

DATE: June 30, 2010

TO: Members of the Board of Trustees, Village of Pewaukee
Members of the Common Council, City of Pewaukee
Honorable Village President Jeff Knutson
Honorable Mayor Scott Klein

FROM: The Pewaukee Merger Advisory Committee, Philip Evenson, Chair

RE: Village of Pewaukee Village Board listing of concerns it would like the Merger Advisory Committee to address with regard to the SUD ordinance and the Consolidation ordinance with a report back to the Village Board and Common Council

The members of the Pewaukee Merger Advisory Committee hereby respectfully submit the following responses to the list of concerns raised by the Village Board with regard to the SUD Ordinance and the Consolidation Ordinance.

The Committee has been guided in its work by the 2006 Memorandum of Understanding between the Village of Pewaukee and the City of Pewaukee. The MOU recognized that prior efforts to bring the consolidation question to a referendum failed in large part because consolidation would financially benefit Village property owners more than City property owners unless a means were found to more fairly share the savings from consolidation. In order to fulfill the charge of the MOU, the Committee has undertaken a considerable amount of analysis to determine: 1) the savings to taxpayers and utility ratepayers from consolidating the two communities; and 2) if consolidation could be accomplished in a way that would fairly and equitably share the savings between taxpayers and utility ratepayers of both communities. The Committee has concluded that the two communities can merge and the benefits of such a merger would be realized by all taxpayers, although the level and amount of benefits will differ. The plan recommended by the Committee relies on the formation of a Street Utility District (SUD) and the use of \$5.5 million of Village utility reserves as the essential means of more fairly distributing the benefits of consolidation between City and Village taxpayers and ratepayers. Without these components, the savings from consolidation would not be equitably shared between City and Village taxpayers and ratepayers.

The 2006 MOU also acknowledged that each municipality would need to proceed expeditiously with capital projects which it considers to be in the immediate best interests of its residents. The City of Pewaukee has, to date, delayed construction of two major projects that will be needed in the near future if the two municipalities remain separate, but which likely would not be needed if consolidation occurred—that being replacement of the elevated storage tank at City Hall and construction of an east-west water transmission main. If the consolidation issue is not resolved in a timely manner the City may need to proceed with these projects, which would result in significant lost opportunities for capital cost savings.

Response to concerns regarding the Street Utility District (SUD)

