

2017 Proposed Executive Budget

**Presentation to the Finance
& Personnel Committee
October 4, 2016**

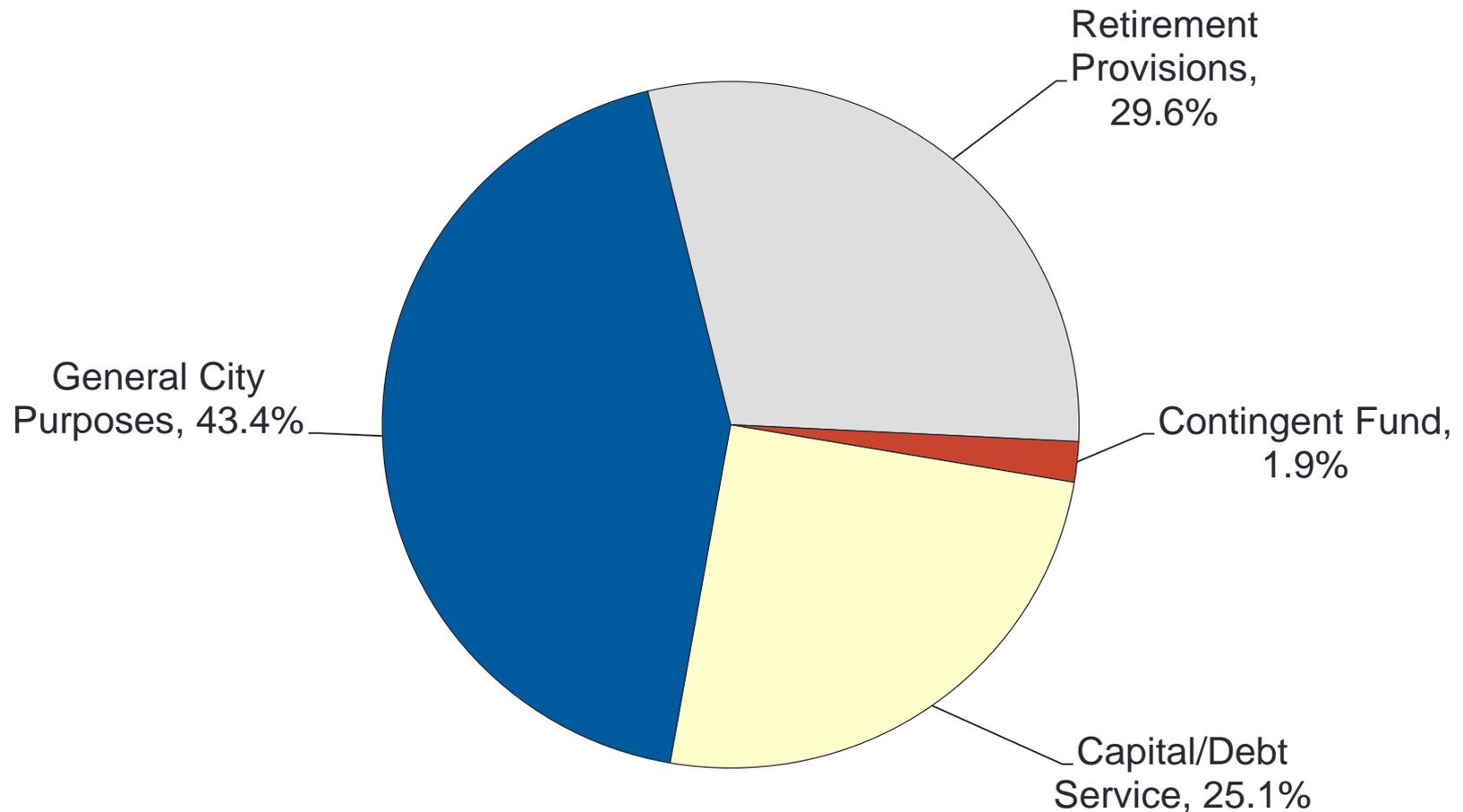
Presentation Goals

1. Establish an understanding of budget revenues, expenditures, and structural conditions
2. Identify recent improvements to structural condition and remaining challenges
3. Provide the 2017 Proposed Budget “Bottom Line”
4. Committee hearings between October 4 and 14 will examine the details of Proposed departmental expenditures, services, and capital improvements

