



# MEMO

TO: Village Board of Trustees

FROM: David De Angelis, Monica Hughes, Tom Harrigan

DATE: January 21, 2022

RE: Agenda Items

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Village staff has received multiple requests from Trustees to identify the impact of a \$1 million dollar limit on public works projects with a binding referendum. The requests generally fall into the following question categories:

1. What is the impact of timing on project planning and implementation with a \$1 million dollar cap?
2. Is there a financial impact of going to referendum on the project costs or the Village in general?

## Item 1.

Project timing for any public works contract, which includes utilities, roads, buildings, etc., would see significant delay, extending the time prior to project commencement. The current review and approval process for these projects, except emergency projects, begins with the initial point of authorization from the Village Board of Trustees to investigate/consider a project. The project then goes through the committee system for planning and refinement. This process can be lengthy and involve outside contracted assistance which comes with a cost to the Village. Upon completion of the plan design and engineering, the engineers estimated project cost can be determined. The project will then be presented to the Village Board of Trustees for recommended action and to the Finance Committee for inclusion in the budget or a recommendation on funding with outside funding sources. The Finance Committee recommendation is submitted to the Board for their final action.

In the case of a project, which might qualify for a referendum, there would need to be a pause in the process after initial project scope investigation. Any project alternatives the Village may want to be considered should be investigated, the financial impact considered, and how it fits into the referendum limit. A preliminary cost estimate would then need to be done. Any project with an estimated cost above \$600K should be considered as a potential candidate for referendum, due to costs estimation and the low level of project detail at this initial investigative phase.. The process would continue as typical until final updated cost estimates are done.

A project estimated to be within 20% (\$800,000) of the referendum limit should then be prepared for referenda due to the volatile nature of bidding. At that point there would need to be an identification of the next available election for the purpose of holding the referendum. Any referendum needs to be initiated with an approved resolution by the Board of Trustees, with the exact language as to appear on the ballot, no later than 70 days prior to the election for submission to the County Clerk. There are potentially four elections in even years and two in odd years. The following is an approximation of dates as each is different due to actual election dates.

<b>Election</b>	<b>Resolution Due Date</b>
Spring Primary (February)	Mid-November
Spring (April)	Mid-February
Fall Primary (August)*	Mid-May*
Fall (November)*	Mid-August *

\*Even numbered year only

There is always the opportunity to call a special election with the same 70 day notice, but those elections will cost between \$3000-\$4000<sup>1</sup> and require a substantial amount of public outreach, which typically results in a small voter turnout.

## Item 2.

As you can see from the above dates, depending on the timing of the project being moved forward, it could add 4-8 months to the approval timeline, depending on the election year. The other consideration is the bid timing for certain types of construction projects, such as bridges and roads. Due to contractor availability, these projects are usually bid for the upcoming year in the late fourth quarter of the prior year, or early first quarter for that year's work. Not meeting those bid times will often result in; no bids, bids not received from known quality contractors, and cost increases due to contractor demand or inflationary increase as a project is moved to a future year. As an example for any project delayed this year into next year it is currently being estimated at a minimum 8% increase in cost (See attached letter). Also attached is a spreadsheet of the most recent projects that would have been impacted by a \$1 million referendum as well as an explanation of recent financing impacts on the tax rate if it is necessary to add them to the tax levy.

Below are other questions that have been expressed concerning Village operations in light of a referendum limit. At this time the Village does not have the answers to the correct operating process within the referendum limitations.

- Since detailed design and engineering are part of every project contract and accurate pricing is not known until bids are received, how is the board to decide what should go to referendum? (The recently completed Splash Pad project was estimated to cost \$750,000 to \$800,000 but bids came in over \$1,000,000.)
- How does the Village perform necessary investigation and analysis to consider projects if we cannot spend money before selecting final designs and getting bids?
- What happens if a project proposal is not put to referendum but after approval and constructions has begun unforeseen circumstances push the expected cost over \$1,000,000?
- Some public works projects which benefit the Village as a whole could suffer referendum defeat due to geographic parochialism or other short term economic issues.

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<sup>1</sup> Special Election cost estimates are based average election costs: Election Inspectors, ballot printing fees and postage (absentee ballots).

- Since we could not guarantee that a project would be approved, we would likely put a couple projects on the referendum list. What happens if both get approved and we do not have enough money to finance both? What happens if none get approved? Do we let certain roads crumble because residents do not vote for their re-paving?
- Any road re-construction over ½ mile in length would be around \$1M. So the Village would be forced to do small sections of roads which does not allow for any economy of scale and would lead to the Village doing multiple small projects annually.
- Is it legal to break projects into smaller pieces to avoid the referendum dollar limit?
- How does a Village Board pay to get enough accurate information to adequately inform the voters on a major project?

Another newly emerging problem will be the inability to apply for ARPA funding this year under the current rules being put forward that require all projects need to be applied for in January and February of this year for construction. Without the ability to ensure we can enter the contract I am not sure at this time how or if we can proceed with any applications.

If you have any questions please do not hesitate to contact anyone of us.

