

October 26, 2000

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

Regarding: Letter of Transmittal for Proposed Fiscal Year 2001 Budget

Dear Mayor McAleer and Council Members:

I am pleased to present you with the Proposed Fiscal Year 2001 Budget for your consideration and review. The proposed budget represents my best effort to provide you with a balanced budget that meets basic fiscal policies.

The budget implements the council's policy directives to provide the highest levels of service in the most cost-effective manner. In addition, the budget attempts to create a connection between the goals and objectives of the community on the one hand and our organizational values on the other. As the "Board of Directors" of this municipal corporation, you are responsible for providing the policy framework and vision for the community. It is my mission to insure that you have the appropriate information and analysis in order to chart that course.

The budget also advances the fiscal discipline outlined in the city's financial policies adopted by resolution February 20, 1995 (Resolution 95.06). The city's auditor prepared a review of this resolution to determine our level of compliance with our policies. His letter states,

"I cannot over-emphasize the importance of addressing the long-term financial condition of the City. The policies and decisions the City makes will affect the City residents and taxpayers for years to come. The City cannot maintain the current level of service and expenditures without an increase in general fund revenues. Simply put, this means either increasing user-charges (i.e. implement refuse and garbage collection charges) and/or increasing taxes. Otherwise, the City will need to determine which levels of service need to be reduced."

-Kevin Krysiniski, CPA

This statement forces the City to make what seems to be a difficult choice to raise taxes or cut services. During the budget process last year, the City Council made the choice of loaning the General Fund \$500,000 from the sewer fund to close the gap between operating

revenues and operating expenses. The tax rate should have been \$4.89 per \$1,000 Assessed Value, but it was established at \$4.00 per \$1,000 Assessed Value. The good news is that Delafield taxpayers have enjoyed the lowest net tax rates in the state. This year, we do not have that luxury and I cannot recommend borrowing money to support operating expenses. Not only does it violate our fiscal policies; it is poor fiscal management. If we are to borrow funds to support the organization, we should be borrowing money for something of lasting value. These lasting value items are referred to as "capital investments". A classic rule of financial management is to match the payback period of an investment to its useful life. When we borrow money to meet day to day operational expenses of the organization, we are paying for those expenses over the life of the loan, long after we have received the value of the expense. If we take out a five-year loan on a car, but the car only lasts three years, our investment has not matched the useful life of the vehicle. If we sell a 10-year promissory note to pay for today's operational expense, future taxpayers are paying for services they didn't receive, and, they have the obligation to fund the current operations. If you agree with this analysis, the choices become clear: eliminate major expenses or create new revenues.

General Fund Expenses

One of the first steps in reviewing expenses to review where the increases are coming from. The basic question is "are we required to make the expense, or is it discretionary?" The table below compares our General Fund expenses in 2000 with the proposed expenses in 2001.

Expenditure Comparison

Department	2000 Budget	2001 Request	Dollar Change	Percent Change
Administration	\$505,697	\$617,028	\$111,331	22.02%
Police	\$1,096,224	\$1,172,270	\$76,046	6.94%
Fire	\$421,366	\$467,687	\$46,321	10.99%
Ambulance	\$64,958	\$73,032	\$8,074	12.43%
Building Inspection	\$78,470	\$101,720	\$23,250	29.63%
Highways, Streets	\$766,172	\$784,678	\$18,506	2.42%
Cemetery	\$7,345	\$6,200	(\$1,145)	-15.59%
Park/Recreation	\$81,276	\$88,622	\$7,346	9.04%
Cable TV	\$4,200	\$10,000	\$5,800	138.10%
Planning and Development	\$193,847	\$168,614	(\$25,233)	-13.02%
Total General Fund	\$3,219,555	\$3,489,851	\$270,296	8.40%
less Tourism Increase		\$11,250		
less Assessor Increase		\$25,500		
Less Fire Consolidation Study		\$15,000		
Less Legal Defense Funds		\$50,000		
Less Police Salary Increase		\$36,019		
Less Police Health Insurance Increase		\$28,248		
less LACS Police dispatching increase		\$10,237		
Less Fire Salary Increase		\$59,240		
Less Fire Health Insurance Increase		\$18,445		
Less LACS Fire dispatching increase		\$6,440		
less Garbage Increase		\$59,240		
Total	\$3,219,555	\$3,170,232	(\$49,323)	<u>-1.53%</u>

