

2019 Proposed Executive Budget

**Presentation to the Finance
& Personnel Committee
October 5, 2018**

Presentation Goals

1. Pension – current and future impact on the budget
2. 2019 Proposed Budget
3. 2019 Proposed Budget “Bottom Line”

Pension 2018 Payment

- ❑ Budgeted a payment of \$83 million in 2018 based on 2016 investment rate of return
- ❑ \$83 million paid to pension system in January of 2018 to take advantage of prepayment savings
- ❑ In June, the Actuary revised the 2018 pension payment using 2017 investment rate of return
- ❑ Pension payment fell from \$83 million to \$69.6 million leaving a credit in the pension fund of \$13.4 million

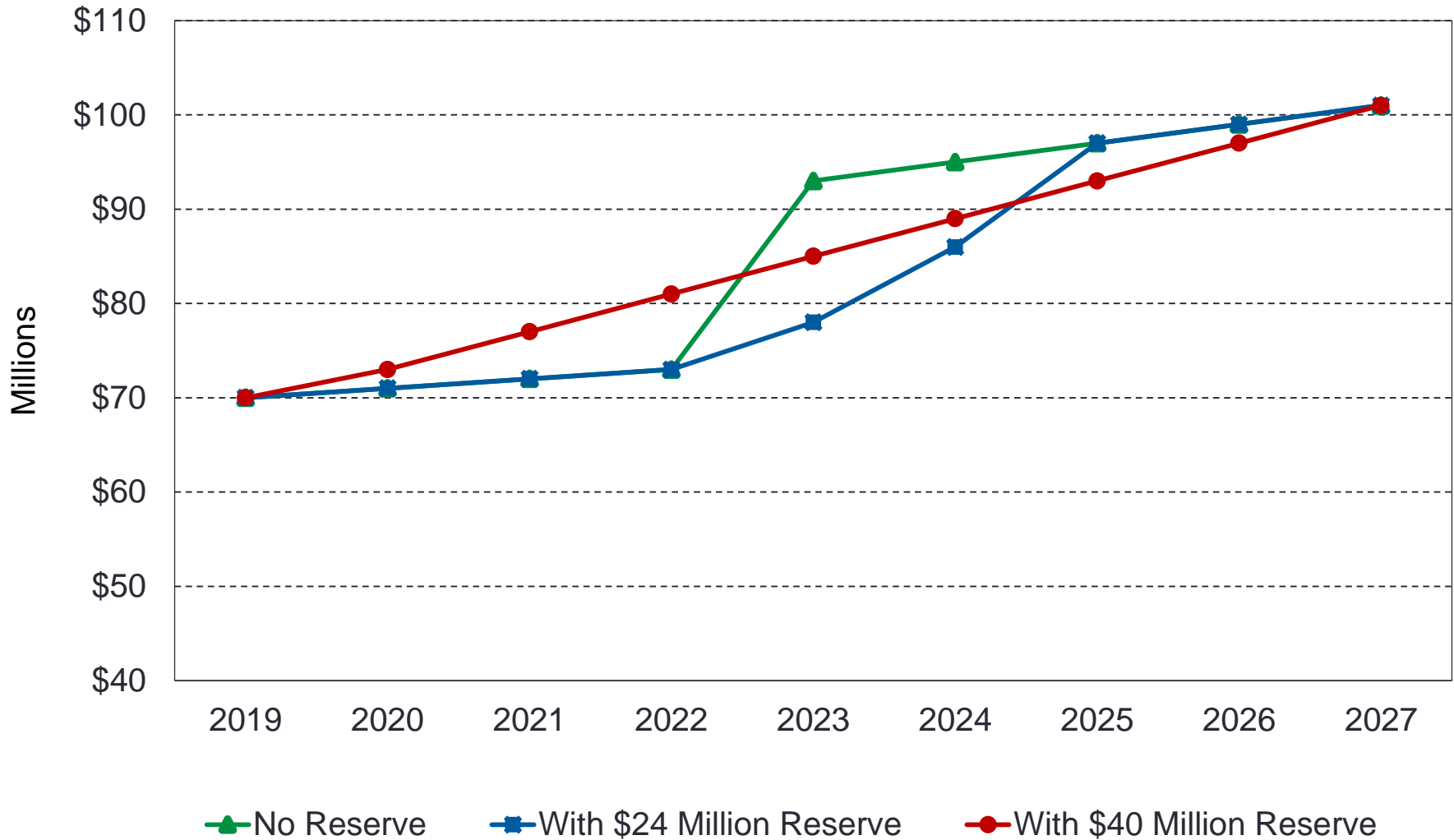
Pension 2019 Payment

- ❑ \$13.4 million credit will be put into the pension reserve fund
- ❑ Requested 2019 pension payment was reduced to \$70 million to reflect the 2018 actual payment
 - \$56.6 million will be the contribution to the pension fund
