
2008 PROPOSED EXECUTIVE BUDGET

Finance and Personnel Committee

October 8, 2007

Prepared by Budget and Management Division

PRESENTATION OUTLINE

- Discuss progress towards budget sustainability
- Identify key sustainability challenges
- Summarize 2008 Proposed Budget “Bottom Line”
- Establish rationale for revenue initiatives
- Identify Shared Revenue impact on 2008 Proposed Budget

SUSTAINABILITY STRATEGY

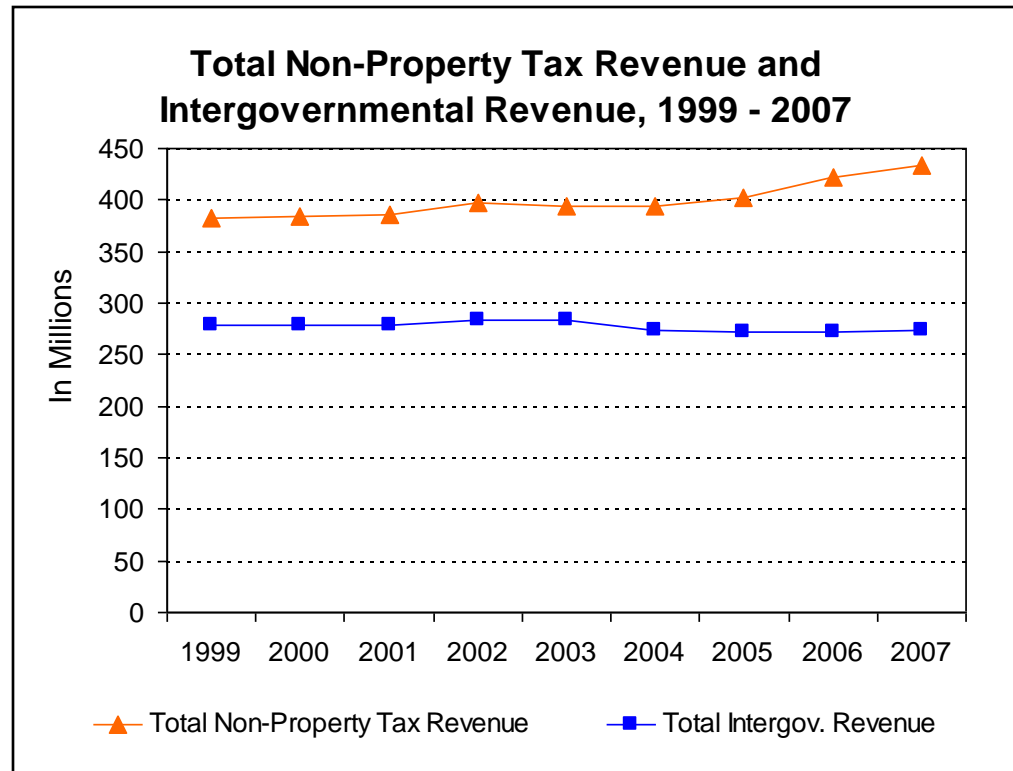
1. Diversify own source revenue
2. Control operating expenditures
3. Manage new borrowing to stabilize debt levy
4. Improve health benefit baseline and trend
5. Return Shared Revenue growth

REVENUE DIVERSIFICATION

- 2008 Proposed Budget: \$39 million increase in budgeted “own source” General Fund (GF) revenue since 2005
- 2006 Budget: \$13 million annual Storm Water charge to ensure Sewer Fund sustainability
- 2008 Budget Proposal: \$9.9 million increase in “own source” GF revenue (\$7.8 million is “recognized”)
- These changes improve sustainability but cannot offset massive Shared Revenue leverage

