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Letter of Transmittal
October 10, 2012

The Honorable Mayor Scrima, Council President/Finance Committee Chair Pieper, Members of the Finance Committee and the full Common Council, Waukesha Citizens, and Department Directors:

Introduction

Upon my appointment as City Administrator on September 10, 2012, the Finance Staff and I immediately began working collaboratively to develop the 2013 Executive Budget. The result of this effort is the attached Executive Budget. This budget takes into consideration the financial reality of its taxpayers while addressing the City's operational needs and the citizens' expectations for a high level of service delivery, which results in a 2.32% increase in the tax levy. On behalf of the Mayor, Finance staff and I, we are pleased to present the 2013 Executive Budget. This budget is for all budgetary funds of the City of Waukesha.

As the new City Administrator whose first day on the job for the City of Waukesha was September 10, 2012, it was impossible to have the kind of fiscal impact on the budget that more time would have allowed. In spite of that, you will find on the one hand some fairly bold recommended changes and on the other hand a status quo in some operations and service levels.

Where the status quo is maintained, my request to the council is to consider approving these items, which will create the opportunity to more adequately assess operations in the coming year. Through a more thorough analysis of city operations, I hope to achieve improved efficiencies that will result in cost savings in 2013 and significantly impact the 2014 budget.

Looking forward to 2013, there are several policy considerations that will be analyzed and potentially brought before the city council for consideration. Some of these have been discussed in the past. Time did not allow for an analysis and thoughtful consideration for inclusion in the 2013 budget. Among the items that we anticipate reviewing are:

1. The type and level of services provided by each department, with a focus on providing essential services as efficiently and as cost effectively as possible.
2. A comprehensive review of fines and forfeitures to enhance revenues.
3. A re-analysis of cemetery/parking utility revenue streams and/or changes in operations to make the cemetery/parking utility fully self supporting.
4. A comprehensive review of existing revenue sources and an analysis of new revenue sources to offset losses from the state and minimize to the extent possible reliance on the property tax.
5. The benefits and risks associated with creating special revenue sources such as a storm water utility, special garbage collection charges, changes in parking utility collection methods and other revenue enhancements.
6. Seeking outside revenue sources in the form of grants, especially from foundations and other private sources.



7. Creating an opportunity for every employee in the city to submit ideas that will improve efficiencies and save money. In return, employees will be given financial rewards for their ideas.

This is an initial list of initiatives we would like to pursue. More ideas will come out of several “Group Think” sessions I’m hoping to conduct with Department Directors and elected officials in the coming months.

The 2013 General Fund operating budget is \$59,217,140 in comparison to the 2012 adopted operating budget, which was \$58,044,899 is an increase of \$1,172,241 or 2.02%.

The Mayor, Council, and Finance Committee, have been clear about its desire to minimize the tax impact on Waukesha residents. Under this direction, and in appreciation of the financial challenges Waukesha citizens and businesses face, the 2012 levy needed to support the 2013 Executive Budget is proposed to be \$52,661,309

The recommended Executive Budget is consistent with budgetary goals established by the Council as it follows diversifying revenue sources, supporting sound financial policies, meeting the state levy limits and expenditure restraint program and maintaining service and program levels to the greatest degree possible. Our conservative employment contracts, supported by the unions have helped us control expenditures to a certain degree. Recent changes from the State regarding employee contributions towards pension costs have impacted only certain employees of the City. The law only applies to certain classes of employees and only to those union employees whose contracts will expire prior to 2013. If you look at the consolidated General Fund report contained in the budget, you will see that the overall pension expense is down by \$173,000. This reduction comes from the non-represented, non-police and fire employees. Litigation involving Act 10 passed by the Legislature and signed by the Governor creates on-going unknowns for the city that have significant fiscal and legal implications.

The payment for exempt computers is still unknown at this time and could be significant.

To maintain a zero increase in the overall tax levy in 2013 it would have been necessary to cut \$3.5 million from the in 2013 operating budget submitted by department directors. This would have meant major reductions to City services.

