
2016 Proposed Executive Budget

**Presentation to the Finance
& Personnel Committee
October 6, 2015**

Presentation Goals

1. Establish an understanding of budget revenues, expenditures, and structural conditions
2. Identify recent improvements to structural condition and remaining challenges
3. Provide the 2016 Proposed Budget “Bottom Line”
4. Identify key expenditure initiatives and proposed changes

Fundamentals

- ***Structural balance***: circumstances under which projected revenues under current policy are adequate to fund existing service levels for an ongoing period
- ***Capitalization***: the total investment of the owner in a business enterprise. In this presentation, “capital” is used in a broad sense, i.e., funds applied to city government, regardless of fund type (e.g., capital, operating, enterprise)
- ***Legacy***: something that remains from a previous generation or time; an outdated system

City Strategic Objectives

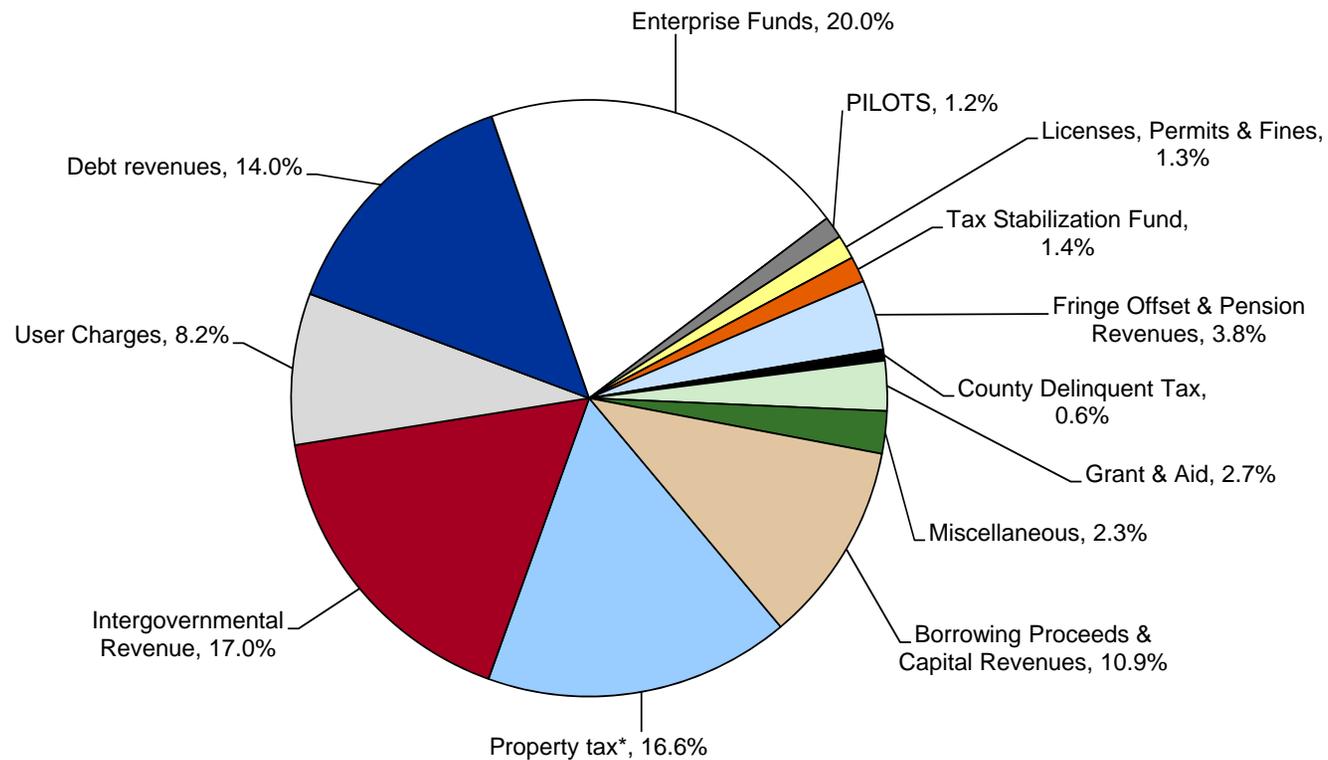
Mission Delivery

1. Build safe and healthy neighborhoods.
2. Increase investment and economic vitality throughout the city.
3. Improve workforce development and connect more citizens to family supporting jobs.
4. Help children succeed, prepare for post-secondary education, and meet their full potential.
5. Sustain Milwaukee's natural environmental assets.

Financial Performance Measures

1. Provide mission critical services through budgets that limit the impact of tax levy and municipal service charge changes on the typical residential property to 3% or less a year.
 2. Manage long term obligations such as core infrastructure, debt, and pension benefits in a manner that stabilizes ongoing funding requirements.
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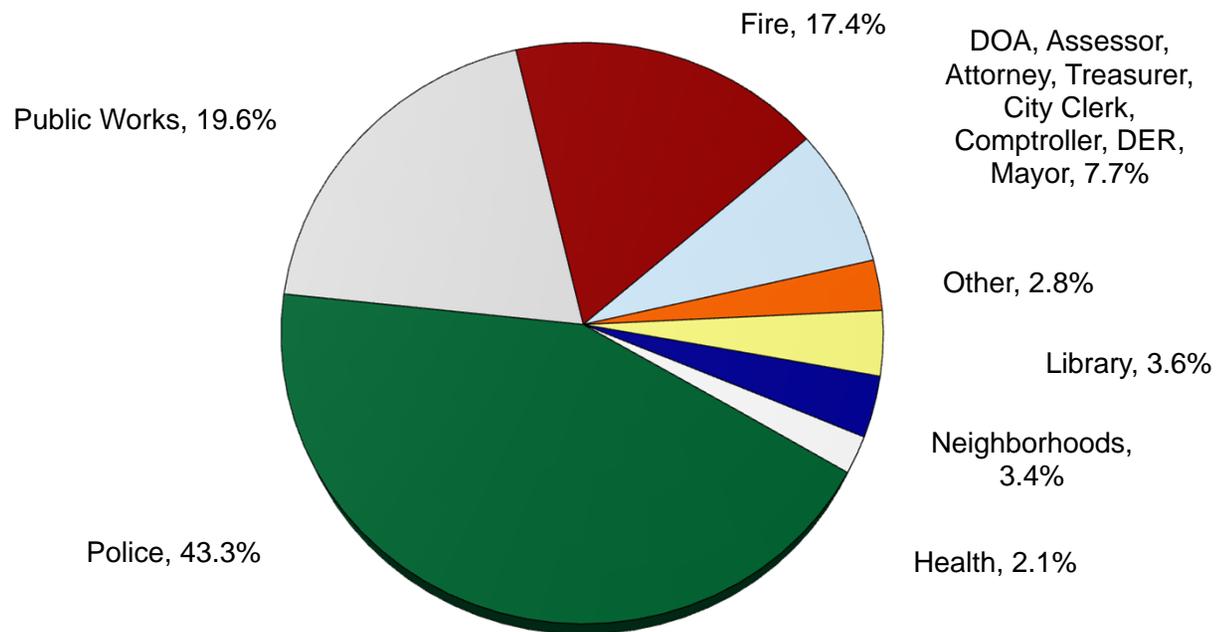
City of Milwaukee 2016 Revenue Sources: All Funds



* Property tax revenue for all funds. This includes the budgets for the General Fund, Capital Improvements, City Debt, Retirement Provisions and the Contingent Fund.