 - \$13.4 million will be put into the pension reserve fund
 - Avoids adding \$13.4 million to the structural budget problems for the 2020 budget and allows the City to smooth future pension payment increases
- ❑ Pension reserve balance will be \$24 million at year end 2019

Pension Future Payments

- ❑ The stable pension payment will be reset in 2023
- ❑ The Actuary will set the investment rate of return at 7.75% or 7.5%
- ❑ This will increase the annual pension payments by \$20 million to \$40 million
- ❑ The \$24 million pension reserve fund will help smooth the pension increase but will not be sufficient to prevent large budget reductions
- ❑ Future payments into the pension reserve fund will be needed to appropriately smooth the anticipated cost increases

Future Pension Payments



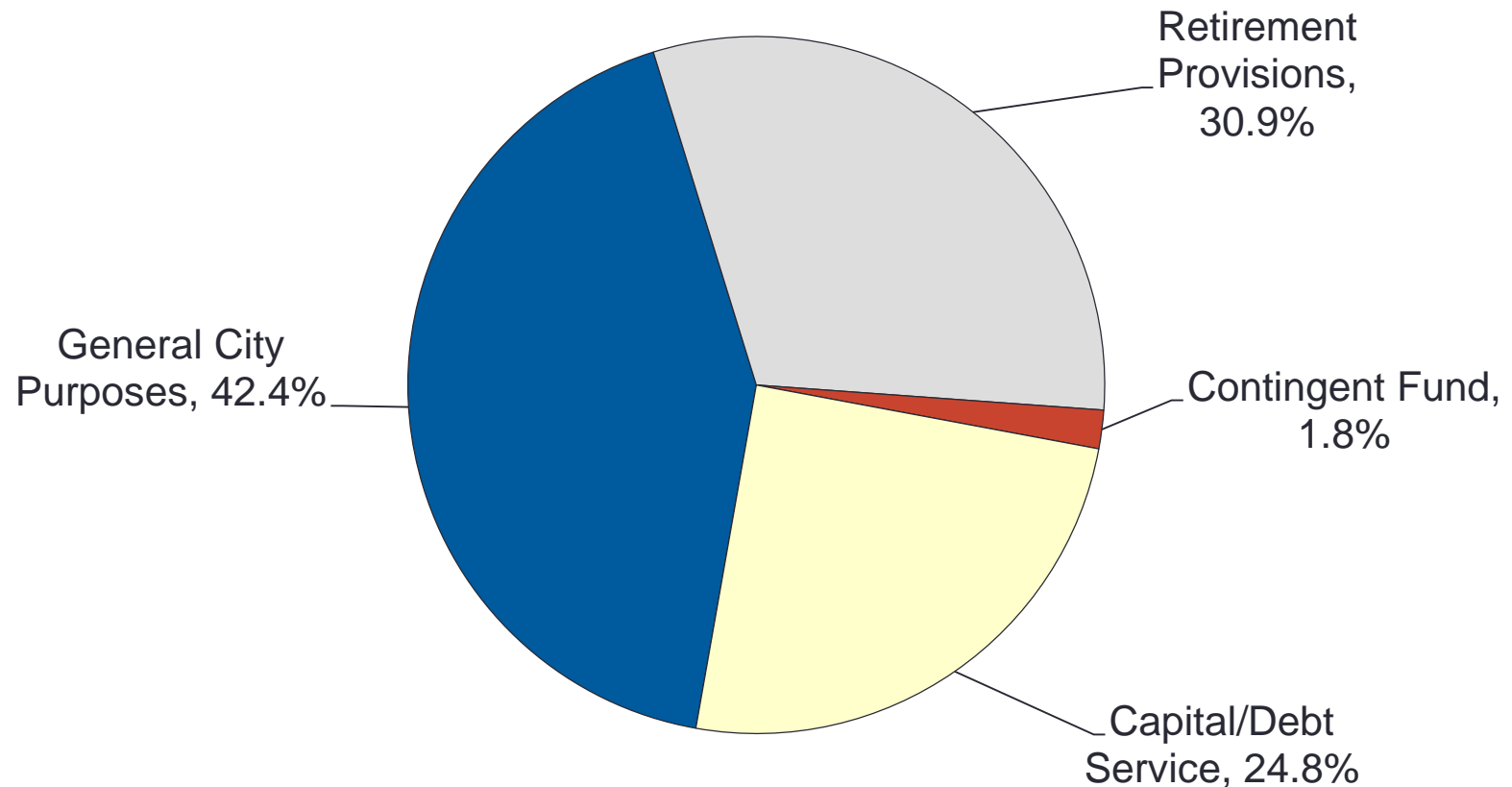
Using the Pension Reserve Funding for Alternative Expenditures

