

2018 Proposed Executive Budget

**Presentation to the Finance
& Personnel Committee
October 6, 2017**

Presentation Goals

1. Establish an understanding of the budget structural Issues
2. Future budget projections and the need for a public safety – crime prevention sales tax
3. Provide the 2018 Proposed Budget “Bottom Line”

City Budget Structural Issues

1. Expenses growth annually between 2% & 3%
 - Translates into an increase in the range of \$12.6 million to \$19.0 million
2. Non-property tax revenues increase < 1% annually
 - Approximately \$1.5 million increase between 2016 and 2017 and \$0.1 million increase in the 2018 budget
 - This includes a 3% increase in municipal fees
 - State limits the types of fees and requires that they only recover program costs
3. Property taxes
 - Decision
 - Increase the property tax levy by the gap – taxes would exceed the growth limited by State law
 - Cut services

2018 Budget Structural Issues

- ❑ Expenditure growth enhanced by \$22 million increase in pension costs
- ❑ Some relief from health care through a \$6.7 million reduction from 2017
- ❑ No growth in revenues
- ❑ \$28 million gap between expenditures and revenues
- ❑ Levy up \$9.7 million or 3.7% to fill portion of the gap
- ❑ Remaining gap - \$18.3 million in expenditure reductions

Five Year Budget Forecast

- ❑ 1st year – 2018 Proposed Budget
- ❑ Assumptions
 - Decreasing use of pension reserve
 - Wage growth of 2%
 - Property tax levy growth of 4% annually
 - Municipal fees increase 3% per year
- ❑ Results
 - Does not fully eliminate structural budget problem
 - Expenditure cuts still required
 - Property tax levy growth may not be sustainable given State levy limits

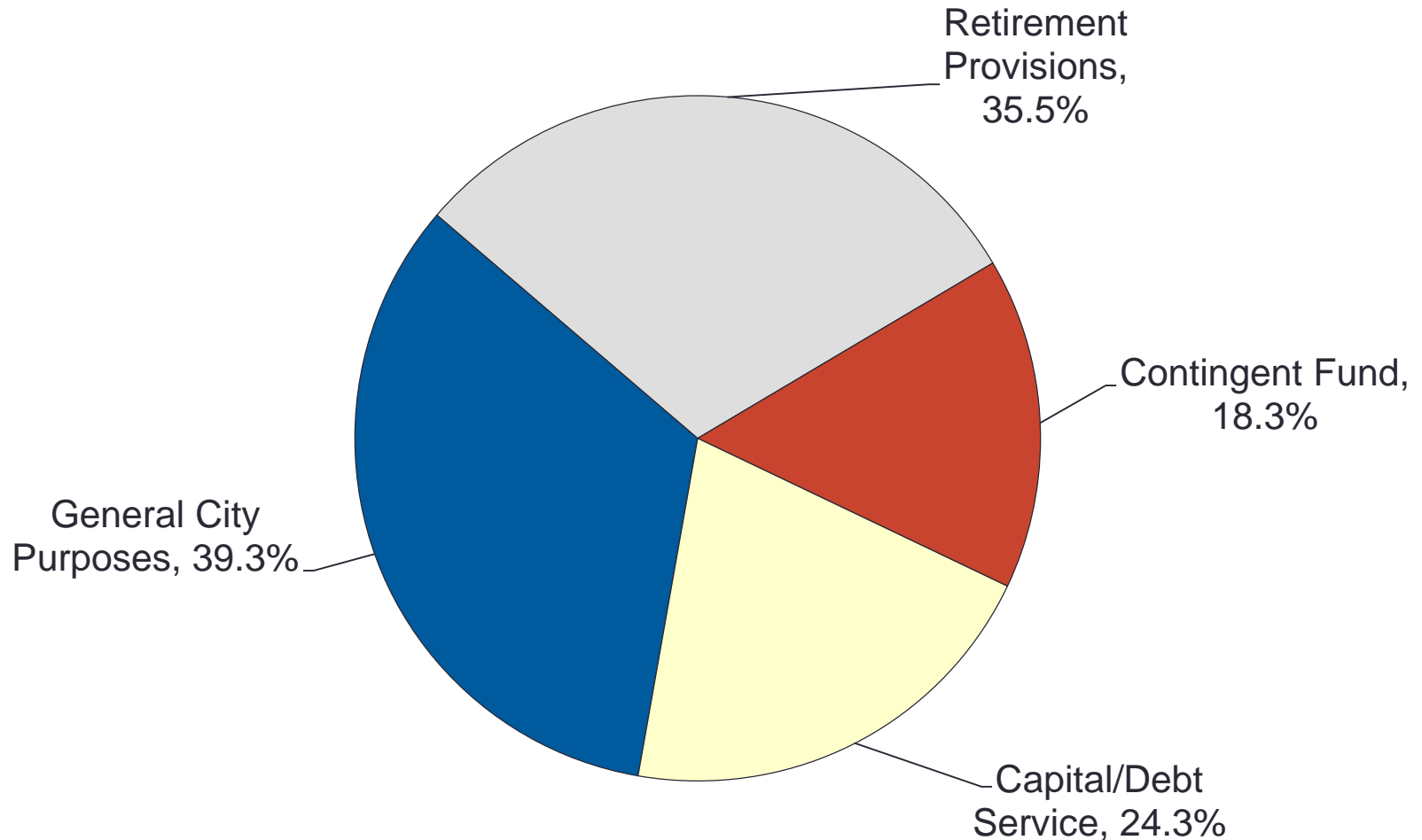
Five Year Budget Forecast with a Public Safety – Crime Prevention Sales Tax

