

## MAYOR BARRETT'S 2012 PROPOSED EXECUTIVE BUDGET

Good morning President Hines, members of the Common Council, City Attorney Langley, Comptroller Morics and City Treasurer Whittow, members of the Cabinet and residents of our great City of Milwaukee.

I'd like to start this morning by recognizing the 2011, National League Central Champions, our Milwaukee Brewers. Please join me in applauding our home town team's success!

I also want to acknowledge our Comptroller and our Treasurer, Wally Morics and Wayne Whittow. Combined, these two young men have served the citizens of Milwaukee for 86 years – Wally for 35 years; 19 years as Comptroller and Wayne, 51 years; 36 years as Treasurer. Gentlemen, on behalf of the citizens of Milwaukee, I want to thank you for your dedication and service and to wish you both all the best.

As I began to prepare my 2012 executive budget speech, I reflected on the lessons that I have learned from the seven City budgets that I have previously introduced as Mayor. While the details are numerous and varied, one fundamental but important lesson emerged: Milwaukee is capable of responding to very difficult fiscal challenges in an intelligent and responsible manner. The proof of our sound response has been in the results: lower crime, job creation, improved infrastructure, redevelopment success stories, effective delivery of core services, and a Moody's credit rating superior to that of the County and the State of Wisconsin.

So, before I share with you the key elements of my expenditure and revenue proposals for 2012, I'd like to begin by sharing with you my conclusion regarding why we have responded effectively to fiscal challenges. My conclusion is simple, although it is in stark contrast to the dysfunctional behavior we are witnessing at so many government levels nowadays. Quite simply, it's your willingness as members of the Common Council under the leadership of President Hines, to join me in embracing difficult changes that has enabled the City to remain effective in its service delivery and sustainable in its finances.

The development of the 2010 City Budget came in the wake of the 2008 financial crisis which contributed to a \$1.56 billion loss in the assets of the City's Employee Retirement System. An employer contribution of more than \$100 million, the first contribution since 1995, stared us in the face. The State Budget included significant decreases in Shared Revenue and significant dollar increases to garbage tipping fees.

One path could have been to resort to fiscal gimmicks to balance the 2010 Budget. But instead, we took a different route: we worked with the Pension Board to implement modified, but actuarially responsible, smoothing formulas. We engaged in tough, but fair collective bargaining that produced millions of dollars in savings. We balanced the

budget, primarily with \$32 million in operating budget reductions and modest use of reserves.

The path we chose in 2010 set the stage for our 2011 budget. The significant reductions we made in the 2010 operating budget reduced the 2011 level of funding needed to deliver baseline, essential services and provided the opportunity to make a voluntary \$17.3 million contribution to our Employer Pension Reserve Account.

The results from these politically difficult, yet financially appropriate decisions are obvious as we enter the 2012 budget deliberations. Some of the most important results include:

- Our pension plan is one of the few large public plans with a funded status of more than 100%. And our funded status is projected to remain well above 90% for years to come. We have enjoyed temporary relief from employer contributions for the last two budgets. And with your support, we are building a prudent pension reserve to help us manage future funding obligations.

I want to thank Alderman Michael Murphy and our Comptroller, Wally Morics for their leadership on our pension issues.

- Our debt service levy remained stable in last year's budget, and we project this stability to continue for the foreseeable future. Controlling our borrowing, combined with the good work of our Public Debt Commission and the oversight provided by the Public Works Committee, Chaired by Alderman Bauman and the Capital Improvements Committee, Chaired by Alderman Dudzik, has paid dividends.

I reference the initiatives we've taken in the past to frame the steps we must take not just for 2012, but for 2013 and beyond. Last week's release of the Census Bureau's poverty and income numbers was a stark and gut-wrenching reminder that we are far from economic recovery.

Milwaukeeans- our neighbors, our families and our friends are hurting. Some would say that the poverty rate and the drop in real income for working and middle class Milwaukeeans are too much to overcome; present too high a mountain to climb.