Tax Levy-Funded Operating Budget: By Department

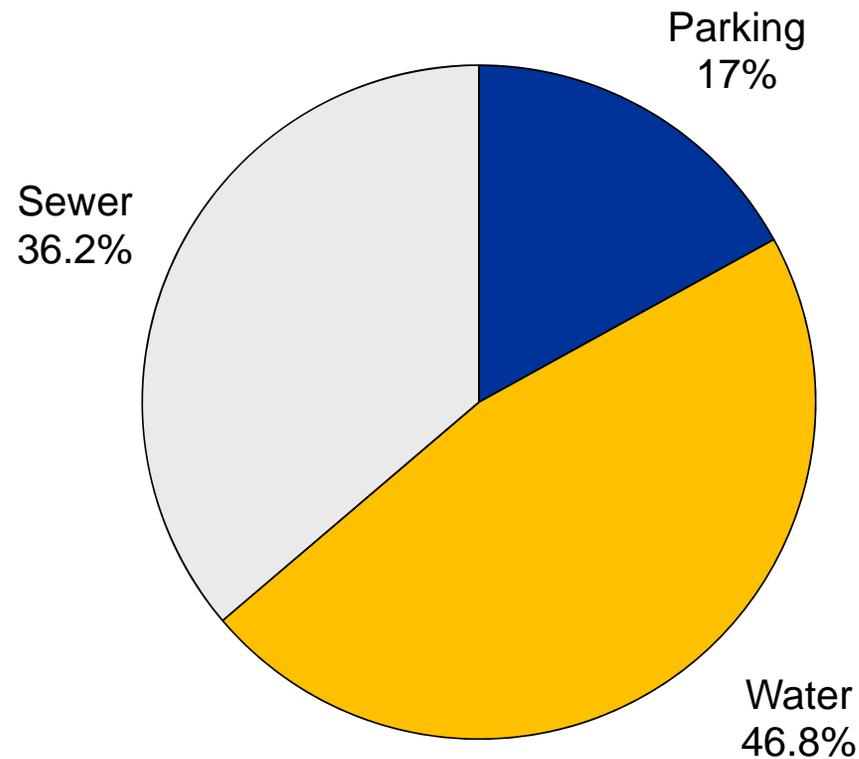
2016 Proposed Budget



Note: Does not include \$299.66 million of DPW-operated Enterprise Funds (Parking, Sewer, Water). Three departments (DPW, Police, Fire) comprise 80.3% of the 2016 Operating Budget.

City 2016 Major Enterprise Funds

Total Combined Budget = \$299.66 Million



Enterprise Funds rely on revenues from their own operations. They receive no property tax support.

2013-2016 Structural Update: Resize, Restructure, and Reinvest (“3 R”)

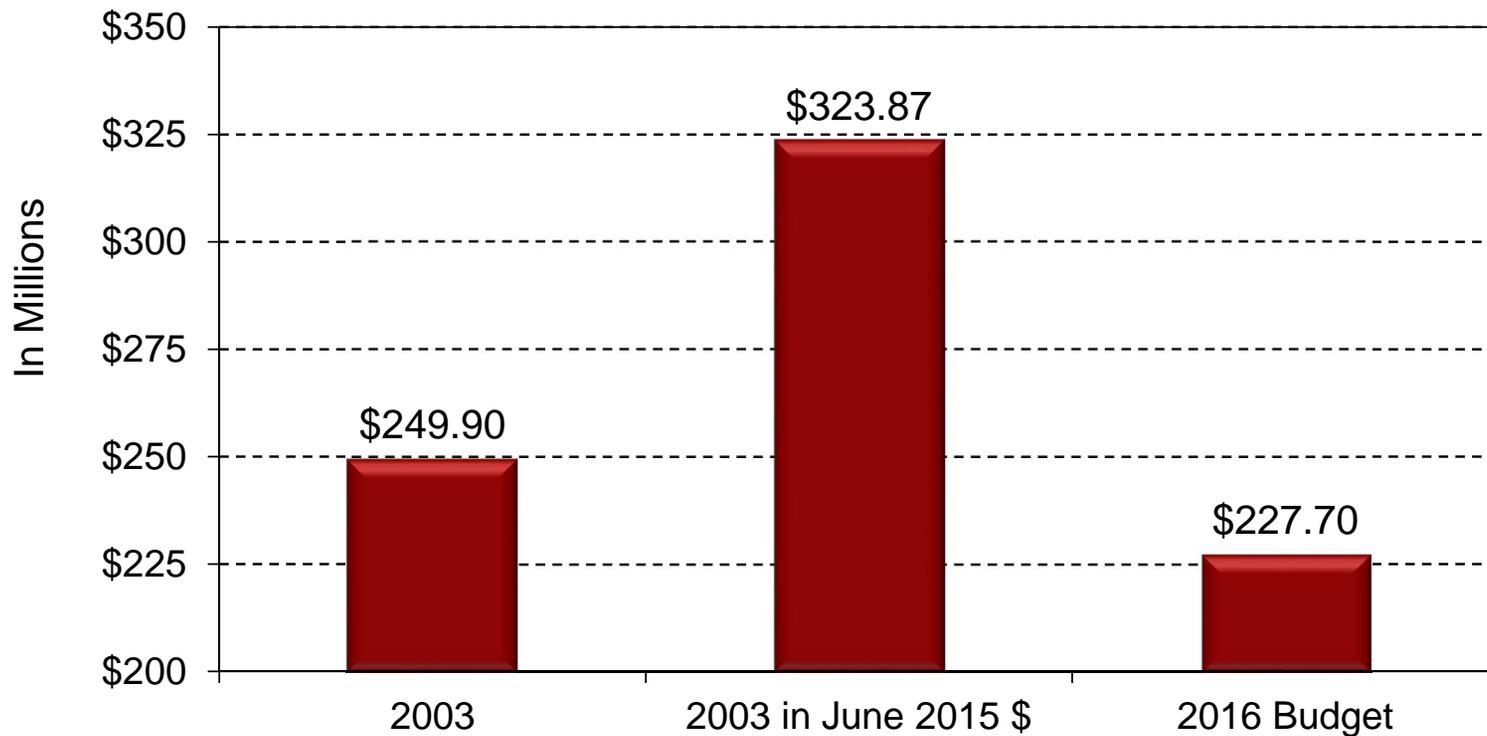
1. 2013 Budget projection: \$65-\$75 million of structural improvement needed by 2016
2. The 2013 and 2014 Budgets produced a total of ~ \$31 million of structural improvement as part of “3 R” strategy
3. In addition, employer pension contribution prepayment strategy and lower than projected health benefit costs have contributed to about \$25 million of improved structural condition
4. Resulting 2016 improvement needed: ~ \$10 million
5. Outline of 2016 approach
 - Modest General City Purpose revenue growth of \$3.54 million
 - Increased General City Purpose Reserve use (net): \$4 million
 - Increased Public Debt Amortization Fund Withdrawal: \$1.5 million
 - Reduced Employer’s Pension Reserve use: \$-3.4 million
 - Reduced Employee Health and Workers’ Comp Costs: \$-5.6 million
 - Reduced baseline department expenses: \$-2.5 million

Key Challenges to Structural Balance

1. Continued decline in inflation-adjusted State Aid
2. Slow growth in non-property tax revenues
3. “New normal” for Employer Pension Contributions
4. Fringe benefit impact on “free cash flow”

