City of Waukesha

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Letter of Transmittal
October 7, 2005

The Honorable Mayor, Alderpersons and Finance Committee Members:

Submitted herewith pursuant to Section 4.01 of the Municipal Code is the Executive Budget for FY 2006. 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. The process continued with my assessment of the submittals and meetings with the department directors and managers to discuss their detailed assessment of operational needs. The process culminates in development of a mutually acceptable recommendation based on the needs and fiscal ability of the organization as a whole. This year it was necessary to reduce the requested budget addressing the continued needs of the city by $3.4M or 6.5 percent in order to meet fiscal constraints.

Discussion

The proposed budget is based on one overriding factor. That factor is the response to the levy limitation imposed on cities throughout the state by the state legislature beginning in FY 2006. This legislation resulted in a total allowable increase in the levy (exclusive of debt service) of $819,159 or 2.04%. This compares to an average levy increase (non-debt) in the past 10 years of over 6.8% annually. As we examine the various other influences on this budget such as labor contracts and energy price increases it will become apparent that the levy limitation creates a need to significantly alter the assumptions usually associated with budget development.

The major changes in the way we think of the budget involves assessed values and the termination of Tax Incremental Districts (TID). Due to termination of two TIDs (adding over $30M to total property value) and a revaluation of all non-manufacturing property in the city, the city's assessed value rose more than 32% or $1,263M. Based on last year's tax rate that increase in value would have generated additional tax revenue of $12M. Thus, the ability to increase the levy without increasing the tax rate was reduced by the levy limitation by a factor of 7 times. In other words, the city's ability to keep up with inflation and use TID aided development to reduce tax rates is essentially gone.

This shift in assumptions means we must address the budget is different ways. First, revenue sources and fees must be examined with creativity. In the following table there are additions to existing fees and new fees totaling approximately $170,000. Some will require Council action to implement and will be addressed separately now and in the future. The table and narrative below identify significant changes in the area of revenue sources.

Comparison of General Fund Revenues, 2005 - 2006

Revenue Category	2005 Amt.	2006 Amt.	Difference	% Diff.
Property Tax	$32,524,560	$32,479,330	($ 45,230)	(.14%)
Other Taxes	475,500	831,405	355,905	74.8%
Intergov. Grants	6,872,333	7,454,545	582,212	8.5%
Lic. & Permits	1,706,500	1,837,500	131,000	7.7%
Penalties & Forf.	657,000	650,000	(7,000)	(1.1%)
Charges for Serv.	2,524,476	2,874,220	349,744	13.9%
Interdept. Charges	1,101,009	1,164,828	63,819	5.8%
Misc. & Other Rev.	1,284,773	1,610,935	326,162	25.4%
Total	$47,146,151	$48,902,763	$ 1,756,612	3.7%

In the above table the increase in Other Taxes is due to a projected increase in Motel Tax revenue. Intergov. Grants is increasing because of a shift in accounting procedure, but otherwise reflects a stabilization of state shared revenues projected in 2006. The increase in Lic. & Permits reflects continued strong development activity projected in 2006. New fees for Assessor services ($30,000) and use of the city drop off site ($30,000), stronger collections in Ambulance billing ($129,000) and increases in Library and Recreation fees ($170,000) are reflected in the increase in Charges for Serv. Misc. & Other Rev. has increased as a result of better interest rates (Interest on Investments, $300,000).

The second shift in the way the budget is developed involves impact to services and programs. Rather than addressing the needs of a growing community it is now necessary to look for ways to maintain the level of critical services while reducing the overall size of the budget. This could be done by applying short term solutions such as reducing capital expenditures or maintenance efforts or borrowing for operational costs. However, the duration of the state imposed crisis is uncertain and the most prudent way to address budget constraints of this nature is to apply changes that will be sustainable over the long term. This generally means reduced program and service levels which, in turn, means reductions in staff size.

The following table and narrative summarizes changes in general fund expenditure levels. Further detail regarding specific position reductions and other program altering changes is provided separately.

Comparison of General Fund Expenditures, 2005 - 2006

Exp. Category	2005 Amt.	2006 Amt.	Difference	% Diff.
Personal Services	$37,516,843	$39,846,316	$ 2,329,473	6.2%
Contractual Serv.	5,571,300	4,518,109	(1,053,191)	(18.9%)
Supplies & Exp.	2,217,703	2,379,674	161,971	7.3%
Building Materials	153,139	144,500	(8,639)	(5.6%)
Fixed Charges	44,619	44,836	217	0.5%
Grants/Contrib.	30,000	180,000	150,000	#
Capital Outlay	230,477	259,634	29,157	12.7%
Interdepart. Chgs	1,323,061	1,330,259	7,198	0.5%
Other Uses	104,000	199,435	95,435	91.8%
Total	$47,146,151	$48,902,763	$ 1,756,612	3.7%

