

Village and Town of Cottage Grove Merger Study Committee
Preliminary Fiscal Impact Analysis
October 10, 2011



Let's talk about an opportunity.



Candor. Insight. Results.

Preliminary Analysis Findings

Project Overview



Candor. Insight. Results.

Phase I: Preliminary Fiscal Impact Analysis

- > Review the impacts of consolidation on the tax levy
- > Review 5-year estimated tax levy
- > Recommend potential costs savings and impacts to revenue to be further explored
- > Presentation to and discussion with Merger Study Committee and general public (tonight)
- > Prepare final report

Phase II: Budgetary and Expenditure Analysis

Phase III: Operational Consolidation Analysis

Preliminary Analysis Findings

Impacts of Merging



Candor. Insight. Results.

Villages can:

- > Initiate ordinances and resolutions through the direct legislation process (home rule)
- > Expand boundaries through the annexation of unincorporated territory
- > Exercise extraterritorial subdivision approval powers
- > Create tax incremental finance districts (available but very limited for Towns)

Considerations:

- > Impact on tax levy
- > Impact on service levels and fees
- > Regulations of rural affairs (hunting, leaf burning, animals, etc.)
- > Town meeting actions including levying taxes and authorizing highway expenditures

Preliminary Analysis Findings

Analysis Assumptions



Candor. Insight. Results.

- > This analysis is being conducted in order to provide the Village and Town with preliminary financial information regarding potential tax impacts of a consolidation
- > Other impacts of consolidation are not being examined as a part of this initial review
- > Certain financial assumptions have been made in order to provide an assessment of tax impacts including:
 - Taxes should not increase within the Village or Town
 - Service levels should remain as they are currently for all residents

Preliminary Analysis Findings

Village and Town 2011 Combined Budget Revenue



Candor. Insight. Results.

	Village 2011 Budget	Town 2011 Budget	Combined 2011 Budget
Revenue			
Taxes			
Property Tax	2,427,280	1,441,566	3,868,846
Other Taxes	175,321	15,777	191,098
Intergovernmental Revenue	303,551	273,837	577,388
Licenses and Permits	88,225	44,200	132,425
Fines, Forfeiture and Penalties	19,000	24,000	43,000
Public Charges For Services	76,915	218,296	295,211
Intergovernmental Charges	449,252	181,820	631,072
Investment and Other Income	3,935	61,791	65,726
Transfers from TIDs and utilities for debt service	1,535,002		1,535,002
Total Revenue	5,078,481	2,261,287	7,339,768

*Budget line items do not correspond directly to the individual budgets. Some revenues have been moved between line items in order to provide a consistent comparison between the entities.

*Village revenues to TID, Sewer, and Water funds have been excluded. However, transfers from those funds to the Debt Service fund are included.

* The Village's 2011 budget includes the use of reserve funds. These reserve funds have been excluded from this analysis.

* The Town charges a fee for refuse collection whereas the Village includes this service as a part of the levy.

Preliminary Analysis Findings

Village and Town 2011 Combined Budget Expenditures



Candor. Insight. Results.

Expenditures	Village 2011 Budget	Town 2011 Budget	Combined 2011 Budget
General Government	428,354	280,513	708,867
Public Safety			
EMS	144,467	94,229	238,696
Fire Protection	57,471	106,969	164,440
Inspections	42,674	1,809	44,483
Law Enforcement	1,175,359	466,930	1,642,289
Hydrant Rental	100,000		100,000
School Patrol/Crossing Guards	19,339		19,339
Public Works (includes refuse, recycling, landfill, street trees)	768,027	842,545	1,610,572
Culture, Recreation Education	238,136	17,662	255,798
Conservation and Development	45,361	17,099	62,460
Public Relations	19,975		19,975
Capital Outlays	112,870	128,462	241,332
Debt Service	1,958,710	305,069	2,263,779
Total Expenditures	5,110,743	2,261,287	7,372,030

*Budget line items do not correspond directly to the individual budgets. Some expenditures have been moved between line items in order to provide a consistent comparison between the entities.

Preliminary Analysis Findings

Effective Levy Calculation (based on 2011 budgets)



Candor. Insight. Results.

An “effective levy” has been calculated in order to compare the cost of services to taxpayers in the Town and Village. The “effective levy” is a tax rate per \$1,000 in equalized value (EV) that is inclusive of all funds paid by Town and Village residents (property tax and public fees for service).

Keep in mind that EV is different than the assessed values shown on individual tax bills and the effective levy is not the same as the current levy rate for each entity.

