CITY OF WAUWATOSA

BUDGET AND FINANCE COMMITTEE

MINUTES ● SEPTEMBER 10, 2013

Regular Meeting | **Committee Room #2** | **8:00 PM**

7725 West North Avenue, Wauwatosa, WI 53213

Attendee Name	Title	Status	Arrived
Peter Donegan	Alderman	Present	
Craig Wilson	Alderman	Present	
John Dubinski	Alderman	Present	
Tim Hanson	Alderman	Excused	
Jill Organ	Alderwoman	Present	
Joel Tilleson	Alderman	Present	
Brian Ewerdt	Alderman	Present	
Donald Birschel	Alderman	Present	
James Archambo	City Administrator	Present	
John Ruggini	Finance Director	Present	
Alan Kesner	City Attorney	Present	

Ald. Wilson as Chair called the meeting to order at 8:00 p.m.

BUDGET AND FINANCE COMMITTEE ITEMS

1. *Update on the status of the 2013 revaluation

Mr. Miner explained the 2013 revaluation process. Assessment notices were sent to the printer on August 9, 2013, notices were mailed August 13th and 14th, and the Open Book period began on September 3, 2013. The first Board of Review (BOR) meeting is scheduled for September 18, 2013. He explained that this first meeting will most likely be a scheduling meeting for late submitted objections.

Mr. Miner compared the 2012 and 2013 property values. He noted the values have gone down approximately 4% overall and the values have gone down an additional $35 million during the open book period. He explained that the Assessor's office has communicated with approximately 2,000 property owners in the last three weeks. He explained that the shift of burden has gone from residential to commercial. Residential went down from 65% to 61% of the City's overall property value.

Mr. Miner explained that the Department of Revenue has already established the 2013 equalized value based on City estimates and economic assumptions. He noted that the City's estimates were rough this year due to the software transfer and will most likely result in an Assessment Ratio of 105% or 104%. He noted that this issue, and the Citywide revaluation overall, will require a vast amount of public relations effort.

Ald. Donegan asked how the revaluation will affect the 2013 and 2014 tax rate.

Mr. Archambo explained that it will not affect the City's tax rate. However, he explained it will affect how the other tax districts are apportioned on the tax bill. If the Assessment Ratio is 105%, the City would be underpaying their portion of the tax bill. This discrepancy would be adjusted in the following year.

Mr. Miner explained that the software transfer began in November of 2012. After encountering implementation issues, the 2013 revaluation process was completed in the old software system. He noted that the final locally assessed total will not be available until the Board of Review is complete. Once the local assessment is finalized, the Assessment Ratio is calculated and provided by the Department of Revenue in November.

Mr. Miner mentioned several changes and noteworthy aspects of the revaluation process. He explained that the number of residential sales, which is used to set values, was about half of the total used in the 2006 revaluation. This limitation required additional Staff review of values prior to mailing notices. He noted that classes of property have not responded to market influences in the same way. For residential, there was a shift in allocation between land and building values. He explained that the residential land sales were reviewed for the last 13 years in order to reassess land values. He explained that these changes caused many questions from property owners.

Mr. Miner explained that the level of assessment phrase on the state notice was confusing for property owners and many residents asked for clarification regarding which comparables were used. He mentioned that the most common assessment notice questions were regarding land value changes, values going up and going down, the level of assessment on the state notice, and which comparables were used for residential values.

Mr. Miner noted that the final local assessment is not yet available. The Assessor's office is still working with property owners to resolve objections before the Board of Review meets. Mr. Miner noted that Tax Incremental District information is not available at this time.

Mr. Archambo noted that these revaluations are dated January 1, 2013 and therefore do not reflect the recent changes in the market.

Ald. Donegan noted that the market has changed significantly since January 1, 2013. He mentioned that this causes residents to believe their values are understated because the market has rebounded in 2013.

Mr. Miner noted that the market has drastically improved in early 2013 and these assessments are based on 2010, 2011 and 2012 sales.

Ald. Donegan asked how the decreased residential burden affects the levy.

Mr. Ruggini explained that the entire tax levy is $37 million, and the revaluation has created increased burden on the commercial properties in Wauwatosa. He explained that the commercial properties' portion of the whole has increased, so they are responsible for a greater portion of the levy.

Mr. Archambo noted that the categorical shift was about 3 to 4%.

Ald. Ewerdt inquired how frequent revaluation would occur.

Mr. Miner explained that the City plans to revaluate again in 2016 and then every three years thereafter. He explained that they will be working with neighboring municipalities.

Ald. Ewerdt asked how the assessed value is related to the tax rate calculation. He asked why a reduced assessment does not equate to reduced taxes.

Mr. Archambo explained that tax calculation depends on each assessments portion of the entire City assessed value.

