

CITY OF MILWAUKEE

**Mayor's Public Hearing on the 2019
Executive Budget**

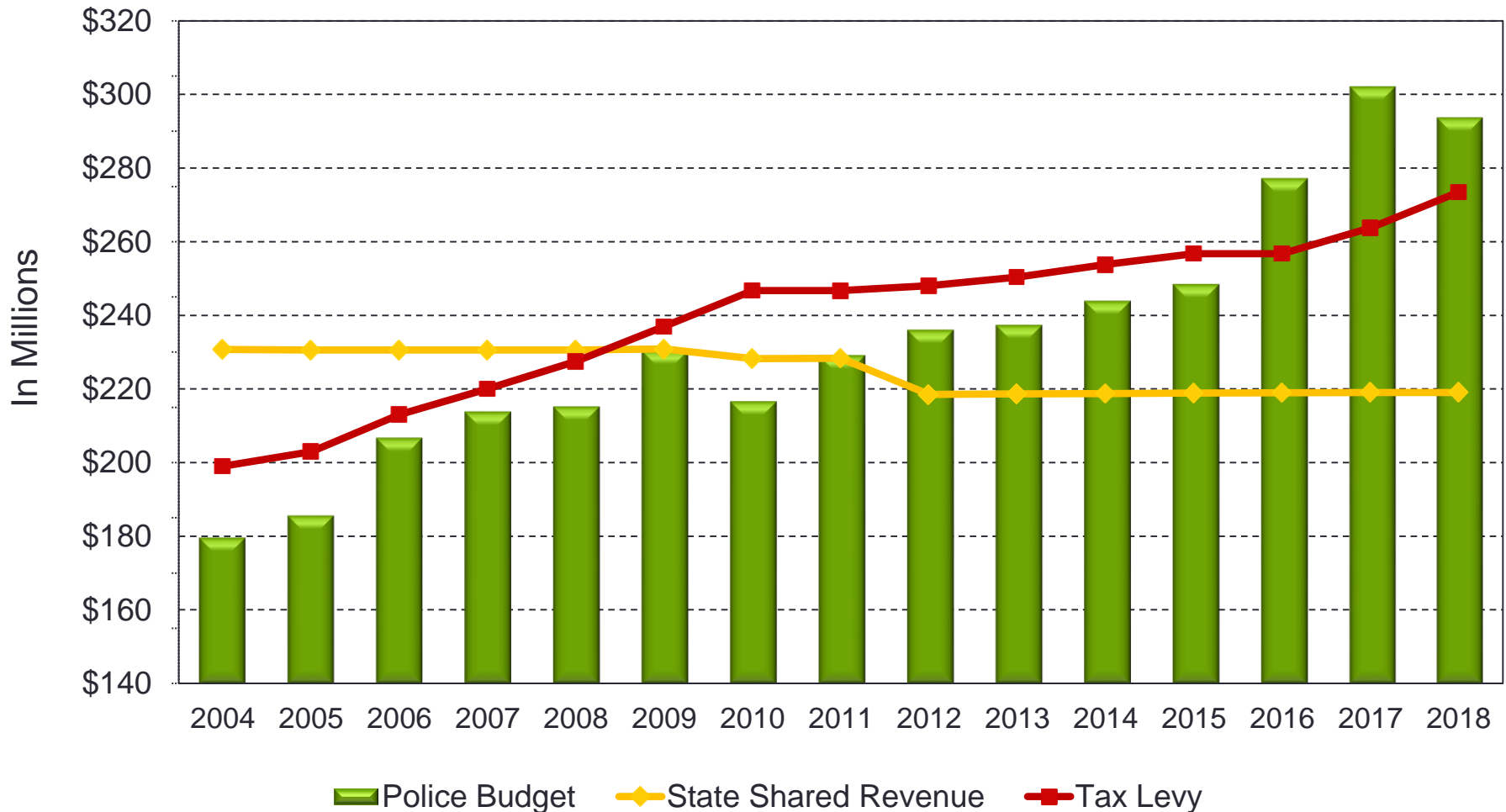
August 15, 2018

Structural Budget Challenge

- Expenditure growth exceeds non-property tax revenue growth
 - Expenditure growth around 3%
 - Non-property tax revenue growth <1%

- Available Options
 - Increase property taxes by 4% which will jeopardize the City's ability to meet State imposed property tax levy limits within two years
 - Adopt a resolution authorizing a referendum that the voters must approve to exceed the property tax levy limit
 - Cut expenditures/services
 - Develop new revenue sources that do not impact the property tax levy limit