Preliminary Analysis Findings

Effective Levy Calculation (based on 2011 budgets)



Candor. Insight. Results.

	Village of Cottage Grove	Town of Cottage Grove	Combined Totals
Total Expenditures	5,110,743	2,261,287	7,372,030
Less: All revenues other than property tax and public charges for service (excluding water and sewer)	2,574,286	601,425	3,175,711
Total Expenditures Supported by Levy Revenues and Public Charges for Service	2,536,457	1,659,862	4,196,319

2011 Applicable EV (excluding TID)	543,965,900	383,620,900	927,586,800
Effective Levy Rate per \$1,000 of EV	4.663	4.327	4.524

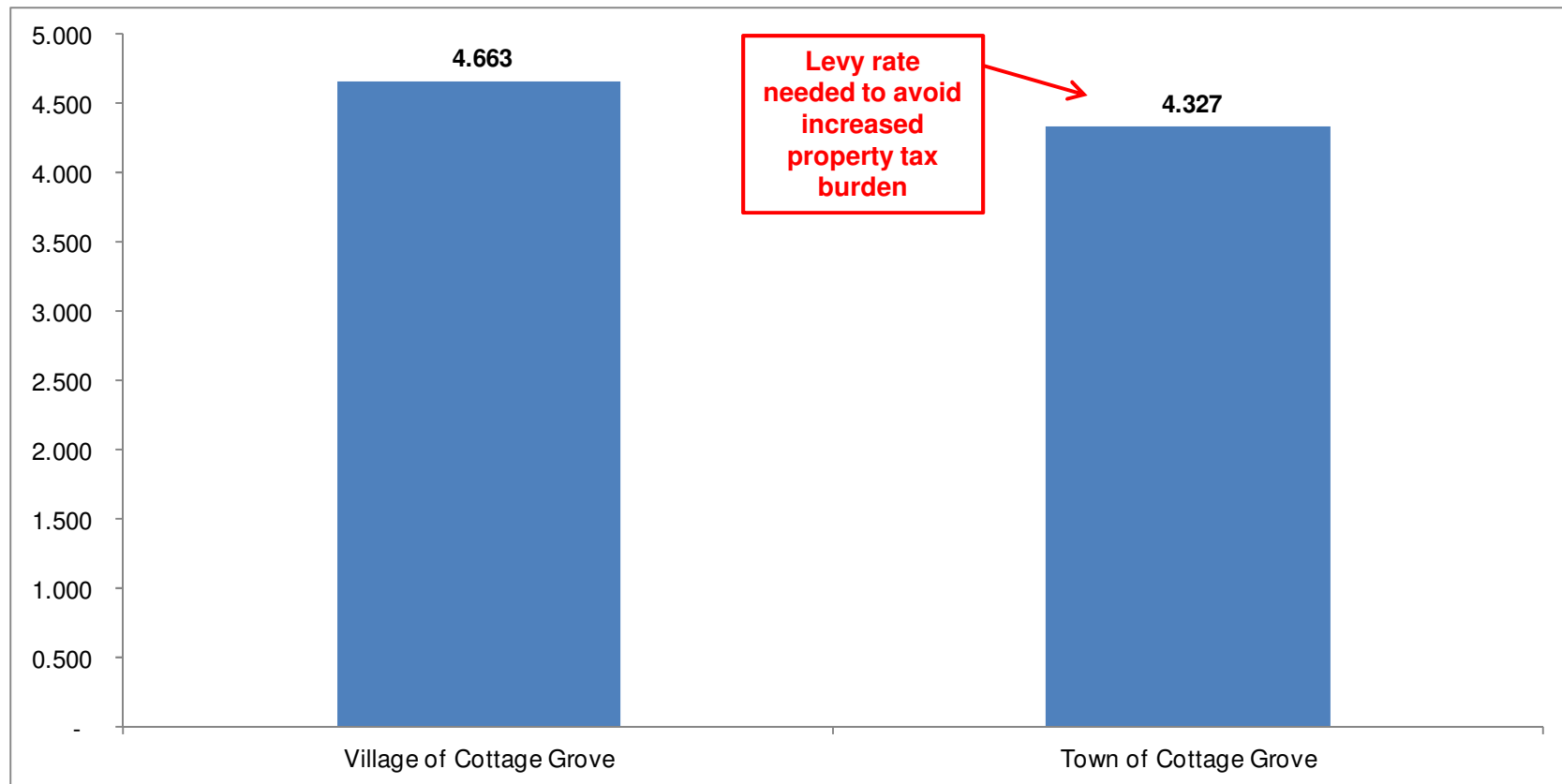
Preliminary Analysis Findings

Effective Levy Comparison (based on 2011 budgets)



Candor. Insight. Results.

