

CITY OF MILWAUKEE

**Mayor's Public Hearing on the 2018
Executive Budget**

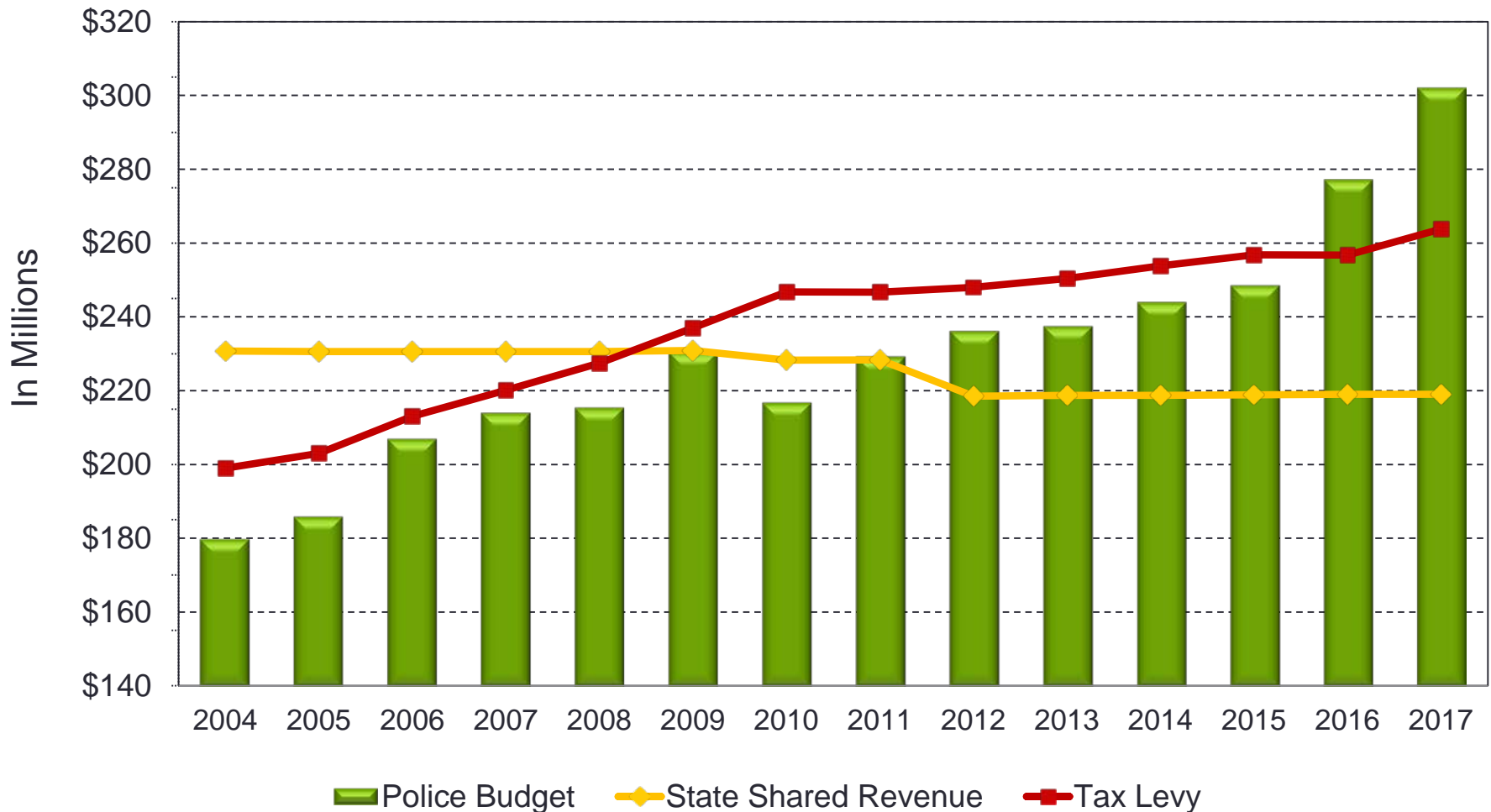
August 15, 2017

What's Ahead?



A LOOK *at the* BUDGET

An Unsustainable Fiscal Model: Milwaukee Police Budget, City Tax Levy, and State Shared Revenue



Trends in State General Purpose Revenue (GPR) and MKE Shared Revenue/ERP Aid: 2003 and 2017

