4,097,182,098	2.00%	1.250%
2026		4,072,274,618	2.00%	4,179,125,740	2.00%	1.250%
2027		4,153,720,111	2.00%	4,262,708,255	2.00%	1.250%
2028		4,236,794,513	2.00%	4,347,962,420	2.00%	1.250%
2029		4,321,530,403	2.00%	4,434,921,669	2.00%	1.250%
2030		4,407,961,011	2.00%	4,523,620,102	2.00%	1.250%
2031		4,496,120,232	2.00%	4,614,092,504	2.00%	1.250%

Includes 2023
closure of TID 15.

Includes 2024
closures of TID 6,
10, 12, 13 and 14.

Operating Fund Projection Methodology



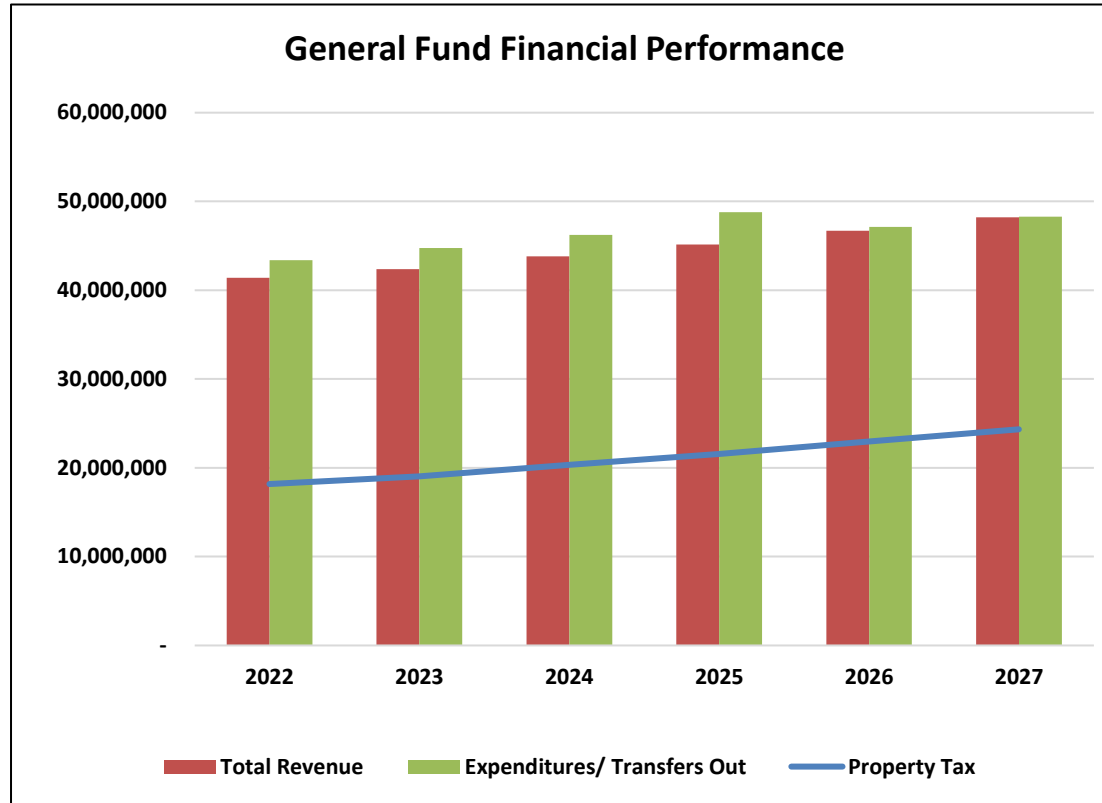
Operating Fund Forecast Codes

CODE	DEFINITION	EXPLANATION	FORECASTED INCREASE
A	Average	Sets the value in all five years of the forecast period to the average of the prior five year's values.	
C	Commodities	Operating supplies	5.00%
E	Employee Finges	Dental, life, and disability insurance	5.00%
G	Gas & Oil	Motor Fuel	5.00%
H	Health Insurance	Health insurance	5.00%
I	Insurance	Property, Liability, Worker's Compensation	5.00%
IT	IT Services	IT Services	6.00%
L	Last	Sets the value in all five years of the forecast period to the value in the most recent budget or actual column.	
M	Manual	Manual Entry	
S	Services	Professional services, training & travel, dues and subscriptions	3.00%
U	Utilities	Utilities - Water, Sewer, Electric, Telecommunications	5.00%
W	Wages	Salaries, Wages, payroll taxes, retirement	2.50%
Z	Zero	Sets the value in the forecast period to zero.	

Operating Fund Forecast – General Fund

	2021 ACTUAL	2022 PROJECTED	2023 PROJECTED	2024 PROJECTED	2025 PROJECTED	2026 PROJECTED	2027 PROJECTED
REVENUE							
Local property taxes	\$ 17,988,351	\$ 18,183,520	\$ 19,016,631	\$ 20,330,783	\$ 21,548,332	\$ 22,948,442	\$ 24,331,246
Other taxes	203,523	229,023	229,023	229,023	229,023	229,023	229,023
Intergovernmental revenues	14,530,157	14,989,938	14,995,288	15,000,756	15,006,343	15,012,055	15,017,892
Licenses and permits	976,240	986,360	986,360	986,360	986,360	986,360	986,360
Fines and forfeitures	1,178,271	996,000	1,032,250	1,070,313	1,110,278	1,152,242	1,196,304
Public charges for service	2,804,031	2,872,557	2,937,557	3,005,807	3,077,470	3,152,715	3,231,723
Intergovernmental charges for service	303,160	303,160	303,410	303,673	303,948	304,238	304,541