In the above table Personal Services increases comprise a 2.95% wage adjustment plus a 15% general increase in health insurance. Because of the newness of the self-insured plan, this is a conservative adjustment that when combined with a cash increase to the insurance fund balance will assure the success of the plan. Thus far the plan has been performing as anticipated and, while insurance continues to have a significant impact on the budget, the impact appears to have been reduced as compared to what might have been. The decrease in Contractual Services is due to a transfer of the refuse collection function to a separate fund. (Please see separate memo.) Were it not for this transfer the category would have increased $222,557 or 4.0%. Increases in this category included uncontrolled items such as utilities ($74,700) and software maintenance ($81,815). Supplies and Exp. increased due to notable increases in gas and oil cost ($181,610). Changes in the other expenditure categories were due to changes in accounting/budgeting practices that did not impact the tax levy.

Noted above were some of the changes in contractual or supplies costs that are attributable to economic conditions in general. There are other smaller items of a similar nature that are not singled out that in combination with the above have had a significant impact. Overall the non-personnel related "economic" adjustments totaled more than $450,000 which is more than half the allowed levy increase.

Other changes that are not described in the above narrative involve those reductions in personnel or program costs that tend to be spread across a wide range of categories or line-items. In total about $1,000,000 was removed from the department's recommended budgets in order to meet levy limits that will impact services. A discussion and listing of these items is included separately. Should the Council choose to look at an alternative revenue source involving direct billing of the garbage pick-up, these items could be reinstated.

The General Fund is not the only fund that is financed with a property tax levy. Other funds are tax supported as well. Following is a table and narrative describing these funds and there impacts.

Comparison of Other Fund Levies, 2005 - 2006

Fund	2005 Levy	2006 Levy	Difference
Special Revenue Levy	$ 338,173	$1,288,371	$ 950,198
Fleet Levy	687,942	282,500	(405,442)
General Debt Levy	5,616,128	6,590,014	973,886
Transit Levy	935,242	972,486	47,244
Internal Services Levy	-0-	500,000	500,000

Except for the Debt Services Levy all the above levies are included in the levy limitation. This table is somewhat misleading, however. Because the increase in the Special Revenue Levy is due to a transfer of over $1.1M in the garbage collection function to a separate fund; and, because this together with the decrease in the Fleet Levy offsets the Internal Services Levy, the impact of the above on the levy limitation is minimal in itself.

This table does illustrate that as expected and planned, the Debt Service Levy is increasing due to the construction of Horeb pool, the garage and Library additions and the parking garage. Even though this levy is not limited by the state legislation, it does impact the tax rate as will be seen below.

Of additional note not reflected in the above table is the state of general capital spending. As noted earlier a short term answer for dealing with the levy limitation could be to significantly reduce capital expenditures. However, because the need for capital spending, including infrastructure maintenance, tends not to disappear, this answer only delays the impact in the long term. Thus, there is little being recommended in this budget in the area of capital spending reductions. Only where such reductions produce sustainable results was this area of spending limited.

In Fund 400 which directly impacts the levy, spending for basic technology and other infrastructure such as street repair and maintenance was left intact. In Fund 410, which is funded largely with bond proceeds, the traditional infrastructure expenses were funded. In Fund 420, also funded with bond proceeds, some changes were made. Items in Fund 420 are not generally considered infrastructure related, but rather are new or replacement items or construction that supports an operation. In this fund several items that would tend to increase operating cost in the future have not been funded this year. (See CIP budget discussion for more detail.) Since these are debt related this does not impact the levy directly, but may keep future operating costs down. For example, funding for construction of new park facilities is not being recommended this year. Similarly in Fund 430, some vehicle purchases are being delayed with the intent of prolonging the replacement intervals of these vehicles in the future. This will have a long term impact on the levy.

Overall, then, the 2005 tax levy needed to support the above 2006 expenditures is proposed to increase from $40,017,560 to $42,112,701 which is $2,095,141 or 5.24%. This includes the 2.04% increase in the general levy as allowed by the state plus an increase of 17.3% in the debt service levy.

Property Valuation and the Tax Rate

As mentioned above the estimated assessed valuation of property within the city has increased from $3,921,195,487 in 2004 to $5,184,498,717 not including TID values. This is an increase of $1,263,303,230 or 32.22%. This increase is mostly due to a revaluation of non-manufacturing property within the city which will bring the city's assessed value to 99.77% of the equalized value as determined by the state.

Given the proposed levy and the new valuations the proposed tax rate on assessed value will decrease from $10.26 in 2004 to $8.16 for this budget. This is a decrease of $2.10 per thousand of value or 20.4%. When measured by equalized value year-to-year the rate will decrease from $8.51 to $8.14, a decrease of $0.37 or 4.3%.

