



OFFICE OF THE CITY ADMINISTRATOR

201 DELAFIELD STREET
WAUKESHA, WISCONSIN 53188-3633
TELEPHONE 262/524-3701 FAX 262/524-3899

Lori S. Curtis Luther

lluther@ci.waukesha.wi.us

Letter of Transmittal
September 25, 2009

The Honorable Mayor, Council President Francoeur, Members of the Council and
Members of the Finance Committee:

Pursuant to Section 4.01 of the Municipal Code submitted herewith is the Executive
Budget for FY 2010. This is the proposed budget for all budgetary funds of the City of
Waukesha.

Introduction

Enclosed is the proposed 2010 Executive Budget for the City of Waukesha, prepared in
consultation with the Mayor, for consideration by the Finance Committee and Common
Council. The 2010 Executive Budget ties strategic planning to our budgeting process for
the first time and the two will become more fully intertwined over time. Additional
information is available in the Strategic Planning Section. The Total 2010 Budget,
including all funds, equals \$119,037,721 compared to the Total 2009 Budget of
\$127,730,251, a 6.8% decrease. The 2010 operating budget is \$57,392,561 as compared
to the 2009 operating budget, which was \$55,915,974, an increase of 2.64%.

The 2009 assessed tax rate needed to support the 2010 Executive Budget is proposed to
increase from \$8.83 to \$8.95, which is \$0.117 (12-cents/ thousand) or 1.33% higher, the
second lowest tax increase since the City's last revaluation in 2005. This proposed tax
levy includes an increase of \$1,048,933 or 11.87% for debt service. A portion of this
increase is to fund previously approved capital projects but of particular significance is
\$359,063 as a one time payment for the Walgreen's settlement (34% of the total debt
service increase).

The 2010 Executive Budget presents the most difficult budget year faced by the City of
Waukesha with a revenue loss in 2010 as compared to 2009 of nearly a million dollars,
consisting primarily of reductions in shared revenues (\$300,000), expenditure restraint
revenue from the state (\$117,000), interest income (\$300,000), as well as building
permits and other development related fees (\$250,000). In addition, we are required to
budget an increase of \$290,000 for mandated pension fund increases and an increase of
\$220,000 for solid waste tipping fees in 2010. The total impact of these changes is \$1.5
million, with the reduced state revenues and unfunded state mandates, alone, equaling
over \$900,000. Other increases in fixed costs also created budget pressures with higher
utilities, worker compensation adjustments, and inflation factors for supplies such as salt.



2010 Annual Executive Budget Letter of Transmittal

We have also experienced high utilization of the City's health insurance plan, which while previous plan changes have resulted in the projected savings per claim, the increased number of total claims coupled with anticipated premium increases, has a substantial impact in 2010 with an increase of 18.5% which equates to over \$1 million.

In 2010, the City must also budget for mandated testing and monitoring at the West Avenue landfill, which for the first time must be completed without the benefit of insurance proceeds and state aid. This has a budget impact of \$82,000.

Given all of these factors, in order to create a balanced budget, an unprecedented salary freeze was assumed for budgetary purposes. This salary freeze anticipates no increases in 2010, including the traditional step increases normally afforded particular employee groups. It is important to note, however, that a salary freeze must be successfully negotiated with the labor unions that represent our employees. Because all of our union contracts expire at the end of 2009, unlike many local jurisdictions, we have the opportunity to negotiate terms for salary and benefits that will impact 2010 expenditures. If we cannot reach agreements with our unions, the unions may resort to final and binding arbitration and a third party will decide to adopt either the City's position or the union's position. I am cautiously optimistic that negotiations will result in a mutually agreeable solution for a one year labor agreement given these extraordinarily difficult economic times. We have not, however, sat down with the unions to discuss contract proposals but will be doing so in the near future.

Even with a salary freeze in place, approximately \$1.7 million had to be adjusted from the initial budget submissions or over 2% of the total operating budget. Due to the severity of the budget situation, additional personnel in the general fund were not considered for 2010, except the police sergeant position authorized in 2009, and a reduction in the total staffing level is recommended. A hiring freeze for all civilian positions has been in place in 2009 and a hard hiring freeze for all civilian positions in 2010 is anticipated. The only exception is an engineering position in the Wastewater Treatment Plant that does not impact the general fund and the possibility of converting a vacant position in the Public Works department mid-year to focus on stormwater issues.