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



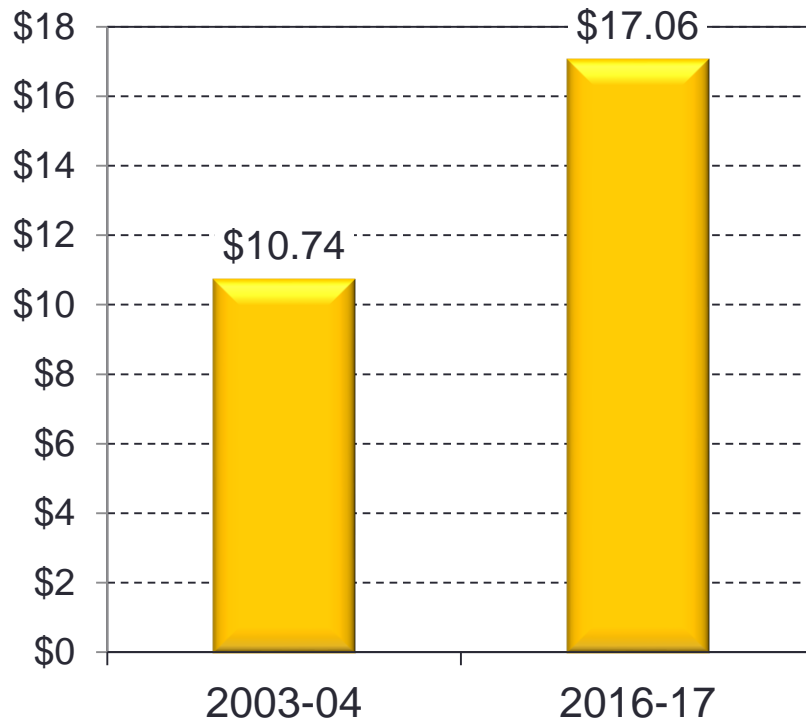
Public Safety & Pension Costs vs. Tax Levy & State Aid



