

Memo

To: City Council
From: City Manager, Steven Wilke
CC: City Clerk/Treasurer
Date: 12/4/2009
Re: City Manager's Budget Report

Transmitted herewith is the City Manager's Proposed Budget for the 2010 fiscal year. This budget has been prepared in accordance with state budget laws and city policy.

Wisconsin budget law requires the City to prepare an annual budget and hold a public hearing on it. The budget document should list anticipated revenues from all sources and the proposed appropriations for each department. The law also requires the budget to show, for comparative purposes, the actual revenues and expenditures for the preceding year and the estimated revenues and expenditures for the current year based on at least six months of actual experience. The budget document should also show any outstanding indebtedness as well as any anticipated surplus.

State budget law does not identify the content of the budget beyond that described above. Budgets for local governmental units may vary from a single page document consisting of summary listings of expenditures and revenues to a many-paged text providing detailed information on the proposed appropriation for each municipal agency. It is up to the local governing body and the citizens it represents to determine what information should be presented in the budget document.

The 2010 budget, which can be characterized as a minimal maintenance budget, offers no major additions or reductions to City services. The budget continues to focus on basic services and infrastructure improvements.

The City of Lake Mills

Located in northwestern Jefferson County on the eastern shore of Rock Lake, the City of Lake Mills is a community that was founded on and grew from the area's abundant natural and agricultural resources. While these remain important defining characteristics of the community, the City's residents have also benefited from an economy with regional access to major economic centers such as Madison, Milwaukee, and Chicago.

Over the last fifteen years, the City's population has been increasing steadily - presenting both opportunities and challenges. Regional economic growth has allowed Lake Mills to experience more employment opportunities, urban amenities, and a larger, diversified, and more robust tax base. However, as the population has increased, so has the need for municipal services to keep pace with growth and changing demands. In addition, growth brings with it additional pressure on the existing resource base that is necessary to sustain and improve the quality of life for future residents. In this context, it is essential to plan for the long term sustainability of the community's resources in a controlled, orderly, and predictable manner that will enhance the City's ability to retain its small-town character, provide quality services, provide housing and appropriate employment opportunities, and protect its natural, cultural, and agricultural resources both within its limits and within the surrounding area.

Today, as in the rest of the country, Lake Mills is in the middle of substantial change. Our cost of living is 6.85% which is lower than the U.S. average. But, our unemployment rate is 9.40 percent (WI avg. is 9.2% and U.S. avg. is 9.7%). Recent job growth is negative as jobs in Lake Mills have decreased by 5.50% which is reflective of the nation as a whole. The current economic situation means that well laid and effected plans are the key to being able to maintain the programs and infrastructure developed over the last several years.

City Government

The City of Lake Mills is organized under Chapter 64 of the state statutes, which provides for the City Manager form of government. Under this organization, City government has a legislative branch, belonging exclusively to the City Council; an executive (or administrative) branch, under the direction and control of a City Manager, who is hired by the City Council; and a judicial branch administered under the direction of the Municipal Court Judge.

The council-manager form is the system of local government that combines the strong political leadership of elected officials in the form of a governing body, with the strong managerial experience of an appointed local government manager. The governing body is commonly known as the council. The council-manager form establishes a representative system where all power is concentrated in the elected council and where the council hires a professionally trained manager to oversee the delivery of public services.

In Lake Mills council-manager government, the council president and four council members are the leaders and policy makers elected to represent the community and to concentrate on policy issues that are responsive to citizens' needs and wishes. The City Council appoints the City Manager. The City Manager is responsible for seeing that the policies of the City Council are carried out and that all activities of the city are coordinated to provide services as efficiently and effectively as possible. The City Manager is the Chief Executive Officer of the municipal government and is responsible to the City Council. Administration and administrative decisions are the Manager's responsibility.

All individual officials appointed by the City Manager report to and are responsible to the City Manager. The City Attorney reports to the City Manager on executive and administrative matters and to the Council on legislative matters. The Police and Fire Chiefs report to the City Manager on policy and departmental matters and to the Police and Fire Commission on personnel matters. The Library Director reports to the Library Board, but also has a responsibility to keep the City Manager informed on library matters. There are several different boards and commissions.

Budget Principles

As City Manager, I have used these budget principles to guide my decision making.

- Maintain a fiscally sustainable, balanced budget
- Project annual revenue through an analytical process and prepare the budget using conservative estimates and long term forecasting
- Impose taxes, fees, and rates at appropriate levels to fund their intended purposes
- Use one-time resources strategically
- Maintain a reserve for economic uncertainties
- Keep the City Council informed on the fiscal condition of the City
- Focus on incremental changes to staffing and spending
- Identify resources for top priorities and initiatives
- Limit the use of debt to projects that cannot be reasonably funded in a single year and to terms that are consistent with the useful life of the project being undertaken
- Continue to fund capital improvements on an appropriate debt basis with the emphasis on reducing overall debt
- View the budget as a dynamic rather than static plan which requires periodic adjustment as circumstances change

Performance Measurement

For some time, governments have increasingly been urged to evaluate the results of their efforts. Most frequently, this has meant measuring public-service outputs (or inputs) for purposes of management efficiency and political accountability.

Performance measurement has been defined as “measurement on a regular basis of the results (outcomes) and efficiency of services or programs.” Thus performance measures are quantifiable indicators that, when analyzed, determine what a particular program or service is achieving. Performance measures come in many different forms, including inputs (such as financial resources), outputs (the number of customers served), and outcomes (the quantifiable results of the program). Regardless of their

form, performance measures should relate to a particular initiative or strategy of an organization.

Citizens expect their municipal government to provide services in the most effective and efficient manner possible. The kinds of services and the quality of their delivery vary from one community to another, depending in part on the financial and human resources available. The City of Lake Mills is a “full-service” city in that it provides a very broad range of services, including municipal water, electric and sewer, snow removal, brush collection, and a regional public library. The delivery of services affects what is commonly referred to as the “quality of life.” Because of the nationwide economic downturn and significant reductions in local aid from the state, Lake Mills, like most communities in the nation, is facing the dilemma of trying to maintain acceptable levels of service while having to reduce overall expenditures.

Performance measurement involves collecting data in a systematic and objective manner to determine the efficiency and effectiveness of service delivery and program objectives. Performance management is the application of such data into an integrated management system that informs resource allocation and decision making to move an organization toward the achievement of strategic objectives. More recently, a movement has emerged that includes assessing the wellbeing of citizens in a more holistic way by measuring quality-of-life outcomes.

Many factors motivate the application of performance management. In the United States and internationally, governments are applying performance measures and standards to promote greater accountability through high-performing, transparent government agencies and communication with citizens. Indeed, elected officials at every level of government, public managers, and citizens all benefit from implementing sound performance management systems.

Performance management concepts are also being applied to nongovernmental organizations and others interested in establishing a culture of continuous improvement.

A good performance management system yields the necessary data for assessing service needs and performance. In this sense, a good system helps elected officials in their oversight responsibilities. It also helps them make objective resource-allocation decisions and formulate policy.

Performance of a specific service may be tracked over time to demonstrate improvement, or it may be benchmarked against levels of service provided in similar communities. Openly sharing goals and trend and comparative data is an effective way of strengthening elected officials’ credibility with citizens.

Local government managers and their staff can use performance management as a systematic means to conduct continuous evaluation, track progress in realizing strategic plan goals, and inform daily operations. Performance measurement data can be used to identify operational weaknesses and allocate resources accordingly. In addition, an established performance management system can help facilitate the process of setting employee performance goals and evaluating the performance of outside contractors. Indeed, citizen satisfaction improves as local governments respond to citizen input with service delivery improvements.

Two of the strongest tools that managers use in evaluating service delivery is fact finding and fact-based decision making—the power of facts and logic, and the power of good business practices. The opportunity to develop a factual comparison of how our city does compared with other cities, so that we can understand more clearly exactly what our strengths and weaknesses are.

City staff and WCMA are going to work on producing a Benchmarking Report. It was a bit risky to do a comparison of Lake Mills with our peers because you never really know what it will show. While the results may be surprising and the problems identified daunting, we hope to have information in place that we can use to address what was previously ignored or denied.

Budget Framework –Budget Development

Budget Development Phase	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Monitor Current Years budget/actual revenues and expensed	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red
External audit of prior year's financials	Orange	Orange	Orange									
Final financial reports issued					Grey							
Review of prior year's budget results						Green						
Prepare annual update of five year CIP					Teal	Teal	Teal					
Draft budget prepared by City Manager				Green	Green	Green						
Draft distributed to department heads for review and comment							Light Blue					
Present Five Year CIP to Public Works Board							Dark Blue					
Present Five Year CIP to Council								Grey				
Incorporate Five Year CIP into budget								Green				
Present City Manager's Budget to City Council									Grey			
Present City Manager's Budget to Public Works Board									Dark Blue			
Council as "whole" studies and amends budget									Grey	Grey	Grey	
Council adopts budget											Grey	

The city's budget is prepared for the fiscal year beginning January 1 and ending December 31. The budget is a total financial management plan for the implementation of Council policy through city operations. The Executive Budget is prepared by the City Manager with the assistance of staff.

The city budget includes the seven major fund types for which appropriations are made, the general fund, capital fund, debt service fund, trust fund, capital projects, special revenue, utility funds and the debt service fund. Each of these funds contains a self balancing set of accounts in order to separate and track expenditures for these different functional areas.

Approximately 120 days prior to the start of the fiscal year, the City Manager submits a proposed budget for the following fiscal year to the Council. The Council evaluates and amends the proposed budget at their discretion. The Council then adopts a finalized, balanced budget, prior to the beginning of the fiscal year. A balanced budget requires that the proposed budget expenditures shall not exceed estimated revenues and applied fund balance, if any. The Council also adopts an ordinance to authorize the appropriation of the required funds for the annual budget.

The basis of budgeting for all funds is the modified accrual basis. These are the same methods used in the City's audited financial statements.

Budget Format

There are three sections to the document: General Fund Budget, Propriety Budget Funds and Fiduciary Funds.

A fund for governmental purposes can be described as a separate fiscal and accounting entity used to segregate resources related to specific activities. Historically, each fund represented a checking account; however, most modern funds are essentially categories for organizing information on assets and liabilities for accounting and budget purposes.

The City accounts are organized on the basis of funds and account groups, each of which is considered a separate entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue, and expenditures, or expenses, as appropriate. The various funds are grouped into five generic fund types and three broad fund categories.

City governmental funds are divided into the three following categories. The General Fund is the general operating fund of the city. It is used to account for all the financial resources except those required to be accounted for in another fund. Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specific purposes. This year we have created the Solid Waste Special Revenue Fund. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds) and include TIDs and the Capital Budget. Capital items listed in the General Budget will be small regularly-occurring expenditures that fall into the gray area between operational expenditures and capital expenditures.

The Proprietary Funds are Enterprise Funds. Enterprise Funds are used to account for operations:

(a) that are financed and operated in a manner similar to a private enterprise – where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or

(b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Fiduciary Funds are Trust and Agency Funds. Trust Funds are used to account for assets held by the city in trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. The city has non-expendable Trust and Agency Funds. Non-expendable Trust Funds are accounted for in essentially the same manner as proprietary funds since capital maintenance is critical. Agency Funds are custodial in nature and do not involve measurement of results of operations.

The General Budget begins at zero each fiscal year. This means that there are no ending and beginning balances. Any “ending balance” that is applied to the 2009 budget is listed as “year end surplus” under revenues. This budgeting method is used with the goal of beginning and ending the year with a zero balance. The City does maintain a reserve fund that is not included in the “year end surplus”. Technically, a governmental fund balance equals the difference between its current total assets and current total liabilities. The fund balance includes reserved and unreserved funds. An unreserved fund balance represents the unencumbered funds at the end of the fiscal year after all spending commitments are made. Unreserved fund balance is that portion of the total fund balance that is not restricted for future payments to satisfy outstanding or future liabilities. The principal source of discretionary funds for municipalities is the unreserved fund balance and/or a formally designated rainy day fund.

The City maintains the unreserved fund to supply money to balances that have unusual revenue streams and to deal with fiscal emergencies. The city annually applies ending balances to the unreserved fund balance in an attempt to maintain a fifteen (15) to twenty (20) percent ratio to the overall budget as recommended by the Audit Report. Requirements for the Reserve Fund are spelled out in the Audit Report.

Introduction

The Budget establishes the direction for all City government programs and services for the coming fiscal year. It represents the synthesis of Council guidance and staff recommendations on how to best accomplish council goals and respond to community needs in accordance with available resources, established policies and sound administrative practices. Review and approval of the budget is one of the City Council’s most important roles.