Mr. Ruggini explained that the whole levy is reapportioned based on the new assessments. He described the levy as a pie, and the new assessments create changes in the size each piece.

Mr. Kesner explained that taxes are based on each property's portion of the total value of the City. Each property is responsible for that portion of the levy.

Mr. Ruggini explained the impact of changing assessments on tax calculation with an example.

Mr. Miner noted that the Assessor's office receives this question many times a day. He explained that if a property assessment went down the average, taxes will remain flat. However, if a property assessment went down less than the average, taxes will most likely go up. He noted that tax calculation also depends on the levies of all other jurisdictions on the tax bill.

Mr. Archambo noted that if the levy remained exactly the same, the approximate break even point would be negative 3.5%. If you factor in the proposed levy increase and assume the same for all other tax jurisdictions, the approximate break even point would be negative 6.5%.

Ald. Ewerdt asked if individuals may still come to the Assessor's office to discuss their new assessments.

Mr. Miner explained they are welcome at any time, but new requests for reappraisal would be performed after the Board of Review for 2014.

Mr. Kesner noted that closed session will be necessary to discuss potential valuation challenges.

Ald. Birschel remarked that residents may not understand the details of the assessment and tax calculation. However, he noted that the cost to run the City never goes down and rising costs require an increase of taxes.

Ald. Tilleson thanked Mr. Miner for his work, but expressed concern regarding the three year wait for another revaluation. He noted that the real estate market is currently hot, but the assessment notices don't reflect the current environment. He expressed concern that Wauwatosa is selling itself short.

Mr. Miner explained that one year of sales is not enough data to perform a revaluation. He noted that a revaluation performed next year would use sales from 2011, 2012 and 2013. He agreed that 2013 sales are significantly different from 2011 and 2012. He noted that if property owners want higher values, they may object to the Board of Review. He noted that some cities perform revaluations more frequently, but he recommended that the City adjust to the new Assessor software system before they consider that option.

Ald. Tilleson asked if it is accurate to say that the lower assessments reflect the decrease in value over the previous seven year period, and that the next revaluation will reflect an upward trend due to the the rebounding market.

Mr. Miner explained that some properties were undervalued and some were overvalued. He noted that different properties change value at different rates and different neighborhoods respond to market changes differently, so there is no simple overarching answer.

Mr. Archambo explained that you must have enough data points in order to review a true sample. He explained that the housing market could fade after the pent up demand dissipates. He indicated the housing market could change siginificantly over the next six months.

Ald. Tilleson remarked that Wauwatosa's popularity is related to the high quality of City services. He remarked that low home values would inhibit the City from capitalizing on their efforts.

Mr. Kesner explained that property value does not change the revenue gained by the City. He noted that the reduction in residential value indicates a shift toward commercial value, not a reduction in worth. He explained that the share between individual taxpayers is adjusted to reflect fairness.

Ald. Organ remarked that a lower assessed value is preferred because it equates to lower taxes and it is separate from fair market value.

Mr. Archambo noted that it depends on where property owners are in the housing market. He explained that if residents are not intending to sell, they prefer a lower value. However, if a property is for sale, they may want a higher value.

Ald. Organ remarked that assessed value is not always used as the sole pricing factor in property sales.

Ald. Wilson agreed that buyers and sellers put less credence on assessed value than other factors.

Ald. Tilleson urged that Wauwatosa property owners do not recognize lower assessed values as a positive change. Property owners believe they are being given the short end of the stick by the City. He suggested that an explanation should be clearly communicated to the citizens.

Mr. Miner noted that the goal is to assess at 100% of fair market value. However, the revaluation was based on the low end of the market. He noted that more frequent assessments would alleviate this issue and could be discussed at a later date.

Ald. Wilson remarked that he is glad to hear this lengthy discussion regarding objective property valuation to ensure fair distribution of taxes. He noted that the increase in commercial value reflects the great efforts of the City to establish Wauwatosa as a stalwart. He thanked Mr. Miner for his efforts.

> Moved by Ald. Wilson, seconded by Ald. Donegan to convene into closed session per Wisconsin Statutes 19.85 (1)(g), conferring with legal counsel for the governmental body who is rendering oral or written advice concerning strategy to be adopted by the body with respect to litigation which it is or is likely to become involved, and may re-convene into open session - Ayes: 7

Closed session began at 8:49 p.m.

> Moved by Ald. Organ, seconded Ald. Tilleson to re-convene into open session - Ayes: 7

Open session began at 9:40 p.m.

2. * **Presentation by the Finance Director providing an overview of the 2014 Executive Budget

Mr. Ruggini explained that he would provide a broad overview of the 2014 Executive Budget.

Mr. Ruggini described a comparison table of the 2013 adopted and 2014 executive budgets. He noted that the General Fund is going up 1.46%, the City Property Tax Levy is going up 2.48%, and the Estimated Assessed Value has gone down 3.87%. He noted that the Estimated Assessed Value will change based on Board of Review and other factors. He explained that the tax bill of a home of average assessed value will go down $53.27, or 3.11%.

