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Letter of Transmittal
October 7, 2011

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

Introduction

Over the course of the last several weeks the Finance Staff and I have worked collaboratively with Mayor Scrima as we developed the 2012 Executive Budget. As a result, the Finance staff and I have finalized the 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. The Mayor has informed me that he has fully reviewed and endorses this final version of the budget and which produces a 0% increase in the tax levy. On behalf of the Mayor, Finance staff and myself, we are pleased to present the 2012 Executive Budget. This budget is for all budgetary funds of the City of Waukesha.

Enclosed is the proposed 2012 Executive Budget for the City of Waukesha for consideration by the Finance Committee and Common Council. The Total 2012 Budget, including all funds, equals \$125,122,864 compared to the Total 2011 Budget of \$128,240,520, which is a 2.43% decrease. The 2012 General Fund operating budget is \$57,200,909 in comparison to the 2011 adopted operating budget, which was \$57,891,585, is a decrease of \$690,676 or 1.19%.

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 2011 levy needed to support the 2012 Executive Budget is proposed to remain flat at \$51,405,434, for the second year in a row. Therefore, there would be no change for the average homeowner as a result of the City's proposed budget.

The recommended Executive Budget is consistent with budgetary goals established by the Council as follows, 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 2012. For budgetary purposes we did not realize the savings that were envisioned in Madison. If you look at the consolidated General Fund report contained in the budget you will see that the overall pension expense is down by \$162,000. This reduction comes from the non-represented, non-police and fire employees. In 2013 the City should see an additional savings as the non-police and fire union employees begin contributing towards the cost of their pension.



In addition to the unrealized pension savings, the State of Wisconsin also reduced aid payments to the City by at least \$710,000. 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 it would have been necessary to cut \$3.6 million from the operating budget. This would have meant major reductions to City services. In order to avoid this situation, the removal of \$2.7 million in garbage, recycling and large item disposal from the tax levy and placement of them as a separate fee to those who receive this service was necessary. The fee for all three services will be \$136 per year. This was done to promote equity among the various property owners, (condominium, commercial and residential) and to preserve core City services. Many communities around us such as Oconomowoc, Menomonee Falls, and Pewaukee have been charging garbage fees for many years. Other communities around the state have separate fees such as Appleton, Beloit and Greenfield and many communities such as Eau Claire and New Berlin provide no trash service at all. In addition to garbage, it was necessary to reduce the budget by another \$1 million to maintain the tax levy at last year's amount. Nearly \$223,000 was generated from unfunded vacant positions. A reduction in levy supported fleet replacements was also a significant factor with nearly \$217,800 in cost savings by deferring purchases for items such as two police vehicles (\$55,800), the acquisition of an asphalt grinder for the Public Works Department (\$136,000) and the shift to borrowing for a vehicle replacement for Park, Recreation and Forestry (\$26,000). Projected increased revenues over 2011 amounted to \$573,000. Roughly \$107,700 was reduced from originally submitted requests for IT related expenditures after revised estimates were received and upon review by the ITAC Committee.

A hiring freeze for all civilian positions has been in place since January 2009, with few exceptions, and is expected to continue in 2012. An additional three full-time vacant positions are unfunded in the 2012 budget, including a clerical position in the Police Department, a crew leader and custodian at the City Garage. 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 proposed unfunded vacancies in 2012, 24.5 full time equivalent positions have been unfunded over the past five 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 2012 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 2012 budget. Funds were permitted to be shifted within departments/divisions but the total allocation of tax levy supported services were to be no more than 2011 totals and new offsetting revenues were also requested and proposed.

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. After removal of garbage from the tax roll, the original departmental submittals were adjusted by approximately \$1 million in order to hold the tax levy flat.

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 .526 percent. At the same time, the State reduced aid payments to the City by over \$710,000. However, the Executive Budget does not propose an increase to the current tax levy.

Comparison of All Property Tax Fund Levies, 2011-2012

COMPARISON OF ALL CITY PROPERTY TAX FUND LEVIES 2011 – 2012				
Fund	2011 Levy	2012 Levy	Difference	% Difference
Total General Fund Levy	40,324,063	39,854,549	(469,514)	-1.16%
Special Revenue Levy	22,942	22,942	0	0.00%
Fleet Levy	137,300	315,000	177,700	129.42%
Transit Levy	1,318,770	1,429,416	110,646	8.39%
General Debt Levy	9,602,359	9,783,527	181,168	1.89%
	\$51,405,434	\$51,405,434	0	0.00%

Property Valuation and the Tax Rate

For the first time in decades, 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 \$5,752,598,308 in 2010 to \$5,390,034,063 in 2011 not including Tax Increment District (TID) values. This is an overall decrease of \$362,564,245 or 6.3% from last year.

