



October 17, 2016

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

Transmitted herein is the Village of Grafton's Adopted Budget for the fiscal year beginning on January 1, 2017.

Prior to setting forth the budget proposal, I believe that it is important to recognize the efforts of each of the Village Departments in crafting responsible expenditure requests for consideration of inclusion within the Adopted Budget. Unfortunately, not every request for FY2017 can be funded due to the confines of tax levy limits and/or the expenditure restraint program guidelines. This budget seeks to balance the needs for community services with the equally important need to maintain financial stability.

As the Village's financial and spending plan for the year, the review and adoption of the budget is undoubtedly the single-most important action taken by the President and Board of Trustees each year. This Adopted Budget entails all aspects of Village operations and capital expenses. Moreover, it is intended to serve as an effective policy document, financial planning tool, operational tool and communication device. Upon adoption, the budget authorizes resources and establishes a direction for the Village's programs and services for the coming year consistent with the annually updated Strategic Plan.

2017 Budget Summary

This budget is more than just revenues, expenses, appropriations, and projects. It serves four basic purposes:

- It is a funding policy document that is defined by the Village Board as the direction toward which the Village is moving as a part of its strategic road map.
- 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 user friendly and informative format.

Addressing the Challenge

The 2017 Adopted Budget continues to feel the residual effects of the recent recessionary period. There has been somewhat limited local economic growth (i.e. new construction), which in turn limits the ability for the Village to adjust its property tax levy to fund its FY2017 budget.

That being said, the Village of Grafton has fared better than most and as of January 1, 2016, value of new construction during the previous 12 months was \$10.3 million – approximately .9 percent of

the Village's valuation. Consequently, the Village (by State law) is allowed to increase the property tax levy to fund 2017 operations and capital expenditures by \$67,927. As with most municipalities throughout the State of Wisconsin property taxes are the Village's primary revenue source.

On a related note, many categories of development-related revenues increased but remained somewhat limited in 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 2017, the Annual Program Budget allocates 100 percent (\$67,927) of the additional Property Taxes paid by property owners of newly constructed development.

The Village Board, in 2016, reapproved its comprehensive Long-Term Financial Plan (LTFP) and developed a 5-Year budget forecast. The 2017 Annual Program Budget meets or exceeds the LTFP.

Budget Overview

The 2017 Annual Program Budget which includes funding allocations for both operating and capital purposes totaling \$28,024,070. This amount represents a decrease of \$125,895 or 0.45 percent from the prior year. Expenditures across the various fund categories range from a 10.65 percent decrease (Capital Improvement) to a 11.90 percent increase. The largest fund expenditure change is the Proprietary Fund (i.e. Utilities) with a \$459,975 or 11.90 percent increase in comparison to 2016. With the exception of the Debt Funds and Capital Improvement expense categories, expenditures are proposed to increase or stay level.

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

Budget Summary				
	2016 Adopted	2017 Adopted	Dollar Change	Percent Change
General Fund	\$8,978,149	9,317,441	339,292	3.78%
Special Revenue Funds	\$2,549,427	2,586,240	36,813	1.44%
Library Fund	\$691,913	722,340	30,427	4.40%
Park and Open Space Fund	\$85,000	85,000	0	0.00%
Revolving Loan Fund	\$4,500	475	(4,025)	(89.4%)
Woodlawn Cemetery Capital Fund	\$0	11,150	11,150	100%
Park and Recreational Facilities Fund	\$122,225	26,125	(96,100)	(78.60%)
Room Tax Fund	\$207,036	275,000	67,964	32.83%
Fire Protection and Rescue Fund	\$1,140,720	1,187,211	46,491	4.08%
Environmental Fund	\$70,830	22,772	(48,058)	(67.85%)
Aquatics Fund	\$141,019	154,765	13,746	9.75%
Recreation Fund	\$86,184	101,402	15,218	17.66%
Debt Service Funds	\$4,182,825	4,137,063	(45,762)	(1.09%)
Debt Service Fund	\$3,783,958	3,803,499	19,541	.52%
Impact Fee Fund	\$309,220	333,564	24,344	7.87%
Fiduciary Fund	\$190	250	60	31.58%
Proprietary Fund	\$3,864,329	4,324,304	459,975	11.90%
Capital Improvement Funds	\$8,571,235	7,658,772	(912,463)	(10.65%)

Capital Projects Fund	\$2,357,716	1,090,706	(1,267,010)	(53.74%)
Equipment Fund	\$360,800	528,557	167,757	46.50%
Fire Department Equipment Fund	\$1,009,500	1,015,000	5,500	0.05%
TID No. 2 – Business Park	\$385,427	651,978	266,551	69.16%
TID No. 3 – Downtown Redevelopment	\$2,573,897	2,530,298	(43,599)	(1.69%)
TID No. 4 – South Commercial District	\$885,925	1,011,045	125,210	14.12%
TID No. 5 – Grafton Commons	\$997,970	881,188	(116,782)	(11.70%)
Total Financial Plan	\$28,149,965	28,024,070	(125,895)	(0.45%)

In the Village's largest fund, the General Fund, an approximate 3.78 percent increase is appropriated.