City Budget Structure

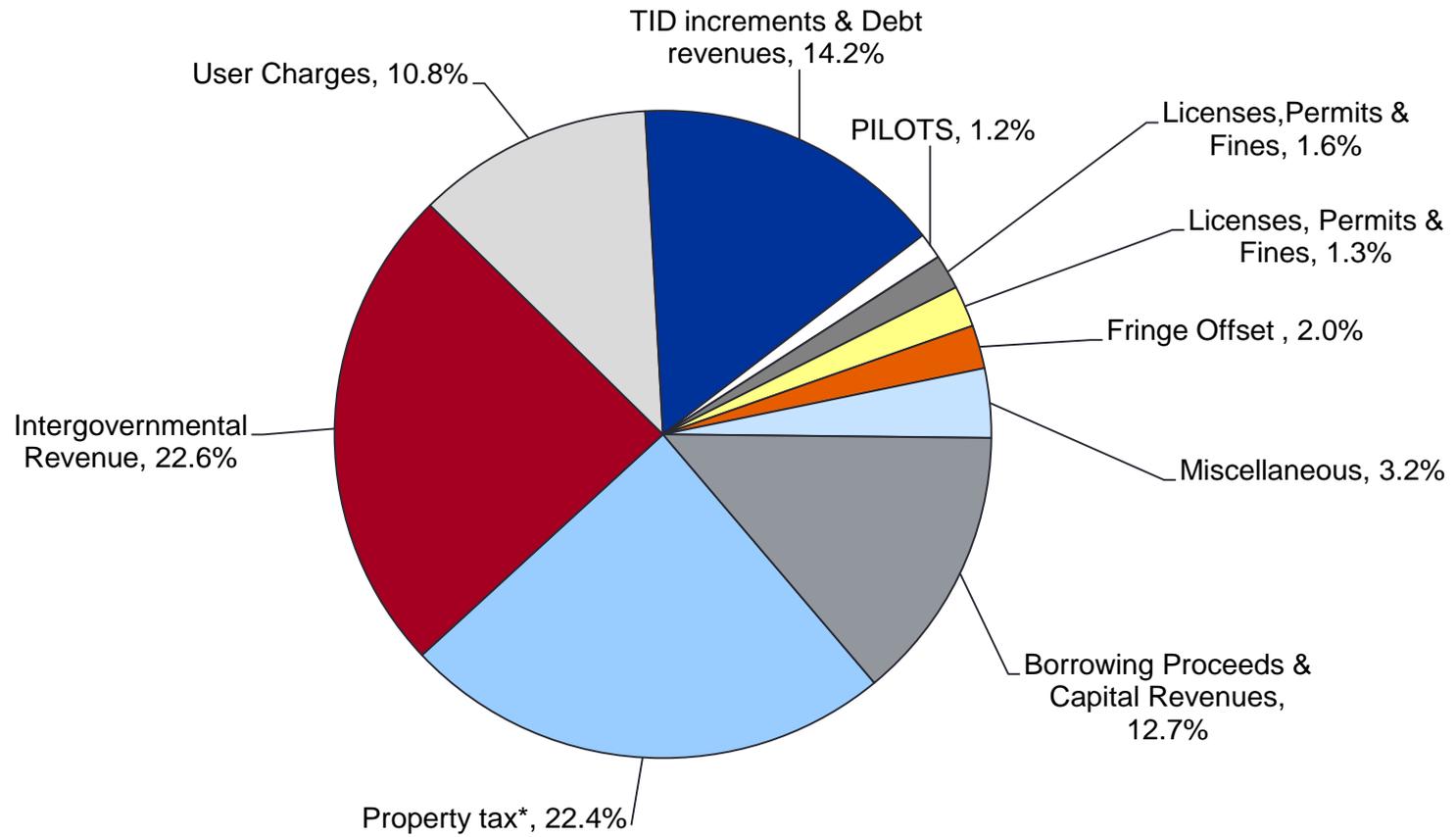
1. Total Proposed 2017 Budget: \$1.527 billion
 - Proposed Tax Levy-Supported Budget: \$1.175 billion
 - General City Purposes (GCP) Budget: \$632.04 million
 - ✓ Aka “operating” budget, funds the operating expenses of City government
 - ✓ Other components of Tax Levy–Supported Budget: Retirement Provisions, Capital, City Debt, Contingent Fund
 - ✓ Less than ½ of the tax levy is used for GCP/Operations (see slide 4)
2. Total Proposed Tax Levy of \$263.78 million)
3. Non-Tax Levy-supported Budget: \$352.48 million
 - Enterprise funds: \$299.1 million
 - Grant & Aid Fund: \$45.2 million
 - County Delinquent Tax Fund: \$8.22 million

2017 Proposed Tax Levy: Distribution by Budget Section/Purpose



The total 2017 proposed tax levy: \$263.776 million.

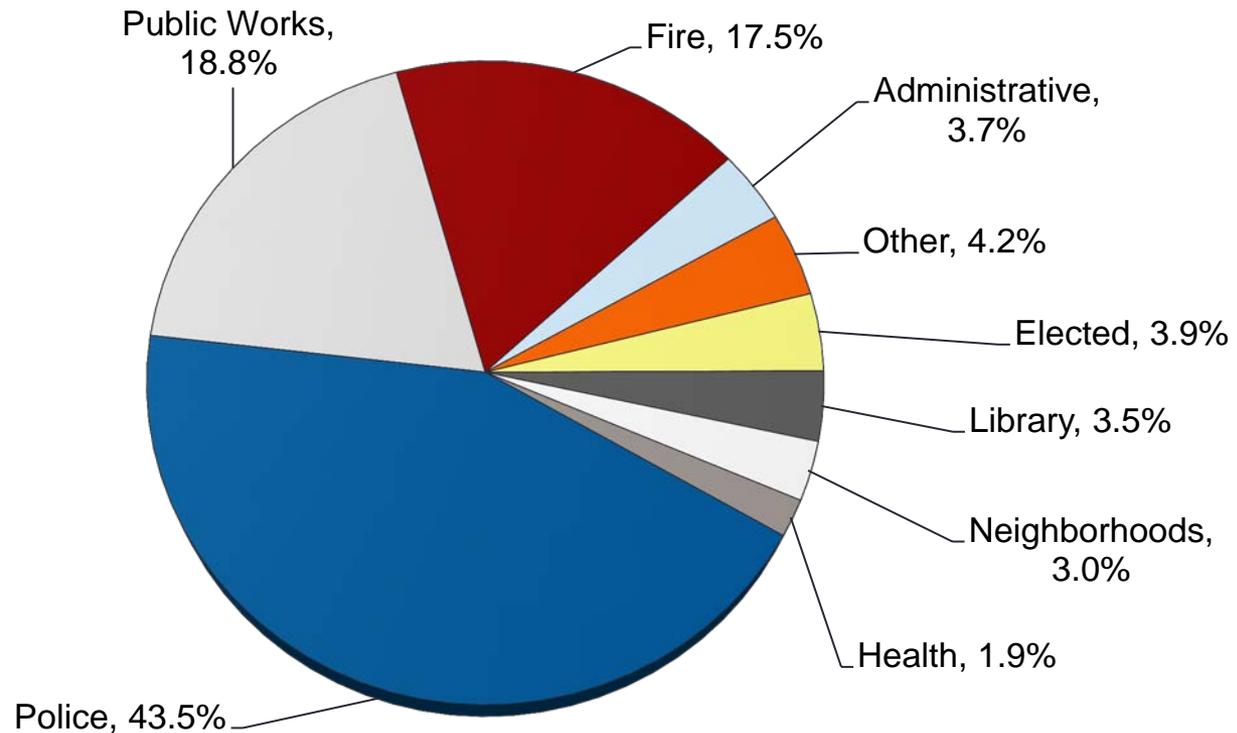
City of Milwaukee 2017 Revenue Sources: Tax Levy Supported Budget