State Shared Revenue Trend

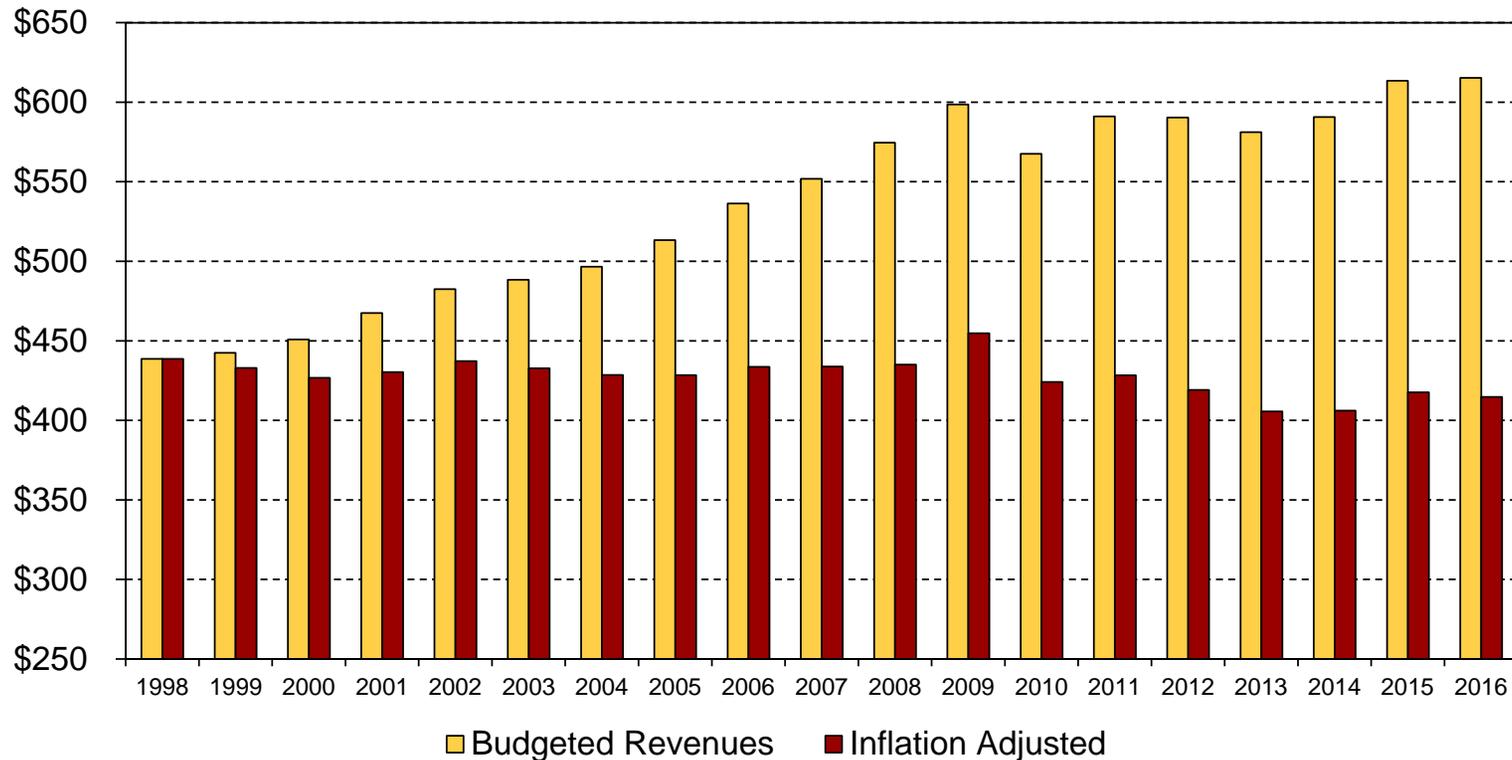
Decline in State Shared Revenue and Expenditure Restraint Program (ERP) Payments to Milwaukee, 2003 - 2016



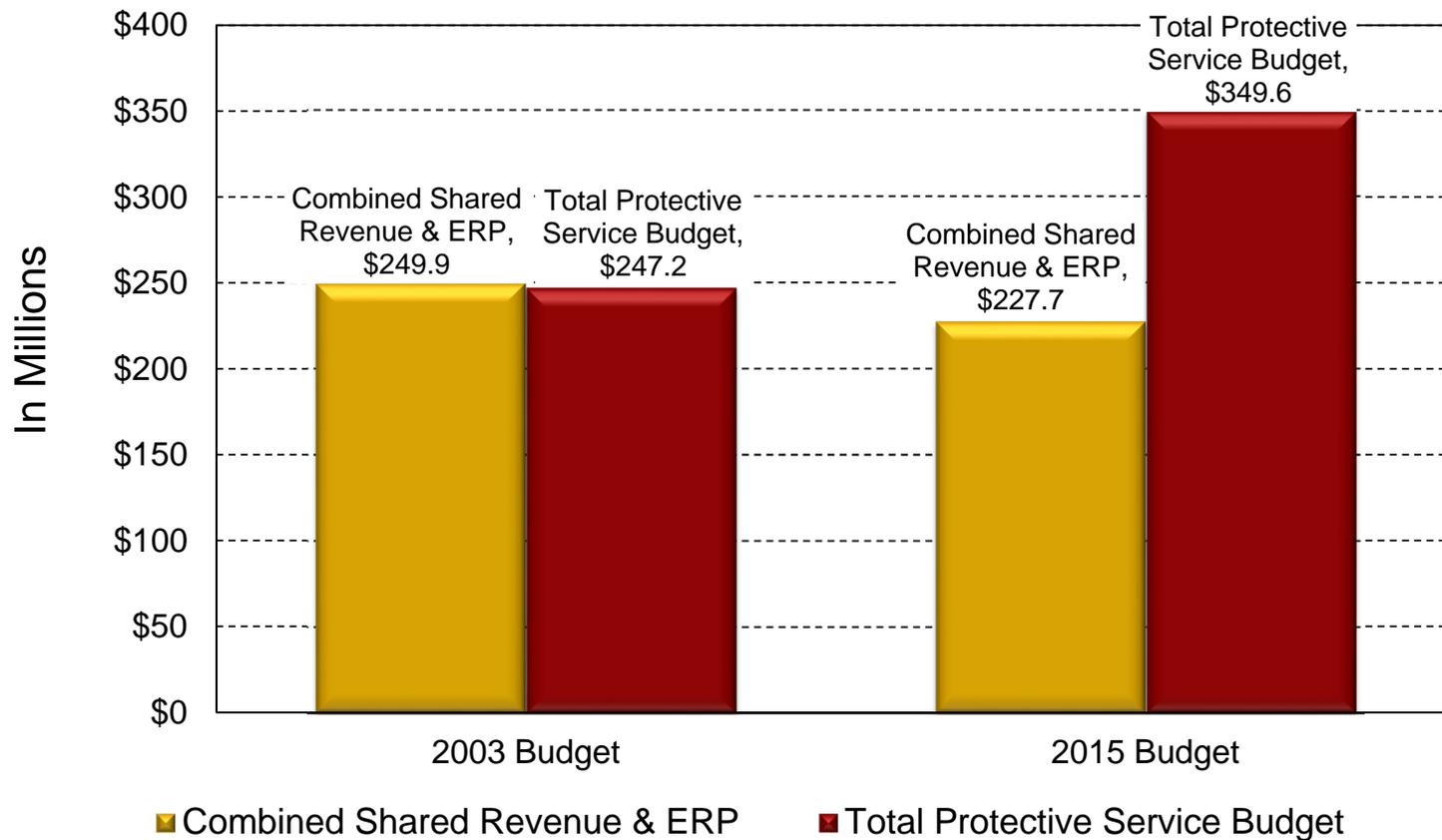
*Inflation adjusted decline in Shared Revenue and ERP payments = - \$96.17 million (-29.7%).
Source: U.S. Bureau of Labor Statistics: CPI-U Tables; City Budget Documents.*

Non-Property Tax Revenue Trend

General City Purpose Revenues
1998 – 2016 (In Millions)



State Shared Revenue & Expenditure Restraint Program (ERP) Compared to Police & Fire Budgets

