

**TOWN OF SHERMAN**

**FINANCIAL ROAD MAP, TAXES AND**

**CAPITAL SPENDING**

**JULY 11, 2023**

**PREPARED BY KURT WOLFF, TOWN CHAIR**

v. 2.0

## Town of Sherman

### Financial Road Map, Taxes and Capital Spending

#### July 11, 2023

#### Background

Last November, the Town Electors passed a resolution to increase the 2022 Town levy from \$141,210 to \$175,313. It was the first time Sherman raised the levy above the State imposed caps *likely* since levy limits were introduced in 2010; that is when the State capped levy increases to a formula based on 'net new construction'. This new formula was never meant to *prevent* a Town from raising the levy above the levy cap, but it did *require* the Town to seek approval from the Electors in order to *exceed* the levy cap. Over the years, the 'net new construction' formula provided nominal levy increases for small towns like Sherman. At a recent Wisconsin Towns Association seminar, a speaker highlighted this point. For the period 2010 to 2021, levy increases based on the 'net new construction' formula averaged 11% in small towns while core inflation increased 31%. The speaker then noted that road costs, the largest component of the town budget, nearly doubled during that same time period.

#### **Why did the Town Board pass a resolution last fall recommending the Electors increase the levy limit?**

As a baseline for discussion, let's begin with the original 2022 budget. This was the official Town operating document in effect when I was appointed Town Chair in February 2022. That budget had \$115,302 of Operating Income available for Capital Expenditures. At the time, Sherman was operating with one full time highway employee where historically the Town had operated with two full time highway employees. The original 2022 budget did not include many benefits for the highway employees. Albeit with a different board, it was determined that \$115,000 operating income, with only one full time highway employee was simply insufficient to maintain roads, replace equipment and conduct highway operations in a safe manner.

**What has changed since the original 2022 budget was approved?** Last year, the Board reviewed highway compensation and decided the Town should work towards making Sherman more competitive with surrounding towns that are of similar size, equalized value and makeup. Wages increased and a health insurance option was provided for those not covered by health insurance. Currently we are evaluating a retirement plan benefit to add in 2024. A second full time highway employee was hired six months ago.

There has also been some good news. In May 2022, the State increased payments the Town receives on State forest land from \$29,000 to \$108,508. Last month, we learned shared revenue received from the State is increasing from \$8,320 to \$43,141. Shared revenue and State forest land payments had been essentially flat for years. These two most welcomed changes, plus the 2022 levy increase has generated \$149,332 additional revenues. The increases to revenue have been offset somewhat by increases to operating costs (primarily to highway personnel costs as noted in the preceding paragraph). To recap:

Original 2022 Budget Operating Income	\$115,302
State Forest Land Payment Increase (2022)	79,508
State Shared Revenue Increase (2023)	35,821
2022 Levy Increase	34,003
Additional Highway Costs and Other	<u>(40,825)</u>
2023 Adjusted Operating Income	\$223,809



### Operating Income Target Level

**What is the appropriate target level for Operating Income going forward?** For this discussion, Operating Income is defined as recurring (ongoing) revenues less recurring (ongoing) operational expenses. Operating Income is the dollars available to pay for Capital Expenditures that are *non-recurring* in nature like equipment, road improvements and building projects. Although the Capital Expenditure needs are likely higher (if for no other reason than inflation will increase these costs over time), this document uses \$225,000 as a baseline for capital spending over the next five years. Debt, grants, reserve deposits and reserve withdraws are used by the Town to smooth out the impact of large capital purchases. Consider the following:

*Equipment Replacement (\$100,000 annually):* Last year, we estimated the Town has \$2 million of equipment if it were purchased new today. Equipment purchases will not happen evenly, but if the Town set aside \$100,000 annually, it would take 20 years to replace all the equipment in static dollars (today's dollars not adjusted for inflation). Certainly some equipment will require replacement more frequently.

*Road Improvements (\$150,000 annually):* Sherman maintains about 45 miles of roads – 20 miles paved, 17 miles gravel and 8 miles chip seal. It costs about \$200,000 to pave or repave a mile of road. The life cycle of a paved road is around 30 years. During that 30 year life cycle, a chip seal road should get resealed four times. It would cost about \$150,000 annually in static dollars to repave .75 mile of paved road. In comparison, it costs approximately \$180,000 to single chip seal eight miles of chip seal roads in today's dollars. In the 30 year life cycle, the chip seal roads are completed four times leaving the other 26 years to resurface the 20 miles of paved roads.

*Other Road Items:* The Town has not quantified costs for culvert replacement, bridge maintenance or contracting out to periodically crack seal the roads. Although a portion of the cost to maintain the gravel roads is included in the operating budget, every four years or so the Town pays about \$40,000 for gravel crushing. There will be engineer services needed from time to time.

*Building Projects:* The Town Hall is now 20 years old. There will be future costs to replace building components. At this point the Town has not prepared a detailed analysis of what these costs might look like. Over the next few years the heating/cooling system will likely need replacement. The storage shed (located immediately east of the Resale shop) will require demolition soon.