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

State GPR

In Billions

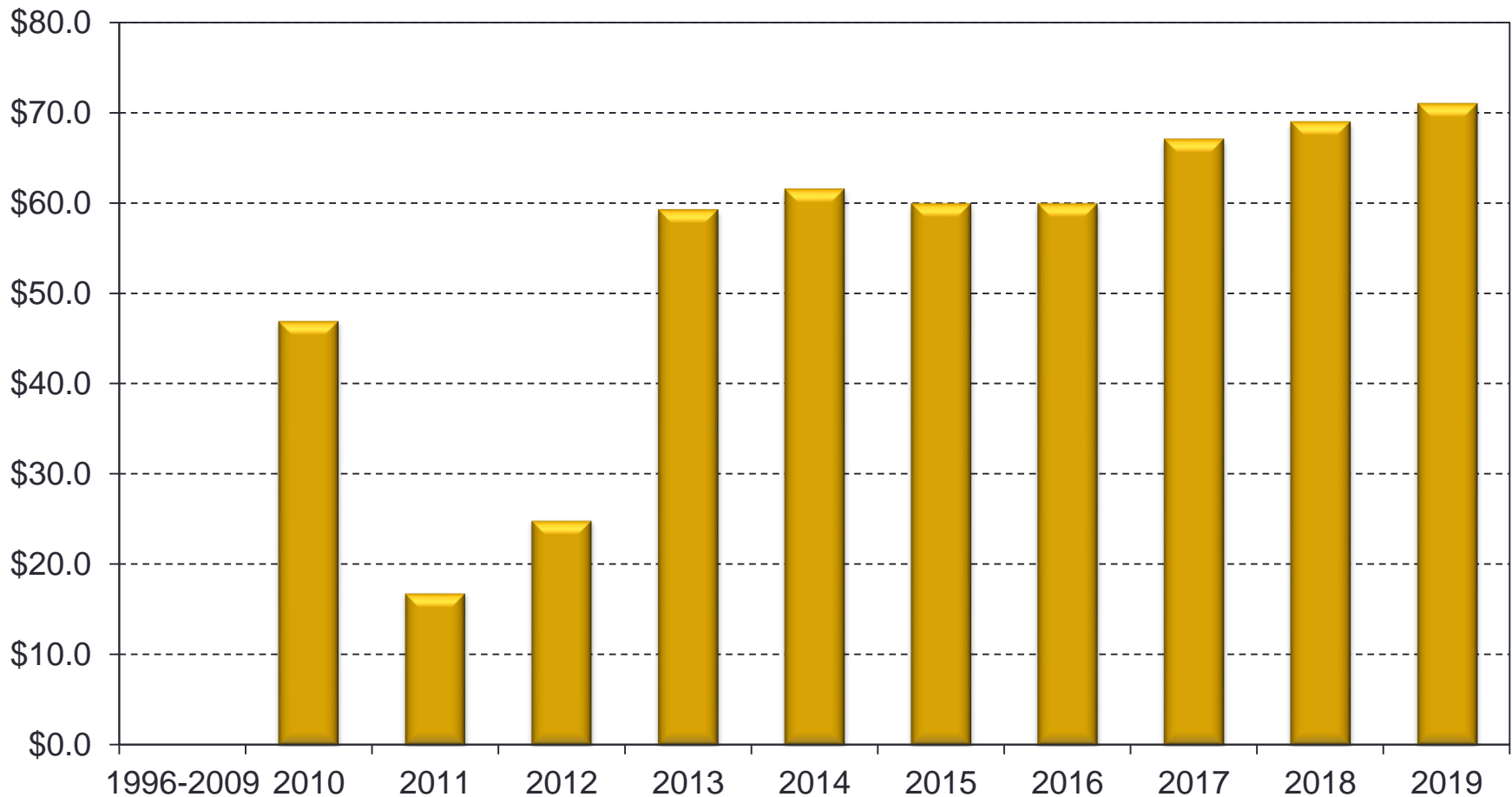


MKE Shared Revenue/ERP Aid

In Millions



The New Challenge: Growth of Employer Pension Contributions



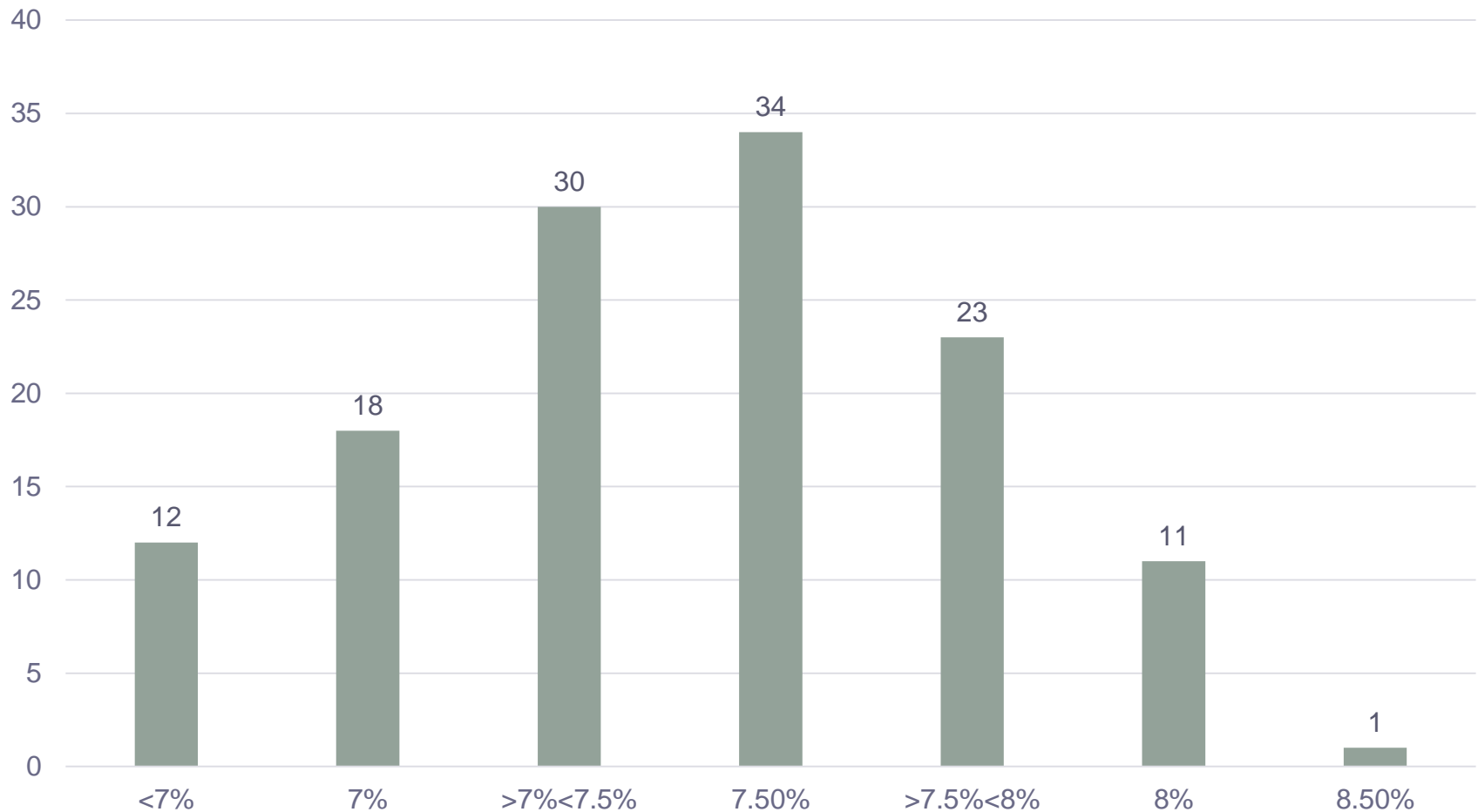
Voluntary contributions in 2011 and 2012 were made to the employer's pension reserve. The City has paid \$69 million of the 2018 contribution, due 1/31/2019. 2018-2022 contributions will be based on a reset of stable contribution rates. The 2018 projected level is based on a review of potential scenarios developed by the actuary. Water Works contributions are not included. Source: City Budget documents and actuary's presentations.

