



CITY OF WAUWATOSA
BUDGET AND FINANCE COMMITTEE
MINUTES • MAY 27, 2014

Regular Meeting
Committee Room #2
7:00 PM

7725 West North Avenue, Wauwatosa, WI 53213

PRESENT: Alds. Roznowski, Tilleson, Walz-Chojnacki, Kofroth, Dubinski, McBride, Moldenhauer - 7

NOT PRESENT: Ald. Wilke

ALSO PRESENT: Mr. Archambo, City Administrator; Mr. Ruggini, Finance Director; Mr. Lenski, Acting City Assessor; Mr. Wojcehowicz, Water Superintendent; Mr. Kesner, City Attorney

Ald. Roznowski as Chair called the meeting to order at 7:00 p.m.

BUDGET AND FINANCE COMMITTEE ITEMS

1. Memo from the Water Superintendent requesting authorization to enter a Memorandum of Understanding to cooperatively hire Short, Elliott, Hendrickson Inc. to act as the City's rate analyst in conjunction with the 2014 rate case filed by Milwaukee Water Works

The Committee reviewed a memo from the Water Superintendent requesting authorization to enter a Memorandum of Understanding to cooperatively hire Short, Elliott, Hendrickson Inc. to act as the City's rate analyst in conjunction with the 2014 rate case filed by Milwaukee Water Works.

Mr. Wojcehowicz explained that Wauwatosa has been a customer of Milwaukee Water Works since 1963 and the Public Service Commission (PSC) of Wisconsin is the regulating agency of water sales. The City of Milwaukee has filed two different rate cases with the Public Service Commission to adjust rates to ensure a decent rate of return. They have filed a conventional rate case, which is a more complex process, and a simplified rate case, which is a faster process, similar to a cost of living increase. Wauwatosa has historically passed the rate increases through to the water utility customers.

The Wauwatosa Water Utility is requesting authorization to select Short, Elliott, Hendrickson Inc. as the City's rate analyst in conjunction with the 2014 conventional rate case filed by Milwaukee Water Works. Purchased water costs equal approximately \$2 million annually, or 32% of the Utility's budget, and the rate increase between both rate cases could equal 35-40%. By selecting this analyst, the City will best represent the interests of Wauwatosa customers.

Responding to Ald. Moldenhauer, Mr. Wojcehowicz explained that the City of Milwaukee conventional rate case is the focus of the rate analyst's agreement. The last City of Milwaukee conventional rate case was submitted in 2009, but was implemented a year and a half later due to the contested nature of the increase. The analyst reviews the demand, peaks, and fire protection needs of the water wholesaler. The City of Milwaukee has hired two rate analysts for this rate case.

Ald. Moldenhauer remarked that the City of Detroit is experiencing a similar water rate case and a possible drastic increase of water rates. Other municipalities in the area Detroit are contesting the rate increase due to the reasons behind the rate increase. He thanked Mr. Wojcehowicz for the information and education on the rate case process.

Mr. Ruggini explained that the rate analyst is hired to ensure that the rate increase is justified and fair. The rate

increase was not unanticipated, but Wauwatosa wishes to ensure that the rates are raised for the right reasons.

Mr. Wojcehowicz remarked that the PSC reviews and regulates public utilities. In the 2009 conventional rate case, they came down hard on Milwaukee Water Works for attempting to take funds out of the utility that were over and above the tax equivalent.

Responding to Ald. Moldenhauer, Mr. Ruggini explained that some delinquent water bills are transferred to the tax bill.

Mr. Wojcehowicz noted that the City of Milwaukee may have more write-offs than Wauwatosa due to the inclusion of past due water bills on Wauwatosa tax bills. This issue and the cost of lost water will be included in the analyst's review of the rate case.

Mr. Archanbo remarked that the sale of water is differentiated by the class of customer. Wauwatosa is a wholesale customer of Milwaukee Water Works and should only be charged the fair cost for this type of customer. As industrial water consumers leave the area, the water consumption goes down, but the cost of the industrial infrastructure must be maintained.

Mr. Wojcehowicz agreed that large consumers have left the Milwaukee area and this loss has negatively impacted Milwaukee Water Works, as well as surrounding communities.

