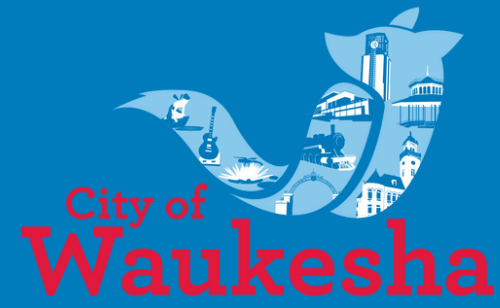




FINANCIAL MANAGEMENT PLAN

Released July 2024



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Overview

The primary objective of this Financial Management Plan (FMP) is to provide a planning tool for the current operating budget and to outline a roadmap for the future. One of the City's goals, as specified in the City's Strategic Plan, is to achieve financial sustainability by managing resources in a way that focuses on fiscal stability, resilience against economic challenges, and balanced approaches to funding the needs of the community.

A focus of this effort is to provide alternatives that can be feasibly implemented and planned for in the upcoming years. Additional alternatives are laid out that could be implemented in future years.

As a note, this document is to be used for planning and informational purposes only. Similar to other planning documents, as conditions change, the City will respond accordingly. This plan is to proactively start to address future budgetary challenges before they become more challenging to address. A more sustainable financial future demands a comprehensive and focused response.



Context

The beginning sections of this report provides the context of how the City has arrived at its current financial position for the Operating Budget. A main focus is on the state-imposed levy limits which restrict the amount the City can raise the property tax levy. Property taxes account for roughly 65% of the City's budget.



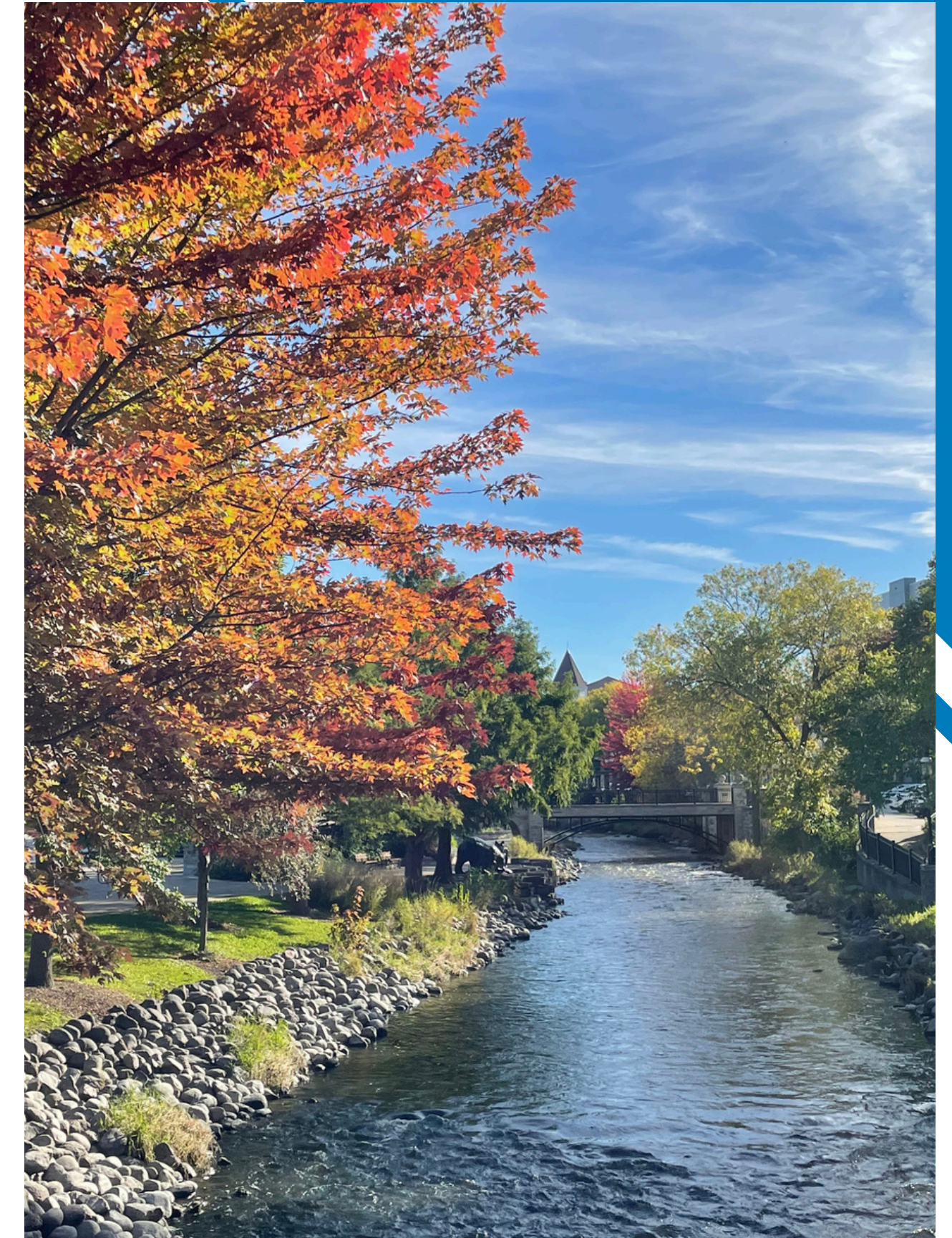
Forecasting

In this report, we provide pre and post forecasts. The forecasts show positions the City will be in before and after the efforts outlined.



Planned Initiatives

In this report, we provide various initiatives. The goals for these are to help demonstrate new cost recovery initiatives, new revenue strategies and service adjustment changes which would all have a positive impact on the City's financial future.





Summary

State Levy Limits

In the State of Wisconsin property tax limits are in place. Due to state-imposed levy limits, the City of Waukesha can only increase property taxes based on the amount of net new construction each year. Since 2009, the City has averaged an annual property tax increase of approximately 1.14%.

Rising Expenses

City expenditures have been rising due to necessary increases in wages and operational costs. This trend of rising costs poses a challenge for funding future operations of the City at the same level as in the past. The forecasting model shows that if the City continues on the current path, by 2028 expenditures are projected to exceed revenues by over \$8,000,000.

Plan for the Future

To address this forecasted budget shortfall, City teams worked together to submit and review proposals that would optimize expenses or increase revenue in the future. The initiatives are identified in three categories: Cost Recovery, New Revenue, and Service Adjustments. The initiatives highlight some changes to personnel, department changes, cost savings, increases to user fees and other proposals as detailed.

By implementing the proposed initiatives, the City will no longer be showing a structural budget deficit for the next few years.

Of course, the hard work is not over. The City plans to annually re-visit the plan and identify initiatives as part of the budget process.

Part 1

General Fund Forecast and Impacts



Understanding City Funds

The City of Waukesha manages over 70 different funds that are used for various City initiatives. Budgeted expenditures in 2024 were \$227 million. The funds are all designated and reviewed each year in the City's Annual Budget and Capital Improvement Plan. Each of the funds have various funding mechanisms.

For the purpose of this Financial Management Plan report, the focus is on the City's General Fund Budget, which is often referred to as the Operating Fund. Other Funds, including the Capital Fund, will be addressed in future studies and analysis.



Capital Funds / Debt Service

Capital Funds are generally for capital projects or assets with a life of 10 or more years such as the construction of buildings and facilities, equipment purchases, and vehicle/fleet purchases. These purchases are planned for through the Capital Investment Program (CIP).

Debt Service Funds are set up to account for the accumulation of resources used for the payment of principal and interest on all "general obligation debt", other than that serviced by Enterprise Funds. Debt Service Funds are typically used for capital projects, equipment and fleet, in the CIP.



General Fund

General Fund (GF) is a Governmental Fund to record the revenue and expenditures for most City department activities.

