

Memo



FROM: Kurt Zempel, City Administrator
TO: Sheboygan Common Council Members
RE: 2012 Preliminary Budget Analysis
DATE: October 6, 2011

Council Members:

As the common council works toward developing a budget resolution for the 2012 city budgeting process, I am providing the following analysis of the city's current and historical revenues, expenditures, and tax base. My hope is that the information on how the city's financial picture has evolved over time and how it compares to other cities in Wisconsin will assist the council in determining the best policies to meet our current and future budget challenges, including the expected cuts in state aid, declining property assessments, and rising health care costs.

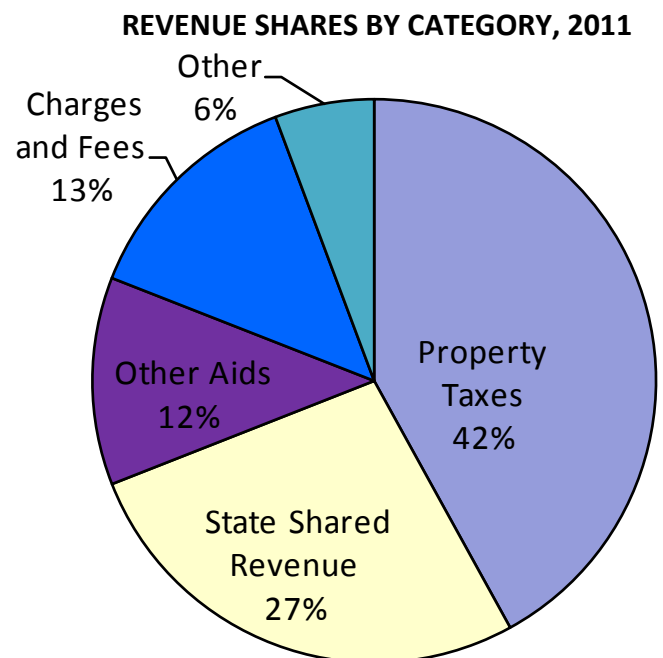
REVENUES

For the 2011 budget, the city had a total property tax levy of \$21,184,245, and a state shared revenue payment of \$11,598,524. This translates into a 42% reliance on property taxes, as evidenced by the pie chart to the right. State shared revenues and other state and federal aids make up another 39% of the city's revenue sources.

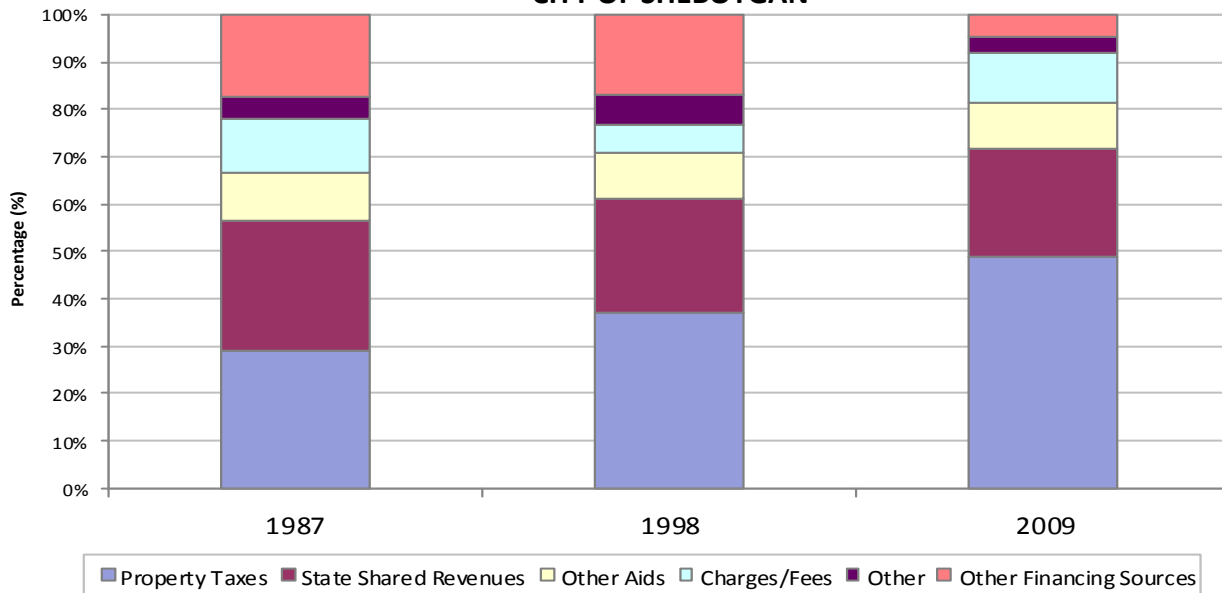
Obviously, the impact of an expected \$979,000 reduction in state aid payments for 2012, coupled with the new state requirements that limit tax levy increases, will be substantial since these funding sources make up over two-thirds of the city's budget. As a result of these policy changes by the state, we are anticipating a freeze in the 2012 levy amount at the 2011 level.

