

CITY OF OCONOMOWOC, WISCONSIN
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2010

Prepared by
Finance Department

Introductory Section

CITY OF OCONOMOWOC, WISCONSIN
 Comprehensive Annual Financial Report
 December 31, 2010

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June 20, 2011

To the Honorable Mayor, Members of the City Council and Citizens of the City of Oconomowoc:

The comprehensive annual financial report for the City of Oconomowoc for the year ended December 31, 2010, is hereby submitted. This report consists of management's representations concerning the finances of the City of Oconomowoc. Consequently, management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The City Council retained the accounting firm of Schenck SC to perform an audit of the City's financial statements. Schenck SC has issued an unqualified ("clean") opinion on the City of Oconomowoc's financial statements for the year ended December 31, 2010. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complement this letter of transmittal and should be read in conjunction with it.

Profile of the Government

The City, first incorporated as a village in 1865, and then as a city in 1875, is located in western Waukesha County, in the southeastern part of Wisconsin, 30 miles west of downtown Milwaukee. The City currently has a land area of approximately 12 square miles and a population of 14,360. The City is empowered to levy a property tax on both real and personal property located within its boundaries. The City also has the power by state statute to extend its corporate limits by annexation, which is done periodically when deemed appropriate by the City Council.

The City has operated under a mayor-council form of government since its incorporation. Policymaking and legislative authority is vested in the City Council, which consists of a mayor and an eight-member council. This governing council is responsible, among other things, for passing ordinances, adopting the budget, and hiring the City's administrator. The city administrator is responsible for carrying out the policies and ordinances of the governing council and for overseeing the day-to-day operations of the City government. The mayor is responsible for appointing committees, boards and commissions, subject to the approval of the City Council. The mayor and the council are elected on a non-partisan basis. Council members are elected from within their respective districts to two-year staggered terms, with four council members elected every year. The mayor is elected at large to two-year terms.

Early in its history, Oconomowoc attracted wealthy individuals from Chicago, Milwaukee, St. Louis and other midwestern cities that came to this area to enjoy its lakes and stay in its prospering resort hotels. By the 1880's, six luxury resorts and 26 grand Victorian homes dotted the landscape and lakeshores. As the years passed, the City grew in population and business prospered. Today, Oconomowoc continues to attract visitors, new businesses, and new residents with its natural beauty, favorable location, diverse and thriving businesses and industries, fine services, and year-round recreational activities.

The City provides a full range of services including police and fire protection; sanitation services; the construction and maintenance of streets, highways, and other infrastructure; recreational activities and cultural events. In addition to the general activities, the City Council exercises control over the Wastewater, Water, and Electric Utilities and therefore they have been included as an integral part of the City's financial statements. The Oconomowoc Area School District is an autonomous entity and has not met the established criteria for inclusion in the reporting entity and accordingly, is excluded from this report.

The annual budget serves as the foundation for the City of Oconomowoc's financial planning and controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Activities of the general fund, special revenue funds, and the debt service fund are included in the annual appropriated budget. Project-length budgets are prepared for capital project funds. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the function level within the department and individual fund.

Local Economy

The City has been affected locally by the national economy. Growth has slowed but is still proceeding. Over the long-term, however, the City is likely to continue to experience significant residential and commercial growth in the years ahead as development from the Milwaukee area edges toward Oconomowoc. Because of its easy access to points east and west, provided by Interstate Highway I-94 and the four-lane State Highway 16, a significant portion of the City's population commutes to work in the Milwaukee area. In 2010 the City had net new construction growth of 0.93% or \$19 million. The City added 126 residential parcels, which were primarily from the border agreement with a neighboring municipality.

The City is home to a diverse business base. The 145-acre Oconomowoc Corporate Center features office and light industrial sites for several area companies. The City is also expecting continued industrial and commercial development in the 1,100 acre Pabst Farms area. The Pabst Farms development is a mixed-use development with industrial, commercial, residential, school and institutional uses with open space preservation. The Pabst Farms development will have a major impact on western Waukesha County.

The Roundy's Distribution Center and Target Distribution Center are located in the City near Interstate 94 and State Highway 67 interchange. The Roundy's Distribution Center, located within Pabst Farms, was completed in 2005 and comprises 1.065 million square feet and employs approximately 590 people. Target Distribution Center opened in 1994 and underwent an expansion in 2002. The Target facility is 1.5 million square feet and employs about 650 people.

The City's 2009 overall net property tax rate of \$15.79 per \$1,000 of estimated actual value ranks 184 out of all 190 Wisconsin cities. In 2010 the City's overall net property tax rate increased to \$16.54, primarily the result of an increase in levy for the Oconomowoc Area School District. As a public power community, the City is able to provide its residential customers with electric rates averaging approximately 17 percent lower than the rates charged by the large investor-owned utility that services the surrounding communities. Oconomowoc's average 2011 annual sewer and water charge per household was \$568 compared to \$743, the average for area communities. Local economy indicators continued their favorable trends. For example Waukesha County's unemployment rate continued to compare favorably to the state and national average rates as well as the City's adjusted gross income per tax return compared favorably to Wisconsin's average. We expect these trends to remain favorable in the future.

Long-term Financial Planning

The City continues to focus on how to improve Oconomowoc's services and vitality. The City has committed to improving Oconomowoc through various actions and continues to improve their long-term financial planning efforts.

