

REPORT, FINDINGS AND RECOMMENDATION OF THE
CITY AND VILLAGE OF PEWAUKEE CONSOLIDATION STUDY COMMITTEE

The following is a summary report of the findings of the City and Village of Pewaukee Consolidation Study Committee and Recommendation on further action.

The City and Village of Pewaukee have, since September 2006, been operating under a Memorandum of Understanding (MOU) for the purposes of considering the consolidation of the two municipalities to form one municipal government that would encompass both of the existing municipalities. The purpose of the MOU was to continue to move the evaluation process forward and to determine the one primary question that potentially affected all taxpaying residents of the two municipalities:

Are there means by which the two municipalities can consolidate into one municipal government that could provide benefits to all taxpayers of the combined municipality?

Pursuant to the MOU, a committee was formed comprised of elected representatives as well as citizen representatives of both communities. The committee members are identified on the attached Committee list. The principal goal of the Committee was to reach a determination as to whether there were reasonable means by which the combining of the two municipalities could be accomplished that would result in cost savings to the taxpayers of the combined municipality in a manner that provided benefits to all taxpayers of the combined municipality.

The Committee's activities and inquiry was facilitated by the Southeast Wisconsin Regional Planning Commission, Philip Evenson, acting as the non-voting chair and facilitator of the Committee's activities. The Committee met periodically to:

- Determine a course of action
- Determine whether additional information or guidance was required from outside consultants, and if so, recommend that such guidance be obtained
- Evaluate the work of the retained consultants
- Determine whether consolidation would provide benefits to all taxpayers of a proposed combined municipality
- Develop a recommendation for the City and Village

In the course of the Committee's consideration, the following specific steps were included:

1. The development of a hypothetical operating budget for the combined municipality was prepared by Administrators of the Village and City.
2. Evaluation of the hypothetical budget

3. Retention of additional experts to determine whether a reasonable course could be found to provide benefits to all taxpayers while achieving overall projected operating costs savings
4. Evaluation of the analysis and recommendations of the retained consultants
5. Development of a recommendation to the elected bodies of the City and Village, including a course of action leading to a referendum of the electorate on a consolidation of the municipalities

Committee Action:

The Administrators of the City and Village combined to provide a hypothetical budget using 2009 costs estimates to establish a proposed operating budget for the combined municipality. After evaluation, the Committee determined that the hypothetical budget presented a reasonable basis for considering the costs of operating the proposed municipality and further concluded that cost savings ranging from \$700,000 to \$1,100,000 could be achieved, annually, if the two municipalities were combined into one.

The Committee recommended that the Administrators of the Village and City provide a hypothetical budget of operating costs and expenses for a proposed merged community using the budget estimates for the communities for the 2010 fiscal year.

Committee Recommendation:

After reviewing the proposed hypothetical budget and determining that there were operational costs savings that could be achieved, the Committee next considered whether there were reasonable ways to achieve those costs savings, while providing benefits to all taxpayers of the combined municipality. The Committee determined that merely consolidating the municipal tax base of each of the municipalities would not achieve the desired result. While combining the two municipalities would produce overall operating cost savings, the combination would not produce benefits for all taxpayers of the combined municipality, because the assessed tax rates for the City and Village were too disparate and when combined produced an increase in the assessed tax rate for those taxpayers that were former residents of the City of Pewaukee while producing a lower assessed tax rate for those taxpayers that were former residents of the Village of Pewaukee needed to fund the operations of the combined municipality. The Committee determined that in order to achieve its stated objective, additional guidance was necessary. The Committee recommended the retention of two consultants, Municipal Economics and Planning (Municipal Economics), and the Boardman law firm (Boardman). The City and Village agreed to spend additional money to retain the consultants to assist the Committee in determining whether the combination of the two municipalities could be accomplished in a manner that provided benefits for all taxpayers of the combined municipality.

The Committee recommended that Municipal Economics and Boardman provide an assessment on potential options on how the combination of the two municipalities could be accomplished to achieve the operating cost savings while providing benefits to all taxpayers of the combined municipality. Municipal Economics and Boardman prepared a Tax Rate Feasibility Analysis, using the hypothetical 2009 budget for the proposed combined municipality. The analysis provided, among others the following recommendations:

The operating costs savings could be achieved, and benefits could be provided to all taxpayers of the combined municipality using one of several methods:

- Obtain Legislation to allow for a special taxing district for that would for a period of time, permit unequal taxes on assessed real estate in the combined municipality.
- Alternatively, consider creating a street utility district within the former village to recover certain costs that would not be collected through the tax revenues of the combined municipality in combination with utilizing a portion of the Village utility reserves to provide funds to reduce the general tax levy.