Mr. Ruggini then reviewed a table that summarized major budget changes between 2013 and 2014. He noted the Transfer to Debt Service increased by 25.8%, or $717,247. He noted that half of the increase was due to increasing debt service and the other half was due to decreased interest earnings. He noted there is a 1.5% cost of living increase for general employees, a 1% allotment for a performance-pay program, and a 2.5% cost of living for police and fire employees. However, Regular Pay is only going up 1.5% due a reduction in FTEs, the impact of the two-tier system, and the number of retirements.

Mr. Ruggini noted that General Liability is going up due to increased liability and the Health/Life/Dental is going up 3.6%. He noted that this budget assumes an increase in employee premiums from 10% to 15%. He explained benefits will be discussed in more detail in the Budget Committee meetings.

Mr. Ruggini noted that Contractual Services are increasing by 8.3% and this increase includes increased fees to Veolia for the dual use program. He noted that the Library Reference Materials increase from 2013 will be maintained in the 2014 budget. He noted that Charges to Capital will be discussed in detail in the Engineering budget, but mentioned that two engineer positions were added as a result of a redesign.

Mr. Ruggini noted that the 2014 budget includes a large expense reduction due to the drastic change in the State's Duty Disability rate, a program that supports officers that are injured while on-duty. He explained that Duty Disability was previously 5.5% of salary and it has been decreased to less than .5%. He explained that the state's fund was previously under-funded and is now back to fully funded. This change in the pension allowed the 2014 budget to remain status quo. Without it, more services would have been altered.

Mr. Ruggini explained that Sanitary and Storm are now being charged for overhead which reduced the expense in the General Fund. He also noted that the increased building permit activity is expected to maintain into 2014.

Mr. Ruggini presented historical budget comparisons over the last 13 years. He explained that in the 2015 budget, the City will have to reduce services, pursue aggressive development, or go to referendum on property taxes to overcome the budgetary gap. He explained that historical comparisons will prove why these are the City's current options.

For each category he broke down historical comparison into two periods, 2001-2007 and 2007-2013.

Mr. Ruggini first compared the average annual percent change of expenditures by function. He noted that expenses are going up 1.5% this year and the average annual increase of expenses was 2% since 2001. In the 2001-2007 period, the average annual expense increase was 3.8%, but the average annual expense increase was only .5% in the 2007-2014 period due to proactive and frugal City action.

Mr. Ruggini explained that these historical comparisons prove that the City managed finances very well in the last seven years and that most non-service budgetary changes have been implemented.

Mr. Ruggini then compared the average annual change of full time equivalents (FTE). He noted that 40.5 FTE's have been eliminated since 2002, which equates to a negative .5% change per year.

Mr. Ruggini then compared the average annual change of Wages in the General Fund. The 2014 Budget includes a 1.8% increase and the 13-year average was an increase of 2.1%. In the 2001-2007 period, the average annual change was an increase of 3.1%, but the average annual change was only 1.3% since 2007.

Mr. Ruggini then compared the average annual change of Benefits. In the 2001-2007 period, there was average annual increase of 7.1%, but the average annual change from 2007-2014 was negative 1.1%. He explained that the City has aggressively managed Benefits. He noted that there are still some smaller changes to make, but benefit changes are no longer a valid means to balance the budget.

Mr. Ruggini explained that the City has implemented energy efficiency measures and noted that City utility costs have beat inflation over the last seven years.

Mr. Ruggini then compared historical City revenues. He explained that property taxes have grown as a portion of City revenues from 61% in 2000 to 71% in 2014. Over this period, state and federal aid have decreased and local taxes have been raised. He noted that levy limits no longer allow the size of local tax increase necessary to cover the budget gap. The City must either pursue aggressive development, reduce services, or request an increase of levy by referendum. He explained that state law allows the City to pursue an increased levy by putting a referendum on the ballot each year.

Mr. Ruggini explained that the current City development pipeline will be reviewed to ensure that the maximum possible net new construction is achieved.

Mr. Ruggini reviewed the City's assessed value and equalized value. He explained that in an assessment year, the equalized and assessed value should match. However, he explained that they differ due to the timing of the assessment and the City expects the equalized value to increase next year.

Mr. Archambo explained that the City believes the State's equalized value is low, but the State will not address this issue until next year.

Mr. Ruggini noted that the City is only one jurisdiction included on the tax bill and explained that the City portion of the bill would be 31% of the entire bill, if all other jurisdictions remained constant.

Mr. Archambo explained that City services cost each property owner approximately $195 per month.

Ald. Organ noted that the same concerns were stated last year for the 2014 budget.