Miscellaneous	448,351	320,060	320,165	320,275	320,391	320,513	320,640
Transfers in (includes PILOT)	2,452,321	2,523,804	2,550,804	2,578,344	2,578,344	2,578,344	2,578,344
TOTAL REVENUE	40,884,405	41,404,422	42,371,488	43,825,334	45,160,489	46,683,932	48,196,073
EXPENDITURES							
General Government	5,049,232	5,440,911	4,747,178	4,968,676	5,047,529	5,269,434	5,432,993
Public Safety	23,966,154	24,085,365	24,585,167	25,372,934	26,163,613	26,981,720	27,828,320
Public Works	8,810,010	8,826,745	9,046,877	9,354,113	9,675,938	10,010,017	10,356,862
Health & Human Services	207,298	207,742	213,616	219,721	226,262	233,013	239,981
Culture, Recreation & Education	3,008,351	2,772,969	2,836,904	2,927,765	3,023,731	3,123,169	3,226,219
Conservation and Development	377,430	361,801	371,306	383,597	395,397	407,593	420,197
Capital Outlay	535,000	535,000	561,750	589,838	619,329	650,296	682,811
Transfers out	8,030	1,153,690	2,370,190	2,401,690	3,641,690	457,690	106,690
TOTAL EXPENDITURES	41,961,505	43,384,223	44,732,988	46,218,334	48,793,489	47,132,932	48,294,073
Percentage change	9.90%	3.39%	3.11%	3.32%	5.57%	-3.40%	2.46%
Net Change	(1,077,100)	(1,979,801)	(2,361,500)	(2,393,000)	(3,633,000)	(449,000)	(98,000)
FUND BALANCE							
BEGINNING FUND BALANCE	22,843,609	21,766,509	19,786,708	17,425,208	15,032,208	11,399,208	10,950,208
YEAR END BALANCE	\$ 21,766,509	\$ 19,786,708	\$ 17,425,208	\$ 15,032,208	\$ 11,399,208	\$ 10,950,208	\$ 10,852,208
COMPONENTS OF FUND BALANCE							
NONSPENDABLE	\$ 2,393,045	\$ 1,962,486	\$ 2,485,228	\$ 2,770,462	\$ 2,994,068	\$ 2,807,319	\$ 2,752,934
COMMITTED	350,000	350,000	350,000	350,000	350,000	350,000	350,000
ASSIGNED (includes working capital)	5,745,000	5,495,000	5,495,000	5,495,000	5,495,000	5,495,000	5,495,000
UNASSIGNED	13,278,464	11,979,222	9,094,980	6,416,746	2,560,140	2,297,889	2,254,274
TOTAL FUND BALANCE	\$ 21,766,509	\$ 19,786,708	\$ 17,425,208	\$ 15,032,208	\$ 11,399,208	\$ 10,950,208	\$ 10,852,208
Percentage change in levy	8.32%	1.08%	4.58%	6.91%	5.99%	6.50%	6.03%
Unassigned fund balance as a % of expenditures (25% Policy)	31%	27%	20%	13%	5%	5%	5%
Excess funds above policy available to transfer to capital		1,133,166	(2,088,267)	(5,137,838)	(9,638,232)	(9,485,344)	(9,819,244)

