



January 4, 2016

To the Honorable James A. Brunnquell, Village President, and  
Members of the Board of Trustees:

Transmitted herein is the Village of Grafton's 2016 Annual Program Budget for the fiscal year beginning January 1, 2016.

The Annual Program Budget represents one of the most important document presented to and approved by the Village Board. It establishes an operational and financial plan for the delivery of Village services and implementation of the Village capital improvement program consistent with the annually updated Strategic Plan. In today's economic climate, each governmental agency whether local, state, or federal functions with a unique set of challenges and circumstances based on its past decision, financial conditions, and expectations from constituents. This budget seek to balance the needs for community services with equally important need to maintain financial stability.

### **2016 Budget Summary**

The 2016 Annual Program Budget represents the funding of the Village's strategic roadmap to the future. This budget is more than just revenues, expenses, appropriations, and projects. It serves four basic purposes:

- It is a policy document that is defined by the Village Board as the direction toward which the Village is moving.
- It is a financial plan that defines the various sources of funds to be collected as well as the services, programs, and activities that citizens can expect to be provided.
- It is an operational guide for department directors on how programs and activities are structured.
- It is a communication device providing the public and other entities with a document defined in a layperson's language as opposed to the old governmental financial numbers format.

### **Addressing the Challenge**

The 2016 Annual Program Budget is affected by limited local economic growth, especially for single family residential development, and as a result, limited property tax levy increase to fund its 2016 budget. These factors are the result of a continued sluggish state and county economy.

As of January 1, 2015, value of new construction during the previous 12 months was \$22.6 million – approximately 2 percent of the Village's valuation. Consequently, the Village (by State law) is allowed to increase the property tax levy to fund 2016 operations and capital expenditures by \$146,991. Property taxes are the Village's number 1 revenue source.

On a related note, many categories of development-related revenues experienced a drop in 2015 or are projected to drop in 2016. Due to existing debt service on past constructed municipal facilities or infrastructure projects in anticipation of or as an enticement for development, incremental taxes and development-related impact fees are not sufficient to meet annual obligations. As a result, related fund balances of several funds remains low or negative.

For 2016, the Annual Program Budget allocates 100 percent (\$146,991) of the additional Property Taxes paid by property owners of newly constructed development and four percent (\$212,265) of Property Tax Levy previously allocated to the General Fund be assigned to the Capital Improvement Funds for a total increase of \$359,256. All of this additional Property Tax Levy is placed in the Capital Projects Fund and used as a Long Term Advance to TID No. 3 (Downtown Redevelopment). Long Term Advance to TID No. 3 is needed to assist TID No. 3 in paying its 2016 debt service.

The Village Board, earlier this year, reapproved its comprehensive Long-Term Financial Plan (LTFP). The 2016 Annual Program Budget meets or exceeds the LTFP. One future goal of the LTFP is for the development of a 5-Year budget forecast which is anticipated to be accomplished in 2016.

### Budget Overview

The 2016 Annual Program Budget which includes monies for both operating and capital purposes totals \$28,146,155. This amount represents an increase of \$1,910,456 or 7.28 percent from the prior year. With the exception of the Proprietary Fund, expenditures are proposed to increase in all fund categories: General, Special Revenue, Debt Service, Fiduciary, and Capital Improvement. The largest fund expenditure change is the Capital Improvement Funds with a \$1,470,696 or 20.71 percent increase in comparison to 2015.

The following table presents a summary breakdown of budgets by fund.

Budget Summary				
	2015 Adopted	2016 Adopted	Dollar Change	Percent Change
<b>General Fund</b>	\$8,850,699	\$8,978,149	\$127,450	1.44%
<b>Special Revenue Funds</b>	\$2,200,795	\$2,549,427	\$348,632	15.84%
Library Fund	\$683,672	\$691,913	\$8,241	1.21%
Park and Open Space Fund	\$100,000	\$85,000	(\$15,000)	(15.00%)
Revolving Loan Fund	\$6,620	\$4,500	(\$2,120)	(32.02%)
Woodlawn Cemetery Capital Fund	\$0	\$0	\$0	0%
Park and Recreational Facilities Fund	\$123,800	\$122,225	(\$1,075)	(0.87%)
Room Tax Fund	\$200,836	\$207,036	\$6,200	3.09%
Fire Protection and Rescue Fund	\$807,684	\$1,140,720	\$333,036	41.12%
Environmental Fund	\$72,772	\$70,830	(\$1,942)	(2.67%)
Aquatics Fund	\$139,740	\$141,019	\$1,279	0.92%
Recreation Fund	\$65,671	\$86,184	\$20,513	31.24%
<b>Debt Service Funds</b>	\$4,167,677	\$4,182,825	\$15,148	0.36%
Debt Service Fund	\$3,831,190	\$3,851,227	\$20,037	0.52%
Impact Fee Fund	\$336,487	\$331,598	(\$4,889)	(1.45%)
<b>Fiduciary Fund</b>	\$185	\$190	\$5	2.70%