State GPR

In Billions



MKE Shared Revenue/ERP Aid

In Millions



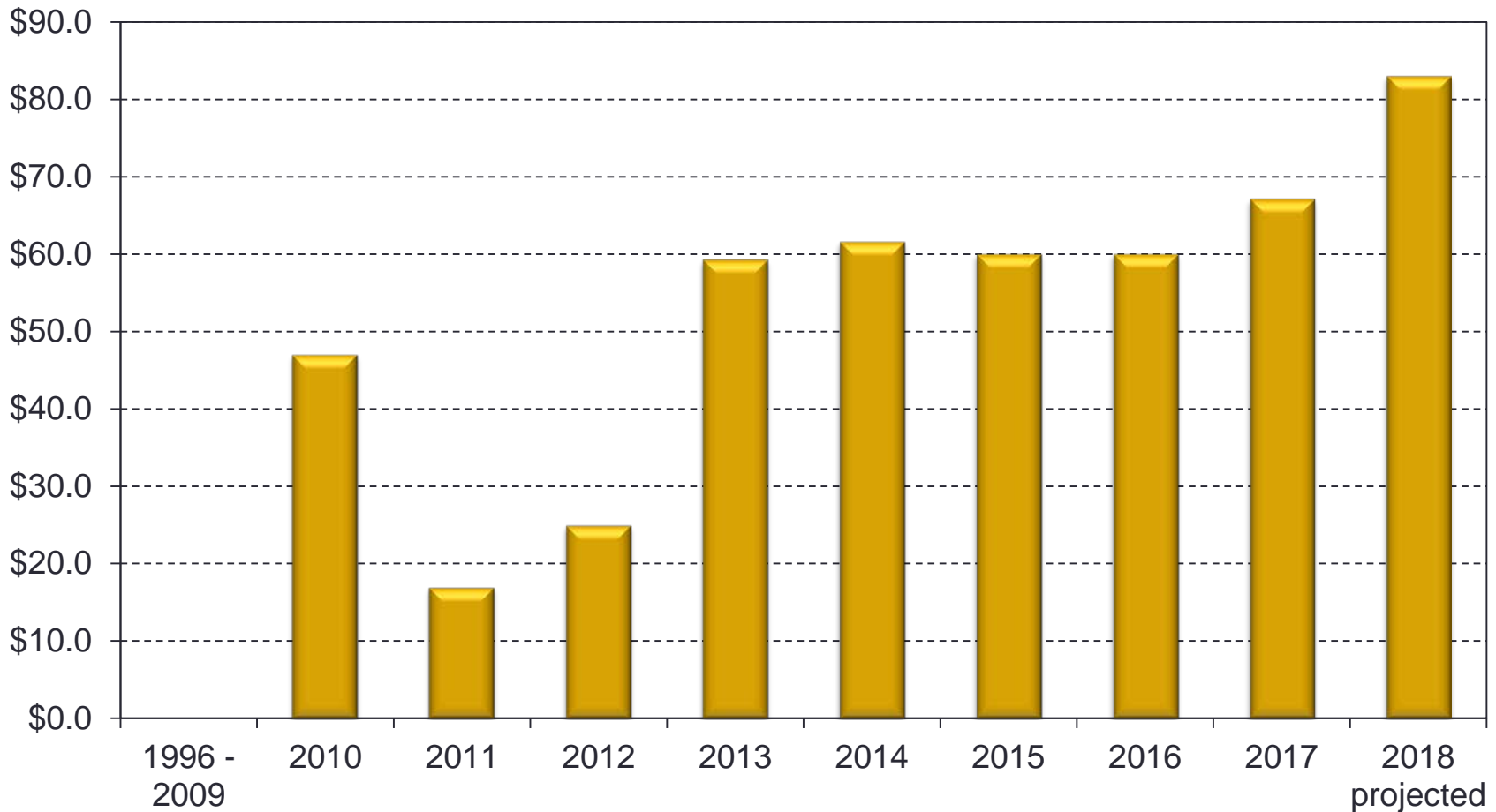
2015 Per Capita Expenditures for Police: 11 Largest Wisconsin Cities

2015 Per Capita Expenditures for Police Services, 11
Largest Wi Cities*



* Includes Operating & Capital expenditures. Source: WI Dept. Of Revenue, Revenues & Expenditures by Counties, Cities, Villages, & Towns for 2015; January, 2017.

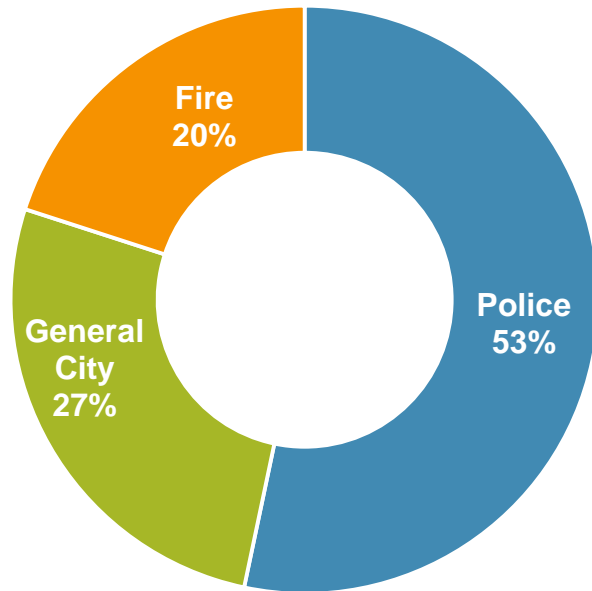
The New Challenge: Growth of Employer Pension Contributions