I say now is the time to reaffirm our moral commitment to do all we can to lift families out of poverty and to provide necessary and essential services to all of our citizens for years to come – not just 2012. Maintaining essential services, making smart investments in our infrastructure and keeping our debt service levy stable will serve us well when the national economy strengthens.

There is no question that we have fewer resources to work with. Our 2012 State Shared Revenue and Expenditure Restraint Program Aid payments will be more than \$80 million less than the inflation adjusted 2003 payment. 2013 won't be any better. The

cuts in state aids are two-year cuts and the state levy limit in effect for 2012 will be in effect in 2013. There are \$5 million fewer Community Development Block Grant dollars than in 2010 and there will be fewer federal funds to tackle home foreclosures.

The fiscal constraints are real and that's why it is so vitally important to plan more than one year ahead.

The fact that we, as a City, are weathering the economic tsunami is owed in large part to our employees. The fact that we deliver high-quality services at a time our revenues have been falling is because our managers and employees have time and again risen to the challenge; not only risen but have excelled.

Our employees deserve our thanks and our gratitude. The last couple of years have not been easy and the next few will be more difficult. Please join me in acknowledging and thanking our employees for their great work and for their pride in our great City. It's fair to say City of Milwaukee employees have stepped up and are carrying a major load.

The State Budget that was adopted in July hits us hard. It includes \$12 million in State Aid reductions, and a \$1.1 million reduction to our recycling grant. In addition, we are dealing with a levy limit tied to new construction value, and our property values have declined. And while we weren't required to make a pension contribution payment in the 2011 and 2012 budgets, the pension contribution forecast for 2013 is \$58 million. Pension payments between 2014 and 2022 are expected to be \$70 million to \$80 million a year. In addition to that, since 2000, we have seen health care costs increases of about \$80 million—more than three times the rate of inflation.

In factoring these variables, it was clear that the trend was unsustainable. We had to implement the health care benefit changes. I know these changes are difficult to accept and that the increases in health care coverage will have very real financial implications for our employees and their families. These are difficult times.

For the City Government to manage rising costs at a time revenues are being cut and, to meet our service delivery and fiduciary obligations, difficult decisions have to be made.

Because we have made the hard choices, there are no employee lay-offs in my proposed 2012 budget, and we preserve a very high level of services.

The decision to change our health insurance benefits was one of the two contentious propositions given to us by Madison. The second is employee pension contributions.

More than likely, there are very few people here this morning who would award style points to the Governor and the majority party for the way in which they went about their business.

The dust hasn't settled yet, but we do have Wisconsin Act 10.

I believe and, the public believes, that government employees – all public employees, including police and fire personnel, should be making contributions to their pension accounts. It's financially prudent and the return benefits those paying into the pension fund. And, I believe that through the rough and tumble of negotiations, employee contributions would have been agreed to. After all, we all previously agreed to a two-year pay freeze and that all new general city employees hired after January 1, 2010 would make an employee contribution. In addition, the leadership of the three public safety unions agreed to the health care changes.

But, what I believe and what is now state law, are two very different things.

On February 28<sup>th</sup> of this year, I sent a letter to Governor Walker requesting that he seek an opinion from the State Attorney General on the provisions of ACT 10 that directly apply to the City of Milwaukee Employee Pension Fund. Attached to my letter was the opinion written by City Attorney Langley. In his opinion, the City Attorney concluded that the State cannot compel the member pension contribution by City of Milwaukee employees who were hired prior to January 1, 2010.

The City Attorney's opinion and Wisconsin Act 10 are in direct conflict.

Essentially, Act 10 provides that the employer may not pay member contributions for employees unless a collective bargaining agreement otherwise provides. The law applies to employers within the Wisconsin Retirement System, as well as the Milwaukee County Employee Retirement System and the City of Milwaukee Employee Retirement System.

From the day I sent the letter, to mid August of this year – a total of six months- there were 18 total communications between my office – specifically my Chief of Staff – and the Governor's staff.

On May 16<sup>th</sup> Mr. Curley wrote to the Governor's Legal Counsel asking for his assurances that the legal issues raised by City Attorney Langley were, in fact, vetted, and asked for a formal opinion in response to Mr. Langley's issues.