- ❑ Maintain police sworn staffing at 1,900
- ❑ Two fire apparatus restored
- ❑ Funding for community prosecution
- ❑ Stabilizes funding for non-police and non-fire departments
- ❑ Property tax levy increases 2% annually

2018 Budget

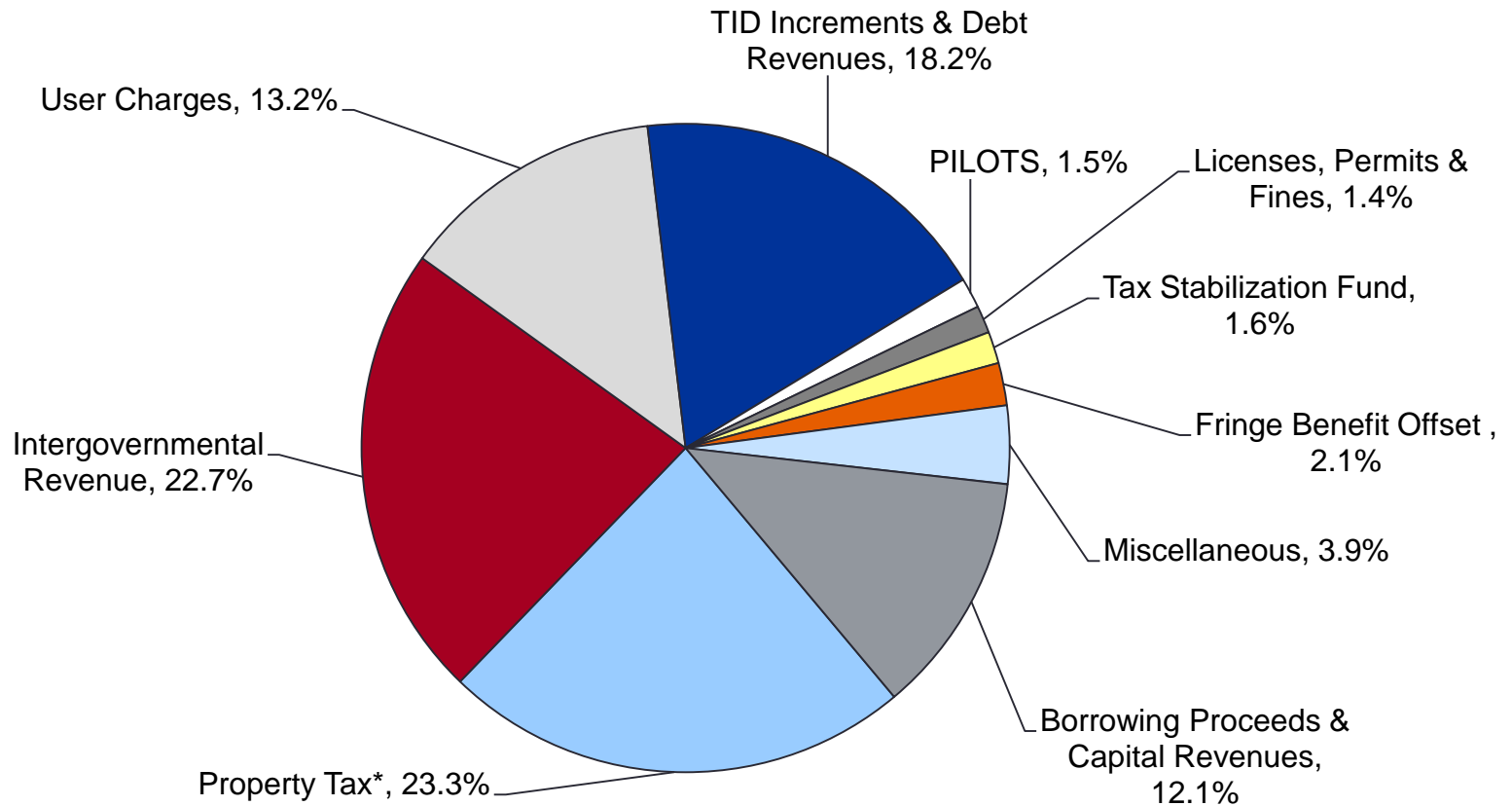
1. Total Proposed 2018 Budget: \$1.531 billion
 - Proposed Tax Levy-Supported Budget: \$1.174 billion
 - General City Purposes (GCP) Budget: \$620.7 million
2. Total Proposed Tax Levy of \$273.4 million
3. Non-Tax Levy-supported Budget: \$352.48 million
 - Enterprise funds: \$295.0 million
 - Grant & Aid Fund: \$42.8 million
 - County Delinquent Tax Fund: \$7.7 million
 - Development Fund: \$11.4 million