Regarding personnel, the 2017 Annual Program Budget identifies no change in the number of positions from the 2016 Estimated Budget. This is due to several factors including but not limited to, existing financial constraints within the Utility that are to be reviewed as a part of a planned rate study, and that the new developments which have come online in 2016 are “self-serving” and do not require Village snow and/or garbage removal. Furthermore, with the recent turn-over of several executive level staff members, the opportunity presents itself to review the staffing and work load of Village departments in an effort to analyze and properly plan for possible staffing changes.

Capital Expenditures and Capital Improvement Projects Highlights

The approved 5-year Capital Improvement Program was the foundation for the consideration of the 2017 Annual Program Budget’s list of approved expenditures and improvement projects.

The following are some highlights:

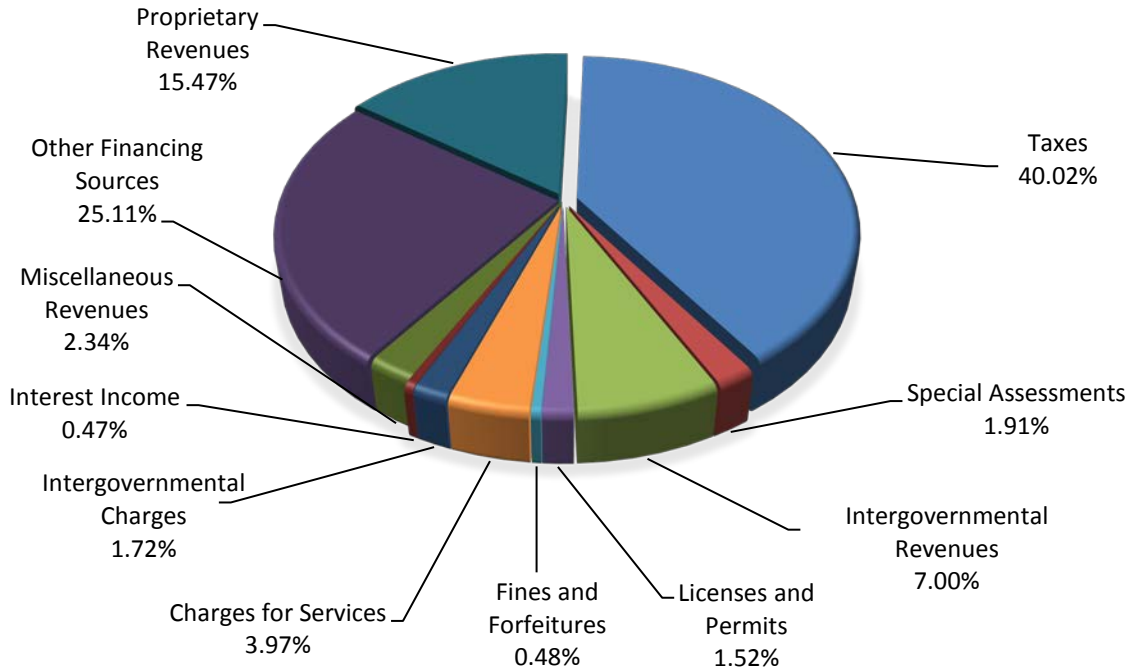
- \$89,173 for the mill and repave of Elm Street approximately 640 feet from Fifth Avenue to Seventh Avenue. Project includes storm sewer repairs and curb and gutter repairs.
- \$89,173 for the mill and repave of Power Street approximately 640 feet from Fifth Avenue to Seventh Avenue. Project includes storm sewer repairs and curb and gutter repairs.
- \$242,303 for the mill and repave of Sixth Avenue approximately 1,570 feet from Spring Street to Elm Street. Project includes storm sewer repairs and curb and gutter repairs.
- \$162,690 for the mill and repave of Seventh Avenue approximately 870 feet from Elm Street to North Street. Project includes storm sewer repairs and curb and gutter repairs.
- \$158,950 for the mill and repave of Tenth Avenue approximately 850 feet from Hickory Street to Power Street. Project includes storm sewer repairs and curb and gutter repairs.
- \$76,267 for the mill and repave of approximately 320 feet of Hickory Street from Eighth Avenue to Ninth Avenue. Project includes storm sewer repairs and curb and gutter repairs.

Revenues and Expenditures

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.