The effect the revaluation combined with the above tax rate will have on individual properties will vary significantly. Properties that have had large increases in value will see an increase in actual tax. Other properties with below average increases in value may see a decline in there tax bills. Each individual property will be different. All else being equal and by applying averages, a property that was valued at $180,000 last year would have increased to about $240,000 this year. The tax bill on this property for city tax only would have been $1,847 last year and would be $1,958 this year. In this scenario the "break even" percent of increase in value is about 25%. Property with values increases above this number would generally see an increased tax bill and those below a decreased one.

Conclusion

This budget was prepared based on the following assumptions:

- Levy limits are here to stay in one form or another.
- There is no more interest in reducing services now than in past years.
- Reductions in infrastructure and maintenance expenditures for facilities or people are short term fixes with undesirable long term consequences.
- Funding operations with borrowing is unsound fiscal policy in the long term.
- The budget must insure that unrestricted reserves are preserved.

Given these assumptions the budget presented here attempts to make the best of a difficult situation. Critical core operations were preserved to the greatest extent possible while important yet tangential activities were impacted the most. In all cases reductions are recommended in areas where it was felt there would be the least actual impact on the community as a whole. This was done without attempting to simply spread the impact equally among all functions. It was also done with an eye toward 2007 when the task will be much more difficult and must be addressed throughout the year in 2006.

Particular thanks to Steve Neaman and Vicki Krueger and to their coworkers for their support in preparation of the budget and to department directors and all employees for continuing the struggle to serve the community well.

Respectfully submitted,

James C. Payne
City Administrator

Memorandum

Date: October 7, 2005

To: Mayor, Alderpersons and Finance Committee

From: City Administrator Jim Payne

RE: 2006 Proposed Budget – Fees Proposals

Contained within the proposed 2006 budget are several fee changes or enhancements some of which will require Council action.

The first new fee is a proposed fee to capture the cost of certain Assessor services. Each time there is a building permit issued for a remodeling in an existing structure the Assessor's Office is advised of this. When the project is complete an appraiser is sent to the site and a new value may be assigned to the property based on the value of the remodeling. It is possible to charge a fee at the time the building permit is obtained to cover the cost of this inspection by the Assessor's Office. It is estimated that $30,000 could be generated by this change.

Second, the Parks, Recreation and Forestry department is budgeting for new or enhanced fees for recreation programs. The department is attempting to recover as close to the total cost of recreation programs as possible and the Board will be establishing new and enhanced fees for this purpose in 2006. The exact fee structure will be determined by the Board. An additional $23,000 is anticipated from these adjustments.

Third, the Forestry division is budgeting for an increase in the tree planting assessment for planting new trees on right-of-way. An additional $9,750 or $45.00 per tree is budgeted for this increase which will be part of the next assessment hearing. This will cover a substantial portion of the actual cost of the tree and labor.

Fourth, it is proposed that the city began charging a small fee for dropping off item at the city's transfer site. This would not include recycled items, but would include anyone dropping off appliances or brush or other general refuse. The fee would be $1.00 per visit and generate about $30,000 per year.

Finally, the Library is proposing increases in late fees and other charges. These will be set by the Board in the coming months and is expected to raise and additional $35,000 in revenue.

Other increases in fee based revenue are due to changes in activities and not new or enhance fees. Planning and inspection fees are expected to rise as are street opening permit fees due to construction activity.

Memorandum

Date: October 7, 2005

To: Mayor, Alderpersons and Finance Committee

From: City Administrator Jim Payne

RE: 2006 Proposed Budget – Garbage Collection Billing Proposal

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As mentioned in the 2006 Executive Budget transmittal letter there is an option available to the manner in which the City of Waukesha funds its garbage collection costs. Currently the city levies a general property tax across all properties to pay for the cost charged by a vendor to pick up general trash and large trash items. Based on projected 2006 tax rates, an average property value of $200,000 and total collection costs of approximately $1,288,000 this service will add about $52.00 to each tax bill.

There are alternatives to achieve the same end, which is, insuring a well maintained, safe environment free of garbage and debris. One is to mandate through ordinances that the individual property owners provide for their own, individual collection and disposal at their direct expense. Many communities use this method with some actually licensing waste haulers and establishing zones in the community during which such pickup is allowed. This can be a costly proposition for the community because of enforcement issues and does not always result in achieving the goals of the activity. It is not recommended as a reliable alternative.

Another alternative is to direct bill the "customer" for the cost of the service. Most communities in Waukesha's population class are currently using this method either by placing a direct annual charge on the tax bill or by charging it quarterly on the community's utility bill. The former is a more certain method of collection and uses fewer resources to accomplish.

