City of Waukesha

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Letter of Transmittal
October 6, 2006

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 2007. 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 known levy limit. This allowed for a proper understanding of the impact of the limits. The process continued with my 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 overall goal of this budget was relatively straight forward; to meet the state mandated limit on the tax dollars that may be levied. This is the second year of a two year requirement. It is anything but certain, however, that there will be no limit imposed in the future. Therefore, while it was tempting to recommend changes that assumed a brighter future, the reality is that there will likely be some sort of state mandated limit in the future. This means that changes must continue to be sustainable and must avoid, so far as reasonable, merely putting off or delaying necessary maintenance and infrastructure expenditures.

In practice this meant that over $2.5M had to be trimmed from department requests, shifted to other revenue areas of the budget or new sources of revenue found. 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. The tables below provide some detail as to the areas of reduction.

The most prominent feature of this recommended budget, however, is a recommendation that essentially delays the more difficult decisions inherent in this kind of reduction. To wit, it is recommended that over $500,000 of projected increases in health insurance cost not be funded pending the outcome of labor negotiations. In other words, based on projected health care cost trends and lacking any intervention, it is expected that health care expenses will rise approximately 11% or $925,000 in 2007. Of that amount I have recommended budgeting $100,000 directly. An additional approximately $325,000 is imbedded in the budget in the form of premium co-pays, contributions from enterprise funds or other revenue sources. This leaves about $500,000 that is unfunded with the expectation that through labor negotiations accomplished in a timely manner it will be possible to reduce health care costs by that amount. Based on an analysis of the city's benefit levels I believe this is a realistic expectation. However, in the interest of prudence and good planning, provided separately is a memo describing certain alternatives to this expectation. These alternatives need not be acted upon now as they are available at any time in the future.

Analysis of Revenues and Expenditures

Comparison of General Fund Revenues, 2006 - 2007

Revenue Category	2006 Amt.	2007 Amt.	Difference	% Diff.
Property Tax	$32,477,245	$34,248,773	$1,771,528	5.45%
Other Taxes	831,405	831,405	-0-	-
Intergov. Grants	7,519,343	7,845,333	325,991	4.3%
Lic. & Permits	1,837,500	1,656,500	(181,000)	(9.9%)
Penalties & Forf.	650,000	670,000	20,000	3.1%
Charges for Serv.	2,874,220	2,747,180	(127,040)	(4.4%)
Interdept. Charges	1,164,828	1,176,782	11,954	1.0%
Misc. & Other Rev.	1,618,235	2,279,253	661,028	40.8%
Total	$48,972,775	$51,455,226	$2,482,451	5.1%

In the above table there is a 5.45% increase in the Property Tax category. A more complete explanation of taxes, rates and levies is provided later in this letter. None of the Other Taxes including the Motel Tax are anticipated to change in 2007. Intergovernmental Grants is increasing as a result of increased State Highway Aids ($108,496), Computer Equipment Tax Equivalents ($148,411) and a contribution by the School District for the SRO program ($60,000). It should be noted here that general state aids are unchanged. License and Permit revenues are declining due to a projected 25% decline in building activity ($215,000). Cable TV revenue is projected to increase 4.3% ($28,000). Penalty and Forfeiture revenues are expected to stay about the same adjusting for a normal increase in activity. In the category of Charges for Services ambulance revenues have declined recently ($147,000 projected in 2007) reflecting a higher level of unpaid fees in spite of improved collection activity. A recommendation on collection referrals is forthcoming. Small increases in recreation, fire inspection and public works fees and in tree assessments are anticipated. Interdepartmental Charges are about the same. In Miscellaneous revenues, interest on investments is expected to increase by $600,000 as interest rates rise.

In general, there is little additional revenue to be found without the implementation of a new fee such as last year's proposed garbage fee. Most fees are limited to actual cost of providing the services and these have been maximized over the years.

Comparison of General Fund Expenditures, 2006 - 2007

Exp. Category	2006 Amt.	2007 Amt.	Difference	% Diff.
Personal Services	$39,868,232	$41,730,758	$1,862,526	4.7%
Contractual Serv.	4,579,182	4,990,084	410,902	9.0%
Supplies & Exp.	2,390,474	2,446,996	76,522	3.2%
Building Materials	144,500	153,500	9,000	6.2%
Fixed Charges	44,836	47,764	2,928	6.5%
Grants/Contrib.	180,000	180,000	-0-	-
Capital Outlay	273,118	233,440	(39,678)	(14.5%)
Interdepart. Chgs	1,330,259	1,402,244	71,985	5.41%
Other Uses	199,435	250,440	51,005	25.6%
Total	$49,010,036	$51,455,226	$2,445,190	5.0%

Personal Services – The increase in this category is largely attributable to a health insurance cost increase (17.4% or $1,033,929). Since we are self insured, the mechanism used for budgeting is to budget the actual projected costs for the current year (2006) in the budget year's (2007) general fund and any anticipated increases for the budget year (2007) in a separate internal service fund. As discussed above, this separate fund includes only $100,000, however. Other changes include relatively normal increases in other benefits and a "place holder" for possible contractual wage increases. Of note, there are no recommended reductions in staffing levels for 2007, again, based on the contractual expectations discussed above.