The city’s fiscal health reflects the adaptation of our revenues and expenditures to the resources and constraints provided by its environment. Jonathan Justice found that adaptation takes place over the long term of several business cycles and in the short term

within a cycle. Adaptation positions a city to sustain a politically and economically appropriate level and mix of services throughout the business cycle. In turn, the locality can accumulate sufficient reserves as revenues cycle up to take the organization through normal downturns without disruptive cutbacks or revenue increases.

This Budget is being prepared while the nation is in an economic crisis that is deeper and more severe than what we have experienced in the past 50 years. While some U.S. regions and localities are experiencing the downturn differently, for the first time in the postwar era, all levels of government are impacted with some level of revenue reductions. This economy also has all sectors of the private economy in a tailspin. Events have already reached crisis levels in some local governments, and some say that “we are just at the end of the beginning” of dealing with the crisis. Still, local governments in other parts of the country are just starting to see how the crisis will affect them.

There are still local strategies that can be used to contribute to economic recovery and help avoid doing more harm. These actions are not necessarily intuitive and require careful assessment and strategic choice. Local governments are important economic agents. In tough times, local governments should try to serve their residents and stimulate their economies by 1) increasing revenues or drawing down reserves in order to maintain spending and 2) expanding or accelerating local capital projects, especially those with low long-term operating costs. Local officials should lead inclusively and encourage creativity and engagement at all levels of the organization and the community. The governments that can take these steps toward renewal in a time of adversity will be better positioned to achieve higher levels of performance when the crisis ends.

LAKE MILLS’ MISSION STATEMENT: “The City Council sets policy and enacts local legislation to improve the quality of life for its citizens and to promote the common good.”¹

Agricultural Resource Goal

Conserve farms and productive farmlands within the City’s Planning Area.

Natural Resource Goal

Preserve the Natural Resources and Sensitive habitats within the City’s Planning Area.

Cultural Resource Goal

Preserve the City’s architectural and archaeological heritage and cultivate local civic and cultural life.

Land Use Goal

Provide for a broad range of land uses in a pattern that promotes efficient transportation and extension of municipal services and boundaries, minimizes conflicts between uses, harmonizes complementary land uses, and preserves property values.

Transportation Goal

Provide an efficient and safe transportation system for cars, trucks, transit, bicycles, and pedestrians.

Utilities and Community Facilities Goals

Provide high quality utilities, community facilities, and public services.

¹ Dialogue for the City’s Future, 2008 Lake Mills City Council, Facilitated by Steven Grabow.

*Coordinate utility, community facility, and emergency service planning with land use and transportation, natural resource, and economic development planning.
Ensure the provision of sufficient parks, recreational facilities, trails, and open spaces to provide for the health and recreation needs of all City residents*

Housing and Neighborhood Development Goals

Provide for a range of housing types to meet the demands of existing and future residents of different ages, incomes, and preferences while preserving an emphasis on single family homes.

Create neighborhoods that provide residents with access to City amenities rather than isolated subdivisions.

Economic Development Goal

Strengthen and diversify the City's economic base to provide local employment, serve the needs of residents, and provide tax revenues to the City.

Attract and retain businesses that enhance the City's character, appearance, and image as a desirable place to live, work, and visit.

Intergovernmental Cooperation Goal

Work cooperatively with surrounding communities and other governmental jurisdictions to achieve mutually beneficial ends and resolve differences constructively.²

THE MISSION OF THE BUDGET PROCESS

The mission of the budget process is to help decision makers make informed choices for the provision of services and capital assets and to promote stakeholder participation in the decision process.

Wisconsin's Economic Outlook³

The national economy has now been in recession for 18 months, starting in December 2007 as dated by the National Bureau of Economic Research. The employment loss since the beginning of the recession has already crossed the 6 million mark. Current trends of key indicators of the Wisconsin economy show that Wisconsin is also in a recession, having lost 143,300 jobs since December 2007.

The outlook has slightly worsened since our March release; with the current outlook calling for a peak-to-trough job loss of 155,300 or 5.4% of total employment, compared to the 143,400 (5.0%) job loss expected in March. Most of the economic decline in the current cycle will happen during the current year and employment is expected to hit bottom in the fourth quarter of 2009. Housing, the sector that originally triggered the current recession, is showing signs of improvement, but the recovery is expected to be slow.

The June national outlook is calling for a real GDP decline of 3.4% in 2009 and a growth rate of 1.4% in 2010. The U.S. labor market already lost 6.0 million jobs since December 2007, and is now expected to shed a total of 7.1 million jobs peak to trough, representing an employment decline of 3.7% and 0.6% in 2009 and 2010 respectively. The two major factors that have worsened the decline of the recession are the freezing of the credit market and the global character of the crisis. The dramatic decline in the U.S. and global demand has

² City of Lake Mills Comprehensive Plan 2009.

³ Wisconsin Economic Outlook, Soria, Romina and Emily Camfield, June 2009.

slashed prices. The June outlook for consumer prices is now expecting a decline of 0.9% in 2009 and a mild recovery with 1.3% growth in 2010.

Wisconsin employment declined 0.5% in 2008 and is expected to decline 4.1% this year and be almost flat in 2010, declining just 0.1%. Wisconsin employment growth will recover in late 2010 and grow at 1.8% in 2011 and 2.2% in 2012, led by strong growth in the services industries and a return to positive growth for Construction and Manufacturing toward 2011.

Wisconsin personal income rose 5.8% in 2007 and 3.4% in 2008. The outlook expects a decline of 1.0% in 2009, as the economy hits bottom during the second half of 2009 and starts a slow recovery with personal income growing 2.7% in 2010. Wisconsin personal income is projected to grow 3.8% in 2011 and 4.7% in 2012. Given the deflationary outlook, real personal income is expected to decline 1.0% in 2009, after seeing small growth in 2008 (0.3%) and will post growth of 1.6% in 2010 as prices recover.

City of Lake Mills' Economic Position

The City Manager has used Government Finance Officers Association (GFOA) financial concepts (plan) for the City's long-range budget planning to project fluctuations in structural revenue and expense in the General Fund and ensure that the City maintains a structural balance in the General Fund.

The city's General Fund is in structural balance in FY 10, but the resultant budget does not provide the resources that staff would like or the level of service the community needs and deserves. Furthermore, the structural balance is dependent on departments operating within their approved spending limits, which may be more of a task now that all departments have experienced limited growth in their funding for FY 10, and particularly for the Police Department with the reduction in service levels as a result of the reduction of sworn staffing and increasing operating expenses experienced over the past several years. These challenges make maintaining a plan all the more critical going forward.

Justin Marlowe of the University of Kansas concludes that, ironically, the best option for local governments asked to do something to stimulate their local economies is to maintain current expenditure levels and expand capital improvements if local revenues, reserves, interest rates, and federal grant funds make it possible. This course of action, Jeff Chapman notes, is not typical. Commonly, he says, the state and local response to a change in economic activity tends to make downturns and upturns more extreme. Nearly all of the economics literature, however, estimates that cutting expenditures hurts the local economic recovery more than raising taxes.

The City's needs and resources encompass economic and demographic characteristics including population, personal income, property value, employment, and business activity. These factors determine a city's wealth and on the other side are the community demands, such as demands for public safety, capital improvements, and social services. Changes in community needs and resources are interrelated in a continuous, cumulative cycle of cause and effect. The city and nation as a whole are experiencing a change in the types of demands for local public services

A variety of mechanisms should be considered to gather information about the community and to report on the results. Some mechanisms will involve data gathering from preexisting

sources or through opinion surveys. Other mechanisms will be subjective, such as observing physical characteristics of geographic areas within the community or talking to residents, experts, business and community leaders, and legislative bodies. Formal studies of particular issues or trends may also be undertaken. In evaluating community condition, a government may want to consider local, regional, national, and global factors affecting the community, including:

- Demographic trends,
- Economic and financial factors,
- Legal or regulatory issues,
- Social and cultural trends,
- Physical (e.g., community development) or environmental factors,
- Intergovernmental issues, and
- Technological change.

Growth can be defined in many ways. The most commonly studied measure of growth is population. In assessing the fiscal health of a community, population is especially important because one would expect the demand for public goods and services to fluctuate as the number of residents in the community changes. More people mean more trash to be collected. More people may mean emergencies thus requiring more protective services. So intuitively, population growth means higher expenditures. One would expect a similar pattern with respect to total revenue. However, on a per person basis, theory and intuition do not lend themselves to conclusive results (Ladd, 1994). It is also difficult to predict how the other indicators of interest in this discussion may change as population changes. It may be fairly straightforward to predict changes in the numerator or denominator, but theory doesn't provide much in predicting changes in the ratio between them.

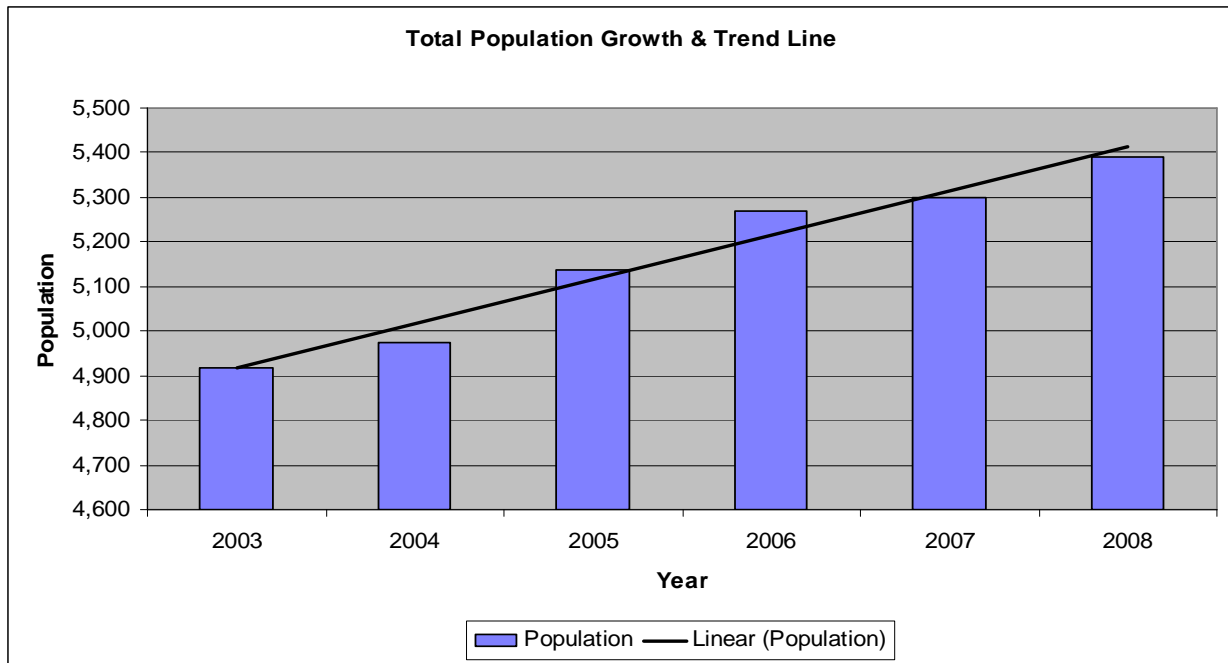
Population trends and projections provide a basis for determining future land use and service requirements for a future population. Population trends are an important indicator of urban vitality. Population decline often goes hand in hand with economic distress; conversely, population growth is strongly associated with a thriving economy.