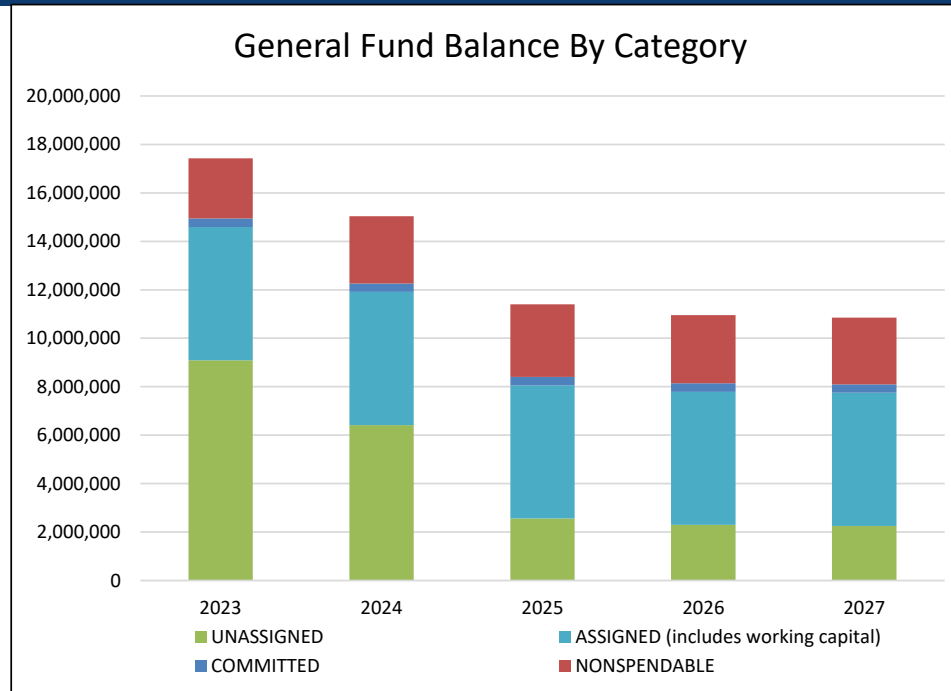
Operating Fund Forecast – General Fund Results



Fund Balance

Unrestricted	Category	Description	Controlled by	Examples
	Nonspendable	Not in spendable form	Nature of asset, or legal requirement	Inventories, pre-paid amounts & land
	Restricted	May only be spent for the purpose for which restricted	Creditor or grantors, applicable laws & regulations	Debt service funds, grant funds, impact fees
	Committed	Funds the municipality has committed for a specific purpose	Governing body must act to commit or un-commit funds	A capital project under contract
	Assigned	Funds the municipality intends to use for specific purposes	Governing body or designee	Future capital projects or equipment purchases
	Unassigned	All other funds not otherwise designated	Governing body or designee	Funds held as working capital and for emergencies

General Fund Unassigned fund balance as % of expenditures



The operating projection assumes the property tax levy balances the budget. However, the City's CIP has planned usage of the fund balance that will take the fund balance out of compliance with the fund balance policy.