As the bar chart on the following page shows, these factors are an extension of the historical trends in revenue sources. With the inclusion of other financing sources, we discover that the proportion of local property tax revenue has steadily increased from around 29% in 1987 to nearly half of the city's budget in 2009, the last year for which statewide comparison data was available.

Comparing these factors to other cities in Wisconsin on the next graph reveals a similar trend statewide, as well as the fact that the increased reliance on property taxes by cities has coincided with a substantial decline in state shared revenue payments. However, for Sheboygan, shared revenue payments have remained relatively stable over the same timeframe as a share of revenues.

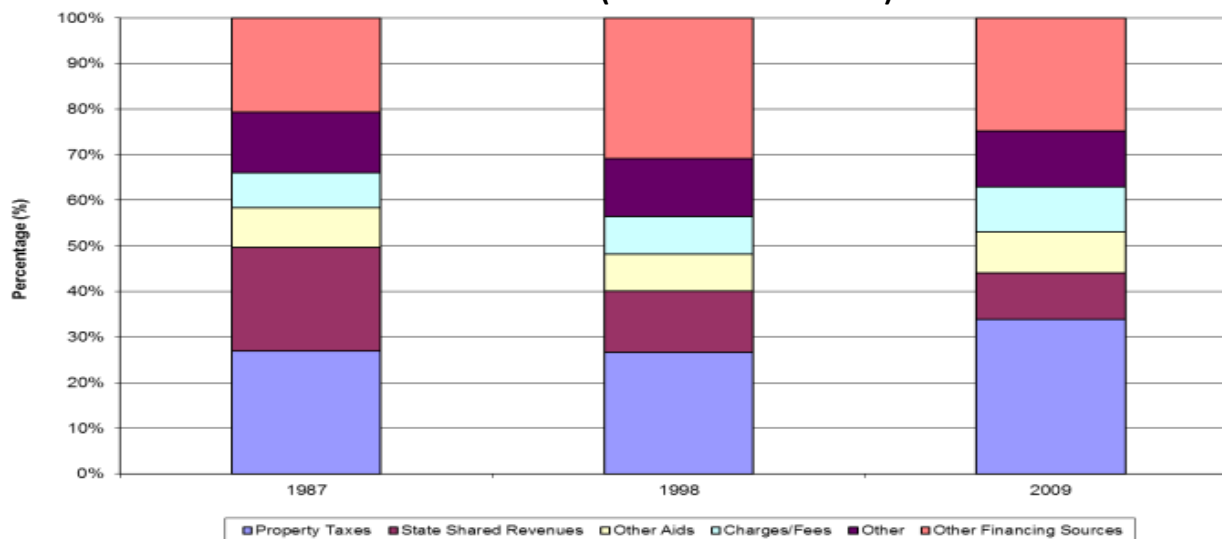


REVENUE SHARES OVER TIME CITY OF SHEBOYGAN



Another notable difference between the statewide data and Sheboygan’s revenue sources is the city’s reduced reliance other financing sources. This affects the relative composition of the other funding sources, and is a result of the city retiring a substantial portion of its TIF District debts in recent years as well as reductions in amounts levied for capital improvements.