## Example Cost of Financing

The question was posed how a \$1 million dollar project or a \$5 million dollar project will affect the village taxpayer/tax rate. The first assumption would be that the project would be financed through borrowing as the Village does not have that amount of funds on hand to support project (except perhaps for a sewer project)

An example would be the 2019 HVAC project which was \$1,000,000. The Village used the State Trust Fund Loan program and borrowed \$1,000,000. The borrowing was for a 10 year period at an interest rate of 4.5%. Repayment of this debt obligation required \$126,400 annually. This amount added to our tax levy would amount to \$0.11 per thousand in assessed value. On the average home valued at \$514,500 this would mean a tax cost of \$56.60 annually.

The cost is dependent on the borrowing terms both interest rate and length of repayment. In late 2019 we issued general obligation bonds in the amount of \$2.425 million. The repayment term was 20 years and the interest rate ranged from 1.34%-2.85%. This borrowing supported building the splash pad, additional funding needed for Watertown Plank Road pathway and the refunding of the HVAC State Trust Fund Loan to take advantage of the better interest rate and extended repayment term. This borrowing of 2.425 million required annual debt payments of approximately \$155,000. This amount added to our tax levy would require a \$0.13 increase per thousand of assessed value. On the average home value this would mean a tax cost of \$66.89 annually.

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<sup>i</sup> 1/1/21 assessed value without TID2= \$1,214,120,465  
1/1/21 Average home value per assessor \$514,500

village of Elm Grove  
Projects over \$500,000

<u>Year Began</u>	<u>Project</u>	<u>Amount</u>
2019	Splash Pad`	1,058,500
2019	HVAC Village Hall update	998,800
2019	Watertown Plank Road Pathway	635,300
2016	Watertown Plank Road Bridge	791,000
	Underwood Creek sewer interceptor with City	
2016	of Brookfield- Village Share	685,600
2013	Municipal Water-Heritage	893,500
2011	WTPR reconstruction	2,246,800

January 21, 2022

Mr. David De Angelis  
Village Manager  
Village of Elm Grove  
13600 Juneau Boulevard  
Elm Grove, WI 53122-0906

Re: Gebhardt Road and Highland Drive Improvements  
Potential Impacts from Bidding Schedule Delays

Dear Mr. De Angelis:

As requested, we have reviewed the potential financial impacts of delaying the bidding and construction of the Gebhardt Road and Highland Drive Improvements project. The scope of the Project includes 2,500 linear feet of Gebhardt Road reconstruction, 2,500 feet of new pedestrian path along Gebhardt Road and 850 linear feet of Highland Drive reconstruction. The project was scheduled to bid out in late March or early April of 2022 so that construction could commence in the summer of 2022. Currently, we estimate the project would cost approximately \$1,535,000.

In our professional opinion, delaying work on the Gebhardt Road reconstruction project presents a high risk of adding significant cost to the project. If bidding this project is delayed to May of 2022, there is a potential for bids to increase between 5 to 10 percent. Depending upon the current bidding climate, Ruekert & Mielke, Inc. has historically seen contractors having a full schedule of work lined up by this time. We are already seeing a significant amount of municipal work being bid out for construction in 2022.

When contractor schedules are full, they do not bid on additional work resulting in less competition and higher construction pricing by the remaining bidders. Additionally, we have seen contractors that have a nearly full work schedule for the season also raise bid prices. A one-month delay in the project bidding schedule could increase the cost of this project approximately \$77,000 to \$154,000.

A one-month delay in bidding presents another risk. With acute labor shortages in the construction industry, Elm Grove may find that no contractors bid on the project at all. In that case, Elm Grove may need to bid the project to be built in 2023, causing a ten-month delay to the start of construction. If construction were delayed that long, inflation would likely impose a significant cost increase on Elm Grove.

In recent months, inflation has increased markedly. The Engineering-News Record (ENR) provides the Construction Cost Index (CCI), which is the industry standard for inflation. The CCI indicates that inflation has almost quadrupled from one year to the next, escalating from 2.1 percent from January 2020 to January 2021 to 8.0 percent from January 2021 to January 2022. Conditions that provoked this rapid increase in cost include the pandemic, material shortages from supply-chain difficulties and labor scarcity. We have seen no signs that these conditions are improving. It is possible these conditions may even continue to deteriorate or result in even higher adverse impacts on project costs.

The ten-month delay in starting construction could cost Elm Grove approximately \$102,000. This estimate is based on a conservative approach of applying the recent annual historic inflation of 8.0 percent for ten months. Given that inflation could accelerate, \$102,000 likely provides the lowest estimate for a ten-month delay.

Mr. David De Angelis

Re: Gebhardt Road and Highland Drive Improvements - Potential Impacts from Bidding Schedule Delays

January 21, 2022

Page 2

Regardless of the length of a delay, the outcome for Elm Grove would likely be significant cost increases. The risk of the cost increases explained above can be avoided if the project is bid out according to Elm Grove's current project schedule.

Please contact our office with any questions regarding this matter. Thank you for allowing us to be of service to the Village of Elm Grove.

Respectfully,

RUEKERT & MIELKE, INC.

A handwritten signature in blue ink, appearing to read "Anthony D. Petersen".

Anthony D. Petersen, P.E. (WI, IA)

Senior Project Manager

[apetersen@ruekert-mielke.com](mailto:apetersen@ruekert-mielke.com)

ADP:adp

cc: Edward F. Maxwell, M.B.A., Ruekert & Mielke, Inc.  
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