



COMMUNITY DEVELOPMENT

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Letter of Transmittal
October 5, 2007

The Honorable Mayor, Alderpersons and Finance Committee Members:

Pursuant to Section 4.01 of the Municipal Code submitted herewith is the Executive Budget for FY 2008. This is the proposed budget for all budgetary funds of the City of Waukesha.

Introduction

This letter of transmittal is a general overview of the Proposed Annual Budget. As such it is intended to identify only those trends and factors that have had a significant impact on the development of the budget. Further details of revenue and expenditure items are contained in the body of the budget document and in accompanying reports pertaining to specific budget issues as were needed.

As with previous budgets, the process of developing the budget began with the submittal of departmental expenditure requests and estimates of proposed revenues. Department directors and managers were requested to submit a status quo budget in spite of the unknown levy limit. This allowed for a proper understanding of the impact of the limits. The process continued with an assessment of the submittals in light of all internal and external factors. This was followed by meetings with the department directors and managers to discuss their detailed assessment of operational needs. The process culminated in development of a mutually acceptable recommendation based on the departmental needs and the fiscal ability of the organization as a whole.

Discussion

The initial goal of this budget was to meet the property tax levy limits to be initiated by the state while maintaining the current level of city services. At the time of publication of this document, the state still had not passed its budget and has left us without this clear goal. In addition to the lack of a known levy cap, many of the state aids paid to the city remain unknown as well. The different versions of the budget that have been passed by the two separate houses of the state legislature vary greatly when it comes to several of our state aids. Should they reach some sort of a compromise in the near future we will still need to wait for the Governor to sign the bill or line item veto it. Once he is done we will



have to wait for the Department of Revenue to interpret what has been done and tell us how they will be enforcing the new limits should there be any.

Under this weight of uncertainty, we have moved to create a budget proposal that puts us in the middle of the latest two levy cap limit percentages that have been discussed in the state capital. One plan called for 4%, one for 2%. We have targeted 3%. It is for certain that once the state has adopted a budget we will have to change the city budget that is being proposed. If the floor of the limit should come in at 2%, we would have to meet that limit. We will need an additional combination of expenditure reductions or revenue increases in the amount of \$439,086. While we had the second highest amount of new net construction in the county at \$104,692,300, as a percentage of our equalized property value it was only a 1.83% increase. We have over \$5.98 billion of property value in the city of Waukesha.

In order to meet the 3% target, over \$3.75 Million had to be trimmed from department requests or shifted to other revenue areas of the budget. In this vein it is important to recognize that placing a limit on the levy does not limit demands created by growth and inflation. Thus, even though service levels and programs may get reduced or eliminated, there is still going to be a demand for the services and programs. This budget does include reductions in staffing levels and calculated reductions to our health insurance costs due to the bargained restructuring of our insurance plan and lower cost increases. The tables below provide some detail as to the areas of reduction. An attached addendum will provide more of the specific reductions by department.

A significant item impacting not only the 2008 budget, but also the 2009 budget is the additional costs associated with hiring 9 new firefighters to occupy the new fire station number 5. The 2008 budget currently includes approximately \$200,000 to operate the building and to hire and equip the firefighters starting October 1, 2008. This amount will grow to over \$700,000 in 2009. The fire department has applied for a federal grant to assist with the salaries and benefits. At the present time we again are at the mercy of outside parties with regards to being notified if we have been awarded the grant. Currently we don't know. This also plays into the uncertainty of the levy limits. The calculation of the levy limit, while fairly simple to perform is a little trickier to explain. The limit (assuming the language is similar to the last limit) is first calculated by multiplying your previous years total levy by either the minimum allowable growth percentage of the increase or your new net construction property valuation percentage increase over the previous years total equalized value for the city, whichever is higher. That resulting amount is then added to your previous years levy and can be adjusted upwards for increases in debt service payments, annexed land into the city, services taken over from another governmental entity or by referendum. If the minimum for 2008 is going to be

2%, then 2% would be the number that the city would use since its new net construction growth was only 1.83%. No one knows what it will be next in 2009. Our 2% allowable increase for 2008 would be \$884,900. The estimated increase in 2009 for the costs of the firefighters will be \$500,000. This is could be a significant portion of the allowable increase. There are a lot of what "if's" to consider with this project.