REVENUE SHARES OVER TIME ALL CITIES (EXCEPT MILWAUKEE)



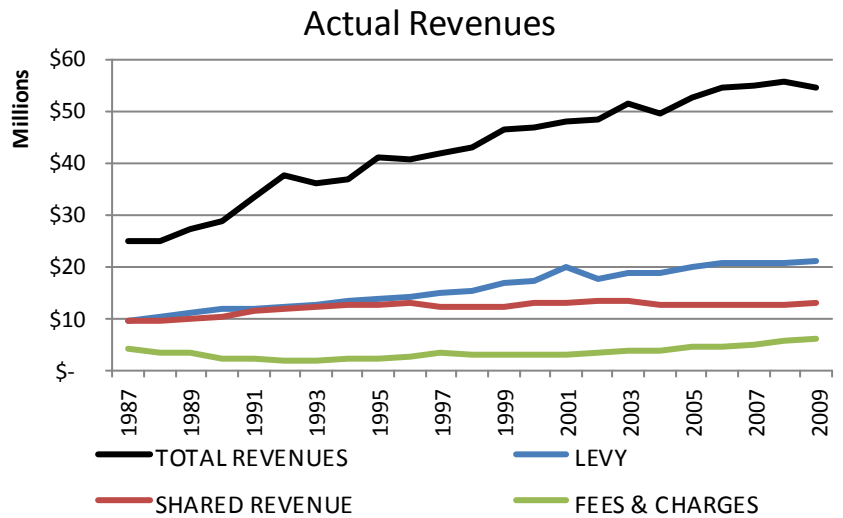
Another way to consider how the city’s tax and revenue picture has changed is to compare the change in revenue sources in actual dollars over time, as well as any difference when these amounts are controlled for inflation and population changes. As indicated by the first line graph on the next page, the actual total revenues have increased steadily between 1987 and 2009, again the range of available historical data. (This includes a steady increase in the city’s use of TIF districts to fund development costs, from a relatively small \$255,646 in 1987 to \$5.2 million in 2009, however, the TIF revenue is not displayed separately on the graph.)

The graph shows a corresponding rise in the tax levy over the same period, from \$9.4 million in 1987 to \$21.2 million in 2009. However, other the revenue sources displayed — state shared revenue and fees and charges, have not increased correspondingly. Shared revenue has only increased from \$9.6 million in 1987 — an amount actually \$180,000 higher than the city’s tax levy in the same year — to \$12.8 million in 2009, an increase of 25%. Over the same timeframe, the city’s tax levy has more than doubled in actual dollars.

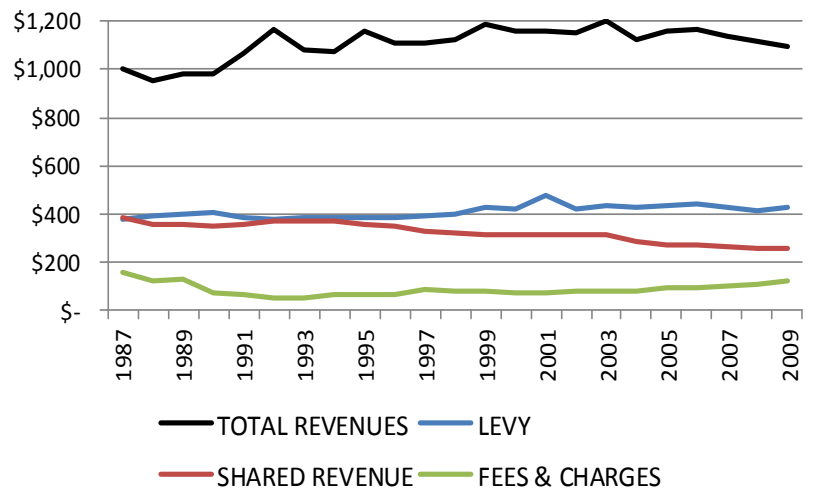
These factors become even more striking when the actual numbers are controlled for inflation and population changes. Although the city's population has changed less than 6% over the 23 years of analysis data, using Consumer Price Index data from the US Dept. of Labor shows an inflation factor of approximately 1.9, meaning that prices for goods and services have nearly doubled over the same time period.

