

October 15, 1999

Mayor Ed McAleer
Delafield City Council Members
City of Delafield
500 Genesee Street
Delafield, Wisconsin 53018

Regarding: Letter of Transmittal for Proposed Fiscal Year 2000 Budget

Dear Mayor McAleer and Council Members:

It is my pleasure to present the City of Delafield proposed budget for our next fiscal year. These pages represent the work product of a challenging new budget process that emphasizes collective and collaborative decision-making. The participative process this year asked each department head to describe their budget requests in a group setting to the rest of the department heads. Budget input was also solicited from the various boards and commissions serving Delafield. This consensus oriented process allows us to remove the mystery and secrecy from the budget process, allows each of us to gain insights into the operational challenges in other departments, and helps us create long-term perspective for dealing with those challenges. It also should lead to a sense of collective ownership of the budget for the Staff, City Council, and community.

With any new change comes uncertainty. A new City Administrator brings new ideas and experience to an organization, but can only be successful with the assistance of others. The commitment and dedication of all of the City's representatives I have been fortunate to meet in my short tenure will guarantee future success of this organization. Whether it's the Public Works foreman who shares a ham sandwich with me, a patrol officer who meets me in the parking lot, or the Fire Department volunteer who let's me kick the tires on the trucks, I have been impressed with the friendly attitude, patience and flexibility I have been afforded as I joined the team.

Our organization values fiscal conservatism. We value honesty and integrity. We value cooperation over competition. We value self-analysis and making honest mistakes so we can learn from them. If we can learn, we can improve. We value public service. We value each other as human beings. These values shape our **organizational values**. The budget document is the end-product of a process that tries to match our organizational values, the goals and priorities we recently created, and the expectations of our community to provide the highest quality services in the most cost effective manner.

The budget process continues long after the City Council approves the numbers. We expect, and receive, prudent management of those public resources throughout the year. Part of that process is to provide not just a short-term view of what we are going to invest over the next year, but to anticipate where we are headed in the long-term. There are some issues that you need to be aware of in terms of our long-term financial trends.

Table 1, included with this letter, compares expenditures and revenues since 1994. The graph shows that we are returning to a trend where our revenues don't cover our expenses. We were in a similar situation in 1994, and the gap was closed primarily by raising property taxes. In 1996, we took in more money than we spent, but have trailed off since that time.

The 2000 proposed budget of \$5,394,302 includes \$1,271,589 of capital investments like road resurfacing, a new backhoe, and a new ambulance. In prior years, these capital investments have not been included as part of the General Fund, the City has issued bonds to cover the cost of those investments. The revenues we expect in 2000 equal \$4,114,352. As you can tell, we are repeating the trend of not generating enough revenue to cover all of our expenses. It is a little bit like buying a new car with my VISA card, knowing that my income wouldn't allow me to buy it any other way.

Table 2 shows how we could make the revenues and expenditures match for the year 2000, but it would take the complete elimination of capital investments. Our analysis suggests eliminating capital investment is unrealistic, will lead to larger cost increases down the road, and ignores the capital needs identified during the budget process.

Table 3 illustrates continuing the practice of bonding for capital investments in 2000 to "cover" the gap between revenues and expenditures. The annual debt service on a ten-year bond at 4.5% interest for the \$1,271,589 worth of capital investments is \$130,908. This dollar amount is then added to the tax levy, for a total debt service of \$727,966. If that practice is followed, the total 2000 expenditures will be \$4,253,621.

You might be saying to yourself, "Why is this a problem? We have done this for many years, and we seem to be doing fine." **Table 4** helps answer that question. The percentage of the total tax levy that comes to the General Fund is dropping because the Library and Debt Service are growing, both as a percentage of the total levy and the total dollars (see **Table 5** for the dollar growth). When the debt payments grow, and the levy is not increased to accommodate those new expenses, there are fewer dollars left to pay for traditional municipal services like police, public works, and fire/paramedic services. The chart titled, "**Debt Obligation Trend: Current Obligations Only**" shows what our future exposure to debt payments is expected to be. The trend is disturbing, given our current revenue policies and structure.

The City of Delafield has done an outstanding job at maintaining a low tax rate. In fact, the **Wisconsin Taxpayer** magazine April 1999 issue lists Delafield as the 4th lowest tax rate of 189 Wisconsin cities. Here are the top ten highest and lowest tax rates for cities:

Highest:		Lowest:	
Hurley	\$15.56	Kiel	\$3.18
Racine	\$14.40	Peshtigo	\$3.20
Mellen	\$13.97	Buffalo	\$3.41
Brillion	\$13.41	Delafield	\$3.80
Pittsville	\$11.94	Alma	\$3.98
Neillsville	\$11.80	Fountain City	\$4.28
Marinette	\$11.61	Sheboygan Falls	\$4.43
Waupaca	\$11.31	Gillett	\$4.60
Eagle River	\$11.25	Shullsburg	\$4.82
Fox Lake	\$11.19	Whitewater	\$5.18

We have to be careful with the comparisons, because we don't know what kind of services each city pays for with the taxes. What I do know is that the cost of garbage collection is included as part of the tax bill in Delafield, where many cities separately bill for those services.