This is often referred to as the "Operating Fund".

The general fund is primarily funded through the property tax levy.



Other Funds

The City has a variety of other funds including Special Revenue Funds, Enterprise Funds and Trust Funds. Some examples:

Special Revenue Funds– Revenue Source is primarily Grants/Donations (Ex: JanBoree, Fi JanBoree, Fiber Maintenance, Police K-9 unit)

Enterprise Funds – Revenue Source is User Fees (Ex: Prairie Home Cemetery, Clean Water Plant, Parking Utility)

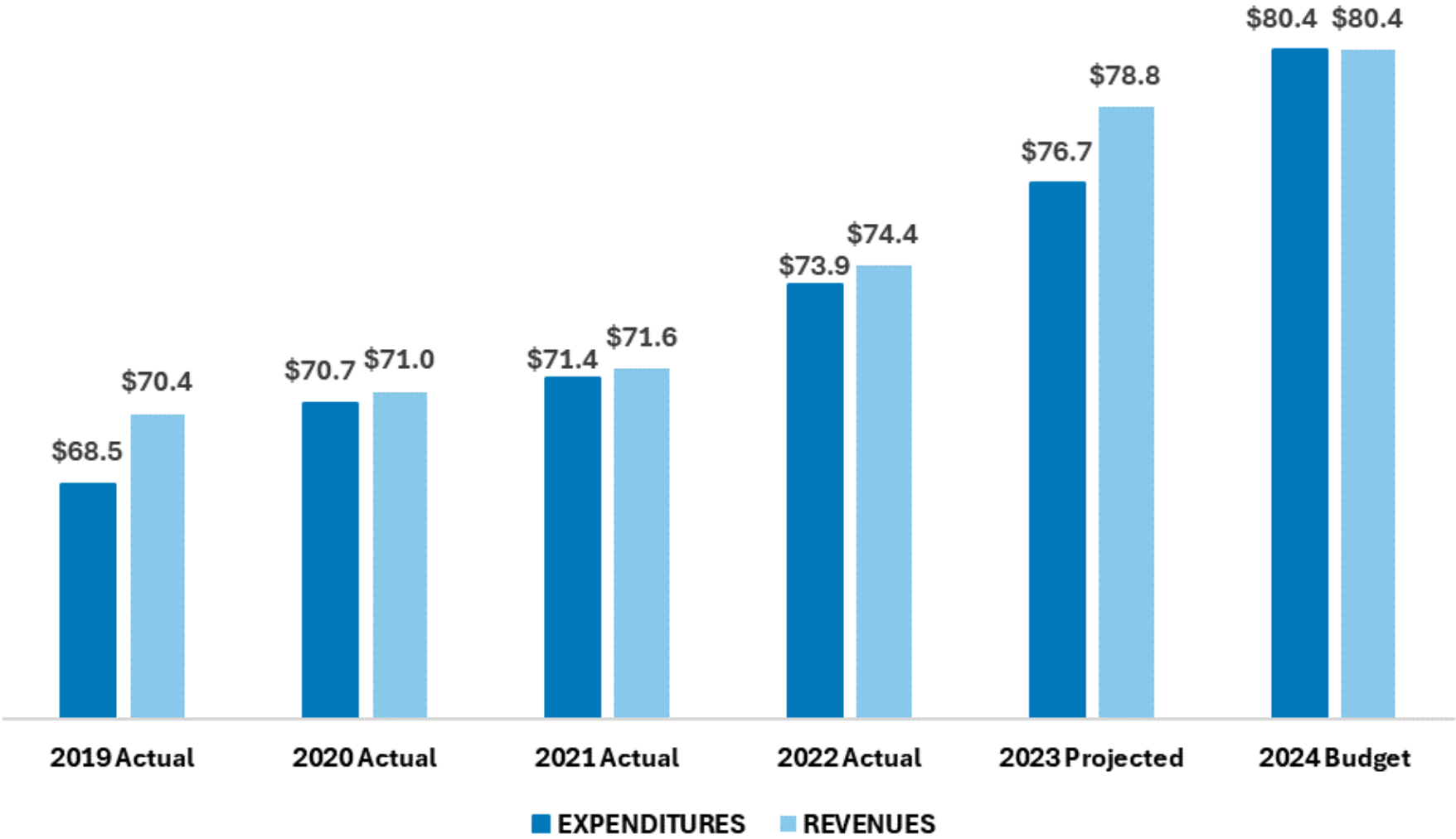
General Fund Revenues and Expenditures (in Millions)

2024 General Fund Budget

Each year, City staff prepares a General Fund Budget and presents it to Finance Committee and the Common Council for their consideration. By State Statute, the budget is balanced, ensuring that expenditures do not exceed anticipated revenues and available funds.

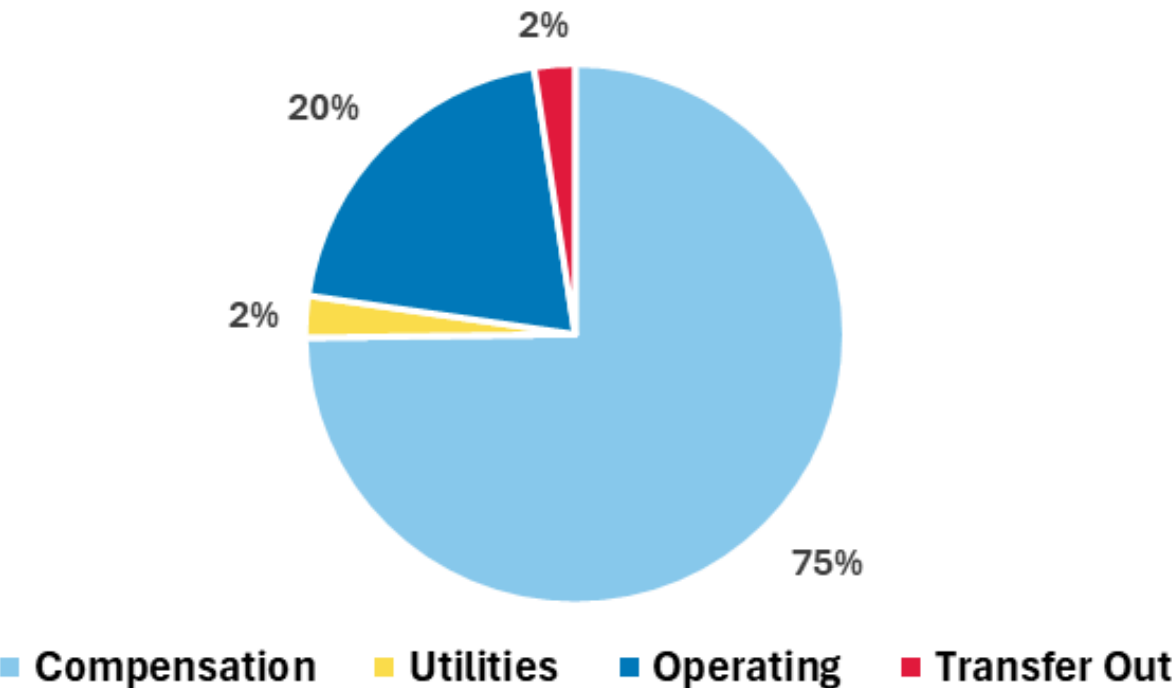
In recent years, the City has faced challenges due to rising operating costs, including higher prices for products and services as well as increased employee wages and benefits.

The trend of rising expenses is not sustainable. From 2023 to 2024, General Fund Expenditures increased by 4.8%. The City has benefited from increased investment income, which is one-time revenue.



