



Financial Trend Monitoring Analysis

July 15, 2019

Introduction

The Financial Trend Monitoring System (FTMS) was developed by the International City/County Management Association (ICMA) as a method for monitoring the financial condition of local government. The purpose of this report is to comprehensively examine the financial trends of the City of Sheboygan and make any financial policy adjustments to improve its overall financial condition. In accordance to the FTMS, generally accepted accounting standards were followed for the data presented in this report.

The report for this financial analysis is derived from the indicators described in the ICMA publication, "Evaluating Financial Condition". The ICMA model examines four types of financial conditions:

1. *Cash Solvency* – the ability to pay bills over the next 60-90 days
2. *Budgetary Solvency* – the ability to cover expenditures with revenues and other resources over the normal budget period.
3. *Long-term Solvency* – the ability to pay not only the costs of doing business in the current year, but also those that will come due in future years.
4. *Service-Level Solvency* – the ability to provide services at the level and quality that are required for the health, safety, and welfare of the community and that citizen's desire.

There are significant variations on how local governments manage their finances. This variation makes it challenging identify the standards and benchmark the indicators for local government. Therefore, it is almost certain that these standards and indicators are set up in accordance to local government goals, mission, and vision. For each indicator, they are characterized by an outcome described below:

Favorable – this trend is positive and meets policy or performance measures set by the city.

Caution – the trend is uncertain and should be watched carefully because it may move in a direction that could have negative impact on the city's financial condition.

Negative – the trend is a warning and does not meet policy or performance measures set by the city. More information should be gathered and corrective actions should be taken as soon as possible.

Methodology

This report contains data from audited Comprehensive Annual Financial Reports (CAFR) from 2014 through 2018. The data includes revenue and expenditure information for general fund, special revenue funds, debt service funds, and other subsidiary funds.

When required for analysis, adjusting for inflation converts current dollars into constant dollars. The conversion from actual dollars to constant dollars allows for analyst to take in account the appearance growth due to inflation. For this report, the Consumer Price Index (CPI) tracks the prices of goods and services used by average wage earners in 2014.

	2014	2015	2016	2017	2018
Consumer Price Index	236.736	237.017	240.008	245.12	251.107
2014 Conversion Table	1.000	0.999	0.986	0.966	0.943
Percent Change		0.119	1.363	3.420	5.723

The following formula and example reveals how to calculate to constant dollars:

Conversion Factor = (2014 CPI / 2018 CPI) or (236.736 / 251.107) = 0.943
 Constant Dollar = (Actual Dollar X Conversion Factor) or (\$1000 X .943) = \$943.
 This means that \$1000 would have been worth \$943 in 2014.

Indicators

For the analysis of the City of Sheboygan’s fiscal condition, 12 indicators were identified for this report:

Description		Trend
Revenue Indicators	Property Tax Revenue	Favorable
	General Government Revenue (Actual vs. Budgeted)	Favorable
	Intergovernmental Revenue	Favorable
Expenditure Indicators	Expenditure per Capita	Favorable
	Expenditure per Function	Favorable
	Employees per Capita	Favorable
	Personnel Cost As a Percent of Expenditures	Favorable
	Fringe Benefits as a Percent of Personal Services	Favorable
Operating Position	General Fund Operating Surplus / Deficit	Favorable
	Fund Balance as a Percentage of Revenue	Favorable
Debt Position	Debt Service-related Property Tax Levy	Favorable
	Net Direct Debt to Debt Limit	Favorable

Revenue

Revenue determines the city’s capability to bring funds necessary to providing services. Under the right conditions, revenue should grow at an equal rate of expenditures. The City of the Sheboygan is known to have fiscally conservative policies.

Intergovernmental revenue plays a significant role in the funding of service-based programming. While a vast majority of the intergovernmental revenue sources are state-derived, permanent in nature, and reasonably stable, a limited amount is not permanent. The city needs to monitor the development of Wisconsin State budgets and be prepared to deal with funding changes.

Expenditure

Expenditures are an approximate measure of the city’s service output. Generally speaking, as city provides more services, the more the city spends. The quality of services and efficiency are not accounted for under this indicator. An ideal situation would be that the expenditure growth

rate does not exceed the revenue growth rate and will have maximum spending flexibility to adjust changing conditions.

There are several factors to considering when measuring the city's capability to deliver its services and goods. First, determining the expenditure growth rates should operate within its revenue. Expenditure costs have been able to remain at a stable rate despite changes in the budget. In addition, this balance may also have to incur with the changes in priorities for budgeting. For example, a small percentage decrease in public safety suggest lower crimes rates, therefore, the city will allocate more funds towards public works for funding its capital projects. Second, a level of flexibility is needed in which the city is able to adjust its service levels to changing economic and social conditions. Mandatory costs are likely to occur, such as debt service payments, pension benefits, mandates, etc. A growing number mandatory costs would likely decrease flexibility and may affect the Sheboygan's ability to provide services. The overall results in Sheboygan suggest there have been no significant changes in expenditure costs. However, minimal changes may affect the overall operating position.