Table 6 illustrates the relationship between the total tax levy and the city's tax rate. What the chart shows is that the rate goes up and down over the years like a roller coaster, and although the total levy has risen, more of the levy is going to locked-in debt service payments. Over the last 10 years, the city's tax rate has averaged \$5.147 per \$1,000 Assessed Value (which would still keep the city in the lowest 10 tax rates in the state), and makes up about 20% of the total tax bill. So for every dollar a taxpayer contributes, 20 cents goes to the city.

In the best of all worlds, and over time, it is my recommendation that we level off the tax rate, creating a consistency in our revenue patterns. In addition, we need to focus on decreasing expenditures and increasing revenues. Here is a list of ideas:

Decreasing Expenditures

- Create a plan for regular replacement of capital equipment
- Create a plan for major capital improvements
- Continue to think like the most conservative taxpayer in the community
- Defer investments when it makes sense to do so
- Accelerate investments when it makes sense
- Continue to make only prudent commitments, like the Nashotah ambulance decision the Council made. There was a linkage to the capital equipment purchased and a revenue source to pay for the investment.

Increasing Revenues

- Explore alternate revenue sources. The hotel tax Delafield instituted is a great example of a revenue source that is paid for by visitors to our community to offset service costs.
- Explore legislative authorities to control our own fiscal future
- Regain financial strength through current revenue sources
- Direct bill for some services, i.e. refuse collection

In the final analysis, it will take a combination of many ideas to regain a more favorable financial condition. It will also take time to implement the strategy. We didn't get into this position overnight, in fact it seems to have taken 4 years, and we shouldn't expect to regain the balance between revenues and expenses in one year. To do so would almost double the tax rate in one year, which puts us on that roller coaster tax rate mentioned above.

In conclusion, I do not want to leave you with the impression that the sky is falling. All is not lost! The city continues to provide excellent services with top-notch people. The current tax rate is very low and although it may rise, it is projected to stay among the lowest in the state.

I encourage you to review the departmental budget materials following this summary. The highlight of each budget, which does not do justice to the amount of effort department heads have invested in this new budget process, are listed below:

Administration Department: No major changes. Increases are due to rise in employment costs (salaries, benefits, etc.) and an expected level of effort to conduct our election processes.

Police Department: Again, no major changes. LACS fees have increased (our cost for joint police/fire/paramedic dispatching services) to a point where we need to seriously evaluate our continued participation in the program. The budget recommends increasing a half time clerical position to $\frac{3}{4}$ time.

Fire Department: The budget proposes Delafield create a paramedic program. Right now, I believe that most Delafield residents think they have paramedic service. They would be wrong. We do not have the ability to begin life-saving medical treatment with specialized intravenous medicine. That's a long way of saying, if you're having a heart attack, all we can do is throw you in the back of the ambulance and get you to the closest hospital. Chief Swayze's narrative provides a more accurate description of the program and is prepared to discuss the long-term implications, both positive and negative, of making a commitment to this program.

Public Works: This budget shows an increase in the refuse/garbage collection line item. The refuse company will be providing a proposal in the very near future for an optional one-year extension, or a three-year extension for the city's consideration.

Park/Recreation: The budget reflects the priorities of the Park and Recreation Commission. The only difference between the 2000 budget request from the Commission and this proposal is a \$3,000 cut of the lowest priority item in their request (benches in St. John's park).

Cable TV: Virtually level-funded from last year.

Planning and Development: Increases reflect an anticipated level of effort to implement TID strategies, to finalize Lake Welfare Commission studies (which are grant funded),

and to reflect the cost of professional services (which are generally billed to property developers).

Capital Outlay: Illustrated in General Fund this year, was in a separate fund last year. Outlay items are described in departmental budgets.

Library: For all intents and purposes, the budget reflects the same level of activity as previous year. On the revenue side, you should know that the Library Board will request the City Council to increase the property tax levy approximately \$2,000 to cover their expenses above the dollar amount I have programmed in this draft budget. I am not opposed to giving them the dollars, but based on the discussion contained earlier in this letter, I would respectfully request the dollars be added to the levy, not taken from the General Fund levy.

The pieces of the budget document paint an important picture for Delafield's future. For the first time, we are creating a 5-year Capital Investments Plan (CIP). Jim Romanowski, Mike Scaff, Marilyn Czubkowski, and the Public Works Committee are to be commended to preparing a quality document that can serve as our blueprint for future capital investments. The draft CIP is included for your consideration and discussion. We are also creating a Capital Equipment Replacement Plan (CERP) that will create a similar roadmap for anticipating the replacement of our rolling stock and major capital purchases. The CERP, although not recommended for funding in this budget, will be provided as part of the final budget preparation. Comparison tables and a table showing staff amendments and cuts to the original budget submittals are included for your information. Finally, the budget worksheet pages illustrate the individual revenue and expenditure proposals for the year 2000.

I would like to recognize the contributions made by the folks mentioned above, Chief Arndt, Chief Swayze, Polly Gropen, Ellen O'Brien, Kathy Lenz, and Kiersten Heinzl, to produce this budget. It is truly the result of a team effort in every way imaginable. I would especially like to thank Marilyn Czubkowski for her assistance, guidance, and patience, as I learn the ropes in Delafield.

I know I speak for the entire team in thanking you for your continued support, thoughtful deliberation, and careful consideration of this information. We look forward to continuing the dialogue toward a positive conclusion of the Fiscal Year 2000 budget document and recommend a workshop between now and the budget hearing date to discuss these important policy issues.

Sincerely,

Matthew D. Carlson
City Administrator

F:\Letter of transmittal 2000 budget.doc