2018 Proposed Tax Levy: Distribution by Budget Section/Purpose



The total 2018 proposed tax levy: \$273.5 million.

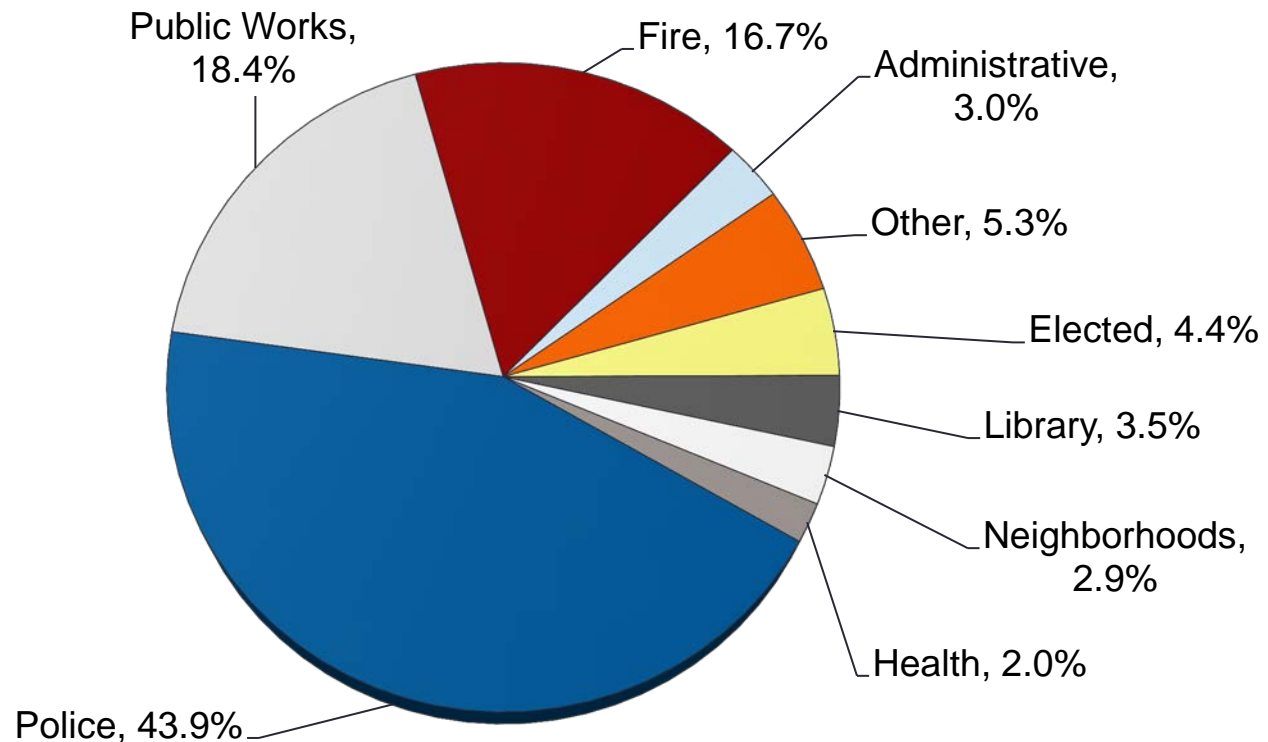
City of Milwaukee 2018 Revenue Sources: Tax Levy Supported Budget



* Property tax revenue for all funds. This includes the budgets for the General Fund, Capital Improvements, City Debt, Retirement Provisions and the Contingent Fund.