Proprietary Fund	\$3,915,804	\$3,864,329	(\$51,475)	(1.31%)
Capital Improvement Funds	\$7,100,539	\$8,571,235	\$1,470,696	20.71%
Capital Projects Fund	\$1,490,631	\$2,357,716	\$867,085	58.17%
Equipment Fund	\$356,550	\$360,800	\$4,250	1.12%
Fire Department Equipment Fund	\$122,000	\$1,009,500	\$887,500	827.46%
TID No. 2 – Business Park	\$458,303	\$385,427	(\$72,876)	(15.90%)
TID No. 3 – Downtown Redevelopment	\$2,916,119	\$2,573,897	(\$342,222)	(11.74%)
TID No. 4 – South Commercial District	\$862,095	\$885,925	\$23,830	2.76%
TID No. 5 – Grafton Commons	\$894,841	\$997,970	\$103,129	11.52%
<b>Total Financial Plan</b>	<b>\$26,235,699</b>	<b>\$28,149,155</b>	<b>\$1,910,456</b>	<b>7.28%</b>

In the Village's largest fund - General Fund, an approximate 1.44 percent increase is appropriated.

Regarding personnel, the 2016 Annual Program Budget identifies no change in the number of positions from the 2015 Estimated Budget.

### **Capital Expenditures and Capital Improvement Projects Highlights**

The approved 5-year Capital Improvement Program was the foundation for the consideration of the 2016 Annual Program Budget's list of approved expenditures and improvement projects.

The following are some highlights:

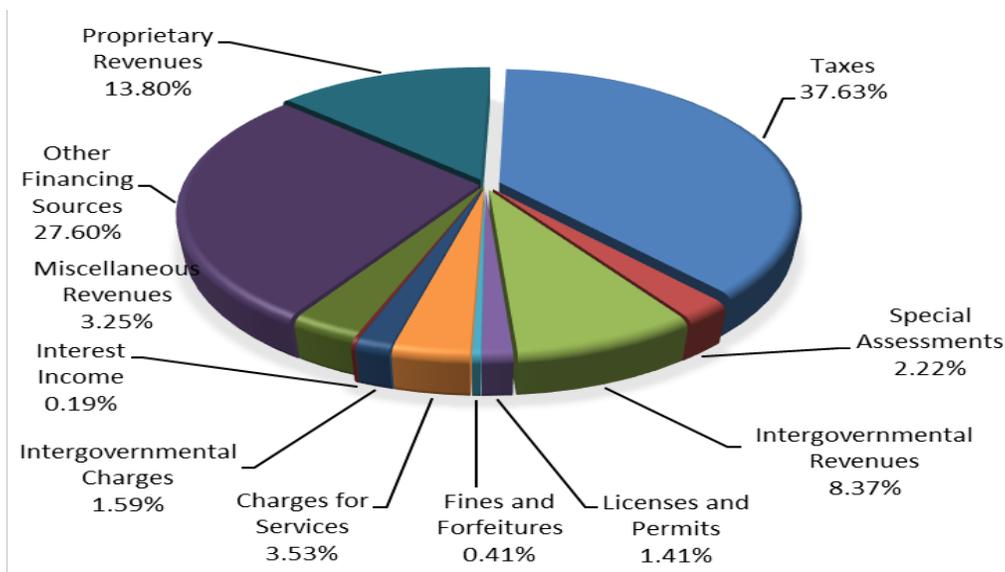
- \$1,892,950 for the construction of the new River Bend Road lift station and forcemain which will replace the Falls Road and Blackhawk Valley lift stations, and will also serve new east-side development.
- \$622,300 for the installation of replacement water and sewer main in Seventh Avenue from Washington Street to Spring Street in conjunction with the street improvement project.
- \$621,967 for the Seventh Avenue from Beech Street to Wisconsin Avenue projects including \$430,000 for the construction of a relief stormwater line to accommodate existing and planned downtown development and \$191,967 for the mill and repave of Seventh Avenue.
- \$446,875 for the extension of the Milwaukee River walk and shoreline stabilization in Veterans Memorial Park.
- \$421,070 for the installation of replacement of water and sewer main in Ninth Avenue Washington Street to Spring Street.
- \$337,700 for the installation of replacement water main in Seventh Avenue from Beech Street to Wisconsin Avenue.
- \$233,400 for the installation of replacement water and sewer main in Beech Street from First Avenue to Second Avenue.
- \$700,000 for the reconstruction of River Bend Road from Wichita Lane to 300 feet east of Yuma Street, a joint project with the Town of Grafton.
- \$214,700 for the construction of River Bend Road interceptor sewer which will be constructed at the time of the River Bend Road lift station.
- \$191,967 for the mill and repave of approximately 1,300 feet in Seventh Avenue from Washington Street to North Street. Project includes storm sewer repairs and curb and gutter repairs.
- \$85,647 for the mill and repave of approximately 580 feet in Ninth Avenue from Washington Street to Spring Street. Project includes storm sewer repairs and curb and gutter repairs.