On May 23<sup>rd</sup>, the Governor's Legal Counsel replied that he anticipated a response to the inquiry within the week.

Never happened. In fact, in August, we received a letter from the Governor's Legal Counsel that essentially stated, "We're not your legal counsel, follow-the-law."

Of course, many people would read his response as "We never vetted the Milwaukee issues raised by the City Attorney."

So here's where we are: I've got a City Attorney's opinion and a State law which are in direct conflict.

I respect the City Attorney. I have not disregarded the opinion and I do not minimize the outstanding work he and his team undertake on our behalf.

But again, the fact is, we have a conflict between a state statute and the City Attorney's conclusion that this statutory provision is unconstitutional and cannot be enforced. The State Attorney General has refused to issue an opinion regarding whether the statutory provision in question is legal. No court is in the process of resolving this question.

As a result, the 2012 Proposed Budget has been developed under circumstances of legal uncertainty regarding the appropriate method of budgeting for member contributions.

I am proposing a Budget, under our home rule authority, which is consistent with State statutes as enacted by the Legislature. No judge has ruled that the state statute is invalid or illegal as it applies to the City of Milwaukee, or enjoined me from proposing a Budget consistent with state statutes. Please keep in mind, however, that I am not proposing budget brinksmanship.

The Proposed Budget includes \$8.2 million in a special purpose account titled "Compensation and Fringe Benefit Reserves." If, consistent with the City Attorney's opinion, it is determined that the City as "employer" is legally obligated to continue to pay the entire member contribution for all city of Milwaukee employees that were hired prior to January 1, 2010, my Proposed Budget includes adequate funding for this purpose.

On the other hand, if the State statute that mandates employers not to pay the member contribution for city employees, is determined to be legal, all general city employees will pay the member contribution—the same as most other local government non-public safety employees in the State of Wisconsin.

In that event, I propose that the funding in the Compensation and Fringe Benefit Reserves account be used to provide general city employees with compensation adjustments. This account could also be used to provide funds in departmental wage and salary accounts sufficient to eliminate the unpaid mandatory furlough days. If circumstances allow, I look forward to cooperating with the Council on developing adjustments to the salary ordinance for our general city workforce. The future general city pay plan does not need to be "zeroes as far as the eye can see."

I understand that this is a difficult decision for all of you. I have wrestled with this decision for months. However, I cannot in good conscience propose a budget that conflicts with state law. Unless a court has determined that in fact the relevant

provisions are unconstitutional, there may be very negative consequences for the City to adopt a budget that conflicts with the statutes. This issue must be resolved.

If you adopt this change, it will also enhance the long-term sustainability of our retirement plan and the security of pension benefits for our employees. This change in no way alters any retirement or disability benefit. In addition, by making our pension plan more sustainable and member benefits more secure, it will improve the long-term employment security and wage progression for general city employees.

The ultimate rationale for our decisions is the delivery of services to our residents. I am proud to say that my Proposed Budget continues our current service levels, and in some cases will enhance them.

First and foremost, this Budget provides the capacity to enable the Milwaukee Police Department to lead our effort to provide safe neighborhoods.

The Police Department's application of analysis-driven deployment, staffing and service delivery alternatives, and constructive community relations have contributed to a 33.5% decline in violent crime and a 25% decline in property crime for the first six months of 2011 compared to the first six months of 2007.

The 2012 proposed budget ensures that adequate resources are available to continue these successful strategies. The department will draw on its overtime budget for the Neighborhood Task Force and other initiatives, without compromising district based operations. The Department's productive use of Police Aides and Police Service Specialists has acted as a force multiplier, allowing a greater proportion of our police officers to be assigned to street duty.

The Fire Department will continue to deploy resources sufficient to achieve fire suppression and emergency medical response that are superior to national standards. The 2012 Proposed Budget includes a staffing innovation designed to enhance the Department's capacity to provide medical response, which comprise more than 80% of the calls for service. Two two-person squads will be located in stations that are in the center of the City's highest volume Emergency Medical Service (EMS) call areas. The squads will also have the ability to transport patients, but their primary role will be to be in-service, responding to EMS calls. This innovation will support the continuation of the department's high survival rates in a cost-effective manner.