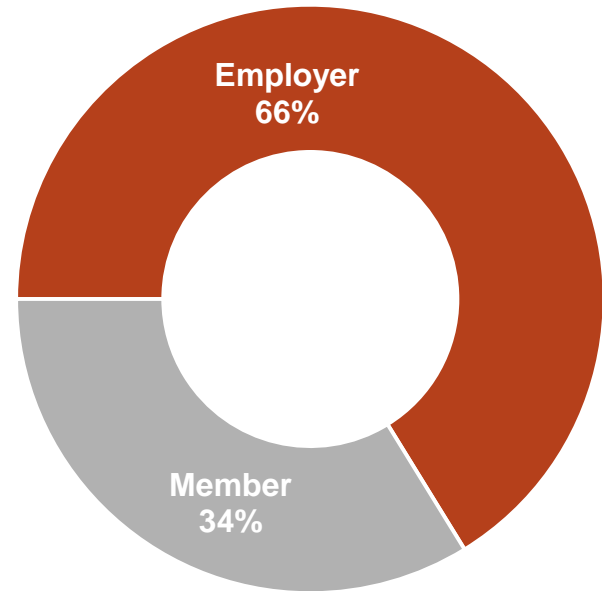
Voluntary contributions in 2011 and 2012 were made to the employer's pension reserve. The City has paid \$61 million of the 2017 contribution, due 1/31/2018. 2018-2022 contributions will be based on a reset of stable contribution rates. The 2018 projected level is based on a review of potential scenarios developed by the actuary. Water Works contributions are not included. Source: City Budget documents and actuary's presentations.

Pension Costs

Police and Fire account for an estimated 73% or \$51.4 million of the total normal cost of pension benefits in 2017.



The estimated employer share of the 2017 normal cost of pension benefits is 66% or \$46.45 million. \$35.88 million (77% of City normal cost) is for Police & Fire.



Source: Employees' Retirement System of the City of Milwaukee, Actuarial Valuation Report as of January 1, 2017; June, 2017; Table 2c, page 20; Table 1c, page 16.

Pension Benefits: Budget Impact

Employe Retirement Provisions

1. City Pension Plan: 1996-2009: No employer contributions required
 - City contributed more than \$280 million on behalf of members during this timeframe
2. 2008 market crash: => return to required employer contributions in 2010
3. 2011 & 2012: Pension reserve increased to limit budget impact of future contribution increases
4. 2013 to present: the new normal for the employer pension contributions
5. Stable contribution policy—5 year rate setting (2013-2017) to avoid annual Budget volatility & provide adequate funding
 - Accelerated contribution payments: \$4.3 million of annual savings
 - New rates to be set for 2018-2022
 - Potential changes to key economic assumptions: substantial increase to employer contribution (\$83 million estimated for 2018; ~ 30% of projected total tax levy)
6. City has enacted cost-reducing measures, but effect on liabilities is gradual

Public Safety Sales Tax Initiative

“The City's ability to address the needs of Milwaukee Police Department and its aging infrastructure without negatively impacting service levels in other departments is growing short.”

Public Policy Forum, City of Milwaukee's Fiscal Condition, August 2016

1. Research has found that Milwaukee's total per capita tax revenue (including intergovernmental aid) is 8% below the average of 39 cities with populations of between 300,000 and 1 million.
2. A 0.5% (1/2 of 1 cent per dollar) sales tax generates \$35 million on an annual basis
3. The initiative would require State authorization and referendum approval in April, 2018. If enacted, the tax would take effect on October 1, 2018, and would:
 - Increase Police annual average sworn staffing to 1,900 in 2019, and maintain that level
 - Maintain two fire apparatus that are eliminated in the 2018 Budget request
 - Enable the funding for two Community Prosecution Units
 - Add two additional Trauma –informed Care Counseling to units for two police districts
 - Stabilize services in non-protective service departments, since public safety would be less reliant on property tax support