Notes:
2019 there was favorable interest income compared to prior years and some position vacancy savings
2022 there was an increase in Intergovernmental Revenue and Other Revenue
2023 there was a significant increase in Investment Income

2024 General Fund Expenditures



Notes:
2019 General Fund Expenditures were also 75% Compensation



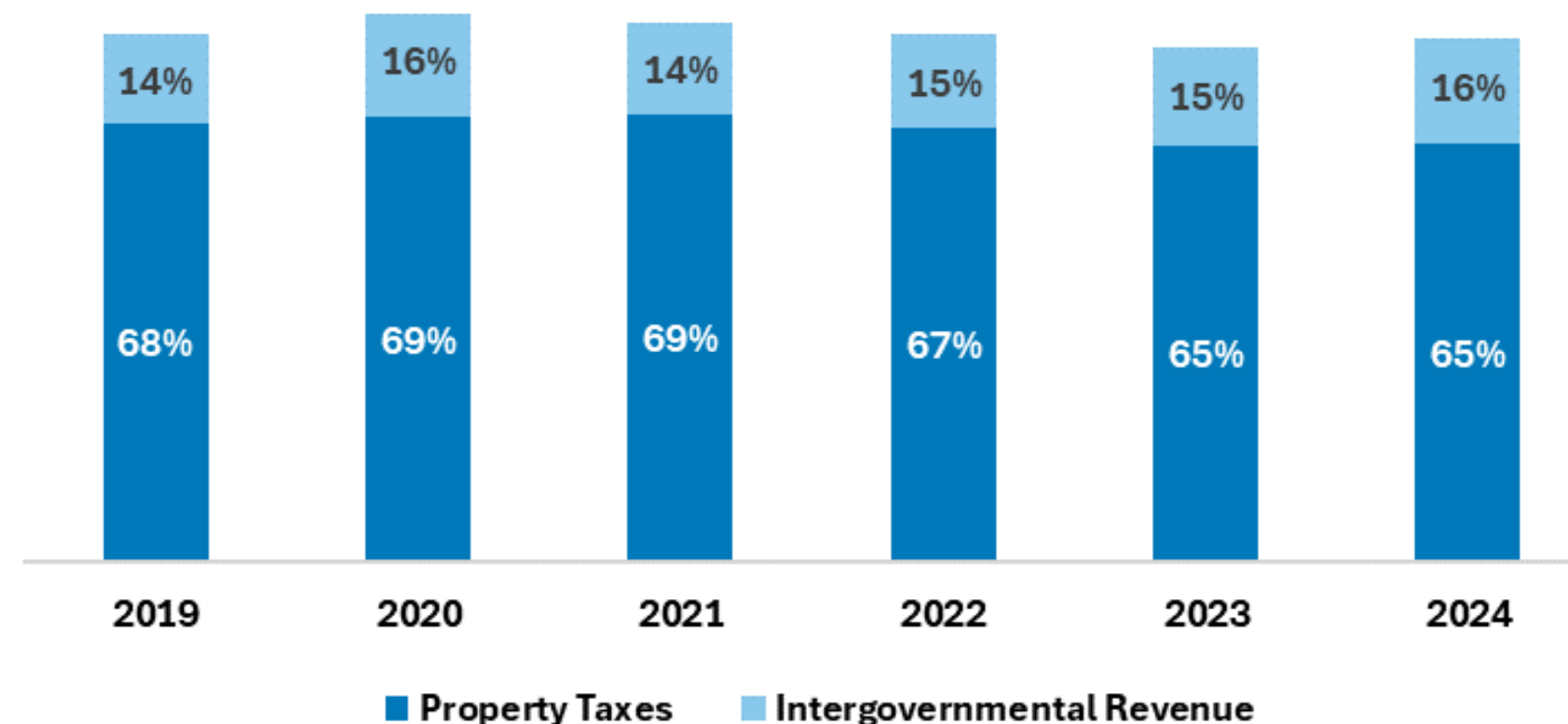
Levy Limits in Wisconsin

One of the challenges the City faces as expenses rise, is that in the State of Wisconsin property tax levy limits are in place. These limits set the maximum amount a town, village, city, or county can impose as a property tax levy on parcels within their boundaries. Currently, Wisconsin communities can only increase the levy each year based on the property value added through new construction.

Levy limits were first established by the Wisconsin State Legislature in 2006, with the current version in effect since 2011. While 46 states and Washington D.C. have adopted property tax levy limits, Wisconsin has the strictest limits in the United States.

These levy limits have posed significant challenges for communities across the state, especially since they were implemented at the start of the Great Recession, a time when new construction was limited. As shown on the graph below, the City of Waukesha primarily relies on property taxes to fund operations.