Municipal Economics and Boardman also recommended evaluating the consolidation of the water and sewer utilities of the Village and city for the purpose of evaluating the capital cost savings the might be recognized if the water and sewer utilities were also merged, in order to assess whether the use of funds in the Village utility reserve could be used to reduce the general tax levy as opposed to creating a street utility district.

Committee Recommendation:

Upon consideration, the Committee recommended that the municipalities allocate additional funds and proceed with drafting and circulating the necessary legislation in order to facilitate creating separate taxing districts, and further recommended that additional funds be allocated to have the recommended studies performed on the operating costs savings and capital cost savings of the water and sewer utilities to determine if the combination of the sewer and water utilities could produce the same or better potential results than creating a street utility district.

Municipal Economics and Boardman performed studies of the operating and capital cost requirements for the separate water and sewer utilities and performed a combined analysis of the operating and capital costs to determine if 1) the combination of the water and sewer utilities would produce further operating cost savings in addition to the cost savings of the hypothetical general municipal budget; 2) to determine if there were capital cost savings that could be achieved by combining the water and sewer utilities and; 3) to determine if the transfer of funds from the Village utility reserves required to achieve the benefit to all taxpayers of the combined municipality would impair the sewer and water utility operations or capital requirements.

The evaluation of Municipal Economics and Boardman of the sewer and water utilities provided, among others, these conclusions:

- The consolidation of the water and sewer utilities would only produce modest operating cost savings through the period 2025.
- Consolidation of the water utilities would achieve capital cost saving of approximately \$8.2 Million primarily for the City of Pewaukee which would result in slightly higher water charges to Village taxpayers (3%) and significantly lower charges to City taxpayers (at least 19%).
- The withdrawal of \$4.75 Million from the Village utility reserves would not impair the combined utilities' ability to meet its capital obligations and would result in a consolidation payment that would reduce the tax assessment for all taxpayers of the proposed combined municipality.

Committee Action:

As a result of the analysis, the Committee determined that there were two, legitimate and viable options to achieving the stated objective of reducing operating costs and providing benefits for all taxpayers of the combined community:

- **Pursue legislation that would allow for a separate taxing district that would recognize and preserve the tax rate differential between City and Village taxpayers while achieving the operational cost savings.**
- **In lieu of a street utility district, pursue consolidation of the municipalities and the associated sewer and water utilities and, as part of the consolidation process, create a consolidation payment from the capital reserves of the Village sewer and water utilities that would reduce the tax assessments for all residents of the proposed combined municipality.**

Committee Findings:

Upon the analysis performed by Municipal Economics and Boardman, and based on deliberations of the Committee, the Committee makes the following findings:

- A combined municipality can achieve operating budget savings of between \$700,000 and \$1,000,000 annually.
- The Combination of the water and sewer utilities will achieve capital cost savings.
- The Village has sufficient reserves in its utility reserves to make a payment to the combined municipality that would reduce the general tax levy requirements such that all taxpayers of the combined utility would receive benefits from the combination.

- There are at least two means by which the City and Village can successfully combine and achieve operating cost savings and benefits to all taxpayers of the combined municipality:
 - Pursue and obtain legislation that will allow for differential taxing of former village and city residents such that the taxpayers of both can realize the operating cost savings
 - Enter into a consolidation agreement under the terms of which, the Village makes a contribution of approximately \$4.75 Million to the combined municipality to reduce the tax levy requirements of the combined municipality

The Committee recommends: The City and Village should continue to pursue merging to form one municipality

Further Requirements:

The Committee recognizes that there are significant additional steps, and costs to be undertaken in order to provide an appropriate consolidation referendum to the voters of the City and Village to determine whether consolidation should proceed. The further steps identified by the Committee are as follows:

- Approval of the continued efforts to consolidate by the legislative bodies of the City and Village
- Revise the hypothetical operating budget to reflect approved budgets following the budget approval process of the City and Village
- Retention of necessary consultants and the development of an estimated budget for the continued effort to consolidate
- Development of and approval by the legislative bodies of the City and Village of a consolidation agreement between the City and Village that specifies the terms and conditions of consolidation, including the structure of a new municipal government
- Development of and approval of a joint consolidation referendum to be presented to the electorate of both the City and Village in the April 2010 elections