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

2017 Proposed General City Purposes Budget: Expenditures

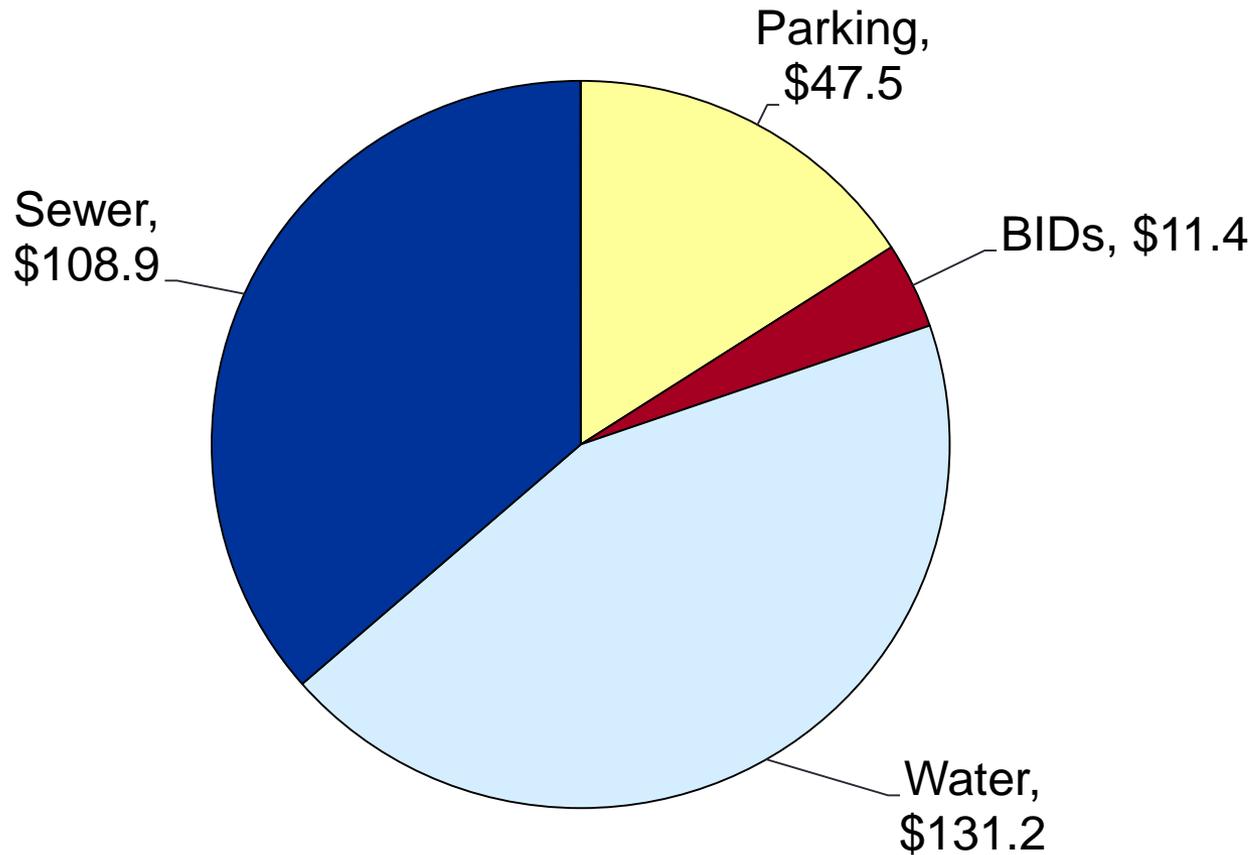
2017 Proposed GCP Budget: \$632.04 million



Note: Does not include \$299.1 million of Enterprise Funds (Parking, Sewer, Water, & Economic Development). Three departments (DPW, Police, Fire) comprise 79.8% of the Proposed 2017 General City Purposes Budget.

Proposed 2017 Enterprise Funds

Total Combined Budget = \$299.1 Million



Amounts are in millions of dollars.

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

City's Limited Revenue Portfolio

1. State law imposes significant restrictions on local government revenue authority (“Local government finance is a matter of statewide concern.”)
2. Three revenue sources account for ~ 81% of General City Purposes Budget revenue
 - Intergovernmental revenue (IGR): 41.7%
 - User charges: 20.0%
 - Property tax levy: 18.1%
3. The City's ability to increase any of these 3 sources is extremely limited

Limits on Revenue Options

1. Primary sources of Intergovernmental Revenue are State Shared Revenue/Expenditure Restraint (ERP) programs (86% of IGR total)
 - Shared Revenue/Expenditure Restraint Aid: \$21.8 million nominal decline since 2003
 - CPI-U-adjusted decline = \$99.3 million
 - Eligibility for ERP aid (\$9 million in 2017) is subject to limits on the annual increase to operating budget expenditures

2. Property tax levies are subject to State levy limits
 - Limit is tied to the greater of 0% or the percentage increase from prior year to the equalized value of “net new construction”
 - Law permits adjustments to levy limit for debt service on post-July 2005 borrowing authorizations