Operating Position

Operating position refers to Sheboygan's ability to maintain reserves for emergencies, and maintain sufficient cash to pay short-term obligations and bills. A city will generate an operating surplus (revenue exceeds expenditures) or deficit (expenditures exceeds revenue). These surplus and deficits are created from policy decisions or unintentionally from imprecise forecasted revenues and expenditures. In Sheboygan, results would indicate there may have been some issues in maintaining an operational surplus, but that may be due to policy and/or priority shifts. Reserves are built through the accumulation of annual operational surpluses. These are maintained for a financial safety net in case of an event of loss of revenue source, natural disaster, economic downturn, etc. Having sufficient reserves allows for the city to be more flexible with its spending. Sheboygan has had an increase in uncommitted fund balances. Consequently, the city has used the balances as a funding source for one-time projects or purchases.

Debt Position

Debt position is important for examining its expenditure obligations that must be satisfied when due. Debt is an effective tool to finance capital improvements and smooth short-term revenue flows. Under the right circumstances, the city's debt should be proportionate to the size and growth of the city's tax base. Sheboygan has relatively been able to maintain its repayment obligations and related favorable bond rating. However, projections based on the report findings would suggest that the city needs to closely monitor its future capital list and related debt issues.

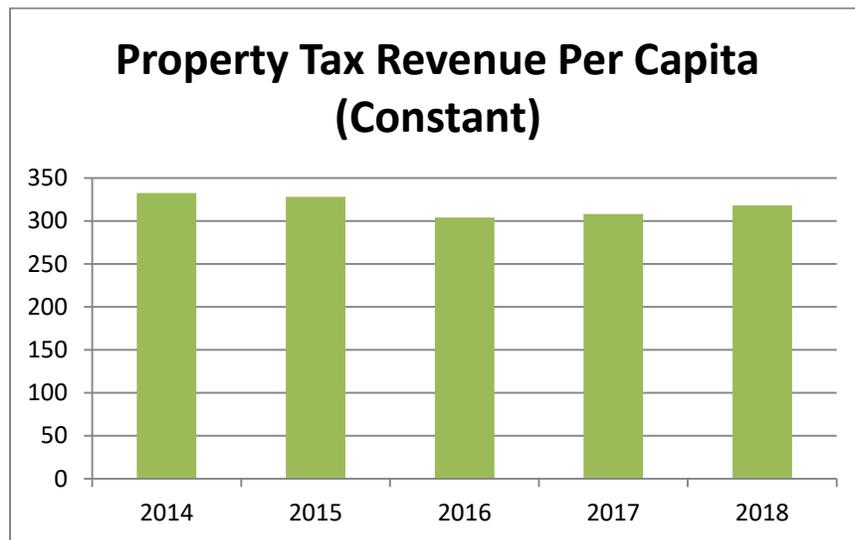
Property Tax Revenue Per Capita

Description

Property tax is one the major source of funding in the City of Sheboygan that makes up majority of the operating budget. Revenue per capita illustrates how revenue changes relative to the change in population over time. This reasoning argues that the cost of services is directly related to the population size. As the population size increases, it may be expected that the need for services would increase proportionately and remain constant during periods of decreasing size of population. If per capita revenue decreases, the city may unable to maintain existing services unless it finds new sources of revenue.

Analysis

Within the past five years, property tax per capita has decrease by approximately \$19 per capita. In 2014 through 2016, the city had seen a decrease in revenue, but increased in 2017 and 2018.



Formula:

$$\frac{\text{Operating Revenue (Constant)}}{\text{Population}}$$

	2014	2015	2016	2017	2018
Property Tax	\$16,167,763	\$15,972,916	\$14,960,383	\$15,406,665	\$16,469,774
CPI Conversion	1	0.999	0.986	0.966	0.943
Property Tax (Constant)	\$16,167,763	\$15,956,943	\$14,750,938	\$14,882,838	\$15,530,997
Total Population	48,649	48,654	48,514	48,329	48,846
Property Tax Revenue Per Capita (Constant)	332.33	327.97	304.06	307.95	313.54

Conclusion

Revenue per capita decreased from 2014 to 2016. However, with a modest change in population, revenue per capita has moderately risen over the past few years. Despite this, the city has had little to no trouble in absorbing the population and has been able to maintain its service level.

Revenue

Trend: **Favorable**

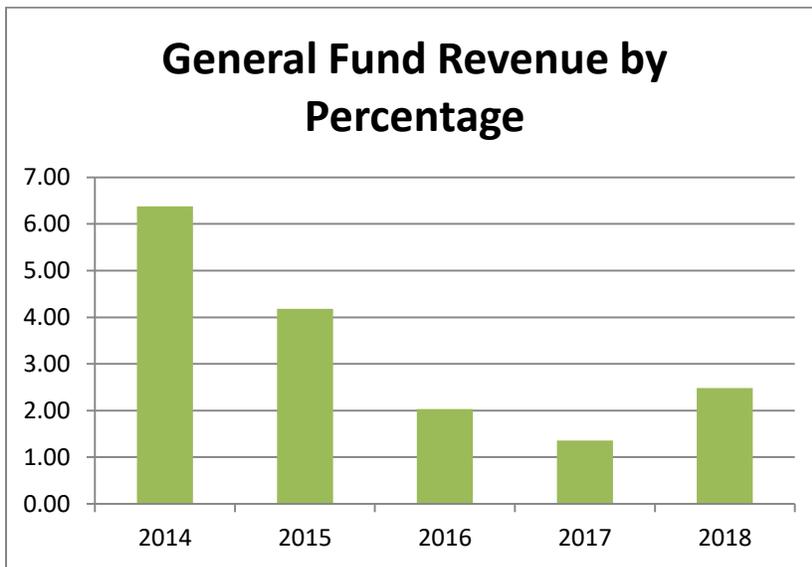
General Fund Revenue: Actual vs. Budget

Description

This indicator examines the comparison of the actual revenue received and budgeted in the General Fund revenue. This indicator is essential in examining the differences between the actual and budgeted funds to account for the operating revenue for services.