City of Waukesha - Main Revenue Sources

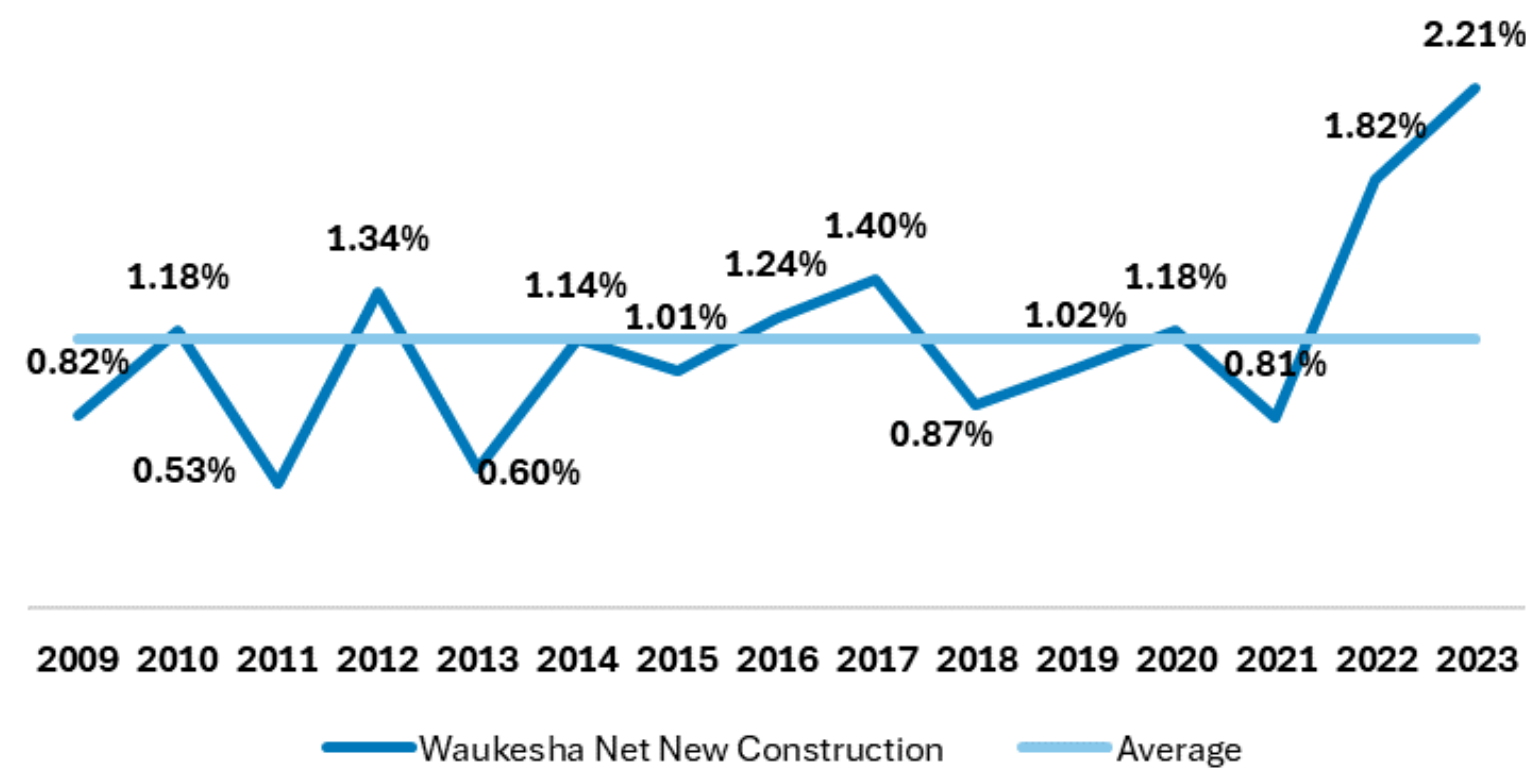


City of Waukesha Levy History

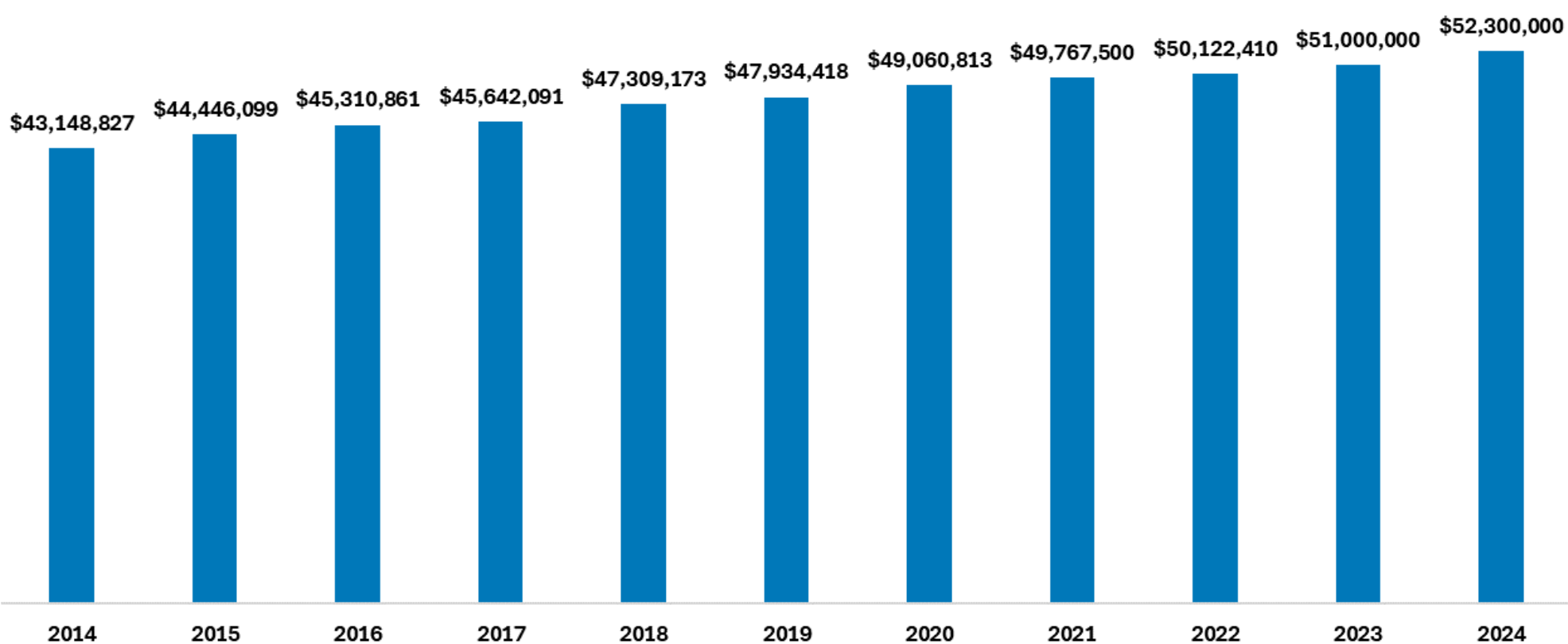
With State imposed levy limits in place, the City can only raise property taxes by the amount of net new construction in the City each year. Since 2009, the City has only been able to increase the Operating Fund Tax Levy by an average of 1.14% annually. In 2023, the increase of 2.21% was well above the historic average. The City anticipates that net new construction in the next few years will be around 1%.

As previously mentioned, City expenditures have been rising due to necessary increases in wages and operational costs. This trend poses a challenge for funding future operations of the City at the same level as in the past.

Waukesha Net New Construction



Waukesha Operating Fund Tax Levy



General Fund Forecast

The General Fund Forecast serves as a planning tool for the budget process, enabling the City to make decisions now that will have a positive impact on the future. This forecast demonstrates the financial outcome if the City maintains its current services, based on conservation assumptions (detailed below).

As shown in the chart, expenditures continue to outpace revenues, resulting in a structural budget deficit. In 2025, the City is anticipated to face a shortfall of approximately \$800,000. However, by 2028, expenditures are projected to exceed revenues by over \$8,000,000.

Net new construction, which determines the amount the City can raise the levy by, has not and will not be sufficient to cover increased costs. While the annual shortfall could be covered by the budget stabilization fund and fund balance through 2029, these resources would then also be depleted. Therefore, the City needs to take proactive steps now to address the deficit over multiple years.

Revenues	2024 Budget	Forecast 2025	Forecast 2026	Forecast 2027	Forecast 2028
Property Taxes	\$52,300,000	\$52,823,000	\$53,351,230	\$53,884,742	\$54,423,589
Intergovernmental	\$13,004,154	\$13,277,154	\$13,605,395	\$13,941,757	\$14,286,440
Investment Income	\$950,000	\$3,259,500	\$3,019,095	\$2,028,786	\$1,538,574
Other Revenues	\$14,133,195	\$13,006,842	\$13,344,513	\$13,691,051	\$14,046,620
Total Revenues	\$80,387,349	\$82,366,496	\$83,320,233	\$83,546,336	\$84,295,223

Expenditures	2024 Budget	Forecast 2025	Forecast 2026	Forecast 2027	Forecast 2028
Compensation	\$60,131,423	\$62,220,884	\$64,908,045	\$67,618,512	\$70,186,228
Utilities	\$2,001,651	\$2,061,701	\$2,123,552	\$2,187,259	\$2,252,877
Operating	\$16,286,614	\$16,775,212	\$17,278,468	\$17,796,822	\$18,330,727
Transfers Out	\$1,967,661	\$2,109,170	\$2,023,288	\$2,120,446	\$1,970,644
Total Expenditures	\$80,387,349	\$83,166,967	\$86,333,353	\$89,723,039	\$92,740,476

Revenue Over /(Under) Expenditures	-	(800,471)	(3,013,120)	(6,176,703)	(8,445,253)
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Assumptions

Revenue

- Property Taxes Levy increases by 1%
- Intergovernmental Revenue increases 2.5%

Expenses

- Wages and Benefits increase 3%
- Utilities and other operations increase 4%
- Health Insurance increases 8%

How did we get here?

It is important to note that this financial position has been a challenge for a number of years and is due to many factors.

15 Years of Levy Limits

As previously mentioned, 15 years of state imposed strict levy limits and limited development growth are having a significant impact.



Health Insurance Increases

Health insurance rates and utilization were consistent for a number of years. However, in recent years, the costs and usage are increasing.



Short Term Strategies

Over the years, the City has implemented various short-term budget strategies to address the budgetary challenges year by year. One example is the creation and utilization of the budget stabilization fund. These strategies are not sustainable for the long-term future.



Inflation

Inflation has increased the City's baseline for future costs.



Part 2

Recommended Financial Sustainability Initiatives



Planning Process

Once the General Fund Forecast was developed, City staff undertook the task of preparing a comprehensive Financial Management Plan. Every Department had the opportunity to play a role in helping the City achieve a more sustainable financial future.