NON-PROPERTY TAX AND INTERGOVERNMENTAL REVENUE

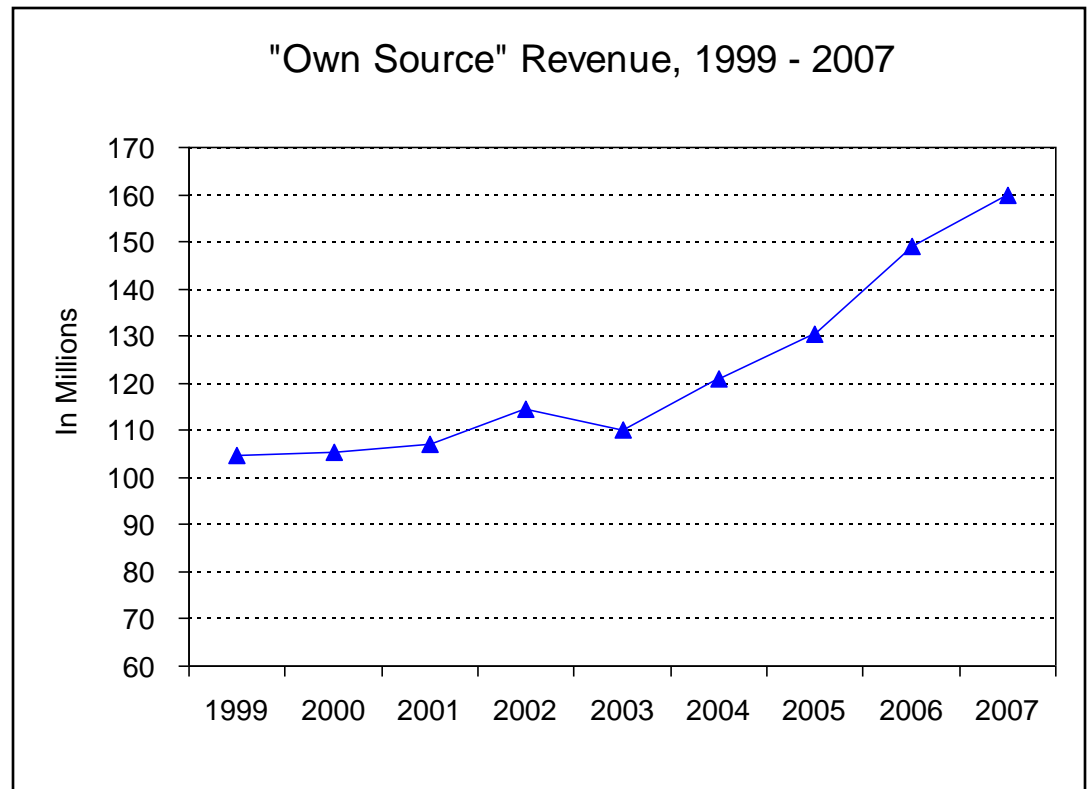
Year*	Total Non-Property Tax Revenue	Total Inter-governmental Revenue
1999	382,479,338	277,943,100
2000	384,289,012	279,056,500
2001	385,743,089	278,731,700
2002	397,183,152	282,750,300
2003	394,394,620	284,217,956
2004	394,605,813	273,548,000
2005	402,931,981	272,544,100
2006	421,312,452	272,233,000
2007	432,766,862	273,032,000



*Amounts = Budgeted Levels

“OWN SOURCE” NON-PROPERTY TAX REVENUE

Year *	"Own Source" Revenue
1999	\$104,536,238
2000	\$105,232,512
2001	\$107,011,389
2002	\$114,432,852
2003	\$110,176,664
2004	\$121,057,813
2005	\$130,387,881
2006	\$149,079,452
2007	\$159,734,862



*Amounts = Budgeted Levels

EXPENDITURE CONTROL

- 1999-2007 Department Expenses: 1.4% annual average change
- This 8-year cumulative total is ~ \$97 million less than “baseline” trend
- Since 1995 Cabinet administrative department FTE have declined 39%