Fund Balance: Uses



Provide working capital & address cash flow needs



Cover unanticipated revenue shortfalls or cost overruns



Pay emergency expenses



Fund future capital projects or equipment purchases



Payoff debt service, debt reduction



Fund limited duration programs or non-recurring expenditures

Levy Limits “At-a-Glance”

- Current limit (Sec. 66.0602, Wis. Stats.):

The prior year’s actual levy may be increased by a percentage equal to net new construction in the preceding year (or zero, if none)

- ✓ Subject to numerous adjustments that may reduce or increase allowable levy. Most common is Adjustment E which allows the addition of General Obligation principal and interest payments.
- ✓ Other adjustments exist, but mostly not applicable to the City
- ✓ Provides no flexibility for inflation

Current levy limit parameters

2019 Net New Construction 0.335%

- Allowable levy increase \$68,343

2020 Net New Construction 2.886%

- Allowable levy increase \$590,706

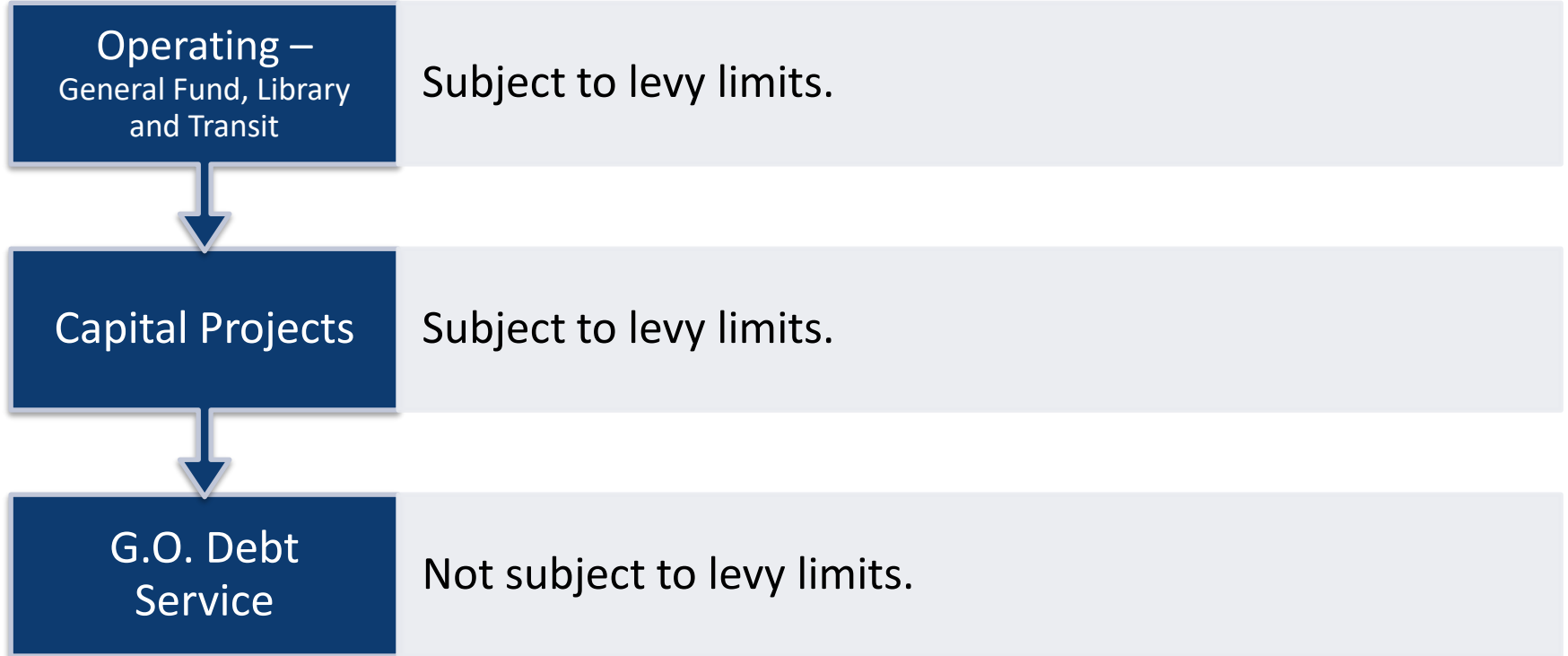
2021 Net New Construction 2.908%

- Allowable levy increase \$615,775

2022 Net new construction 1.382%

- Allowable levy increase \$362,080

City Levy Components



Levy Limits (cont.)

Operating Section

Debt Adjustment

Maximum Levy

2023 Levy Limit Information (2022 Tax Roll)

2022 Levy	25,967,449	
Add: Personal Property Aid	113,961	
Less: 2022 debt adjustment (Adjustment E)	(4,230,335)	
Based number for levy limit calculation	<u>21,851,075</u>	A

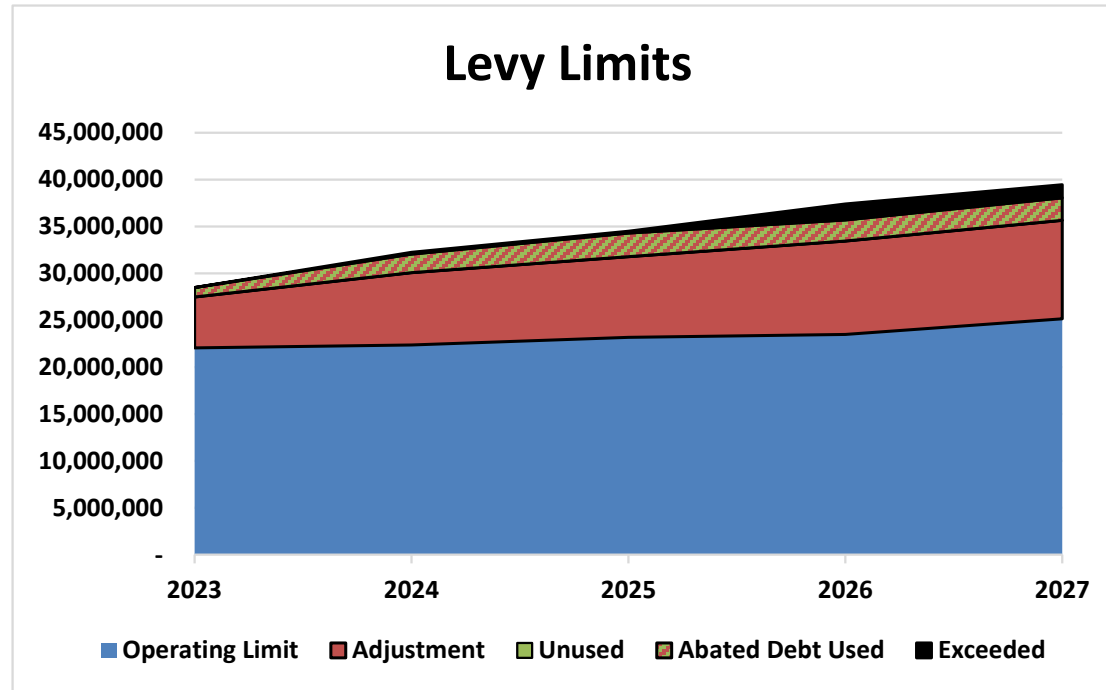
2023 Net New Construction per DOR 1.382%