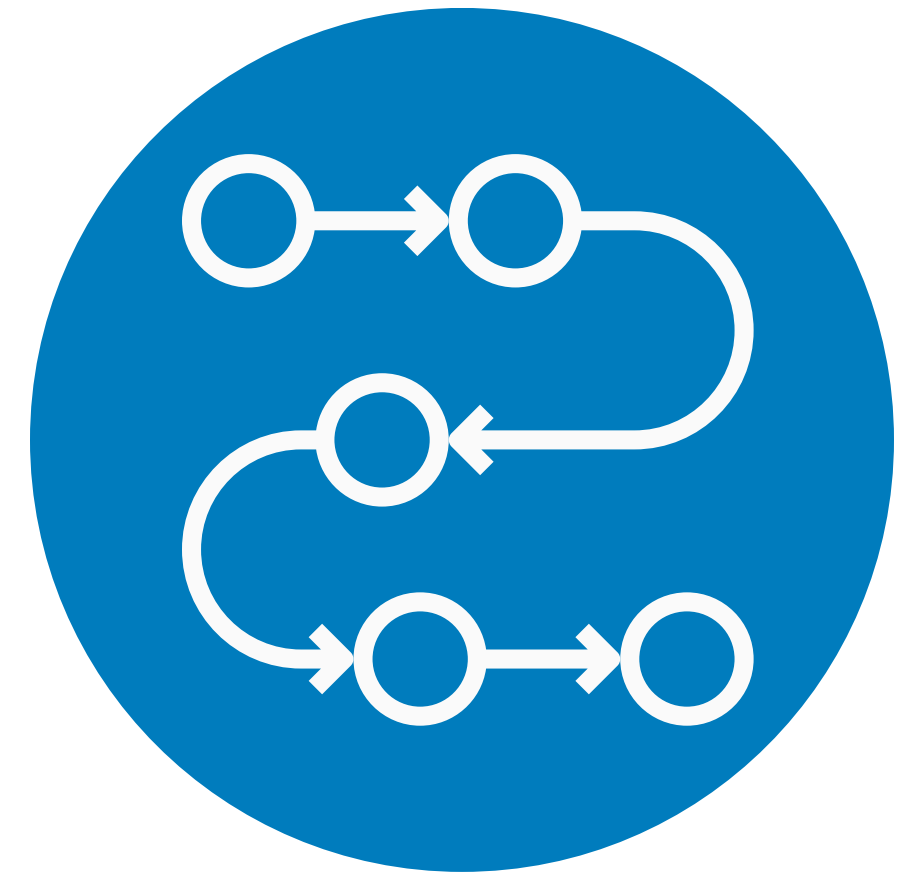
Employee Meetings

The City Administrator and Finance Director presented the City's current financial framework to Department Heads and employee groups during April and May 2024. The Departments were challenged with submitting proposals that would either optimize expenses or would increase revenue in future years.



Departmental Submittals

The City Administrator, along with a working group, reviewed all Departmental submittals. Meetings were also held with each individual Department to further clarify their submittal and to get any questions answered.



Plan Formulation

Based on the Departmental meetings, a plan was formulated that provides a multi-year approach to address the General Fund operating concerns. Each piece of the proposal was evaluated to provide both short-term easier to achieve initiatives as well as long-term strategies for the Finance Committee and Council to provide feedback on.

Planned Initiatives

After going through the planning and review process, some initiatives rose to the top as the ones that provided the most cost savings or revenue generation with the least amount of negative impact. The initiatives are identified in three categories: Cost Recovery, New Revenue, and Service Adjustments.



New Revenue

Additional fees or other revenue generating activities that are not currently established.



Cost Recovery

Proposed ways the City can better recover expenditures, including staff time. This also includes general cost saving measures.



Service Adjustments

Changes to current service operations, changes to personnel, or changes to Department structure are proposed.

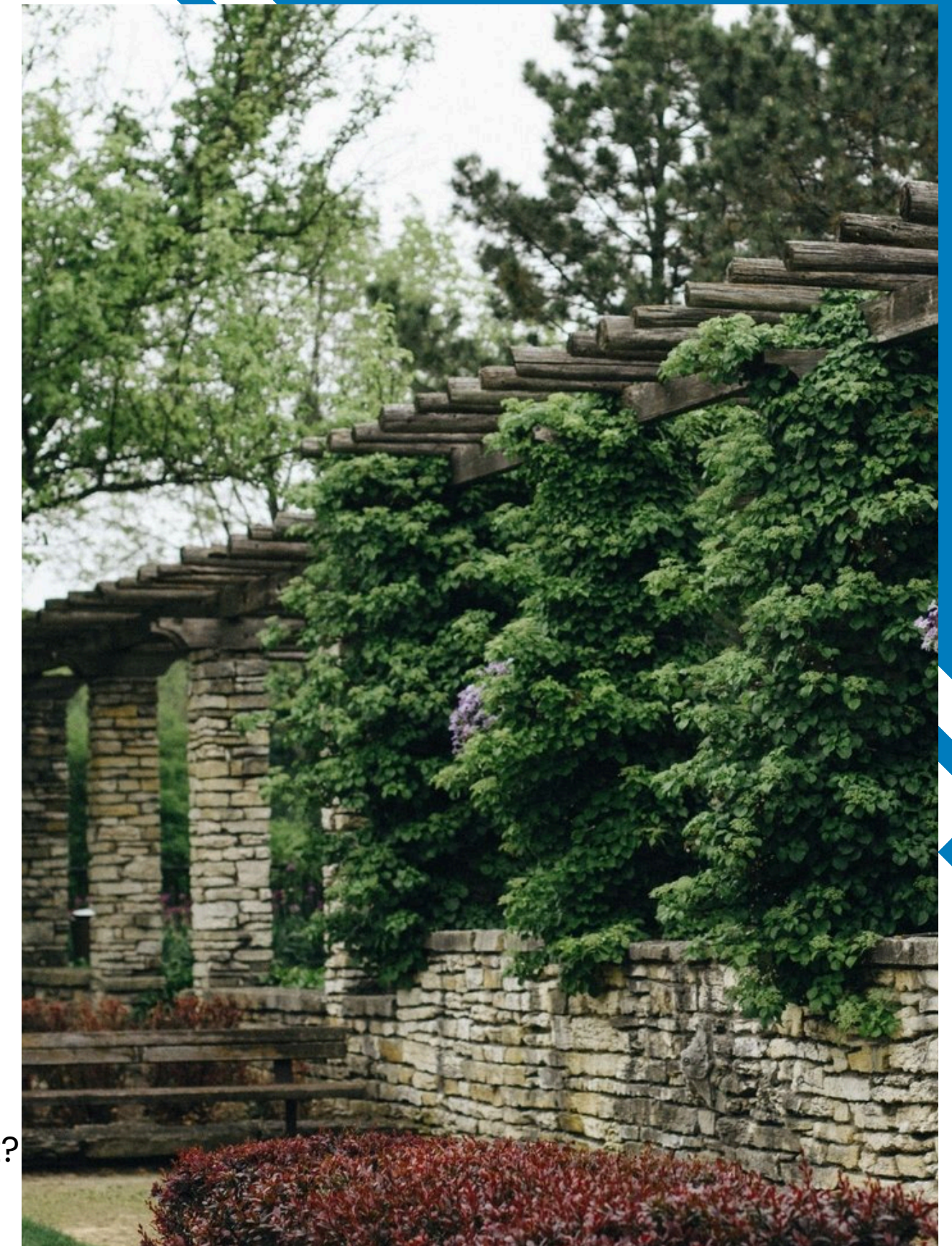
Evaluation Criteria

All of the proposals were evaluated based on the below criteria:

Fiscal Impact – What impact would the proposal have on the City's general fund budget?

Feasibility – What is the practicality of successfully implementing the proposed idea?

Implementation – What is the proposed time frame for implementation?



New Revenue Initiatives

This includes new user fees that would only be charged to those using the service.