3. User charges are limited to cost recovery
 - City’s 4 primary user charges recover close to 100% of total cost
 - State law requires any user charges enacted after 2013 to be offset by levy limit reductions
 - Recently-enacted 2015 WI Act 176 will cause an annual revenue reduction of at least \$2.2 million to the City

Eligibility for Expenditure Restraint Program (ERP) Aid

Allowable & Actual Percentage Increases for ERP Eligibility: City of Milwaukee

Budget Year	Allowable	Actual
2017	1.9%	1.83 *
2016	1.0%	0.70%
2015	2.3%	2.27%
2014	2.3%	2.29%
2013	2.8%	1.92%
2012	3.1%	-0.4%
2011	3.4%	0.26%
2010	5.6%	3.13%

* 2017 is proposed

- The City's operating budget is becoming increasingly constrained by the ERP eligibility limits.
- The 2017 difference between the proposed and allowable percentage increases is \$480,000.
- The "ERP Budget" includes general city purposes; retirement levy; capital levy; & Contingent Fund (\$716 million)

Note: In order to qualify for ERP Aid, the municipality must limit the year-to-year increase in the applicable expenditures, **regardless of revenue source**, to a percentage determined by a statutory formula. Source: City Budget documents.

Budget Balance Challenges: 2005-2016

1. Structural budget balance: circumstances where projected revenues under current policy are adequate to fund existing service levels for an ongoing period
2. Persistent mismatch has existed between available revenues & ongoing service costs
3. Primary challenges have been:
 - Employee health care benefits
 - Return of Employer pension contributions in 2010 Budget
 - Revenue growth less than expenditure growth
4. City has used resizing, restructuring & reinvesting to stabilize budget & services

Restoring Structural Balance

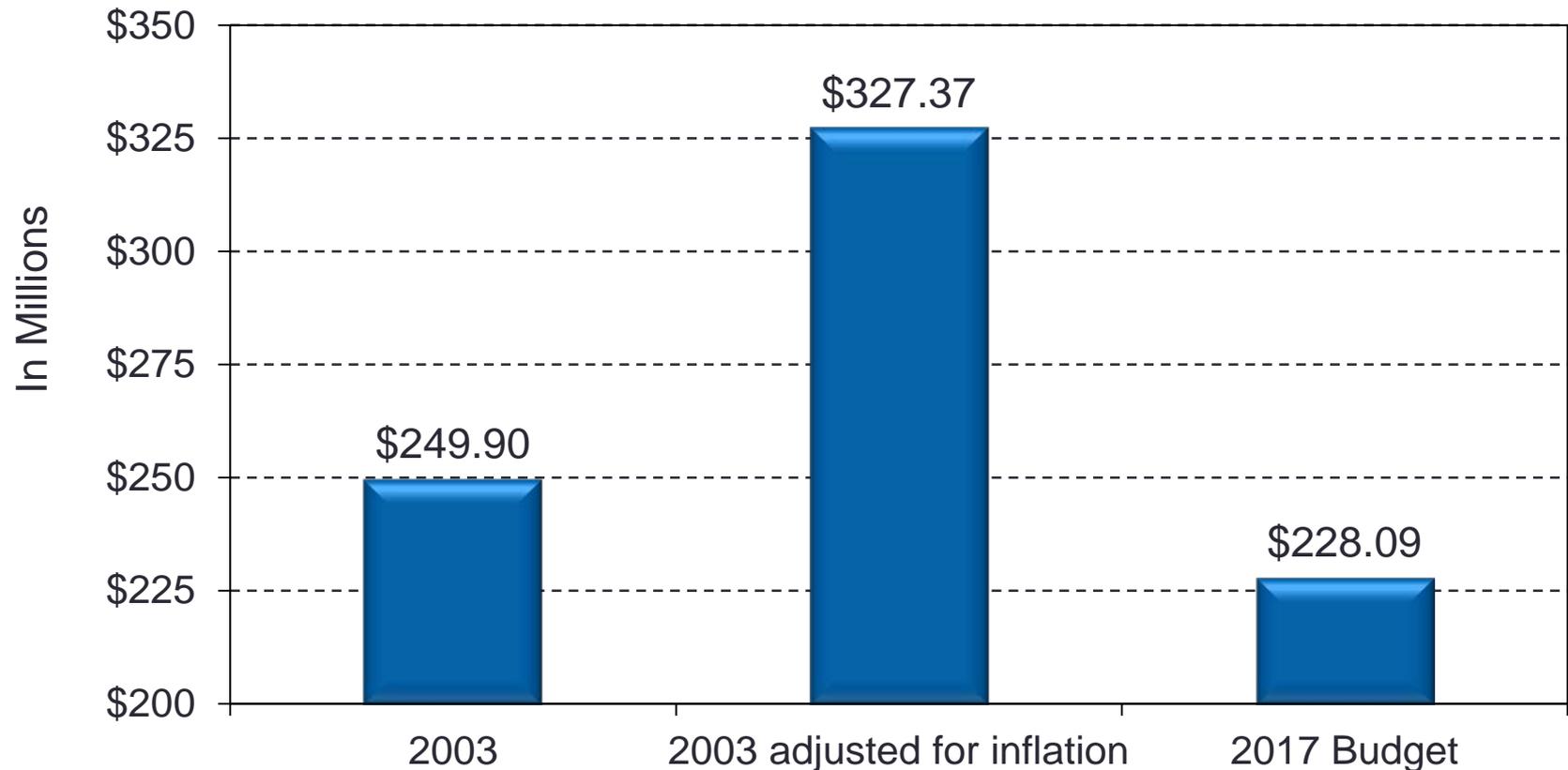
- ❑ The City has responded effectively to the challenges posed to structural balance by the 2007-2008 Global Financial Crisis
 - Budget strategy has adjusted to changing circumstances via a 3-pronged strategy => “Resize, Restructure, and Reinvest”
 - Improved pension plan and fringe benefit sustainability
 - Enhanced tax base through redevelopment
 - Blight elimination & revitalization: Strong Neighborhoods Plan
 - Improvements to Core Infrastructure
 - Between 2009-2013, 557 net funded FTE reductions from 2008 baseline