- ❑ \$13.4 million will be added to the 2020 budget gap
- ❑ Pension reserve fund will be insufficient to smooth out tax levy increase from the investment rate of return reduction in 2023

2019 Budget

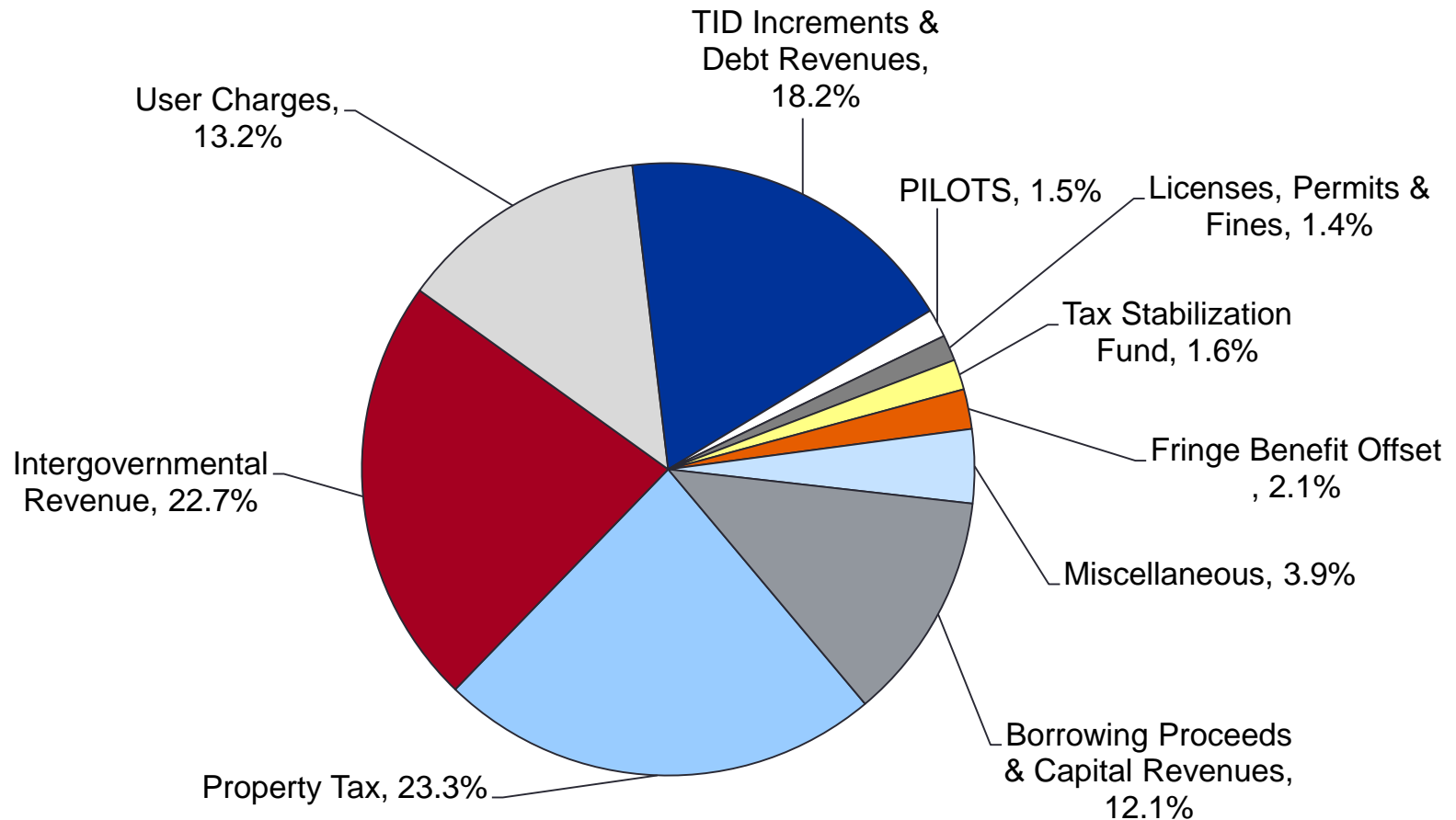
1. Total Proposed 2019 Budget: \$1.535 billion
 - Proposed Tax Levy-Supported Budget: \$1.176 billion
 - General City Purposes (GCP) Budget: \$633.4 million
2. Total Proposed Tax Levy of \$280.0 million
3. Non-Tax Levy-supported Budget: \$359.2 million
 - Enterprise funds: \$291.6 million
 - Grant & Aid Fund: \$48.2 million
 - County Delinquent Tax Fund: \$8.0 million
 - Development Fund: \$11.3 million