Analysis of Revenues and Expenditures

Comparison of General Fund Revenues, 2007 - 2008

Revenue Category	2007 Amt.	2008 Amt.	Difference	% Diff.
Property Tax	\$34,248,773	\$35,675,030	\$1,426,257	4.16%
Other Taxes	831,405	676,750	(154,655)	(18.6%)
Intergov. Grants	8,031,386	8,064,358	32,972	.4%
Lic. & Permits	1,656,500	1,703,100	46,600	2.8%
Penalties & Forf.	670,000	699,000	29,000	4.3%
Charges for Serv.	2,747,180	2,652,286	(94,894)	(3.5%)
Interdept. Charges	1,176,782	1,119,481	(57,301)	(4.9%)
Misc. & Other Rev.	2,279,253	2,612,105	332,852	14.6%
Total	\$51,641,279	\$53,202,110	\$1,560,831	3.0%

In the above table there is a 4.16% increase in the Property Tax category. A more complete explanation of taxes, rates and levies is provided later in this letter. The largest change in Other Taxes is mostly the result of moving the portion of room tax paid to the visitor's bureau and the amount to be used for the new hotel downtown into a special revenue fund. Otherwise room tax revenue has been increased slightly (\$3,750) to reflect the continued growth we have experienced over the past few years. Intergovernmental Grants as a whole at present have remained mostly unchanged. General state aids have remained unchanged due to the fact that the state budget has not been adopted. There were two grants included in this category in 2007 that were onetime equipment grants, one from the federal government for \$47,070 and the other from the state for \$47,377. The largest single increase in this group was for the Expenditure Restraint Program aid. The state department of revenue did release an estimate for the 2008 payment and it has increased by \$146,000. License and Permit revenues are projected to increase by 2.8% due to increased cable franchise fee revenue (\$50,000). Penalty and Forfeiture revenues are expected to increase slightly. Activity levels have not increased significantly over the current year but 2007 revenues are on pace with those of 2006 and not expected to change in 2008. In the category of Charges for Services ambulance revenues continue to decline (\$103,000) as changes in Medicare have affected reporting categories for services and lowered reimbursements. Engineering fees

also are on the decline (\$60,000) due to reduced development activity associated with the housing decline. Recreation fees are expected to grow by 8.3% (\$73,997) this year as a result of increased programs, fees and the continued attraction to Horeb pool. Interdepartmental Charges are expected to decline by 4.9% (57,301). Internal labor charges for DPW projects are expected to decline this year. Internal charges for information technology charges are expected to remain the same but the budget in 2008 has been increased to reflect actual historical levels of charges. In Miscellaneous revenues, interest on investments is expected to increase by \$300,000 as our cash balances grow.

Other than property taxes, revenues have increased by less than 1% over 2007 (.77%). Without increases in state aids or new fees for services, property tax will be forced to go up with increases in expenditures.

Comparison of General Fund Expenditures, 2007 - 2008

Exp. Category	2007 Amt.	2008 Amt.	Difference	% Diff.
Personal Services	\$41,709,108	\$43,388,740	\$1,679,632	4.0%
Contractual Serv.	5,211,257	5,193,173	(18,084)	(0.3%)
Supplies & Exp.	2,451,451	2,578,840	127,389	5.2%
Building Materials	153,500	159,500	6,000	3.9%
Fixed Charges	47,764	47,238	(526)	(1.1%)
Grants/Contrib.	180,000	30,000	(150,000)	(83.3%)
Capital Outlay	336,514	204,955	(131,559)	(39.1%)
Interdepart. Chgs	1,402,244	1,389,664	(12,580)	(0.9%)
Other Uses	250,440	210,000	(40,440)	(16.1%)
Total	\$51,742,278	\$53,202,110	\$1,459,832	2.8%

Personal Services – The largest increase in this category is attributed to salaries (\$781,590) and wages permanent (\$276,361). This category includes approximately \$150,000 for the addition of nine new firefighters for station 5 and the reduction of five existing positions in other departments. There is also a \$1,800 included to convert an existing horticulturist position in the parks department into a crew leader position. A request to fund two new patrol officers and to fund an existing dispatcher position in the police department were also removed from this budget. Other changes include relatively normal increases in other benefits. The health insurance increase this year has been held to a less than double digit increase and has been reduced for structural changes in the benefits levels. The dental insurance rates used to formulate the budget last year were estimated rates. The actual rates that we received after the budget was adopted were lower than expected. This has resulted in a slight decline in the 2008 budget when combined with changes in staffing levels and the mix of family and single plans.