The proposed 2012 Executive Budget does not utilize the property tax limit established by the state and is well below the expenditure restraint cap. Therefore, there would be no change for the average homeowner as a result of the City's proposed budget. Please note that individual tax bills will vary depending on home values.

The median home value fell from \$199,700 to \$187,300 in 2011. This was a reduction of 6.21%.

The following table summarizes the total revenues and provides a comparison from 2011 to 2012.

Comparison of General Fund Revenues, 2011-2012

COMPARISON OF GENERAL FUND REVENUES 2011 – 2012				
Revenue Category	2011 Amount	2012 Amount	Difference	% Change
Other Taxes	748,545	748,545	0	0.00%
Other Sources	1,382,246	1,662,542	280,296	20.28%
Intergovernmental Grants	8,343,466	7,599,348	-744,118	-8.92%
Licenses and Permits	1,685,200	1,742,700	57,500	3.41%
Penalties and Forfeitures	884,077	884,077	0	0.00%
Charges for Services	3,019,572	3,132,615	113,043	3.74%
Interdepartmental Charges	1,083,592	1,133,592	50,000	4.61%
Misc & Other Revenue	407,174	429,641	22,467	5.52%
Special Assessments	13,650	13,300	-350	-2.56%
Subtotal Revenue	17,567,522	17,346,360	-221,162	-1.26%
General Fund Levy	40,324,063	39,854,549	-469,514	-1.16%
Total Revenue	57,891,585	57,200,909	-690,676	-1.19%

Other Taxes – No change from last year.

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

Intergovernmental Grants – This has declined due to reduction of total intergovernmental aid from the State of Wisconsin.

Licenses and Permits – These funds have increased slightly due to elevated franchise fee payments and liquor licenses.

Penalties and Forfeitures – No change from last year.

Charges for Services – These funds have increased due to anticipated increases in safety inspection fees, changes to library past due fines and continued strong revenues in our recreation programs.

Interdepartmental Charges – These funds have increased to reflect actual 2010 revenues received and additional infrastructure related activity.

Misc. and Other Revenue – This category includes interest income that is projected to stay flat in 2012 and to reflect increases in cell tower rental income.

Special Assessments – This revenue source has been reduced for tree plantings due to less new development.

All revenues have decreased by 1.19%.

The following table summarizes the total general fund expenditures and provides a comparison from 2011 to 2012.

Comparison of General Fund Expenditures, 2011-2012

COMPARISON OF GENERAL FUND EXPENDITURES 2011-2012				
Exp Category	2011 Amount	2012 Amount	Difference	% Difference
Personal Services	45,360,241	46,605,335	1,245,094	2.74%
Contractual Services	7,738,185	5,353,624	-2,384,561	-30.82%
Supplies and Exp.	2,534,375	2,692,465	158,090	6.24%
Building Materials	248,600	220,778	-27,822	-11.19%
Fixed Charges	103,851	104,835	984	0.95%
Grants/Contributions	156,250	146,250	-10,000	-6.40%
Capital Outlay	160,313	241,218	80,905	50.47%
Interdepartmental Charges	1,212,415	1,336,914	124,499	10.27%
Other Uses	359,361	374,490	15,129	4.21%
Contingency/ Fund Balance	125,000	125,000	0	0.00%
	57,998,591	57,200,909	-797,682	-1.38%

Personal Services – Total personal services expenses have increased a net 2.74%, after the removal of funding for three vacant positions and pension contributions.

Contract Services – This category fell by \$2,384,561 after the removal of \$2.7 million for garbage. The areas that increased included computer software and hardware maintenance, road salt, drop-off center garbage disposal and other professional services.

Supplies and Expenses – The major contributor in this category is the increase in fuel expenses.

Building Materials – The primary decrease is for signals and signs

Fixed Charges – The small increase here is related to workman’s compensation insurance.

Grants/Contributions – This account fell by a small reduction due to the estimated bad debt for unpaid personnel property taxes

Capital Outlay – The items recommended for funding in 2012 are detailed in each department section.

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 – No change from last year.

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 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 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 1, 2011 from 5:00 – 7:00 PM prior to the Council Meeting at 7:30 PM to review the 2012 CIP and 2013-2017 five year plan and a Committee of the Whole Meeting will be held on Tuesday, November 8, 2011 at 7:00 PM to review the 2012 Operating Budget. The budget hearing and adoption will be held on Tuesday, November 15, 2011 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 8, 2011, following the Committee of the Whole meeting. 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 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. Again thank you Mayor Scrima for your direction and endorsement of the 2012 Executive Budget.

Respectfully submitted,

CITY OF WAUKESHA



Steve Crandell,
Interim City Administrator