Terms of Improvement: 2009-2017

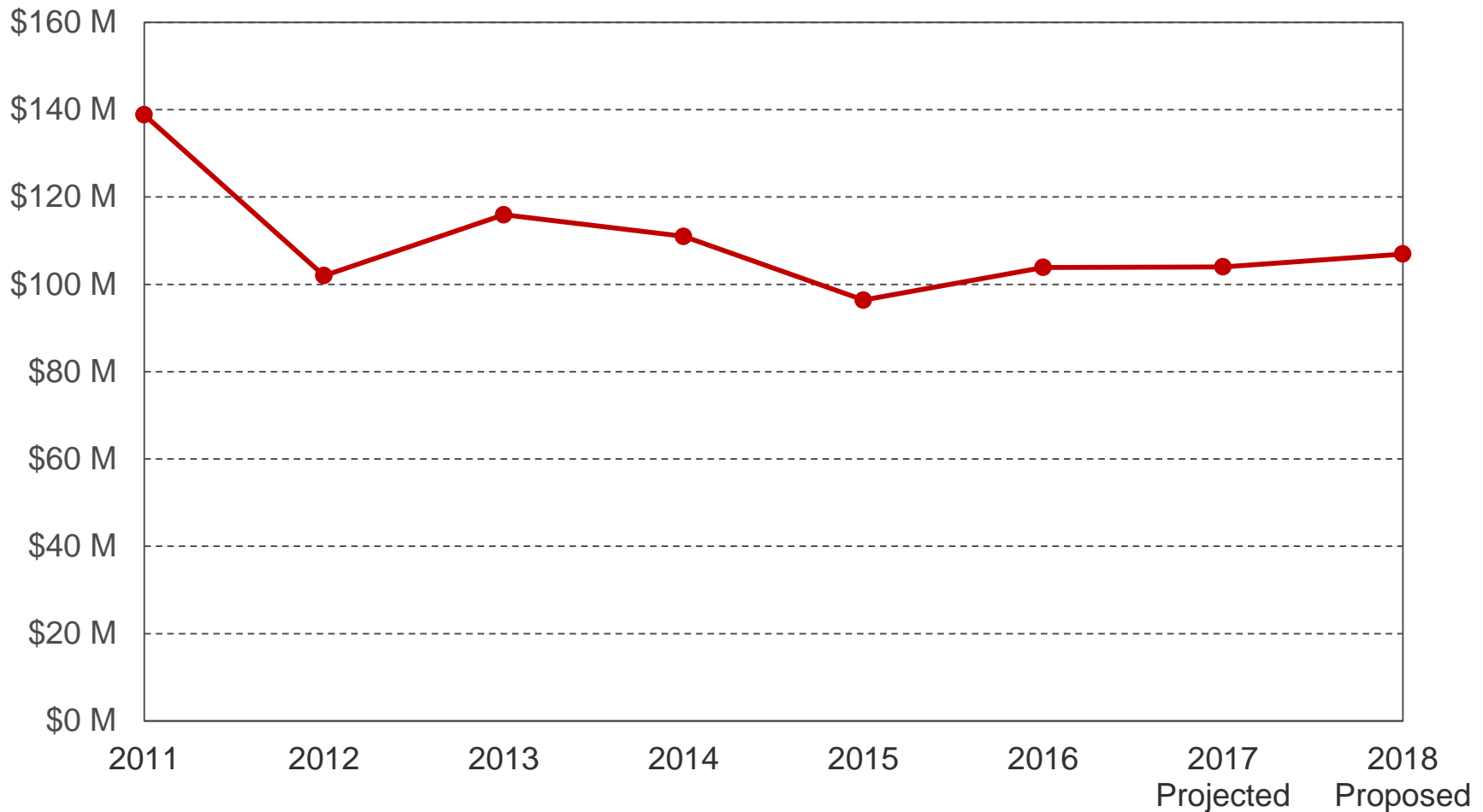
1. Net reduction of ~ 440 FTE's from 2008 baseline: annual savings of ~ \$35 million
2. Employee Health Care Benefit Restructuring: 2017 projected expenditures = \$36 million less than 2011 expenses
3. Workers Compensation Loss Control: 62% reduction in lost workdays 2008-2015; \$15 million lower than 2008 trend
4. Pre-payment of Employer Pension Contribution since 2013: \$4.3 million annual budget savings
5. All employees now pay member pension contributions: \$22 million annual budget impact
6. Stable general obligation debt per capita
7. Annual average tax levy increase 2009-2017: 1.8%

Fringe Benefits: Budget Impact

Employee Health Care Benefits

1. In 2011 expenditures for Employee Health Care Benefits (EHCB): \$140 million.
Continuation of trend: potential for \$187 million by 2015.
2. City implemented multiple changes:
 - Increased employee cost-sharing
 - Substituted Self-funding for insured products
 - Established incentives for cost-effective benefits utilization
 - Implemented disease management and wellness initiatives
3. Result: EHCB expenditures declined to \$96.4 million in 2016.
Forecast: below \$107 million in 2018