Contract Services – This category has actually declined slightly this year (-\$18,084) because of several different factors. The \$15,000 decline in consulting was a reduction for strategic planning that was budgeted in 2007. While the consulting did not take place in 2007 it is expected to occur in 2008. The funds from 2007 will be recommended for carry over at the end of the year. The reduction in outside data processing of \$42,000 is due to an increase in the budget amount for 2007 that was made earlier this year. The IT department requested this budget increase to assist the completion of several projects when they were short staff due to personnel issues. The amount budgeted for 2008 is actually the same amount that was originally budgeted in 2007 so there was no real change to this account. The majority of the reduction to the other professional services account is also the result of a budget change made during 2007 to account for the costs associated with recruiting a new city administrator and director of public works. Utilities increases were held down this year due to energy efficiencies resulting from the work with Johnson Controls. Vehicle maintenance, software maintenance and building maintenance have increased due to rising costs and increased needs. The \$10,000 increase in radio services is the result of request by the fire department to install wireless services to their response vehicles and will take advantage of the new Phoenix software system installed this year by the police department. This cost will be a permanent on going cost. The \$45,790 increase in sundry contacts is due to the increase in amount and cost to collect recyclables and leaf disposal. The apparent reduction in the salt budget is also the result of a budget change in 2007.

The Supplies category has increased primarily due to fuel increases of a projected 10.9%, \$56,186. Also printing costs have increased 6.43% (\$18,346), conference and training has increased 7.36% (\$13,000) and medical supplies have increased 18.03% (\$10,965). Likewise, Building Materials costs, primarily street maintenance materials (12.73%, \$7,000) are increasing. Fixed Charges have essentially stayed the same. The decline in Grants/Contributions is the result of shifting the payments made to the visitors' bureau for room tax revenue to a special revenue fund. Operating Capital Outlay has decreased in keeping with budget restraint and from onetime budget adjustments during 2007 for grants received during the year. Interdepartmental Charges is what other funds (workers comp and property insurance) charge the general fund, which has decreased slightly from last year. The decrease in Other Uses, is due to the shifting of the city's contribution to the Business Improvement District to a direct levy to that fund.

The above tables include only the General Fund. This is not the only fund that is financed with a property tax levy, however. Other funds are tax supported as

well. Following is a table and narrative describing these funds and their impacts.

Comparison of Other Fund Levies, 2007 - 2008

Fund	2007 Levy	2008 Levy	Difference
Special Revenue Levy	\$ 1,362,593	\$ 1,461,613	\$ 99,020
Fleet Levy	\$ 176,000	\$ 159,511	(\$ 16,489)
General Debt Levy	\$ 7,288,576	\$ 8,192,059	\$ 903,483
Transit Levy	\$ 1,069,069	\$ 1,268,719	\$ 199,650
Internal Services Levy	\$ 100,000	\$ 0	(\$ 100,000)

Except for the Debt Services Levy, all the above levies are included in the anticipated state levy limitation. Overall, those levies limited by the state in these other funds have increased by \$182,181.

The Debt Service levy is increasing 12.4%. The increase here is the result of the large capital projects that the city has recently undertaken. These large construction projects include the new fire station 1, the Greenfield avenue expansion, the Phoenix software system, West avenue landfill apartments, Horeb Springs, the library and the public works garage and were anticipated. Had the increase in debt service not taken place the levy increase this year would have been significantly smaller. The assessed tax rate would have only increased by 1.84% with all else remaining the same.

While not directly levied for, items funded in Fund 400 do indirectly impact the levy. This fund includes funding for ongoing infrastructure needs such as technology upgrades and replacements and for road repair contracts. While the total expenditures in this fund are being reduced from the 2007 adopted budget amount of \$1,391,740 to 1,300,525, the indirect tax support is increasing from \$895,687 to \$922,093. This is due to a reduction in the anticipated outside revenues and project costs for TV25 and increased levy related projects. Other capital expenditures funded with borrowing are discussed in the CIP materials.

Tax Levy

Overall, then, the 2007 tax levy needed to support the above 2008 expenditures is proposed to increase from \$44,245,011 to \$46,756,932 which is \$2,511,921 or 5.68% higher. This includes the 3.00% increase in the targeted general levy as maybe allowed by the state plus an increase of 12.4% in the debt service levy.

Property Valuation and the Tax Rate

The estimated assessed valuation of property within the city has increased from \$5,258,055,380 in 2006 to \$5,350,977,097 in 2006 not including TID values. This is an increase of \$92,921,717 or 1.77%. The estimated 2007 equalized value is \$5,862,049,100 not including TID, for an increase of 4.36 over last year.