Effective Levy per \$1,000 EV



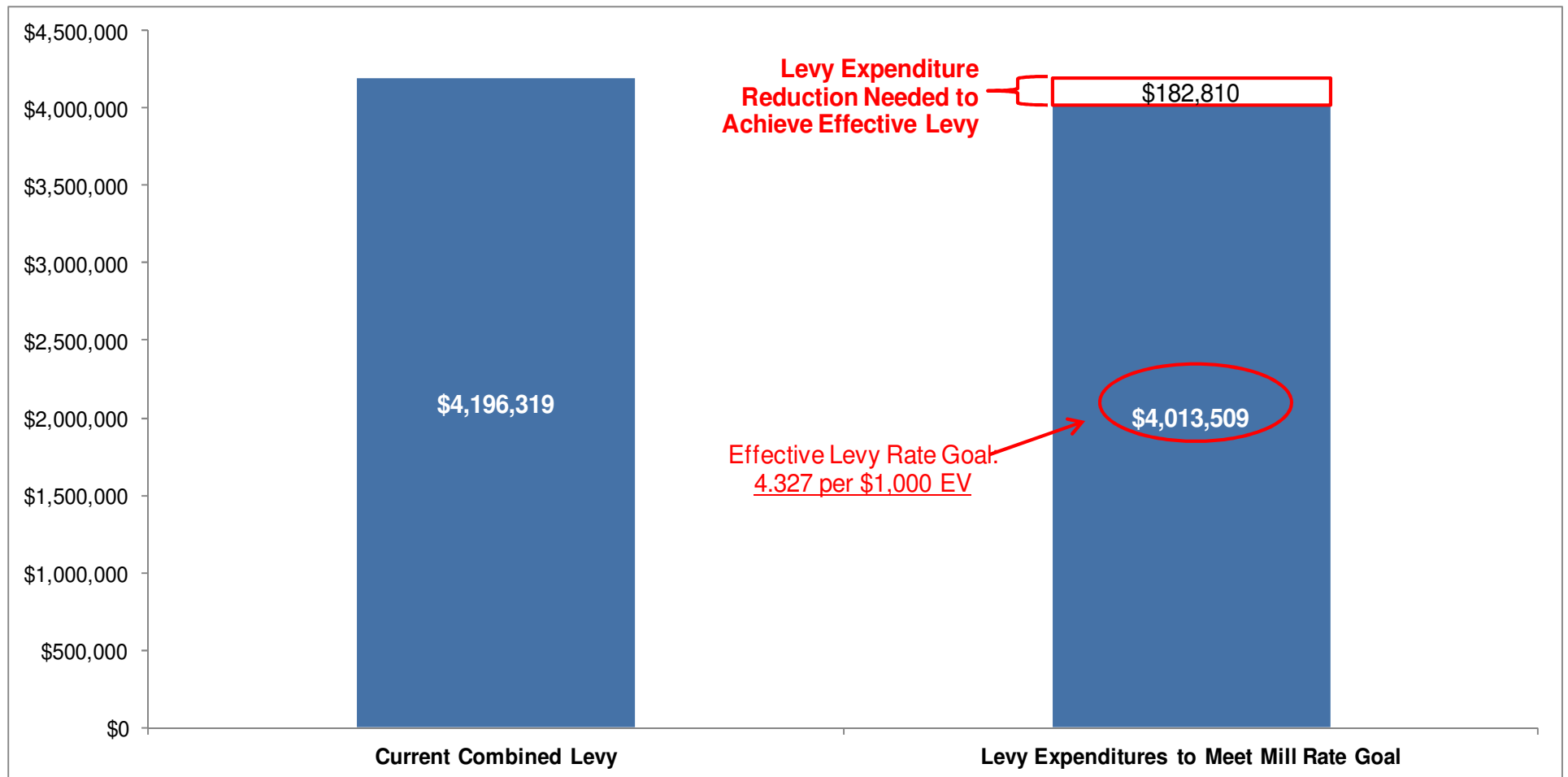
Preliminary Analysis Findings

*Expenditure Reduction Goal
(based on 2011 budgets)*



Candor. Insight. Results.