2019 Proposed Tax Levy: Distribution by Budget Section/Purpose

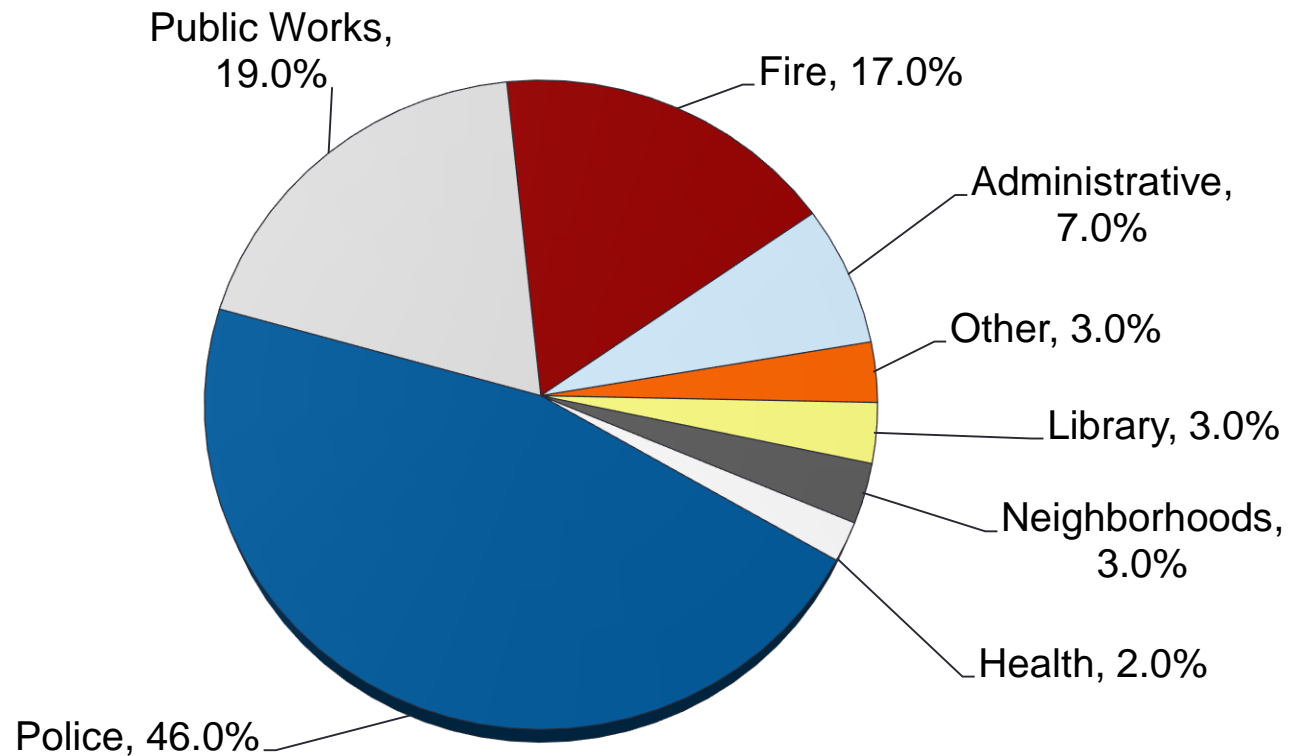


The total 2019 proposed tax levy: \$280.0 million.