The increase in the Tourism expense is directly linked to the increase in Hotel Tax revenues. We want to increase the Tourism expense, because that means our revenues are higher. The same is true for Building Inspection services. The City Council recently increased building permit fees, and reduced the percentage paid to the contractual Building Inspector from 90% to 85%. The higher the expense in the Building Inspection line item reflects higher revenue. The Assessor increase is a contractual expense to conduct the re-evaluation. The Fire Consolidation study sets aside funds to participate in larger efforts with the Town of Delafield, the Town of Genesee, the Village of Wales, Nashotah, Chenequa, and other parties interested in reviewing the issue of consolidating fire/paramedic services. The Legal Defense Funds provide dollars to protect the city's interests in lawsuits threatened by those objecting to the voluntary water system discussed in the downtown area and in anticipation of legal action from Delafield property owners regarding a proposed building moratorium. The Police Salary increases reflect our contractual obligation to provide a pay increase to patrol officers. The Health Insurance increases are increased premium costs passed on from the State Pooled Health insurance program. The LACS dispatching increases come from increased call volumes and our membership in LACS. Until we find an alternative way to answer 9-1-1 calls, we are committed to LACS. The Garbage increase comes straight from the garbage contract.

The discretionary dollars in the list above are limited to the Legal Defense Funds and the Fire Consolidation study. The budget also does not include other discretionary items, for example, funding for the Park and Recreation Coordinator, which has been a priority of the Commission for some time. When all of these expenses are factored into the comparison, the 2001 General Fund budget is 1.53% less than the General Fund budget for 2000.

Before reaching this point in the budget process, several cuts were made. The Police Department requested an additional patrol officer that did not survive the process. Except for the Public Works Director position proposed to be paid for out of the sewer and water fund, the Public Works Department request for additional staff has been directly linked to potential expansion of the water system. If, and when, the system is expanded to serve the downtown area, we would like to add one additional staff person in the proposed utility division. Cuts were made in the brush pickup program, administrative travel and memberships, and planning workshops. A staff planner was cut from the budget, although the workload would certainly justify adding this position. We'll pursue a contractual arrangement similar to the one we had with the previous City Planner.

More radical cuts, like eliminating the city's newsletter and eliminating all non-mandated boards, committees and commissions, were dismissed at the staff level because they seemed contrary to the goal of improving community communication and involvement. These cuts also made little difference in closing the gap between revenues and expenses in the General Fund.

General Fund Revenues

The table below compares 2000 revenues with 2001 revenues. The major difference in the Police Department revenue is that the federal C.O.P.s grant ends this year, removing dollars from the revenue stream. The Fire Department revenue reflects one-time revenue that we expect from the sale of the 1965 and 1978 engines/pumpers and the 1995 Crown Victoria. The Ambulance revenue reflects our revenue projections for the EMS services. Although

the number represents a large increase, it does not include additional revenues for the paramedic program. These revenues provide a cushion of about \$10,000 in revenue.

Revenue Comparison

Department	2000 Budget	2001 Request	\$ Change	% Change
Administration	\$2,989,105	\$3,191,701	\$202,596	6.78%
Police	\$127,450	\$102,150	(\$25,300)	-19.85%
Fire	\$16,000	\$36,000	\$20,000	125.00%
Ambulance	\$65,000	\$150,000	\$85,000	130.77%
Highways, Streets	\$17,000	\$5,000	(\$12,000)	-70.59%
Cemetery	\$5,000	\$5,000	\$0	0.00%
Total General Fund	\$3,219,555	\$3,489,851	\$270,296	8.40%

Tax Rate Comparison

It is critical to understand how the city's tax rate compares with all other Wisconsin cities. In short, ours is the lowest of all 189 cities. According to the May 2000 Wisconsin Taxpayer Alliance magazine, the City of Delafield has the lowest net total tax rate in the state. Here is the ranking:

<u>Rank</u>	<u>City</u>	<u>Total Net Rate per \$1,000 Assessed Value</u>
189	Delafield	\$17.92
188	Oconto	\$17.99
187	Hudson	\$18.64
186	Peshtigo	\$18.79
185	DePere	\$19.05
184	Stanley	\$19.09
183	Bloomer	\$19.29
182	Brookfield	\$19.38
181	Mequon	\$19.41
180	Oconomowoc	\$19.77

This list illustrates that Delafield has the lowest net tax rate among cities in the State of Wisconsin. Even if we added the \$1.34 to the city's tax rate, we would still rank very favorably in the list (183rd of 189 cities in Wisconsin). I must admit that I am not familiar with most of these communities, with three exceptions (Brookfield, Mequon and Oconomowoc).