I'm also pleased to include a fire cadet program in my 2012 budget. Through this program we are going to accomplish two of my goals for the department. We will ensure that incoming firefighters are well trained and we will work to increase diversity in the Fire Department. I look forward to introducing the proud profession of firefighting to well-deserving Milwaukee youth.

Since the 2008 financial crisis, unemployment has been the number one economic concern facing the United States. We all know that getting more people to work remains job number one.

Worldwide economic conditions continue to be a drag on the Milwaukee economy. There are too few jobs, less business activity than we want, and continuing fiscal pressures on just about everyone in our city. We have an obligation to our citizens to take every reasonable step to improve our economic condition.

We need to continue our efforts to attract and retain good, private sector jobs. Our Department of City Development is making a compelling case for companies to grow here in Milwaukee. Look at some of the successes in recent months – Palermo's, Ingeteam, Suzy's Cheesecakes, and J.F. Ahern have added – or are going to add – jobs in the Menomonee Valley. Companies like Diamond Precision and Pferd have grown on the northwest side. In Bay View, near the airport, along Historic Highway 41, in Riverwest, and on the west side, businesses are discovering opportunities.

Alderman Wade has joined me in making a commitment to set the stage for new industrial business growth in the 30<sup>th</sup> Street Corridor including at Century City. There is great potential along this corridor. Most importantly, there are great Milwaukee workers who are ready to step in to new opportunities here.

We continue to fight for stable neighborhoods with aggressive efforts to mitigate the impacts of home foreclosures. We are working to preserve quality housing, organize neighbors, and strengthen the quality of life in residential neighborhoods across the city.

Businesses and developers are looking at city neighborhoods and the downtown area as they contemplate growth. They recognize our advantages. My 2012 city budget continues our work to improve the economy of Milwaukee.

Success in the economy of the 21<sup>st</sup> century requires a well-educated work force. Many of Milwaukee's families face enormous challenges in enabling their children's ability to compete in the future and to prepare for educational challenges beyond high school. My funding proposals help our families take on these challenges without duplicating the efforts of other governmental entities.

My proposed budget includes a commitment to improving reading. An important initiative will retain and expand youth literacy programs by providing property tax funding to replace decreased grant funding. The Teacher in the Library program began in 2010 and brings teachers to the public library during after school hours. Teachers help children complete homework assignments, assist students in becoming more focused on their studies, and assist librarians in promoting and developing reading as a lifelong skill and habit. Teachers also provide support, counseling, and advocacy for the parents and caregivers of participating children. In 2012, Teacher in the Library will expand to six library locations.

In addition, we are also increasing Central and neighborhood library service hours, and providing sustainable funding for the Center Street Library. That means our residents have more opportunities each week to learn new computer skills, get help creating resumes and finding a job, do their homework, research a new business venture, meet an author, and of course read a good book!

My budget also expands both outreach for the Summer Reading Program and the First Grade Library Card Campaign. In 2012, we will send out literacy experts to 80 early childhood classrooms to provide enriching story time sessions to some of the most at-risk children, those living in poverty.

These proposals will help solidify the libraries' role in neighborhood quality of life. Thank you to Alderman Hamilton for his leadership as Library Board of Trustees president as well as the very important work you're doing on the Milwaukee Promise.

Healthy early childhood development contributes to success in school. The Milwaukee Health Department understands the vital importance of early childhood development. It has been working hard to address infant mortality. The Health Department offers free cribs to families who cannot afford them, and provides home visits to at-risk pregnant women and their families. We have conducted public education campaigns about safe sleep, proper prenatal care, and the importance of breastfeeding and childhood immunizations. And we examine each infant death and stillbirth, to see what might have been done to prevent it.

These programs have been shown to improve prenatal health and birth outcomes. Development results after birth have also been promising. Based on these results, the Department will reallocate a larger share of its nursing resources to proactive, evidence-based home visitation services.