There are, however, two minor shifts in personnel. First, as a result of dropping building activity there is a shift in personnel from the Building Inspection division to the Fire Prevention division. Last year the Fire department lost a full-time position and the sharing of a position with Inspection will help offset this loss. Also, the Recreation department is recommending a minor reorganization and creation of a part-time Marketing position. Even though a position is being added, there will be a reduction in total budget of about $5,000. (Pending review of the HR Committee.)

Contract Services – This category is increasing in several areas. The cost of electricity is increasing a projected 15.4% or $138, 443. The maintenance of the city's over 600 computer programs is increasing 25.8% or $96,437. Vehicle and machinery maintenance is increasing 7.7% or 43,895 and the cost of hauling recyclables is up $27,947. These are all contract based increases and not directly controlled by the city. Of note is the inclusion of a contract for Crossing Guards at $102,960. The Police department feels that the overhead cost of providing this service internally is excessive and that resultant savings in staff time can be better used in other areas.

The Supplies category has increased primarily due to fuel increases of a projected 12.2%, $56,125. Also medical supplies have increased 11.6%, $6,300. Likewise, Building Materials costs, primarily sign and signal materials (15.4%, $10,000) are increasing disproportionately. Fixed Charges (insurance) is increasing with new, expanded buildings and inflation. Operating Capital Outlay has decreased in keeping with budget restraint. Interdepartmental Charges is what other funds (workers comp and property insurance) charge the general fund, which is also increasing with the economy. Of note is an increase in Other Uses, which is to increase the reserved-for-fund-balance from $50,000 to $100,000.

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 there impacts.

Comparison of Other Fund Levies, 2006 - 2007

Fund	2006 Levy	2007 Levy	Difference
Special Revenue Levy	$ 1,288,371	$ 1,362,593	$ 74,222
Fleet Levy	$ 282,500	$ 176,000	($ 106,500)
General Debt Levy	$ 6,590,014	$ 7,288,576	$ 698,562
Transit Levy	$ 972,486	$ 1,069,069	$ 96,583
Internal Services Levy	$ 500,000	$ 100,000	($ 400,000)

Except for the Debt Services Levy, all the above levies are included in the state levy limitation. Overall, those levies limited by the state in these other funds have decreased by $335,000. Of course, this is primarily because of the aforementioned health care cost containment initiative. Otherwise, all funding is at a level designed to maintain the city's ability to preserve the status quo.

The Debt Service levy is increasing 5.76%. This is somewhat more than anticipated because of the borrowing to buy and raze the buildings on the West Ave. landfill site. Otherwise, additional debt for Horeb Springs, the library and the public works garage were anticipated.

Of significance, but not included in the above tables is overall capital expenditures including capital borrowing. It is important to maintain a consistent level of investment in the infrastructure of the city so as to avoid accumulating problems. This is accomplished through indirect taxation and borrowing.

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 $1,838,912 to $1,391,740, the indirect tax support is increasing from $855,448 to $895,687. This is due to a reduction in the amount of projects projected to be carried over from 2006 to 2007 as compared to last year. Other capital expenditures funded with borrowing are discussed in the CIP materials.

Tax Levy

Overall, then, the 2006 tax levy needed to support the above 2007 expenditures is proposed to increase from $42,110,616 to $44,245,011 which is $2,134,395 or 5.07%. This includes the 2.589% increase in the general levy as allowed by the state plus an increase of 10.6% in the debt service levy.

Property Valuation and the Tax Rate

The estimated assessed valuation of property within the city has increased from $5,156,624,499 in 2005 to $5,256,993,189 in 2006 not including TID values. This is an increase of $100,368,690 or 1.95%. The estimated 2006 equalized value based on a ratio of .93 is estimated to be $5,617,383,100 for an increase of 8.59 over last year.

Based on these estimated values and proposed expenditures and using equalized values the tax rate will be $7.876 per $1,000 of valuation compared to last year's rate of $8.14, a decrease of 3.25%. Based on assessed values the rate will be $8.416 per $1,000 of value compared to last year's rate of $8.17 for an increase of 3.06% or $0.24. The typical home with an assessed value of $180,000 would experience a city levy increase of about $43.00 from $1,471 to $1,514. 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 24 cent increase in the tax rate will generate an additional $1,261,678 in tax revenue. Of this $698,562 or 55% is a result of increased debt. Thus, about 11 cents or $563,116 is a result of increase operating cost. This represents only 1.1% 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 (in a sense, policies) and the absolute limit imposed by the state automatically produces conflict. In the final analysis, almost $400,000 of service limiting expenditures were cut directly from department budgets. Another $500,000 is in limbo pending an uncertain outcome with alternatives that are all undesirable. Another $300,000 of very worthy expenditures was eliminated. In spite of this, the services of the city that are appreciated by all should continue at a high level.

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 and to department directors and all employees for their continued cooperation and dedication.

Respectfully submitted,

James C. Payne
City Administrator