City of Milwaukee 2019 Revenue Sources: Tax Levy Supported Budget



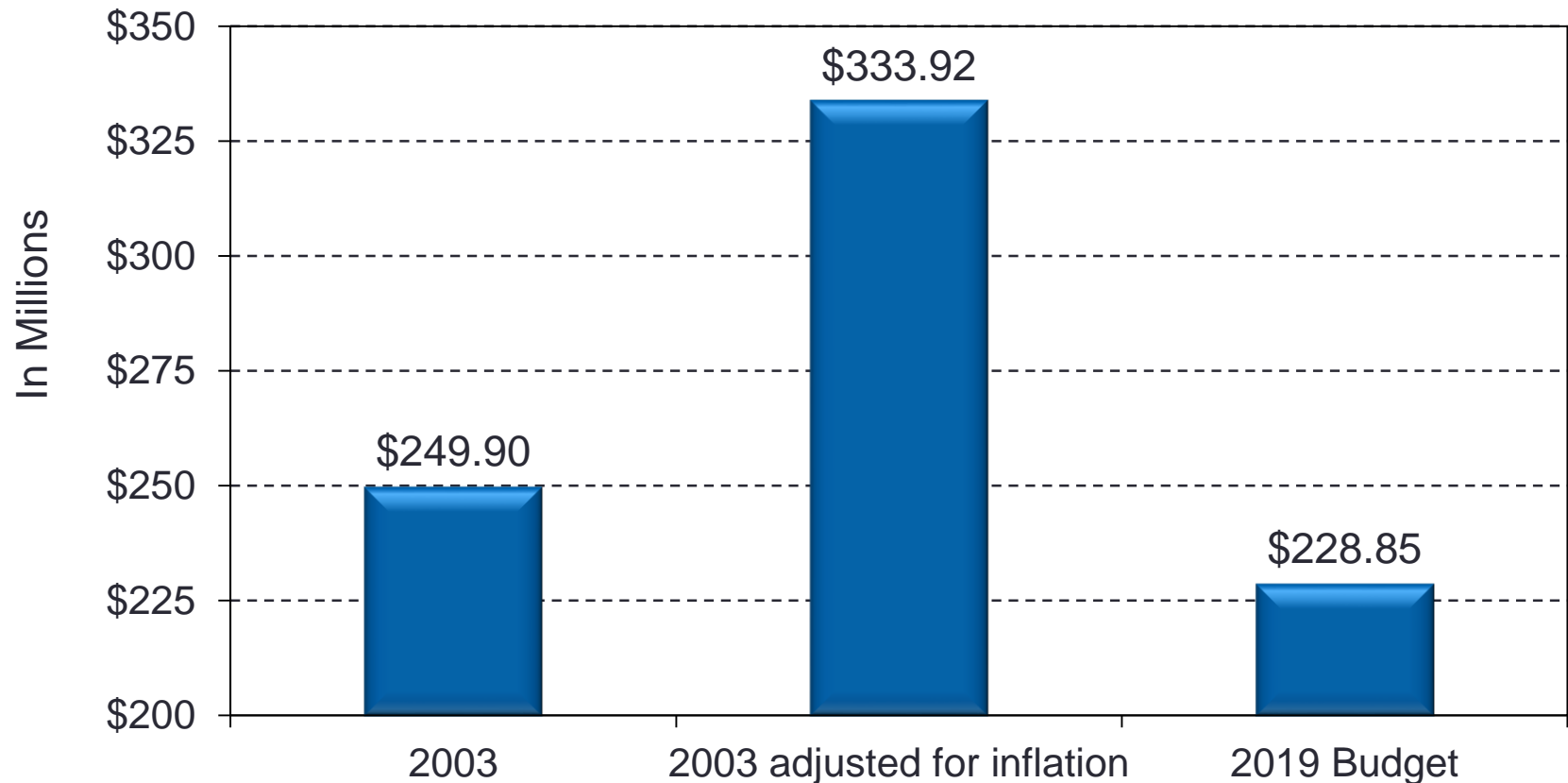
2019 Proposed General City Purposes Budget: Expenditures