Allowed increase in tax levy	<u>301,982</u>	B
Total Levy	22,153,057	A + B
Less estimated Personal Property Aid	<u>(113,961)</u>	
Total Operating Property Tax Levy Revenue	<u>22,039,096</u>	

General Obligation Debt Funded by the Levy 4,457,606

Maximum Property Tax Levy for 2023 26,496,702

Levy Limit - Projection





Expenditure Restraint “At-a-Glance”

- Current limit (Sec. 79.05, Wis. Stats.):

General Fund expenditures may be increased by a percentage which includes a combination of the Consumer's Price Index (CPI) plus 60% of the City's Net New Construction (NNC)

- ✓ Expenditures include the General Fund expenditures plus transfers out to other funds (includes levy's shown in other City funds)
- ✓ Some adjustments are available but are mostly not applicable to the City

Expenditure Restraint Compliance

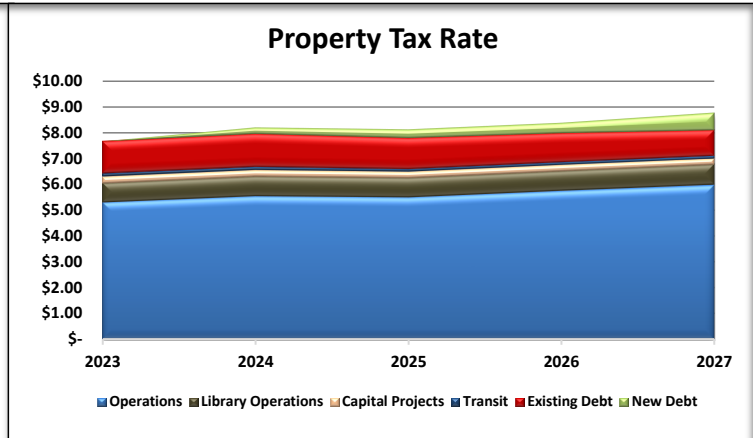
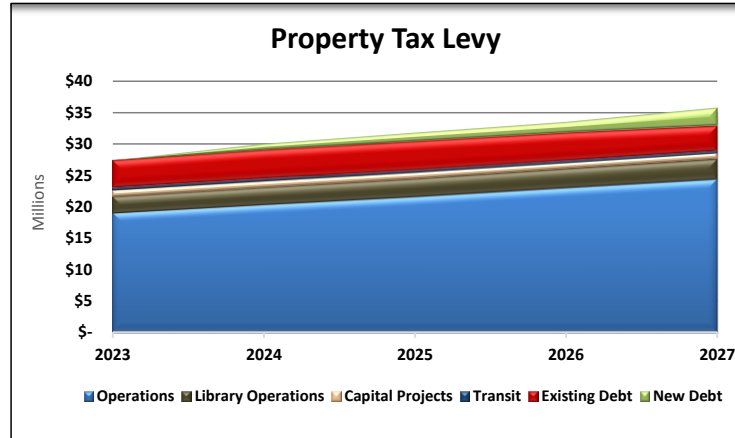
							