Investment Return Assumption by Pension Plan

DC Police & Fire	6.50%
DC Teachers	6.50%
Wisconsin Retirement System	7.20%
Denver Public Schools	7.25%
San Diego County	7.25%
San Francisco City & County	7.46%
Phoenix ERS	7.50%
St. Louis School Employees	7.50%
Denver Employees	7.75%
Duluth Teachers	8.00%
St. Paul Teachers	8.00%
Milwaukee	8.00%

Source: National Association of State Retirement Administrators

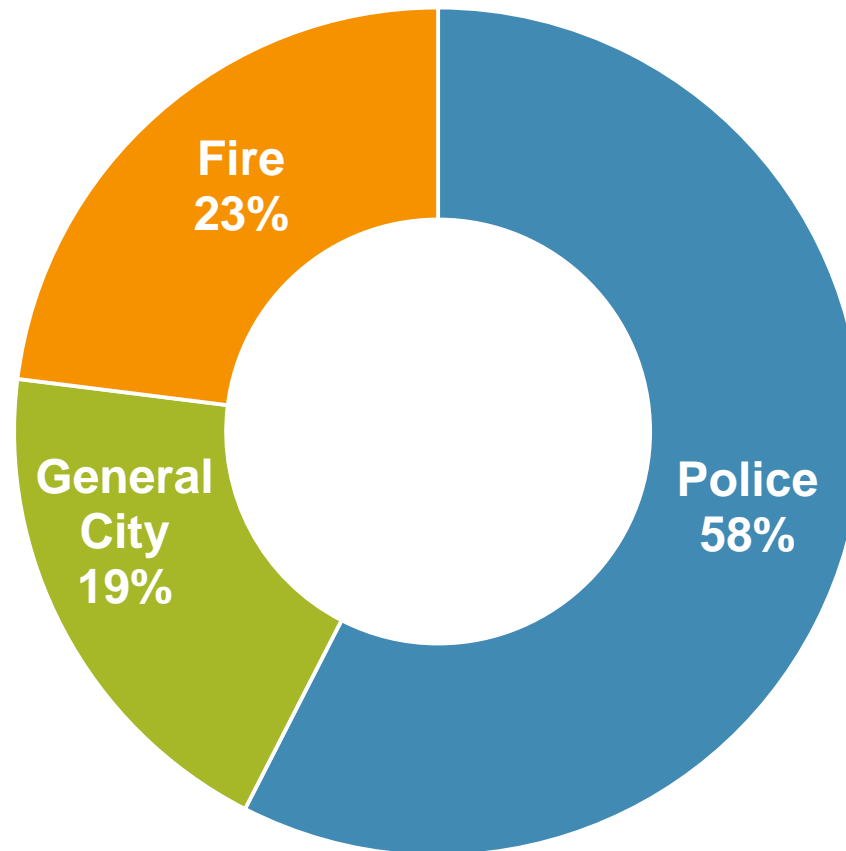
Distribution of Investment Return Assumptions



Source: National Association of State Retirement Administrators

Pension Costs

Police and Fire account for an estimated 81% of the total pension costs in 2018.



Source: Employees' Retirement System of the City of Milwaukee, Actuarial Valuation Report as of January 1, 2018; June, 2018; Table 1c, page 14.

Public Safety Sales Tax Initiative

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, 2019. If enacted, the tax would take effect on October 1, 2019, and would:
 - Increase Police annual average sworn staffing to 1,900 in 2020, and maintain that level
 - Restore two fire apparatus that were eliminated in the 2018 Budget and add two paramedic units
 - 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: 2009-2018