Last month we announced a new partnership with the United Way of Greater Milwaukee. Using our very successful partnership to prevent teen pregnancy as a model, together we are building a community-wide infant mortality coalition with stakeholders from across the public, private and non-profit sector. Every child in our city deserves to be born strong with a good start and a great chance at a healthy and productive life.

This Budget continues our commitment to improving our core infrastructure. My proposal for the Paving Program, combined with funding from the Local Roads Improvement program, will enable DPW to complete almost 16 miles of reconstruction and resurfacing work on local streets. This budget also increases the amount available for capital maintenance by 7%. My proposed 6-year Capital Improvements Program includes a reduction to the replacement cycle for local streets to 50 years by 2017.

Recent flooding events have heightened the public's attention on the performance of the local and regional sewer systems. The findings of the City's Flooding Task Force have made it clear that the problems of basement backups and sewer overflows have an



important private property, as well as a public infrastructure, dimension. My proposed budget for the Sewer Maintenance Fund addresses both of these issues.

The 2012 capital budget includes \$39.1 million for sewer replacement and infiltration and inflow reduction projects. In 2012, this plan allows the city to replace approximately 15 miles of sewers, and to reline another 14 miles. This combined level of sewer replacement and relining effort will enable us to meet the optimal 90-year replacement cycle for local sewers. This funding includes a projected \$2.64 million in grant funding, which we plan to combine with City funds, to perform a second project to reduce I & I from private property. I want to thank the Commissioners of Milwaukee Metropolitan Sewerage District for their leadership in enabling member communities to take on innovative solutions to waste water and storm water management.

As Council members, you understand very well the importance that solid waste management plays in the everyday lives of Milwaukeeans and the quality of our neighborhoods. And you also understand how reductions to State recycling grants and increases to State tipping fees affect the wallets of our constituents. Now, more than ever before, effective solid waste management is needed to produce financial as well as environmental sustainability.

I am pleased to announce that this proposed budget includes initiatives from the Department of Public Works to increase recycling and lower the costs of our solid waste program. Based on an amendment to our recycling contract, the City will initiate single-stream recycling and continue the assignment of additional recycling carts as necessary at no charge. As a result, 2012 estimated recycling revenue will increase \$740,000.

This Budget also responds to legitimate community concerns about new State laws that require voter identification. Many citizens in need of identification will pursue a State identification card from WiDOT. Possession of a valid birth certificate facilitates obtaining such an ID. My proposed budget includes funding to help process requests for birth certificates through the Milwaukee Health Department. The Department of Administration has initiated discussions with potential grantors to help reimburse citizens for all or part of the \$20 cost of a birth certificate. It's important that the City do what it can to protect our citizens' right to vote without financial penalty. I'd like to recognize the leadership of Alderwoman Coggs on this issue.

My proposed 2012 Budget also promotes financial sustainability. The proposed tax levy will increase by less than 2/3 of 1%, bringing the three-year average trend to less than 1.5% a year. If the Council approves the proposed level of municipal service charges, the typical residential property owner will experience a 1.4% increase (\$20) from the impact of the tax levy and municipal charges.

The Budget reduces the use of the Tax Stabilization Fund, Public Debt Amortization Fund, and the transfer from the Parking Fund reserves. New borrowing remains at sustainable levels. Most importantly, my Budget prepares for a very difficult future by

adding \$25 million to the Employers' Pension Reserve. The reserve will help us address the challenge of future employer pension contributions, which are currently projected to average more than \$65 million a year for the foreseeable future, beginning in 2013. I thank the Council for its responsible and unanimous support that it demonstrated for my 2011 Employers' Reserve contribution proposal. I ask for your support once again for 2012. And as I cautioned last year, I will veto any diversion of my proposed level of Employer Reserve funding to any other purpose, regardless of its importance or political support.

In closing, I want to thank you in joining me in the very difficult, but appropriate budget decisions of the past that have helped keep the City on solid footing. As the recent Census numbers show, we have a lot of work ahead of us. Let's keep moving Milwaukee forward.