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CITY OF
APPLETON

MEMORANDUM

Date: August 7, 2026

To: Chairperson Denise Fenton and Members of the Finance Committee

CC: Mayor Woodford

From: Jennifer L. Messerschmidt, Director of Finance

Subject: ACTION ITEM - Recommendation to Change the Funding Source for Eligible Capital Equipment from Property Tax Levy to Short-Term General Obligation Debt

Recommendation

The Finance Department respectfully recommends that the Finance Committee approve a change in the funding strategy for eligible capital equipment acquisitions by transitioning from the current levy-supported Central Equipment Agency (CEA) replacement funding model to financing through short-term general obligation debt. If approved, this funding approach would be implemented beginning with the 2027 budget and incorporated into the City's annual capital financing plan.

Background

For many years, the City has successfully utilized the CEA Fund to ensure that essential vehicles, equipment, and other capital assets are replaced on a planned and sustainable schedule. Under the current funding model, departments budget annual replacement charges that are supported through the City's operating levy. These charges accumulate sufficient resources to fund equipment purchases as assets reach the end of their useful lives.

While this approach has provided a disciplined method of managing equipment replacement, it has increasingly placed pressure on the City's operating levy. Wisconsin's levy limit law continues to constrain the City's ability to generate new operating revenue, while inflation, increasing personnel costs, rising employee health insurance premiums, fuel costs, and the continued demand for high-quality municipal services have significantly increased expenditure requirements. At the same time, slower growth in net new construction has further limited the City's ability to expand operating revenues.

As a result, an increasing share of the City's limited levy capacity is being devoted to funding capital equipment rather than supporting essential municipal operations.

Proposed Funding Strategy & Fleet Control

The Finance Department recommends financing eligible capital equipment through short-term general obligation borrowing rather than funding these purchases exclusively through annual levy-supported replacement charges. This financing strategy would align the cost of capital assets with the period during which those assets provide public benefit while preserving the City's long-standing commitment to timely equipment replacement.

Departments would continue to participate in the Central Equipment Agency replacement program, and established replacement schedules would remain in effect. The primary change would be the source of funding for equipment acquisitions. Rather than relying on accumulated levy-supported cash balances, eligible equipment would be financed through short-term debt issued as part of the City's annual borrowing program. This approach would allow operating levy capacity that would otherwise be dedicated to equipment replacement to remain available to support ongoing municipal operations.

CEA operational funding would still be handled largely through departmental chargebacks for services. This includes vehicle maintenance, consumables, and fuel. This ensures sustainable operating funds for CEA and requires financial commitment from departments for all vehicles and equipment in use.

In addition to existing CEA policies and procedures regarding additions of new fleet assets, we would recommend ensuring that any new addition to the fleet be brought before the Municipal Services Committee for approval. This would be an analogous process to changes to the table of organization routed through the Human Resources & Information Technology Committee. If this change in CEA funding model is approved by the Council, further policy review and refinement would be developed and brought forward to committees of jurisdiction for approval prior to January 1, 2027.

Fiscal Rationale

The proposed financing strategy is intended to address the City's long-term structural budget challenges while maintaining sound financial management practices. By financing assets with useful lives extending over several years, the City more appropriately matches the cost of those assets with the period over which they are utilized by the community.

Redirecting levy capacity from capital financing to operating expenditures will aid in addressing unavoidable increases in personnel, health insurance, fuel, contractual services, and other operating costs without reducing service levels or significantly increasing the property tax burden. This strategy also provides greater flexibility during annual budget development by allowing available levy capacity to be allocated toward the City's highest operational priorities.

Although debt service costs will replace annual cash funding, preliminary financial analysis indicates that the additional operating flexibility generated through this strategy substantially outweighs the incremental financing costs over the planning horizon. Please see the attached exhibits for illustrations of projected impacts.

Financial Impact

The proposed change does not increase the City's planned investment in capital equipment or alter established replacement schedules. Instead, it changes the timing and source of funding for those acquisitions.

The Finance Department anticipates that this approach will create additional annual operating levy capacity, improve long-term budget flexibility, maintain reliable equipment replacement schedules, preserve working capital, and better align capital financing with governmental best practices. The City's overall debt profile will continue to be actively monitored to ensure that borrowing remains affordable, consistent with adopted debt management policies, and well within Wisconsin's statutory debt limitations.

Debt Management Considerations

Finance staff has evaluated the proposed financing strategy in the context of the City's existing debt management practices and long-term financial planning. The use of short-term debt for eligible equipment purchases is consistent with the principle of matching financing terms to the useful life of the underlying assets and is a commonly accepted practice among local governments.

Annual debt affordability analyses will continue to be incorporated into the City's Capital Improvement Program and annual borrowing plans. Debt issuance will remain subject to review by the Finance Committee and Common Council, and the City will continue to monitor debt service ratios, legal debt margins, debt per capita, and other financial indicators to ensure continued compliance with adopted policies and best practices.

Strategic Benefits

In addition to improving the City's financial flexibility, this funding strategy supports several long-term strategic objectives. It preserves the City's commitment to maintaining modern and reliable equipment, reduces structural pressure on the operating levy, improves the City's ability to respond to future fiscal challenges, and creates a more sustainable balance between capital investment and operating expenditures. By maintaining equipment replacement schedules while freeing levy capacity for essential services, the City is better positioned to continue providing high-quality public services despite increasingly restrictive revenue limitations.

Alternatives Considered

The Finance Department evaluated several alternatives before recommending this approach. These included continuing the existing levy-funded replacement model, delaying equipment replacements, reducing municipal services to create additional operating capacity, and reducing planned capital investments. Each of these alternatives would have a greater negative impact on service delivery, operational efficiency, or long-term financial sustainability than the proposed financing strategy.

Conclusion

The Finance Department believes that transitioning eligible capital equipment acquisitions from levy-supported funding to short-term general obligation debt represents a prudent and sustainable financial strategy. The proposed approach maintains the integrity of the City's equipment replacement program while creating additional operating levy capacity needed to address growing service demands and escalating operating costs.

The recommendation reflects sound governmental financial management principles by aligning the cost of long-lived assets with the period over which they provide public benefit, preserving operational flexibility, and supporting the City's long-term fiscal sustainability.

Accordingly, the Finance Department respectfully recommends that the Finance Committee approve the proposed funding strategy and forward the recommendation to the Common Council for final consideration.