

# SOUTHEASTERN WISCONSIN REGIONAL PLANNING COMMISSION

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## **Interim Report to the City and Village of Pewaukee On the Update of the Consolidation Study**

### **BACKGROUND**

In January 2002, the consulting firm Ruckert & Mielke submitted a consolidation study to the City and Village of Pewaukee. This study, commissioned by the City and Village, set forth the following major findings and recommendations:

- Consolidation of the two local governments would result in significant reductions in the cost of providing public facilities and services. Taking into account operations and capital facilities with respect to both general government operations and utilities, annual savings were estimated to approximate \$1.4 million initially and increase to about \$1.7 million in five years. These savings would come about through efficiencies and economies in staffing and the avoidance of investment in certain capital facilities.
- Consolidation would reduce both property taxes and utility rates in the Pewaukee area, although not uniformly. Village tax rates could be reduced by about 46 percent, with Village utility rates increasing by less than one percent. City tax rates would be expected to increase by eight percent, with that increase offset for most City property owners by a decrease of 13 percent in utility rates. The study found that for a typical residential property owner (\$150,000), the combined annual property tax and utility charges would decrease by about \$69 in the City and \$414 in the Village.
- Consolidation could be expected to be accompanied by higher and more uniform levels of municipal services, particularly in the public works, property assessment, planning, engineering, and building inspection areas.
- Other advantages of consolidation were cited in the study, including a more rational municipal boundary, increased equity in the provision of affordable housing, a more equitable allocation of the cost of providing services to tax-exempt properties, and a stronger sense of community.

The consolidation work was overseen by a Pewaukee Consolidation Study Committee. That Committee recommended that the Village Board and Common Council authorize a consolidation referendum based upon the results of the study. Such a referendum was not authorized.

### **CURRENT WORK EFFORT**

In September 2006, the City and Village of Pewaukee entered into a Memorandum of Understanding (MOU) that authorized discussions relative to the possible merger of the two communities. The principles set forth in that MOU recognized that there are significant differences in the population and the fiscal

capacity of the two communities, the latter as measured in equalized value per capita. Those differences provide challenges to a successful merger. It was also recognized that such challenges could perhaps be met through new State legislation, following a State Constitutional amendment, which would permit a tax equalization period, that is, a period of time where differential property tax rates could be applied within a single community. In the alternative, perhaps such challenges could be met through a fiscal management approach involving special assessments or fees to accomplish the same result as differential taxation. The principles also envisioned that any such work effort should build upon the prior consolidation study report, updating that report as may be found necessary. The purpose of the MOU would be to move potential merger discussions forward, it being the clear intent of the Village Board and City Council that it would be in the public interest to get to a point where an advisory referendum in both communities on the matter could be held.

Since the execution of the MOU, a series of working sessions has been held. At the request of the Mayor and Village President, these sessions have been facilitated by the Executive Director of the Southeastern Wisconsin Regional Planning Commission, acting as advisor to both communities. The sessions have been held in the SEWRPC offices and have been attended by the Mayor, City Administrator, and Planner of the City of Pewaukee and the Village President and Village Administrator of the Village of Pewaukee. At one session the group invited the participation of William Mielke, the individual principally responsible for the 2002 study report.

The discussions led to an agreement that the fundamental analytical approach to merger used in the Ruekert & Mielke study was sound and, to the extent practicable, should be replicated. Rather than retaining a consultant, however, it was agreed that the City and Village Administrators would take the lead in structuring and carrying out the key financial analyses necessary to determine future budgets under a separate community scenario and a combined budget under a consolidated community scenario. The two administrators know their communities well and, as professionals, were believed to be able to work harmoniously together to make whatever assumptions were necessary to structure a future budget for a consolidated community.

As time proceeded, the two administrators worked cooperatively to basically replicate the fundamental analytical work included in the Ruekert & Mielke report. It was determined to accomplish this task in conjunction with the preparation by each individual administrator of the 2008 budgets for their respective communities. Thus, the essential cost-savings analyses would be made using the actual 2008 individual community budgets and comparing those against a hypothetical consolidated community budget also for 2008.