Analysis

The city has improved its projections for General Fund revenue in the past three years. The basis for its improved projection may be attributed to the city's enhanced analysis of planned permit fees associated with future development. With this downward trend since 2014, this trend is likely to remain constant.



Formula:

$$\frac{\text{Difference (Actual - Budgeted)}}{\text{Actual}}$$

	2014	2015	2016	2017	2018
Actual	\$35,020,791	\$34,426,556	\$33,126,796	\$33,665,263	\$35,091,324
Budgeted	\$32,922,200	\$33,045,716	\$32,469,155	\$33,212,132	\$34,121,641
Difference	\$ 2,098,591	\$ 1,380,840	\$ 657,641	\$ 453,131	\$ 969,683
Percentage Change	6.38	4.18	2.03	1.36	2.84

Conclusion

This trend is favorable. An under estimation of revenue means that the city may decide to increase property tax levy or applied fund balance more than necessary. An underestimated of budget revenues can result in constraints on services and/or capital projects. Therefore, examining the difference between the actual and budgeted revenues should be minimized as much as possible.

Revenue

Trend: **Favorable**

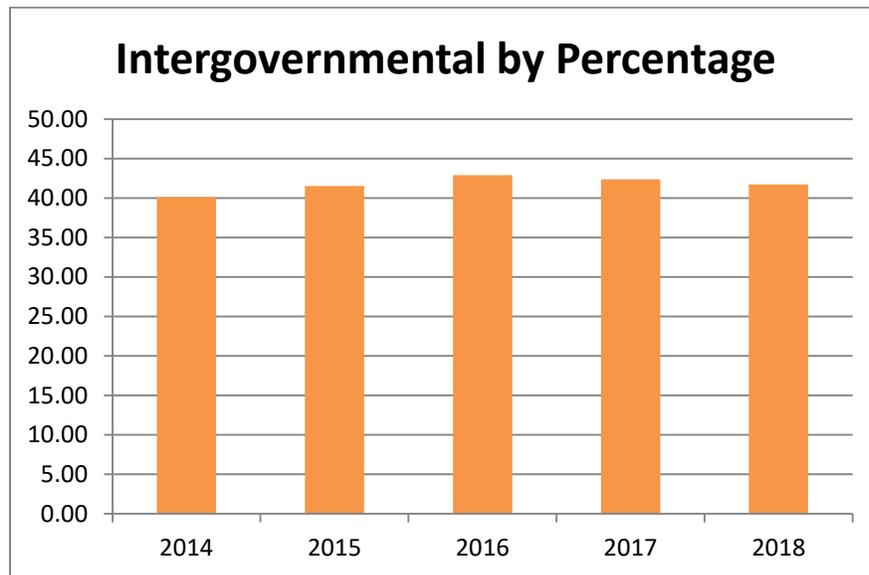
Intergovernmental Revenue

Description

Intergovernmental revenues are funds received from other governmental entities. However, an overdependence on intergovernmental revenue can have adverse impact on financial condition due to restrictions or stipulations that the other governmental entities attach to the revenue. For instance, as Federal and state governments struggle with their own budgetary problems, withdrawal or reduction of payments to local governments serve as one of their cutback options.

Analysis

Sheboygan's intergovernmental revenue as a percentage of the General Fund revenue is the city's second largest category (with Taxes being the largest category). Over the past five years, the percent of intergovernmental revenue has been very constant. In 2018, intergovernmental revenue increased by \$378,769 due, in part, to higher State Transportation Aids.



Formula:

$$\frac{\text{Intergovernmental Revenue}}{\text{Net Operating Revenue}}$$

	2014	2015	2016	2017	2018
Intergovernmental Revenue	\$14,047,489	\$14,297,099	\$14,207,490	\$14,258,858	\$14,637,627
Net Operating Revenue	\$35,020,791	\$34,426,556	\$33,126,796	\$33,665,263	\$35,091,324
Percentage	40.11	41.53	42.89	42.36	41.71

Conclusion

The city, similar to all other Wisconsin municipalities, relies heavily on intergovernmental aid and grants for operating purposes. The State of Wisconsin has restricted options of municipalities in generating additional direct revenue sources, i.e. sales and income taxes. State Transportation Aids to the city has increased in the last two years and is expected to increase in light of the State formula which rewards municipalities which spends more on transportation-related activities.