Based on these estimated values and proposed expenditures and using equalized values the tax rate will be \$7.976 per \$1,000 of valuation compared to last year's rate of \$7.88, an increase of 1.27%. Based on assessed values the rate will be \$8.738 per \$1,000 of value compared to last year's rate of \$8.41 for an increase of 3.84% or \$0.323. The typical home with an assessed value of \$195,100 would experience a city levy increase of about \$63.00 from \$1,642 to \$1,705. It is important to understand both the assessed and equalized rates because while the assessed rate more accurately reflects the budget's short term impact on tax bills, the equalized rate more accurately reflects the impact of the budget on the fiscal capacity of the city and long term tax rates.

It should be noted here that the 32 cent increase in the tax rate will generate an additional \$1,730,012 in tax revenue. Of this \$903,488 or 52% is a result of increased debt. Thus, about 12 cents or \$644,348 is a result of increased operating costs. This represents only 1.2% of the total operating expenditures in the General Fund.

Conclusion

This budget was prepared based on the following assumptions which are similar to last year's:

- Levy limits are here to stay in one form or another.
- Reductions in expenditures that translate directly into reductions in services continue to be undesirable.
- New fees are undesirable.
- Reductions in infrastructure and maintenance expenditures for facilities or people are short term fixes with undesirable long term consequences.
- The funding of general operations with borrowing is unsound fiscal policy in the long term.
- The budget must insure that unrestricted reserves are preserved.

The need to adhere to these assumptions (the same as last year) and the anticipated absolute limit imposed by the state automatically produces conflict. In the final analysis, almost \$740,000 of service limiting expenditures were cut directly from department budgets.

The danger, of course, is in building the expectation of continuing at this level. As the accompanying alternatives demonstrate, the city is balanced on a very

thin line. A percent one way or the other can make a major difference in the city's ability to maintain its stature.

Particular thanks to Steve Neaman and Vicki Krueger and to their coworkers for their support in preparation of the budget, the knowledge and experience they have brought to the process is priceless and to department directors and all employees for their continued cooperation and dedication.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Steven P. Crandell".

Steven P. Crandell
Interim City Administrator

ADDENDUM

2008 Executive Budget Budget Reductions

Following is a list of those items that were eliminated from the 2008 Executive Budget prior to submittal that have an impact on the delivery of services or programs. They are not ranked. Amounts are rounded for ease of discussion.

- Elimination of the Clerk/Typist position in the Assessors Office \$ 52,000
 - longer waiting periods for assistance to the public and to staff
- Reduced temporary wages for Horeb and Buchner pools \$ 35,000
 - less staff to assist the public
- Elimination of an Engineer I position in the engineering department \$ 73,000
 - delays to project reviews and the amount of projects that can be completed by the department
- Reduced temporary wages and overtime in Engineering \$ 14,500
 - longer review times and responses to inspection requests
- Elimination of 2 ea MEO I positions at the City Garage \$ 160,000
 - snow removal will take longer/road maintenance will be delayed
- Continued non-funding of a 16th Dispatcher in the Police Department \$ 58,000
- Denial of a request for 2 additional Patrol Officers \$ 142,000
- Elimination of the Police Social Worker position \$ 93,000
 - delays in investigations will occur/victim and officer counseling will have to be referred outside of the department
- Lengthened computer equipment replacement cycles \$ 147,000
 - reduced efficiencies and increased risk of outages
- Reductions in Computer related infrastructure replacement \$ 154,200
 - reduced efficiencies and increased risk of outages
- Reduced temporary wages in Parks and Forestry \$ 28,500
 - reduced shelter maintenance and increased lead times for repair work
- Reduced small equipment in Police \$ 19,000
 - unmarked squad lights will remain less visible/no mobile security system for spot monitoring/reductions to the bike patrol unit and less accurate accident reconstructions
- Reduced tax support for library operations \$ 40,000
 - fewer materials and displays/public computer replacements delayed/ reduced security
- Reduce tax support for Transit \$ 227,100
 - reduced capital replacement which will lead to higher maintenance costs/no surveillance cameras on busses/ no automatic ticket dispenser to the transit terminal (with shared revenue this equals a cut of \$1,135,500)

ADDENDUM

- Reduced temporary wages in the Fire Prevention Bureau \$ 7,000
 - pre-response plans were going to be digitally converted with an intern for the Phoenix system
- Delayed in park/river walk maintenance \$ 30,800
- Reduction in park trees and horticultural supplies \$ 16,500
- Reduce road program funding \$ 20,000
- Reduce sidewalk program funding \$ 20,000
- Delay various departmental equipment purchases \$ 137,000
 - includes files, furnishings, supplies and equipment in a variety of departments

The above reductions total \$1,474,600 and do not include a variety of small reductions used to balance to budget. In addition to these reductions over \$1,435,000 in fleet replacement requests were also eliminated from this budget.