The more significant changes to the 2013 Budget that are included herein to minimize the tax levy increase are summarized as follows:

<u>CHANGES</u>	<u>FISCAL IMPACT</u>
1. A 1% wage increase in 2013 for all employees rather than the 1.5% that occurred in 2012.	(\$172,000)
2. The un-funding of one position in the Engineering Department and a delay in filling one position in the Planning Department.	(\$120,000)
3. Utilize health insurance fund balance and modify health benefits to have a 0% increase in health insurance premiums to employees while maintaining the employees’ level of contribution.	(\$300,000)
4. Restructure the City’s print shop operations	(\$ 50,000)
5. Eliminate the General Fund contribution to BID but provide in-kind support	(\$ 22,000)

6. Elections Budget for 2013 was reduced due to it being an off-year for elections	(\$17,000)
7. Increase fines and forfeitures as a result of the acquisition of license plate reader system and increases to the municipal fine schedule	\$316,000
8. Energy savings as a result of the installation of new street lights	(\$48,000)
9. Deputy Fire Chief and fire fighter position eliminated as well as significant overtime.	(\$423,600)
10. Federal Forfeiture funds are proposed to be used for Police Department capital purchases.	(\$65,000)
11. Reduce subsidy of the Cemetery	(\$16,000)
12. Reduce the subsidy to the Parking Utility	(\$42,900)
13. Delay the purchase of hot box, asphalt grinder	(\$173,500)
14. Reduce IT infrastructure and TV 25	(\$95,000)

In total, approximately \$1.5 million was removed from the budgets submitted by Department Directors.

A hiring freeze for all civilian positions has been in place since January 2009, with few exceptions, and is expected to continue in 2013. An additional three vacant full-time positions are unfunded in the 2013 budget, including an Engineer III in Engineering, the Deputy Fire Chief and a Firefighter in the Fire Department. In addition, a restructuring of the City Print Shop is being proposed in the 2013 Budget. 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 the current economic climate. With the unfunded vacancies in 2012 and continued in 2013, 29.5 full time equivalent positions have been unfunded over the past six 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. The City maintains a bond rating of Aa1 this year, one step away from the highly coveted Aaa bond rating. While largely a result of recalibration from Moody's, this is still confirmation of the City's strong fiscal position.

This letter of transmittal is a general overview of the proposed 2013 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 a flat 2013 budget. We were not quite able to fully achieve this goal.

The process continued with an assessment of the submittals, 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.

Analysis of Revenues and Expenditures

Property Taxes/Levy

The State has changed the law on the levy limit on property taxes to allow for an increase of the percentage change in new net construction. The City's current new net construction increase for this year was only 1.03%. It should be noted that the total decrease in revenues from the State of Wisconsin from 2009 to 2012 was 14.1%. This is a public policy decision by the state that effectively shifts municipal funding to the local level.

Comparison of All Property Tax Fund Levies, 2012-2013

COMPARISON OF ALL CITY PROPERTY TAX FUND LEVIES 2012 – 2013				
Fund	2012 Levy	2013 Levy	Difference	% Difference
Total General Fund Levy	40,240,989	40,816,562	575,573	1.43%
Special Revenue Levy	22,942	0	-22,942	-100%
Fleet Levy	0	395,065	395,065	100%
Transit Levy	1,429,416	1,406,095	-23,321	-1.63%
General Debt Levy	9,773,527	10,043,587	270,060	2.76%
	51,466,874	52,661,309	1,194,435	2.32%

Property Valuation and the Tax Rate

The assessed property values in the City fell during last year's revaluation. The assessed valuation of property within the City used to determine the tax rate fell from \$5,390,034,063 in 2011 to \$5,366,332,825 in 2012 not including Tax Increment District (TID) values. This is an overall decrease of \$23,701,238 or .44% from last year.

The proposed 2013 Executive Budget does not utilize the property tax limit established by the state and is well below the expenditure restraint cap. Please note that individual tax bills will vary depending on home values.

The median home value rose from \$187,300 to \$187,600 in 2012. This was an increase of .16%.

The following table summarizes the total revenues and provides a comparison from 2012 to 2013.

Comparison of General Fund Revenues, 2012-2013

COMPARISON OF GENERAL FUND REVENUES 2012 – 2013				
Revenue Category	2012 Amount	2013 Amount	Difference	% Change
Other Taxes	751,045	795,745	44,700	5.95%
Other Sources	1,662,542	1,692,265	29,723	1.79%
Intergovernmental Grants	7,845,098	8,104,790	259,692	3.31%
Licenses and Permits	1,755,700	1,814,554	58,854	3.35%
Penalties and Forfeitures	884,077	1,200,077	316,000	35.74%
Charges for Services	3,281,165	3,201,642	-79,523	-2.42%
Interdepartmental Charges	1,153,592	1,145,737	-7,855	-.68%
Misc & Other Revenue	453,391	428,117	-25,274	-5.57%
Special Assessments	17,300	17,650	350	2.02%
Subtotal Revenue	17,803,910	18,400,577	596,667	3.35%
General Fund Levy	40,240,989	40,816,562	575,573	1.43%
Total Revenue	58,044,899	59,217,139	1,172,240	2.02%

Other Taxes – Increases in this area are in Taxes – Delinquent Fees and in Use Tax – Motel rooms.

Other Sources – The increase is due to additional revenue from payments in lieu of taxes.