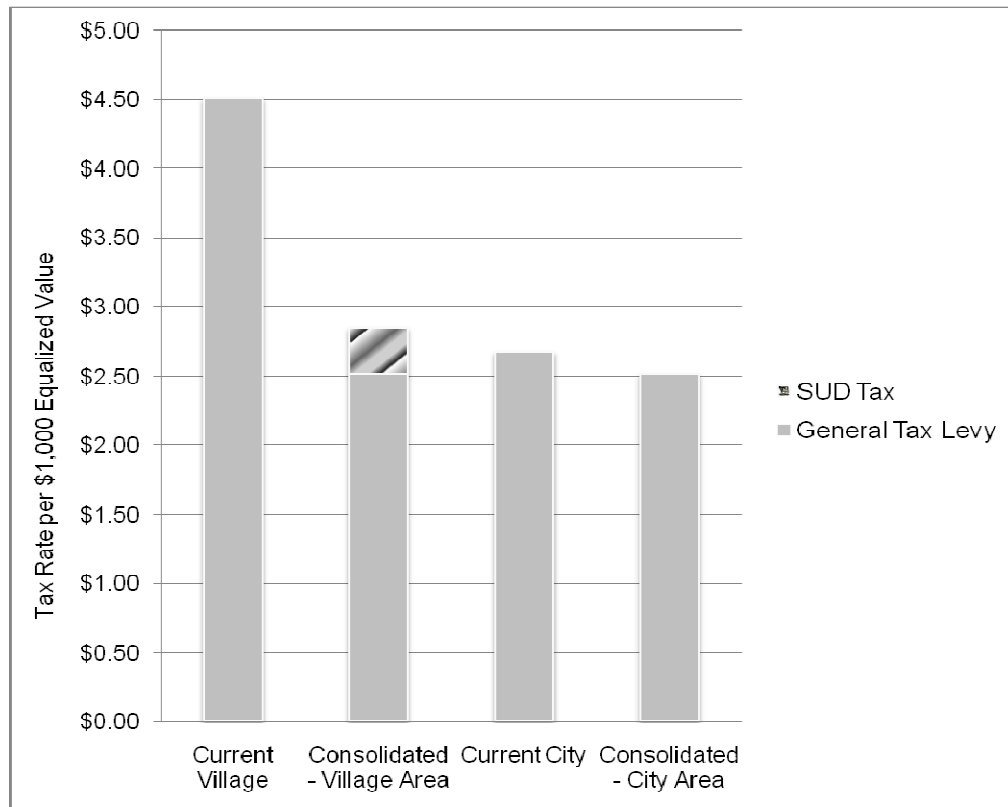
1. One community – one rate

Committee's Response

The one community, one tax rate option is not feasible. A single tax rate for the new community would be higher than the City's current tax rate and much lower than the Village's current tax rate. This would be an inequitable distribution of the benefits of consolidation. This would not be a politically feasible option and likely would not gain the support of City voters in a consolidation referendum. The proposal that is currently under consideration provides a significant tax rate reduction for the Village, much more than the reduction for City property owners.

Figure 1 shows the 2010 City and Village tax rates and the projected year 1 tax rates for the consolidated city (based on 2010 costs) under the proposed plan. As shown, the Village's current tax rate is \$4.51 per \$1,000 of equalized value (fair market value). The proposed plan would include a general city-wide tax rate of \$2.52 plus the SUD tax of \$0.33 for a total tax rate of \$2.85 within the area of the current Village. This would be a tax rate decrease of \$1.66 for Village properties. Properties within the current City area would pay only the city-wide tax of \$2.52, or a \$0.16 decrease from the City's current tax rate.

Figure 1



- 2. Those within the SUD should have representation on it (or over it)*

Committee's Response

There is not an option under Wisconsin State law for the Street Utility District to be governed by a body other than the City Council or a committee appointed by the City Council. To the extent that the City Council includes members who live within the SUD area, those within the SUD will be represented on decisions concerning the SUD.

- 3. Concern that it will not end in 10 years*

Committee's Response

The Committee believes that the provisions contained within the SUD ordinance and the consolidation ordinance will be sufficient to require the district to automatically dissolve after ten years. To the extent that different levels of service continue to be maintained, there could be a justification to re-create the district after it is dissolved. However, that would require the city council to go through the process that was used to create the district initially, which would require notification of property owners, a public hearing and a $\frac{3}{4}$ vote of the council. The automatic termination of the district is a certainty. The re-creation of a district after ten years, while possible, is by no means certain.

- 4. It will prolong the "us" versus "them" mentality of a merged community as the old Village will continue a separate identity as the SUD area*

Committee's Response

There are many examples of municipalities that encompass different districts for different services. Lake management districts are a common occurrence throughout Wisconsin. Many municipalities have areas within two or more different school districts. Business improvement districts are commonly used to fund special amenities and promotion of a business district through additional taxes levied on property owners within the district. Subdivision associations may have fees for maintenance of amenities within the subdivision. Tax incremental finance districts provide special benefits to properties within the district. Cities where water service is not provided to the entire community may tax properties within a certain distance of a fire hydrant for water for public fire protection. These differences do not have to create an "us versus them" mentality. They are simply a means of fairly charging for specific benefits or services received.

The proposed SUD is a fair and reasonable means of charging for a different level of service that is provided within the Village area.

5. *Is there any other option other than creating an SUD or a legislative fix that has not gained support in the legislature or is this the best option out there?*

Committee's Response

The Committee has done exhaustive research into the range of potential options and has pursued all of the options that were identified as potentially feasible.

The SUD is the only option available under present law that would recognize the differential levels of public works services presently provided to Village of Pewaukee residents but not to City of Pewaukee residents – while at the same time providing a basis for differential property tax rates under the merged community scenario as is the case between current City and current Village property owners.