To provide a better frame of reference, I researched how Delafield compared against communities that have been assigned as our "comparables" by Arbitrator John C. Oestreicher during the Police Department arbitration award in October 1998. I also added the City of Cedarburg to the list, as many refer to that community as one of our comparables. Again, this may not be the best list of comparable communities, but it serves as one basis for comparison.

<u>City</u>	<u>Population</u>	<u>Net Municipal Tax Rate</u>	<u>Total Net Tax Rate</u>	<u>Municipal Portion Of Total Net Rate</u>	<u>Tax Rate Ranking</u>
City of Delafield	6,404	3.72	17.92	20.76%	189 of 189
City of Brookfield	37,497	5.95	19.38	30.70%	182 of 189
City of Cedarburg	10,878	7.86	21.75	36.14%	150 of 189
City of Oconomowoc	12,079	5.80	19.77	29.34%	180 of 189
City of Waukesha	64,032	9.08	22.56	40.25%	127 of 189
City of Muskego	21,069	5.21	19.87	26.22%	178 of 189
City of New Berlin	38,461	5.87	22.59	25.98%	126 of 189
Village of Menomonee Falls	30,639	6.69	21.96	30.46%	180 of 395
Village of Hartland	8,076	4.58	18.41	24.88%	335 of 395
Village of Pewaukee	7,245	6.01	20.21	29.74%	264 of 395
Village of Elm Grove	6,304	7.62	21.03	36.23%	225 of 395
Village of Mukwonago	5,977	6.85	19.55	35.04%	292 of 395
Town of Brookfield	6,297	3.89	17.58	22.13%	844 of 1,266
Town of Oconomowoc	7,921	2.52	16.86	14.95%	970 of 1,266
Town of Pewaukee	13,447	2.94	16.95	17.35%	951 of 1,266

This table shows how Delafield compares with more familiar communities. The impressive numbers in this chart illustrate just how low the tax rate is. It also shows that we absorb a relatively small portion of the total tax bill (20.76%). The danger in comparing tax rates is that some communities include things in their tax bills that others do not. For example, the Delafield tax bill includes the cost of residential refuse and recycling services. The City of Oconomowoc, Elm Grove, New Berlin, and the Village of Pewaukee do not include refuse and recycling in their tax bills. They may provide a more services than we do in other areas, so as a result, the comparison should be used as only one piece of information in a complex equation.

What is the purpose of maintaining such a low tax rate? The costs of this policy are clear. It forces the city to take out a loan for operating expenses, thereby shifting the costs for today's governmental operations to future residents like a ticking time-bomb. It forces the city to use a greater portion of its tax levy to pay back debt. It forces us to pursue a land use policy that increases the assessed value of the community through new growth and development, to significantly reduce the services we provide, or to increase taxes.

Why are we doing this to ourselves? It's not just philosophical differences between residents in the community. Higher community land values drives the community's value as a whole higher. When the value increases, combined with increasing the tax rate to stop this cycle of spending future tax dollars for today's expenses, the residents will see an increase in their tax bills. Some residents can absorb the increases, whereas others cannot. Long-time residents of the community are pressured to sell their homes because they cannot afford the tax bill, but when they do, they reap the rewards of a strong local economy boosted by elevated housing values.

The question then becomes how much of an increase is too much? I know it's difficult to raise taxes at all, but when we can make the statement that we are raising taxes to a point that keeps Delafield in the ten lowest tax rates in the state and is less than tax rates were ten years ago, it makes it easier to accept. The table below lists the city's tax rate since 1989. As you can tell from the chart, the tax rate was significantly dropped in 1998, from \$5.508 to

\$3.803 based in part on a mistake in calculating the overall levy to take into account the city’s second tax increment finance district assessed value. The result of the mistake was that Delafield taxpayers received an unintentional tax cut in 1998. In order to correct this error, the tax rates for 1999 and 2000 should have been returned to numbers closer to the previous years’ average. The average tax rate between 1989 and 1997 was \$5.5574. In fact, this is exactly what is proposed for the 2001 levy. In order to match revenues with expenses, the tax rate should go to \$5.34. It can be argued that we are returning the rate to a point where it should have been, and to a point that is consistent with our history.