One full-time, filled position, at the library was changed from full-time to part-time in 2009 and is slated to be eliminated in 2010. One Forester position in the Parks, Recreation and Forestry department, one engineer and one engineer tech position in the Public Works Departments, and one clerical position due to resignation or retirement are unfunded vacancies. The combined impact of these eliminated or unfunded positions is over approximately \$300,000. Although it is clear that many of these positions need to be filled, opportunities are available for reassignments from other departments, temporary staffing is available, as well as other options that are more fiscally responsible and appropriate given external influences on our budget.

2010 Annual Executive Budget Letter of Transmittal

I believe it is important to note that over 10 full time equivalent (FTE) positions have remained unfunded since 2006 and an additional 1.5 FTE since 2008. With the proposed layoff and unfunded vacancies in 2010, the reduction of the workforce totals approximately 16.5 FTE in the past four years.

The primary purpose of the City's budget and budgeting process is to develop, adopt and implement a plan for accomplishing goals for the upcoming year, while keeping consistent with the overriding objectives of maintaining a responsive government, reasonable property tax rate, high service levels and a strong financial position.

This letter of transmittal is a general overview of the proposed 2010 Budget. As such, it is intended to identify trends and factors that have had a significant impact on the development of the budget. Further details are contained in the body of the budget document and in accompanying reports pertaining to specific budget issues as needed.

As in previous years, the process of developing the budget began with the submittal of departmental expenditure requests and estimates of proposed revenues. Department directors were instructed to submit budgets that were equal to or less than 2009 totals with options for 2% reductions. Funds were permitted to be shifted within departments/divisions but the total allocation of tax levy supported services were less than 2009 totals and new offsetting revenues were also requested and proposed. Budget preparation for 2010 assumed a wage freeze would be in place.

The process continued with an assessment of the submittals, in consultation with the Mayor, in light of all internal and external factors, followed by meetings with department directors and managers for a detailed assessment of operational needs. The process resulted in the development of a mutually acceptable recommendation based on the needs of our organization as a whole and our fiscal ability to respond to such needs within financial constraints. The original departmental submittals were adjusted by approximately \$1.7 million in order to meet required financial targets.

The goal of this budget was to meet the property tax levy limits imposed by the state, maintain the current level of city services to the greatest degree possible, and maintain the City's financial integrity.

Analysis of Revenues and Expenditures

Property Taxes

The State has imposed a 3% levy limit on property taxes. However, Act 28, for the first time, exempts from the levy limit any amount that a municipality levies to pay unreimbursed expenses related to a declared emergency. This includes amounts levied to replenish cash reserves used in the previous year to pay any unreimbursed expenses related to such declared emergency.

2010 Annual Executive Budget
Letter of Transmittal

For the City of Waukesha, this amount totals \$135,808 to be levied to replenish the City's fund balance to ensure maintenance of our bond rating as permitted by state law. The difference in interest rates between rating categories has increased dramatically. Therefore, the maintenance of the City's bond rating of Aa2 is of even greater significance, now, more than ever. See the values as presented in the Municipal Bond Market in the following table:

Rating	December 2007	September 2009
AAA – Aa	10 bps (.10%)	17 bps
Aa – A	40 bps	70 bps
A – Nonrated (NR)	30 bps	140 bps
AAA – NR	80 bps	227 bps

The State law also allows municipalities the opportunity to carry forward unused levy capacity from the previous two years when calculating its 2009 levy limits. This option is not permitted in 2010. The base amount to which the limit applies is the maximum allowable levy for 2007 rather than the actual amount levied, which for the City of Waukesha was lower than the allowable levy by \$380,507.