Key Challenges to Near-term Structural Balance

1. Revenue growth less than expense growth: 2018-2020 projection
 - Annual expense growth: ~ \$23 million (with modest growth to pension contribution)
 - Annual revenue growth: ~ \$11 million (with use of employer pension reserve)
2. Potential for increases to employer pension contribution
 - New contribution rates will be in effect for the 2018 Plan Year
3. Impacts of increased borrowing on debt service
 - Some increases already “baked in”
 - City role in financing lead service line replacements will be a major new pressure after 2017
4. In the 2017 Budget, the debt service levy and the employer pension contribution account for 48% of the total proposed tax levy.
 - These are non-discretionary expenditures and have the “1st claim” on the annual tax levy.

State Shared Revenue/ERP Trend

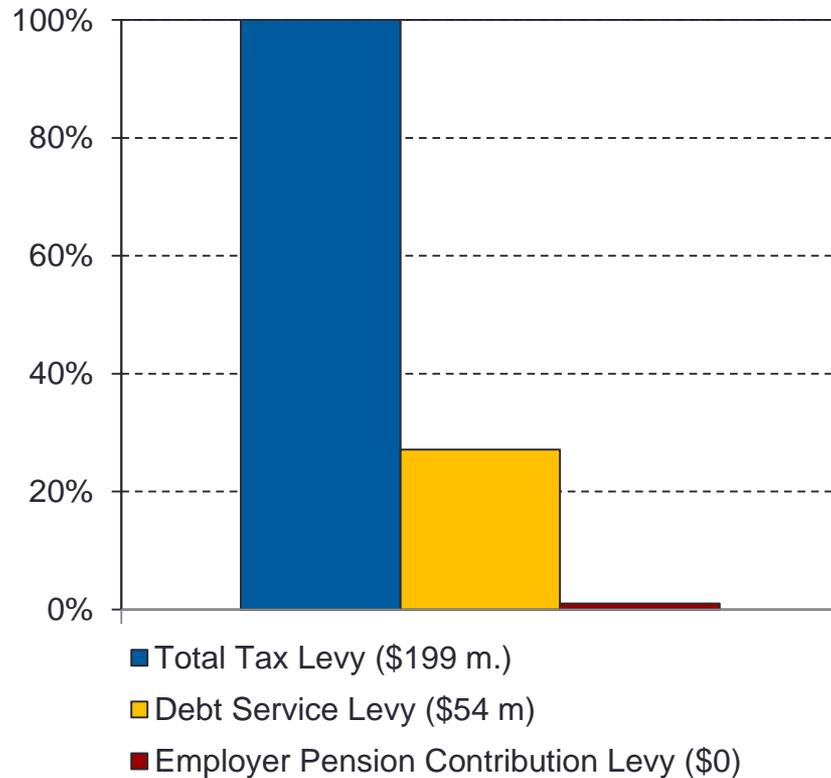
Decline in State Shared Revenue and Expenditure
Restraint Program (ERP) Payments to Milwaukee, 2003 - 2016



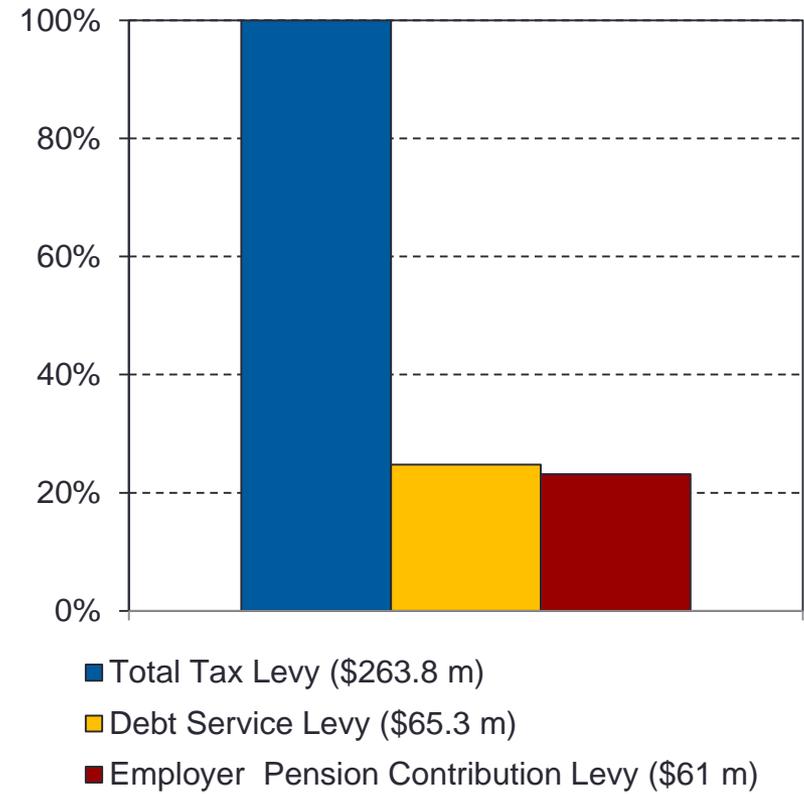
Inflation adjusted decline in Shared Revenue and ERP payments = - \$99.3 million (-30.3%). During this same period, State General Purpose Revenue increased \$6.32 billion (+59%). Source: U.S. Bureau of Labor Statistics: CPI-U Tables; City Budget documents; WI Legislative Fiscal Bureau

Growth of Debt Service Levy and Employer Pension Contribution as a Percentage of Total Levy

2004



2017



In 2004, Debt service and pension contribution comprise 27% of total tax levy. In 2017, Debt service and pension contribution comprise 48% of total tax levy.