Bending the Curve: Managing Health Care Expenditures

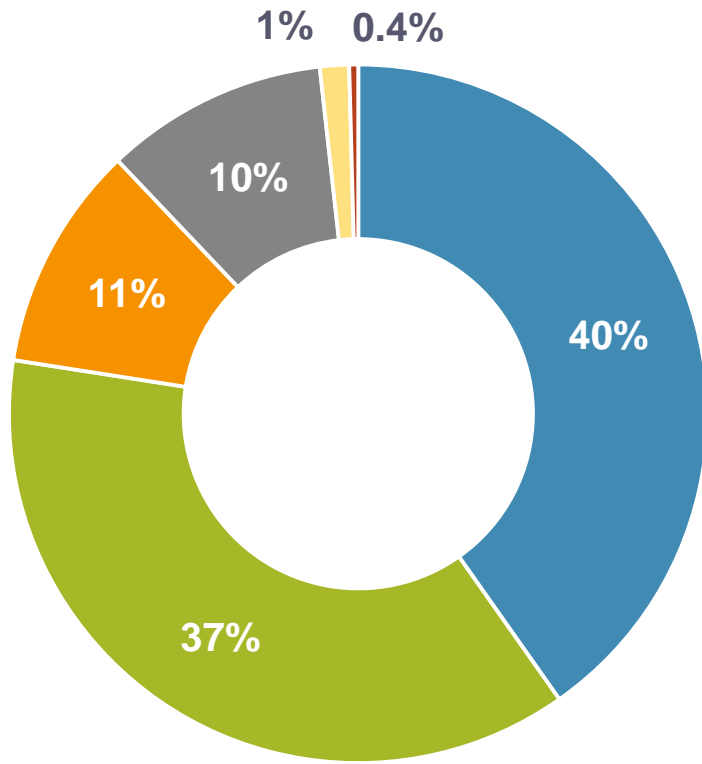


Source: City Budget documents

2018 Requested Budget: Department Operating Expenses & Capital Improvements Requests

1. The Mayor and Budget Office established allocations for both the operating and capital budgets. Budget instructions provided for departments to submit requests consistent with their allocation.
 - Allocations were based on various assumptions regarding revenue and expenditure growth.
 - The probability of very modest revenue growth combined with the potential for a higher employer pension contribution drove relatively restrictive allocations.
 - The capital budget targets were based on the goal of managing annual debt service levy increases to \$1 million or less.
2. Requested department operating expenditures were \$6.4 million less than 2017 adopted levels, despite the need to budget for projected wage increases.
3. Requested department operating budgets included a decrease of 174 (- 2.4%) in Full-time Equivalent positions (FTEs).
4. These requests reflect the reality of the City's fiscal circumstances. Potential impacts are summarized in the following slides.

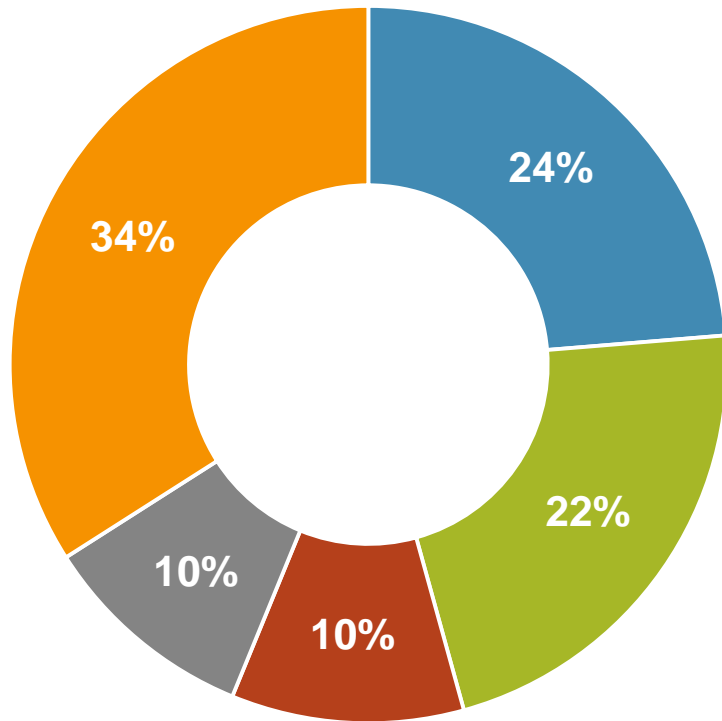
Requested 2018 Expenditures for Property Tax Supplemented Funds



	2018 Requested Budget	\$ Change from 2017 Budget	% Change from 2017 Budget
■ Department Expenses (40%)	\$483.4 M	-\$6.4 M	-1.3%
■ Capital Improvements & City Debt (37%)	\$447.3 M	\$14.0 M	3.2%
■ Employee Health Care & Worker's Compensation (11%)	\$125.5 M	\$0.6 M	0.4%
■ Employee Retirement (10%)	\$124.1 M	\$18.9 M	17.9%
■ Special Purpose Accounts (1%)	\$18.2 M	-\$0.1 M	-0.7%
■ Contingent Fund (.4%)	\$5.0 M	\$0.0 M	0.0%