The new charges are below:

- Additional reinspection fees on failed trade inspections.
- Online convenience fee for permits pulled electronically.
- Planning fee for Digital records retention processing.
- Loan origination fee for HODAG, Storefront and affordable housing rehab loans.
- Garbage/Recycling collection special service charge to cover the costs of the service (2026).

Additional revenue for the General Fund:

\$1,135,969

Fiscal Impact:	Small	Medium	Large
Feasibility:	Low	Medium	High
Implementation:	0-5 years	5-10 years	10+ years

Cost Recovery Initiatives

Cost Recovery for Services Offered

Some of the services that are paid for out of the General Fund are used by other entities or other Departments that are not in the General Fund. The proposal includes the following:

- Additional charges to the Clean Water Plant from Public Works for services offered.
- Increased support from the School District for the Community Library Liaison position.
- Payment from the Friends of the Waukesha Public Library for Library staff training

In addition, the City puts a lot of staff time into a the storefront, affordable housing and HODAG loans. The proposal includes that the City would recover 0.5% of the interest on all storefront, affordable housing and HODAG loans to pay costs related to administering the programs.

Also included is the purchase of some new equipment for the Park concession stands which will allow them to increase sales and refurbishing the library book sorter for a longer life span.

Additional revenue for the General Fund:

\$329,314

Fiscal Impact:	Small	Medium	Large
Feasibility:	Low	Medium	High
Implementation:	0-5 years	5-10 years	10+ years

Equipment Replacement Fund

This includes establishing funding for a short term equipment replacement fund. Traditionally, these items were paid for by levy and state shared revenue dollars that would otherwise be used in the general operating fund.

This funding would come from allowable tax levy associated with debt service that is currently abated by other revenues (i.e. sewer/water rates). Common uses for this fund would be police squad vehicles and city-wide computer hardware & software.

The impact would be:

\$1,130,140

Fiscal Impact:	Small	Medium	Large
Feasibility:	Low	Medium	High
Implementation:	0-5 years	5-10 years	10+ years

Increased User Fees

This includes fee increases to some of the standard permits, licenses and services the City currently offers.

Adjustments are for the following:

- Increases in fees for services including the Drop-Off Center, Park Rec. and Forestry program fees and non-resident fees, and grass cutting for code compliance.
- Increases in Application fees such as for Landmarks, and planning review.
- Increases in pet licensing fees, special assessment fees, and code enforcement reinspection fees.

Additional revenue for the General Fund:

\$138,863

Fiscal Impact:	Small	Medium	Large
Feasibility:	Low	Medium	High
Implementation:	0-5 years	5-10 years	10+ years

Service Adjustment Initiatives

Service Changes

Below are the proposed service changes that will offer cost savings to the City while working to reduce the impact on residents:

- Bus route changes- Most of the changes were approved by the Transit Commission for 2024, with cost savings realized in the 2025 budget. In addition, some of changes are due to closure of the UW-Milwaukee campus after May 2025.
- Reduction in Parks, Recreation and Forestry agriculture/horticulture budget and utilizing motion/light sensors in all park buildings.
- Reduction in Public Works Newsletter mailings. There would be three Public Works newsletter mailings per year, instead of the current four.
- Adjustments to Leaf Collection- The Public Works crews would complete one fewer leaf collection and the set days of collection for each district would be eliminated.

Additional savings for the General Fund:
\$168,474

Fiscal Impact:	Small	Medium	Large
Feasibility:	Low	Medium	High
Implementation:	0-5 years	5-10 years	10+ years

Personnel Modifications

Each Department took time to review their current personnel and what the needs of the future might be. This will result in changes across many Departments in future years. Any elimination of positions is planned to take place through attrition, so the impact to current personnel will be minimal. However, due to the sensitive nature of personnel changes, they are summarized generally below.

- The proposed changes include:
- Reduction of some seasonal positions
 - Elimination of some vacant positions
 - Hiring replacements for positions at lower salary levels

Additional savings for the General Fund:
\$407,659

Fiscal Impact:	Small	Medium	Large
Feasibility:	Low	Medium	High
Implementation:	0-5 years	5-10 years	10+ years

Restructuring

As mentioned, each Department took time to review their current personnel and what the needs of the future might be. These reviews resulted in some proposed structural changes to Departments.

- Change in IT Department to move from some contracted services to in-house delivery of the services
- Reorganization of the Assessor’s team with changes to positions and the contracting out of Commercial Assessments.
- Park, Recreation and Forestry Department position consolidation.

Additional savings for the General Fund:
\$320,174

Fiscal Impact:	Small	Medium	Large
Feasibility:	Low	Medium	High
Implementation:	0-5 years	5-10 years	10+ years

Summary of Proposals

The below chart provides a quick overview of the proposed changes and their corresponding impact on the General Fund budget. The following pages provide additional detail on the proposals.

Revenues	2025	2026	2027	2028
New Revenue from Proposed Initiatives	501,197	-	-	-
Establishing Equipment Replacement Funds for Shorter Term Capital Assets	657,140	-	-	-
Removal of Recycling Specific Revenue	-	(57,759)	-	-
Removal of Levy Support for Refuse (Establish Special Charge)	-	(1,977,432)	-	-
Total Revenue Adjustments	1,158,337	(2,035,191)	-	-

Expenditures	2025	2026	2027	2028
Operating Expenditure Reductions from Proposed Initiatives	(411,482)	-	-	-
Personnel Expenditure Reductions from Proposed Initiatives	(493,825)	-	-	-
Reduction of transfer out from Levy to Capital Projects for Shorter Term Capital Assets	(473,000)	-	-	-
Removal of Refuse/Recycle Contract Expenditures		(3,129,140)		
Total Expenditure Adjustments	(1,378,307)	(3,129,140)	-	-
Net Modifying Adjustments	2,536,644	1,093,949	-	-

Forecast Utilizing the Financial Management Plan

Taking into account the initiatives outlined, the forecast below shows the outcome on the City's General Fund Budget. With the changes, the City will no longer be showing a structural budget deficit for the next couple years.

Of course, the hard work is not over. The City plans to annually re-visit the plan and identify initiatives as part of the budget process.