Expenditure

Trend: Favorable

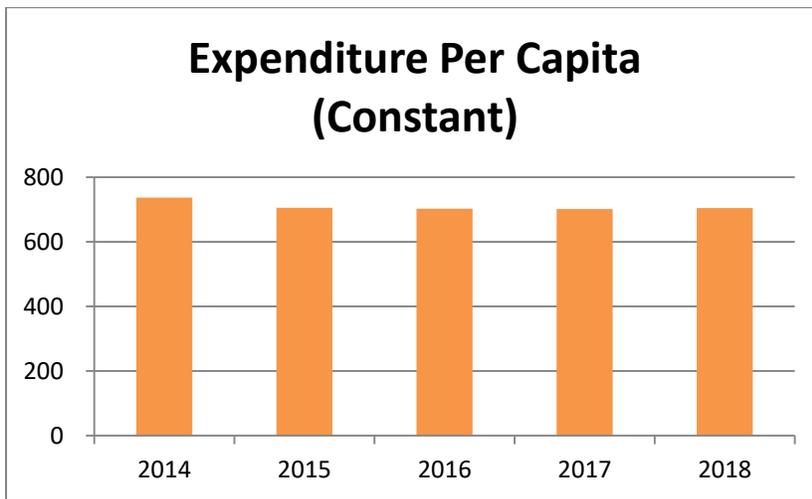
Expenditure Per Capita

Description

Expenditures per capita reflect changes of expenditures relative to the population. An increase in per capita may indicate that cost of providing services is exceeding the City's ability to pay. If the increase in spending is greater than would be expected from continued inflation and cannot be explained by the addition of new services, it can be an indicator of declining productivity, whereby the government is spending more real dollars to support the same level of services.

Analysis

With the exception of 2014, (General Fund) expenditures per capita have been stable.



Formula:
$$\frac{\text{Expenditure (Constant)}}{\text{Population}}$$

	2014	2015	2016	2017	2018
Expenditure	\$35,859,473	\$34,348,224	\$34,565,857*	\$35,104,914	\$36,460,099
CPI Conversion	1	0.999	0.986	0.966	0.943
Expenditure (Constant)	\$35,859,473	\$34,313,875	\$34,081,935	\$33,911,347	\$34,381,873
Total Population	48,649	48,654	48,514	48,329	48,846
Expenditure Per Capita	737.11	705.26	702.52	701.68	703.88

*The 2016 Expenditure amount does not include a \$2.5 million transfer to Sheboygan County for capital costs associated with the transfer of emergency dispatch services.

Conclusion

If expenditure per capita increased without offsetting increases in revenue, the city will have to be concerned over policy issues. However, the trend seems to reveal no significant changes and does not warrant changes over its policies.

Expenditure

Trend: Favorable

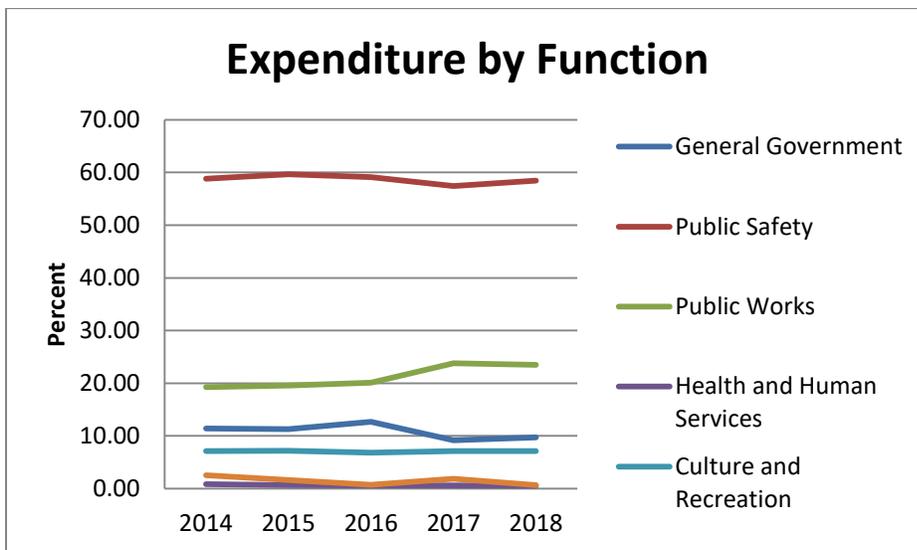
Expenditure by Function

Description

Expenditures by function show a breakdown of the General Fund expenditures. This can help analyze causes of changes in expenditures over time by department. The City of Sheboygan operates with at least six departments reflected in their finances in terms of employees, services, and benefits.

Analysis

The overall expenditures of the General Fund have been fairly stable with an average annual increase of less than 1 percent. (Please note the dollar amounts here have not been adjusted by the CPI Conversion.) Three categories experienced significant changes over the four year period: Public Works (increase), Health and Human Services (decrease), and Conservation and Development (decrease).



Formula:

$$\frac{\text{Expenditures}}{\text{Net Expenditures}}$$

	2014	2015	2016	2017	2018
General Government	\$ 4,036,423	\$ 3,886,099	4,689,064	3,221,641	3,523,721
Public Safety*	\$20,820,701	\$20,481,643	21,920,893	20,153,962	21,258,978
Public Works	\$ 6,809,341	\$ 6,711,257	7,443,242	8,359,079	8,550,172
Health and Human Services	\$ 301,953	\$ 233,341	233,451	221,626	188,887
Culture and Recreation	\$ 2,515,122	\$ 2,470,759	2,521,890	2,502,128	2,589,426
Conservation and Development	\$ 905,387	\$ 565,125	257,317	646,478	348,915
Total	\$35,388,927	\$34,348,224	\$37,065,857	\$35,104,914	\$36,460,099

*The 2016 Expenditure amount does not include a \$2.5 million transfer to Sheboygan County for capital costs associated with the transfer of emergency dispatch services.