The only other options that were identified as feasible and have been pursued, the State Constitutional amendment approach and the statute to allow for a consolidation tax district, would result in significantly greater differential property tax rates during the first ten years of a merged community. Despite the Committee's efforts, neither of these latter alternatives is presently available for the purpose of effecting a merger. From the Committee's perspective, the SUD proposal now on the table, with its tax rate reduction of about \$1.66 per \$1,000 of property value in the present Village area, should be viewed by Pewaukee Village officials and residents as a far superior proposal to either of the multi-year "blending" tax rate alternatives that remain at this date legally unavailable.

Response to Concerns Regarding the Consolidation Ordinance

1. *Change the composition of the Council to four or five districts, possibly with at-large voting for all seats and staggering of the terms.*

Committee's Response

The composition of the Council and the proposed aldermanic districts proposed by the consolidation ordinance are in accordance with State law and would provide fair representation. The proposed aldermanic districts will only be in effect for one election and will be changed by the new Common Council as part of the normal ten-year redistricting program. No change in the consolidation ordinance is recommended.

2. *A listing of the assets and liabilities of each community should be prepared to place everything in the open.*

Committee's Response

The proposed consolidation cannot be compared to the purchase of a business. Neither community is "selling" all of its assets and liabilities to the other and walking away. The proposal is for the two municipalities to merge their resources into one unit of government that will continue to serve the same geographic area and population. The physical assets of the consolidated municipality will be used primarily to provide services within the combined community, rather than generating revenue from outside of the

municipality. Therefore it does not make sense to prepare a list of what each municipality is “acquiring” from the other.

The other issue that has been raised relative to assets and liabilities is that one municipality may be taking on significant liabilities by merging with the other municipality. The consolidation plan took into consideration the existing cash balances, existing debt and major capital projects anticipated in the next five years for each municipality. It also took into account higher annual spending for sewer and water utility maintenance and replacement costs for the Village which has older facilities and typically has experienced higher annual costs. It is not necessary or practical to prepare a list of future capital projects beyond the five-year horizon in the consolidation plan. Preparing a list of the amount and timing of every major capital project for a longer period of time would be a monumental, somewhat speculative undertaking. It is the Committee’s opinion that all of the major assets and liabilities that can be known with relative certainty and are of importance to the consolidation discussion have been accounted for.

3. *Lack of a guaranty of the continuation of the Village Police Department to serve the community.*

Committee’s Response

There are no means under Wisconsin State law for the current governing body of a municipality to bind the actions of a future governing body with respect to its organization. The consolidation ordinance is not a contract between two entities that will continue in existence. It is an agreement to dissolve two existing entities and form a new entity. The governing body of the new city will have the ability to change its structure as it chooses, just as the current Village Board and the Common Council may choose to do. There is no way to guarantee that either the existing Village Board or the Common Council of a consolidated city will continue to maintain the Village Police Department in perpetuity.

4. *A clear review of the ability and options for the new community to organize its own Police Department.*

Committee’s Response

The merger proposal developed by the Committee is based on the assumption that the consolidated city will expand the existing Village Police Department to provide law enforcement for the entire city. The City’s contract with the Waukesha County Sheriff’s Department is renewable on an annual basis, with notification required by August 31 of each year. The City must determine by August 31, 2010 whether or not to renew that contract for 2011. Under the currently anticipated timeline, with a November 2010 referendum, if the City renews its contract, then the County Sheriff would provide services to the area within the current City through the end of 2011. The newly elected council of the consolidated city would have until August 31, 2011 to determine how to provide law enforcement services. If the selected option is to expand the Village Police Department, the new city would have until January 1, 2012 to prepare for that transition.

5. *A review of the budget for the interim council (how much and where are the funds coming from).*

Committee's Response

Given the current anticipated timeline, with a consolidation referendum in November 2010, each municipality will likely prepare its 2011 budget independently of the other. Therefore, if consolidation does occur in 2011, the consolidated city will have sufficient revenues to operate both municipalities. The interim council itself will consist of the elected officials of the existing city and village, whose salaries for a full year will be included in the separate 2011 budgets of each municipality. To the extent that operations can be merged during the course of 2011, the reduction in expenses will help offset the costs of professional services or new equipment or software that may be required as part of the transition.