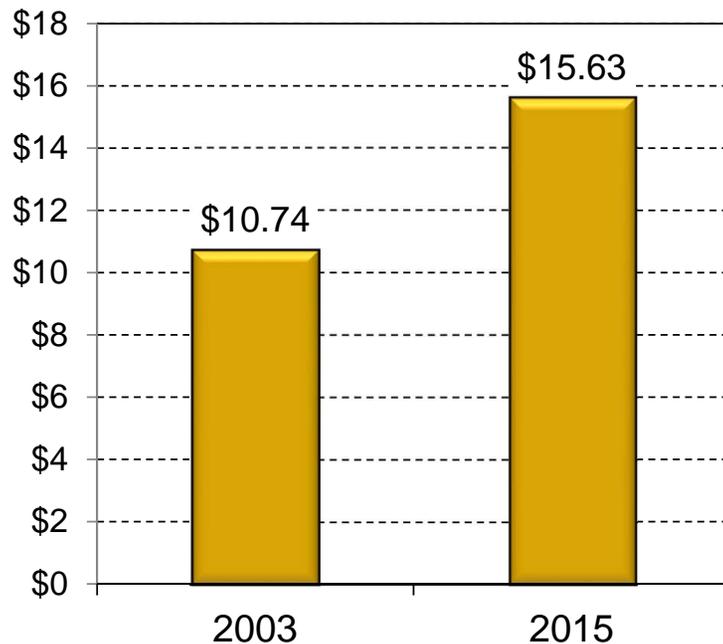


Source: City of Milwaukee Budget Documents

Trends in State General Revenue (GPR) and MKE Shared Revenue: 2003 and 2015

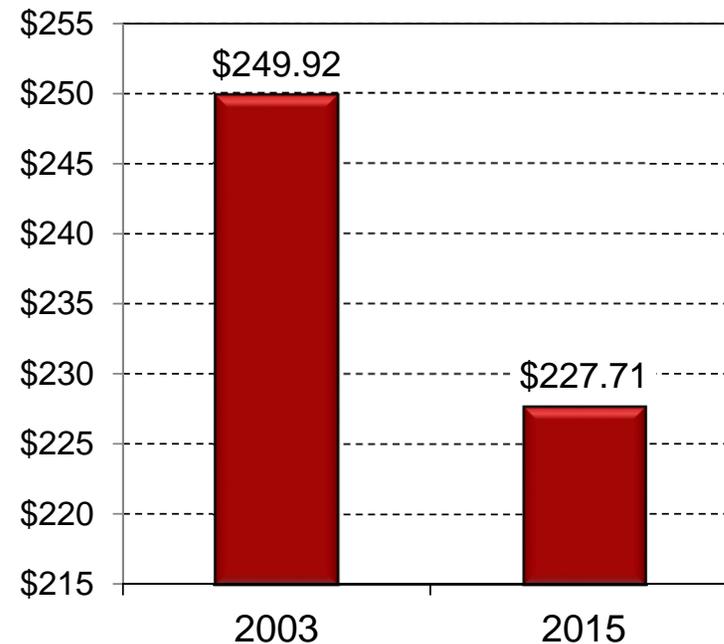
State GPR

In Billions



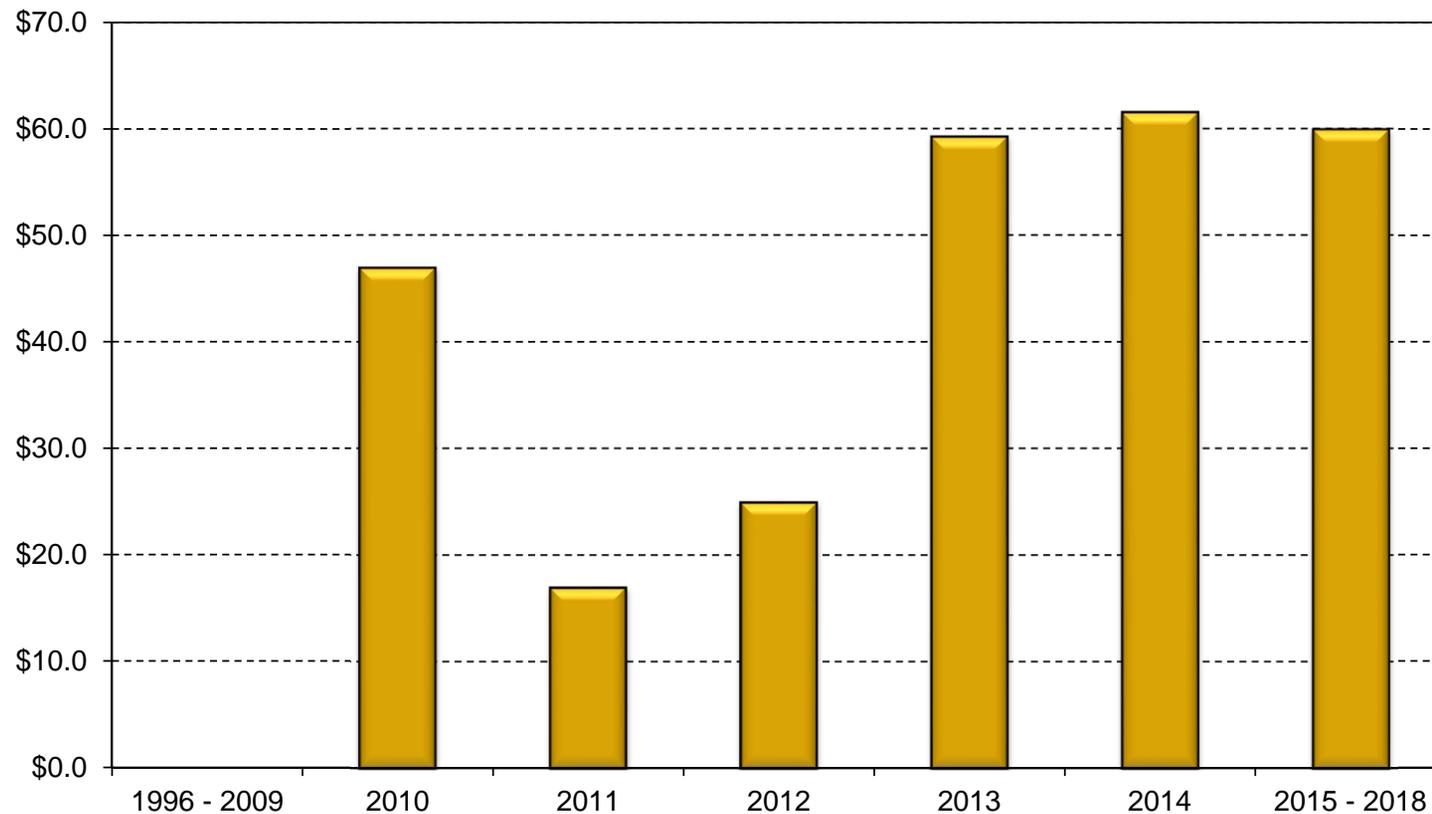
MKE Shared Revenue

In Millions



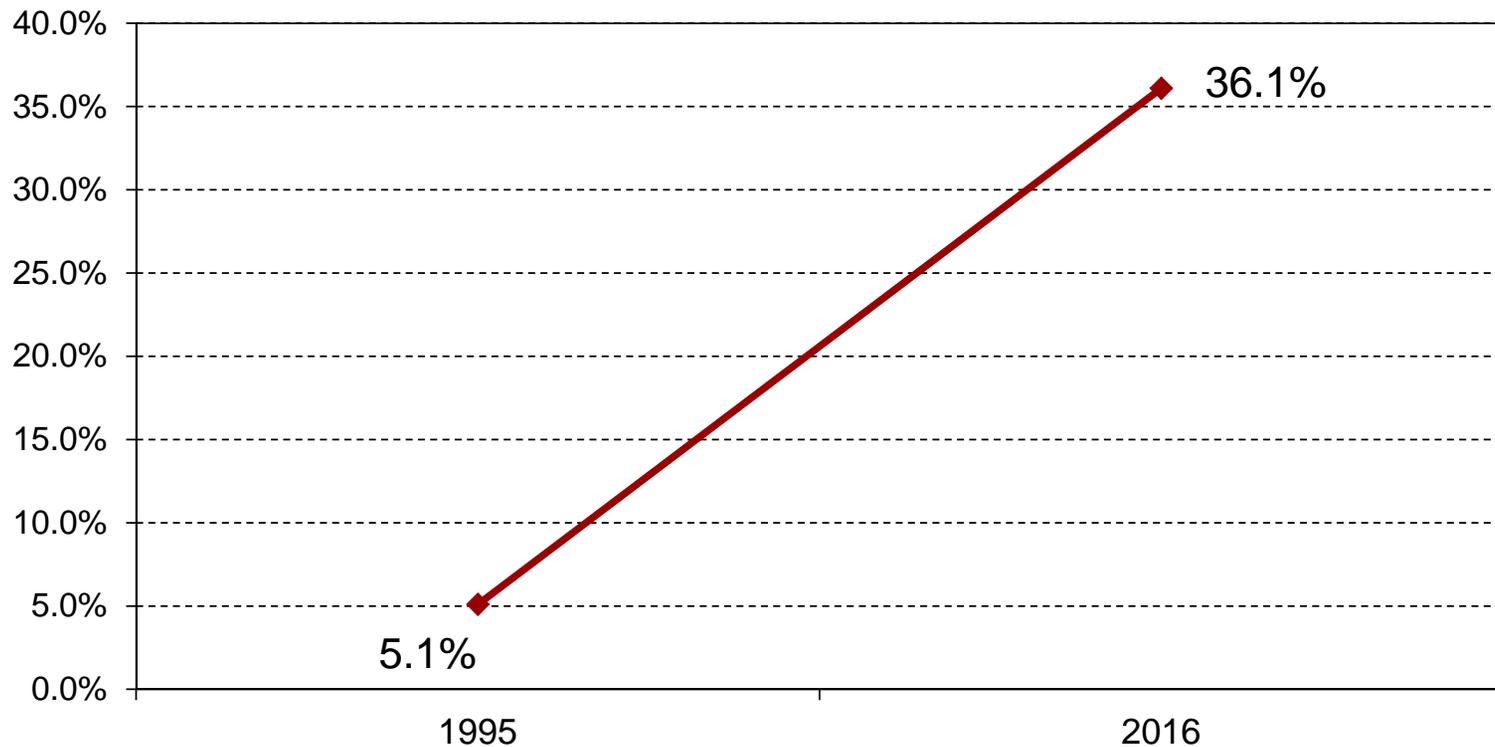
Source: WI Legislative Fiscal Bureau; City of Milwaukee Budget Documents