Note: Three departments (DPW, Police, Fire) comprise 82% of the Proposed 2019 General City Purposes Budget.

State Shared Revenue/ERP Trend

Decline in State Shared Revenue and Expenditure
Restraint Program (ERP) Payments to Milwaukee, 2003 - 2019



*Inflation adjusted decline in Shared Revenue and ERP payments = - \$105.1 million (-31.2%).
Source: U.S. Bureau of Labor Statistics: CPI-U Tables; City of Milwaukee Budget documents*

Limits on Revenue Options

1. State Shared Revenue/Expenditure Restraint (ERP)

- Shared Revenue/Expenditure Restraint Aid: \$21.0 million nominal decline since 2003
- CPI-U-adjusted decline = \$105.1 million
- Eligibility for ERP aid (\$9.8 million in 2019) 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
- Maximum levy increase is \$18.4 million or 6.7%
- 2019 proposed levy increase is \$6.6 million or 2.4%
- Remaining: \$11.8 million
- Will restrict 2020 limit maximum to a 1.6% increase which further diminishes in future years

Limits on Revenue Options (Cont.)

3. User charges are limited to cost recovery

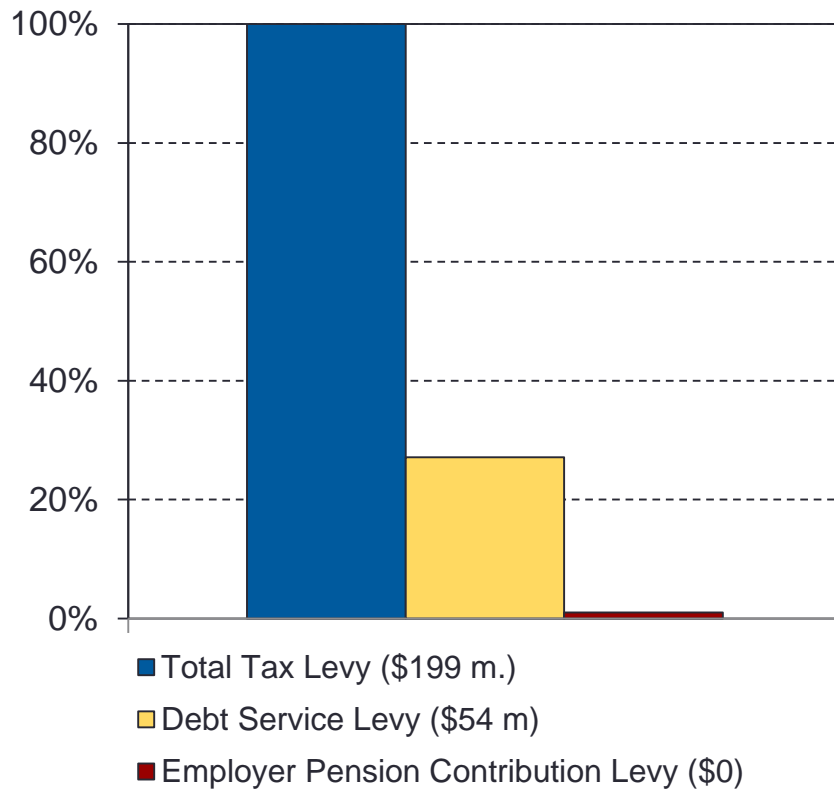
- City's 4 primary user charges recover close to 100% of total cost
- State law requires any user charges enacted after 2013 to be offset by levy limit reductions