## Income/Outgo

The following pie charts represent the Village's income and outgo. Revenues are grouped by major category; expenditures are shown by program area and by type of expenditure.

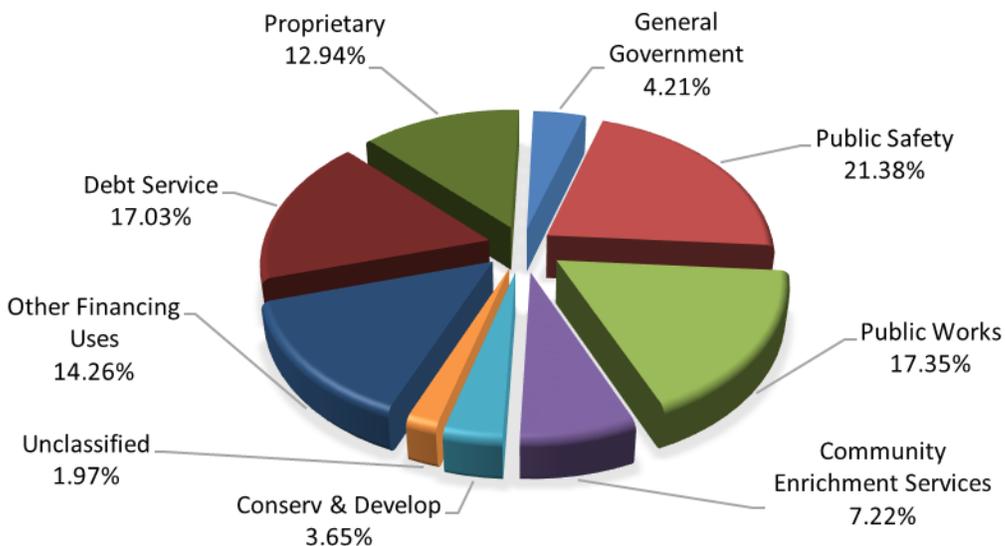
Of the 2016 revenues (Source of Funds) as identified on the pie chart below, Taxes representing 37.63 percent which is the largest revenue source. The second largest category – Other Financing Sources, which includes transfers between funds and bond proceeds, represents 27.60 percent.