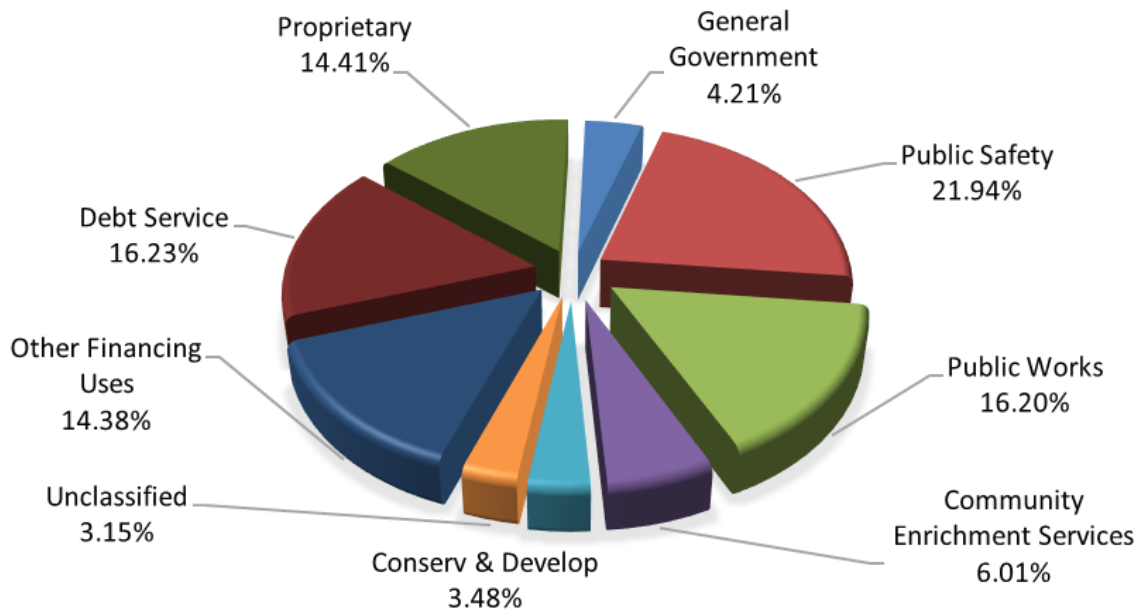
Of the Village’s FY2017 revenues (Source of Funds) as identified on the pie chart below, property taxes represent 40.02 percent which is the largest revenue source. The second largest category, comprising 25.11 percent, is ‘Other Financing Sources’ which includes transfers between funds and bond proceeds. Proprietary revenues will be reviewed in part as a facet of the utility rate study.

Revenues From by Source of Funds

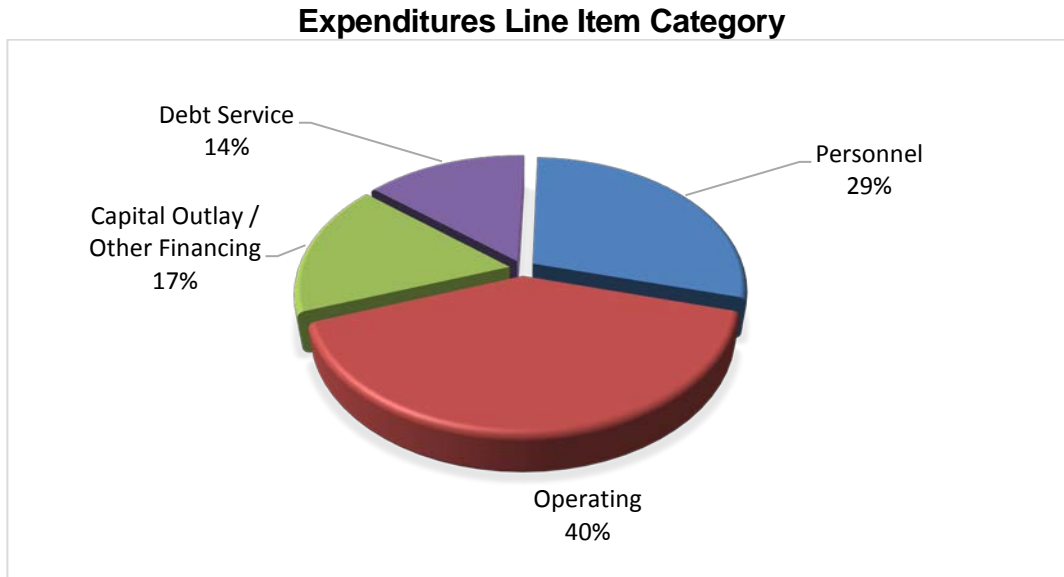


The chart below depicts the breakdown of Village expenditures and how the money is utilized by each program area. Public Safety and Public Works represent the first and second largest areas of program appropriation, accounting for 21.94 percent and 16.20 percent respectively of the total financial program in 2017. The Village of Grafton is not unique in that the allocation of funds for public safety and public works purposes follows this same pattern in many municipalities throughout the State.