Responding to Ald. Walz-Chojnacki, Mr. Wojcehowicz confirmed that the rate case is the City of Milwaukee's submission and the City of Wauwatosa is contesting the case.

Ald. McBride remarked that the PSC power line case was a similar legal case in which both parties provided expert opinions. He suggested that the water must travel over a distance to reach Wauwatosa customers and the cost to maintain Milwaukee water mains will be considered in the rate case.

Mr. Wojcehowicz remarked that not all Milwaukee mains are transmission mains, but the water rates certainly reflect the need to replace or repair Milwaukee water infrastructure.

Ald. Roznowski asked if there are funds budgeted to hire the rate analyst in the Water Utility's 2014 budget and how Milwaukee County's departure from the group of municipalities will impact Wauwatosa.

Mr. Wojcehowicz explained that \$10,000 was originally budgeted for consulting services, such as the rate analyst. However, the harsh winter has caused several Water budget accounts to go askew. He opined that change in Milwaukee County leadership caused them to leave the cooperative agreement. Their expected increase was approximately 10% and their leadership chose to not contest the rate case.

Ald. Roznowski opined that the expertise of the rate analyst is a justified expense to navigate the rate case process with the PSC.

Mr. Wojcehowicz remarked that the rate analyst will look out for all of Milwaukee Water Works' wholesale customers.

Moved by Ald. McBride, seconded by Ald. Moldenhauer
to recommend authorization to enter a Memorandum of Understanding

to cooperatively hire Short, Elliott, Hendrickson Inc. to act as the City's rate analyst in conjunction with the 2014 rate case filed by Milwaukee Water Works - Ayes: 7

RESULT:	RECOMMENDED FOR APPROVAL [UNANIMOUS]	Next: 6/3/2014 7:30 PM
TO:	Common Council	
MOVER:	Dennis McBride, Alderman	
SECONDER:	James Moldenhauer, Alderman	
AYES:	Moldenhauer, Roznowski, Dubinski, Walz-Chojnacki, McBride, Tilleson, Kofroth	
EXCUSED:	Wilke	

2. Memo from the Water Superintendent requesting approval of a water rate increase due to an increase in water supply costs from Milwaukee Water Works

The Committee reviewed a memo from the Water Superintendent requesting approval of a water rate increase due to an increase in water supply costs from Milwaukee Water Works.

Mr. Wojcehowicz explained that the Water Utility is requesting approval of a pass through water rate increase due to the 2014 simplified rate case and rate increase for water purchased from Milwaukee Water Works.

Moved by Ald. Moldenhauer, seconded by Ald. Walz-Chojnacki to recommend approval of a water rate increase due to an increase in water supply costs from Milwaukee Water Works - Ayes: 7

RESULT:	RECOMMENDED FOR APPROVAL [UNANIMOUS]	Next: 6/3/2014 7:30 PM
TO:	Common Council	
MOVER:	James Moldenhauer, Alderman	
SECONDER:	Gregory Walz-Chojnacki, Alderman	
AYES:	Moldenhauer, Roznowski, Dubinski, Walz-Chojnacki, McBride, Tilleson, Kofroth	
EXCUSED:	Wilke	

3. Ordinance amending various sections of the City of Wauwatosa Municipal Code to have the Health Department issue hotel and motel, bed and breakfast establishment, rooming house and public pool licenses (for adoption)

The Committee reviewed a proposed ordinance amending various sections of the City of Wauwatosa Municipal Code to have the Health Department issue hotel and motel, bed and breakfast establishment, rooming house and public pool licenses.

Mr. Archambo explained that the proposed ordinance eliminates duplication of efforts and streamlines the license process for applicants.

Moved by Ald. Moldenhauer, seconded by Ald. Dubinski to recommend adoption of the ordinance amending various sections of the City of Wauwatosa Municipal Code to have the Health Department issue hotel and motel, bed and breakfast establishment, rooming house and public pool licenses - Ayes: 7

RESULT:	RECOMMENDED FOR ADOPTION [UNANIMOUS]	Next: 6/3/2014 7:30 PM
MOVER:	James Moldenhauer, Alderman	
SECONDER:	John Dubinski, Alderman	
AYES:	Moldenhauer, Roznowski, Dubinski, Walz-Chojnacki, McBride, Tilleson, Kofroth	
EXCUSED:	Wilke	

4. Memo from the Finance Director presenting the 2014 General Fund projection based on first quarter results

Mr. Ruggini explained that an important component of budget management is monitoring current year expenditures and revenues as compared to budget. In order to facilitate this comparison, the Finance Department produces a quarterly projection of year-end General Fund revenues and expenditure surplus and deficits. This report is based on first quarter results.