### Where the Money Come From by Source of Funds



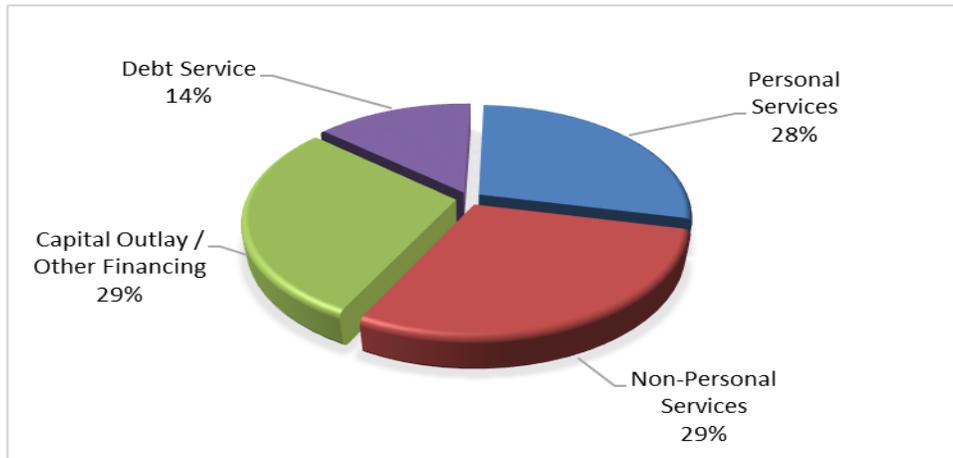
The chart below depicts the breakdown of Village expenditures and how the money is spent by program. Public Safety and Public Works represent the first and second largest areas of program appropriation, accounting for 21.38 percent and 17.35 percent respectively of the total financial program in 2016.

### Where the Money Goes by Type of Program



The final chart depicts appropriation by expenditure type (Line Item Category). Non-Personal Services represent the largest portion of the total financial program at 29.09 percent.

### Where the Money Goes by Line Item Category



### FINANCIAL ASSESSMENT

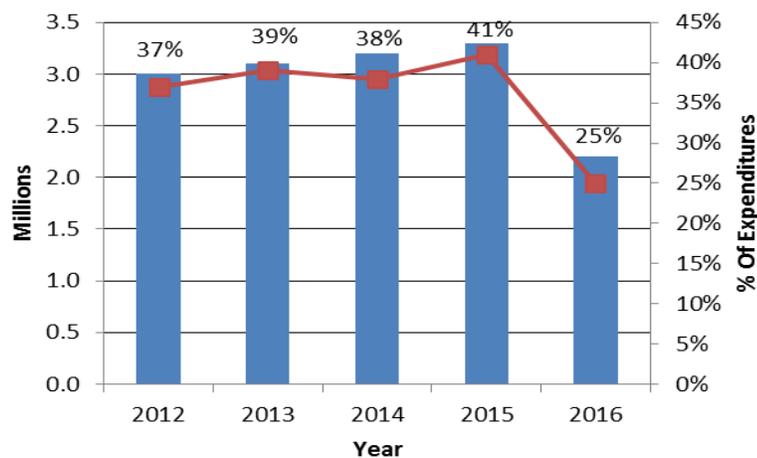
Grafton has developed and maintained a strong financial position through conservative financial management and adherence to sound fiscal analysis and policies. The approved 2016 budget is no exception.

### Fund Balances

One measure of a municipality’s financial strength is the level of its fund balances. The Annual Program Budget identifies an overall stabilization in unassigned fund balances from 2015 (Adopted) to 2016 (Adopted). With the exception of Tax Incremental District No. 3’s negative fund balance, all other Funds have either a zero or positive fund balance.

The Village’s estimated uncommitted fund balance in the General Fund will be approximately \$2.2 million as of December 31, 2016. This balance represents 25 percent of 2016 General Fund estimated expenditure, which meets the recommended guideline of 25 percent. In comparison, the 2015 fund balance (as of December 31, 2015) is estimated to be 43 percent.

### General Fund Balance By Dollar Amount and Percent of Expenditures\*



\*Uncommitted

For the Village's Water and Wastewater Funds, the estimated 2016 retained earnings is estimated to increase by \$565,657 for a total of \$35.1 million by the end of 2016.

**Debt Management**

In addition to the management of existing debt and associated reserves, the Village also forecast future debt within a framework of policies priorities and financial capacity. Current and anticipated capital improvement objectives, available operating revenue, and tax base fluxuations are all evaluated on an ongoing basis to estimate the extent to which the Village may issue additional tax supported debt. This active debt management aids in the development of a sustainable debt portfolio and is a key financial practice contributing to the maintenance of the Village’s favorable bond rating. The Village’s overall debt as a percentage of the statutory limit (including a recommendation to borrow an additional \$3,423,829 is 62 percent.