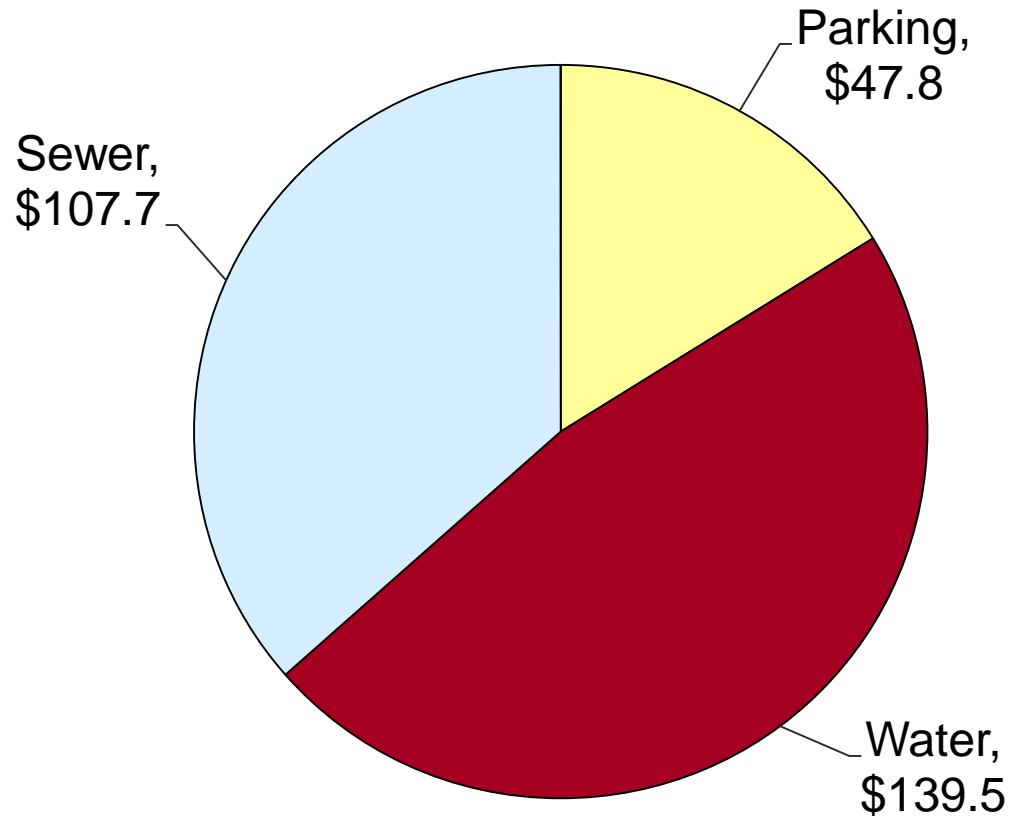
2018 Proposed General City Purposes Budget: Expenditures

2018 Proposed GCP Budget: \$620.7 million



Note: Does not include \$295.0 million of Enterprise Funds (Parking, Sewer, Water, & Economic Development). Three departments (DPW, Police, Fire) comprise 79.0% of the Proposed 2018 General City Purposes Budget.

Proposed 2018 Enterprise Funds Total Combined Budget = \$295.0 Million



Amounts are in millions of dollars.

Enterprise Funds rely on revenues from their own operations. They receive no property tax support.

Limits on Revenue Options

1. State Shared Revenue/Expenditure Restraint (ERP)

- Shared Revenue/Expenditure Restraint Aid: \$21.7 million nominal decline since 2003
- CPI-U-adjusted decline = \$104.3 million
- Eligibility for ERP aid (\$9.1 million in 2018) 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 \$19.6 million or 7.4%
- 2018 proposed levy increase is \$9.7 million or 3.7%
- Remaining: \$9.9 million
- Will restrict 2019 limit maximum to a 2.2% increase which further diminishes in future years

Limits on Revenue Options (Cont.)

