



**CITY OF STURGEON BAY
COMMITTEE OF THE WHOLE
MONDAY, SEPTEMBER 27, 2021
IMMEDIATELY FOLLOWING SPECIAL COUNCIL MEETING
WHICH BEGINS AT 4:00P.M.
COMMUNITY ROOM – FIRST FLOOR
CITY HALL - 421 MICHIGAN STREET
DAVID J. WARD, MAYOR**

1. **Call to order.**
2. **Roll call.**
3. **Adoption of agenda.**
4. **Consideration of: Affirmation of Budget Principles.**
5. **Consideration of: 2022 Budget.**
6. **Adjourn.**

NOTE: DEVIATION FROM THE AGENDA ORDER SHOWN MAY OCCUR.

Posted:

Date: 9.23.21

Time: 4:20 pm

By: JM

FINANCE/PURCHASING & BUILDING COMMITTEE

April 27, 2021

A meeting of the Finance/Purchasing & Building Committee was called to order at 4:00 pm by Chairperson Bacon in the Council Chambers, City Hall. Roll call: Alderpersons Bacon, Wiederanders and Williams were present. Also present: City Treasurer/Finance Director Clarizio, Municipal Services Director Barker, and Office Accounting Assistant II Metzger. City Administrator VanLieshout entered at 4:06pm.

A motion was made by Alderperson Williams, seconded by Alderperson Wiederanders to adopt the following amended agenda:

1. Roll call.
2. Adoption of agenda.
3. Public comment on agenda items and other issues related to finance & purchasing.
4. Consideration of: Surplus Property.
5. Consideration of: Affirmation of City of Sturgeon Bay Budget Principles.
6. Review bills.
7. Adjourn.

Carried.

No one spoke during public comment on agenda items and other issues related to finance & purchasing.

Consideration of: Surplus Property

Municipal Services Director Barker stated a 1993 Ford L-8000 rear load refuse truck is in poor condition that he would like to declare as surplus and possibly sell.

Moved by Alderperson Bacon, seconded by Alderperson Wiederanders to declare a 1993 Ford L-8000 rear load refuse truck as surplus. Carried.

Consideration of: Affirmation of City of Sturgeon Bay Budget Principles:

X City Treasurer/Finance Director Clarizio stated that the current budget principles were established in 2008. During the 2021 budget process the Council directed Staff to reevaluate the principles. The principles in place are endorsed by the Government Finance Officer Association (GFOA), and very good practices to continue to use to formulate future budgets. Ms. Clarizio outlined the 5 principles which include, no use of fund balance for general fund operations, return of all prior year operating surpluses to the proposed operating budget, no use of debt for operating expenses, using capital fund balance only for capital assets and finally to maintain the current levels of service. The principles in place are very good practices to continue to use to formulate future budgets. She noted that in addition to the GFOA supporting these principles, the City's bond rating provider Moody's Investment Services assesses the City's budget structure, consistency and sustainability in the present and future and always asks about the 1-4 principles. City Administrator VanLieshout commented that these budget principles have served the City very well thru a number of community crisis, which have kept the city a stable working class city in good financial position.

Moved by Alderperson Williams, seconded by Alderperson Wiederanders to approve the budget principles as presented and direct staff to proceed with preparing the 2022 budget using the five principles. Carried.

Review bills

Moved by Alderperson Wiederanders, seconded by Alderperson Williams to approve the bills as presented and forward to the Common Council for payment. Carried.

Moved by Alderperson Williams, seconded by Alderperson Wiederanders to adjourn. Carried. The meeting 4:15pm.

Respectfully submitted,

Tricia Metzger

EXECUTIVE SUMMARY

TITLE: Affirmation of City of Sturgeon Bay Budget Principles

BACKGROUND: Every year when the initial budget is presented to the Committee of the Whole, the presentation begins with reminding the committee of the budget principles that were established in 2008. For over twenty years, the first four budget principles listed below have successfully guided the City toward financial stability and future sustainability. Further, those four principles are not only good financial practice, they are also endorsed by the Government Finance Officer Association (GFOA).