The real per-capita amounts for city revenue sources depicted in the second graph on the right reveal that although state shared revenues have increased in actual dollars, the real amount has declined substantially: from \$387 per person in 1987 to \$258 in 2009 (in 2010 dollars). At the same time, the real per-capita tax levy and revenues from fees and charges for services show little or no change. To put it another way, each resident's share of the city's tax levy, when controlled for inflation, has increased from \$380 to \$425 in the last 23 years, an increase of 12%, while each resident's portion of shared revenues received from the state decreased by a third.

These comparisons help to explain the increasing pressure put on municipalities, particularly Sheboygan, by declining state aid payments and levy limits. Although Sheboygan has been able to successfully fund development costs through TIF District financing, the council may need to consider other revenue options or further cuts in city services if these trends continue as expected.



Real Per-Capita Revenues in 2010 Dollars



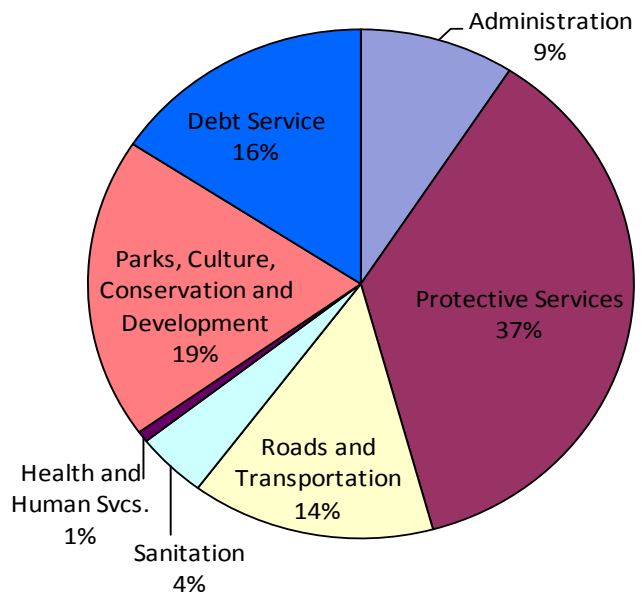
EXPENDITURES

As we consider 2011 city expenditures, the current budget shows that the cost of local government is dominated by protective services, including police, fire and ambulance services, for a total expenditure of \$20,575,797. Over half of this amount is police service, with a total police department budget of \$11,636,559.

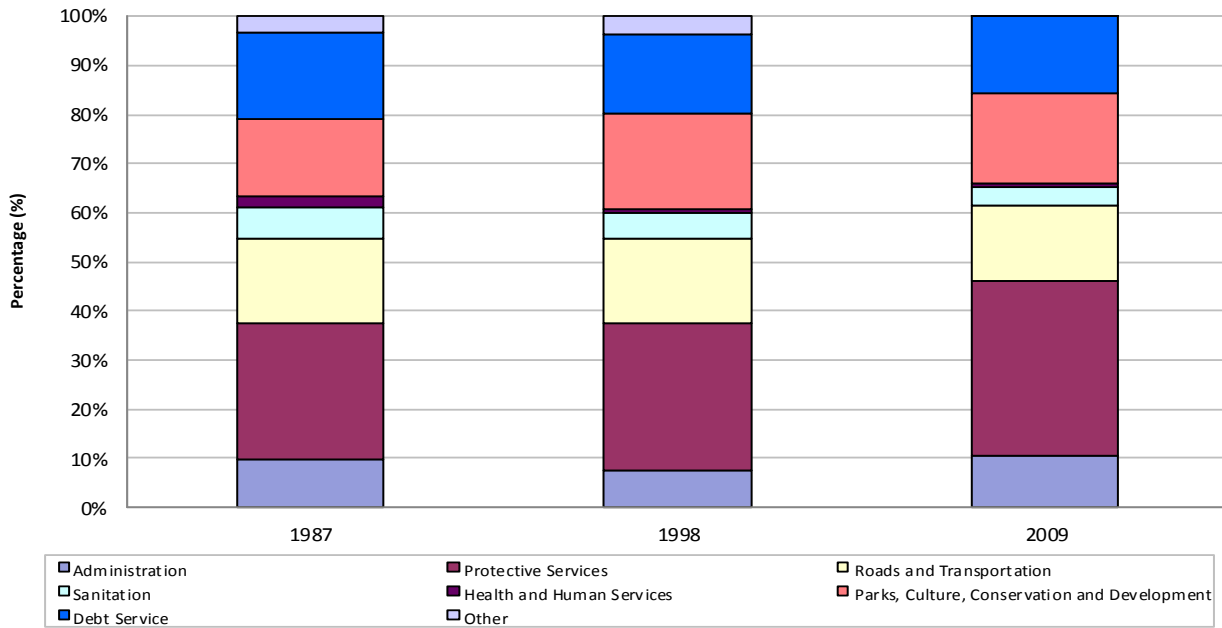
Comparing this breakdown of expenditures over time in the bar graph on the next page shows that while spending on other areas of city government have remained stable as a share of total city spending, the share of protective services has steadily increased, from about 27% in 1987 to 35% in 2009.