Conclusion

With the exception of the Public Works category, Health and Human Services and Conservation and Development experienced one-time expenses in prior years which are not expected to be repeated. Future funding in the Public Works category is anticipated to continue at the 2017 and 2018 levels.

Expenditure

Trend: **Favorable**

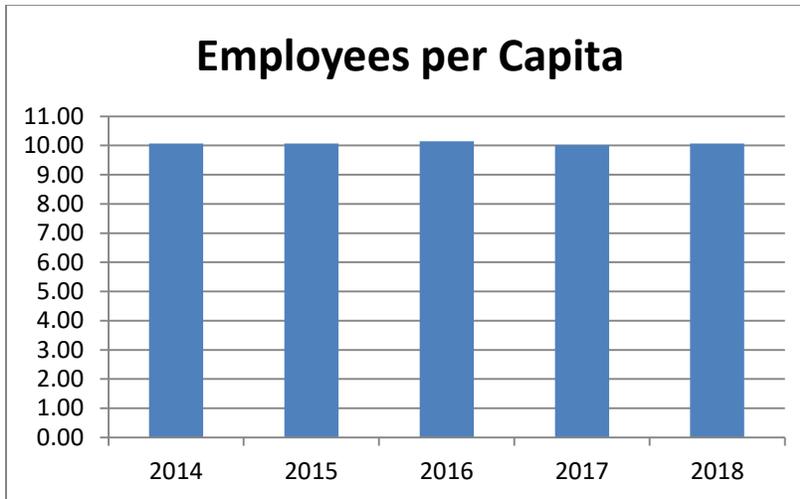
Employees per Capita

Description

This measure represents total employees on the payroll system. Personnel costs are a major portion of local government's operating budget. Therefore, plotting changes in the number of employees per capita is a good way to measure changes in expenditures. In addition, increasing ratio of employees per 1,000 in population can be a warning sign for declining productivity or more labor intensive services that have been added or expenditures are rising faster than revenues.

Analysis

Sheboygan's municipal government number of employees has remained consistent over the past five years. With no material change in population, no material change in employees has occurred during this period.



Formula:

$$\frac{\text{Number of Municipal Employees}}{\text{Population}}$$

	2014	2015	2016	2017	2018
Number of Employees	490	490	492	484	492
Total Population	48,649	48,654	48,514	48,329	48,846
Employees per 1000	10.07	10.07	10.14	10.01	10.07

Conclusion

There have been no significant changes over the past five years. In addition, the city has had no significant service demand or program changes that would indicate a basis for an increase in municipal employment, such as higher crime rates would mean more police officers.

Expenditure

Trend: **Favorable**

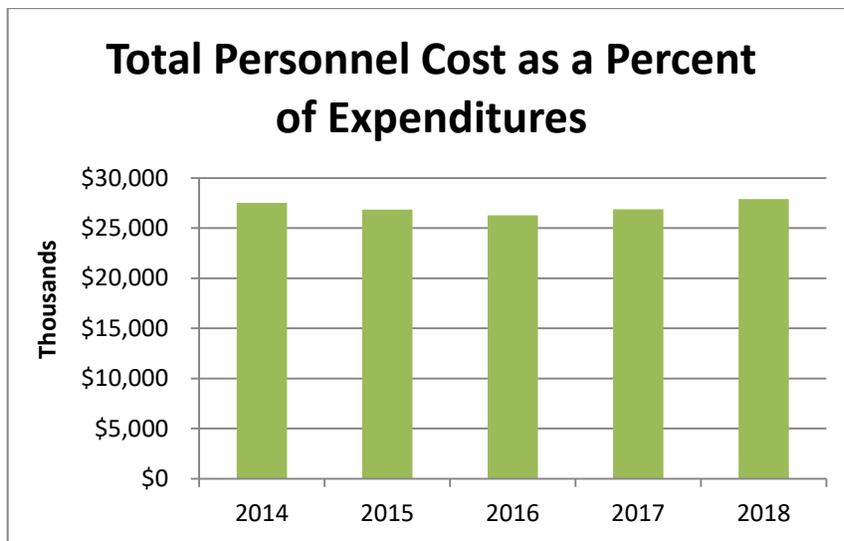
Personnel Cost as a Percentage of Expenditures

Description

As part of the operating (General Fund) expenditure, personnel cost is reflective of the community's ability to pay for the services government provides. In addition, plotting changes in the personnel cost is a good way to measure changes in expenditures. This is a measure of the average compensation, including benefits such as health care, social security, Medicare, and retirement for the average employee.

Analysis

To measure the average personnel cost, total personnel cost were divided by the total expenditures spent in that fiscal year. The average percentages of personnel costs have been stable over the 2014 - 2018 period.



Formula:

$$\frac{\text{General Fund Wages and Benefits}}{\text{General Fund Expenditures}}$$

	2014	2015	2016	2017	2018
Total Personnel Cost	\$27,518,961	\$26,846,154	\$26,290,365	\$26,881,564	\$27,896,420
Total Expenditure	\$35,859,473	\$34,348,224	\$34,565,857*	\$35,104,914	\$36,460,099
Percentage in Personnel Costs	76.74	78.16	76.06	76.57	76.51

*The 2016 Expenditure amount does not include a \$2.5 million transfer to Sheboygan County for capital costs associated with the transfer of emergency dispatch services.