DEPARTMENT EXPENDITURE TRENDS: 2000-2007 BUDGETED

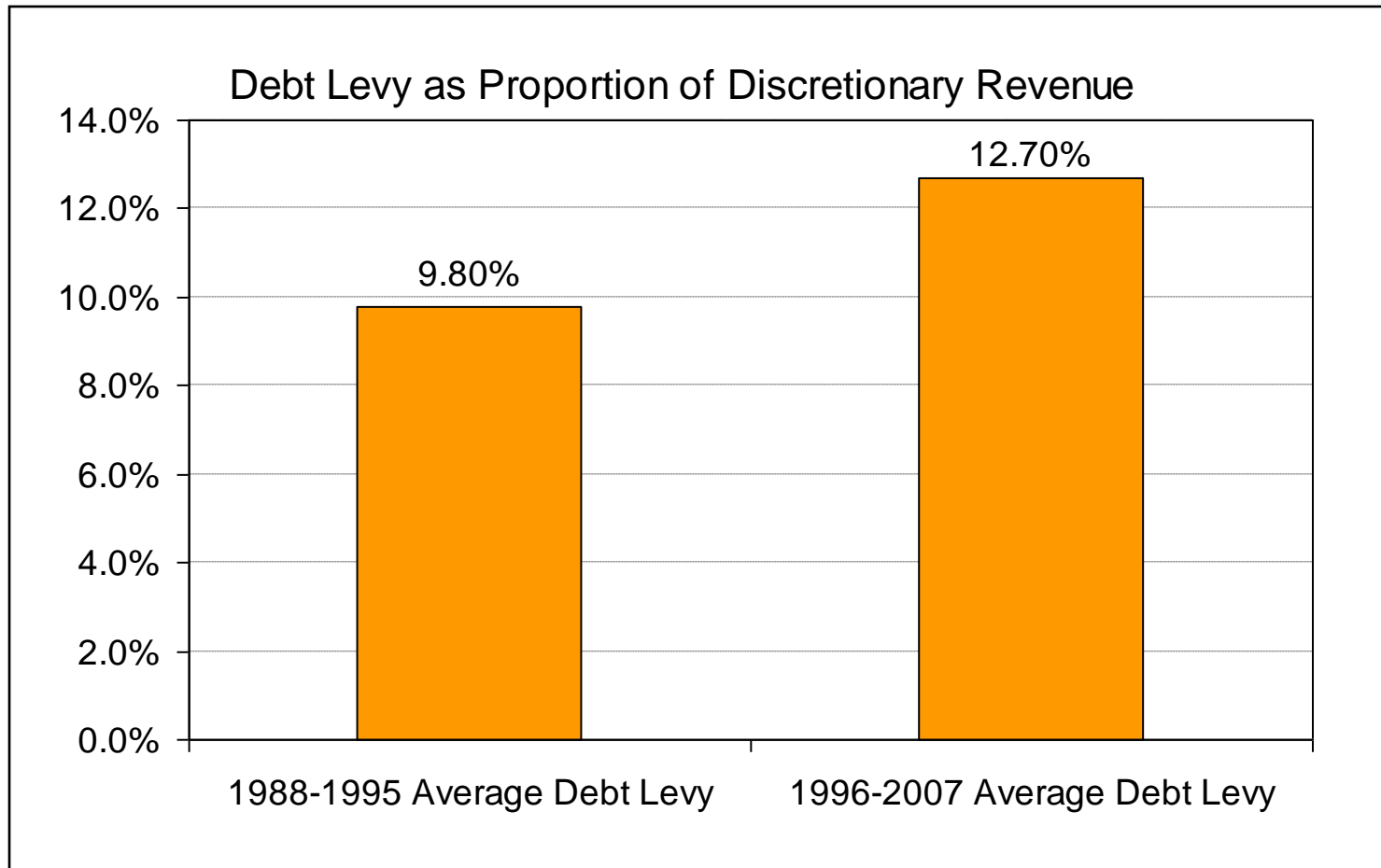
Year	Amount	Change
2000	\$392.15	1.30%
2001	\$399.83	2.00%
2002	\$401.10	0.30%
2003	\$400.49	-0.20%
2004	\$408.95	2.10%
2005	\$409.75	0.20%
2006	\$422.34	3.10%
2007	\$433.16	2.60%

MANAGE BORROWING/STABILIZE DEBT LEVY

- Debt levy as a percent of Shared Revenue + property taxes: **10.7%** in 1996; **16.3%** in 2008
- Key factors: school purpose, facilities, major streets debt; and TIF increment cash flow
- 2003 City/school purpose authorizations = \$73 million
- 2008 Proposed authorizations = \$60 million
- Options to smooth TIF debt impacts on levy
- Revised borrowing trend line should hold debt levy to 2-3% annual increases by 2010