This is consistent with the priority placed on protective services by previous city councils. As the city has encountered budget shortfalls in previous years, the city has typically chosen to make more significant cuts in other areas of city government, particularly public works.

EXPENDITURE SHARES BY CATEGORY, 2011



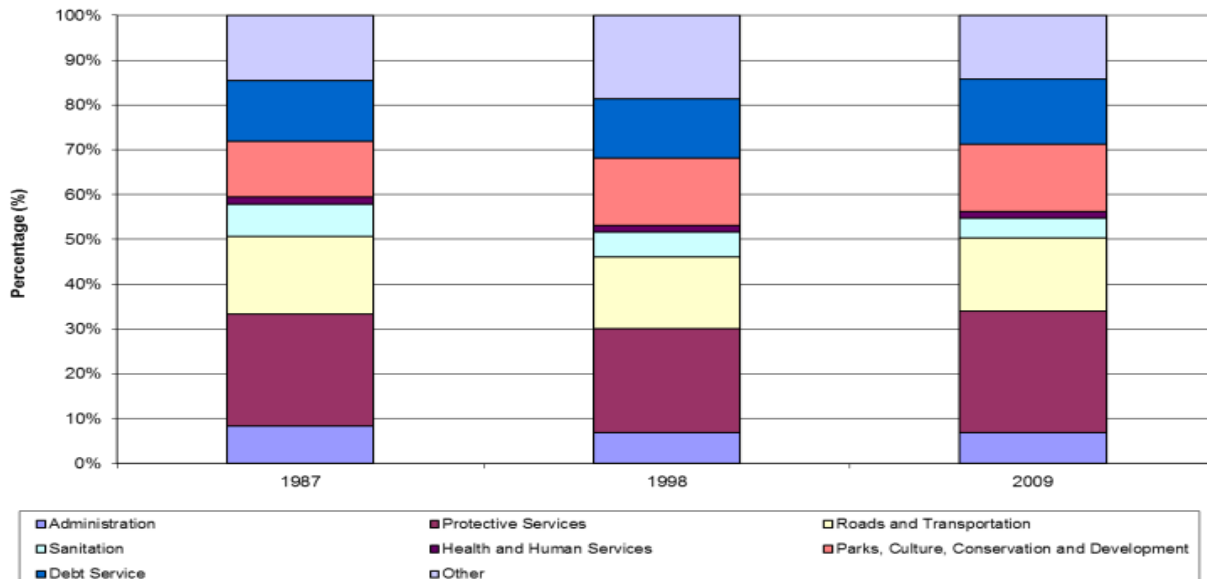
EXPENDITURE SHARES OVER TIME CITY OF SHEBOYGAN



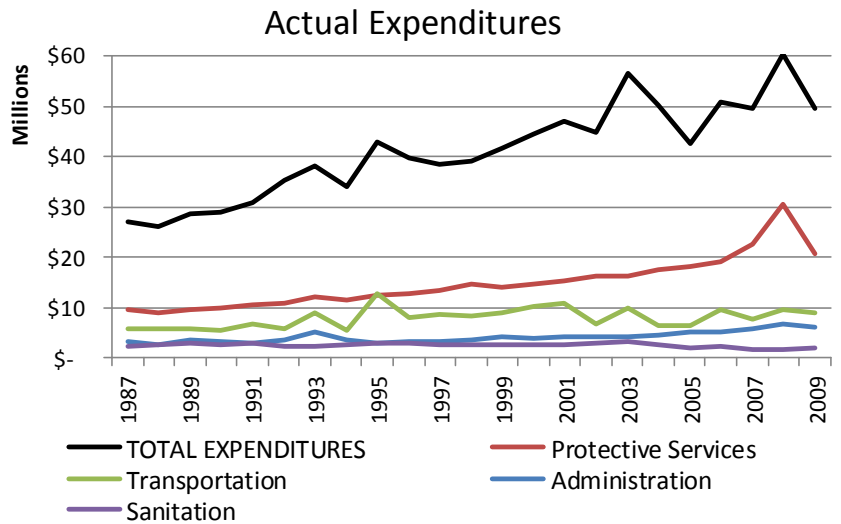
Again comparing the breakdown of city expenditures over time against statewide trends as shown in the bar graph below, we discover that the trend of increasing protective service costs for the city of Sheboygan is not reflected in other cities. Statewide, the share of city expenditures across all categories shows little change at all, with the bars representing 1987 spending and 2009 spending appearing almost identical.