Conclusion

This indicator receives a favorable trend. While both expenditures and personnel costs since 2016 have increased slightly, the city has been able to manage its personnel cost.

Expenditure

Trend: **Favorable**

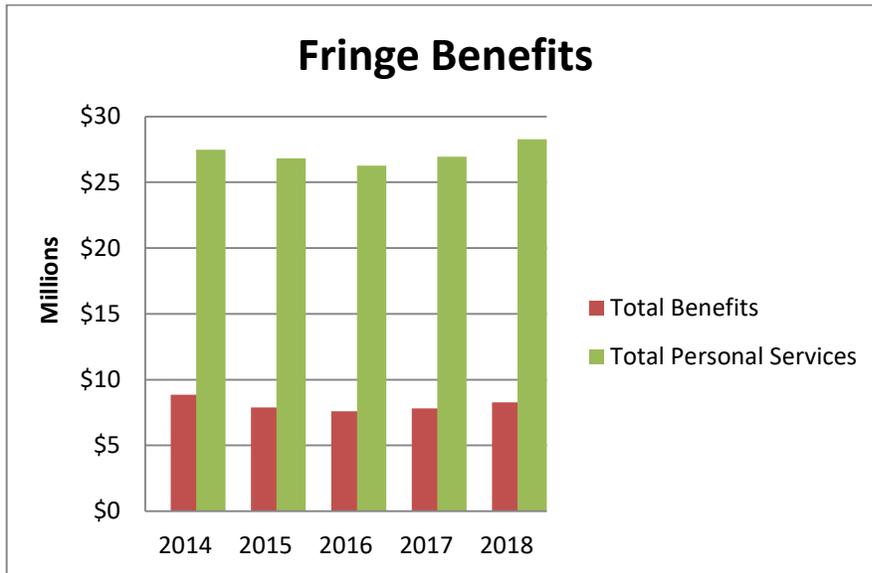
Fringe Benefits as a Percent of Personal Services

Description

Fringe benefits represent a significant share of the city operating cost. Common forms of fringe benefits in Sheboygan are Social Security, retirement, unfunded pension liability, health insurance, life insurance, dental insurance, worker’s compensation, unemployment compensation, and clothing allowance. Monitoring fringe benefits will allow the city to isolate increasing costs and make adjustment where necessary. The complexity of funding and recording of fringe benefits often involves complex processes that may go unnoticed, straining the government’s finances.

Analysis

Starting in 2015, fringe benefits in comparison to wages and salaries have remained stable. Specifically, active and retiree health insurance-related costs were significantly higher in 2014. Subsequently, the city modified its health insurance plan by implementing a high deductible policy design.



Formula:

$$\frac{\text{Fringe Benefits expenditure}}{\text{Personal Services expenditures}}$$

	2014	2015	2016	2017	2018
Fringe Benefits	\$ 8,865,372	\$ 7,884,409	\$ 7,603,100	\$ 7,814,496	\$ 8,272,026
Total Personal Services	\$27,464,592	\$26,828,974	\$26,269,195	\$26,946,746	\$28,270,608
Benefits as %	32.21%	29.38%	28.94%	29.00%	29.26%

Conclusion

The City of Sheboygan implemented a high deductible health insurance plan, effective in 2015. This change has resulted in a decline of costs by approximately 20 percent which has similarly reduced fringe benefit costs. Other costs have increased at the same inflationary rate as wages.

Operating Position

Trend: **Favorable**

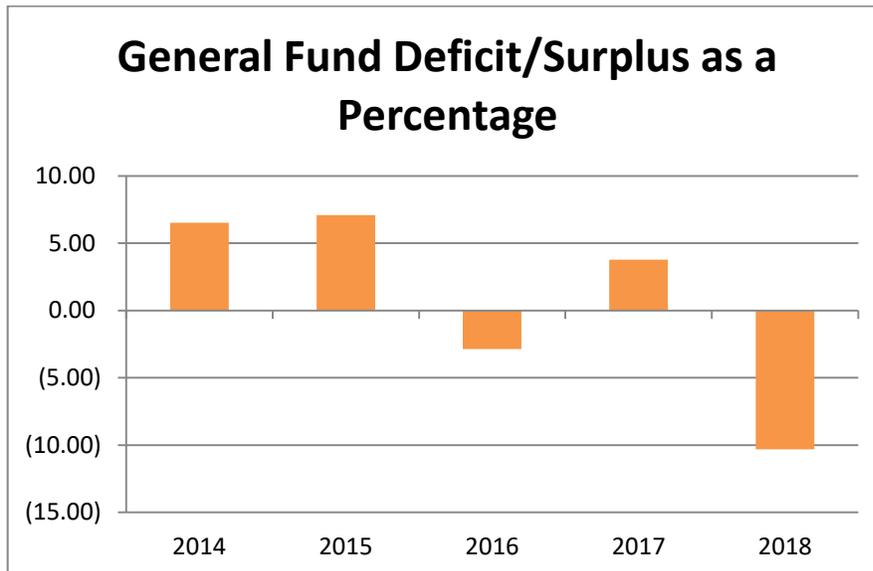
General Fund Operating Surplus or Deficit

Description

As one of the basic measure of localities in operating position, this measure examines a city well-being in how much money was spent as compared with the amount that was brought in. If more money is being spent, than the city will have to make adjustments in order to maintain operations. If expenditures are outpacing money being brought in, than the city will have to make adjustments in cutting cost or decrease level services.