During the 2021 budget process, the Council directed staff to reevaluate the budget principles. Over the past several months, staff evaluated the principles and has affirmed they are still good principles in which to use to formulate future budgets.

PRINCIPLES:

1. No use of fund balance from the general fund for operations.

Note: There is an exception to this rule when prior year savings on specific budget items are realized and then used to offset future budget costs with a very specific plan in place. For example, several years ago the City realized a substantial budgetary savings in health insurance and then used that savings over the next couple of years to offset the large increases the City realized as staff worked to find another provider.

2. Return all prior year operating surpluses to the proposed operating budget. This guideline carries true for the capital budget as well.
3. No use of debt for operating expenses.
4. Use capital fund balance only for capital assets.
5. Maintain current levels of service.

ANALYSIS & COMMENTS:

Excerpts pulled from the GFOA website on 3/22/21 which pertain to Guidelines 1 – 4.

Achieving a Structurally Balanced Budget

Most state and local governments are subject to a requirement to pass a balanced budget. However, a budget that may fit the statutory definition of a "balanced budget" may not, in fact, be financially sustainable. For example, a budget that is balanced by such standards could include the use of non-recurring resources, such as asset sales or reserves, to fund ongoing expenditures, and thus not be in structural balance. A true structurally balanced budget is one

that supports financial sustainability for multiple years into the future. A government needs to make sure that it is aware of the distinction between satisfying the statutory definition and achieving a true structurally balanced budget.

For a variety of reasons, true structural balance may not be possible for a government at a given time. In such a case, using reserves to balance the budget may be considered but only in the context of a plan to return to structural balance, replenish fund balance, and ultimately remediate the negative impacts of any other short-term balancing actions that may be taken. Further, the plan should be clear about the time period over which returning to structural balance, replenishing reserves, and remediating the negative impacts of balancing actions are to occur.

As you read above, the GFOA recommends achieving a structurally balanced General Fund budget. In a structurally balanced budget, the fiscal year's operating revenues should be enough to support the fiscal year's operating expenses. Effectively, this means the City should not issue debt or apply substantial amounts of fund balance to cover operating expenses because if a City finds itself in a situation where it needs to do so, the budget is structurally out of balance and it will likely take major program changes to correct the issue. Using debt or applying fund balance to bridge a funding gap in the general fund would only mask the issue creating a larger problem to be dealt with later.

The same holds true in regard to capital fund balance. Capital fund balance should only be used for capital projects and assets as use in the general fund would indicate the general fund is not structurally sound and in need of further evaluation.

Returning prior year surplus to the following year's budget is a common practice and endorsed by the GFOA. Effectively it simply returns excess funds to the taxpayer. One may argue that a surplus indicates we've over taxed but in reality, there are many reasons surplus' come to exist. During the budget process which begins early in the year for the following year, many of the revenue and expense numbers are estimates. Staff works hard all year long to stay within budgetary numbers but sometimes both revenues and expenditures come in over or under the budgetary amounts. A good example of a line item that can create a budgetary surplus is the contingency line. Contingency is budgeted to cover unforeseen expenses. In the event no contingency dollars are spent throughout the year those funds are rolled into surplus, or used to offset a deficit, and then applied in the following year's budget. Having a surplus in a line item such as this one still indicates that the budget is structurally sound.

Maintaining GFOA best practices as mentioned above helps to provide for favorable bond ratings by Moody's Investors Service, the City's bond rating provider. During every bond rating call in which I've participated, Moody's assess the City's budget structure and its ability to sustain its budget integrity

into the future. Maintaining healthy and consistent fund balances and fiscal management policies and procedures, provides bond rating agencies and investors with some assurance the City is in a good position to financially sustain itself at present and in the future.

FISCAL IMPACT: \$0

RECOMMENDATION:

Recommend staff proceed with preparing the 2022 budget using the five guidelines listed above.

PREPARED BY: Valerie J. Clarizio
Valerie J. Clarizio
Finance Director/City Treasurer

4/21/21
Date

REVIEWED BY: Josh VanLieshout
Josh VanLieshout
City Administrator

4/21/21
Date