Expenditures by Type of Program



The final chart depicts appropriation by expenditure type (Line Item Category). Operating represent the largest portion of the total financial program at 40 percent.



FINANCIAL ASSESSMENT

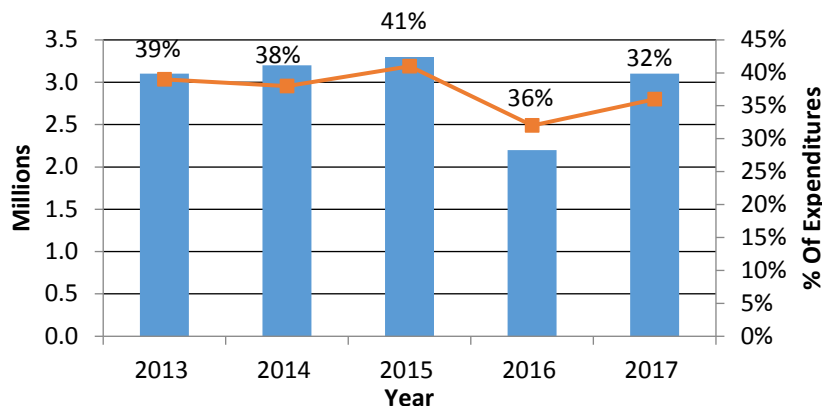
Grafton has developed and maintained a strong financial position through conservative financial management and adherence to sound fiscal analysis and policies. The proposed 2017 budget is no exception.

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 \$1.8 million as of December 31, 2016. However, the total fund balance is 3.1 million or 32 percent of budgeted expenditures. This balance represents 19 percent of 2016 General Fund estimated expenditure, which meets the recommended guideline of 25 percent. In comparison, the 2016 fund balance (as of December 31, 2015) is estimated to be 36 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 fluctuations 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 \$450,000 is 62 percent.

<u>As of December 31</u>	<u>Net Debt Outstanding</u>	<u>Ratio of Net Debt to Debt Capacity</u>
2014 (actual)	\$38,975,841	67.9%
2015 (actual)	\$38,064,472	62.0%
2016 (estimated)	\$36,991,965	57.0%
2017 (projected)	\$35,517,304	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 2016, another year of limited single family home construction. A similar pace for single family construction is expected in 2017, however commercial/industrial development interest has increased as Village Staff has received multiple inquiries. Development revenues are forecasted in a conservative manner, with the hope that the increased interest translates into increased new construction activity.

2016 saw Phase 1 of Lumberyard 1505, a major mixed use development in TID No. 3 with an estimated valuation of \$19 million substantially constructed with occupancy eyed for June, 2017. Also substantially completed in 2016 was a \$23 million senior housing campus - Village Pointe Commons in TID No. 4.

After several years of declining property tax valuation, the Village began to experience in 2016 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 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 continues to drop. This decrease in annual debt service will help ease other budgetary pressures over time.

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 late 2016, 2017 and into 2018.

CONCLUSION

Similar to previous years, the FY2017 Annual Program Budget is a balanced budget that is steadfast to the Village's policy of preserving Grafton's quality of life. The Village can be proud of its efforts to provide high-quality municipal services while maintaining a solid financial position through the monitoring fund balance levels and making decisions within the context of its debt management plan.

The Village supports and encourages transparency in its budgeting process through various print and online media. For example, the Village posts monthly financial information including revenue and expenditures as well as key performance benchmarks on its web site. Moreover, print copies of budget information are made available at several locations throughout the Village.

In 2016, 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 2016 Annual Program Budget.

I opened by thanking Department Heads for their conscientious budgeting efforts, and I would close with one more pointed note of thanks to all of the Village staff, especially Director of Administrative Services Paul Styduhar and Administrative Assistant Christine Stannis for their assistance in developing the 2017 Adopted Budget.

Respectively submitted,

Jesse Thyes
Village Administrator



GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

PRESENTED TO

Village of Grafton

Wisconsin

For the Fiscal Year Beginning

January 1, 2016

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, 2016.

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. The Village Board and Village staff 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 102nd ICMA Annual Conference
Kansas City, Missouri
26 September 2016

A handwritten signature in black ink, appearing to read 'Robert O'Neill Jr.'.

ROBERT J. O'NEILL JR.
ICMA EXECUTIVE DIRECTOR

A handwritten signature in black ink, appearing to read 'Patricia E. Martel'.

PATRICIA E. MARTEL
ICMA PRESIDENT