In order to monitor expenditures and revenues, a quarterly report is provided to the Budget and Finance Committee.

The following provides a summary of significant issues highlighted by Mr. Ruggini:

Revenues

1. Building permit revenue is forecasted to surplus by \$218,733, 26.6% over budget. It is possible that this surplus may continue to grow as several large projects are still anticipated. The first quarter results were \$100,536 over 2013 which experienced the highest building permit value since 2006. This revenue has a high degree of volatility due to the inconsistent timing of when projects are submitted and the seasonality of building projects. Nevertheless, based on knowledge of buildings under construction, a significant surplus is expected.
2. Public Safety Violations is forecasted to surplus by 2.2%. This is largely due to a surplus in court penalties. This is notable due to efforts over the past two years to overcome a backlog of driver license suspensions, warrants and tax intercept submissions that resulted from a prolonged system conversion. Parking ticket collections are currently projected to be at budget.
3. Ambulance revenues are currently forecasted to deficit by \$43,888. There is a possibility this will worsen. The City transitioned to a new billing vendor beginning on January 1, 2014. However, the prior vendor still has nearly \$250,000 in past-due bills that will likely have to be written off and reduce revenue.

Responding to Ald. McBride, Mr. Ruggini remarked that poor vendor performance caused the City to pursue a new ambulance vendor.

4. Other revenue is forecasted to exceed budget by \$67,520 due to the development of 2 additional buildings at the Mt. Tosa site which requires the Developer to pay a portion of his outstanding loan to the City as well as the purchasing card rebate.

Responding to Ald. McBride, Mr. Ruggini explained that the initial down payment revenue from the Toldt Development land sale was put into a reserve account within the General Fund for Hart Park improvements. Those funds will be used for the Hart Park expansions being implemented this year and part of the Skatepark. All future Toldt Development revenue will be moved into that reserve account.

Mr. Archambo noted that the City will use the land sale funds to buy down the debt needed to fund the Hart Park improvements. The City benefits from using cash as payment rather than taking out debt service, regardless of what service or project it funds.

Mr. Ruggini estimated that the Toldt Development loan was \$300,000 and the City's portion was \$200,000. He estimated that there is approximately \$100,000 outstanding and that Toldt has one or two remaining lots. After these lots are sold, the pay back will slow down.

In total revenues are projected currently to surplus by \$258,093.

Expenditures

1. Based on first quarter results, regular pay is forecasted to surplus by 1.6% or \$395,244. This is a surplus above the 1.5% attrition rate included as part of the 2014 budget and is largely caused by a significant number of police and fire retirements that have resulted both in vacancies and, particularly in the fire department, a salary differential between the prior incumbent who was at the top of the pay-scale and the new hire who is at the bottom. Pay in the first quarter of 2014 was \$54,754 less than last year despite a 1% cost of living increase provided in July 2013 and January 2014 as well as step increases during the course of 2013. Considering the wage budget is \$25.3 million, to have underspent 2013 despite two (plus) percent of salary inflation is significant. Based on these observations, the salary surplus is expected to grow.
2. Overtime is trending higher than budget with a 3.8% projected deficit. This is partially the result of back-filling for vacant public safety positions and construction surveyors with overtime. However, the harsh winter is a significant factor as the Streets Department has already exceeded its annual budget of \$60,000, as \$57,429 was spent on snow and ice operations.

Responding to Ald. McBride, Mr. Ruggini confirmed that overtime and salary expenditures often correlate. He noted that the harsh winter caused increased overtime expenditure in the Public Works Department for snow and ice operations. However, there are fewer vacancies in Police and Fire.

Ald. McBride noted that the City is managing overtime well in spite of the vacancies.