Source: City of Milwaukee budget documents.

Employer Pension Contributions

1. Three sources for funding pension benefits:
 - Investment return (~ 75% of the funding);
 - Member contributions (all now paid by active employees)
 - Employer contribution (~ 81% paid by the City; remainder by City agencies)

2. Employer contribution is based on “% of payroll” for 3 employee categories:
 - Firefighters: 24.83% of covered wages;
 - Police officers: 22.63% of covered wages;
 - General employes: 8.48% of covered wages

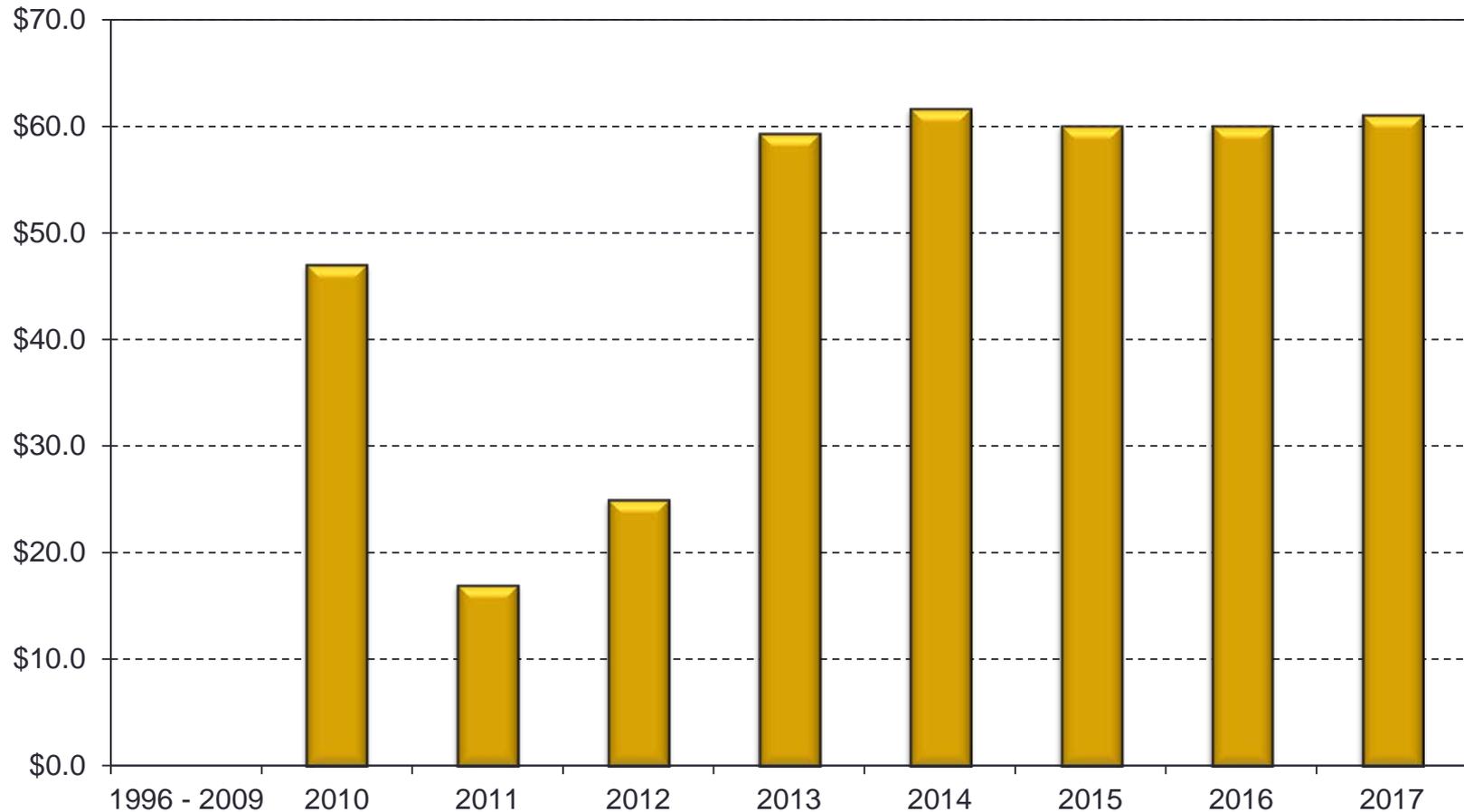
3. City Charter provides for a “rate reset” every 5 years; reset is due for 2018 plan year