Expenditure Restraint Budget Worksheet							
CPI allowable amount per DOR			3.00%	3.00%	3.00%	3.00%	3.00%
Net new construction factor			0.80%	0.80%	0.80%	0.80%	0.80%
Total (Rounded up)			3.8%	3.8%	3.8%	3.8%	3.8%
General Fund Expenditure Budget		Budget Year					
		2022	2023	2024	2025	2026	2027
Budget Comparison							
1	Total general fund budget expenditures (s. 65.90)(include general fund transfers out to other funds)	50,511,811	53,195,108	55,953,093	59,033,507	57,627,492	59,617,849
2	Subtract long-term debt principal and interest payments in general fund budget (include general fund transfers out to debt service fund)	(3,851,052)	(4,385,571)	(5,531,741)	(5,905,755)	(6,024,076)	(6,711,886)
7	Net general fund operating budget expenditures	\$46,660,759	\$48,809,537	\$50,421,352	\$53,127,752	\$51,603,416	\$52,905,963
Budget Adjustments for Transfer of Services							
10	Adjusted general fund budget expenditures	\$46,660,759	\$48,809,537	\$50,421,352	\$53,127,752	\$51,603,416	\$52,905,963
Budget Change Calculation							
11	Adjusted general fund budget expenditures current year		48,809,537	50,421,352	53,127,752	51,603,416	52,905,963
12	Adjusted general fund budget expenditures prior year		46,660,759	48,809,537	50,421,352	53,127,752	51,603,416
13	General fund budget dollar change		2,148,778	1,611,815	2,706,400	(1,524,336)	1,302,547
14	General fund budget percentage change		4.6%	3.3%	5.4%	-2.9%	2.5%
The general fund budget percentage change must be less than this percent to qualify for a payment			3.8%	3.8%	3.8%	3.8%	3.8%

Overall Impact on Property Taxes



Financial Management Plan Impact on Property Tax Levy and Tax Rate

Year	Operations		Library		Capital Projects ¹		Transit		Existing Debt		New Debt		Total	
2023	\$ 19,016,631	\$ 5.31	\$ 2,700,936	\$ 0.75	\$ 925,000	\$ 0.26	\$ 450,613	\$ 0.13	\$ 4,385,571	\$ 1.22	\$ 0	\$ 0	\$ 27,478,751	\$ 7.67
2024	20,330,783	5.55	2,827,405	0.77	925,000	0.25	450,613	0.12	4,618,910	1.26	912,831	0.25	30,065,542	8.20
2025	21,548,332	5.51	2,958,650	0.76	925,000	0.24	450,613	0.12	4,629,019	1.18	1,276,736	0.33	31,788,350	8.12 ²
2026	22,948,442	5.75	3,094,871	0.78	925,000	0.23	450,613	0.11	4,433,426	1.11	1,590,650	0.40	33,443,002	8.38
2027	24,331,246	5.97	3,236,277	0.79	925,000	0.23	450,613	0.11	4,005,800	0.98	2,706,086	0.66	35,655,022	8.76



¹ - Includes Capital Project and Parks

² - The drop in the tax rate for 2025 is associated with the closure of TID 6, 10, 12, 13 and 14.

What Might Change the Projection

- Increased value growth rates
- Inflation
- Cost of retaining employees
- Timing of TID closures
- Increased state funding
- Adoption or implementation of alternative revenue methods
- Increased infrastructure maintenance needs

Comments and Possible Future Actions

- The current use of fund balance to fund Capital Projects may not be sustainable.
- Consider updating the General Fund fund balance policy to dictate when available amounts can be transferred to fund one-time expenditures.
- Consider budgeting Expenditure Restraint program revenues in the Capital Projects fund to eliminate a future General Fund revenue hole created by not qualifying.
- Continue to promote economic development, as any increase in net new construction allows for increase in the levy without a tax increase to existing taxpayers.

Comments and Possible Future Actions

- Annually review policies to evaluate whether they fit with the current financial environment and adjust when necessary.
- Continue long range planning to determine financial pressures and provide time to address them.

Potential Solutions to Comply with Levy Limits

- Possible Annual Budget Changes
 - ✓ Annual budget process
 - ✓ Eliminate any operating fund contingency
 - ✓ Eliminate operating fund capital items, if any.
- Alternative Revenues
 - ✓ Wheel Tax
 - ✓ Street Light General Fund Electricity Bill fee. Sometimes called a Street Light Utility
 - ✓ Transportation Utility (going through courts now)

Potential Solutions

- Review of Services
 - ✓ Prioritize services and cut services funded by the levy
- Levy Limit Referendum

Questions?