On balance an Operating Income target of \$225,000 seems reasonable. Grants should be pursued and that may require the Town to hire out third party grant writing services. As a Board we need some time to better understand funding availability. We also need some additional time to better quantify future building projects and specific road needs.

### Capital Expenditures

Exhibit A (page 4) is a one page Capital Expenditure summary. From 2024 to 2028, the proposed amount is \$225,000 annually for capital spending. For presentation purposes, any grants received, transfers made from the equipment/road reserve or loan proceeds used to pay for a Capital Expenditure are shown as a reduction to the gross capital spending. In 2024, the plan is to replace one snow plow truck, the front end loader, address the Sandy Beach Bridge, chip seal Beaver Creek Road and replace the culvert on Murray's Landing road.



### Financial Road Map

**What does a five year financial road map for the Town look like?** It begins with the original 2022 budget as shown on Exhibit B (page 5) and highlights the following four points.

- Revenues grow from \$365,000 to \$540,000 in 2024. The revenue increase comes from higher State payments in shared revenue and forest land. The Town levy increases by \$47,000. Going forward, the Town levy grows annually by an amount to cover increases to operating expenses in order to maintain the Operating Income target level.
- Highway personnel costs increase due to adding a second employee, increasing wages and adding benefits.
- Operating Income available for Capital Expenditures increases from \$115,000 to \$225,000.
- The remaining categories – general government, municipal building/grounds, public safety, public works and highway other – are relatively stable costs.

Going forward, about 41.6% of the budget is allocated to Capital Expenditures and 32.1% to highway wages/highway other. General government is allocated 12.6%, public safety 5.3%, municipal building 4.6% and waste/recycle 3.8%. (The detail supporting the summary numbers are available on the Town website ([www.townofsherman.net](http://www.townofsherman.net)) under the category *Government > Budget*.)

### Real Estate Taxes

As highlighted last year, the vast majority of your real estate tax bill payment goes to the school district and the county. In 2022, the Town of Sherman retained about ten percent (10%) of the tax bill. Despite the levy increase at the Town level, 2022 property tax bills actually declined about eight percent (8%) when compared to 2021. The reason for the overall decrease was a reduction in the school district's levy. Exhibit C (page 6), provides some additional information on real estate taxes.

If you made it through the report this far, then your next question is: **How much does this cost me?** In 2021, the Town levy was \$140,000 which amounted to about \$100 for every \$100,000 of assessed value. In 2022, the levy increased to \$175,000 or about \$125 for each \$100,000 of assessed value. In 2023, the levy would increase about \$12,000 or \$8 (from \$125 to \$133) for every \$100,000 of assessed value. If the median property in Sherman is assessed at \$300,000, the Town levy increases from \$300 per \$100,000 of assessed value in 2021 to \$400 per \$100,000 of assessed value in 2023.

### Summary

This document is meant to generate discussion or at least provide Town residents a snapshot of current Board thinking as we enter the budget season. While the Town Chair drafted this report (and the Town Board needs an opportunity to discuss the report in more detail), feel free to contact any Board member with written comments: Kurt Wolff - [shermanchair@outlook.com](mailto:shermanchair@outlook.com); John Heimberger – [shermanroadsup@outlook.com](mailto:shermanroadsup@outlook.com); Todd Faller – [tmifaller17@gmail.com](mailto:tmifaller17@gmail.com)

As either a full time or seasonal resident, your comments are important whether you agree or disagree with the financial road map. If you disagree, tell us your specific objections other than 'not raising taxes'. Focus in on capital spending targets, highway costs, board wages or whatever it might be. Specific information might assist in creating a better road map. The plan is to discuss the document at a future Town Board meeting. There will also be a public hearing on the 2024 budget later this fall. We look forward to receiving your input and comments and welcome you to join in the discussion.

Town of Sherman  
Capital Expenditures 2024 - 2028  
Discussion as of 7.11.2023

Exhibit A

	2024	2025	2026	2027	2028
<u>Capital Expenditures</u>					
1. New Equipment	450,000		250,000		
Less: Equipment Reserve	(100,000)				
Less: Grant					
One Ton Patrol Truck	10,000				
2. Road Improvement	120,000	150,000	150,000	150,000	150,000
Less DNR/LRIP Grant	(70,000)	(20,000)	(70,000)	(20,000)	(70,000)
Less Road Reserve		(10,000)	(15,000)		
3. Culvert Work	20,000	50,000			
Less Grant	(10,000)	(25,000)			
4. Other Building Projects	20,000	20,000			
Less Grant					
5. Reserves: Equipment					
Road				5,000	10,000
					15,000
6. Loan Proceeds	(225,000)		(150,000)		
Debt Service Payments	10,000	60,000	60,000	90,000	120,000
Subtotal	225,000	225,000	225,000	225,000	225,000