The advantage to direct billing is that only those properties that use the service are paying for it. With the tax levy all properties share in the cost whether used or not. Of course there is a community-wide benefit when the basis goal of the service is achieved, but it is not necessarily proportionate to the cost.

As for disadvantages there are some obvious ones. First, since some non-users are paying a portion of the cost, eliminating them from the equation would result in a high cost to the users. Based on averages it is estimated that each user would be billed approximately $65.00 per year compared to the tax of $52.00. A second disadvantage, albeit small, is that the $65.00 would not be tax deductible.

Of course the reason for suggesting this as an alternative is that by direct billing this cost the total garbage collection amount of $1.2M is no longer a tax levy and subject to the levy limit. Thus, $1.2M is freed from the cap limit and the items removed from the budget to meet levy constraints could be restored and the tax rate lowered by two or three cents.

If the Council was in agreement on this as an option it would become a line item on the 2006 tax bill mailed in 2006 and not the bill that will be mailed in a few weeks. However, in order to restore the 2006 budget there would need to be a firm commitment so as to avoid budget shortfalls in 2006.

Memorandum

Date: October 7, 2005

To: Mayor, Alderpersons and Finance Committee

From: City Administrator Jim Payne

RE: 2006 Proposed Budget – Program and Service Reductions

Following is a list delineating significant changes in the 2006 Executive Budget that resulted from the levy limitation. In other words, these items would likely have been included in a recommended budget were it not for the state legislation on local levies. Of course it is impossible to actually recreate an alternative reality of this nature since so many factors are involved in the budget process. But, at the very least these are items I recommend be reinstated in the budget should the Council opt to direct bill the garbage collection service. This list is not in priority order.

It should be noted that in some cases where positions are involved these positions are currently vacant. In instances where positions are not specifically identified it is intended and it has been budgeted that the final recommendation on the position or positions be completed within the first quarter of 2006. This could involve looking for soon to be vacated positions in certain functional areas.

Library		
adult and children's materials		$ 85,000
janitorial services		14,460
capital equipment		4,780
building security		2,060
technology equipment		23,000
Sunday hour reduction		7,000
General staff (TBD)	{1 FTE}	68,700
resulting in some hour reductions and staff responsiveness.		$205,000
TV 25		
temporary wage reduction		$34,500
contract services		5,000
supplies		2,000
resulting in reductions in originating broadcasts and programs.		$41,500

Engineering staff reduction w/support supplies {1 FTE} resulting in longer review times	$ 75,000
DPW street supplies resulting in longer repair cycles	$ 19,000
Equal Opportunities Commission staff reduction {.25 FTE} resulting in planning staff handling EOC issues	$ 13,700
Police Dispatch staff reduction {1 FTE} resulting in scheduling issues and overtime	$ 66,500
Parks, Recreation & Forestry	
Parks	
temp maintenance and Youth Corp	$ 44,300
horticultural supplies	9,000
park shelter temp personnel	8,000
ice rink/toboggan OT	4,000
	$ 65,300
resulting in reduced maintenance or programs in subject areas	
Recreation	
summer playground programs	$ 30,000
adaptive recreation program	7,500
park attendant personnel incl. summer/winter	18,000
staff intern reduction	8,800
custodial maintenance position (net) {1 FTE}	30,000
resulting in reduction in or elimination of subject programs	$ 94,300
Special Events	
post parade kids fest	$ 5,800
JanBoree subsidy	5,000
FoxTrot & Spooka Manooka	6,400
Civic Band	10,000
resulting in loss of subject programs	$ 27,200
Pools	
temp staff reductions resulting in shorter pool hours and aquatics programming	$ 29,200
Forestry	
tree planting material resulting in fewer public trees planted	$ 17,000
P,R&F Total	$233,000

Fire fire inspection staff {1 FTE} resulting longer plan review and inspection intervals	$ 68,800
minimum station staffing reduction (OT) resulting in possible loss of fire fighting response	63,500 $132,300
IT PC replacements server replacements communication equipment reduction hardware maintenance contracts software maintenance contracts technology equipment resulting in longer replacement and modernization cycles	$ 3,330 3,330 3,000 3,330 28,700 88,000 $129,690
Public Works project materials resulting in extended project cycle	$ 70,000
Total Reduction in Budget	$985,690

In addition to the above there is $260,000 in road reconstruction funding that was moved from levy supported Fund 400 to bond supported Fund 420 to reduce levy requirements. This should be a high priority for reinstatement.

Two important notes:

1. There are numerous smaller item reductions and other changes that have been made throughout the budget and that are not included in the above list that may be impacted if any of the above are changed or reinstated.

2. The above recommendations cannot be reinstated in the budget without a like reduction in some other part of the budget. Because of the levy limit, every plus must be accompanied by a minus.