Combined Entity Expenditures



Preliminary Analysis Findings

Expenditure Reduction Goal (based on 2011 budgets)



Candor. Insight. Results.

It is important to note that the effective levy calculation and corresponding expenditure reduction goal include a Village expenditure of \$100,000 for hydrant rental in the 2011 budget.

The Village may consider removing all or a portion of this \$100,000 expenditure from the Village budget and include as a direct bill to water customers.

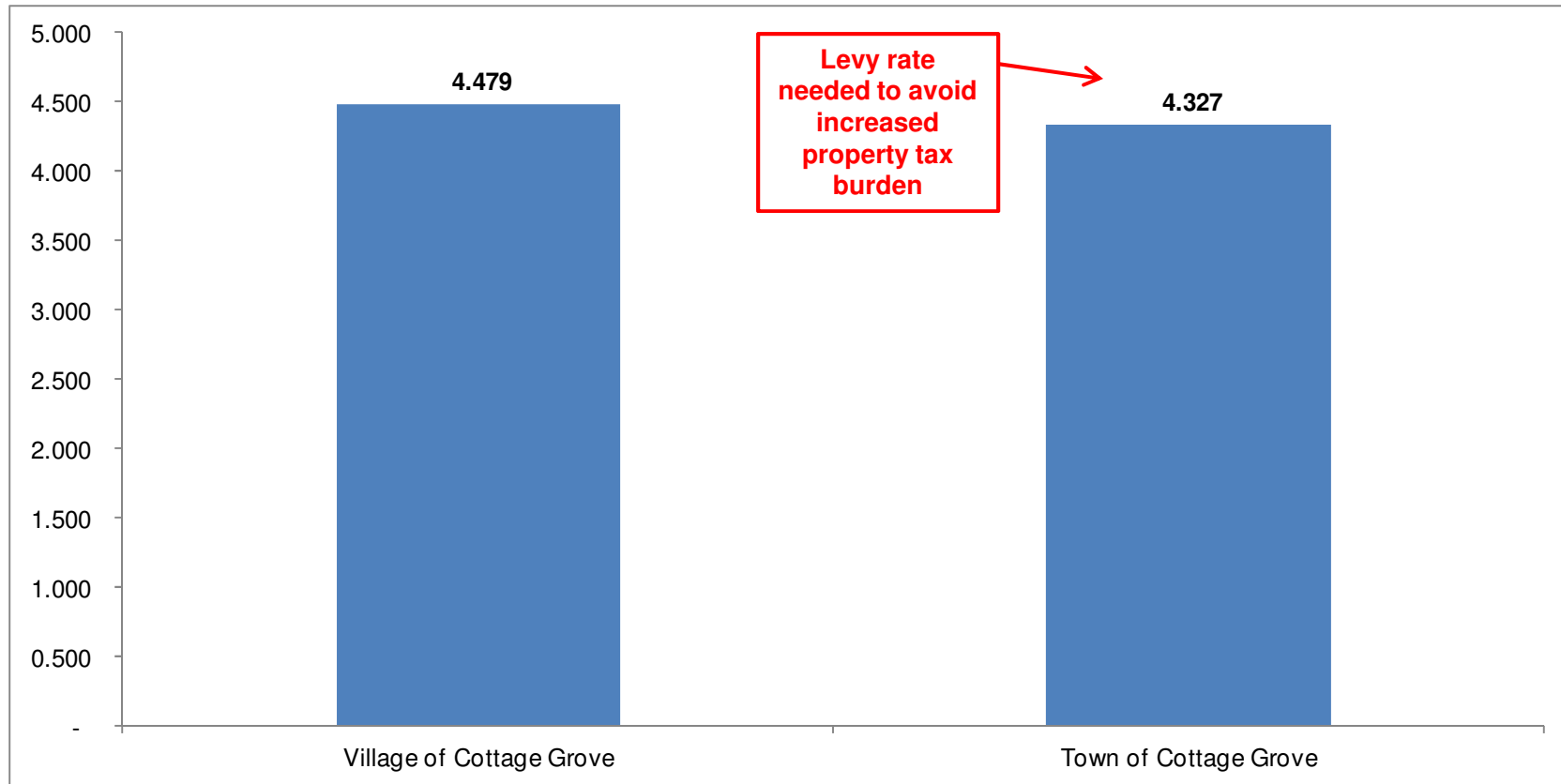
Preliminary Analysis Findings

*Effective Levy Comparison
(based on 2011 budgets excluding
\$100,000 hydrant rental fee)*



Candor. Insight. Results.