Another significant difference between Sheboygan's expenditure shares and cities statewide is the combined share of the three main budget categories. As the graph below shows, while spending on administration, protective services, and roads and transportation makes up roughly half of city budgets statewide, for Sheboygan this proportion is much higher, and has been for a while. Spending on these three categories for Sheboygan was 55% of the overall budget in 1987, and has steadily increased to over 60% in 2009. This is driven primarily by the increase in public safety spending for Sheboygan relative to other expenditure categories, and is likely reflective of a greater local demand for these services compared to other municipalities as well as recent changes in state law prohibiting cuts to these areas of municipal budgets.

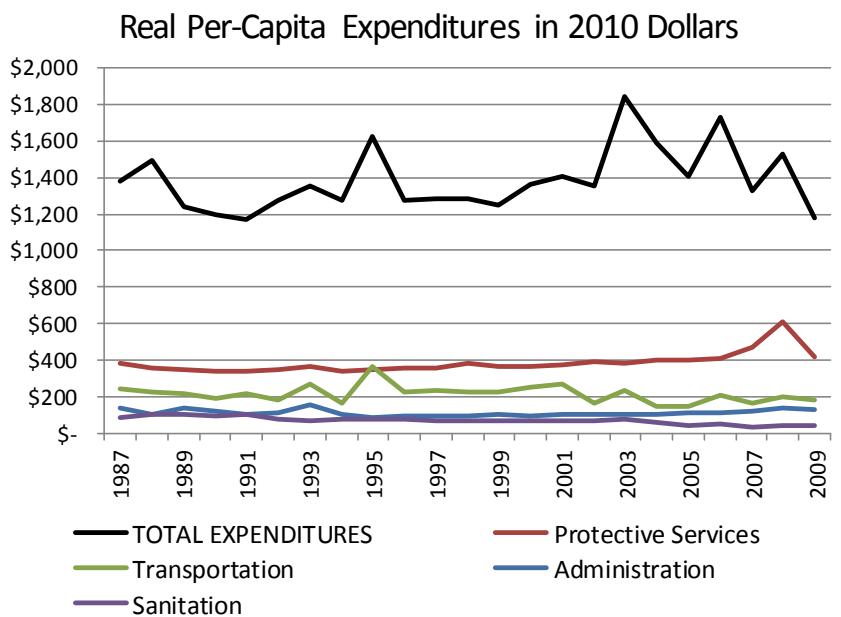
EXPENDITURE SHARES OVER TIME ALL CITIES (EXCEPT MILWAUKEE)