3. User charges are limited to cost recovery

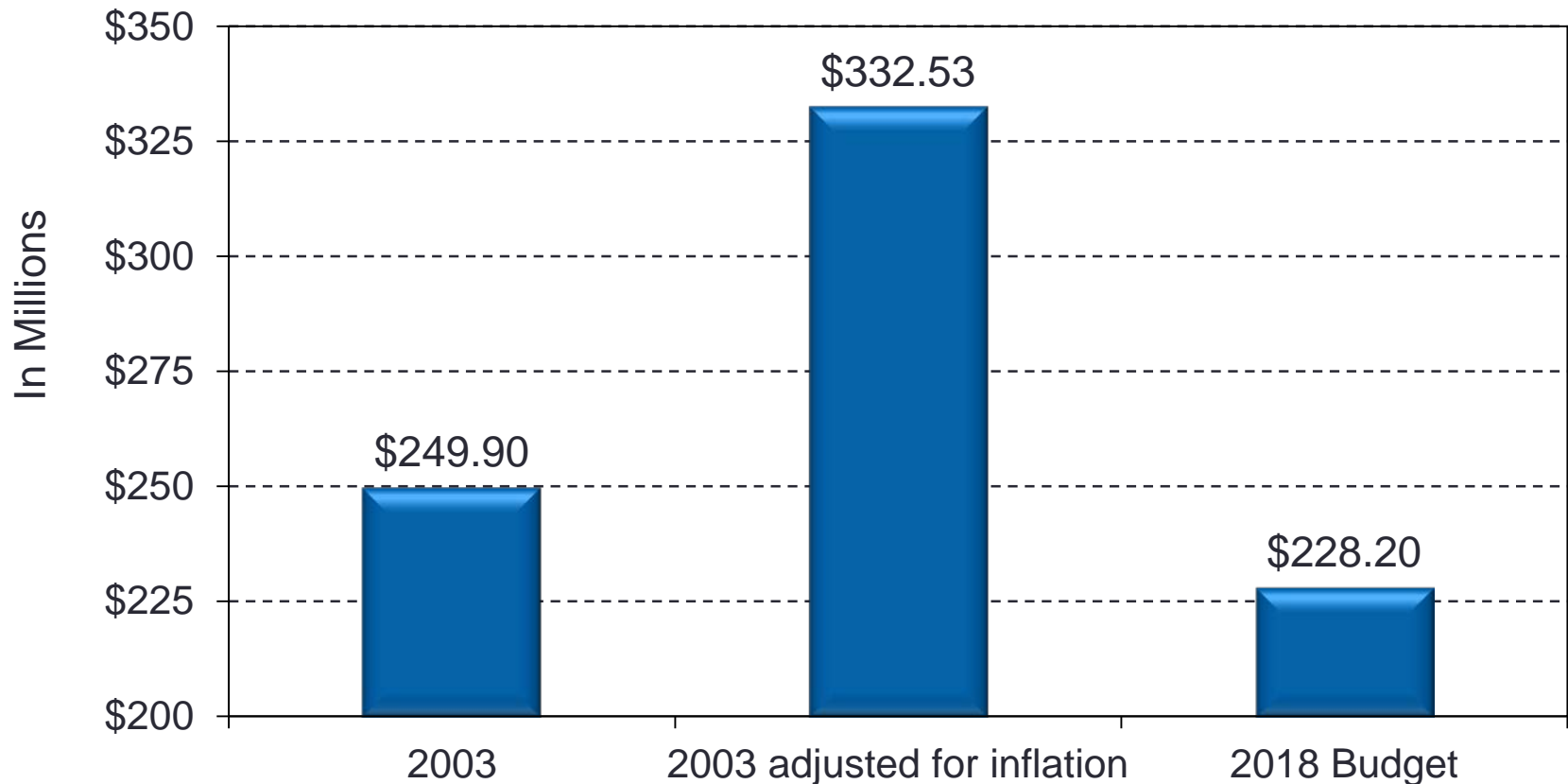
- City's 4 primary user charges recover close to 100% of total cost
- State law requires any user charges enacted after 2013 to be offset by levy limit reductions