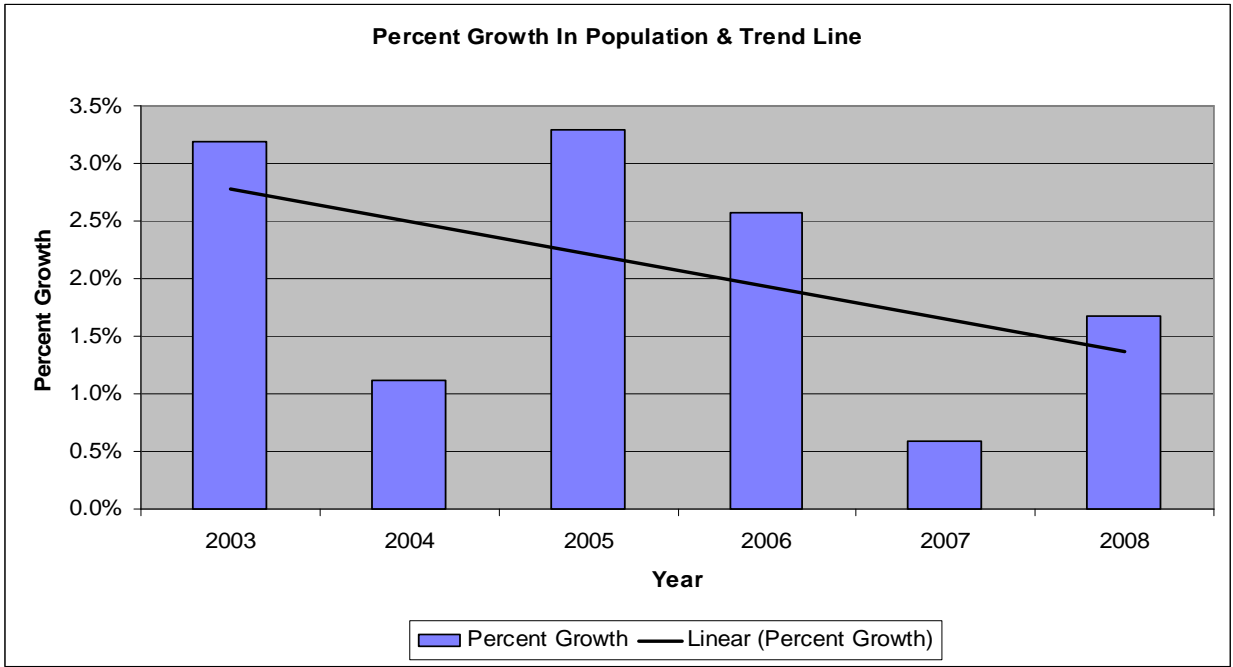
Population loss means shrinking consumer markets and other factors that promote economic stagnation. Moreover, in a devastating downward spiral, economic decline then induces more residents to leave a city in search of economic opportunity, and discourages others from moving to the city. This then promotes further population decline and economic distress.

A rapid change in population size suggests the need for further investigation. A sudden increase in population can create immediate pressures for new capital outlay and higher levels of service. A decline in population seldom permits government to reduce expenditures in proportion to the population loss. In addition, the interrelationship of population and other economic and demographic factors tends to give population decline a cumulative negative effect on revenues (i.e. the greater the decline, the more adverse the effects on employment, income, housing, and business activity).

The city population has shown slow and steady growth, with an average of approximately 1.9% growth annually since 2000. A positive trend emerges because there is no rapid change in either direction. The economy is a mixed bag with some businesses expanding and others closing. The housing market is the biggest issued related to whether a business is going to be economically viable.

Although the State of Wisconsin does an excellent job of educating their young people, brain drain is still a significant problem. Terry Ludeman is quoted as saying that gross product per employee and education level for Wisconsin employees is low because we are still mired in the old commodity economy.





The number of employees per one hundred population is an indicator that deals with the general issue of personnel capacity and capability. The lack of adequately trained personnel to take on the financial and personnel responsibilities of delivering the goods and services is a common cause of concern. Therefore, to ensure that taxes are affordable and quality public services are available to all citizens, the council determined critical volume of the supply of goods and services needs to be matched with the personnel capacity and capability.

The personnel capacity and capability of the city workforce has changed substantially over the last decade. There have been reductions in the Street department and increases in administrative, facility maintenance and police personnel. The overall number of employees has remained constant throughout the last decade with other service delivery methods used to pickup additional responsibilities of delivering the goods and services. Lake Mills is slightly below average for the number of employees per capita and has declined annually since 2000 when the Federal government stopped the police grants.

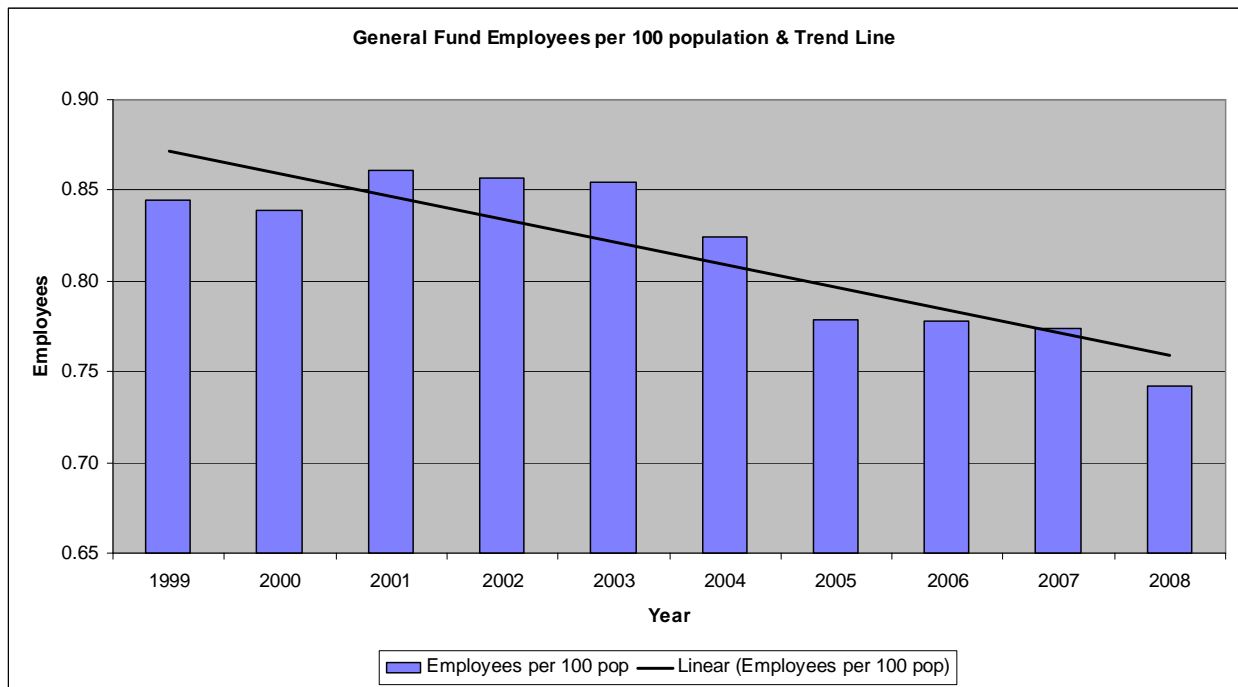
Increasing employees per capita may indicate that expenditures are rising faster than revenues (as personnel costs are often a major portion of government expenditures), the government is becoming more labor intensive, and/or personnel productivity is declining. Decreasing employees per capita may indicate personnel productivity increases through education, equipment or technology. This may also be an indication of a decreasing level of service.

The City has used a mix of FTE, PTE, TEMPS and Contractors to control costs. The City maintains a blend of FTE, PTE, and TEMPS to cushion against “agent” opportunistic behavior because there has been a limited pool of competent contractor competition locally. The city also uses the mix to protect against economic shock. The city can reduce the number of PTE, TEMPS and contractors with little financial implications. The city can also

seek better contract prices during economic downturns. The current goal of administration has been to blend our employee's strengths with the most cost effective contracts. The mix allows the constant delivery of service by FTEs; the ability to adjust to seasonal changes with PTE and TEMPs; and special skills, knowledge and equipment of contractors. The contracting with external suppliers to provide public services while maintaining a minimum level of FT employees as a cushion has allowed the city to adjust to changing economic conditions while maintaining a relatively consistent level of service to date.

The city contracts with hundreds of different organizations throughout the course of a year. The contracts include grass mowing, HVAC maintenance, computer administration, interpretation services, burial services, sidewalk construction and repair, street construction and repair, vehicle repair, laboratory services, jail, legal services, planning, zoning, building inspection, engineering, uniforms, cellular phone service, pagers, building maintenance, porta-potties, sanitation and recycling services, electric construction, water construction and repair, sanitary sewer construction and repair, financial services, economic development services, drug and alcohol testing, DUI testing, radio repair, etc, etc, etc. This is not even a complete listing of city contractors.

The city has used this system to provide consistent services and control the ability to reduce costs in a relatively short time period.

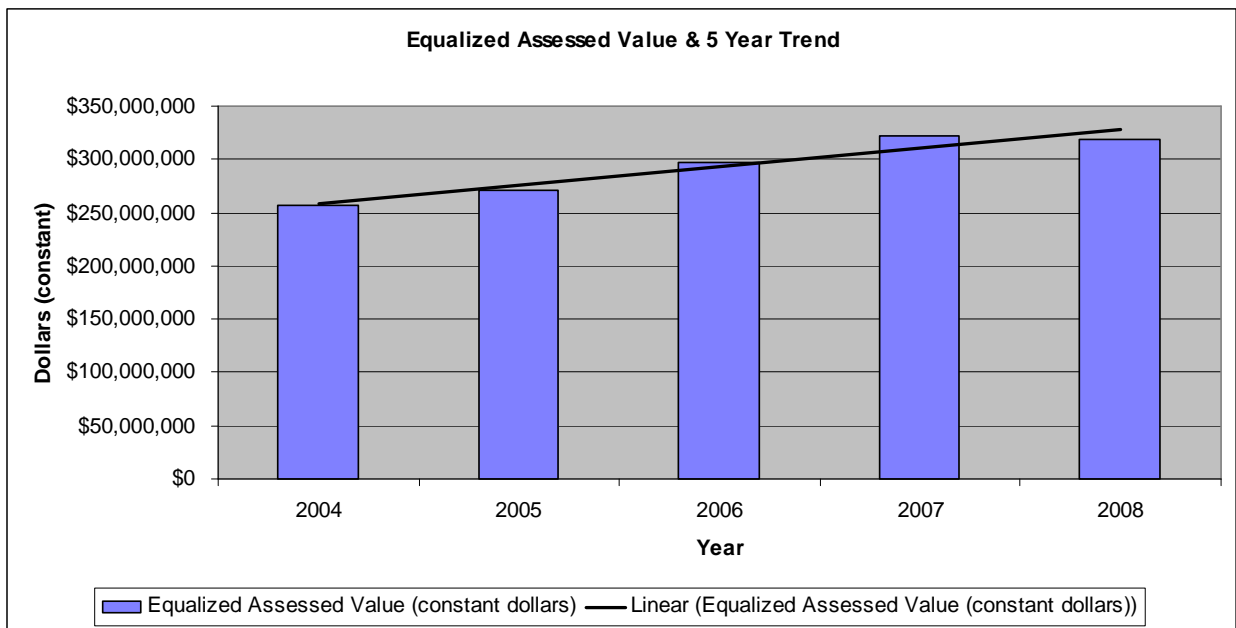


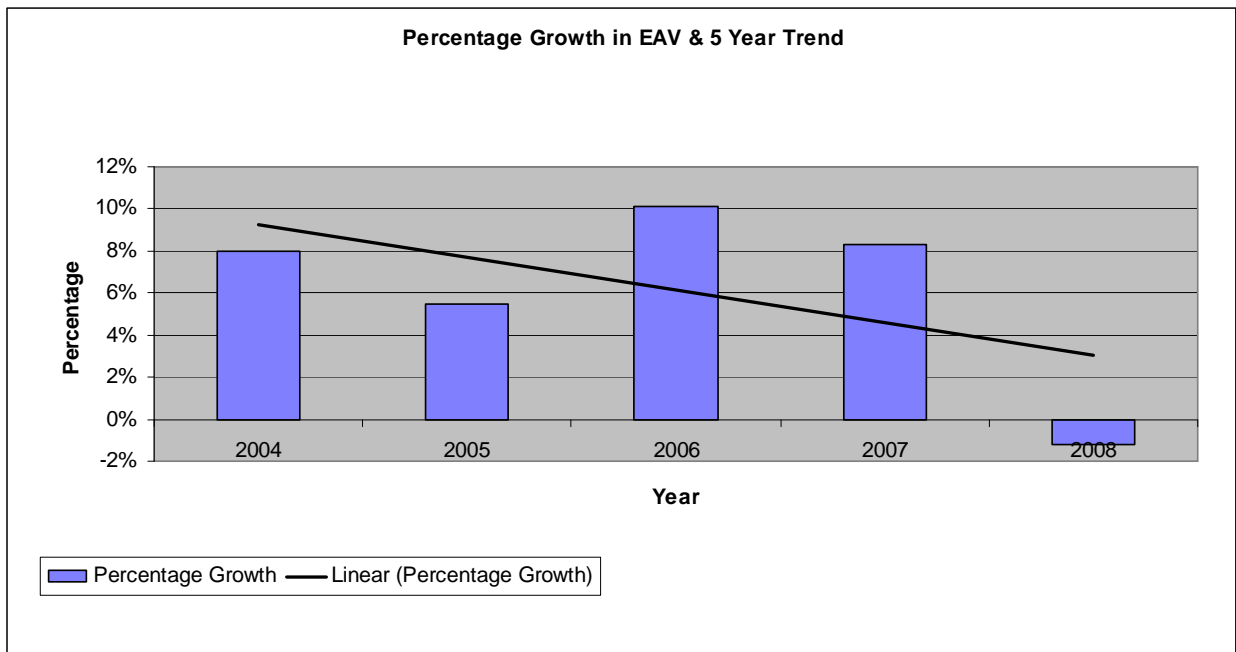
The assessed valuation of residential and commercial property is determined by the City of Lake Mills Assessor. This valuation is listed on each tax bill and is used to calculate the real estate tax due. The assessed valuation of individual properties is adjusted when property changes occur such as improvements, property sale, annexation, new construction, demolition or a city-wide revaluation. The objective of a citywide revaluation is to adjust all property values to fair market value.