Again reviewing expenditures in actual dollars on the line graph at right shows a steady increase in both total and protective service spending, with more subtle increases in transportation and administration spending and almost no change in sanitation spending. (The 2008 spike in protective service spending, and corresponding jump in total expenditures, includes the one-time construction cost of a new \$8.5 million police headquarters building.) These trends are consistent with Sheboygan's historical expenditure shares in the graph on the previous page.



However, when we once again control for inflation and population growth, as shown in the second line graph, real per-capita expenditures in all major categories are either stagnant or slightly decreased, and overall city spending is down. In fact, 1987's total spending in 2010 dollars was \$1,380 per person, and has decreased to \$1,178 in 2009, a 14% decline. Spending on protective services went from \$382 to \$416 per person for a 9% increase, while spending on the other major categories (administrative and public works expenditures) decreased from \$461 to \$370, or about a 20% decrease. The largest loser in these categories was sanitation spending, which is down more than half of its 1987 expenditures when compared in 2010 dollars.



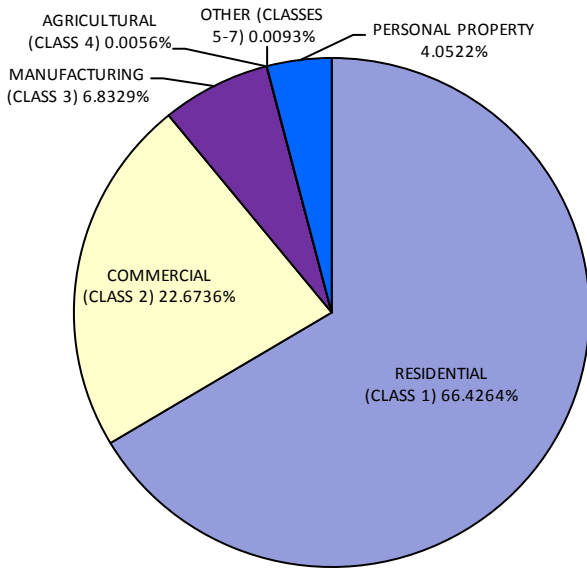
TAX BASE

A final consideration in establishing the 2012 levy and tax rate is the city's property tax base and overall property composition. The city's full equalized value was \$2,710,287,300 in 2010, down from a high of \$2,880,103,600 the previous two years. This is consistent with declining property values driven by the fall-out in the housing market, and will especially continue to impact Sheboygan and other municipalities given their property composition being primarily residential land and improvements. Ultimately, while state-mandated levy limits will work to hold the overall levy amount in line with previous years, continued decline in the assessed value of city property may result in property tax rate increases.

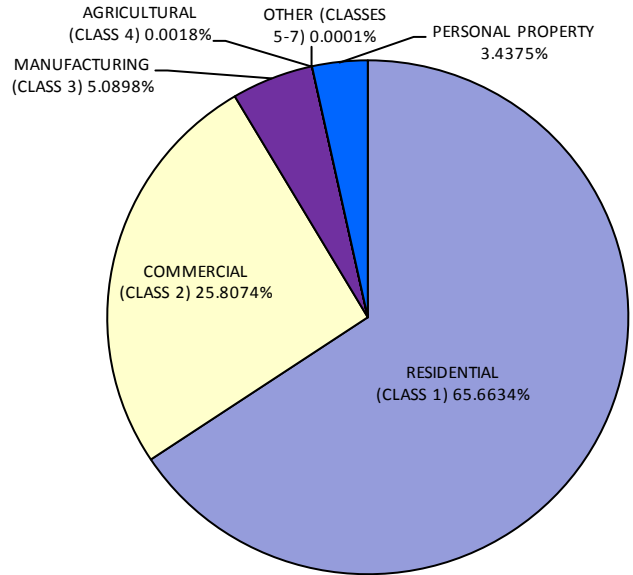
As can be seen in the pie charts on the following page which represent the composition of property values by valuation class, Sheboygan's tax base is two-thirds residential property, and this proportion has remained stable since 2000. Over the same time period, however, the proportion of commercial property and improvements shows a modest increase, from about 22% to almost 26% of the city's full equalized value, while manufacturing and personal property shares show a slight decline. This increase may be a reflection of the city's use of TIF Districts over the previous decade to spur commercial development, particularly redevelopment of abandoned manufacturing properties.