“New Normal” for Employer Pension Contributions



*Contributions in 2011 and 2012 were made to the employer's pension reserve.
2015-18 bar represents a projection of annual cost.*

Employee Health Care Benefits and Employer Pension Contributions as a Share of Tax Levy and Shared Revenue: 1995 and 2016 Proposed



* Shared Revenue includes Tax Disparity/Expenditure Restraint Program Revenue

A Note on Fringe Benefit Rates

1. Fringe benefit rates are informational => aid in portraying full cost of a department's personnel
2. Fringe benefit expenditure authority is budgeted within various accounts
3. Rates for Fire and Police have increased from 42% and 41% to 57% and 54%, respectively
4. Key factor: rate recognition of full pension "normal cost" for each employee group

Financial Performance Overview

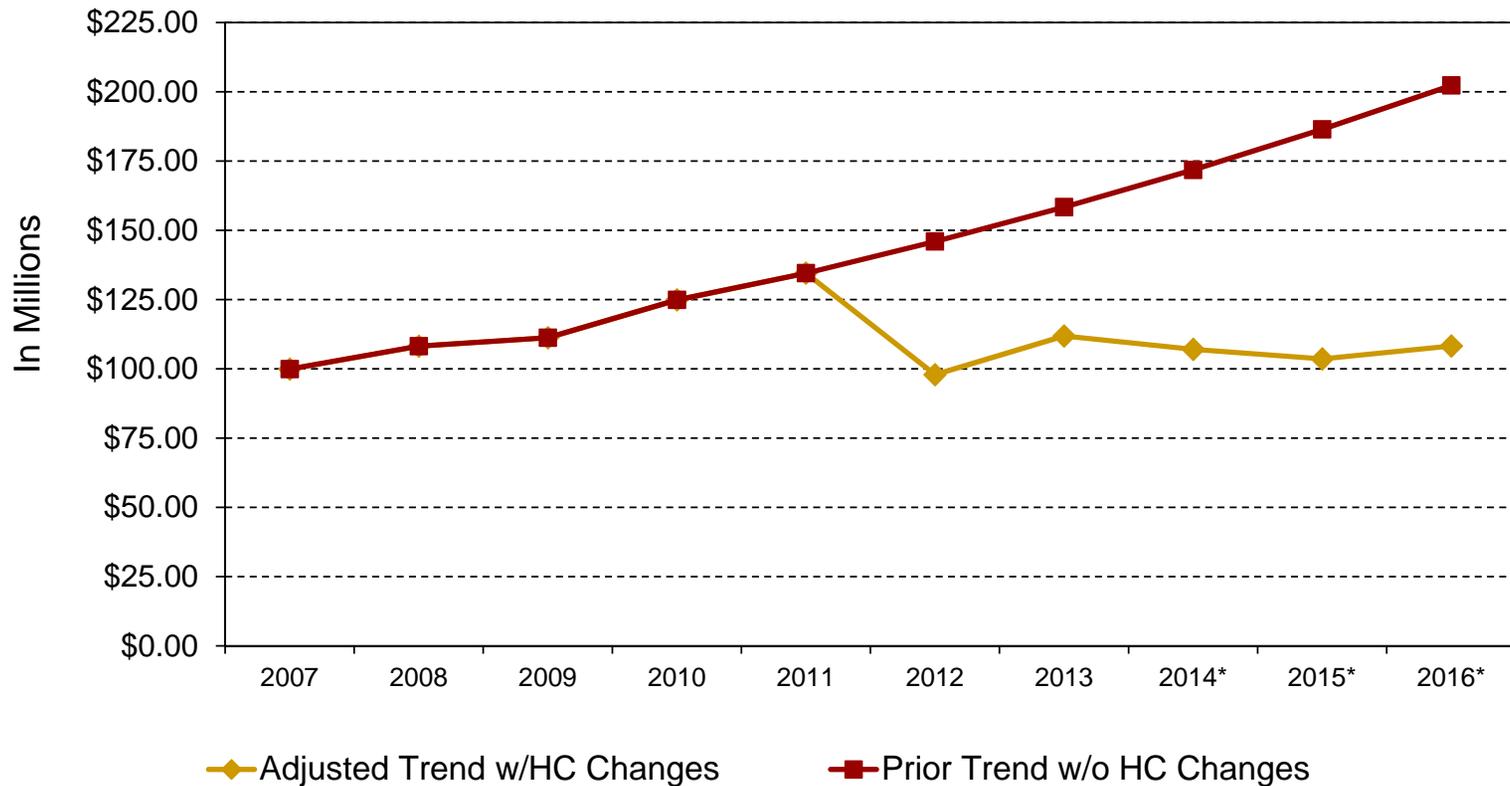
- The City has responded effectively to the challenges posed by the 2007-2008 Global Financial Crisis
 - Budget strategy has adjusted to changing circumstances via a 3-pronged strategy => “Resize, Restructure, and Reinvest”
 - Improved pension plan and fringe benefit sustainability
 - Redevelopment enhances future tax base
 - Strong Neighborhood Plan
 - Commitment to Safe Neighborhoods
 - Improvements to Core Infrastructure
 - 553 net funded FTE reductions 2009-2013 from 2008 base

Opportunities for Improving Structural Balance

1. Managing Employee Health Benefits frees up resources for services
2. Pension funded status and stable employer pension contribution avoids annual volatility
3. Stabilizing Debt helps to limit levy increases
4. Strong Reserves and fund balances help stabilize critical service levels and the tax levy
5. Cost Recovery for Municipal Services enables redirection of levy to non-revenue generating services