Analysis

In 2016 and 2018, the Common Council supported one time contributions of \$2.5 million and \$5.5 million respectively from the General Fund to support the development of a County centralized emergency dispatch center and City Hall renovations. It is the city's normal practice to budget conservatively on its revenues and expenditures which usually results in end of year surpluses.



Formula:

$$\frac{\text{GF Revenue} - \text{GF Expenditure}}{\text{GF Revenue}}$$

	2014	2015	2016	2017	2018
Revenue	\$38,438,801	\$37,350,132	\$36,034,360	\$36,486,575	\$38,039,543
Expenditure	\$35,932,875	\$34,793,246	\$37,068,849	\$35,112,766	\$41,965,674
Deficit/Surplus	\$ 2,505,926	\$ 2,556,886	(\$1,034,489)	\$ 1,373,809	(\$3,926,131)
Deficit/Surplus as a Percentage	6.52	7.09	(2.87)	3.77	(10.32)

Conclusion

Due to the city's high fund balance in the General Fund, this fund is frequently a source of revenue for one-time projects. Without the \$2.5 million and \$5.5 million transfers, both 2016 and 2018 would have respectively experienced a surplus - \$1,465,511 in 2016 and \$1,573,869 in 2018.

Operating Position

Trend: **Favorable**

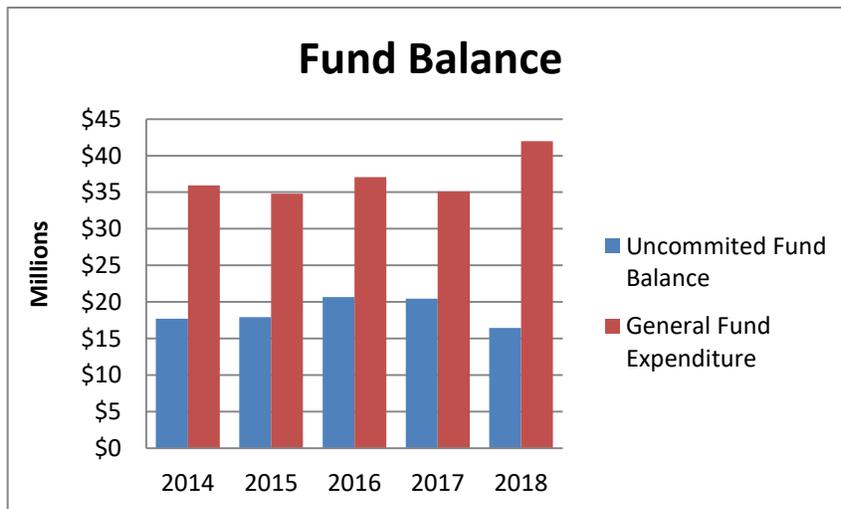
Fund Balance

Description

Fund balances are excess of revenues over expenditures. Positive fund balances can also be thought of reserves, although they are not always synonymous with appropriations. Reports may show allocations of fund balances as non-spendable, restricted, committed, assigned and/or unassigned/uncommitted.

Analysis

The city's financial policy includes a policy on uncommitted fund balance in the General Fund to be maintained at no less than 25 percent. The 2018 fund balance and the percent of fund balance were impacted by the use of \$5.5 million toward the City Hall renovation project. If the use of \$5.5 million did not occur, the uncommitted fund balance would be \$21,958,166 and the percentage of fund balance would be 60.22 percent. Prior to 2018, the trend for uncommitted fund balance reveals an upward trend. The percentage of fund balance in the General Fund had increased 9 percent in the past four years.



Formula:

Fund Balance

General Fund Expenditure

	2014	2015	2016	2017	2018
Uncommitted Fund Balance	\$17,707,173	\$17,905,924	\$20,678,879	\$20,461,650	\$16,458,166
General Fund Expenditure	\$35,932,875	\$34,793,246	\$37,068,849	\$35,112,766	\$41,965,674
Percentage of Fund Balance	49.28	51.46	55.79	58.27	39.22

Conclusion

The percent of uncommitted fund balance in the General Fund is favorable. The maintenance of an adequate fund balance suggests that government operations are running smoothly. In addition, city's ability to accumulate and maintain a fund balance at or above 25 percent is a good indicator of the city's ability to withstand financial emergencies, such as a natural disaster.