The work of the two administrators attendant to the operating budgets was completed by early spring 2008. The administrators have prepared draft chapters which effectively served to update portions of the 2002 Ruekert & Mielke report. This work included the preparation of a 2008 operating budget for a consolidated community. This is where we stand today. In this respect, the present study analytical work did not attempt to look five years in the future as did the prior study, nor did the present study to this point explicitly reexamine potential utility cost avoidance through a merger. With respect to capital investment in municipal buildings and related facilities, it was recognized that since the initial consolidation study in 2002, both communities have proceeded with capital building projects. Given that recognition, an assumption was made that for a consolidated community it would be possible to effectively use all of the municipal buildings now in place or committed, and that there was no future cost avoidance potential in this regard. Hence, the fiscal analysis up to this point has focused solely on operational governance costs.

The basic purpose of this report, then, is to summarize the findings of the financial analysis undertaken by the two administrators. This report also suggests for consideration by the City Council and the Village Board a course of action that could bring the two communities closer to the desired end result, namely, advisory referendums in each community concerning merger.

## STUDY UPDATE FINDINGS TO DATE

The following summarizes the findings made to date from the merger study update work effort:

- There have been several significant structural changes in the way in which certain municipal services are delivered in the two Pewaukee communities since the conduct of the initial consolidation study. The City and Village reached agreement on a joint library system, including construction of a new library facility and funding arrangements for the operation of that facility. In addition, the arrangement in place in 2002 relative to a joint fire/rescue department was replaced by a contract whereby the Village now purchases fire/rescue services from the City. Also, the Village now purchases building inspection services from the City. These changes, building on the positive relationship established in the park and recreation services area, have moved the two Pewaukee communities closer together in terms of government operations.
- The significant disparity in municipal fiscal capacity (equalized value per capita) between the City and Village noted in the 2002 study continues and, indeed, has widened somewhat. In the 2002 study, the fiscal capacity of the City of Pewaukee was \$129,891 per capita, while the fiscal capacity of the Village of Pewaukee was \$67,217 per capita. Thus, the City had a fiscal capacity 1.93 times that of the Village. In 2007, the fiscal capacity of the City of Pewaukee was \$213,627 per capita, while the fiscal capacity of the Village of Pewaukee was \$102,669 per capita. The disparity ratio is now 2.08. There is no reason to believe that this disparity will diminish in the future; indeed, given the lack of land for new development in the Village as compared to the City, it is likely that this disparity will widen. Consequently, if a merger of the two municipalities is ever to occur, a way needs to be found to blend the finances of the two communities together so that the fiscal capacity disparity is effectively eliminated over a relatively lengthy period of time, while ensuring that City property owners benefit from overall cost savings.
- The total general fund operating budget of the City of Pewaukee in 2008 is \$10.9 million. The City's tax rate is \$2.42 per \$1,000 of equalized valuation. The 2008 general fund operation budget for the Village of Pewaukee is \$5.8 million. The Village's tax rate is \$4.50 per \$1,000 of equalized valuation. In total, then, the City and Village general fund operating budgets for 2008 sum to \$16.7 million.
- Based upon the series of staffing and operational assumptions made by the two administrators in their analysis of a hypothetical 2008 budget for a combined Pewaukee municipality, the total general fund operating expenditures would be \$15.9 million. The combined tax rate would be \$2.99 per \$1,000 of equalized valuation. This tax rate is significantly higher than the current City of Pewaukee tax rate noted above and demonstrates the fundamental challenge that is being faced in any merger proposal.
- Given the foregoing, a merger of the two Pewaukee municipalities has the potential to bring about additional savings – over and above savings already being recognized in the services that are being jointly provided – of about \$800,000 annually in public costs immediately, and likely more over the long run. Given that the recent analysis was limited to general fund operational expenditures only, this estimate of annual cost savings to the property owners of the City and Village of Pewaukee combined is believed to be conservative and consistent with the findings of the Ruckert & Mielke study in 2002.
- As noted earlier in this report, the individual capital investment decisions made since 2002 by both the City and Village attendant to municipal buildings and related facilities precludes any future savings through the avoidance of such investments following a merger. While they did not perform a detailed analysis of how the full array of municipal buildings and structures might be used in the merged community situation, it is the considered opinion of the two administrators

that the available buildings and structures would be fully adequate to serve a merged community for many years to come.