The city's tax base is the total assessments that are subject to the local property tax. The tax levy (as determined by the taxing bodies) divided by the tax base provides the tax rate. It is often expressed in terms of dollars per thousand. The tax rate is multiplied by the assessed value to determine the amount of tax that each property must pay.

Changes in property value are important because most local governments depend on the property tax for a substantial portion of their revenues. Declining growth or a drop in the market value of residential, commercial, or industrial property in constant dollars is undesirable. Declining property values are often a symptom, rather than a cause, of other underlying problems.

The city has experienced moderate growth in the equalized assessed value from both new construction and increasing values of existing property. The taxable value of all property in Lake Mills increased significantly between 2003 and 2008, increasing from 317 million dollars to 487.6 million dollars (unadjusted dollars). If a locality has a stable tax rate, then the higher the aggregate property value, the higher the revenues generated. The adjusted dollars showed a slight decline in non TID assessed value in 2008.

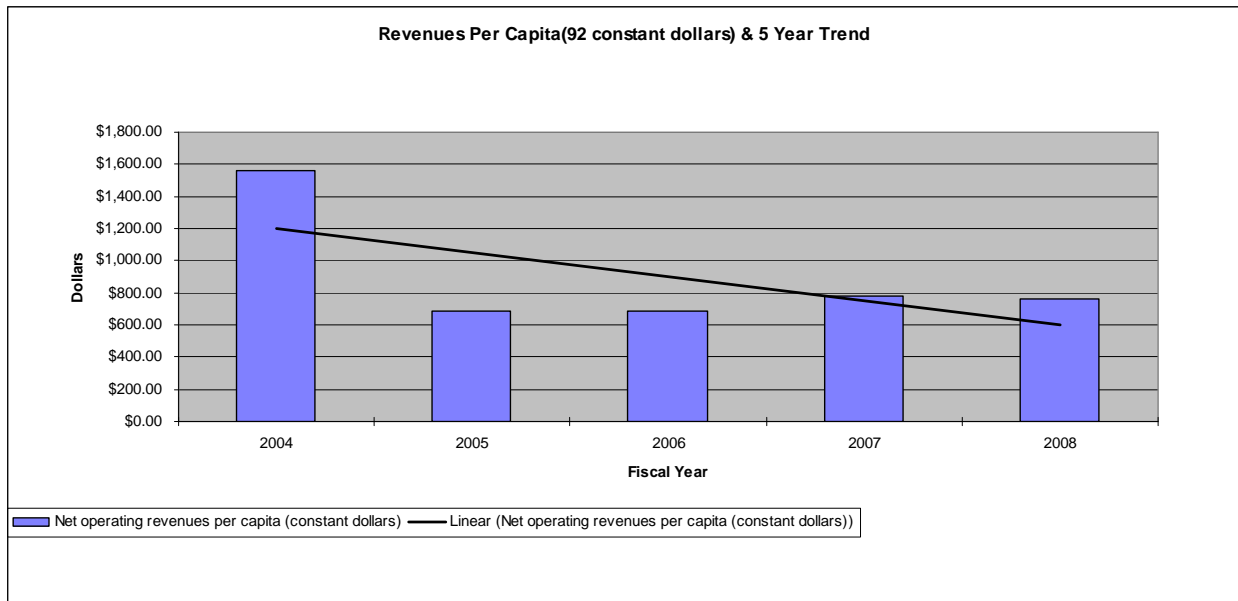




A review of Lake Mills net operating revenues in constant dollars as shown in the chart below indicates that revenues per capita are declining as a trend. The general warning related to this trend would indicate that there may be a problem with our revenue streams. Assuming the cost of services is directly related to population size, a decline in per capita revenues over time suggests the city may be unable to maintain existing service levels unless it finds new revenue sources or ways to save money. Council members should determine why the revenues per capita are declining and assess their significance.

The two main factors in the declining per capita revenues appear to be assessed valuation growing faster than city spending because property tax caps have made a priority of controlling property tax increases which is the city's main revenue source and there has been no real increases in our seven other revenue sources. This means all new revenue demands are primarily funded through property taxes. This would seem to be the critical factor in declining revenues per capita rather than the ability to generate additional revenues.

It is generally undesirable for property tax revenues to decline in real terms over time. A decline over time may indicate declining property values, unwilling or deliberate default by property owners, and/or inefficient appraisal. Note that reducing reliance on property taxes may be desirable if it is part of an effort to diversify revenues.

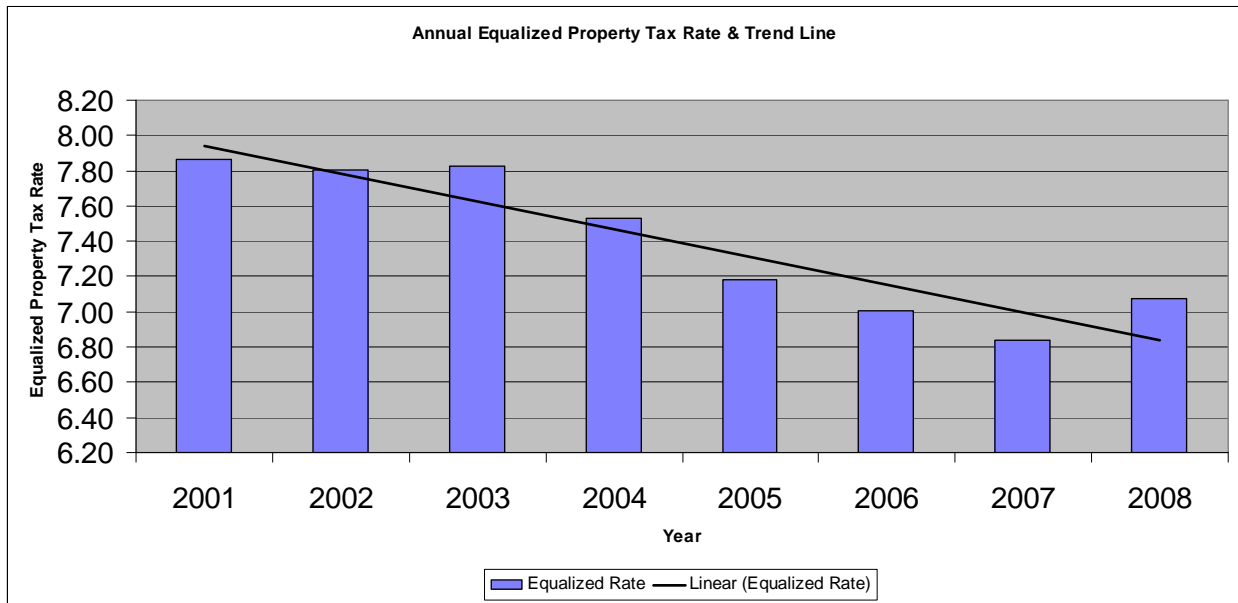


The mill rate is the net tax levy expressed as a rate of taxation in terms of dollars of property tax per \$1,000 of value. For example, a tax rate of .02400 or 2.4% is equal to 24 mills or \$24.00 per \$1,000 of value. The property tax levy is the total amount of revenue that a local unit will collect through the property tax in one year. The gross levy is the total amount of taxes billed including the portion paid by the state through state tax credits. The net levy is the gross levy minus the state credits.

The property tax is termed an ad valorem tax because it is spread according to the value of taxable property. Assessed values are the property values determined for individual parcels of property by the local assessor. Equalized value is the state determined full market value of all property within each jurisdiction. Equalized values provide a means of comparing different jurisdictions, even if they are assessed at different percentages of market value. Dividing the total assessed value by the equalized value produces a district's assessment ratio. All taxable property is classified as either real estate or personal property.

The amount of tax that a property owner pays is based on two factors: the value of the property owned by the taxpayer and the local property tax rate. A local assessor determines the value of each individual's property. The local property tax rate depends on the amount of taxes levied by local jurisdictions (municipalities, counties, school districts, technical college districts, and special purpose districts) and the total value of taxable property in the jurisdiction. Multiplying the value by the rate produces the amount of taxes levied on each property. A portion of the tax is paid by the state through state tax credits and the remainder is paid by the owner.

The Council's goal has historically been to maintain a level property tax rate. From 2000 to 2004 the City's property tax rate was very flat, changing only hundreds of a point. The property tax cap and strong growth in the equalized assessed value started the drop in the property tax rate in 2005 and has dropped a full point since.



The property tax levy is the total amount of revenue that a local unit will collect through the property tax in one year. The gross levy is the total amount of taxes billed including the portion paid by the state through state tax credits. The net levy is the gross levy minus the state credits.

Real property is comprised of land and the attached buildings and improvements. Personal property includes items of property that are not fixed to land, such as furniture, equipment, machinery, and fixtures. Lake Mills' property tax trend has been positive because of strong growth in equalized assessed value in combination with a moderate tax rate that produces an above average levy. This trend will change over the next five years with substantial changes in the housing and financial markets combine with revenue caps.

The City of Lake Mills' only local tax is the property tax. Lake Mills' municipal property tax per capita is comparable to most Wisconsin cities. Since the City of Lake Mills assesses neither a local sales nor income tax it must rely on the property tax for all of its local tax revenue. This is a major reason for the greater reliance on the property tax. Wisconsin governments also have a greater reliance on intergovernmental revenues, while "own source" revenues are more significant, on average, for governments in other states.

The amount of change in the annual property tax that is paid by the individual taxpayer will likely not be the same as the overall change in the tax levy for a municipality. There are a number of additional factors that enter into the calculation.

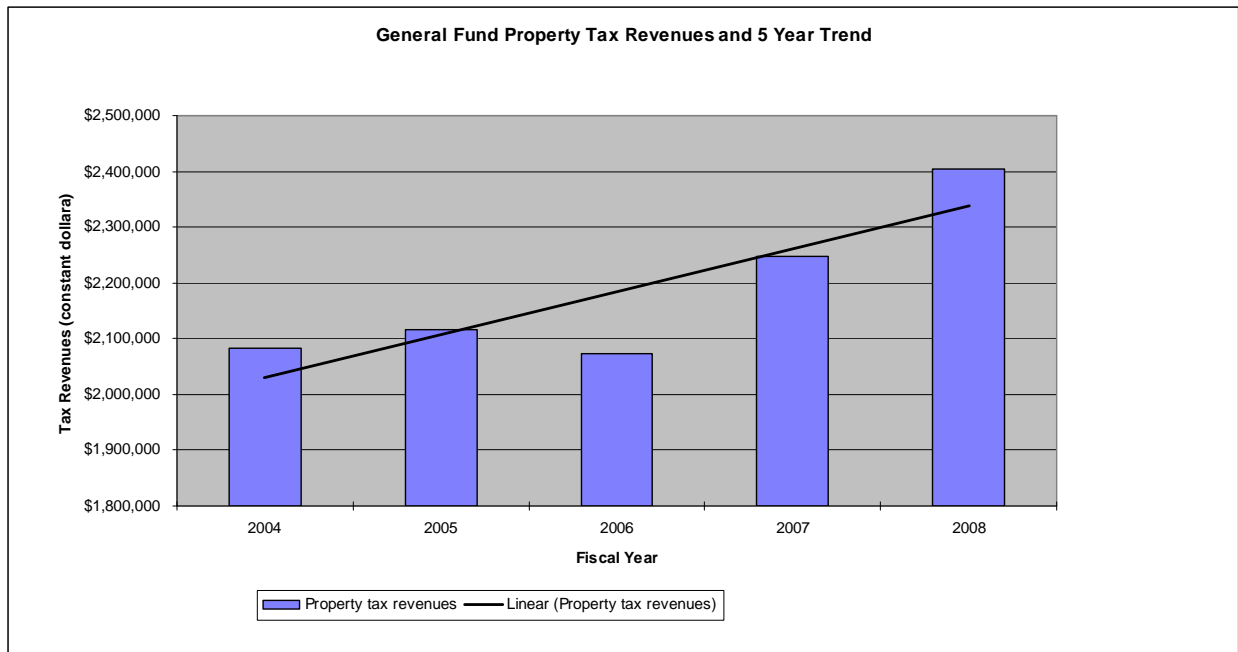
The amount of tax that a property owner pays is based on two factors: the value of the property owned by the taxpayer and the local property tax rate. A local assessor determines the value of each individual's property. The local property tax rate depends on the amount of taxes levied by local jurisdictions (municipalities, counties, school districts, technical college districts, and special purpose districts) and the total value of taxable property in the jurisdiction. Multiplying the value by the rate produces the

amount of taxes levied on each property. A portion of the tax is paid by the state through state tax credits and the remainder is paid by the owner.