Debt Position

Trend: **Favorable**

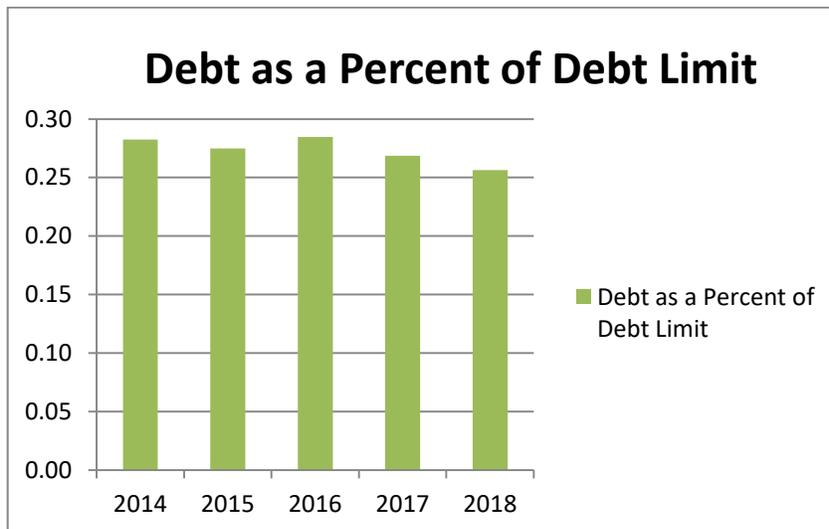
Net Direct Debt to Debt Limit

Description

The net direct debt includes all debt backed by the city's full faith and credit pledge, such as the general obligation bond. In Wisconsin, the debt capacity is limited by Wisconsin State Statutes to five percent of the equalized value.

Analysis

General Obligation (GO) debt has slightly increased (3 percent) from 2014 to 2018. Due to a moderate increase in equalized valuation, the city's Net Direct Debt to Equalized Value has remained relatively stable.



Formula:

$$\frac{\text{GO Debt}}{\text{WI Limit of Equalized Value}}$$

	2014	2015	2016	2017	2018
GO Debt	\$34,965,437	\$33,075,255	\$34,834,531	\$35,174,580	\$36,039,627
WI Debt Limit of Equalized Value (5%)	\$123,754,750	\$120,376,600	\$122,309,695	\$130,980,250	\$140,495,000
Net Equalized Value	0.28	0.27	0.28	0.27	0.26

Conclusion

The Great Recession severely impacted the real estate market and the overall local economy. As evidenced by the increase in equalized property values, 2017 was the first year of property appreciation since 2008. Increases in equalized property valuation positively impact the city's ability to incur additional debt. With the annual percent increase of equalized valuation exceeding the percent of increased debt, the city's overall debt as a percentage of debt limit remains stable or slightly lower.

Debt Service as a Percentage of Property Tax Levy

Trend: **Favorable**

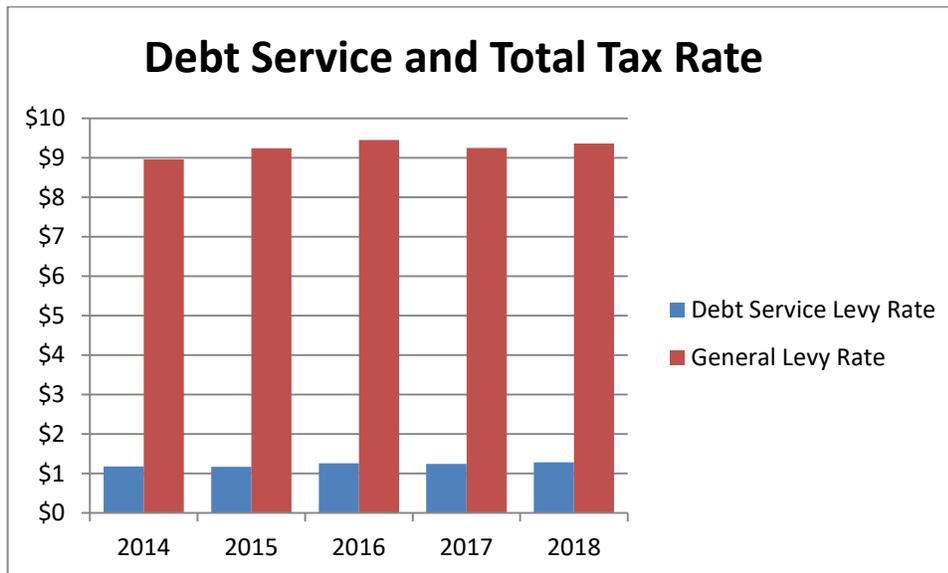
Annual Debt Service

Description

Debt Service as a Percentage of Property Tax Revenue is the amount of principal and interest that the city pays each year on long and short-term (non-development and non-utility) debt with property tax levy. As debt service increases, it adds to the city's obligations and reduces expenditure flexibility. In addition, debt service is a major part of the city's fixed costs and any increase may indicate excessive debt and fiscal strain.

Analysis

The share of the Property Tax Revenue (equalized tax rate) that is allocated to pay for debt service is stable. Although the tax rate has increased 10 cents per thousand dollar valuation since 2014, it remains proportional to the overall tax rate between the years 2014 - 2018.



Formula:

$$\frac{\text{Debt Service Levy Rate}}{\text{General Levy Rate}}$$

	2014	2015	2016	2017	2018
Debt Service-related Tax Rate	\$1.18	\$1.17	\$1.26	\$1.24	\$1.28
Total Municipal Tax Rate	\$8.96	\$9.24	\$9.45	\$9.52	\$9.36
Percent of Tax Rate	13%	13%	13%	13%	14%

Conclusion

The city's debt service which is funded by property taxes has been relatively stable as a percent of overall municipal property tax revenue. The percentage from 2014 – 2018 has increased by 1 percent. This resource reflects the traditional revenue source of debt service payments for General Obligation debt.