Effective Levy per \$1,000 EV (excluding hydrant rental fee)



*The \$100,000 payment for hydrant rental would be charged to water customers through their water bills.

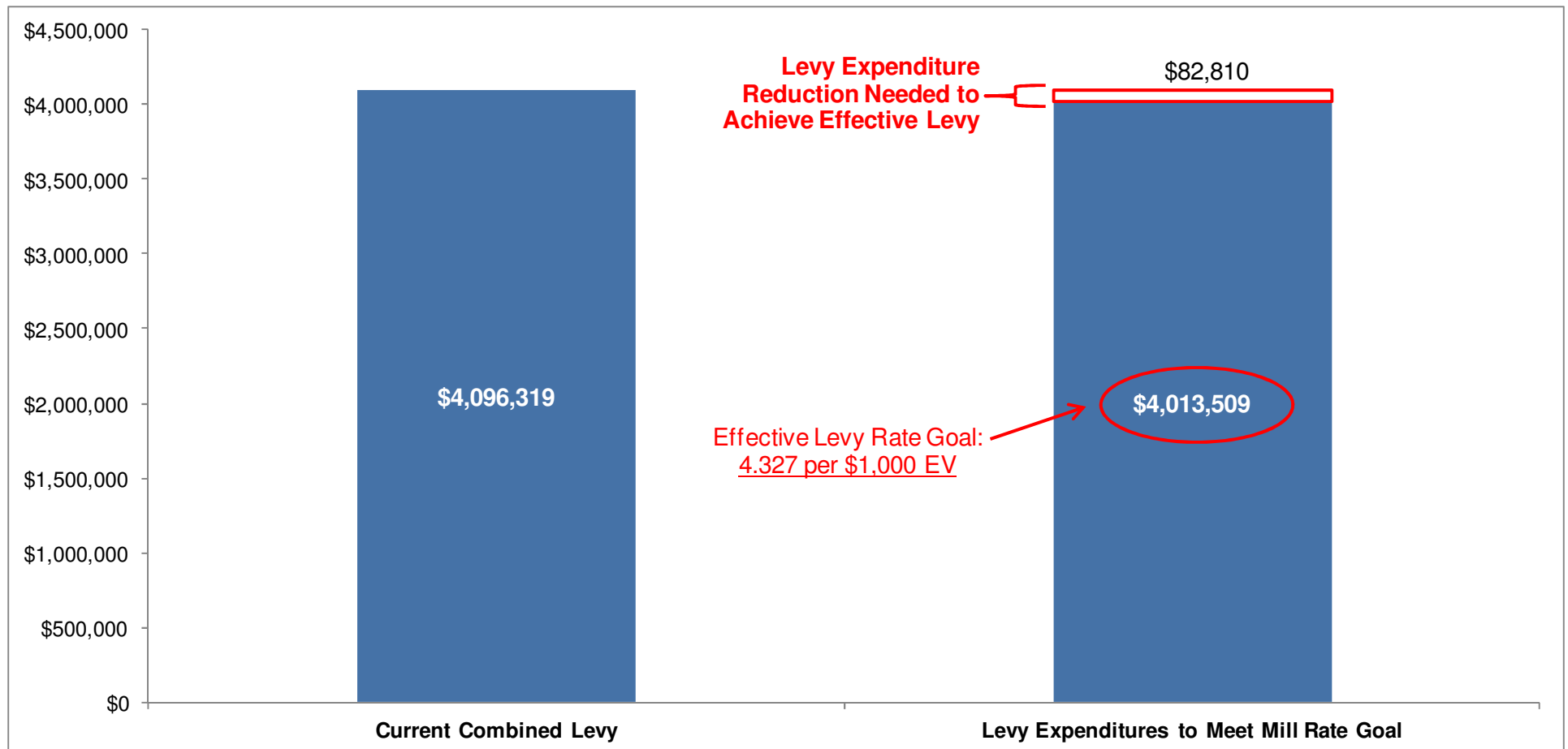
Preliminary Analysis Findings

*Expenditure Reduction Goal
(based on 2011 budgets excluding
\$100,000 hydrant rental fee)*



Candor. Insight. Results.

Combined Entity Expenditures (excluding hydrant rental fee)



*The \$100,000 payment for hydrant rental would be charged to water customers through their water bills.

Preliminary Analysis Findings

Effective Levy and Expenditure

Reduction Annual Analysis



Candor. Insight. Results.