Under Budget Act 28, in 2009, a municipality is allowed to increase its levy over the amount it levied in 2008 by no more than 3 percent or the percentage increase in equalized value due to net new construction, whichever is greater. The 3% levy limit also applies in 2010 and sunsets on December 31, 2010. While all of the exceptions and modifications to levy limits that existed in previous law continue to apply, Act 28 also created the following three new adjustments to levy limits:

- Allows the city to carry forward from the previous two years any unused levy capacity when calculating its 2009 levy limits. The base amount to which the levy limit applies is the community's maximum allowable levy for 2008 rather than the actual levy. Act 28 also provides that if a municipality's allowable levy in 2007 was greater than its actual levy in 2007, the levy limit otherwise applicable to the municipality in 2009 is increased by the difference between these 2 amounts, as determined by the department of revenue.
- Allows levy limit adjustments when two communities contract to consolidate services where one community agrees to lower its allowable levy to allow a second community to increase its allowable levy.
- Exempts from the levy limit any amount that a municipality levies to pay the unreimbursed expenses related to a declared emergency beginning in the year in which the emergency occurs or the next year. This includes amounts levied to replenish cash reserves used in the previous year to pay any unreimbursed expenses related to a declared emergency.

The growth in the levy amount is highly correlated with the increasing assessed value of the TIDs. The levy amount has grown just slight in the last two years with the TIDs adding substantial dollars to the accounts.



Municipal finance always needs to be viewed in the context of the overall state and local government relationship. That is because the two wings of government are closely tied in theory and practice. Municipalities are creatures of the state, it does not seem to matter how much home rule authority a city has in some states nor how vocal the intergovernmental squabbles. Not only that, sorting out which level of government is supposed to do what is often not easy, nor is where one level of responsibility leaves off and the others start up. For example, many local government expenditures are nothing more than pass through of activities mandated by and frequently financed in part by the states. Also, certain local taxes may be nothing more than local add-ons to state collected revenues.

The City of Lake Mills' second largest source of revenue is from the state. The economic factors influencing state politics and the nature of the state/city relationship always makes this a tentative revenue source. Many state aids originally replaced local revenues to allow for special exemptions or to install state mandated programs. Local policy makers need to understand the changing political landscape at the state level.

The warning trend is designed to inform policy makers about over-dependence on state revenues and encourage them to diversify their own revenues rather than become over-reliant on the state. The state revenue sources that make up the city's intergovernmental revenues are primarily sales, gas and income taxes. These revenue sources would generally be considered more elastic than property taxes, but because they are distributed by formula and the state caps the total amount distributed, they cannot be considered elastic to a Wisconsin municipality.

Funding for the municipal and county shared revenue program is cut by 3.5%, or about \$30 million, in 2010. Each municipality's 2010 shared revenue payment will be reduced in proportion to its share of the statewide equalized property values. No municipality's 2010 payment will be cut by more than 15% from its 2009 payment. A municipality's 2011

payment will equal its 2010 payment. The Legislative Fiscal Bureau has prepared a report showing the estimated 2010 shared revenue payment for each municipality. The City of Lake Mills' shared revenues were reduced by 7.6% of \$33,000.

To keep shared revenue program cuts below 5%, the Governor and the Legislature included in the budget a new 75 cent per month police and fire protection fee on all cell phones and landlines. The fee raises an estimated \$100 million in new revenue over the biennium, which is to be used to help fund the shared revenue program.

Beginning in 2010, a municipality must spend each year for emergency services funded from shared revenue payments no less than the amount it spent in 2009, not counting capital expenditures and one-time expenses. The budget instructs the department of revenue to define "emergency services." Based on the language in the budget, at a minimum, the term means that portion of police and fire department expenditures that are funded by shared revenue. A municipality may decrease the amount it spends for emergency services below its 2009 amount, with the department of revenue's approval, if the decrease in expenditures is a result of operating more efficiently, as determined by the department.

Funding for the Expenditure Restraint Program remains at the same level as in the past, \$58 million annually. However, Act 28 makes the following key changes to the Expenditure Restraint Program's spending limit test:

- Modifies the definition of "inflation factor" under the expenditure restraint budget test by establishing a CPI floor of 3%. As a result, even if inflation is below 3% in 2009, municipalities will be able to increase their spending by 3% in 2011 and still qualify for payments under the program.
- Exempts from the spending limits an amount equal to the difference between a municipality's entitlement under the payments for municipal services program, assuming the program is fully funded, and the municipality's actual payment under the program.
- Excludes from the spending limits under the budget test unreimbursed expenses related to a declared emergency.

Funding for the general transportation aids program was increased by two percent in 2010 and three percent in 2011. As in the past, however, almost all city and village actual general transportation aid payments will be determined by a formula that is based on a municipality's share of transportation-related expenditures. Also, municipalities under the share of cost formula receive their GTA payments only after the statutory pay out is made to towns under the rate per highway mile formula. Consequently, the GTA program will continue to cover on average only 18 percent of municipal transportation related costs.

Funding for all tiers of the Mass Transit Operating Assistance program is increased by 1.97 percent in 2010 and 3 percent in 2011.

Tipping fees on each ton of solid waste disposed in a landfill are increased by \$7.10 from \$5.90 to \$13.00. About half of this \$7.10 increase took effect July 1, 2009 and the rest takes effect October 1, 2009.

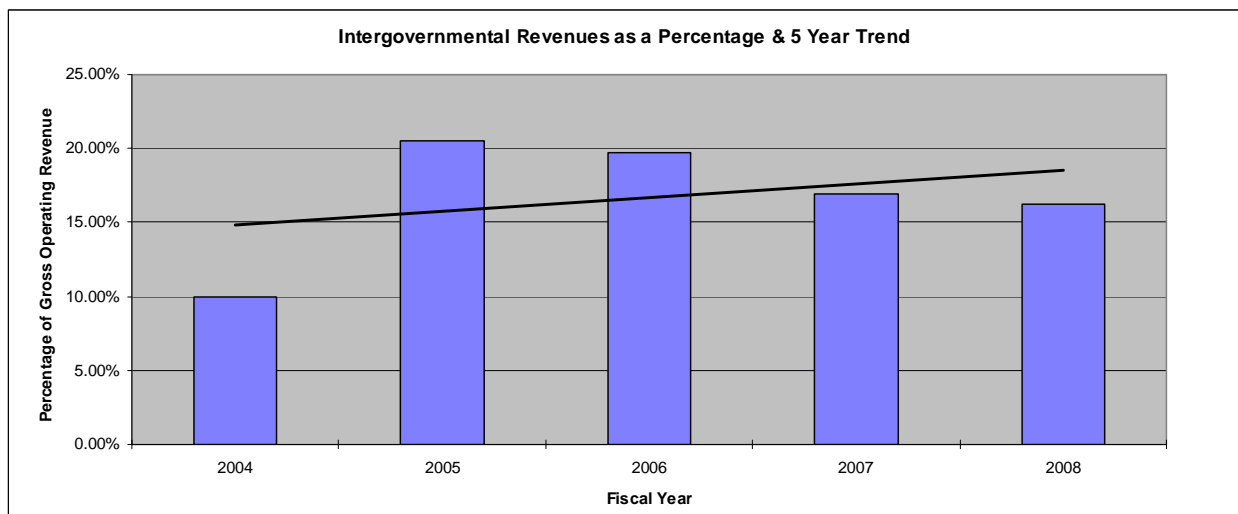
Funding for the municipal and county recycling grant program was increased by \$2 million annually. This provides a total of \$31.1 million in 2009-10 and \$32.1 million in 2010-11. (Under the previous budget, the program was funded at \$31 million, but \$3.1 million was transferred to the general fund as part of efforts to eliminate the budget deficit that existed.)

The state budget made the following three significant changes to the prevailing wage law:

- Threshold for applying prevailing wage requirements to public works projects is lowered to \$25,000, whether single or multi-trade. Annual inflationary adjustment is repealed.
- Prevailing wage requirements are made applicable to the following public infrastructure paid for and constructed by private developers and dedicated to the municipality: roads, streets, sanitary sewer, water mains, and bridge projects. (Note: storm sewer facilities, bike and pedestrian paths, as well as park facilities are left off the list).
- Prevailing wage requirements are for the first time made applicable to publicly funded private construction projects that receive \$1 million or more in direct financial assistance from a municipality. Direct financial assistance is defined as moneys in the form of a grant or other agreement or included as part of a contract, cooperative agreement or any other arrangement, including a redevelopment agreement that a local government directly provides or otherwise directly makes available to assist in the erection, construction, repair, remodeling, demolition or a private facility.

These changes take effect January 1, 2010.

The general trend for the city has been a slight decline over the last five years based on intergovernmental revenues as a percentage of gross revenues. The primary intergovernmental aids are the state shared revenue and state highway aid program. The city does not fair well in the shared revenue program because of the formula used to distribute shared revenues.



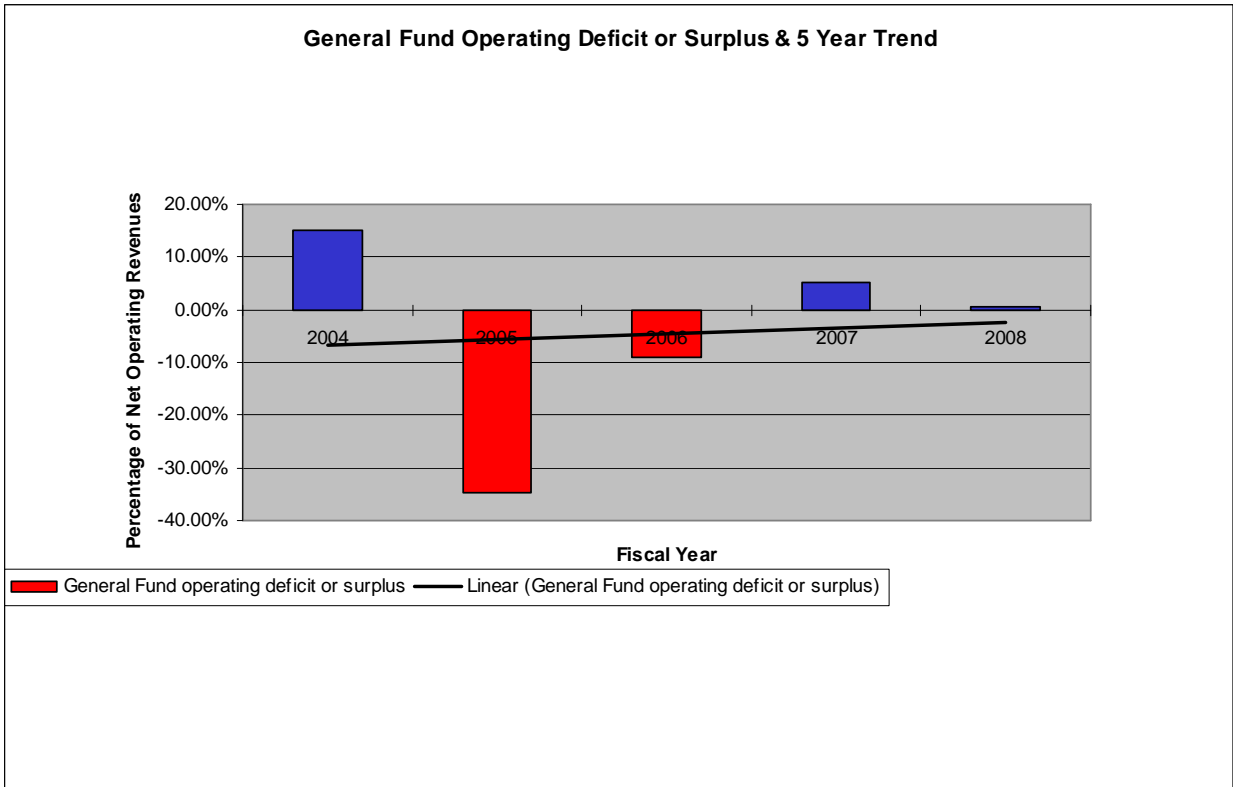
Increasing general fund operating deficits as a percentage of net operating revenues over time is viewed unfavorably. Though an operating deficit in any one year may not be

a cause for concern (as reserves from prior years can be used to cover the difference, etc.), frequent and increasing deficits can indicate that current revenues are not supporting current expenditures. Ratings firms consider a current year operating deficit a minor warning signal. Operating deficits in two consecutive years, a current deficit greater than that in the previous year, a deficit in two or more of the last five years, or an abnormally large deficit (i.e. greater than 5-10%) in a single year are more serious and typically viewed negatively. In the private sector, there are groups of ratios used to determine a business's liquidity, solvency and profitability. A municipality can review its liquidity and solvency but does not have a profitability section; however, analysis of the unreserved fund balance, serves a similar purpose. Any operating deficit will negatively impact the fund balance.