Mr. Ruggini explained that the duty disability change was a significant budgetary break that allowed the City to maintain services and a status quo budget. He noted that it is possible that the City will catch another break for 2015 and remarked that the City could possibly exceed the .5% presumed net new construction.

Ald. Organ asked for clarification on the construction in the development pipeline. She inquired if the retirement of TIF (Tax Incremental Financing) funds would be in addition to the $100 million of development projects currently in the works.

Mr. Ruggini and Mr. Archambo confirmed that TIF retirement would be in addition to the current development pipeline.

Ald. Donegan noted that new development merely allows the City to increase the tax capacity, and does not create tax money from the TIF supported developments immediately.

Mr. Archambo explained that TIF districts will ultimately provide additional tax money in addition to the tax capacity that they create, but confirmed that this is not immediate.

Mr. Ruggini noted that TIF districts give the City the flexibility to increase taxes by expanding the tax base.

Ald. Organ questioned why new TIF district development was included in the net new construction amount.

Mr. Ruggini explained that TIF development does count towards net new construction. He confirmed that the City may count net new construction from both new construction in a TIF district and retirement of TIF funds.

Ald. Wilson asked if TIF plans would be accelerated by the increase of new construction within the TIF districts.

Mr. Ruggini confirmed that the increase would cause an increase of revenue within the TIF districts. He noted that this increase would probably be slight.

Ald. Donegan asked for a timeline regarding the development pipeline and TIF development, its impact on the City's ability to increase the tax base, and how it will allow the City to avoid the reduction of services. He expressed frustration over the conflicting claims by City staff. There are both threats of difficult service reduction decisions and claims that development could possibly avoid this dilemma. He noted that the Budget Committee will review the 2014 budget and will most likely make few significant changes. He urged the Budget Committee to become policy makers rather than overseers of City administration. He urged the Budget Committee to prepare for these difficult decisions by reviewing possible service reductions and the City's development potential throughout the upcoming year.

Ald. Wilson agreed that the Council must review all three of the available options: reduction of services, increase of levy by referendum, and the City's development potential. He noted that the City has taken strong measures to increase efficiency over the last seven years. He commented that increasing the levy by referendum is warranted if the City has a valid case and he noted that a strong TIF policy will be necessary to ensure that development supports the future of Wauwatosa.

Mr. Ruggini suggested that he could provide a service matrix of every service offered by each City department and then ask the Committee to rank the services according to the level of need in advance of the Budget process each year. This would allow broad policy level input from the Budget Committee.

Ald. Wilson commented that this process would be greatly beneficial and suggested that this input should be given at each quarterly update.

Ald. Donegan agreed that it should be a year long discussion and noted that the City should bring the public into the conversation as soon as possible.

Mr. Ruggini and Mr. Archambo agreed that the budgetary challenge should be addressed all year long.

Mr. Archambo explained that the City will continue to strive to make efficiency changes in order to avoid drastic service changes, but he noted that the most cost effective changes have already been implemented. He remarked that the possible expense reductions that remain are not of sufficient magnitude to match the budgetary challenge.

Ald. Donegan urged the Budget Committee to take on a different role and agreed that the City is limited in terms of additional expense reduction.

Ald. Organ asked if the City has any control over other jurisdictions on the tax bill. She noted that the City has been working hard to budget wisely and other entities have not kept their levies down. She inquired why the City receives the brunt of tax complaints.

Mr. Ruggini explained the City has no direct control over the over other tax jurisdictions, but he noted that other tax jurisdictions are also restricted by state statute. He explained that the City is the tax collecting agent for all jurisdictions per state statute, so they receive most of the complaints. However, he noted that the City is compensated for this role and retains the interest earned on the amount collected.

Ald. Ewerdt commented that it would be difficult to convince Wauwatosa citizens to vote for an increase levy by referendum. He remarked that Wauwatosa citizens are accustomed to the City's efficient budget and suggested that a levy increase by referendum should be a last resort.

Mr. Ruggini described a few positive initiatives in the 2014 budget. The Public Works Department will begin a salt brining program, a partnership with Milwaukee County, for de-icing efforts which could reduce salt costs by 40%. The Public Works Department will also start a sidewalk repair pilot program to test whether internal forces are more efficient than contracting out. The Engineering Department is adding two engineers to focus on Capital projects and the Wellness program will be redesigned to focus on biometric-based pricing. He noted that the City continually finds ways to invest in itself and strives to save money down the line.

Ald. Wilson commented that ranking services by need and value is important, but it is also essential to address efficiency as well.

Mr. Kesner noted that a small group of City staff have been taking Six Sigma classes and will obtain Six Sigma green belts this year. He explained that the efficiency measures used by private industry will be applied to City processes to ensure effective and efficient City function.

The meeting adjourned at 10:39pm.

Carla A. Ledesma, CMC, City Clerk