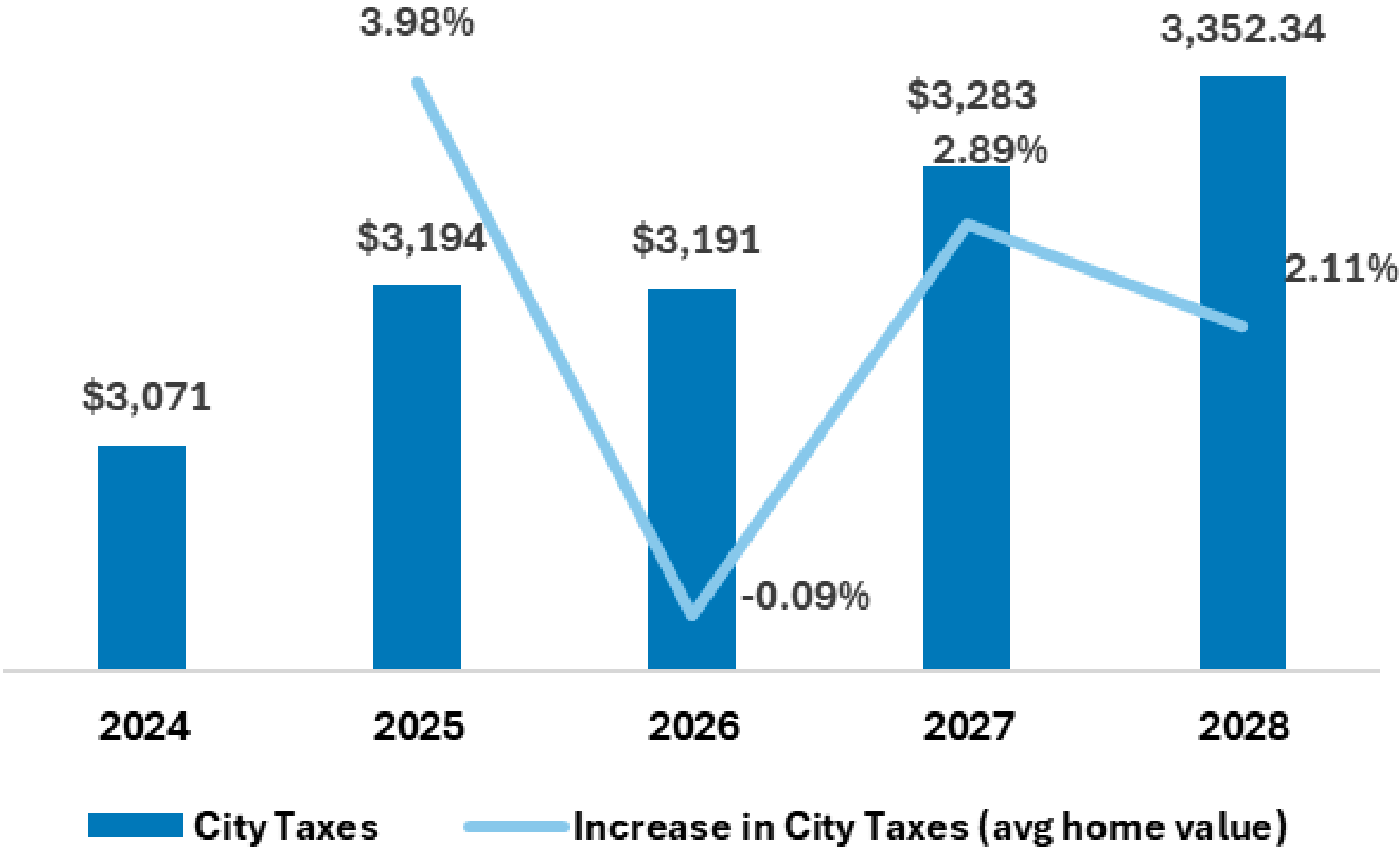
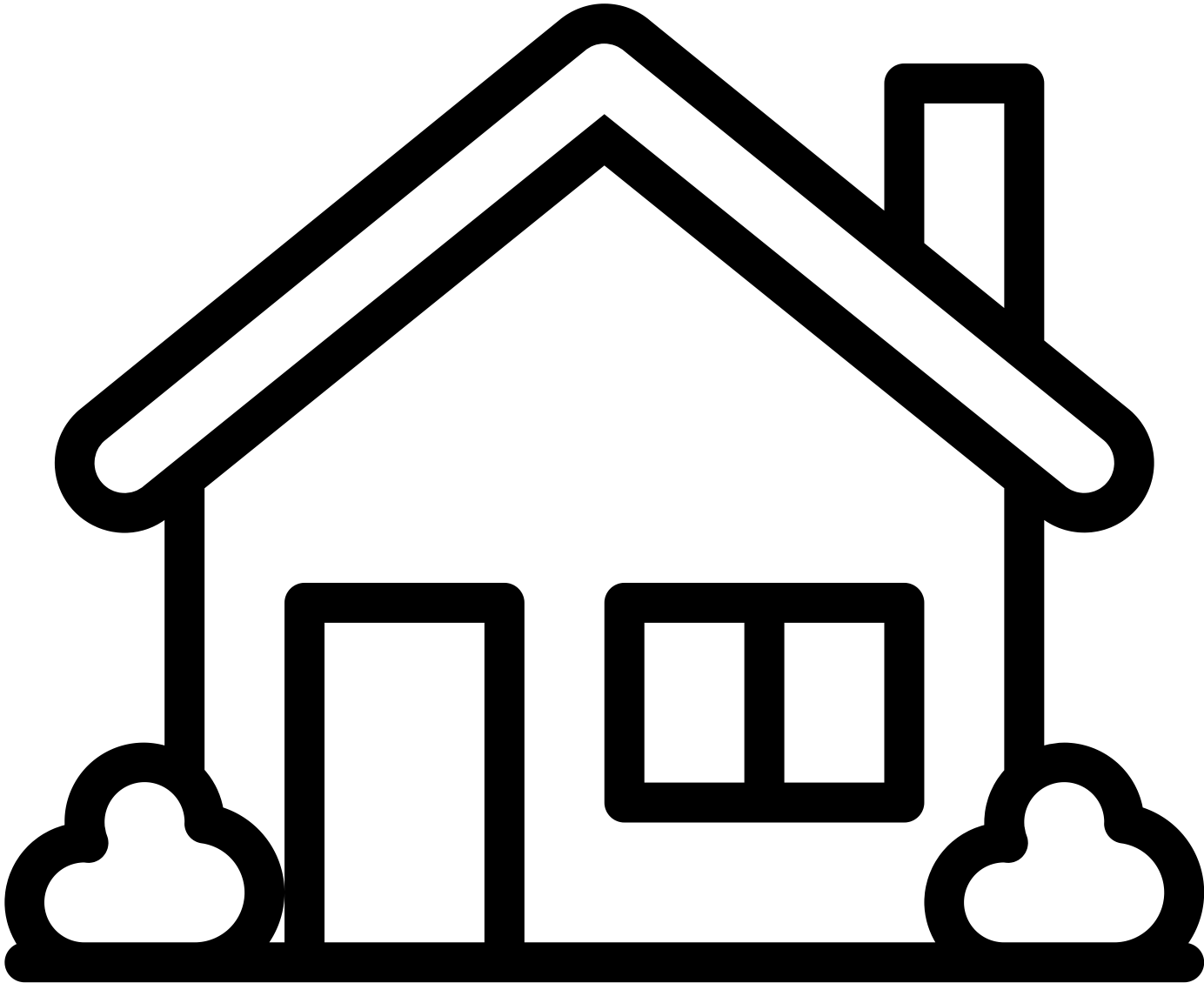
Revenues	2024 Budget	Forecast 2025	Forecast 2026	Forecast 2027	Forecast 2028
Property Taxes	\$52,300,000	\$52,823,00	\$51,354,024	\$51,867,564	\$52,386,240
Intergovernmental	\$13,004,154	\$13,949,408	\$14,293,111	\$14,645,290	\$15,006,154
Investment Income	\$950,000	\$2,400,000	\$2,232,000	\$2,120,400	\$2,141,604
Other Revenues	\$14,133,195	\$13,520,570	\$13,810,401	\$14,170,103	\$14,537,648
Total Revenues	\$80,387,349	\$82,692,978	\$81,691,015	\$82,803,357	\$84,071,646

Expenditures	2024 Budget	Forecast 2025	Forecast 2026	Forecast 2027	Forecast 2028
Compensation	\$60,131,423	\$61,716,354	\$64,382,721	\$67,072,796	\$69,622,924
Utilities	\$2,001,651	\$2,061,701	\$2,123,552	\$2,187,259	\$2,252,877
Operating	\$16,286,614	\$16,468,099	\$13,739,128	\$14,151,302	\$14,575,841
Transfers Out	\$1,967,661	\$1,381,347	\$1,381,347	\$1,381,347	\$1,381,347
Total Expenditures	\$80,387,349	\$81,627,501	\$81,626,748	\$84,792,704	\$87,832,989

Revenue Over /(Under) Expenditures	-	\$1,065,477	\$64,267	(1,989,347)	(3,761,343)
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Impact on an Average Household

When taking an average home value (\$333,800 in 2024 with a 3% increase each year) shown below, is the estimated impact on their City taxes under the Financial Management Plan. The change in City taxes for the average homeowner for 2024 to 2028 is \$280.38 which would be around \$23.37 more per month.