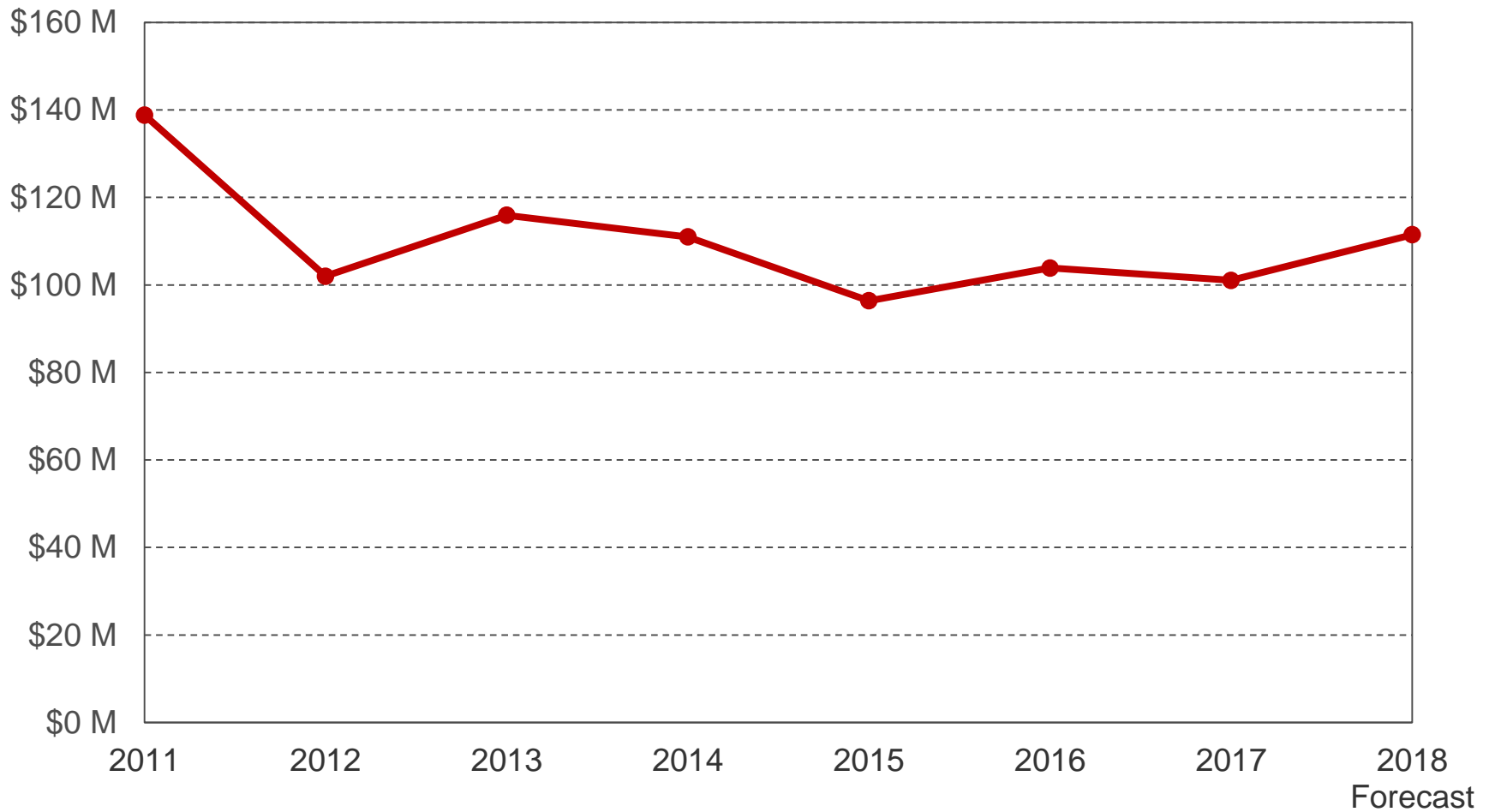
1. Net reduction of ~ 440 FTE's from 2008 baseline: annual savings of ~ \$35 million
2. Employe Health Care Benefit Restructuring: 2018 projected expenditures = \$27.3 million less than 2011 expenses
3. Workers Compensation Loss Control: 62% reduction in lost workdays 2008-2015; \$15 million lower than 2008 trend
4. Pre-payment of Employer Pension Contribution since 2013: \$4.3 million annual budget savings
5. All employes now pay member pension contributions: \$22 million annual budget impact
6. Stable general obligation debt per capita
7. Annual average tax levy increase 2004-2018: 2.3%

Fringe Benefits: Budget Impact

Employee Health Care Benefits

1. In 2011 expenditures for Employee Health Care Benefits (EHCB): \$138.8 million.
Continuation of trend: potential for \$238 million by 2018.
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 \$101.1 million in 2017. Forecast: \$109.5 million in 2018.

Bending the Curve: Managing Health Care Expenditures

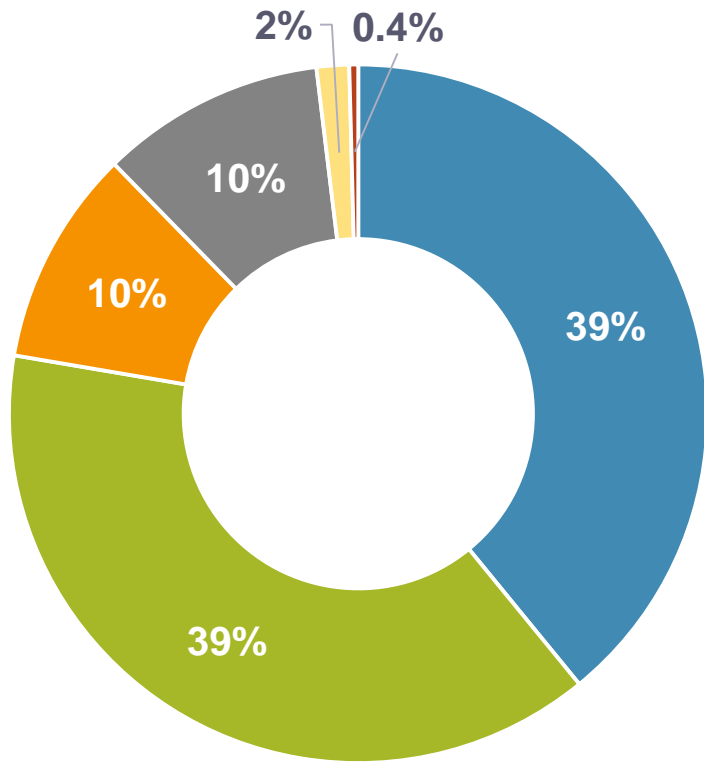


Source: City Budget documents and Department of Employee Relations

2019 Requested Budget: Department Operating Expenses & Capital Improvements Requests

1. Departments were given allocations for both the operating and capital budgets.
2. Departmental allocations for operating expenditures were \$6.0 million less than 2018 adopted levels.
3. Requested department operating budgets included a decrease of 28.2 (- 0.5%) in Full-time Equivalent positions (FTEs).