Employer Pension Contributions

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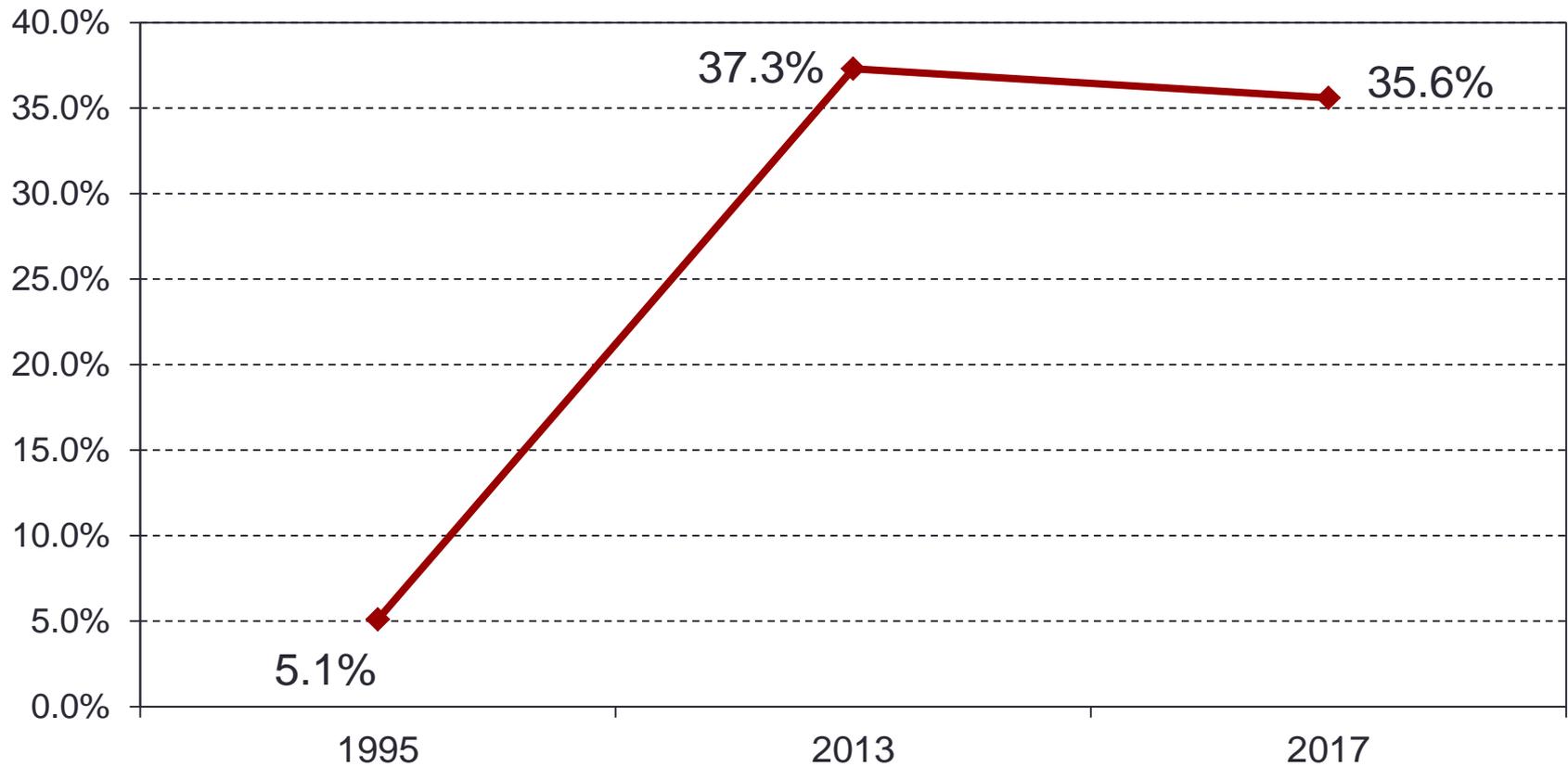
4. Two biggest factors on what the new rates will be:
 - “Funded status” at time of reset, largely due to investment returns;
 - Discount rate: used to estimate the value of future obligations into present value terms;
 - ✓ Public pension plans use the assumed rate of investment return as the discount rate;
 - ✓ The higher the discount rate, the lower the employer contribution (if all other factors are equal);
 - ✓ The Annuity & Pension Board will establish the discount rate for 2018-2022; now at 8.25%, scheduled for 8.5% in 2018
 - ✓ Relatively modest reductions to the discount rate can generate millions of \$ in annual contribution increases.
 - Actuary has indicated a 1.5 percentage point increase to the Police rate is possible, which is ~ a \$2.3 million annual contribution impact.
5. Other factors, such as projected inflation, wage increases, mortality, and retirement ages are also taken into account and may have a meaningful impact on the new rates.

“New Normal” for Employer Pension Contributions



Contributions in 2011 and 2012 were made to the employer's pension reserve. 2018-2022 contributions will be based on a reset of stable contribution rates. Actuary has indicated a 1.5 percentage point increase to the Police rate is possible, which is a \$2.3 million annual contribution impact. Source: City Budget documents.

Employee Health Care Benefits and Employer Pension Contributions as a Share of Tax Levy and Shared Revenue: 1995, 2013 and 2017 Proposed



