

To: Finance Committee
From: Mark Stevens
Date: August 3, 2023
RE: Supplemental Shared Revenue

The City of Watertown will be issued approximately \$712,000 additional in WI shared revenue starting next year. As the sales tax revenue grows in future years, this amount will grow accordingly. This is a momentous occasion, not likely to ever be repeated with such an impact on our annual budgeting process. **In preparation for the creation of the 2024 budget, the input of the full council is encouraged as part of Monday evening's finance committee meeting.**

I am providing a few thoughts for your consideration.

Highlights from the League of WI Municipalities' Summary of WI Act 12

- An increase of nearly \$275 million in county and municipal aid
- \$300 million in one-time grants for service consolidation
- Increases in police training and EMS funding
- Expenditure Restraint Program (ERP) "penalty" for police, fire and EMS grants removed

SUSTAINABLE: Tied to the economy via the sales tax

GROWING: Future county and municipal aid increases based on estimated increases in sales tax revenue

Details

- Beginning July 1, 2024, a full penny of sales tax goes into a segregated local government fund.
- Beginning July 1, 2024, annual county and municipal aid increases \$275 million with inflationary supplemental payments.
 - New funds may be utilized for: **law enforcement, fire protection, emergency medical services, emergency response communication, public works, courts, and transportation.** [Stevens note: We have sought input from League staff and believe that, as long as the budgets in these eligible areas total at least the increase in shared revenue, the funds can be distributed throughout the budget.]
- All communities will see at least a 20% increase over current municipal aid except Milwaukee which receives 10% and the local sales tax authority.
- New supplemental aid formula designed to compress per capita differences between governments.
- Future percentage increases in sales tax revenue will be applied to both existing and supplemental aids.
- Complete repeal of personal property tax, with state backfilling lost revenue
- Expenditure Restraint Program continues with the following revisions:
 - grants for public safety received from the state or federal government, or innovation fund grants do not count as part of municipal budget.
 - Milwaukee sales tax revenue does not count as part of the municipal budget.
 - ERP payments in 2025 same as 2024; base adjusted in 2026 to include shared revenue supplemental.



2024 Personnel Costs:

- 66% of our General Fund is spent on compensation costs (wages, required benefits, insurance benefits)
 - A 1% increase in wages is an investment of \$158,000
 - Our HR consultant has provided marketplace benchmarks and recommendation:
 - ✓ Continued tightness of labor market: many private sector employers have increased their wages much more quickly (and dramatically) than their public sector counterparts in 2022 and 2023.
 - ✓ Organizations with formal salary systems would be well-advised to ensure that they are functioning as designed.
 - ✓ Recommendation for structural increase: plan for a range of 3.0% to 3.5%
 - ✓ Recommendation for merit/other increase: range of an additional 1.0% to 2.0%
 - ✓ Total pay budgets can be expected to be in the range of 4.0% to 5.0%
 - ✓ Carlson Dettmann study: planned 2023 structure increases for non-exempt employees were at about 3.1% in both public and private sectors.
 - ✓ WorldatWork study: Salary increase budgets (general COLA, merit, and other) in the U.S. rose to 4.1% in 2022, a twenty-year high and much larger than the average 3.3% increase from a year ago.
 - ✓ Bureau of Labor Statistics CPI: The all items index increased 3.0 percent for the 12 months ending June; this was the smallest 12-month increase since the period ending March 2021.
 - ✓ PayScale Compensation Best Practices Report: More organizations plan on giving base pay increases ranging from 4-5% in 2023 relative to 2022. Similar to 2022, a majority of organizations in 2023 plan on giving more than 3% average base pay increases.
 - Both fire and police union contracts renew this year; wage increases will be necessary to aid recruitment efforts
 - There are requests for two full-time (fire deputy chief, park program manager) and two part-time (HR assistant; Building, Safety, Zoning clerk/typist) additions to staff
 - WRS, the State's retirement system, has released next year's rates: increase of .1% for non-union (to 6.9%), 1.1% increase for police (to 14.3%), and 1% increase for fire (to 19.1%)
 - The State has recently released notice that the average health plan premiums will increase 6%
 - Our dental insurance has provided good news of no rate change for 2024
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Watertown has always participated in the WI **Expenditure Restraint Program**, a state incentive that limits the net increase in one year's overall general fund spending in a formula that closely ties to the 12-month increase of the federal CPI released each August. Staying under a maximum increase provides an annual state award of approximately \$450,000-\$490,000 (depends on participation levels of other cities, towns, villages). As all know, last year's CPI was high. Our increase was 5.36%, well below our maximum of 8.0%.

The shared revenue windfall to municipalities would effectively eliminate all participants in staying under the calculated maximum increase, so as part of Act 12, all municipalities will be provided a waiver to the maximum formula. The 2025 allocation will match the 2024 distributions. I will still be required to submit an annual application so that a new base budget amount is reset into the future year's calculation. Although I'm not advocating a carefree spending increase, consideration should be given to a strategic leveraging of an increase in our budget with an offset against our fund balance to lessen a tax levy increase.

General Fund - Fund Balance

Projected 12/31/23 fund balance: \$6,972,945

Minus restricted allocations \$1,588,665

Total unassigned projection: \$5,384,280

Annual budget \$19,357,439

Percentage (Fnd Bal / Bdgt): 28%

Target range: 20% - 30%

Specific target: 25% (\$544,920 available)