



## CITY ADMINISTRATOR

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### MEMO

**To:** Finance Committee  
**CC:** Mayor, City Council,  
Department Directors  
**From:** City Administrator  
**Subject:** Waukesha's Financial Conundrum  
**Date:** June 2, 2014

As we begin the planning process for the development of the 2015 Budget, the long range financial needs of the City have been reviewed. This is necessary because it is typical to look at the needs of the following year without taking future financial needs into consideration. This practice can result in spikes in tax rates, inability to meet financial needs or other financial disasters. Furthermore, one of the charges of my office is to provide long range planning to the City Council. This report is a "big picture" review of the long term needs of the City, with proposed broad solutions that have not been studied and analyzed, but inherent in this report is a recommendation to provide the necessary tools to refine proposed recommendations.

In an attempt to provide a concise picture of long term financial planning and financial needs, a PowerPoint report has been prepared called:

**"CITY OF WAUKESHA FINANCIAL CHALLENGES  
THE \$240 MILLION CONUNDRUM  
THE BIG PICTURE"**

(copy of PowerPoint is attached.)

The number in the title of this report may shock some, but bear in mind that these are long term needs of the City, but regardless must be addressed at some point in time. To address this conundrum, the City must carefully and continually review revenues, expenditures and long term capital financing.

How does our tax rate compare to other municipalities?

The City of Waukesha has the highest per capita tax levy among similar sized municipalities by a wide margin as shown below:

	Tax Levy Comparison-2013	
Municipality	Tax Levy (in thousands)	Tax Levy/Capita
Appleton	\$ 37,586,500	\$516.90
Eau Claire	\$ 35,051,300	\$530.60
Kenosha	\$ 57,168,600	\$574.85
Janesville	\$ 29,374,700	\$462.48
La Crosse	\$ 34,363,300	\$671.22
Oshkosh	\$ 30,120,600	\$455.82
Racine	\$ 47,188,800	\$599.60



West Allis	\$ 38,728,700	\$641.58
Waukesha	\$ 51,466,900	\$727.60

The City's per capita spending is a warning sign that indicates that revenues and expenses need to be carefully reviewed.

How do our user fees compare to other municipalities?

While the City's per capita tax levy is very high, at the same time, it has one of the lowest municipal fees and user charges as non-tax sources of revenue among the comparable municipalities (see below):

User Charge Comparison			
Municipality		Municipal Fee Collections	Per Capita Fee Collection
Appleton		\$ 12,458,951	\$172.66
Eau Claire		\$ 7,568,280	\$116.07
Janesville		\$ 11,908,867	\$189.87
Kenosha		\$ 12,170,880	\$127.40
La Crosse		\$ 4,224,050	\$81.89
Oshkosh		\$ 8,964,342	\$136.22
Racine		\$ 10,660,776	\$133.16
West Allis		\$ 6,895,617	\$114.15
Waukesha		\$ 7,438,700	\$109.59

Only the City of La Crosse has lower user charges than Waukesha.

The City has capital project needs that exceed \$200 million. These needs have been presented to the City Council in pieces, but not as a total package. To address these needs, the Council needs to consider them in total, rather than in a piecemeal fashion. These needs include:

Projected Needs:

Major Streets	\$60m
Minor Streets	\$68m
Storm Sewers	\$70m
New City Hall	\$20m
South St. Parking Structure	\$14m
Veh. purchased before 2010	<u>\$12m</u>
<b>Total</b>	<b>\$240m*</b>

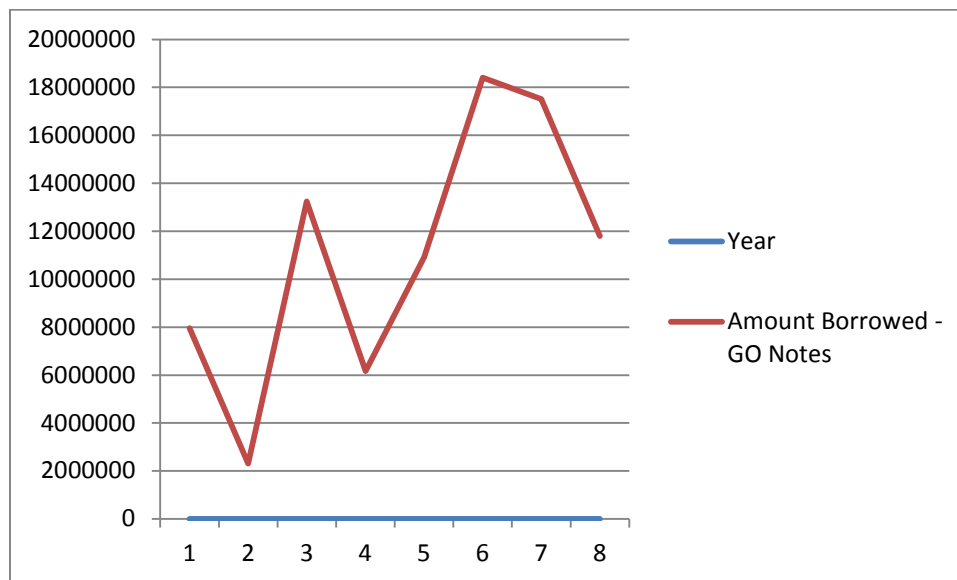
\*Excludes Water & Sewer Upgrades (\$250m +/- more)

The City has sound financial policies to address these needs, but the approach needs to be more comprehensive. Currently the City borrows funds to support the annual CIP. The approach to borrowing includes:

- Having future taxpayers paying for infrastructure they will use vs. current taxpayers paying for future infrastructure.
- Most debt (except buildings) is repaid in a 10 year period – a sound policy.