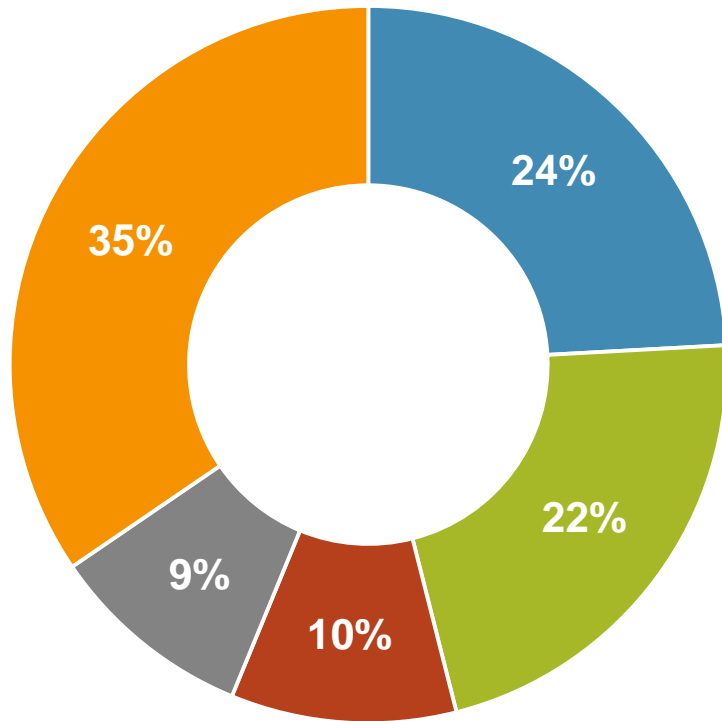
Requested 2019 Expenditures for Property Tax Supplemented Funds



	2019 Requested Budget	\$ Change from 2018 Budget	% Change from 2018 Budget
■ Department Expenses (39%)	\$493.7 M	\$7.4M	1.5%
■ Capital Improvements & City Debt (39%)	\$466.8 M	\$43.2 M	10.2%
■ Employee Health Care & Worker's Compensation (10%)	\$121.0 M	\$2.7 M	2.3%
■ Employee Retirement (10%)	\$125.8 M	\$0 M	0%
■ Special Purpose Accounts (2%)	\$18.2 M	\$0.5 M	3.1%
■ Contingent Fund (.4%)	\$5.0 M	\$0.0 M	0.0%

Note: Department expenses includes the Wages Supplement Fund

Initial 2019 Revenue Estimates for Property Tax Supplemented Funds

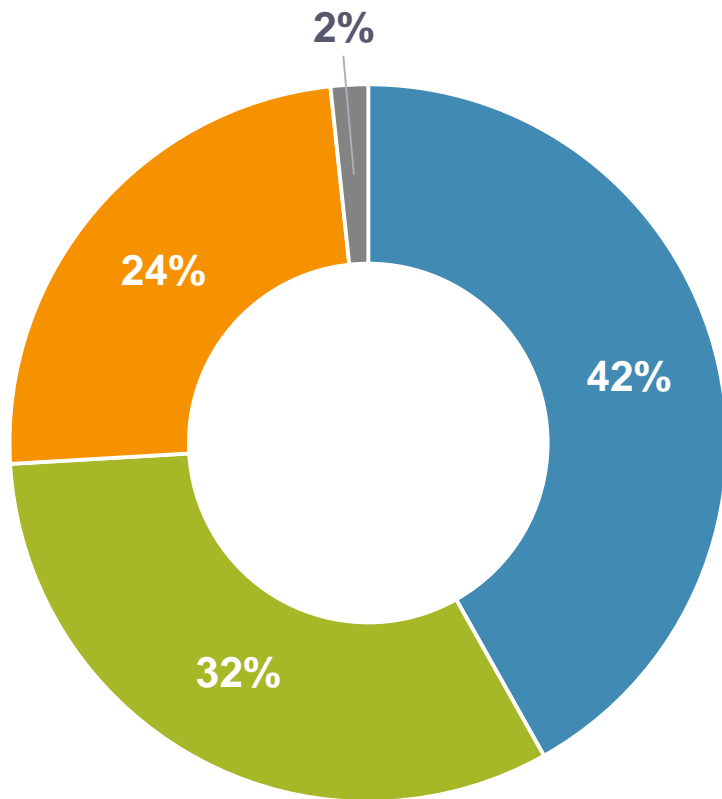


	2019 Requested Budget	\$ Change from 2018 Budget	% Change from 2018 Budget
■ Property Tax Levy	\$297.0 M	\$23.5 M	8.6%
■ Intergovernmental Revenue	\$269.6 M	\$1.5 M	0.5%
■ Charges for Services	\$125.1 M	-\$4.0 M	-3.1%
■ Other General Fund Revenue*	\$113.9 M	-\$3.8 M	-3.3%
■ All Other Revenue**	\$424.9 M	\$36.8 M	9.5%

* 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.