4. City is nowhere near expenditure restraint program (ERP) limit

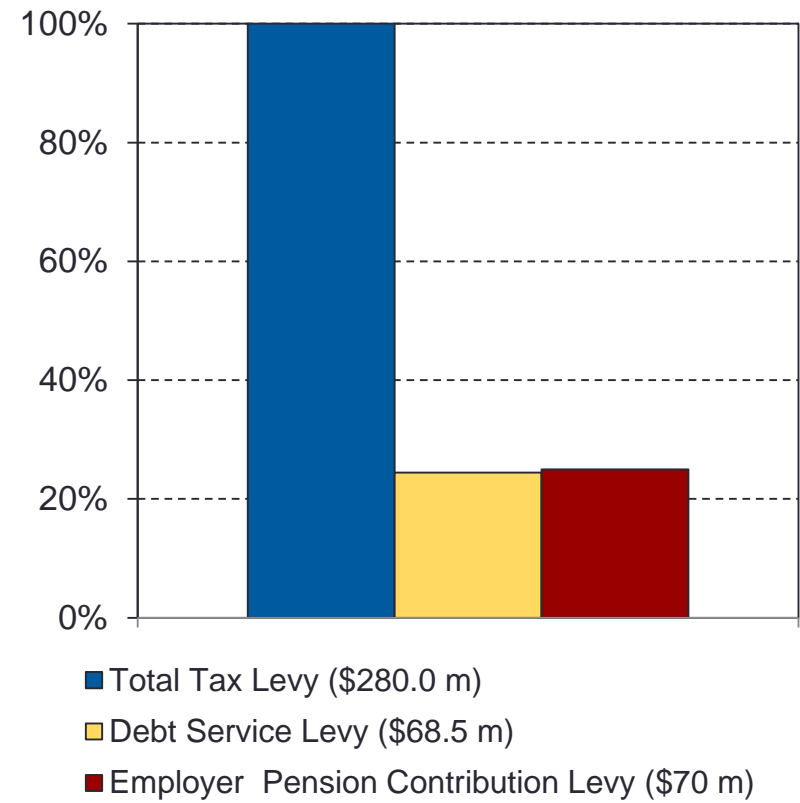
- Revenue growth limits expenditure growth
- \$20.1 million under the ERP limit