Note: Department expenses includes the Wages Supplement Fund

Initial 2018 Revenue Estimates for Property Tax Supplemented Funds

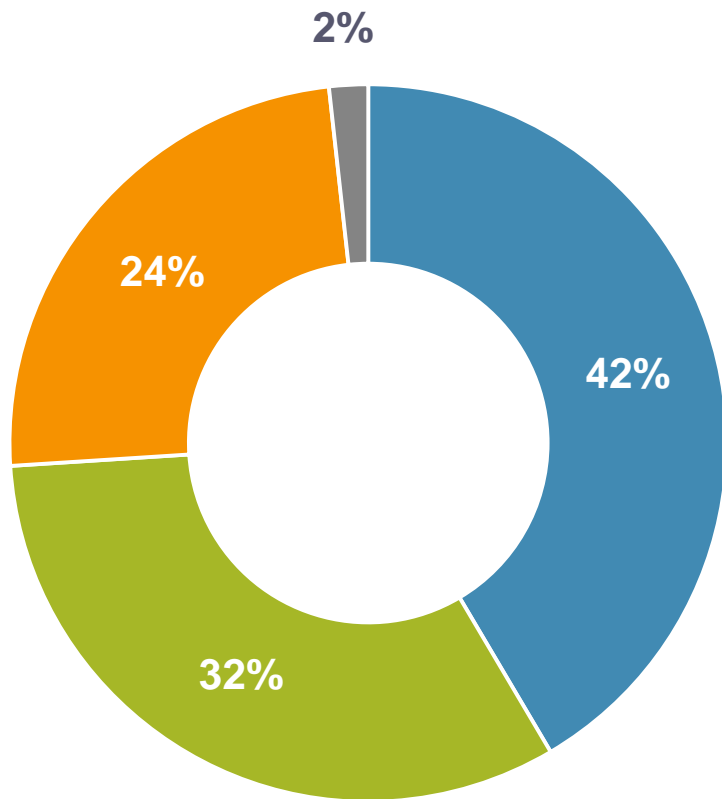


	2018 Requested Budget	\$ Change from 2017 Budget	% Change from 2017 Budget
■ Property Tax Levy	\$285.2 M	\$21.5 M	8.1%
■ Intergovernmental Revenue	\$264.8 M	-\$0.5 M	-0.2%
■ Charges for Services	\$126.2 M	-\$0.8 M	-0.7%
■ Other General Fund Revenue*	\$117.6 M	-\$7.8 M	-6.2%
■ All Other Revenue**	\$409.5 M	\$14.6 M	3.7%

* Other General Fund Revenue includes payments in lieu of taxes, licenses and permits, fines and forfeitures, and Tax Stabilization Fund withdrawals.

** Other Revenues includes General Obligation borrowing proceeds, Tax Increment financing, Delinquent Tax revenue and Debt revenues.

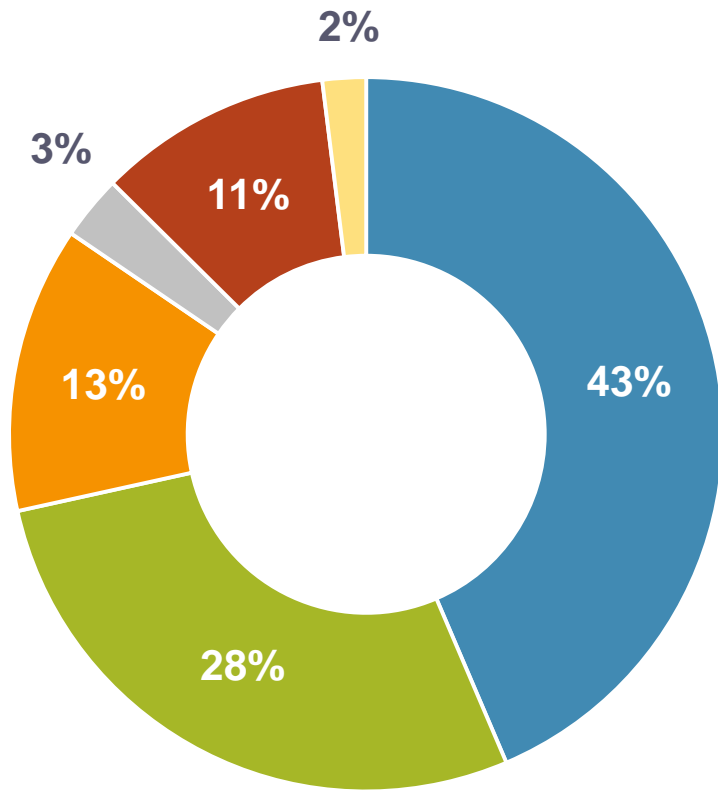
Property Tax Levy Allocation: 2018 Request



	2018 Requested Budget	\$ Change from 2017 Budget	% Change from 2017 Budget
■ General City Purposes	\$118.4 M	\$3.2 M	2.8%
■ Employee Retirement	\$92.6 M	\$14.6 M	18.8%
■ Capital Improvements & Debt Service	\$69.2 M	\$3.6 M	5.5%
■ Contingent Fund	\$5.0 M	\$0.0 M	0.0%

Note: The Public Debt Commission's July 12 approval of the Mayor's recommendation for the 2018 Public Debt Amortization Fund withdrawal has resulted in a \$2 million reduction to the Debt Service levy, compared to the request.

Special Revenue Funds: 2018 Requests



	2018 Requested Budget	\$ Change from 2017 Budget	% Change from 2017 Budget
■ Water Works*	\$138.25 M	\$14.2 M	11.5%
■ Sewer Maintenance	\$110.0 M	\$1.1 M	1.0%
■ Parking	\$51.0 M	-\$1.6 M	-3.0%
■ Economic Development Fund (BIDs)	\$11.4 M	-\$0.1 M	-1.2%
■ Grant & Aid	\$41.7 M	-\$3.5 M	-7.7%
■ County Delinquent Tax Fund	\$7.7 M	-\$0.5 M	-5.8%

* Adjusts for accounting treatment of retained earnings in Budget request.