Other Initiatives Considered

These initiatives are not in the current Financial Management plan. However, they could be considered as options in the future.



Vehicle Registration Fee

The City could implement a vehicle registration fee in the future to generate additional funds.

It's important to note that this would likely be a one-time alternative, unless the fee was set to increase at certain intervals.

Estimated Revenue

- \$10- \$590,000
- \$40- \$2,360,000



Special Charges

The City could consider in the future removing some items that are currently funded through the property tax levy and adding them on the property tax bill as special charges (ex: snow plowing, street sweeping, storm water management). There are of course effects from those decisions for the resident and the City that would need to be considered.

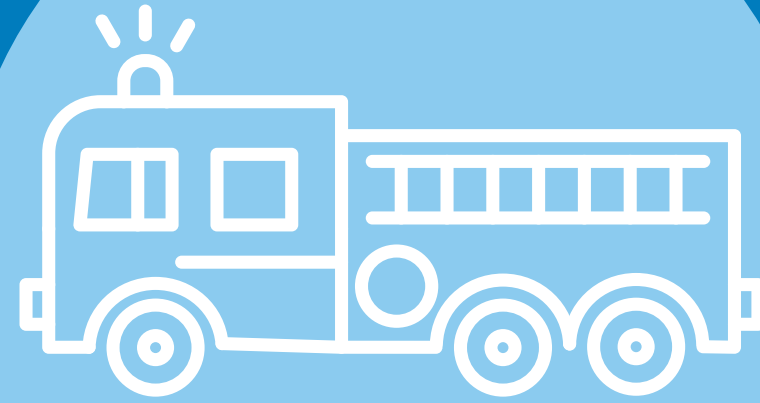


Transportation Utility

The City could consider creating a Transportation Utility. This would be a municipal utility (similar to water) that would be used to fund transportation infrastructure needs, including capital, operations, and maintenance costs. Property owners would be charged transportation utility fees or street maintenance user fees.

Other Initiatives Considered

These initiatives are not in the current Financial Management plan. However, they could be considered as options in the future.



Fire Protection Fee

The City could implement a fire protection fee in the future. These fees would be charged on all properties within the City.

The fees would help support the operations of the Waukesha Fire Department.



Changes to Public Safety Service Delivery

To reduce costs, the City could consider changing the service delivery model for some aspects of Public Safety. This could include the elimination of public safety positions.

State Legislative Changes

These initiatives are out of the City's direct control. However, they are recommended to be supported at the State level.



Levy Floor

In previous iterations of the State's levy limits, there was a floor in place to ensure that municipalities could raise their levy a certain amount, regardless of net new construction.

If, for instance, there had been a floor in place of 3% since 2010, the City would have an additional \$10.5 million in levy capacity for 2024.

Having a floor in place would allow the City to better keep pace with rising operational costs.



Local Sales Tax

The State Legislature could make changes to allow the option of a Local Sales Tax for all municipalities. This could provide additional revenue for the City, without increasing property taxes.

Many neighboring states utilize a local sales tax to help fund municipal operations.



Medicaid Payments for EMS Providers

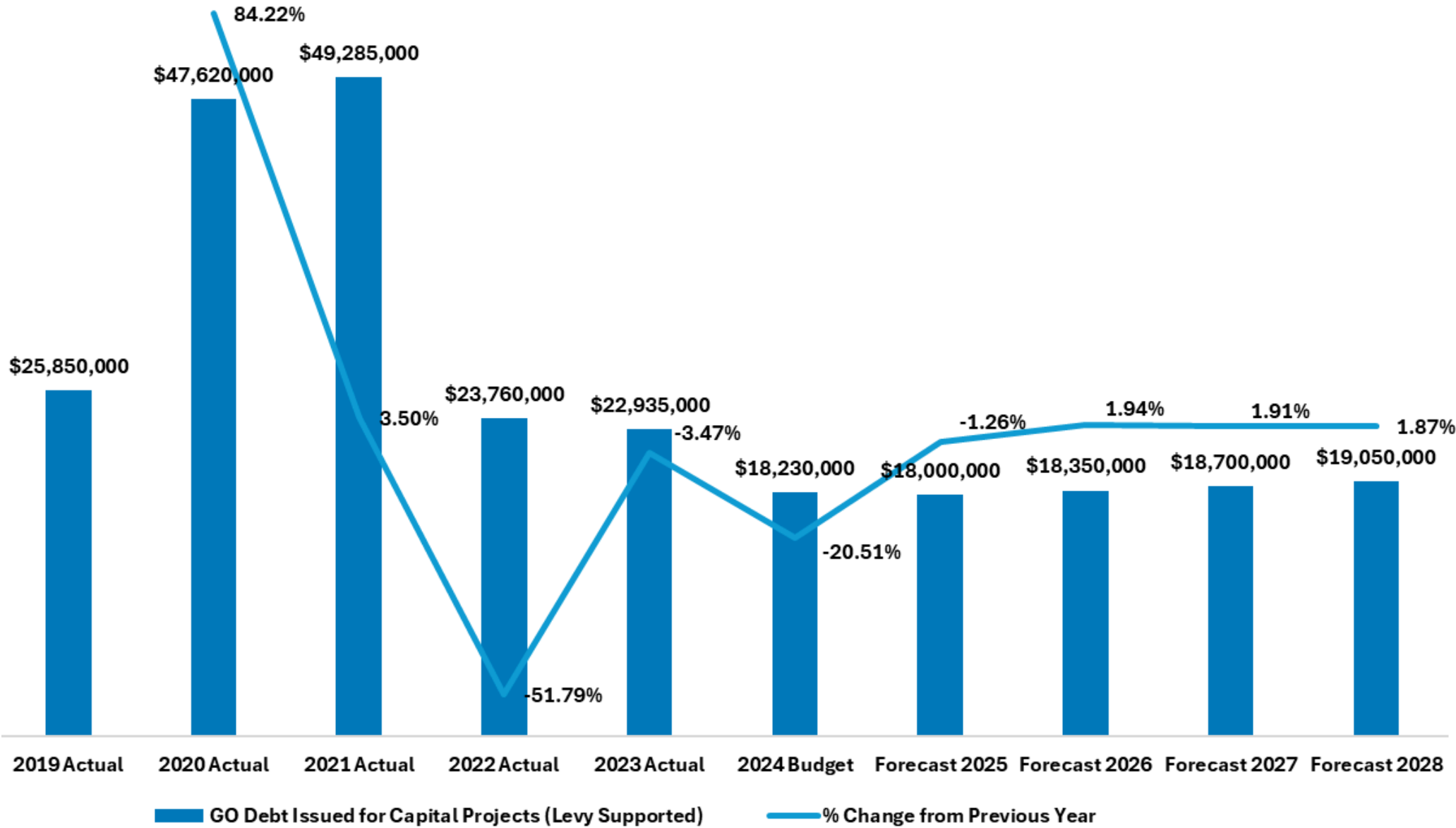
Roughly 25% of all Waukesha Fire Department patients have Medicaid as their insurance provider. Medicaid pays only a fraction of the cost for service for an emergency medical call. Starting in 2024, the City will receive some additional reimbursements for services to Medicaid patients, but the State still does not allow for the maximum reimbursement. If Wisconsin would adopt legislation similar to other states, the Waukesha Fire Department would receive additional funds. Otherwise, those unrecovered costs are covered by other revenue dollars like the tax levy

Debt Information

Over the last 5-years, the City has increased its investment on several generational facilities and large community projects. While it was an opportune time to finance such projects, due to historically low interest rates, it had a significant impact on the debt service levy and still does.

This financial management plan is proposing a relatively consistent annual debt issuance for capital projects through 2028. This will accomplish two things:

- It will manage the increase in debt service levy from year to year.
- It will assure that the outstanding general obligation debt balance will decrease each year as the City pays its annual principal and interest payments.





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