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

2004



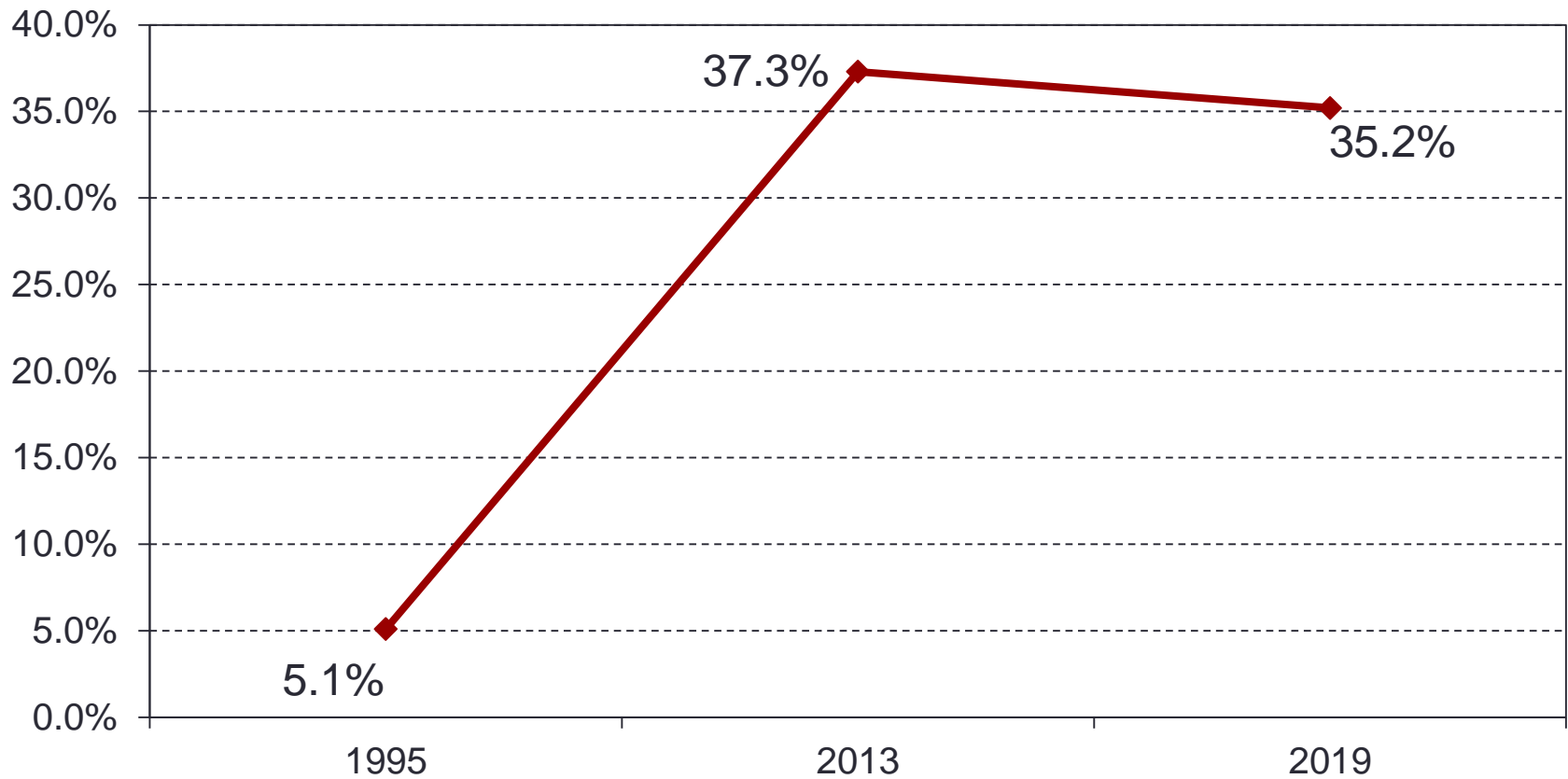
2019



In 2004, Debt service and pension contribution comprise 27% of total tax levy. In 2019, Debt service and pension contribution comprise 49.5% of total tax levy.

Source: City of Milwaukee budget documents.

Employee Health Care Benefits and Employer Pension Contributions as a Share of Tax Levy and Shared Revenue: 1995, 2013 and 2019 Proposed



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

2019 Proposed Budget “Bottom Line”

1. General City Purposes Budget: +1.8% (\$+11.1 million)
 - Department-controlled expenses: +1.7% (\$+8.6 million)
 - \$2.5 million increase (+2.1%) to Employee Health Care Benefits and Workers’ Compensation appropriations
2. Total tax levy: +2.4% (\$6.6 million); proposed tax rate = \$10.55 (- 20 cents)
3. Proposed non-property tax revenues: +0.4% (\$+1.8 million)
4. Expenditure Restraint Program (ERP) operating expense limit for 2020 aid eligibility affects 2019 Budget decisions
 - ERP Aid = \$9.8 million in 2019 Budget
 - There is an estimated ~ \$20.1 million difference between 2019 proposed ERP expense budget and the estimated ERP limit for 2020 aid eligibility.
 - ERP threshold will be finalized in October
 - Operating expense total over the limit (regardless of funding source) would disqualify City from 2020 ERP aid

Proposed 2019 Budget Impact on Typical Household

Typical Household Impact

- Tax Levy: + \$36.99
- Municipal Services Bill: + \$12.58
- Net Impact: + \$49.58 (+3.2%)

**Based on the average residential value of \$103,451
for 2017 and \$108,888 for 2018**

Caution

- ❑ \$11.8 million in property taxes can be added to the budget and meet State levy limits
 - Will limit future levy maximum growth to 1.6% or less
 - 2020 budget will not support these expenditures
- ❑ Using additional reserves will lead up to twice the level of reductions in 2020
- ❑ Borrowing for operations leads to future financial instability, will result in a reduction in bond rating, and is subject to debt limits

Presentation Follow-up

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

Dennis Yaccarino

Budget & Management Director

414-286-8552

dyacca@milwaukee.gov

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