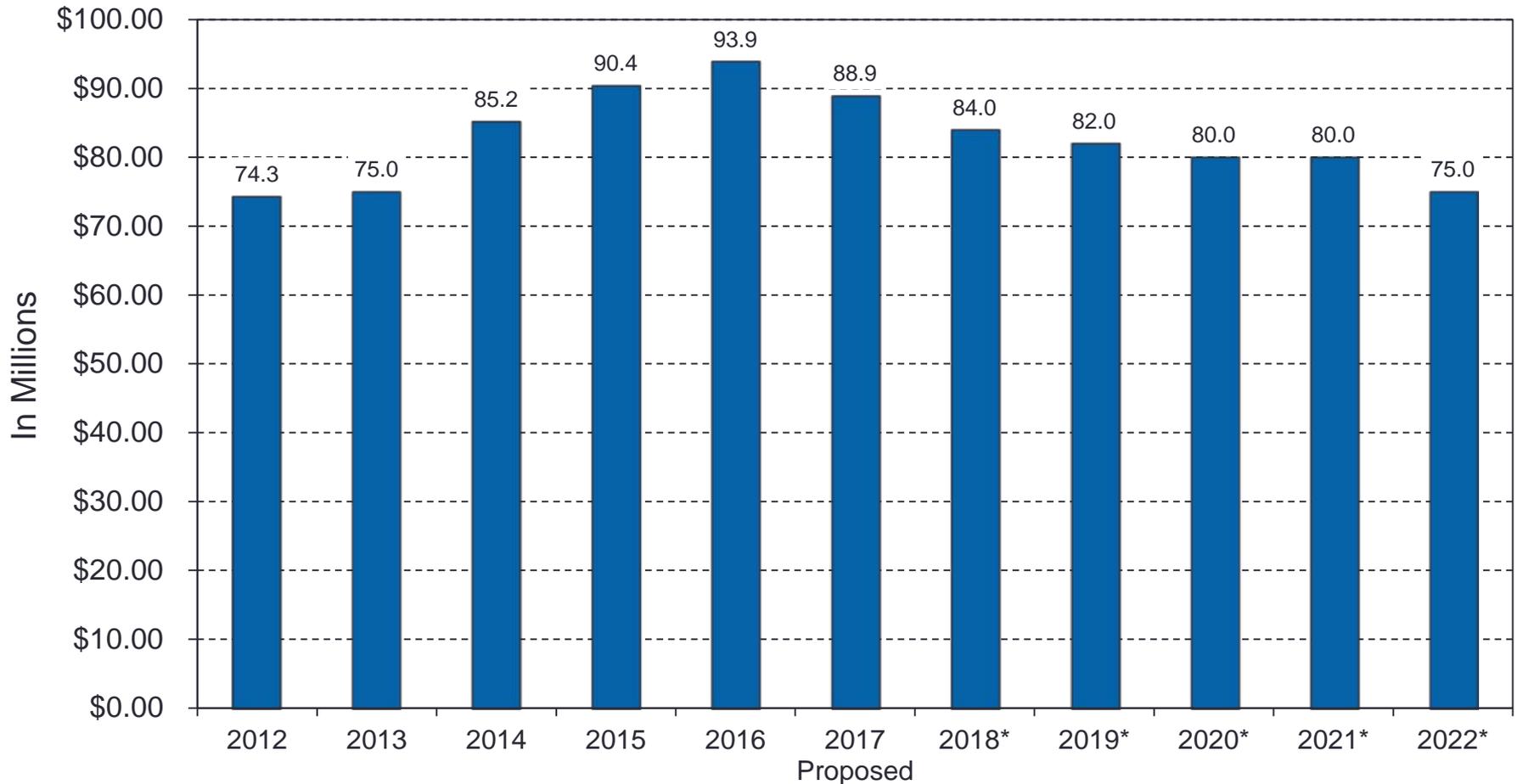
* Shared Revenue includes Tax Disparity/Expenditure Restraint Program Revenue.
Source: City Budget documents.

Borrowing Impacts

1. Recent growth in levy-supported borrowing will generate impacts on overall property tax levies
 - \$4.1 million increase for 2017 (59% of the total proposed levy increase)
 - Core infrastructure (especially Bridges), Neighborhood Library Program, and Police Administration Building have been drivers of recent debt growth
 - City Hall Foundation project (\$53 million over 5 years) is a the primary driver of future debt growth

2. The recent trend in debt can only be sustained with large property tax increases:
 - Moving from a \$74 million annual new authorization level, to the ~ \$94 million 2016 level on a continuing annual basis, has an impact of ~ \$28 million increase on the 2022 debt levy, compared to 2016.
 - The Administration is recommending a return to an annual authorization level of \$75 million by 2022.

Levy Supported GO Borrowing in Capital Budgets, 2012-2016 Adopted, 2017 Proposed, and 2018-2022 Planned



*2018 – 2022 are planned

2017 Proposed Budget “Bottom Line”

1. General City Purposes Budget: + 2.7% (\$16.47 million)
 - Department-controlled expenses: + 3.2% (\$15 million)
 - \$2.44 million decrease (-1.9%) to Employee Health Care Benefits and Workers’ Compensation appropriations
2. Total tax levy: +2.75% (\$7 million); proposed tax rate = \$10.66 (+ 7 cents)
3. Proposed non-property tax revenues: +0.8% (\$3.76 million)
4. Expenditure Restraint Program (ERP) operating expense limit for 2018 aid eligibility affects 2017 Budget decisions
 - ERP Aid = \$9 million in 2017 Budget
 - There is an estimated ~ \$480,000 difference between 2017 proposed ERP expense budget and the estimated ERP limit for 2018 aid eligibility.
 - ERP threshold will be finalized in October
 - Operating expense total over the limit (regardless of funding source) would disqualify City from 2018 ERP aid

Proposed 2017 Budget Impact on Typical Household

Typical Household Impact

- Tax Levy: + \$26.40
- Municipal Services Bill: + \$10.86
- Net Impact: + \$37.26 (+2.5%) ##

Based on the average residential value of \$105,100

2-year annual, average change for 2015 and 2016 was 1.1%

Key Takeaways

1. City has financed its long-term obligations responsibly
2. State aid levels and constraints on local options, if maintained: => personnel/service adjustments will continue
3. Potential growth in City debt and employer pension contributions, along with slow revenue growth, are the primary risks to future structural budget balance
4. 2017 Proposed Budget supports future sustainability via \$10.7 in proposed new revenues, \$6.7 million in baseline department reductions, continuation of Employee Benefit cost control, providing that all employees pay the member pension contribution, and preservation of Employer's Pension reserve balance.

Key Timelines

- ❑ September 26: Mayor introduces the 2017 Proposed Executive Budget
- ❑ October 10: Joint Public Hearing, 6:30 pm, Council Chambers, 3rd Floor City Hall
- ❑ October 4-14: Finance & Personnel Committee Budget Hearings
- ❑ October 28: Finance & Personnel Committee Budget Amendment Consideration
- ❑ November 4: 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