Managing Health Care Expenditures

Health Care Expenditure Trend



* Projected

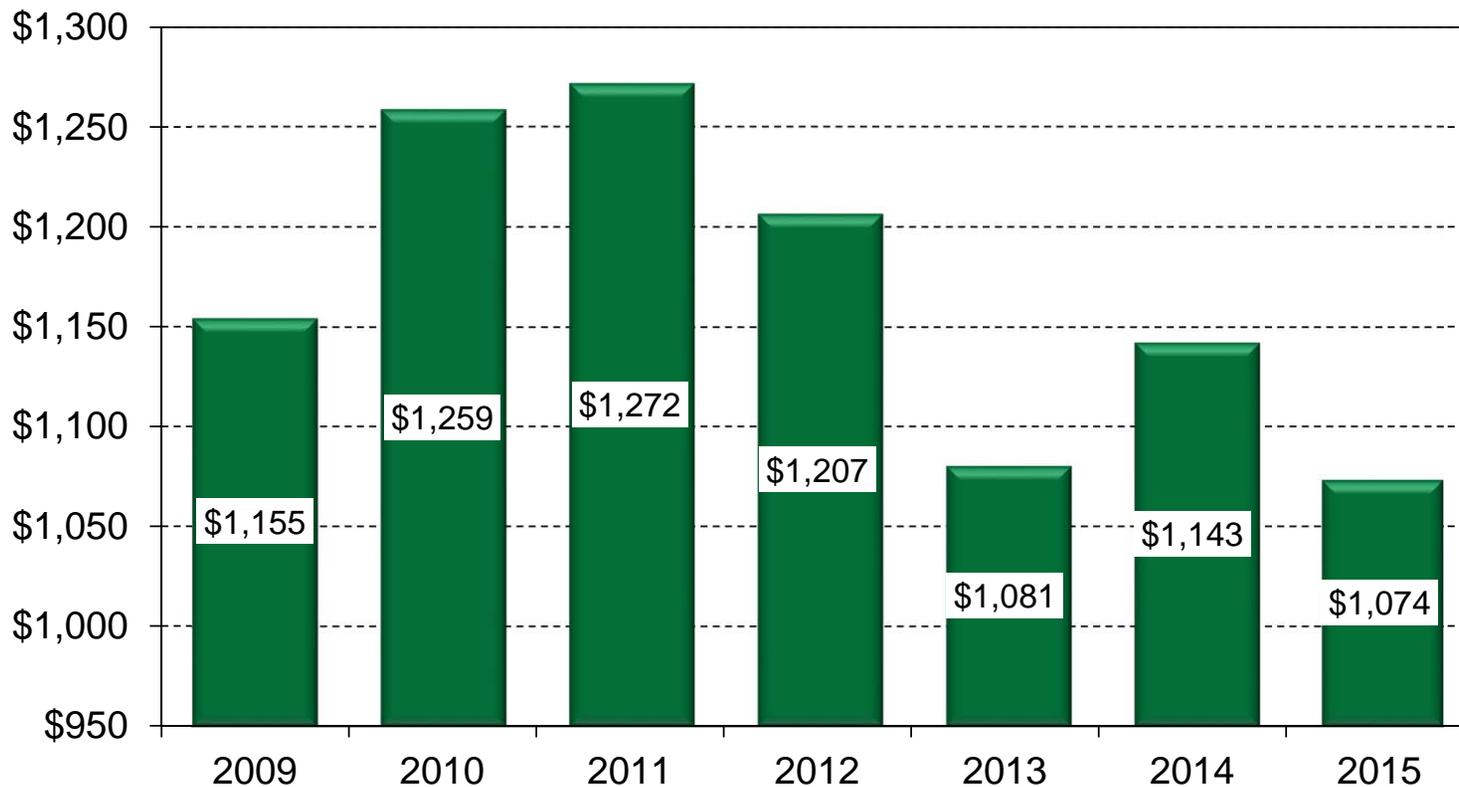
Funded Status of Peer City Pension Plans, 2014

CITY	FUNDED STATUS
Baltimore Employees' Retirement System	69.7%
Baltimore Fire & Police ERS	74.2%
Chicago Municipal Employees A&B Fund	40.9%
Chicago Policemen's A&B Fund	26.7%
Chicago Firemen's A&B Fund	23.1%
Chicago Laborer's & Retirement Bd. A&B Fund	65.7%
Cincinnati Retirement System	64.7%
Milwaukee Employes' Retirement System	97.2%
Pittsburgh Municipal Pension Plan *	62.4%
Pittsburgh Policemen's Relief & Pension Plan *	56.6%
Pittsburgh Firemen's Relief & Pension Plan *	56.7%
St. Louis Police Retirement System	80.1%
St. Louis Firemen's Retirement System **	100%
St. Louis Employees' Retirement System	80.9%

- * Pittsburgh data are for 2013. ** Plan frozen as of 10/1/13.
- Source: Plan actuarial reports.

City Debt is Stabilizing

GO Debt Per Capita



Source: Annual CAFR's

2016 Proposed Budget “Bottom Line”

1. General City Purposes Budget: + 0.2% (\$1.8 million)
 - ❑ Department-controlled expenses: + 1.3% (\$6.2 million)
 - ❑ \$5.6 million decrease to Employee Health Care Benefits and Workers' Compensation appropriations
2. Total tax levy: +0% (frozen levy)
3. Proposed non-property tax revenues: +0.7% (\$3.54 million)
4. Expenditure Restraint Program (ERP) operating expense limit for 2017 aid eligibility affects 2016 Budget decisions
 - ❑ ERP Aid = \$8.72 million in 2016 Budget
 - ❑ There is an estimated ~\$1.6-\$1.9 million difference between 2016 proposed operating budget and the estimated ERP limit for 2017 aid eligibility.
 - ❑ ERP threshold will be finalized in October
 - ❑ Operating expense total over the limit (regardless of funding source) would disqualify City from 2017 ERP aid

2016 Proposed Budget “Bottom Line”

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Municipal Service Charges:

- Solid Waste Charge: + 1.3% (+\$2.52/year for typical property owner)
- Extra cart fee: no change
- Snow & Ice Removal Charge: No change
- Local Sewerage Charge: no change
- Local Storm Water Charge: +7% (+\$5.04 for typical property owner)

Proposed 2016 Budget Impact on Typical Household

Typical Household Impact

- Tax Levy: - \$4.92
- Municipal Services Bill: + \$7.54
- Net Impact: + \$2.65 (0.2% 2/10 of 1%)

Based on the average residential value of \$103,803

2016 Proposed Budget Highlights

1. Strong Neighborhood Investment Plan
2. Compete Milwaukee
3. Police Department
4. Fire Department
5. Department of Public Works
6. Library
7. Neighborhood Services
8. Capital Improvements Plan
9. Administrative Departments

2016: Major Initiatives

1. The October 7 hearing will include a separate overview regarding the Strong Neighborhoods Plan (SNP), Compete Milwaukee, and ADA Compliance
2. SNP Objectives:
 - ❑ Blight prevention and elimination
 - ❑ Reduction of City-owned inventory
 - ❑ Increase private sector investment in the neighborhoods
 - ❑ Generate economic opportunities for City residents
3. Incorporates 4 strategies:
 - ❑ Prevention: e.g., Vacant property registration program; Essential services assistance
 - ❑ Mitigation: e.g., Demolition of blight-generating properties
 - ❑ Revitalization: e.g., rehab and sell City-owned properties
 - ❑ Renewal: Plan for productive reuse of vacant land

Strong Neighborhoods Plan: Implementation Framework

1. The Plan's initial efforts were based largely on components of the federally-funded Neighborhood Stabilization program
2. Experience, community input, and planning have generated additional strategies.
3. 2016: Continue increased focus on proactive prevention and revitalization/renewal
 - ❑ Financial assistance to reduce foreclosure exposure
 - ❑ Incentives for redevelopment
 - ❑ Multiple partnerships with the private and non-profit sectors
 - ❑ \$11 million in funding

Compete Milwaukee Initiative: Transitional Jobs

1. Purpose: Assess the needs of employers and create strategies around our workforce in order to connect training and employment opportunities for persons with significant barriers to employment
 - Focus includes persons reentering community from the criminal justice system and young adults “aging out” of foster care
2. Partners include Milwaukee Area Workforce Investment Board (MAWIB) and United Migrant Opportunity Services (UMOS)
3. Goal: 100 placements @ the City’s living wage of \$10.90/hour
4. Supplements Resident Preference Program and economic development investments
5. Includes \$80,000 in MPD Budget for 12 ambassadors

Police Department

1. Sworn strength levels (1,880) are maintained
2. Funding for body camera deployment for all field officers: \$880,000 (\$780,000 increase)
3. Elimination of furlough days: \$1.5 million
4. Funding for 10 Community Service officers: \$350,000
 - Additional force multiplier
5. \$500,000 for computer replacements
6. \$9,070,000 investment in capital improvements