Given the severity of the City's revenue losses and potential negative impact on the City's debt service payments, fund balance and ultimately, the City's bond rating, I recommend including this amount in the 2009 levy. The use of these funds would be dedicated to provide a funding source for the West Avenue landfill, as discussed earlier on this letter, in the amount of \$82,000 with the remainder being allocated as a general fund transfer to the CIP to reduce the amount of borrowing necessary. This decision would reduce future debt service payments and consequently, lower the taxpayers' contributions to the general debt levy.

Comparison of All Property Tax Fund Levies, 2009 – 2010

COMPARISON OF ALL PROPERTY TAX FUND LEVIES 2009 – 2010				
Fund	2009 Levy	2010 Levy	Difference	% Difference
Total General Fund Levy	37,920,123	40,230,731	2,310,608	6.09%
Special Revenue Levy	23,410	22,942	(468)	-2.00%
Fleet Levy	228,307	-	(228,307)	-100.00%
Transit Levy	1,297,605	1,271,272	(26,333)	-2.03%
General Debt Levy	8,833,716	9,882,649	1,048,933	11.87%
	48,303,161	51,407,594	3,104,433	6.43%

Note: Although the total levy is proposed to increase 6.43%, the tax rate is proposed to increase 1.33%.

2010 Annual Executive Budget
Letter of Transmittal

Property Valuation and the Tax Rate

The assessed valuation of property within the City has increased from \$5,465,052,170 in 2008 to \$5,741,224,147 in 2009 not including Tax Increment District (TID) values. This is an overall increase of \$276,171,977 or 4.9%, the majority of which is attributable to an increase in commercial values since 2005. The median assessed value for a home increased 1.89% over the previous assessment in 2005. The estimated equalized value decreased from \$6,073,466,900 in 2008 to \$5,957,086,100 in 2009, a reduction of \$116,380,800 or a decrease of 1.95%, which is a result of the decline in the real estate market over the past year.

The proposed 2010 Executive Budget is within the constraints of the property tax limit established by the state and below the expenditure restraint cap. The impact of the proposed tax increase on the owner of a home with a median assessed value in 2009 of \$199,600 (up 1.98% from \$195,900 in 2008 due to reassessment) would be an increase of \$56.12 additional dollars (3.24%) from \$1,731 to \$1,787. Please note that individual tax bills will vary.

Comparison of General Fund Revenues, 2009 – 2010

COMPARISON OF GENERAL FUND REVENUES 2009 – 2010				
Revenue Category	2009 Amount	2010 Amount	Difference	% Difference
Other Taxes	861,828	788,545	(73,283)	-8.50%
Other Sources	1,383,100	1,307,245	(75,855)	-5.48%
Intergovernmental Grants	8,710,731	8,386,291	(324,440)	-3.72%
Licenses and Permits	1,736,600	1,633,950	(102,650)	-5.91%
Penalties and Forfeitures	700,000	600,000	(100,000)	-14.29%
Charges for Services	2,803,539	3,026,688	223,149	7.96%
Interdepartmental Charges	998,136	985,892	(12,244)	-1.23%
Misc & Other Revenue	728,480	407,874	(320,606)	-44.01%
Special Assessments	26,250	25,345	(905)	-3.45%
Subtotal Revenue	17,948,664	17,161,830	(786,834)	-4.38%
General Fund Levy	37,920,123	40,230,731	2,310,608	6.09%
Total Revenue	55,868,787	57,392,561	1,523,774	2.73%

Other Taxes – This is the result of a reduction in room taxes paid.

Other Sources – The primary change in this category is due to the loan received in 2009 for the Walgreens settlement and adjustments to PILOT payments.

2010 Annual Executive Budget
Letter of Transmittal

Intergovernmental Grants – This has declined due to reduction of shared revenues and state aids.

Licenses and Permits – These funds have declined due to decreased construction and development.

Penalties and Forfeitures – These funds are estimated for municipal court as we are waiting for detailed reports from municipal court to confirm projections.

Charges for Services - Ambulance revenues are projected to increase as a result of revised fees and the implementation of inter-facility transports.

Interdepartmental Charges – These funds have declined as a result of reduced construction activity.

Misc. and Other Revenue – Interest income decline is the primary reduction in this category.

Special Assessments – This revenue source is relatively flat for tree plantings.

Other than property taxes, revenues have decreased by 4.38%.