GROWTH IN DEBT SERVICE

Discretionary Revenue = Shared Revenue + Property Taxes

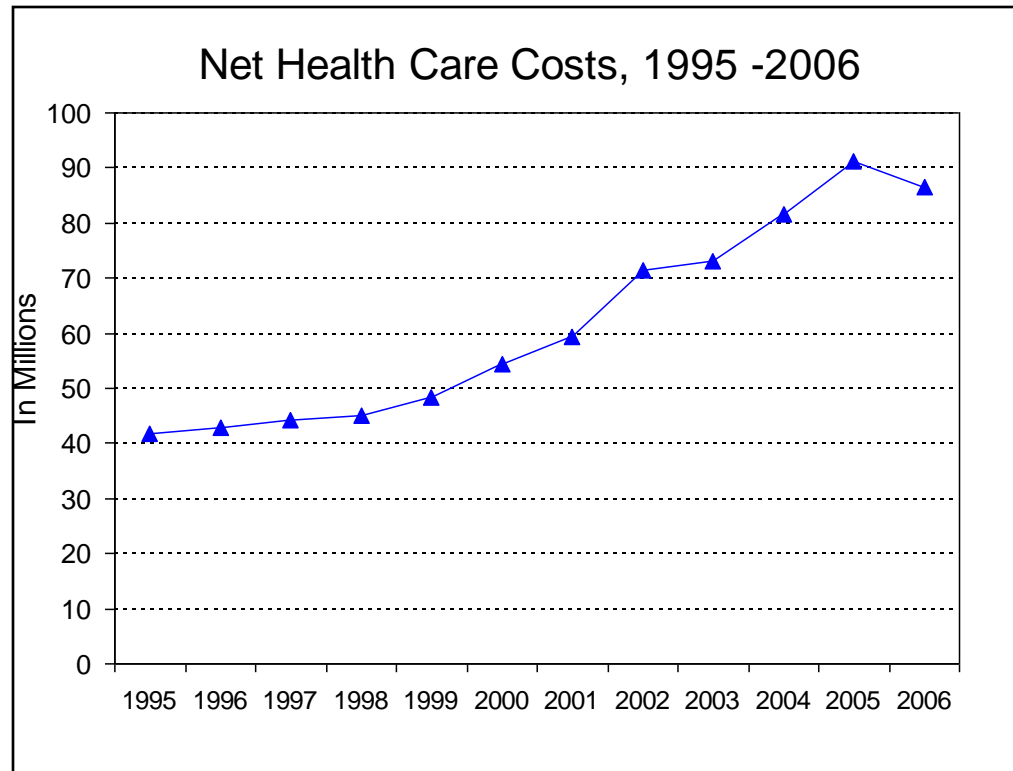


IMPROVE HEALTH BENEFIT BASELINE AND TREND

- 1996-2006: \$56 million increase (118%) to Budgets for Employee Health Care Benefits
- DER strategies reduced 2007 and 2008 (budgeted) costs \$19 million versus baseline
- DER strategies include:
 - Basic Plan provider rates and discounts
 - Basic Plan drug benefit carve out
 - Proactive review of provider charges
- Structural changes needed for additional trend improvement

TOTAL NET HEALTH CARE COSTS

	Net Health Care Costs	% Change in Net Health Care Costs
1995	41,621,157	
1996	42,887,904	3.0%
1997	44,142,119	2.9%
1998	44,991,608	1.9%
1999	48,288,824	7.3%
2000	54,503,405	12.9%
2001	59,305,586	8.8%
2002	71,428,102	20.4%
2003	73,203,354	2.5%
2004	81,525,883	11.4%
2005	91,171,205	11.8%
2006	86,620,971	-5.0%



KEY CHALLENGES

- Achieve ongoing reduction to health benefit cost trend
- Maintain borrowing discipline while reducing infrastructure replacement cycles
- Continue productivity improvements
- Reduce negative state aid leverage
- Manage energy cost volatility

2008 PROPOSED BUDGET: “BOTTOM LINE”

City-wide Impact

- Total Budget: + 4.0%
- Operating Budget: + 4.2%
- Tax Levy: + 3.3%
- Tax Rate: + 0.2%

2008 PROPOSED BUDGET: “BOTTOM LINE”

Typical Household Impact *

- Tax Levy: + \$2.66 (+ 0.2%)
- Municipal Services Bill: + \$22 (+ 5.8%)
- Total Increase: + \$24.66 (+ 1.7%)

* Impact is based on 2006 and 2007 median home value of \$132,900. Impact includes the 2008 annualized impact of the 2007 Public Service Commission approval of a new City water rate.