Anticipated Impacts to 2011 Revenues and Expenditures:

- > Existing debt service payments
- > Expected capital costs

Assumptions:

- > No expected changes to revenue (EV remains the same)
- > No significant changes expected to intergovernmental aid
- > No changes to current staffing levels
- > Hydrant rental fee included in Village levy

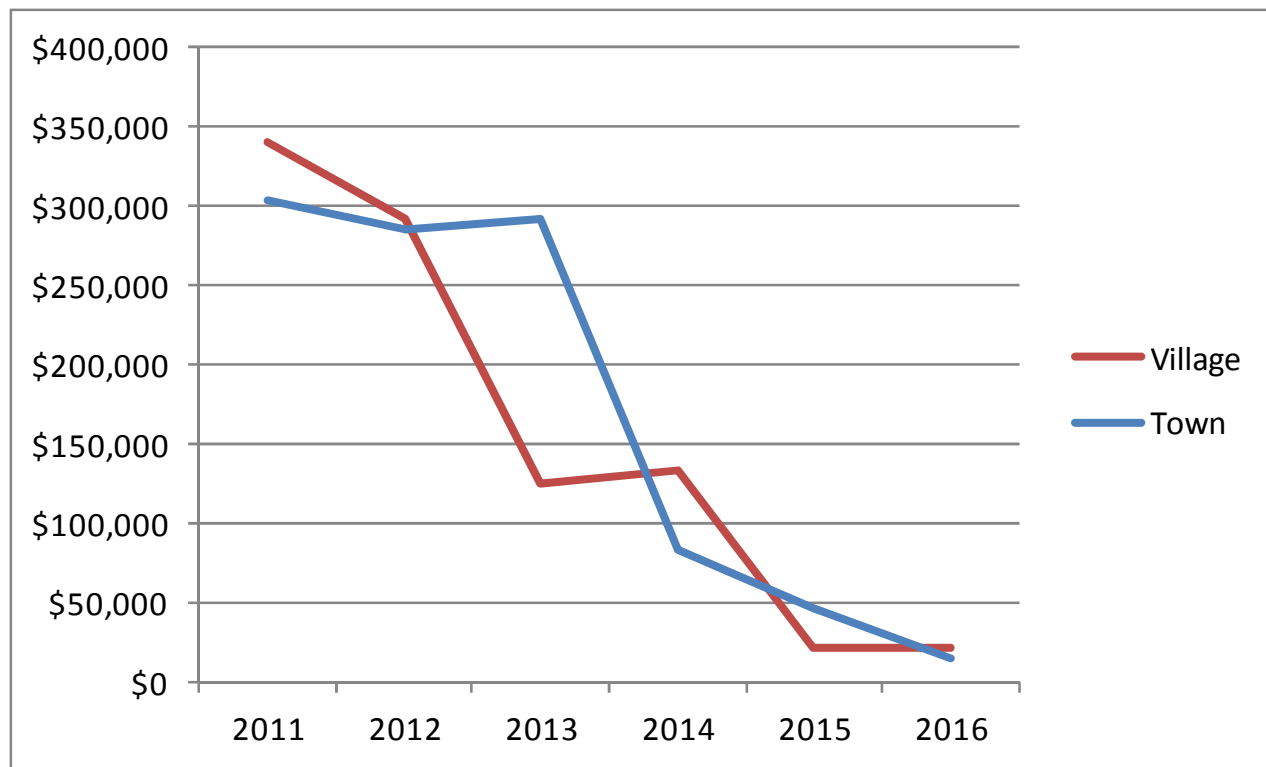
Preliminary Analysis Findings

Expenditure Reduction Annual Analysis



Candor. Insight. Results.

Debt Service for Existing Obligations



*Excludes Village debt associated with TIDs and utilities. Village TID debt is anticipated to be covered with annual increment and/or developer obligations through at least 2022.

* Town debt only includes Town portion of debt for ladder truck and pierce pumper.

*Offsets included to Village debt in 2012 with the sale of existing assets.