Police Department

	2018 Requested Budget	Change from 2017 Budget	% Change from 2017 Budget
Budget	\$287.9 M	-\$14.2 M	-4.7%
Personnel	2,698 FTE	-79 FTE	-2.8%

Key 2018 Request Impacts:

1. Reduce sworn average annual strength by 84 FTE to 1,804 (4.4% reduction)
2. Continue “force multiplier” effort with 7 requested civilian forensic positions
3. Continue Police Ambassador program
4. Enhanced squad car replacement cycle requested through capital budget

Fire Department

	2018 Requested Budget	Change from 2017 Budget	% Change from 2017 Budget
Budget	\$111.3 M	-\$10.0 M	-8.3%
Personnel	883 FTE	-75 FTE	-7.8%

Key 2018 Request Impacts:

1. Decommission 5 fire suppression apparatus, and 75 FTE protectives
2. Requested level of fire suppression apparatus would allow for at least 90% of responses to meet national standards
3. Maintain all 12 existing Paramedic (MED) Units for Advanced Life Support (ALS) services
4. Add \$389,000 to reflect decreased reimbursements from County EMS contract
5. Maintain cadet program at 52 cadets

Department of Public Works

	2018 Requested Budget	Change from 2017 Budget	% Change from 2017 Budget
Budget	\$123.8 M	-\$1.7 M	-1.4%
Personnel	1,441 FTE	11 FTE	0.8%

Key 2018 Request Impacts:

1. Maintain 2017 curbside collection, recycling, and self-help center service levels
2. Maintain Weekend Box and Clean & Green Programs
3. \$200,000 or 45% reduction to overtime for street maintenance, limited weekend response to pothole reports
4. Street Lighting and Traffic Control field crews and engineers will allot more time on capital projects to replace and improve street lighting and traffic control infrastructure. This will affect response time for some field service requests.
5. 25 miles of street segment improvements are feasible under the Capital Budget request, compared to 38 in 2017.

Milwaukee Public Library

	2018 Requested Budget	Change from 2017 Budget	% Change from 2017 Budget
Budget	\$22.5 M	-\$1.1 M	-4.6%
Personnel	289 FTE	-19 FTE	-6.0%

Key 2018 Request Impacts:

1. Eliminate 18 positions in branch libraries
2. Reduce funding for branch libraries by \$800,000
3. Requested funding would require either a closure of two branch libraries or a significant reduction in hours for all libraries (a 17% reduction in hours, or closing each branch for approximately one day a week)
4. Potential elimination of Teacher in the Library Program
5. Capital Budget request continues the Neighborhood Library Modernization program

Dept. of Neighborhood Services

	2018 Requested Budget	Change from 2017 Budget	% Change from 2017 Budget
Budget	\$19.3 M	-\$1.0 M	-4.8%
Personnel	243 FTE	-13 FTE	-5.0%

Key 2018 Request Impacts:

1. 11 inspector positions eliminated across various services including building inspection, commercial code enforcement, and residential code enforcement
2. Overall reduced capacity for responding to calls for service, complaints, and conducting inspections, reduced timeliness of service, increased delays in service provision
3. Inspections for vacant buildings reduced from monthly to quarterly
4. Potential for reduced rat abatement effort

Health Department

	2018 Requested Budget	Change from 2017 Budget	% Change from 2017 Budget
Budget	\$12.7 M	-\$0.8 M	-5.9%
Personnel	238 FTE	-3 FTE	-1.3%

Key 2018 Request Impacts:

1. Eliminate 11 levy-funded positions (including 6 positions in Family and Community Health and 3 positions in Disease Control and Environmental Health).
2. Reduce funding for sexually transmitted infection (STI) prevention contracts.
3. Eliminate water filter funding of \$150,000.
4. Fund 23 FTE and various abatement and testing programs to reduce human exposure to lead.
5. The request adds 6 grant-funded FTE, including 3 for the Men's Health Program, 2 FTE in the Office of Violence Prevention, and 1 Laboratory Data Specialist.

Water Works

	2018 Requested Budget	Change from 2017 Budget	% Change from 2017 Budget
Budget	\$171.3 M	\$14.2 M	11.5%
Personnel	391 FTE	11 FTE	2.8%

Key 2018 Request Impacts:

1. Increase water main replacement to 18 miles in 2018 per Public Service Commission requirement.
2. Replace up to 800 lead service lines, including any remaining child care facilities not replaced in 2017.

Sewer Maintenance Fund (SMF)

	2018 Requested Budget	Change from 2017 Budget	% Change from 2017 Budget
Budget	\$110.0 M	\$1.1 M	1.0%
Personnel	113 FTE	-1 FTE	-1.1%

Key 2018 Request Impacts:

1. Sewer Maintenance will continue its focus on infiltration and inflow control.
2. The capital plan will enable continuation of the 90-year replacement cycle.
3. SMF has initiated a program to meet water quality standards through the Total Maximum Daily Load (TMDL) regulations.