However, annual borrowing needs to be more level to avoid annual spikes in debt payments that translate into annual spikes in tax levies. As shown below, our borrowing history has been anything but level.

**Annual Borrowing 2007-2014**



To create a more consistent annual debt service schedule, it is recommended that the City Council consider an annual debt capacity in the range of \$10-\$12 million. When the annual amount borrowed is known, the department directors will be in a better position to identify CIP priorities to present during the budget process.

### **Solutions to the \$240m Conundrum**

With a very high per capita tax levy, low non-tax revenues and large capital needs facing the City, the current path of business as usual is not sustainable. Most departments have already had their staffs reduced and remaining employees are working at excessive stress levels. Therefore further staff reductions are not the answer. The recommendation is to increase non-tax revenues (user fees) and to reduce expenditures. The goal is a next reduction in the operating budget is \$2 million beginning in 2016. It is recommended that this be accomplished through the following three steps:

### Step One:

The Finance Committee/City Council should focus on an annual debt ceiling for each year based on:

- ❖ Growth in tax base
- ❖ Seek opportunities for Intergovernmental Cooperation
- ❖ Changes in State Revenue Sources (Shared Revenues, Highway aids, etc.)
- ❖ Availability of Grants (State, Federal, Foundations, Private Sources)
- ❖ Other significant sources of revenue

### Step Two:

Taxes on a per capita basis are already high need to be kept in check. However, non-tax revenues are low and should be adjusted in the following manner (there may be other increases recommended at a later date):

#### ❖ Increase Revenues:

➤ Increase Municipal Court fines by 25%	\$250,000
➤ Increase Court Costs (already implemented)	\$ 60,000
➤ Increase Parking Fees (already authorized)	\$100,000
➤ Joint Health Clinic (already authorized)	<u>\$180,000*</u>
➤ <b>Total Increase in Revenues</b>	<b>\$590,000</b>

\*Increases in years 4 and 5 of the program (Levy impact only).

### Step 3:

Current levels of expenditures are not sustainable if we are to meet our other capital needs. Service reductions are always unpopular. However the following expenditure reductions could be made without severely impacting services:

#### ❖ Decrease Expenses:

❖ Eliminate Election Primaries	(\$ 20,000)
❖ Eliminate Tax support of Cemetery	(\$ 150,000)
❖ Join County Dispatch	<u>(\$1,000,000)</u>
❖ <b>Total Reduction in Expenses</b>	<b>(\$1,170,000)</b>

Primary Elections: Per 8.11(1) Wis. Stats. primary elections are optional, they cost the City approximately \$20,000 plus staff time and the voter turnout is only 7%-9% for a typical primary:

### **8.11 Spring primary.**

**(1) CITY.**

**(a)** *A primary **may** (emphasis added) be held in any city for the nomination of candidates for city office. When a majority of all the members of the governing body of a city decide upon a spring primary for any specific election, they shall so provide not later than 3 days after the deadline for filing nomination papers.*

Cemetery Costs: Earlier this year, a request was submitted to engage a consultant to identify opportunities to reduce costs and increase revenues with a goal of making the cemetery financially independent. That request was not approved, but the need to make the cemetery financially independent remains.

Dispatch Consolidation: In 2012 the City Council voted against a proposal to join the Waukesha County Dispatch Center. This decision should be revisited. The Dispatch Budget is approximately \$1.5 million per year. In addition, city taxpayers contribute just under \$576,000 toward the County dispatch center as a part of the County tax levy. Financially supporting two dispatch centers at a cost in excess of \$2 million is not a sustainable public policy, if a like level of service can be provided by the County. Of the \$1.5 million dispatch budget the City should be able to realize at least a \$1 million savings with the balance to pay for staff to perform non-dispatch functions for the police department.

By combining increased revenues and reducing costs, the net impact on the budget is a \$1.7 million reduction:

Increased Revenues	\$ 590,000
Decreased Expenses	<u>(\$1,170,000)</u>

**Net Impact on Budget-Reduction of: (\$1,760,000)**

While this falls short of the \$2m goal I desired as City Administrator, this analysis is still a work in progress and other revenue/expense opportunities may be identified in the coming months to achieve this goal.

### **Conclusion**

What does all of this mean?

- Per Capita taxes are high and not sustainable
- Other sources of revenue are low and need to be adjusted
- Expenses are high and need to be reduced
- Borrowing goals need to be created
- Directors need to focus on CIP needs based on what can be expected
- Council needs to pay closer attention to long term CIP budgets

Finally, assuming annual borrowing authorization of \$10 million, the \$240m Conundrum will take more than 25 years to solve. In the meantime additional needs will arise further extending the timeline. However without identifying the issues and beginning to create solutions the City will end up with a piecemeal approach that may or may not effectively meet priorities. Each \$1 million in borrowing on a 10 year note translates to

approximately \$115,000-\$120,000 in debt service payments (i.e. tax levy). The 2014 Debt Service Budget is \$10,095,357.

The City needs to focus on the following financial issues long term:

- Address high per capita tax levies
- Aggressively seek other sources of revenue
- Consider reductions in expenses while maintaining services
- Create borrowing goals that level out debt service
- Directors need to focus on CIP needs based on available funds
- Council needs to pay closer attention to long term CIP