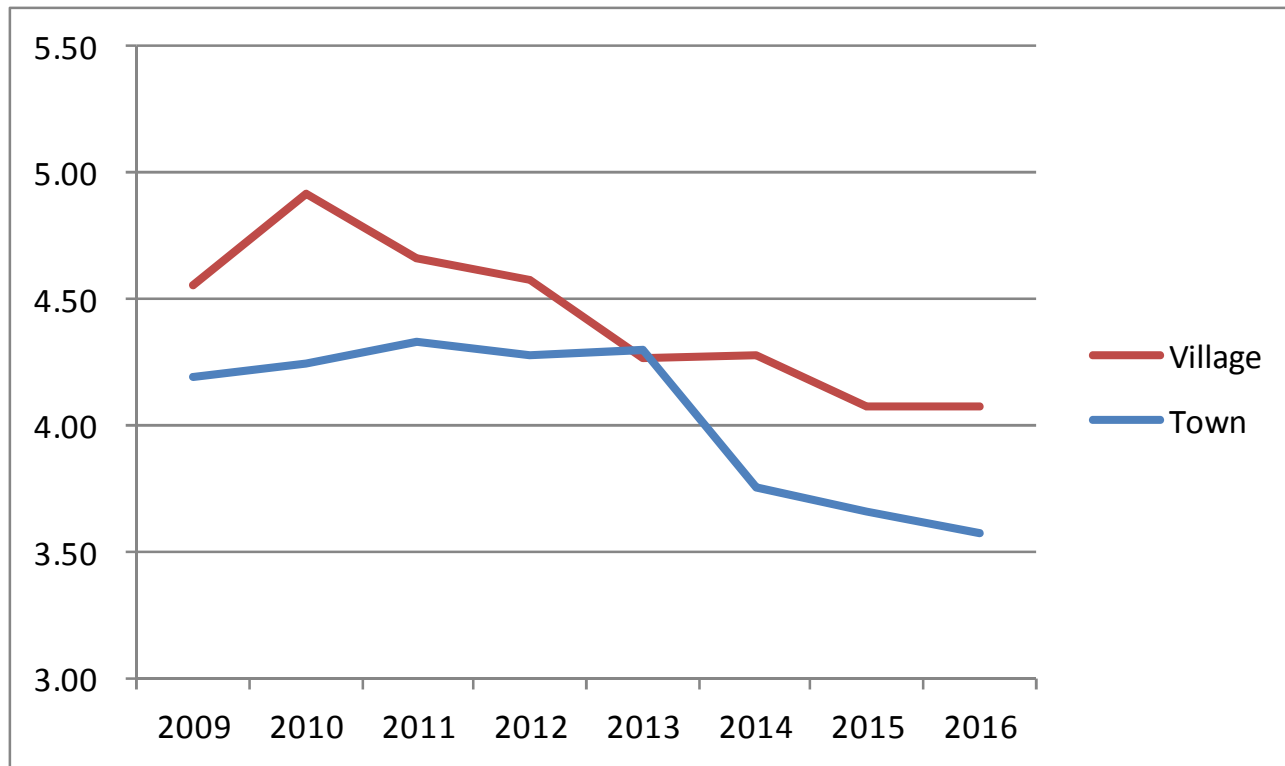
Preliminary Analysis Findings

Expenditure Reduction Annual Analysis



Candor. Insight. Results.

Annual Effective Levy



*2009 and 2010 figures are based on actual revenues/expenditures/EV for those years. 2011 is based on 2011 budgets and EV.

*2012-2016 is based on 2011 budgets and EV with the inclusion of future debt service payments for existing debt.

*Analysis for all years assumes that the \$100,000 hydrant rental fee paid by Village is included in the levy.