Parking Fund

	2018 Requested Budget	Change from 2017 Budget	% Change from 2017 Budget
Budget	\$51.0 M	-\$1.6 M	-3.0%
Personnel	119 FTE	3 FTE	2.4%

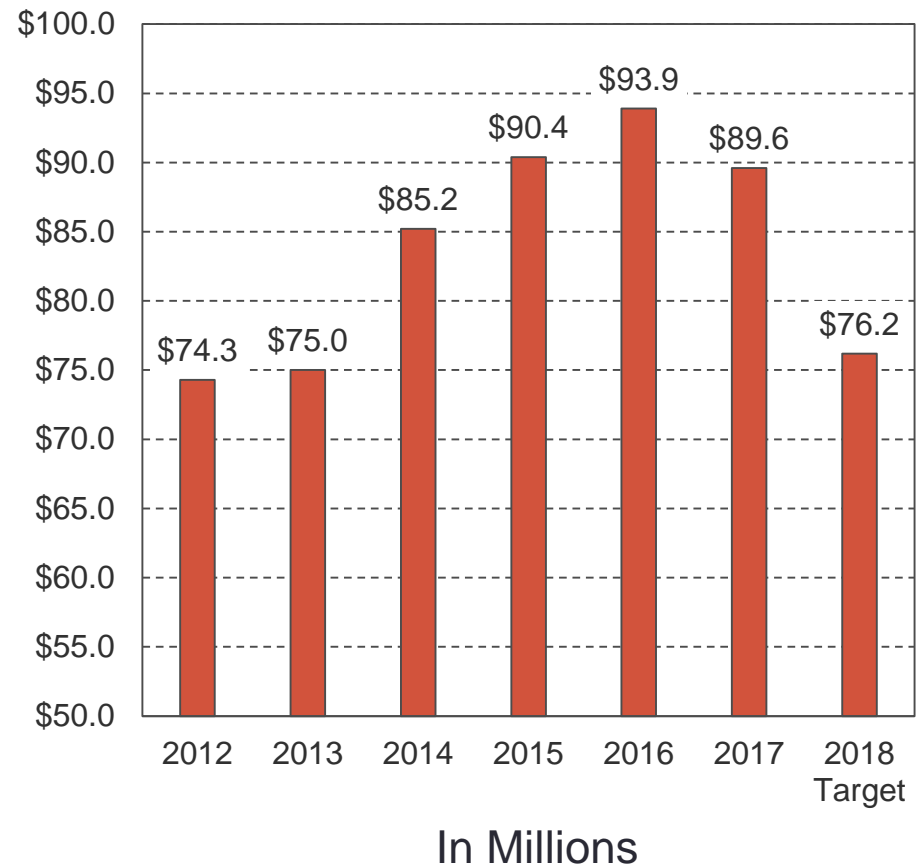
Key 2018 Request Impacts:

1. Replacement of coin-only and multi-space parking meters
2. MacArthur Square repairs (\$7.8 million total project) are affected by timing of State DOT Kilbourn Tunnel project
 - Concrete slab repairs in conjunction with tunnel work
 - Necessary electrical system upgrade to be completed within the project timeframe

2018 Capital Budget: Requests vs. Target

1. 2017 levy-supported Capital Budget: **\$89.7 million**
2. 2018 levy-supported Capital Budget Target: **\$76.2 million**
3. Requests for 2018 levy-supported Capital Budget: **\$104 million**

Levy-Supported G.O. Borrowing in Capital Budgets: 2012-2017; and 2018 Target



Capital Improvements: 2018 Request

2018 Highlights:

1. City Hall Foundation Restoration – \$9 million
2. Neighborhood Library Modernization Program – \$3.95 million
3. In Rem Property, STRONG Homes Loan Programs – \$2.28 million
4. Code Compliance Loan Program – maintain 2017 level of \$800,000
5. Local/High Impact Streets – \$12.9 million
6. Lead Service Lines – amended to \$1.4 million for City share of 800 lead service line replacements on private property
7. Police Vehicles - \$3.9 million, including 50 fully-outfitted new squad cars

Key Takeaways

1. Milwaukee, unlike its peer cities, is restricted to State Intergovernmental aid and property taxes as its primary revenue sources.
2. State Shared revenue to Milwaukee has declined \$21.8 million since 2003 in nominal terms, and almost \$100 million in inflation-adjusted terms
3. Continued slow revenue growth and projected larger employer pension contributions generate prospect of service level decreases.
4. City has managed the employee health benefits challenge successfully.
5. City has committed substantial resources to Police. This commitment can't be sustained without revenue improvement.
6. Capital improvements are being prioritized to control debt service expenditures.
7. Lead service line replacements will be included in the water main replacement program beginning in 2018.

2018 Budget Process

May 9	Submittal of Department Budget Requests
May through September	Executive Budget Development
August 15	Mayor's Public Budget Hearing
September 26	Mayor submits Proposed Executive Budget
October 6-17	Finance and Personnel Committee reviews Proposed Executive Budget
Early October	Public Hearing on the Budget
November 12	Estimated date for 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