

VILLAGE OF CALEDONIA 2008 BUDGET SUMMARY

Background

For the last couple of years, Trustees and staff knew that the Village faced some tough financial times and difficult budget decisions in future years. With the compilation of the 2008 budget, it appears that year has arrived. We began the development of this budget with instructions from the Village's Finance Committee to submit a spending plan that reflected a zero per cent increase in expenditures from the prior year's (2007) level. For the most part that was done except in those areas where the Village had some type of contractual obligation, such as contracted wage and benefit increases and increases from outside sources like health and liability insurance.

Department managers were challenged to find ways to at least maintain previous service levels in an environment where the cost of materials and outside services continues to rise (fuel, road salt and asphalt are good examples). Those challenges will not go away as 2008 goes on. A significant highlight of this budget is the decision that the Board made to provide for the second half of the year funding of the six police officers and two fire fighters that were funded initially from money from the settlement with WE Energies in conjunction with the construction of the new power plant. Village representatives have testified to the need for continued funding before the Public Service Commission but this budget provides tax dollars for the unfunded last six months of 2008 if our request is denied.

Tax Levy and Tax Rate

Up to and including the day the Village Board gave preliminary approval to the 2008 Budget, the State legislature had not approved any action either to extend or to create a new levy limit. Consequently, we operated under the assumption that the best thing to do given the circumstances is to use the previous levy limit law, which allowed for a tax levy increase equal to the percentage of assessed value growth with a 2% floor. Our growth factor for 2008 is 2.589%. The budget preliminarily approved by the Board sets the levy increase at 2.535%, which is **slightly less** than what the Village could levy. (I might add that the Governor recently vetoed the State budget legislation and put the new levy limit at 3.860 %.)

For the 2008 Village budget, the tax (mill) rate is set at \$5.42490 per \$1,000 of assessed valuation. (This does not include the other taxing bodies such as the County, RUSD and Gateway.) For a house and property assessed at \$200,000, the Village (only) taxes payable for 2008 will be \$1,084.98. For 2007, that same valued property paid \$1,085.55.

Revenues

The non-tax revenue side of the budget is not an encouraging picture. The second biggest revenue source behind taxes is intergovernmental revenues, which is up relatively slightly. Other significant sources such as ambulance fees and court penalties are expected to stay

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consistent with the past year. However, the new housing start slowdown in 2007 is expected to continue into 2008 and that will have a significant negative impact on permit fees and revenues from building inspection and engineering services.

Reductions, Changes, Etc.

Budgetary constraints will result in staffing reductions but with the goal of maintaining present service levels. In terms of staffing, the positions of Administrative Assistant in the Building Inspection Department and Administrative Assistant in the Engineering Department will be combined into one position. The position of Assistant to the Village Administrator will be eliminated. The position of Director of Parks and Recreation will become a half-time position.

The challenge will continue to be finding new efficiencies and cost reductions. The last two years saw successful initiatives that saved thousands of dollars in the establishment of a Health Reimbursement Arrangement and by changing health insurance carriers. For 2008, some savings already will be realized by changing dental insurance carriers and in reduced premiums in our liability and workers compensation policies due to employee diligence and our return to work efforts. Staff will continue to look for further savings and efficiencies (e.g. more joint ventures with neighboring communities) but it has become more difficult to find new areas of substantial cost reduction.

There will continue to be variables that will impact the budget over which we may not have control. For instance, the cost of road salt and fuel has increased, but the expenditure level has not. An unusually harsh winter could wreak havoc on those accounts. **This budget must be monitored closely throughout the year because there is little room for variances from planned expenditures.**

The Future

State levy limits over the last two years on top of a relatively low levy combined with an increasing demand for services has placed the Village in a challenging situation. In the absence of the ability to raise the levy to meet our expenses and in the absence of new revenue sources, we have responded with measures that have saved substantial amounts of money which in turn has enabled us to balance the budget. These measures also have included reduction of staff and the implementation of new and less expensive ways of providing fixed costs such as health insurance. However, the Village cannot always count on opportunities such as these being available.

One opportunity that presented itself after the budget received preliminary approval is the new levy limit allowed via the Governor's veto pen. The upside of this higher limit is that it would allow us to raise the levy by an additional \$156,730. (An estimated impact of about \$14 additional tax per taxpayer.) Using the new rate would give the Village a larger base for the following year's levy limit increase, which goes back to a 2%

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minimum. The downside, of course, is that taking advantage of the new limit means more taxes levied than originally approved by the Board.

We must continue to find new ways to be frugal and efficient because the demand for services is only going to increase. I agree with those who feel that we should be pursuing grants and possible partnering with neighboring communities on programs. Unfortunately, we might also have to consider cutbacks in services in the years ahead.

It also is essential that the Village continues to make a concerted effort to promote commercial and industrial development to ease the tax burden on the residential property owner. Even though the tax base boost commercial growth brings most likely will not allow for concurrent additional taxes to service the new growth area due to levy limits, it will shift some of the tax burden from the residential tax base to the new commercial area.

My appreciation to all who worked hard to make this budget possible.

Thomas Lebak
Village Administrator