RATIONALE FOR PROPOSED REVENUE INITIATIVES: BACKGROUND

- Mayor's 2008 Budget proposal includes two revenue initiatives:
 - Annual Omnibus file: \$290,000
 - Snow & Ice charge increase: \$1,800,000
- Council adoption needed for revenue recognition
- Proposed Executive Budget does not include these revenues

RATIONALE FOR PROPOSED REVENUE INITIATIVES: POLICY CONSIDERATIONS

- Imbalance between baseline cost and revenue growth
- Tax levy exposed budget context
- Impact of residential valuations
- Revenue strategy
- Link to increased level of service

COST/REVENUE IMBALANCE

- “Tax levy exposed” budget (TLEB) = expenditures with a direct tax levy impact
 - \$676 million in 2007
 - Shared revenue exerts massive leverage
- 2008 baseline expenditure growth = \$30 million
- 2008 baseline revenue growth = \$16.4 million
- > TSF withdraw reduces “gap” to \$7.5 million

BUDGET CONTEXT

- Modest general fund revenue growth trend
 - Revenue initiatives for 2008 = 0.3% of TLEB baseline
 - Shared Revenue freeze => impact on tax levy
- Most City non-property tax revenues do not grow with the economy
- Impacts of debt service and energy costs on baseline expenditures