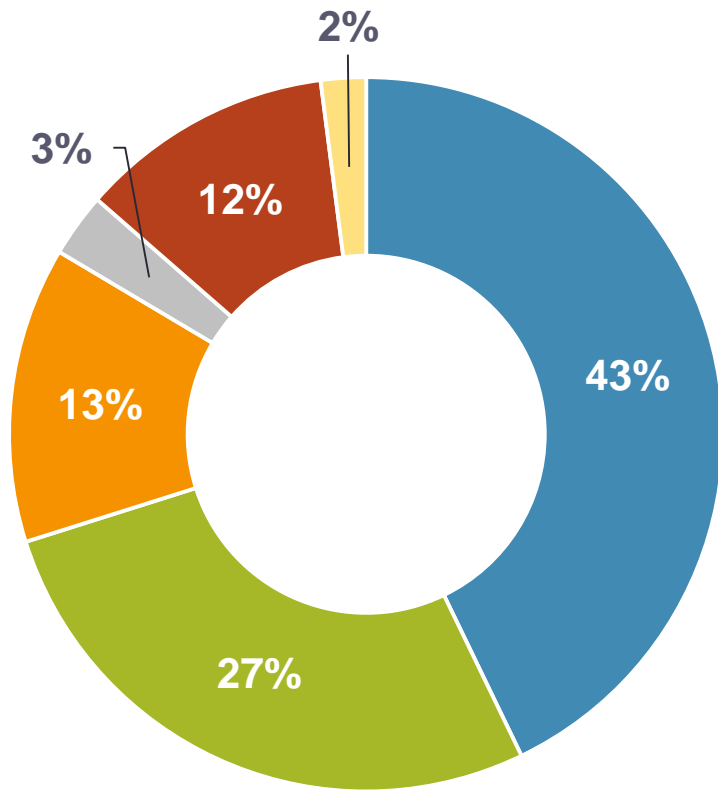
Property Tax Levy Allocation: 2019 Request



	2019 Requested Budget	\$ Change from 2018 Budget	% Change from 2018 Budget
■ General City Purposes	\$124.3 M	\$17.1 M	13.7%
■ Employee Retirement	\$95.7M	\$1.5 M	1.6%
■ Capital Improvements & Debt Service	\$72.0 M	\$4.9 M	7.3%
■ 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: 2019 Requests



	2019 Requested Budget	\$ Change from 2018 Budget	% Change from 2018 Budget
■ Water Works*	\$167.8 M	\$28.2 M	20.2%
■ Sewer Maintenance	\$106.9 M	-\$0.8 M	-0.8%
■ Parking	\$52.5 M	\$4.7 M	9.9%
■ Economic Development Fund (BIDs)	\$11.3 M	-\$0.1 M	-1.2%
■ Grant & Aid	\$45.2 M	\$2.4 M	5.5%
■ County Delinquent Tax Fund	\$8.0 M	\$0.3 M	3.4%

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

Police Department

	2019 Requested Budget	Change from 2018 Budget	% Change from 2018 Budget
Budget	\$295.7 M	\$0 M	0%
Personnel	2,697 FTE	-28 FTE	-1.0%

Key 2019 Request Impacts:

1. Reduce sworn average annual strength by 28 FTE to 1,833 (1.5% reduction)
2. Funding for ACLU settlement consultant
3. Enhanced squad car replacement cycle requested through capital budget

Fire Department

	2019 Requested Budget	Change from 2018 Budget	% Change from 2018 Budget
Budget	\$110.8 M	-\$0.7 M	-0.7%
Personnel	855.5 FTE	-24.3 FTE	-2.8%

Key 2019 Request Impacts:

1. Decommission 1 fire suppression apparatus, and 15 FTE sworn personnel
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. Maintain cadet program at 52 cadets

Department of Public Works

	2019 Requested Budget	Change from 2018 Budget	% Change from 2018 Budget
Budget	\$123.1 M	\$1.2 M	1.0%
Personnel	1,058 FTE	-2.9 FTE	-0.3%

Key 2019 Request Impacts:

1. Maintain 2018 curbside collection and recycling service levels
2. Expand drop off options at the self-help facilities
3. Maintain Weekend Box and Clean & Green Programs
4. Continue City Hall Foundation Restoration Project; foundation repairs expected to be completed by 2022
5. 31 miles of street segment improvements are feasible under the Capital Budget request, compared to 29 miles in 2018.

Milwaukee Public Library

	2019 Requested Budget	Change from 2018 Budget	% Change from 2018 Budget
Budget	\$22.8 M	-\$0.2 M	-0.8%
Personnel	292 FTE	12.4 FTE	4.4%

Key 2019 Request Impacts:

1. Requested funding may require a reduction in library hours
2. Capital Budget request continues the Neighborhood Library Modernization program

Dept. of Neighborhood Services

	2019 Requested Budget	Change from 2018 Budget	% Change from 2018 Budget
Budget	\$19.6 M	-\$0.2 M	-1.1%
Personnel	192 FTE	-9.7 FTE	-4.8%

Key 2019 Request Impacts:

1. 6 inspector positions eliminated from the residential code enforcement program
2. Inspections for vacant buildings will be done on a complaint basis
3. Potential for reduced rat abatement effort

Health Department

	2019 Requested Budget	Change from 2018 Budget	% Change from 2018 Budget
Budget	\$13.6 M	\$0 M	0%
Personnel	237 FTE	0 FTE	0%

Key 2019 Request Impacts:

1. Maintained funding at the 2018 budget level.

Water Works

	2019 Requested Budget	Change from 2018 Budget	% Change from 2018 Budget
Budget	\$167.8 M	\$28.2 M	20.2%
Personnel	396 FTE	25 FTE	6.7%

Key 2019 Request Impacts:

1. Maintain water main replacement at 18 miles in 2019 per Public Service Commission requirement.
2. Replace up to 1,000 lead service lines, including any remaining child care facilities not replaced in 2018.