The 2005 operating deficit shown in the chart below was related to the 2004 funding of the new fire station and the final payments occurring in 2005. The actual deficit was similar in size to the 2006 deficit. These two deficit years in combination with nine years of very lean budgeting left the City with very little unreserved/undesignated fund balance coming into 2008.

In order to prudently protect the fiscal solvency of the City it is important to maintain a minimum level of reserves. Reserves are important in order to:

- Ensure that the City is able to respond to the challenges of a changing environment.
- Reduce the budgetary impacts of bad economic times.
- Insulate the City from actions of the State that may result in reduction of revenues.
- Mitigate exposure to natural disasters or other catastrophic events.
- Demonstrate continued credit worthiness to bond rating agencies and the financial community.

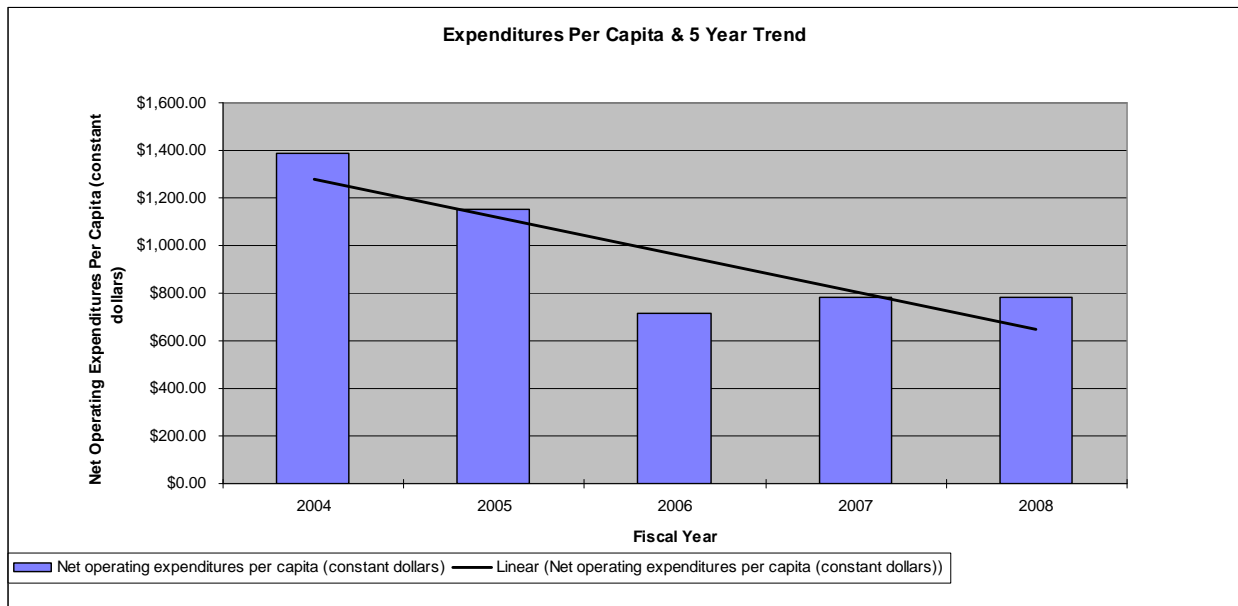


Expenditures are a rough measure of the City's service output. To determine if the city is living within its revenues, a review of the expenditure growth rate is included. Because of the difficulty of measuring and placing dollar values on outputs of government services, it is difficult to determine efficiency in any absolute sense and so we turn to analyzing the trends of the city.

This trend data shows what is typical of the city's gross spending and helps the Council determine if more analysis of a particular service or expenditure is appropriate. The total expenditures per capita for the city have been consistently declining since 1999.

Since 1999, the city has financed several major projects including the City Hall, Police Department, Community Center, Library and Fire Department, and hopefully is on the down side of the lump. Lumpiness refers to the sheer size of initial investment required to produce a given good or service.

The major reason for the declining expenditures per capita appears to be population growth. Economies of scale refer to decreasing cost per unit output, i.e., it is cheaper--per unit--to produce more than less. As our community grows these fixed costs are spread over more residents and per capita costs have declined.



In general, the economic and demographic indicators show that the city has experienced adequate economic growth in the past and has experienced real per capita income growth, although unevenly, during the period. While the total revenue had been increasing slightly, this was largely occurring through the substitution of property taxes and fees for state aids. The city’s debt has risen substantially and is directly related to major facility improvements and not operating issues. The city has experienced moderate population growth in all age groups during the past ten years.

The linear trend analysis is not the most sophisticated or always the most appropriate analysis method to use in local government. As stockbrokers always say, “Past performance is not indicative of future earnings.” Likewise, although this report can show you where you have been, it does not predict what will occur in the future. The economic outlook for Lake Mills suggests that the trends of the last ten years will not be relevant in preparing for the next several years. Any economic recovery appears to be several years off and significant changes will have to be made by city policy-makers before the economy recovers enough to provide the new revenues needed to meet the needs of the city’s annual fixed costs.

Budget Facts

Let me start with some basic facts. Of the total property taxes you paid last year, slightly less than 36% of the total bill went to the City of Lake Mills and is the responsibility of the City Council. The remainder is distributed to other taxing districts, such as Jefferson County, Lake Mills School District, MATC, and State of Wisconsin. For example, last year the average home in the City of Lake Mills had a fair market value of approximately \$175,000, and the homeowner would pay \$3,340.18 in property taxes. The City’s portion of that tax bill was \$1,236.64 minus the credit equals \$1,122. Spread over 12 months, the projected cost to the owner of a \$175,000 home was \$93.50 per month in 2009 for municipal services. The 2010 budget is projected to increase the property tax cost on a \$175,000 home to \$1,261.14 minus the credit equals \$1,145 or \$95.43 per month.

The City's General Fund Budget is proposed to be \$6,394,500, down from \$6,501,300. This is a 4.33% decrease. A large part of the decrease is from the creation of the Solid Waste Special Revenue Fund accounting change. This comparison doesn't include the increase in the debt issue for the 2009 Budget related to storm sewer issues on Topeka Drive and the Fire Truck. The City added \$122,000 to the budget in July for the storm sewer on Topeka Drive and the Fire Truck raising total expenditures to \$6,623,300 and changing the decrease slightly. The additional debt incurred in 2009 for the supplemental appropriation of \$122,000 is the primary reason for the increase in the levy and rate.

The City's equalized assessed value for 2008 was \$471,700,200 without TID. That was a 17 percent increase over 2007. The equalized assessed value for 2008 is \$487,638,100 and was an increase of 3.47 percent from 2007. The City's equalized assessed value for 2009 is \$472,700,000 without TID. That is a 0.2 percent increase over 2008. The equalized assessed value for 2008 with TID is \$490,186,900 and was an increase of 0.5 percent from 2008. The Department of Revenue calculations for net new construction was 1.76% or \$8,578,600. The state cap this year is 3% or net new construction, whichever is greater. The proposed budget is at 1.99%. The state determines an equalization ratio for balancing assessed values to market value and across jurisdictions statewide. Last year our ratio was 84.91% and this year we assume it will be near 86%. The State needs to do this so that school districts and other multi-jurisdictional agencies can fairly tax across jurisdictional lines and debt ratios can be determined.

The assessed valuation is determined by the City of Lake Mills Assessor. This valuation is listed on each tax bill and is used to calculate the real estate tax due. The assessed valuation of individual properties is adjusted when property changes occur such as improvements, property sale, annexation, new construction, demolition or a city-wide revaluation. The objective of a citywide revaluation is to adjust all property values to fair market value. The equalized valuation is intended to represent fair market valuation.

The equalized valuation of each municipality is determined by the State of Wisconsin. The equalized valuation of properties changes annually. The equalized valuation of property is also listed on the tax bill. The equalization ratio is used to determine the total current market value of all taxable property within the city. The equalized (market) values are used by taxing jurisdictions such as school districts, counties, and technical schools to apportion their tax levies among municipalities.

The Ratio is calculated by dividing the total yearly assessed value for properties that sold by the total of the sale prices for that year. The DOR findings demonstrate whether the "Aggregate Ratio" for all valid sales occurring in a year is within the State's standard range of 90% to 110%. Ratio's outside that range are acceptable but trigger the start of a time period in which a city-wide revaluation must occur.

Only sales that the State considers "valid" are used to create the ratio. The DOR may label a sale as "not valid" for various reasons including but not limited to 1) being between related parties, 2) a foreclosure sale, or 3) the assessment was for a house under construction.

The amount of change in the annual property tax that is paid by the individual taxpayer will likely not be the same as the overall change in the tax levy for a municipality. There are a number of additional factors that enter into the calculation.

The Department of Revenue determines the equalized value of all property in each municipality, but generally does not determine the value of individual parcels. Equalized value is determined based on an evaluation of recent sales data, which is then applied to similar type properties in the entire municipality. The sales data used is for sales that took place a year ago. Therefore, the values certified by the Department of Revenue may not accurately reflect current market conditions for a given municipality or area in a municipality.

Notwithstanding, equalized value is important in determining the total tax burden for a municipality. The Department of Revenue values take into consideration new development, changes in classification, sales prices and other factors. A community could experience property valuation increase due to more individuals or companies having a desire to locate there (popularity) or a scarcity of available developable property. An increase in values, without additional development, means property values increase due to inflation. In this circumstance current property owners will feel the impact of the full burden of any property tax levy increase. On the other hand, if the increase in values is due entirely to property development, then the new property tax payers will pay for any property tax increase. Typically, property value increases are a combination of inflation and property development.

Budget Issues

This year the issue is how will our organization manage to cope with and recover from the severe fiscal stress, while others fail and are pushed by stress toward fiscal emergencies? Terry Nichols Clark (1994) and others have emphasized that fiscal health reflects the adaptation of a local government's revenues and expenditures to the resources and constraints provided by its environment. (Relevant resources and constraints include governing law, intergovernmental assistance, and the local private-sector activity that creates the demand for services and supports the payment of taxes and fees.) Adaptation takes place over the long term across business cycles, and in the short term within a cycle, responding to local and global trends as well as a variety of organizational and environmental contingencies and shocks. Over the long term, adaptation positions a local government organization to sustain a politically and economically appropriate level and mix of services consistently across the business cycle, accumulating reserves when revenues cycle up that are sufficient to take the organization through normal downturns without making disruptive cutbacks or requiring future taxpayers to pay for past and present residents' services.

Much of the common wisdom here has proved sound over time in a variety of settings. Local governments do well to: avoid excessive commitments to fixed expenses such as long term debt service and unfunded post-employment liabilities; be efficient and flexible in spending; try to have access to revenue sources that are diverse, locally controllable and fairly stable across economic cycles (such as the property tax, especially if it is feasible to increase the tax rate); engage in long-term financial planning; maintain an adequate level of reserves for dealing with abrupt, temporary shocks; and work to educate stakeholders about their jurisdiction's financial situation and the need for fiscal planning and prudence (see Advisory Commission on Intergovernmental Relations [ACIR], 1973; Honadle, Cigler, & Costa, 2004). Good long-term adaptation will not repeal the business cycle or prevent all fiscal shocks, but

it can make short-term coping in response to cycles and shocks considerably less damaging and easier for all concerned.

ESTABLISH BROAD GOALS TO GUIDE GOVERNMENT DECISION MAKING

1. Assess community needs, priorities, challenges and opportunities
2. Identify opportunities and challenges for government services, capital assets, and management
3. Develop and disseminate broad goals

DEVELOP APPROACHES TO ACHIEVE GOALS

4. Develop financial policies
5. Develop programmatic, operating, and capital policies and plans
6. Develop programs and services that are consistent with policies and plans
7. Develop management strategies

DEVELOP A BUDGET CONSISTENT WITH APPROACHES TO ACHIEVE GOALS

8. Develop a process for preparing and adopting a budget
9. Develop and evaluate financial options
10. Make choices necessary to adopt a budget

Element 1 - Adopt Financial Policies

A government should develop a comprehensive set of financial policies. Financial policies should be consistent with broad government goals and should be the outcome of sound analysis. Policies also should be consistent with each other and relationships between policies should be identified.