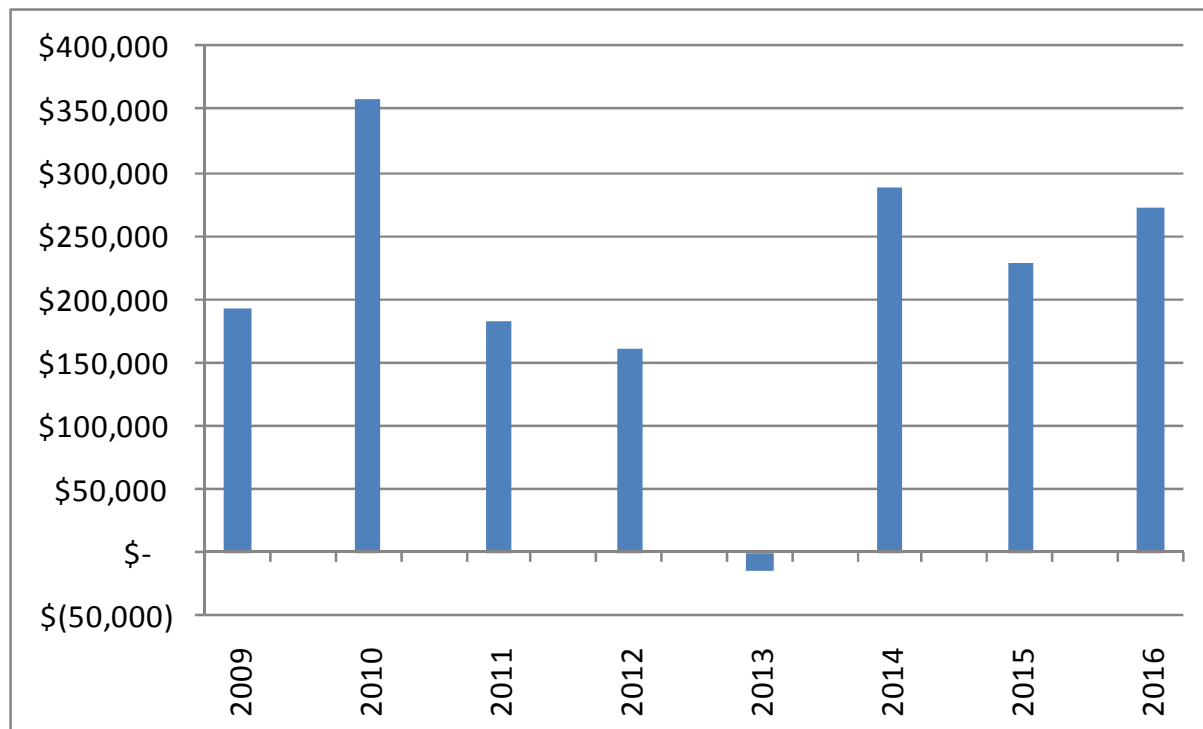
Preliminary Analysis Findings

Expenditure Reduction Annual Analysis



Candor. Insight. Results.

Annual Expenditure Reduction Goal (to meet Town Effective Levy) *Average Annual Goal: \$208,460*



*2009 and 2010 figures are based on actual revenues/expenditures/EV for those years. 2011 is based on 2011 budgets and EV.

*2012-2016 is based on 2011 budgets and EV with the inclusion of future debt service payments for existing debt.

*Analysis for all years assumes that the \$100,000 hydrant rental fee paid by Village is included in the levy.

Preliminary Analysis Findings

Capital Improvement Costs



Candor. Insight. Results.

Village: Total of \$2,850,000 (2012-2016)

- > Public works equipment purchase and repair
- > Highway N reconstruction (net cost to Village of \$1,040,000)
- > Parks and recreation equipment and facilities

Town: Total of \$460,515 (2012-2016)

- > Public works equipment purchase and repair

*Based on Capital Improvement Plans provided by the Town and Village. Costs do not include police capital costs or trade-in equipment off-sets.

*These costs were not included in the previous annual effective levy estimates or expenditure reduction goals.

Preliminary Analysis Findings

Capital Improvement Costs



Candor. Insight. Results.

Expected Capital Improvement Costs

	2012	2013	2014	2015	2016	Total
Village	1,355,000	465,000	465,000	270,000	295,000	2,850,000
Town	56,000	50,675	168,440	145,000	40,400	460,515

- > If both entities were to borrow for the full cost of these improvements at once, the difference in effective levy to account for the increased debt service would amount to approximately 0.5% (10 year amortization).
- > A Phase II Merger Analysis should carefully examine which of these expenditures are most likely and assess possible funding sources.

*Based on Capital Improvement Plans provided by the Town and Village. Costs do not include police capital costs or trade-in equipment off-sets.

*These costs were not included in the previous annual effective levy estimates or expenditure reduction goals.

Preliminary Analysis Findings

Typical Cost Reduction Categories



Candor. Insight. Results.

Efficiencies often gained by merging:

- > General administration staff, overhead, and fees
- > Government buildings and related facilities
- > Administration associated with existing shared services agreements
- > Public safety functions and equipment
(formally shared already)
- > Public works functions and equipment
(informally shared already)

Costs often moved to direct utility bills or special assessments:

- > Hydrant rental fees
- > Storm water management expenses
- > Street and sidewalk maintenance and repair

Preliminary Analysis Findings

Next Steps



Candor. Insight. Results.

Considerations:

- > Potential areas for cost reduction
- > Impacts on revenues (grant revenue and state aid)
- > Capital costs
- > Staffing plans
- > Impact on employee compensation
- > Existing assets and fund balances
- > Variations in service levels (refuse, storm water, etc.)
- > Abilities to maintain rural lifestyle in Town