<u>Year</u>	<u>Tax Rate</u>
1989	\$5.551
1990	\$4.943
1991	\$5.996
1992	\$6.466
1993	\$5.109
1994	\$5.463
1995	\$5.472
1996	\$5.509
1997	\$5.508
1998	\$3.803
1999	\$3.950
2000	\$3.999

There are some alternatives to consider. The city can explore alternate service delivery for all main services. This includes not only Fire/Medical Services consolidation, but consolidation of Police, Public Works, and Administrative Services (including library services). There are two types of consolidations: internal and external. Internal can be defined as combining departmental functions under one department. External is combining with other communities or organizations to provide necessary services. These concepts are radical changes in the way we provide services that should not be taken lightly, and in the final analysis, may result in no cost savings whatsoever. If the City Council would like to explore these ideas, we would need to consider outside, independent assistance in reviewing all aspects of the ideas, before any change is implemented. Other ideas may surface as a result of our strategic planning process.

Another idea worthy of consideration is the refuse and recycling program. If the city removed garbage collection from our General Fund and required residents to pay for refuse and recycling services through a separate bill, we could save approximately \$290,000. This amount represents \$0.50 of the tax rate. If the City needs to increase the tax rate to \$5.34 per \$1,000 Assessed Value, removing \$0.50 from the rate results in an overall rate of \$4.84. The benefit of this decision is that it has an immediate impact on the tax rate. Additionally, some residents would benefit, while others would not. If a home is valued at \$350,000, a \$0.50 reduction in the tax rate results in a “savings” of \$175. A home valued at \$150,000 would see a “savings” of \$75. Some residents would enjoy net savings, while others would see a net increase in the costs for refuse and recycling services.

I see three obvious drawbacks to sending separate bills for refuse and recycling services. First, residents wouldn’t be able to deduct the refuse and recycling amounts as part of their federal income tax returns. Second, the overall costs for pickup are now spread among all

taxpayers (including commercial and industrial users). Third, the cost for single-family residential pickup would be approximately \$132 per home. Multiple-family cost would be approximately \$87 per unit. A fourth drawback is that the property tax collections are relatively certain, whereas a fee for service charge is not. If the refuse company bills directly for the service, the collection becomes their concern, but it will translate into increased administrative costs for the company that they will expect to be compensated for. The estimated costs for service noted above assumes a 7% surcharge for billing expenses.

Another option could be to reduce the level of refuse service. Right now, garbage is picked up outside of garages, at the top of driveways, etc. If we had residents put their garbage and recyclables at "curbside", we should be able to renegotiate the garbage contract costs, or re-bid the contract in its entirety.

These are tough choices that the City Council faces in part because of decisions made by your predecessors. We don't have the ability to establish capital replacement funds for advance funding of a fire truck so that we avoid a significant increase in our capital spending in a single year. I would like to establish this type of fund to level off our expenses, anticipating regular replacement of vehicles and equipment to avoid spending more taxpayer dollars on maintenance and repair. The budget includes limited funds for staff development and training, an area that I think results in tremendous dividends to the organization. The budget places the Council in the position of having virtually no flexibility to provide service improvements (like the Park and Recreation programs) at a time where the country is enjoying significant expansion in overall wealth. If we don't do these things now, when will we do them? Perhaps the answer is that these services are not a priority and they will not be provided.

I encourage you to review the departmental budget materials following this summary. In addition, the Second Annual Five Year Capital Improvements Program is offered for your consideration. The CIP illustrates the infrastructure investments planned for the community over the next five years. This planning document illustrates the spending plan for the year 2001, with a look into the next four years.

I would like to express my appreciation to the Public Works Committee for their review and comments on the Five Year Program. In addition, I would like to recognize the contributions of the Department Heads and Administrative Staff not only for their efforts in preparing the budget, but their dedication to providing top notch service throughout the entire year.

Thank you in advance for your thoughtful consideration of this proposed budget.

Sincerely,

Matthew D. Carlson
City Administrator