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

- Revenue growth limits expenditure growth
- \$16.2 million under the ERP limit

State Shared Revenue/ERP Trend

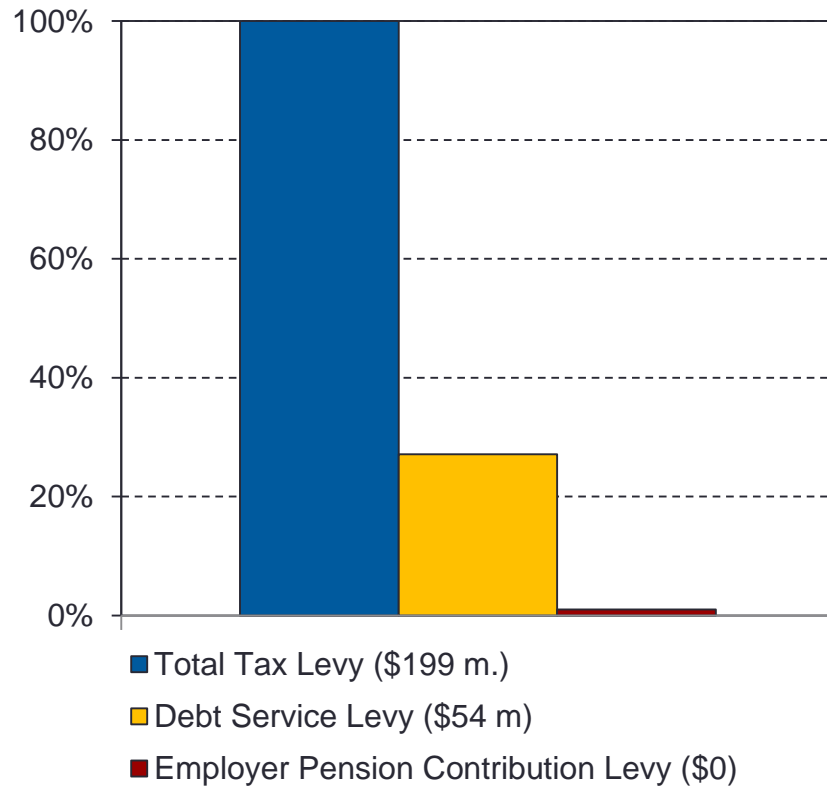
Decline in State Shared Revenue and Expenditure
Restraint Program (ERP) Payments to Milwaukee, 2003 - 2018



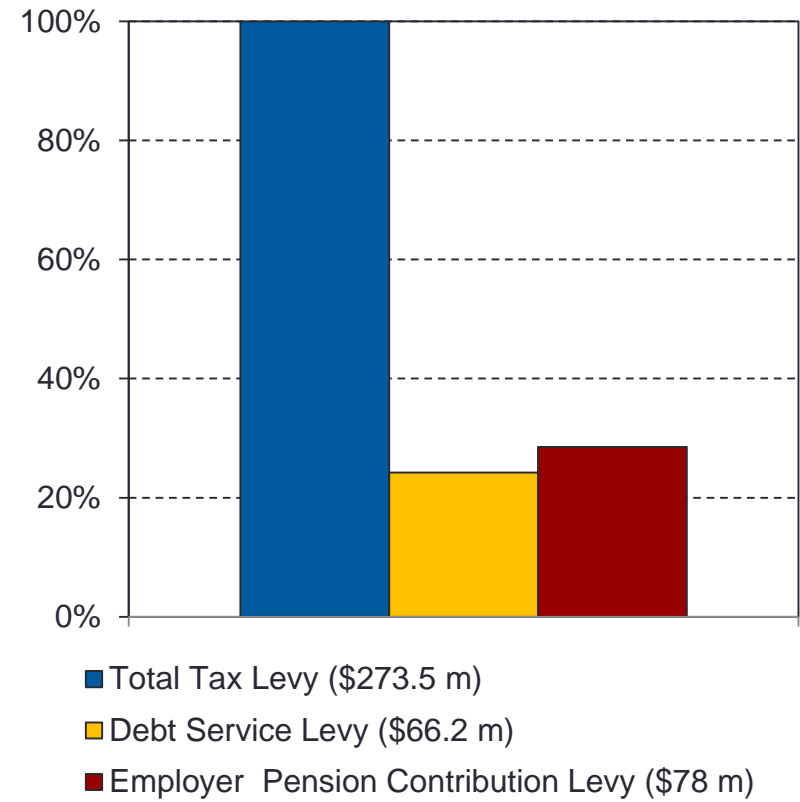
*Inflation adjusted decline in Shared Revenue and ERP payments = - \$104.33 million (-33.1%).
Source: U.S. Bureau of Labor Statistics: CPI-U Tables; City of Milwaukee Budget documents*