Estimated Reserve Balances

	2024	2025	2026	2027	2028
Equipment					
Beginning Balance	117,673	17,673	17,673	17,673	22,673
Deposits	-	-	-	5,000	10,000
Uses	(100,000)	-	-	-	-
Ending Balance	17,673	17,673	17,673	22,673	32,673
Road Reserve					
Beginning Balance	32,963	32,963	22,963	7,963	7,963
Deposits	-	-	-	-	15,000
Uses	-	(10,000)	(15,000)	-	-
Ending Balance	32,963	22,963	7,963	7,963	22,963



Town of Sherman  
Financial Road Map  
July 11, 2023

EXHIBIT B

	Orig 2022 Budget	Revised					2027 Forecast	2028 Forecast
		2022 Actual	2023 Budget	2024 Forecast	2025 Forecast	2026 Forecast		
Town Tax Levy	140,244	140,827	175,213	187,163	187,963	192,502	194,468	200,412
Other Revenues	224,892	321,235	351,316	353,545	356,063	358,632	361,252	363,924
Total Revenues	365,136	462,062	526,529	540,708	544,026	551,134	555,720	564,336
General Government (1)	64,501	60,751	65,871	68,055	66,940	69,413	68,153	70,706
Municipal Building/Grounds (2)	15,350	14,859	23,999	24,997	25,603	26,228	26,872	27,535
Public Safety (3)	28,788	36,977	28,080	28,607	28,995	29,394	29,805	30,227
Public Works	19,545	21,255	20,281	20,491	20,701	20,917	21,140	21,369
Highway Wages/Benefits (4)	64,600	66,257	106,746	115,676	119,679	123,842	128,171	132,674
Highway Other (5)	57,050	76,229	57,743	57,882	57,108	56,340	56,579	56,825
Total Operating Expenses	249,834	276,328	302,720	315,708	319,026	326,134	330,720	339,336
Operating Income	115,302	185,734	223,809	225,000	225,000	225,000	225,000	225,000
Capital Expenditures (6)	162,313	188,023	363,693	225,000	225,000	225,000	225,000	225,000
Net Cash Flow	(47,011)	(2,289)	(139,884)	-	-	-	-	-

- (1) General Government: The schedule increases elected officials salary by three percent every other year. In even numbered years there are more elections, so costs fluctuate a bit between even and odd numbered years.
- (2) Municipal Building/Grounds: Between 2022 and 2023, costs increase about \$8,000. This is primarily due to a reclassification of utility costs. Previously utility costs were arbitrarily allocated to Fire, Highway and Municipal Building. It was decided to record utilities entirely to the Municipal Building/Grounds section for review and monitoring purposes. In addition to utility costs, \$1,500 of payroll was reclassified from Public Works to Municipal Building/Grounds.
- (3) Public Safety: Costs decrease in 2023 for a couple of reasons - reclassifying of utility costs described in (2) above to Municipal Building & Grounds; likewise worker's compensation costs were also reclassified; 2022 was a higher than normal year for equipment repairs.
- (4) Highway Wages/Benefits: The increase in 2023 is from adding a second highway maintenance employee and providing for a health insurance option for those employees not otherwise covered by insurance. The increase in 2024 adds a retirement plan benefit.
- (5) Highway Other: 2022 was an abnormal year for equipment repairs.
- (6) Capital Expenditures: The costs for roads, culverts, gravel crushing, equipment replacement, building projects, etc. are adjusted by loan proceeds, grants received and transfers from the equipment or road reserve. For additional detail see Exhibit A.

Town of Sherman  
Property Tax Discussion  
July 2023

EXHIBIT C

I. 2022 Tax Bill Analysis

	Total	Iron County	Town of Sher	School Dist	Nicolet
Assessed Value	200,000	200,000	200,000	200,000	200,000
Tax Rate	0.0125564	0.00543844	0.00125203	0.00569341	0.00017252
Tax Bill Before Credits	2,511.28	1,087.69	250.41	1,138.68	34.50
Total Equalized Value	156,399,337	156,399,337	156,399,337	156,399,337	156,399,337
Assessment Ratio	0.89478085	0.89478085	0.89478085	0.89478085	0.89478085
Town Assessed Value	139,943,132	139,943,132	139,943,132	139,943,132	139,943,132
Tax Rate	0.0125564	0.00543844	0.00125203	0.00569341	0.00017252
Total Dollars	1,757,182	761,072	175,213	796,754	24,143
Percent of Tax Bill	1.000	0.4331	0.0997	0.4534	0.0137

II. Compare 22 v 21

	Total	Iron County	Town of Sher	School Dist	Nicolet
2022 Total Dollars	1,757,182	761,072	175,213	796,754	24,143
Percent	1.000	0.4331	0.0997	0.4534	0.0137
2021 Total Dollars	1,912,519	743,891	140,244	1,001,675	26,713
Percent	1.000	0.389	0.073	0.524	0.014
Diff <> 2022 & 2021	(155,337)	17,181	34,969	(204,921)	(2,570)

Note: The total dollars paid to Iron County and the School District are approximate. There are some additional adjustments made that slightly alter the figures above.