The City is guided by its Zoning Ordinance and 2030 Comprehensive Land Use Plan, adopted in 2010 to manage development until the year 2030. In addition to the Comprehensive Land Use Plan, the City has also adopted plans relating to Downtown revitalization, parking, and waterfronts, the Southwest Summit Avenue area, and the River West Neighborhood. These plans focus on the applicable specific areas within the City and the unique characteristics each area encompasses. Together, these documents serve as guides to growth and development in the City and the surrounding area. As long range planning tools, these documents are concerned with a wide variety of environmental, economic and social factors for areas currently within the City's corporate limits and beyond. City officials use these land use plans as a policy guide to direct community development decisions, to assist with community facility budgeting, and to focus and stimulate private housing, business, and industrial investment decisions. These plans contain detailed recommendations for community character, land use, transportation, recreation, community facilities, and utilities, as well as extensive recommendations to ensure the implementation of the plans.

The Common Council approved the creation of TIF No. 3 district in 2001 to promote industrial development in the Pabst Farms annexed by the City in 2000. The district is located at Interstate 94 and State Highway 67 interchange and includes approximately 543 developable acres of land in which the City will provide the necessary public infrastructure improvements. Overall the estimated costs to provide infrastructure within the boundaries of the district are \$43.1 million with the City contributing approximately \$20.7 million and the developer contributing the remaining \$22.4 million. The City's total costs for the project are limited to \$24,311,588 which includes public infrastructure costs, capitalized interest and debt issuance costs. When the development is completed this district is expected to bring approximately \$298 million of value onto the tax rolls. Overall the Pabst Farms development comprises approximately 1,100 acres of land, which includes lands within and outside of TIF No. 3.

The City of Oconomowoc has established the revitalization of the downtown and adjoining neighborhoods as a top priority. It is a goal of the City to maintain the downtown as a healthy, vibrant area and a center of community activities. As a result of this effort the Common Council approved and created TIF No. 4 during 2003. The district was created to finance public works improvements, provide incentives to the private sector to assist in the elimination of blighted conditions and lastly to stimulate planned commercial, housing and mixed-use development within the district. In 2006 the Common Council amended TIF No. 4 to address the increased scope of the public infrastructure investments in the downtown. The TIF amendment changed the boundaries as well as increased the project costs. Overall the estimated costs within the district are estimated to be \$22.6 million with the district funding approximately \$13.2 million and the remaining funds to come from various other sources. When the district is terminated it is expected to bring approximately \$66.7 million of value onto the tax rolls.

Other examples in which the City continues to take an active role in the downtown development and redevelopment include the implementation of the downtown revitalization plan and market analysis in partnership with the CDA (Community Development Authority). This plan, which was approved in 2004, will serve as a tool and vision for the future of Oconomowoc's downtown image. In conjunction with this effort the City adopted a redevelopment plan for a block within the downtown area. The redevelopment plan will give the CDA the ability to exercise certain powers to remove blight in the designated project area. In 2009, the City adopted the Downtown Waterfront and Parking Solutions plan. The Plan goal is to create the most compelling, memorable, and beloved waterfront destination in the Heart of Lake Country – Downtown Oconomowoc. Through the implementation of these efforts the downtown will continue to attract businesses, residents, and visitors to our community. In addition, the City is working with the Oconomowoc Area Chamber of Commerce, as well as independently, in soliciting new and appropriate retail to our downtown and in establishing initiatives to ensure the downtown vitality for years to come.

The Highway 16/Highway 67 bypass was completed in 2006 and now routes east-west traffic around the City to the north. This project will relieve problems of traffic congestion, safety, noise and pollution in the downtown. The bypass was constructed by the Wisconsin Department of Transportation. In 2008, the State of Wisconsin returned jurisdiction of Wisconsin Avenue (Former STH 16) and a portion of Main Street (Former STH 67) to the City. As part of the reconstruction and jurisdictional transfer, the City incorporated streetscaping and infrastructure improvements that support the downtown revitalization plan efforts.

The City will continue to plan for growth within our borders as well as our border expansions through attachments and annexations. Currently development is occurring within all four quadrants of the City and includes both residential and commercial growth. The City anticipates that the residential parcel count could double within the next 15 years. In 2009, the City attached about 170 parcels from the Town of Summit representing approximately \$44 million in equalized value as of 12/31/09 as part of a cooperative boundary agreement. This growth will have implications on our future capital needs as well as operating expenses. The City continues to plan for this growth through our long-term planning efforts.

In addition to the efforts detailed above, the City annually updates and adopts a five-year long-term financial plan/capital improvement plan. This plan focuses on the strategic initiatives of the City and addresses the City's capital and operating needs over five years. This document assists the Council in setting the priorities of the City as well as determining how we will finance the needs of the City in the future.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Oconomowoc for its comprehensive annual financial report (CAFR) for the year ended December 31, 2009. The Certificate of Achievement is a prestigious national award-recognizing conformance with the highest standards for preparation of state or local government financial reports. In order to be awarded a Certificate of Achievement, the government had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City of Oconomowoc received its first Certificate of Achievement in 1994, and has received it in all subsequent years except for 1997 when a report was not submitted. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report was made possible through the dedicated services of the Finance Department staff, other City departments, and our independent auditors. We express our appreciation to all the City staff that assisted and contributed to the preparation of this report. We also thank the Mayor, the City Council, and the City Administrator – without their leadership and continuing support, preparation of this report would not have been possible.

Sincerely,



Sarah Kitsembel, CPA
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Oconomowoc
Wisconsin

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