- With respect to utility operations, one of the findings of the Ruckert & Mielke study was that there would be considerable cost savings – about \$4.2 million – to City of Pewaukee water ratepayers through the avoidance of future capital investment in transmission facilities if a merger were to take place. While no detailed analysis of this matter has been conducted in the current effort to date, it is the considered opinion of the two administrators that substantial future cost savings remain available. However, the window of opportunity to realize those savings is expected to close in the not too distant future, with the City water utility being in a position of having to make such investments to serve growing demand and to properly complete the configuration of its transmission system.
- Despite effort by Pewaukee officials, no progress has been made in moving toward a State Constitutional amendment that would be necessary before State legislation could be put in place to allow differential tax rates for periods of time as an incentive to encourage mergers of adjacent municipalities.

In summary, the findings and analyses to date demonstrate three things: First, the two Pewaukee municipalities continue to find various ways to work together for the benefit of the entire Pewaukee community. Second, there remains a considerable opportunity to effect substantial annual savings in general government operational costs if it were possible to merge the two municipalities. Third, with respect to the avoidance of significant capital costs in water supply facilities in the City of Pewaukee, time is clearly of the essence, and a decision on merger needs to be made soon if that opportunity to avoid unnecessary costs is not to be lost.

## **A POSSIBLE COURSE OF ACTION**

If the City Council and Village Board desire to move this matter forward toward the end goal of holding advisory merger referendums in each community, it is the considered opinion of the update study group that a more formal study effort be undertaken during the remainder of 2008, to explore in detail a way to accomplish merger by effectively blending the finances of the two communities together over a relatively long period of time. Such a study effort would require the retention of consultant staff with respect to both municipal finance and municipal law. Briefly, this formal study would have the following major steps:

- The financial consultant would review and analyze the combined Pewaukee budget data developed by the administrators. Any additional supporting data and information would be identified and requested from the administrators. The consultant would not “second guess” the assumptions relative to the structure and operations of a merged community.
- Given a basic objective of ensuring that the property taxpayers in both communities benefit from expected cost savings, it will be necessary to reduce the proposed combined tax rate to one that is equal to or less than the 2008 City rate of \$2.42 per \$1,000 of equalized valuation. Accordingly, the financial consultant would quantify the amount of the annual combined tax levy reduction that would be needed to realize such a rate.
- One or more options to recover revenue from the current set of Village property owners would need to be identified in a joint effort by the financial and legal consultants. This is necessary in order to keep the tax rate at or below the present City level while maintaining the same level of expenditures and services being presumed in the combined community budget. The consultants will explore these options over a number of periods of time, perhaps 10, 15, and 20 years. Through such options, the fiscal capacities of the two groups of property taxpayers that would be combined in a merged community would be effectively blended over time.

- The administrative and engineering staffs of the City and Village would examine in detail both the sewerage and water utility systems with a view toward confirming the potential capital cost avoidance associated with a merger. This information will be useful in terms of providing in part a basis for demonstrating to City residents that a merged community is in their best interests even given the City's greater fiscal capacity.
- The financial and legal consultants would jointly develop a report. This report would document their work, including summary presentations of findings and conclusions. Like this interim report, the consultants would present their report jointly to the City Council and Village Board.

A budget for this additional work would be set at no more than \$30,000. It is further proposed that this cost, like prior merger studies, be shared equally by the City and the Village. The study group believes that this additional work should be overseen by a formal advisory committee jointly established by the City and the Village. The study group suggests that the structure of the advisory committee be as follows:

- (1) The Mayor of the City of Pewaukee
- (2) The President of the Village of Pewaukee
- (3) A member of the City Council
- (4) A member of the Village Board
- (5) Two additional individuals appointed by the City Council
- (6) Two additional individuals appointed by the Village Board
- (7) The SEWRPC Executive Director who would chair the committee and be non-voting

Should this proposal be authorized by the City Council and the Village Board before Labor Day, it is expected that the work effort can be completed by year's end. The consulting contracts would be managed by SEWRPC.