Financial policies should be an integral part of the development of service, capital, and financial plans and the budget. All other adopted budgetary practices of a government should be consistent with these policies.

PRACTICES

Develop policy on Reserve funds

1 Practice: A government should develop policies to guide the creation, maintenance, and use of resources for financial stabilization purposes.

2 Rationale: Governments should maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures.

3 Outputs: The policies should establish how and when a government builds up reserve funds and should identify the purposes for which they may be used. Development of a policy on minimum and maximum reserve levels may be advisable. Policies on reserve funds should be publicly available and summarized in materials used in budget preparation. They also should be identified in other government documents, including planning and management reports.

4 Notes: Reserve funds are called by many names including rainy day funds, unreserved, undesignated fund balances, and contingency funds. These funds may be used at a government's discretion to address temporary cash flow shortages, emergencies, unanticipated economic downturns, and one-time opportunities. They provide flexibility to respond to unexpected opportunities that may help a government achieve its goals. Policies on the use of these funds may also be tied to an adverse change in economic indicators (such as declining employment or personal income) to ensure that the funds are not depleted before an emergency arises. The minimum and maximum amounts to be accumulated may be based on the types of revenue, the level of uncertainty associated with revenues, the condition of capital assets, or the government's level of security with its financial position.

Reserve funds may be constrained by state or local laws. Legally required reserves should be distinguished from discretionary reserves.

Develop policy on fees and charges

1 Practice: A government should adopt policies that identify the manner in which fees and charges are set and the extent to which they cover the cost of the service provided.

2 Rationale: Policies that require identification of both the cost of the program and the portion of the cost that will be recovered through fees and charges allow governments and stakeholders to develop a better understanding of the cost of services and to consider the appropriateness of established fees and charges.

3 Outputs: Policies may address a requirement to review all fees and charges, the level of cost recovery for services and the reason for any subsidy, and the frequency with which cost-of-services studies will be undertaken. Stakeholders should be given an opportunity to provide input into formulation of these policies. Policies on fees and charges should be publicly available and summarized in materials used in budget preparation. They should also be identified in other government documents, including planning and management reports.

4 Notes: Costs of service include direct and indirect costs such as operating and maintenance costs, overhead, and charges for use of capital (depreciation and debt service). A government may choose not to recover all costs, but it should identify such costs. Reasons for not recovering full costs should be identified and explained. State and local law may govern the establishment of fees and charges.

Develop policy on debt issuance and management

1 Practice: A government should adopt policies to guide the issuance and management of debt.

2 Rationale: Issuing debt commits a government's revenues several years into the future, and may limit the government's flexibility to respond to changing service priorities, revenue inflows, or cost structures.

Adherence to a debt policy helps ensure that debt is issued and managed prudently in order to maintain a sound fiscal position and protect credit quality.

3 Outputs: Elements of policies on debt issuance and management include: purposes for which debt may be issued; matching of the useful life of an asset with the maturity of the debt; limitations on the amount of outstanding debt; types of permissible debt; structural features, including payment of debt service and any limitations resulting from legal provisions or financial constraints; refunding of debt; and investment of bond proceeds. Legal or statutory limitations on debt issuance should be incorporated into debt policies. Debt policies should be made available to the public and other stakeholders. Because these policies are essential to budget decision making, particularly capital budgets, they should be reviewed by decision makers during the annual budget process and summarized in the budget document. The legislative body should formally adopt debt policies and compile them with other financial policies.

4 Notes: Debt policies should be integrated with other financial policies, particularly operating and capital budget policies. The policies should reflect statutory and legal requirements as well as the government's financial condition and philosophy. The GFOA has adopted a recommended practice on the development of a debt policy.

Develop policy on debt level and capacity if not defined in statutes

1 Practice: A government should adopt a policy on the maximum amount of debt and debt service that should be outstanding at any one time.

2 Rationale: Policies guiding the amount of debt that may be issued by a government help ensure that outstanding and planned debt levels do not exceed an amount that can be supported by the existing and projected tax and revenue base.

3 Outputs: A government should develop distinct policies for general obligation debt, debt supported by revenues of government enterprises, and other types of debt such as special assessment bonds, tax increment financing bonds, short-term debt, variable-rate debt, and leases. Limitations on outstanding debt and maximum debt service may be expressed in dollar amounts or as ratios, such as debt per capita. Policies on debt level and capacity should be incorporated into other debt policies and adopted by the legislative body.

4 Notes: Policies on debt level and capacity should be developed in accordance with an analysis of debt capacity. Factors that are recommended in evaluating debt capacity include current financial capacity, projected future capacity, statutory and constitutional limitations, and bond covenants. The GFOA has adopted a recommended practice on analysis of debt capacity. Also, the International City/County Management Association publication Evaluating Financial Condition provides a set of indicators that can be used to evaluate debt capacity.

Develop policy on use of one-time revenues

1 Practice: A government should adopt a policy limiting the use of one-time revenues for ongoing expenditures.

2 Rationale: By definition, one-time revenues cannot be relied on in future budget periods. A policy on the use of one-time revenues provides guidance to minimize disruptive effects on services due to nonrecurrence of these sources.

3 Outputs: One-time revenues and allowable uses for those revenues should be explicitly defined. The policy should be publicly discussed before adoption and should be readily

available to stakeholders during the budget process. The policy, and compliance with it, should be reviewed periodically.

4 Notes: Examples of one-time revenues include: infrequent sales of government assets, bond refunding savings, infrequent revenues from development, and grants. These revenues may be available for more than one year (e.g., a three-year grant), but are expected to be nonrecurring. Examples of expenditures for which a government may wish to use one-time revenues include startup costs, stabilization (e.g., to cover expenditures that temporarily exceed revenues), early debt retirement, and capital purchases. Uses that add to the ongoing expenditure base should be carefully reviewed and minimized, e.g., capital expenditures that significantly increase ongoing operating expenses without a sustainable and offsetting long-term revenue plan. Certain variable components of major revenue sources are similar to one-time revenue sources. While they may be addressed in a one-time revenue policy, they also may be considered separately. (See practice entitled Evaluate the Use of Unpredictable Revenues.)

Evaluate the use of unpredictable revenues

1 Practice: A government should identify major revenue sources it considers unpredictable and define how these revenues may be used.

2 Rationale: Unpredictable revenue sources cannot be relied on as to the level of revenue they will generate. Particularly with major revenue sources, it is important to consider how significant variation in revenue receipts will affect the government's financial outlook and ability to operate programs in the current and future budget periods.

3 Outputs: For each major unpredictable revenue source, a government should identify those aspects of the revenue source that make the revenue unpredictable. Most importantly, a government should identify the expected or normal degree of volatility of the revenue source. For example, revenues from a particular source may fluctuate, but rarely, if ever, fall below some predictable minimum base. A government should decide, in advance, on a set of tentative actions to be taken if one or more of these sources generates revenues substantially higher or lower than projected. The plans should be publicly discussed and used in budget decision making.

4 Notes: Many of the most important revenue sources relied on by state and local governments are unpredictable to some degree. Examples may include intergovernmental revenues, inheritance taxes, taxes on mineral production, interest income, sales and use tax, lottery revenues, and revenues subject to future judicial rulings. These revenues are often used to fund ongoing programs. A financial plan for governments should take into account the unpredictable nature of key revenues. This ensures that a government understands the potential impact on its ability to cover service costs and develops contingency plans in advance to address unpredictable revenue fluctuations. Specific allocation and contingency plans do not have to be developed for all unpredictable revenues, but become increasingly necessary as the size or unpredictability of the revenue source increases. This practice may address or refer to a separate policy on the use of stabilization funds. (See practices entitled Develop Policy on Stabilization Funds and Develop Policy on Contingency Planning.)

Develop policy on balancing the operating budget

1 Practice: A government should develop a policy that defines a balanced operating budget, encourages commitment to a balanced budget under normal circumstances, and provides for disclosure when a deviation from a balanced operating budget is planned or when it occurs.

2 Rationale: A balanced budget is a basic budgetary constraint intended to ensure that a government does not spend beyond its means. At a minimum, balance should be defined to ensure that a government's use of resources for operating purposes does not exceed available resources over a defined budget period. A more stringent definition requires that a government maintain a balance between operating expenditures and operating revenues over the long term, not just during the current operating period. This latter definition of balance is referred to as structural balance, and is the goal of this practice.

3 Outputs: The policy should provide clear definition as to how budgetary balance is to be achieved. Definitions of items to be counted as operating resources (e.g., revenues) and operating resource uses (e.g., expenditures) should be explicitly identified. All funds should be included. Statutory and other legal "balanced" budget requirements should be met, but this practice recommends additional policies and practices, if necessary, to achieve and report on structural balance. The policy should explicitly note and, if necessary, explain the relevant constitutional, statutory, or case law provisions that impose a balanced budget requirement upon the government. The policy also should identify the circumstances when deviation from a balanced budget may occur.

The policy should be written in nontechnical language or have a nontechnical summary. Because of its importance in budget decisions, it should be readily available to stakeholders and publicly discussed at key points in the budget process. Compliance with the policy should be reviewed and disclosed during each budget period.

4 Notes: Some states and local governments define resources and resource uses to include fund balance or changes to fund balances. There may be statutory or other requirements that a budget must be balanced based on this definition. These types of statutory balanced budget requirements are a component of and not in conflict with the goal of achieving structural balance. Additional or even separate reporting may be required to demonstrate that both statutory balance and structural balance have been achieved.

This practice does not directly apply to capital budgets. Capital budgets are often funded at least partially from one-time resources. However, the ongoing maintenance or replacement of capital equipment or facilities is an important part of the budget process. Such items, particularly maintenance or equipment replacements, are often defined as operating items to ensure their inclusion in operating budget decisions. A balanced budget policy may include the following:

- Identification of and rationale for what operating resources and resource uses are included or excluded from the definition of a balanced budget calculation. For example, does the calculation include operating revenues and expenditures only; does it include capital maintenance or replacement; does it include interfund transfers; and does it include highly variable components of ongoing revenues (such as the volatile component of sales tax revenues or development-related revenue).
- The circumstances when fund balances may be used as a resource.

- The point(s) at which the budget must be balanced, e.g., upon adoption, throughout the year, or at year-end.
- The accounting basis (cash, accrual, other) that is used to define revenues and expenditures.
- The circumstances in which noncompliance with the balanced budget policy is permitted (e.g., during the early stages of an economic downturn so that services can be reduced in an orderly fashion).
- The official, agency, or legislative body (or combination of authorities) responsible for making any necessary decisions on whether or not a budget is in balance.
- The authority that must take action to bring the budget into balance if adjustments are needed in the course of a fiscal period.

Develop policy on revenue diversification

1 Practice: A government should adopt a policy that encourages a diversity of revenue sources.

2 Rationale: All revenue sources have particular characteristics in terms of stability, growth, sensitivity to inflation or business cycle effects, and impact on tax and rate payers. A diversity of revenue sources can improve a government's ability to handle fluctuations in revenues and potentially help to better distribute the cost of providing services.

3 Outputs: The policy should identify approaches that will be used to improve revenue diversification. An analysis of particular revenue sources is often undertaken in implementing the policy. This analysis should address the sensitivity of revenues to changes in rates, the fairness of the tax or fee, administrative aspects of the revenue source, and other relevant issues. The policy and the approach to implementation should be periodically reviewed.

4 Notes: Over time a government should strive to improve its revenue diversity to the extent feasible. When a government is statutorily or otherwise limited as to the types of revenues it may raise, it should consider options to enhance flexibility within the constraints of available revenue sources. For example, governments that must rely heavily on property taxes may seek to diversify the tax base on which the property tax is levied. A government should recognize that changes in the diversity of revenue sources can affect the relative tax burden on different stakeholders.

Develop policy on contingency planning

1 Practice: A government should have a policy to guide the financial actions it will take in the event of emergencies, natural disasters, or other unexpected events.

2 Rationale: When emergencies or unexpected events occur, having a policy that can be applied, or at least serve as a starting point, for financial decisions and actions improves the ability of a government to take timely action and aids in the overall management of such situations.

3 Outputs: This policy should identify types of emergencies or unexpected events and the way in which these situations will be handled from a financial management perspective. It

should consider operational and management impacts. The policy should be publicly discussed and reviewed periodically.