Sewer Maintenance Fund (SMF)

	2019 Requested Budget	Change from 2018 Budget	% Change from 2018 Budget
Budget	\$106.9 M	-\$0.8 M	-0.8%
Personnel	113 FTE	1 FTE	0.8%

Key 2019 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. Based on a mandate from the Milwaukee Metropolitan Sewerage District, a program to disconnect storm water down spouts in the combined sewer area will begin in 2019

Parking Fund

	2019 Requested Budget	Change from 2018 Budget	% Change from 2018 Budget
Budget	\$52.5 M	\$4.7 M	9.9%
Personnel	135 FTE	19 FTE	16.3%

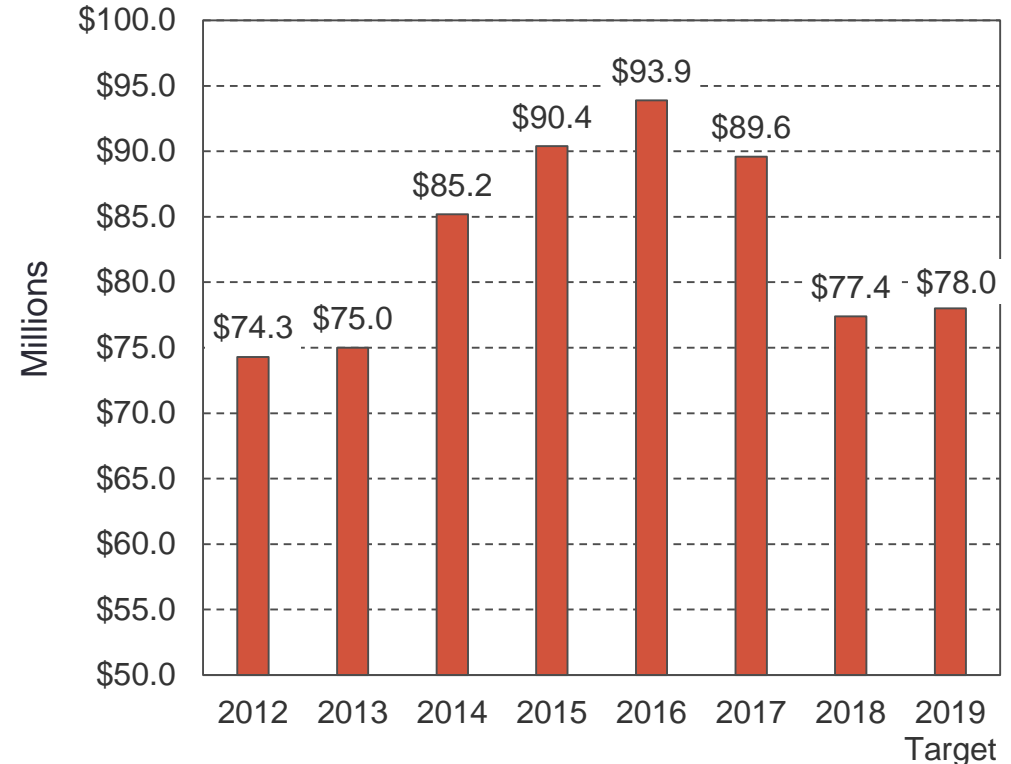
Key 2019 Request Impacts:

1. Replacement of coin-only and multi-space parking meters
2. MacArthur Square repairs - \$3.2 million
 - Concrete slab repairs
 - Necessary electrical system upgrade to be completed within the project timeframe
 - Façade upgrade

2019 Capital Budget: Requests vs. Target

1. 2018 levy-supported Capital Budget: **\$77.4 million**
2. 2019 levy-supported Capital Budget Target: **\$78 million**
3. Requests for 2019 levy-supported Capital Budget: **\$123.9 million**

Levy-Supported G.O. Borrowing in Capital Budgets: 2012-2018; and 2019 Target



Capital Improvements: 2019 Request

2019 Highlights:

1. City Hall Foundation Restoration – \$8 million
2. Neighborhood Library Modernization Program – \$1.4 million
3. In Rem Property, STRONG Homes Loan Programs – \$2 million
4. Code Compliance Loan Program – maintain 2018 level of \$800,000
5. Local/High Impact Streets – \$13.6 million
6. Lead Service Lines – amended to \$3.7 million for City share of 1,000 lead service line replacements on private property
7. Police Vehicles - \$7.4 million, including 100 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.

2019 Budget Process

May 8	Submittal of Department Budget Requests
May through September	Executive Budget Development
August 15	Mayor's Public Budget Hearing
September 25	Mayor submits Proposed Executive Budget
October 5-17	Finance and Personnel Committee reviews Proposed Executive Budget
October 8	Public Hearing on the Budget
November 13	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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Budget & Management Director

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dyacca@milwaukee.gov

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