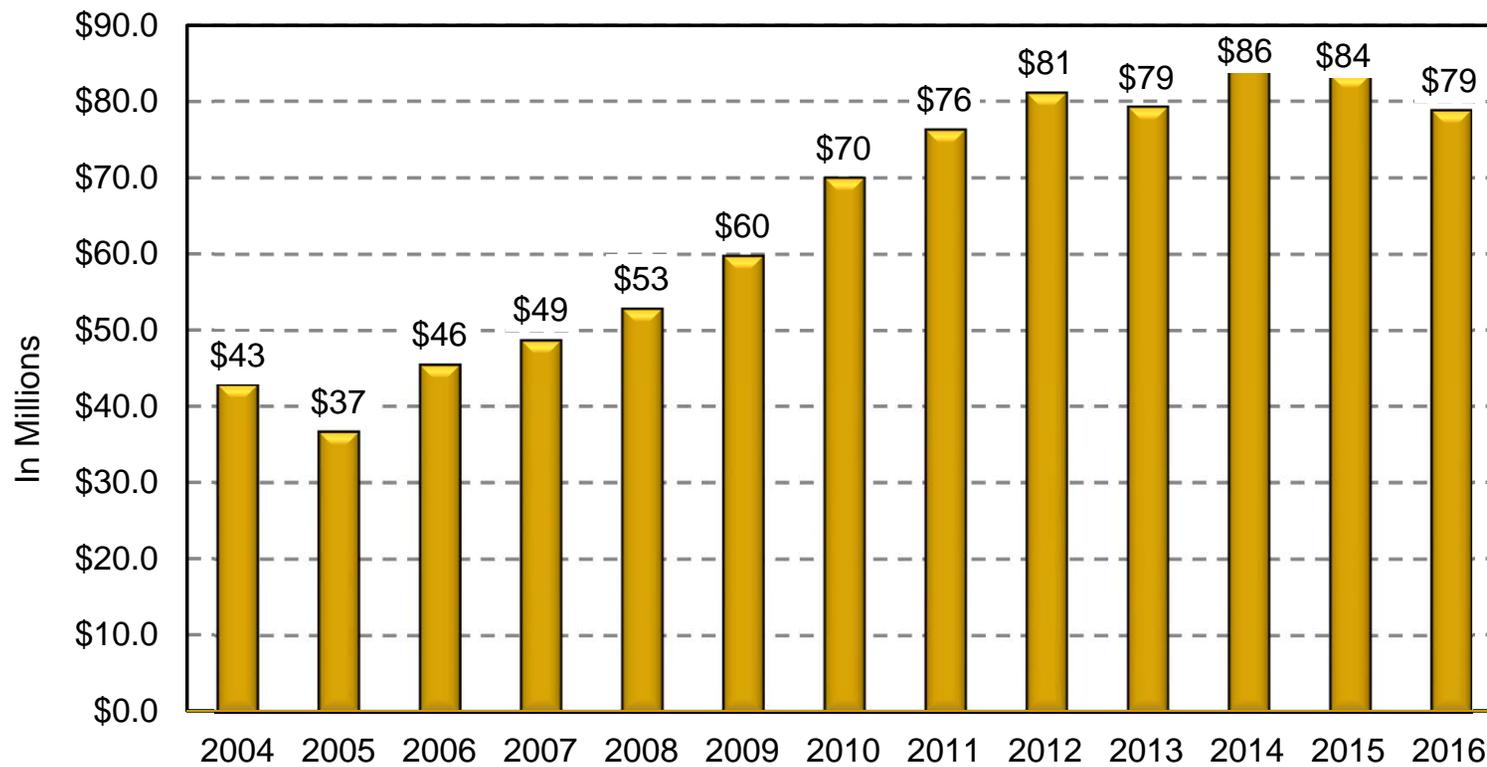
Fire Department

1. No changes to fire suppression companies or MED units
2. 1 Lieutenant added for training
3. 13 additional Fire Cadets are budgeted to improve diversity of future recruit classes
4. Response times remain superior to national standards and support high safety ranking
5. Budget assumes City wins its arbitration position relative to work week changes
6. Budget continues Paramedic Mobile Integrated Health curriculum
 - ▣ Assist frequent 911 callers

Department of Public Works

1. \$79 million proposed for core infrastructure capital programs
2. Sewer replacement cycle remains at 90 years or less
3. Rising cost of salt: \$61.89/ton vs. \$46.47/ton in 2013
4. Landfill disposal costs: \$43.91/ton vs. \$37.64 in 2013
5. Budget request continues the City's demolition crew
6. Broaden scope of High Impact Street Paving Program to include more local neighborhood streets
7. 32 miles of local and high impact segment improvements forecast for 2016
8. Expected electricity savings of \$630,000

City Funding for Core Infrastructure: 2004-2016



* Includes city funding for Major, Local and High Impact Street Programs, Major and Local Bridge Programs, Street Lighting Program, and Sewer Capital Program.

Library

1. Continuation of public service hours at current level
2. Continuation of commitment to reading and teacher in library programs
3. Funding of full-time branch managers at each neighborhood library
4. Library capital investment totals \$5.8 million
5. Volunteer initiative has generated 3,200 donated hours

Health Department

1. Service levels are maintained
2. \$150,000 to fund a new Youth Violence Prevention initiative
3. \$34,000 for expansion of beach water quality monitoring equipment
4. \$340,000 in Capital Budget to expand lead abatement program (55 additional abatements)
5. \$180,000 for continuation of Trauma Informed Care Counseling

Neighborhood Services (DNS)

1. Provides critical support to Strong Neighborhoods Plan
2. Proposed initiatives:
 - Continue Residential Rental Inspection (RRI) program in Lindsay Heights and UWM area; expand to portions of North Side neighborhoods and subject nuisance properties to the program
 - ✓ Inspections and partnerships with neighborhoods have supported investment and decreased complaints
 - ✓ \$113,000 added to support program expansion
 - Residential Mortgage Loan Registry
 - ✓ Notification by lenders to City of loan defaults
 - ✓ Periodic property inspections required
 - ✓ Additional resources for enforcement

Administrative Departments: Major Changes

1. Election Commission: \$+1.48 million due to election cycle
2. DOA: ~ \$328,000 for ADA/DOJ compliance agreement
3. Fire & Police Commission: \$50,000 for exam supervisor
4. City Clerk: 1 FTE for Local Business Assistance Team (LBAT)