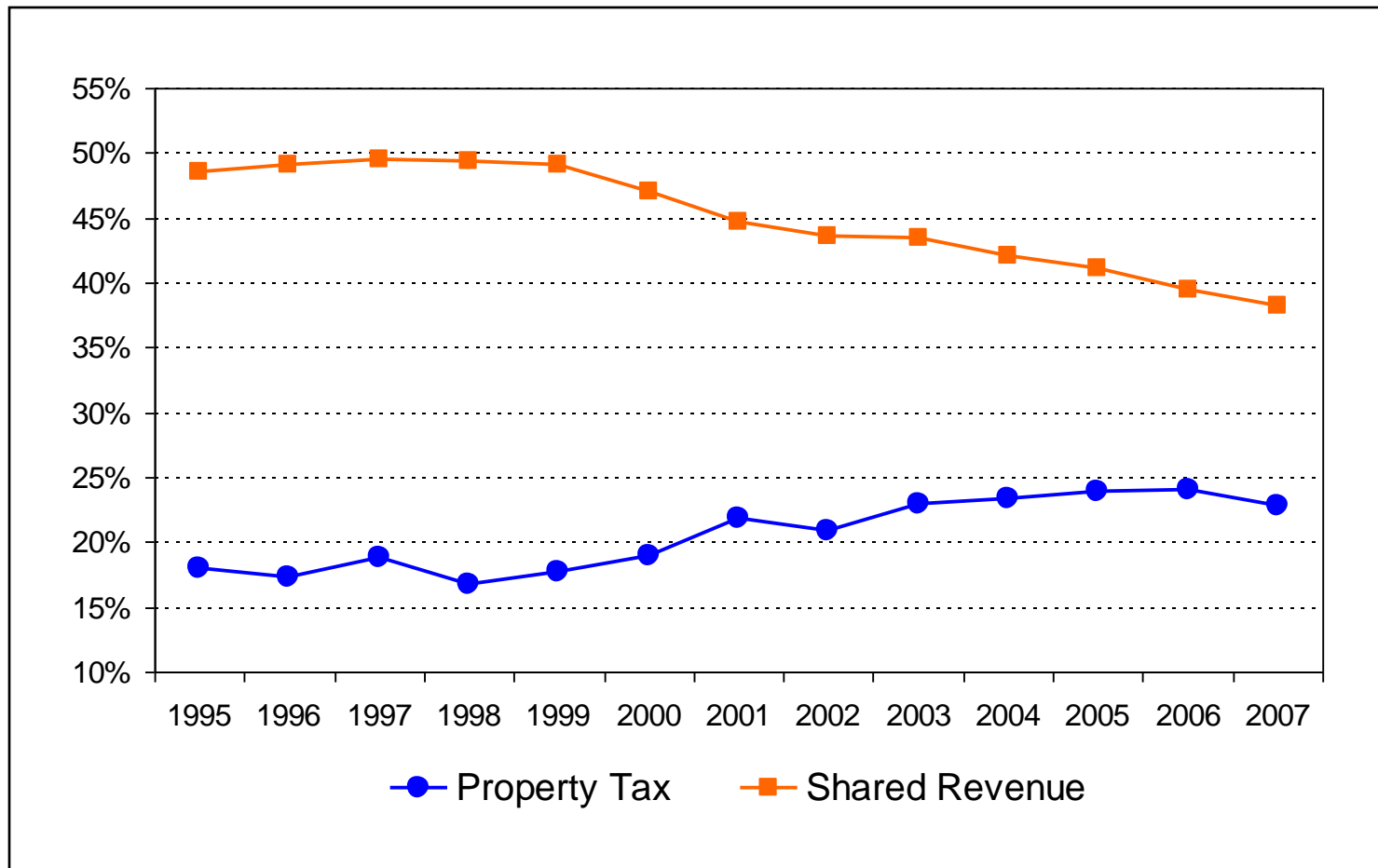
IMPACT OF RESIDENTIAL VALUATIONS

- Impact of housing values on residential share of property taxes
- Administration goal to limit annual “City cost” increase to 3% or less for typical homeowner
- Valuation freeze offsets “total cost” impact of municipal service charge increase
- Budget proposal with revenue initiatives limits City cost increase to 1.7%

REVENUE STRATEGY

- Limited City revenue options
- Property tax competitive issues
- Police and Fire department impacts on “fungible” revenue sources
- DPW user charges:
 - Represent primary “own source” revenue option
 - Application to all property sectors, as appropriate

SHARED REVENUE IS DECLINING AS PERCENT OF REVENUES



LINK TO INCREASED SERVICE LEVELS

- Budget proposal recommends “reallocation of levy” if Council adopts proposed snow & ice charge
 - Proposal links > revenue to increased service levels
 - Budget amendments necessary for any expenditure changes
- Proposal recommends reallocation of levy from “Omnibus” to Wages Supplement Fund

PROPOSED REALLOCATION OF LEVY (\$1.8 MILLION)

- \$616,800 for 15 new civilian positions
 - Background checks – free up detectives and sergeants/meet staffing goals
 - IT staff to improve crime analysis and reporting capacity
- \$332,400 for expansion of school security initiative
 - 50/50 cost-share with MPS
- \$227,000 for Police Integrity Unit
- \$160,700 for Police equipment
- \$365,100 for extended DPW street maintenance and crosswalk painting
- \$98,000 for electronic databases to improve Library information offerings

SHARED REVENUE IMPACTS ON BUDGET

- Governor/JCF recommendation of \$4.0 million increase
- Senate version recommends \$3.6 million increase
- Comptroller has recognized \$3.6 m increase
 - City 2008 total remains \$71 million less than 1996 level in CPI adjusted terms
- State ERP Aid decrease of \$2.1 million!

SHARED REVENUE IMPACTS ON BUDGET (Continued)

- \$1.77 million for levy reduction
- \$859,200 for MPD overtime
- \$498,675 for school security expansion
- \$230,000 for DPW Clean & Green and recycling initiatives
- \$125,000 for Library public service staffing
- \$90,400 for Health Department conversion of grant-funded outreach staff
- \$20,000 for Assessor hardware replacement

OTHER 2008 INITIATIVES

- Infrastructure capital funding increases
 - \$1.6 million increase for sewer capital improvements
 - \$620,000 increase for water mains
 - \$12.5 million for back-up power generation in the Water Works
 - \$1.1 million city funding increase for local streets (includes LRIP)
 - \$563,000 funding increase for street lighting
- Police overtime: Provide \$1.8 million increase to sustain NSI and reduce Contingent Fund exposure
- Economic Development: \$64 million for new and continuing TIF projects
 - \$3 million GO for 30th Street Industrial Corridor redevelopment
 - \$400,000 for Housing Trust Fund
 - \$100,000 for Healthy Neighborhood Initiative

ENVIRONMENT

- Energy Challenge Fund (\$500,000)
- Water Works Energy Efficiency Projects (\$274,000)
- Fully Funded Tree Planting Program (\$1.1 million)
- Sustainable Boulevard Plan (\$500,000)
- Environmental Remediation Program (\$200,000)
- HVAC and other Mechanical Systems Improvements on city facilities (\$3.2 million)
- Hartung Quarry Conversion (\$200,000)

QUESTIONS AND DISCUSSION

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