Mr. Archambo opined that overtime was managed well in the Fire Department due to the staffing up that occurred at the end of 2013. He noted that the salary differential between the entry level step and the top level step is approximately \$20,000 in both Police and Fire. This creates salary savings when new employees are hired. However, new employees reach the top step within four years of hire, so the salary savings quickly diminish. Ideally, the City would have 6-8 rolling vacancies between Police and Fire, but the City had 16 vacancies last year and is working to keep the vacancies closer to the ideal this year.

Ald. Roznowski remarked that it is good news that some of the open surveyor positions in the Engineering Department have been filled.

Mr. Ruggini noted that 60-80% of the salary for those Engineering positions are funded by the capital budget, so they are filled as quickly as possible.

3. The fringe benefits surplus is simply a function of the salary savings as they consist of pension contributions and social security which is calculated as a percent of salary. At this time health insurance and workers compensation claims are forecasted to be on budget; however, they are both highly volatile and difficult to forecast based on one quarter of data.
4. Inter-departmental charges is forecasted to deficit by \$117,714 or 2.7%. This appears to be due to the harsh winter as the Streets division was billed \$275,865 in fleet charges compared with \$185,080 during the same period last year.
5. Non-departmental expenses include costs not associated with a single department including Milwaukee Area Domestic Animal Control, the Litigation Reserve, Internal Granting and Remission of Taxes. The deficit of \$239,000 is the result of the taxes rescinded in January and the Target property tax appeal settlement. This expense is offset 70% from chargebacks to the other taxing jurisdictions which is shown under "Other Issues" on the attachment. Property tax appeals

are typically not budgeted since they can not be accurately anticipated.

In total, expenditures are forecasted to surplus budget by \$56,505.

Based on the revenue and expenditure projections described above, the General Fund is forecasted to have a \$481,898 surplus. Given the \$242,849 of surplus applied in the 2014 budget, this would result in a \$239,049 increase to the General Fund balance. This represents a variance of .04% of total budgeted expenditures and would increase total fund balance from 17.2% to 17.7% of general fund expenditures. The target is two months of expenditures which equals 16.7%

Mr. Archambo remarked that the variance of total budget indicates how accurate the City is performing versus the budget. The General Fund balance is also important when the City is assessed during bond rating analysis.

Mr. Ruggini noted that the City's Water Utility had a difficult winter and has expended \$895,000 this year to repair broken water mains. Due to these extreme costs, City Staff have contacted Milwaukee County to research the option of declaring the County as a natural disaster zone. Staff will return to the Committee to discuss options to address this drastic increase in costs.

Ald. Moldenhauer thanked Mr. Ruggini for his presentation.

Responding to Ald. Moldenhauer, Mr. Ruggini opined that the first quarter performance has not created any concerns and no issues have arisen that outdate the budget. The only concern is related to the Water Utility costs caused by the harsh winter. Overall, the second quarter trends are reflecting a similar pattern, with exception to ambulance revenue.

Ald. Moldenhauer asked Staff to provide a report at the next quarterly forecast that explores and defines the financial impact of a full merit pay compensation plan.

Mr. Archambo explained that health care trend greatly impacts the budget gap. The inflation rate appears to be lower than anticipated. The quarterly forecast provides foundational signals that reveal which revenues and expenditures match, or vary from, the budget.

Ald. McBride thanked Mr. Ruggini and Mr. Archambo for the forecast and their leadership to create a well-managed budget.

5. Vouchers

Moved by Ald. McBride, seconded by Ald. Walz-Chojnacki that each and every voucher be allowed and paid - Ayes: 7

RESULT:	APPROVED [UNANIMOUS]
MOVER:	Dennis McBride, Alderman
SECONDER:	Gregory Walz-Chojnacki, Alderman
AYES:	Moldenhauer, Roznowski, Dubinski, Walz-Chojnacki, McBride, Tilleson, Kofroth
EXCUSED:	Wilke

6. *Update regarding the Mayfair Mall LLC, General Growth Properties, property assessment case

Moved by Ald. McBride, seconded by Ald. Roznowski that committee 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 in which it is or is likely to become involved, and may reconvene into open session - Ayes: 7

Ald. Byrne arrived at 8:35 p.m.

Alds. Causier, Stippich and Pantuso arrived at 8:40 p.m.

The meeting adjourned at 8:40 p.m.

Carla A. Ledesma, CMC, City Clerk