4 Notes: Policies on contingency planning are used as a general guide when an emergency or unexpected event occurs. A set of actions and strategies will be identified for each type of situation. Examples of financial emergencies that require contingency plans are sudden and severe decreases in locally collected revenues or intergovernmental aid, and unexpected major capital maintenance requirements. Development of a contingency plan in advance of such situations may be viewed positively by the rating agencies when evaluating a government's credit quality. It can also help expedite relief efforts when an emergency does occur and allow the government to recover funds more quickly or more effectively in the event of a natural disaster. (See practice entitled Develop Policy on Stabilization Funds.)

Element 2 - Develop Programmatic, Operating and Capital Policies and Plans

A government should develop policies and plans to guide service provision and capital asset acquisition, maintenance, replacement, and retirement. These policies and plans give direction to the government regarding the level of services and types of capital assets to be provided, and the manner in which the services and capital assets will be provided. They should be integrated with the government's broad goals and its service and capital needs. They may include the development of standards for service provision and capital asset condition and maintenance. Policies and plans also should be consistent with each other. The practices associated with this element and those of Element 6 are closely related and will involve an iterative process.

PRACTICES

Prepare policies and plans to guide the design of programs and services

1 Practice: A government should develop and adopt policies and plans to guide the design of specific programs and services.

2 Rationale: Service and program policies and plans translate broad goals into strategies for achieving goals. These policies and plans provide the basis for designing specific programs and services.

3 Outputs: Program and service policies and plans may address items such as: groups or populations to be served, service delivery issues, examples of possible programs, standards of performance (including level of service standards or other measures to gauge success), expected costs, time frames for achievement of goals, issues pertaining to organizational structure, and priorities for service provision. Policies and plans should be adopted by the governing body and made publicly available.

4 Notes: A clear, well-documented statement of policies and plans in broad program and service areas becomes particularly important when goals cross organizational and program lines. For example, a goal to revitalize the downtown or to promote rural development could result in multidepartmental programs addressing job creation, transportation, housing, and health care.

Prepare policies and plans for capital asset acquisition, maintenance, replacement, and retirement

1 Practice: A government should adopt policies and plans for capital asset acquisition, maintenance, replacement, and retirement.

2 Rationale: Policies and plans for acquisition, maintenance, replacement, and retirement of capital assets help ensure that needed capital assets or improvements receive appropriate consideration in the budget process and that older capital assets are considered for retirement or replacement. These policies and plans are necessary to plan for large expenditures and to minimize deferred maintenance.

3 Outputs: Policies may address inventorying capital assets and evaluating their condition, criteria for acceptable condition, criteria for continued maintenance versus replacement or retirement of an existing asset, and identification of funding for adequate maintenance and scheduled replacement of capital assets. Plans should be developed to establish ongoing, multi-year replacement and renewal schedules, and should recognize the linkage of capital expenditures with the annual operating budget. Stakeholders should have an opportunity to provide input as capital asset policies and plans are formulated. Once adopted, the policies and plans should be made publicly available, particularly as set forth in budget, management, and planning documents. Policies and plans should be incorporated into decision making in the budget process.

4 Notes: Capital asset acquisition, maintenance, replacement, and retirement policies provide a basis for formulating long-range plans to address capital needs. These policies should be realistic if they are to be used in decision making. Information gathered through processes described in the practice entitled Assess Capital Assets, and Identify Issues, Opportunities, and Challenges can be helpful in formulating the policies and plans.

Element 3 - Develop Programs and Services That Are Consistent with Policies and Plans

A government should develop and evaluate programs, services, and capital assets. Because there may be times when a government's policies and plans are best achieved by having other entities besides the government provide services or capital infrastructure, an analysis of service delivery and capital acquisition alternatives is an integral part of the program evaluation process. Performance measures should be developed to determine whether program and service goals are being met.

PRACTICES

Develop programs and evaluate delivery mechanisms

1 Practice: A government should develop programs and services that are consistent with policies and plans and should evaluate alternative delivery mechanisms.

2 Rationale: Programs and services are the means by which a government addresses priorities established through its policies and plans. An evaluation of delivery alternatives for services and programs helps ensure that the best approach is selected for delivering a service.

3 Outputs: A government should institute a process to develop new programs and services and review existing ones in the context of how well they meet programmatic and operating policies and plans. All programs should have measurable goals that relate to goals established for the more general policies and plans. The process should include an

examination of how a government traditionally provides the service. It also should consider whether the service could be delivered more effectively or more efficiently if provided in a different way, either by the government itself or by entities outside of the government.

4 Notes: Ideally, programs and services will be developed after the adoption of program policies and plans. Once a program has been developed, however, periodic review is necessary to ensure that it remains consistent with a government's general policies and plans.

Considerations in evaluating service delivery mechanisms, whether provided directly by a government or contracted out, include:

Cost of service, including short- and long-term direct costs, costs to administer and oversee the service, impact on rates and charges, and impact on costs of other government services.

Service quality and control, including safety and reliability, ability to control service levels and who receives the service, ability of the government to make internal changes to improve its own performance, ability to change the delivery mechanism in the future, and risk of contractual nonperformance and default.

Management issues, including the quality of monitoring, reporting, and performance evaluation systems, public access to information, and ability to generate or sustain competition in service delivery.

Financial issues, including impact on outstanding debt and grant eligibility. Impact on stakeholders, including government employees, customers, and taxpayers.

Statutory and regulatory issues, including impact on federal and state legal and regulatory requirements, and liability.

Develop options for meeting capital needs and evaluate acquisition alternatives

1 Practice: A government should develop specific capital project options for addressing capital needs that are consistent with financial, programmatic, and capital policies and should evaluate alternatives for acquiring the use of capital assets.

2 Rationale: Capital project planning is necessary to give adequate consideration to longer-range needs and goals, evaluate funding requirements and options, and achieve consensus on the physical development of the community. An evaluation of alternative mechanisms helps ensure that the best approach for providing use of a capital asset or facility is chosen based on the policies and goals of the government.

3 Outputs: A government should have a process that identifies capital projects that are needed to achieve goals and a general time frame in which these assets will be needed. This assessment should consider need, life cycle costs (including operating costs), impact on services, beneficiaries of the project, financing issues, and other impacts. Plans for acquiring capital assets should be part of or consistent with land use, transportation, or other long-range plans of the community or area. Options for acquiring the use of capital assets and facilities should be examined. In some cases, the process for evaluating capital acquisition alternatives is linked with a corresponding process for evaluating service delivery alternatives.

4 Notes: This practice is intended to encourage a government to consider whether capital project proposals (including retirement of assets) meet policies and plans. Periodic reviews of existing projects and facilities in relation to goal attainment also should be undertaken when deciding whether to maintain, renovate, replace, or abandon those facilities.

Considerations in evaluating acquisition mechanisms include:

Costs, including both capital and operating costs, impact on rates and charges, and impact on costs of other government services.

Effects on service, including technical and financial capabilities of the entity that owns the asset, ability to control the use of the asset (including expanding or contracting the facility), ability to maintain the asset, and risk of contractual nonperformance and default.

Management issues, including maintaining oversight of the asset and related services and operations, impact on economic growth and development, impact on service coordination, and public access to information.

Financial issues, including availability of cash, budgetary impacts, impact on outstanding debt, and grant eligibility.

Impact on stakeholders such as government employees, customers, and taxpayers.

Statutory and regulatory issues, including impact on federal and state legal and regulatory requirements, and liability.

Identify functions, programs, and/or activities of organizational units

1 Practice: The functions, programs, and/or activities of the government's organizational units should be identified.

2 Rationale: Clear identification of the functions, programs, and/or activities of organizational units assists those reviewing or evaluating the government develop a better understanding of the role of each organizational unit, and it aids in evaluating the services it provides. Explicit descriptions of these items also help employees of the government better understand the tasks for which they are responsible.

3 Outputs: Descriptions of the purpose and roles of organizational units should be published using appropriate technology and made available to policy makers, management, employees, citizens, and other stakeholders. This documentation should be prepared with stakeholder involvement and review in order to ensure that employees as well as other stakeholders understand the responsibilities of each organizational unit and its relationship to other units. Any organizational unit for which resources are allocated through the budget process should also have its basic purpose and roles described in the budget document. Descriptions of organizational units should include the major functional relationships to other organizational units.

4 Notes: Identification of what organizational units do is an important task of a government. Preparation of these descriptions can be undertaken at any time and updated when necessary and appropriate.

Develop performance measures

1 Practice: A government should develop and utilize performance measures for functions, programs, and/or activities.

2 Rationale: Performance measures are used for assessing how efficiently and effectively functions, programs, and activities are provided and for determining whether program goals are being met.

3 Outputs: Performance measures should be linked to specific program goals and objectives. The measures should be valid, reliable, and verifiable. Whenever feasible, they should be expressed in quantifiable terms. Measures should be reported in periodic reviews of functions and programs and should be integral to resource allocation decisions. They also should be reported in the budget document and may be reported in separate management reports or reports to citizens. Different aggregations of performance measures may be appropriate for different audiences.

4 Notes: There are several types of performance measures: inputs (resources), outputs, efficiency, and effectiveness (outcomes). Each of these types of measures serves a purpose, although only the measures of efficiency and effectiveness truly report on performance. Sources of data for performance measures include existing records, trained observer readings, and surveys.

Performance measures can help managers direct and manage an organization. They also provide tools for managers to determine the most appropriate tasks to perform. It is often easier to focus on achieving goals and objectives if they can be expressed as the achievement of quantifiable measures. Care should be taken to minimize potential problems such as misinterpretation, misdirection of a program and its staff as a result of poor or incomplete measures, costly data collection, and measures that are affected by uncontrollable environmental factors.

A good performance measurement system will avoid the inclusion of so many measures that they become overwhelming and difficult to interpret. A government should periodically review its performance measurement system and make improvements in terms of the measures used, data collection, analysis, and reporting.

Develop performance benchmarks

1 Practice: Performance benchmarks should be developed to aid in assessing how well a function, program, and/or activity is provided and how well it meets needs.

2 Rationale: Performance benchmarks are comparative standards of performance and provide a frame of reference for evaluating program and service quality and cost-effectiveness. They are used as a basis against which to compare performance measures of functions, programs, and activities.

3 Outputs: Benchmarks can be developed to allow performance comparisons with other service providers, whether within the government, with other governments, or with private providers. External benchmarks (those providing comparison with outside service providers) can be beneficial to overall evaluation, especially if valid comparisons can be made with the best service providers. Internal benchmarks (comparisons to alternatives within the government) will provide somewhat less information, but there may be fewer problems with

consistency of data. When selecting any type of benchmark, it is important to consider how closely it relates to stated program and service goals. Benchmarks should be consistently defined and measurable.

Performance benchmarks and the measures being compared should be included in management reports and reports to stakeholders.

4 Notes: Performance benchmarks, along with an accompanying review of each chosen provider's service approach, can be helpful in making improvements. These comparisons may provide valuable information and insight to policy makers, managers, and other stakeholders that can be used to guide the direction of a function, program, or activity.

Performance benchmarks also help stakeholders better assess whether government performance in a particular area is acceptable or could be improved. Benchmark comparisons should be undertaken carefully to avoid misinterpretation resulting from differences in the scope of the function, program, or activity used for comparison; the environment in which the service operates; and measurement techniques. The use of accompanying explanatory information helps avoid invalid comparisons.

Budget Summary

The first numbered page of the budget is the Revenue/Expenditure Summary. The information provided is very simple, total revenue and total expense for the major fund categories. The second page is the General Fund Summary. The information is about revenues/expenditures, tax rate, percentage increase of the tax rate from the previous year, Tax Levy and percentage increase in the Tax Levy. This is the information that interest most taxpayers. The City Manager's proposed equalized tax rate is \$7.21 per thousand dollars of assessed value. This is a 1.99% increase in the rate from the previous year. The gross rate is \$8.39. This is an increase in total levy of \$73,400 from the previous year. The City's rate increase will raise the amount the City collects annually on a \$175,000 home by \$24.57.

The State Expenditure Restraint Program is based on the information being generated in this document. The State Expenditure Restraint formula is based on inflation and has generally been allowing the City about a 4.0% increase in these categories to qualify for an additional \$110,000 in State aid. The State is allowing the City 3% increase this year and the city appears to be well under the line (-4.33%) to qualify for expenditure restraint funds. The key reasons for the operation decreases is the shifting of the solid waste hauling from a public works line item to a special revenue fund. Exhibit 1 is a comparison of the actual Summary of Combined Statement of Expenditures for 2008, projected for 2009 and proposed for 2010.

The Utility Budgets are run like businesses with cash flows and balances. I have not included balances or reserves in the budgets to try to plan around maintenance and capital requirements. The Utility Funds either have positive cash flows or have more than adequate balances to cover any shortfall in current year revenues and no contingency funds.

I recommend this budget for approval in the year 2010.