A continued focus on commercial development will help to increase the diversification of the city's tax base, creating a more favorable distribution of the property tax burden between residential property taxpayers and businesses.

**EQUALIZED VALUE BY CLASS - 2000
CITY OF SHEBOYGAN**

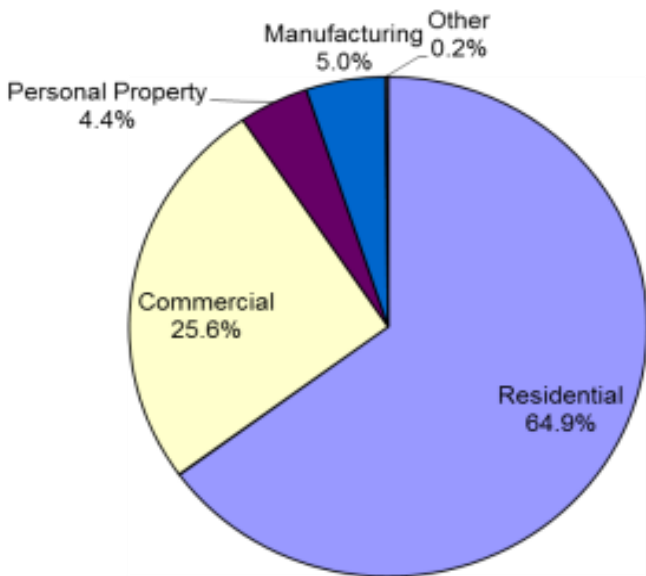


**EQUALIZED VALUE BY CLASS - 2009
CITY OF SHEBOYGAN**

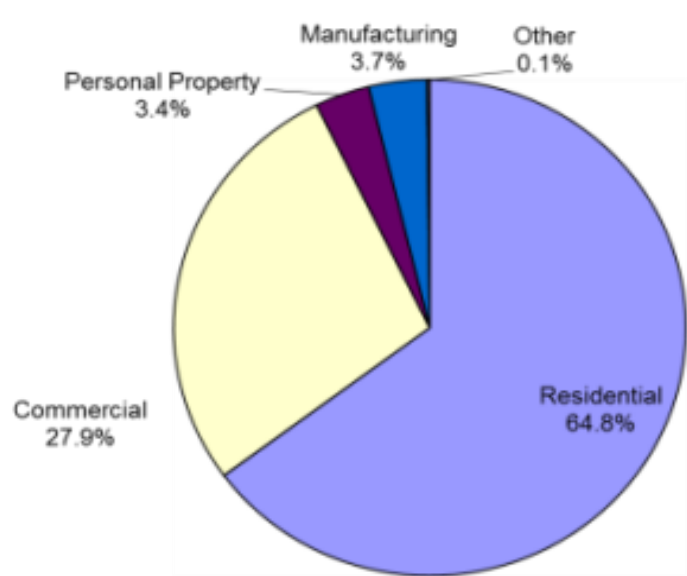


Finally, a comparison of Sheboygan's property valuation by class to other Wisconsin cities shows that Sheboygan's tax base composition is very similar to statewide averages, as shown in the charts below.

**EQUALIZED VALUE BY CLASS - 2000
ALL CITIES (EXCEPT MILWAUKEE)**



**EQUALIZED VALUE BY CLASS - 2009
ALL CITIES (EXCEPT MILWAUKEE)**



I look forward to continuing to work with the council members to address the budget and service goals for the community. Please feel free to contact me if there are any questions at all throughout the budget development process.

Respectfully submitted,

Kurt Zempel, City Administrator