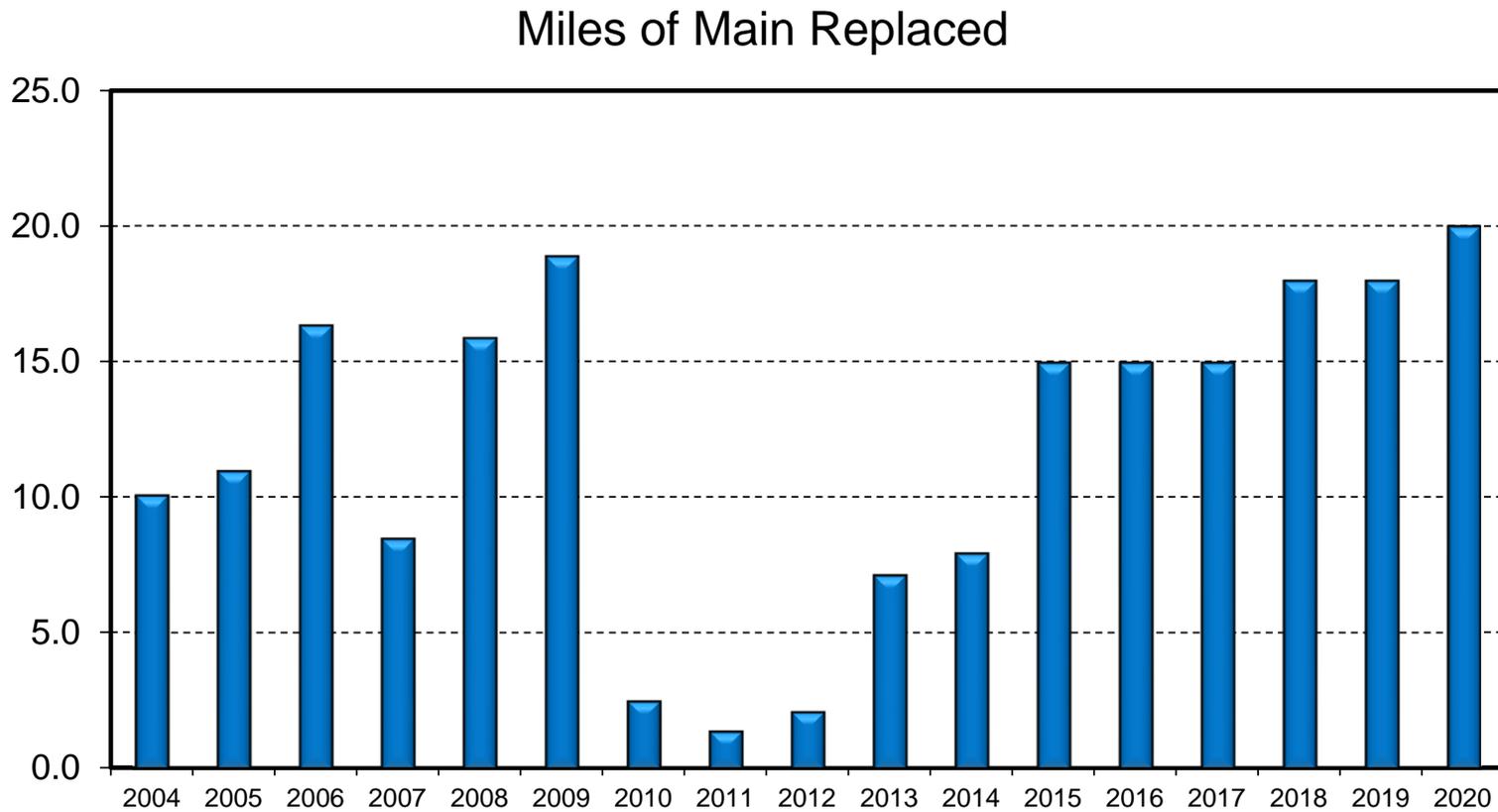
2016 Capital Budget

- **2016 Total Capital Budget = \$272.4 million**
 - \$169.5 million General City
 - \$32.7 million DPW/Port Grant & Aid
 - \$70.2 million Enterprise (Parking, Water, Sewer)

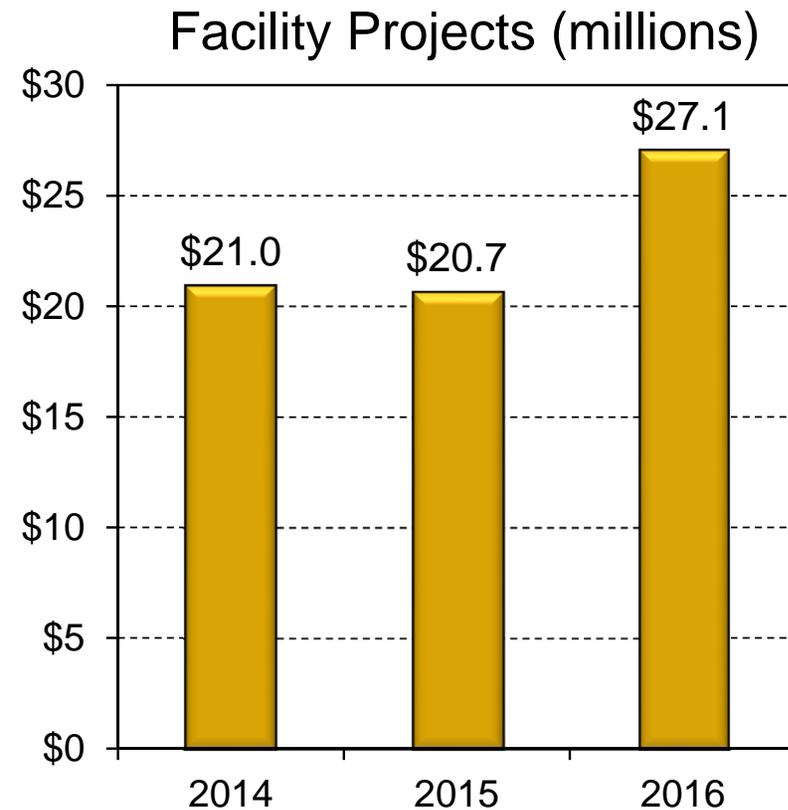
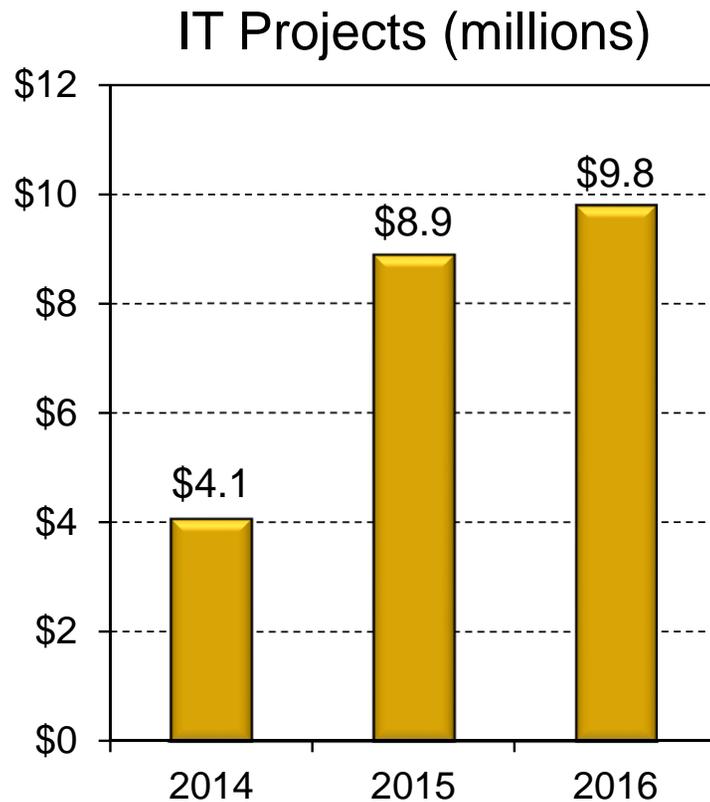
- Levy Supported G.O. Borrowing: \$93.9 million
 - \$90.4 million in 2015

- Total Cash Levy for Capital: \$1 million
 - \$1.2 million in 2015

Water Main Replacement 2004 to 2020



Funding for IT and Facility Projects Increases by \$11.8 Million from 2014 to 2016



2016 Budget Development: The “3 R” Strategy is Succeeding

1. The 2013 Budget linked four-year structural improvement to a strategy of resizing, restructuring, and reinvesting in City government
2. Ongoing structural balance has improved by ~ \$55 million since that time
3. Prioritization, financial restructuring, and prudent reserve use have enabled critical service levels to continue and implementation of new initiatives

Key Takeaways

1. City will finance its long-term obligations responsibly
2. State aid and levy limit policies, if maintained: => expenditure/service adjustments will continue
3. City fiscal planning enables a transition that can preserve mission critical services and respond to community needs
4. Restructuring and reinvesting are needed to make resizing work for the long-term

Key Timelines

- September 22: Mayor introduces the 2016 Proposed Executive Budget
- October 5: Joint Public Hearing, 6:30 pm, Council Chambers, 3rd Floor City Hall
- October 6-16: Finance & Personnel Committee Budget Hearings
- October 30: Finance & Personnel Committee Budget Amendment Consideration
- November 3: Common Council Budget Adoption

Presentation Follow-up

If you have questions or a request for follow-up information, you may contact:

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View the City's budget at www.milwaukee.gov/budget