<u>As of December 31</u>	<u>Net Debt Outstanding</u>	<u>Ratio of Net Debt to Debt Capacity</u>
2013 (actual)	\$43,357,293	79.2%
2014 (actual)	\$38,975,841	67.9%
2015 (estimate)	\$38,064,472	63.4%
2016 (projected)	\$36,991,965	62.0%

**Bond Rating**

The Village’s bond rating is further evidence of its financial strength. Grafton’s general obligation bonds are currently rated Aa2 by Moody’s Investors Service. Having solid financial policies and prudent financial management practices are principle reasons for this excellent bond rating. This high rating translates directly into lower interest rates on the Village’s debt.

**Development Activity**

The Village of Grafton is located on the edge of the Milwaukee metropolitan area. As such, the Village has some opportunities for geographic expansion. In addition, the Village continues to promote redevelopment of older sections of the community into a higher density.

Regarding new construction, the Village experienced in 2015, another year of limited single family home construction. A similar pace for single family construction is expected in 2016.

In fall 2015, construction commenced on a \$23 million senior housing campus - Village Pointe Commons in TID No. 4. The Village anticipates the 2016 construction start of Phase 1 of Lumberyard 1505, a major mixed use development in TID No. 3 with an estimated valuation of \$19 million.

A 191,352 square foot Meijer retail building, a 25,000 square foot multitenant retail center, and an 82,010 square foot industrial building addition were completed in early to mid-2015.

After several years of declining property tax valuation, the Village began to experience in 2013 improved market demand and consequently, a trend in increasing property valuation on existing properties. During this past year, this trend continued.

**BUDGETARY OUTLOOK**

Due to the constraints of the State-imposed tax levy freeze on existing properties, the Village can only receive additional tax levy from new development. Since 2007 when the Great Recession began, the Village has experienced limited construction of residential, industrial and commercial development. In addition to impacting the property tax revenue from limited new development, the

Village also experiences a decrease in building permit revenues and impact fees. To a large degree, these factors are external and the Village has limited or no control to change them. The Village Board must also continue to monitor the use of uncommitted fund balances in all funds. Over the past few years and including the proposed budget, significant use of fund balance has or will be identified to pay for expenditures. The Village's expenditure levels are within the Village Board's control. Assuming no cuts in staffing levels, the Village Board will need to continue to monitor the situation while striving to continue existing services levels and implementing its 5-Year Capital Improvement Plan.

Even though the Village has, in the past, borrowed funds to invest in constructing infrastructure to support development or redevelopment efforts, the Village's annual debt service has peaked and the related amount of needed property tax levy will continue to drop. This decrease in annual debt service will help ease other budgetary pressures.

Significant redevelopment and development projects in all development categories have recently been completed, are under construction or are proposed in the Village's four TIDs. These projects will financially benefit the Village, starting in either 2016, 2017 or 2018.

## **CONCLUSION**

The 2016 Annual Program Budget is committed to the Village's policy of preserving Grafton's quality of life and solid financial position by monitoring its fund balances, achieving a balance budget, and making decisions within the context of its debt management plan.

Consistent with the Village's effort to increase transparency, the Village posts on its web site monthly financial information including revenue and expenditures. In addition to financial information, the Village also posts key benchmarks.

In 2015, the Village of Grafton received its fourth Certificate of Achievement from the International City/County Management Association's Center for Performance Analytics for its superior performance measurement efforts. The Village also received its 24th consecutive Government Finance Officers Association's Distinguished Budget Presentation Award for the 2015 Annual Program Budget.

I want to thank all of the Village staff, especially Director of Administrative Services Paul Styduhar and Administrative Assistant Christine Stannis for their assistance in developing the 2016 Annual Program Budget.

Respectively submitted,

Darrell Hofland  
Village Administrator



GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished  
Budget Presentation  
Award*

PRESENTED TO

**Village of Grafton  
Wisconsin**

For the Fiscal Year Beginning

**January 1, 2015**

Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) presented an Award of Distinguished Budget Presentations of Village of Grafton for its annual budget for the fiscal year beginning January 1, 2015.

In order to receive this award, a government unit must publish a budget document that meets program criteria as a policy document, as an operation guide, as a financial plan and as a communication device.

The award is valid for a period of 1 year only. We believe our current budget continues to confirm to program requirements, and we still submit it to GFOA to determine its eligibility for another award.



*Leaders at the Core of Better Communities*

This  
Certificate of Achievement

is presented to

*Grafton, WI*

in recognition of its use of performance data in local government management,  
including training, verification and public reporting.

Presented at the 101st ICMA Annual Conference  
Seattle/King County, Washington  
28 September 2015

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