Intergovernmental Grants – This increase is somewhat misleading. Shared revenues are split between the General Fund and the General Improvement Fund. Capital requests in the General Improvement Fund are lower in 2013 than they were in 2012 thus excess shared revenues were shifted back to the General Fund. Overall, shared revenues have not increased from 2012.

Licenses and Permits – This area has increased due to elevated franchise fee payments and various other licenses and permits.

Penalties and Forfeitures – Fines and forfeitures have been increased significantly as a result of the acquisition of a license plate reader system by the Police Department and working with the Municipal Judge to increase the fine schedule.

Charges for Services – These funds have decreased slightly in the following areas: drop-off site permits, library fees, recreation fees and zoning/planning fees.

Interdepartmental Charges – While revenues for I/S Services – Other Municipalities have declined; this was offset by an increase in Engineering Services. In addition, the salaries of the Mayor and City Administrator will be allocated to other funds to account for their administrative support to these funds.

Misc. and Other Revenue – The budget for 2012 reflected income for the one time sale of City Property which does not apply in 2013 thus the decrease.

Special Assessments – There is a slight increase in this area for Special Assessments – Trees.

All revenues have increased by 2.02%.

The following table summarizes the total general fund expenditures and provides a comparison from 2012 to 2013.

Comparison of General Fund Expenditures, 2012-2013

COMPARISON OF GENERAL FUND EXPENDITURES 2012 - 2013				
Exp Category	2012 Amount	2013 Amount	Difference	% Difference
Personal Services	45,350,663	45,946,969	596,306	1.31%
Contractual Services	7,890,494	8,278,631	388,137	4.92%
Supplies and Exp.	2,562,653	2,504,051	-58,602	-2.29%
Building Materials	185,778	198,279	12,501	6.73%
Fixed Charges	73,835	70,742	-3,093	-4.19%
Grants/Contributions	146,250	183,000	36,750	2.51%
Capital Outlay	93,283	69,259	-24,024	-25.75%
Interdepartmental Charges	1,271,482	1,425,997	154,515	12.15%
Other Uses	345,461	415,211	69,750	20.19%
Contingency/ Fund Balance	125,000	125,000	0	0%
	58,044,899	59,217,139	1,172,240	2.02%

Personal Services – Total personal services expenses have increased a net 1.31%, after the removal of funding for four vacant positions and pension contributions.

Contract Services – This category rose by \$388,137 or 4.92%. The areas that increased included consulting, software maintenance, and refuse collections.

Supplies and Expenses – With the restructuring of the Print Shop, the printing/photocopying budget was reduced by almost \$50,000.

Building Materials – The primary increase is for Materials – Storm and Sewer/Signals and Signs..

Fixed Charges – The small decrease here is related to Equipment Rental.

Grants/Contributions – This account shows an increase of \$36,750 which is due mainly to the budgeting for the economic incentive grants which are offset by revenues.

Capital Outlay – The items recommended for funding in 2013 are detailed in each department section. It is quite a bit lower than 2012 as we’re recommending funding these items with non-levy funds.

Interdepartmental Charges – The increase in funds are related to the increase in health insurance for police and fire retirees as well as increases in workman’s compensation insurance.

Other Uses – The increase is due to the increased number of retirees and increased retiree health insurance costs.

Contingency/Fund Balance – The contingency fund was left at the same amount as budgeted in 2013 (\$125,000). However, as a footnote, funding for a new payroll system was not included in the budget or the CIP due to current unknowns about the timing of the need to change payroll systems. If indeed it is determined that this system upgrade is necessary in 2013, the city council will be asked to fund this project from reserves, which currently exceeds the 10%-20% policy.

Conclusion

The City continues to refrain from pursuing unsound financial options that would conflict 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 Crandell, Steve Neaman and Vicki Krueger and their coworkers for their support in preparation of the budget, the knowledge and experience they have brought to 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 Wednesday and Thursday evenings now thru November, a schedule is attached and all members of the Council are encouraged to attend.

A Committee of the Whole Meeting will be held on Thursday, November 15th 2012 starting at 6:30 PM to review the 2013 Executive Budget, the 2013 CIP and 2014-2018 five year plan. The budget hearing and adoption will be held on Tuesday, November 20, 2012 at 6:30 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. I would like to mirror the past several year's budget processes 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 again an extraordinarily difficult budget year, we are proud of our ability to submit a budget that maintains service delivery, and strengthens the financial integrity of the City. If the council has specific requests to change the budget after the Finance Committee completes its review, please bring those to my attention as early as possible so that we can address them before the scheduled adoption of the budget.

Respectfully submitted,

CITY OF WAUKESHA

Edmund M. Henschel,
City Administrator