COMPARISON OF GENERAL FUND EXPENDITURES 2009 - 2010				
Exp Category	2009 Amount	2010 Amount	Difference	% Difference
Personal Services	43,240,809	44,505,854	1,265,045	2.93%
Contractual Services	7,314,933	7,624,059	309,126	4.23%
Supplies and Exp.	2,794,381	2,557,237	(237,144)	-8.49%
Building Materials	210,500	168,600	(41,900)	-19.90%
Fixed Charges	392,912	45,214	(347,698)	-88.49%
Grants/Contributions	187,500	166,250	(21,250)	-11.33%
Capital Outlay	154,668	161,950	7,282	4.71%
Interdepartmental Charges	1,189,567	1,260,092	70,525	5.93%
Other Uses	305,704	663,154	357,450	116.93%
Contingency/ Fund Balance	125,000	240,151	115,151	92.12%
	55,915,974	57,392,561	1,476,587	2.64%

2010 Annual Executive Budget Letter of Transmittal

Personal Services – Even with the salary freeze, the total personal services expenditures have increased 2.93% as a result of increased pension fund contributions, as mandated by the State, as well as health insurance increases.

Contract Services – This category has increased for garbage collection, recycling, and large item pick up, utility increases and sand/salt.

Supplies and Expenses – The major contributor in this category is the decrease in fuel expenses and a reduction in conference and training expenses.

Building Materials – The primary reduction is in public works materials and changes in the method of service delivery.

Fixed Charges – In 2009, the payment for the Walgreens settlement was budgeted in this account.

Grants/Contributions – The room tax payment to the Convention and Visitor's Bureau is made from this category.

Capital Outlay – The items recommended for funding in 2010 are fire personal protection equipment, equipment to treat emerald ash bore, and other items as detailed in each department section.

Interdepartmental Charges – This reduction is a result of the health insurance increases that also impacts the retired police and fire employee claims paid from his category.

Other Uses – This change is due to the recommended general fund transfer to the Capital Improvement Plan to provide pay as we go financing and reduce debt.

Contingency/Fund Balance – This increase is due to the recommended transfer to the fund balance to reimburse disaster spending.

Conclusion

Due to the salary freeze, and staffing reductions coupled with other reduced expenditures, I am able to submit the proposed 2010 Budget within statutory limits. Furthermore, the City is able to refrain from pursuing unsound financial options that would have conflicted with our financial policies and strategic plan such as funding general operations with borrowing, or tapping into unrestricted reserves any or all of which would have undesirable long term consequences.

I would like to thank Steve Neaman and Vicki Krueger and their coworkers for their support in preparation of the budget, the knowledge and experience they have brought to

2010 Annual Executive Budget
Letter of Transmittal

the process is priceless and to all department directors and all employees for their continued cooperation and dedication.

The Finance Committee is scheduled to review individual components of the budget on Tuesday and Thursday evenings in October, a schedule is attached and all members of the Council are encouraged to attend.

A Committee of the Whole Meeting will be held on Tuesday, November 3, 2010 from 5:00 – 7:00 PM prior to the Council Meeting at 7:30 PM to review the 2011-2015 Capital Improvement Plan (CIP) and a Committee of the Whole Meeting will be held on Tuesday, November 10, 2010 at 7:00 PM to review the 2010 Operating Budget. The budget hearing and adoption will be held on Tuesday, November 17, 2010 at 7:00 PM.

I respectfully request that members of the Council forward any questions or concerns regarding the budget to me, as soon as possible, to allow time to appropriately respond. Any final questions or suggested amendments to the budget would be greatly appreciated no later than Tuesday, November 10, 2010, following the Committee of the Whole meeting. I would like to mirror last year's budget process in that questions were posed to staff in such a way that we had adequate time to respond with appropriate, meaningful feedback.

While this is an extraordinarily difficult budget year, I am proud of our ability to submit a budget that provides the necessary reductions to offset revenue losses, does not unduly impact service delivery, and perhaps most importantly, maintains the financial integrity of the City.

Respectfully submitted,

CITY OF WAUKESHA



Lori S. Curtis Luther
City Administrator