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

2004



2018



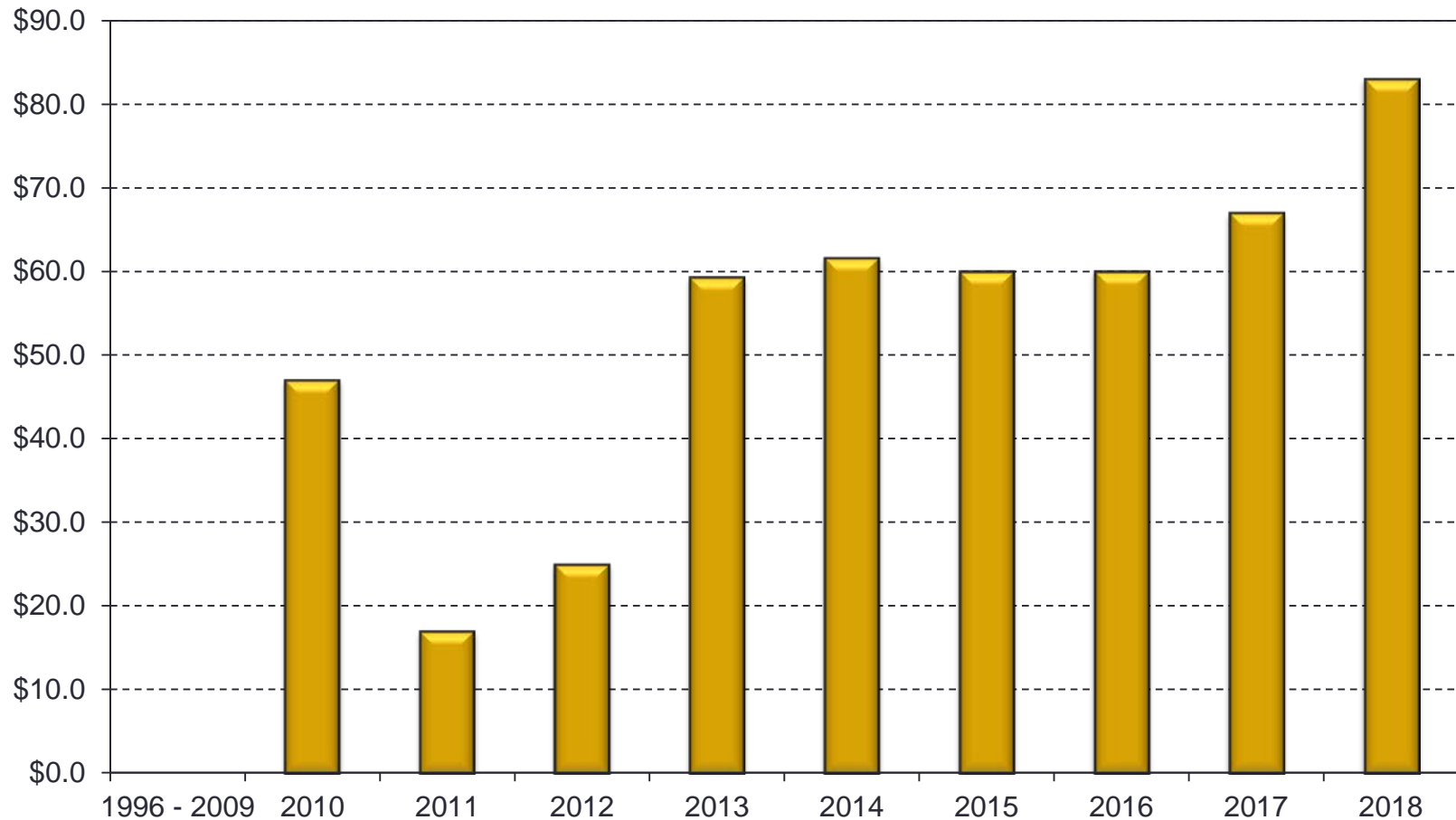
In 2004, Debt service and pension contribution comprise 27% of total tax levy. In 2018, Debt service and pension contribution comprise 52.7% of total tax levy.

Source: City of Milwaukee budget documents.

Employer Pension Contributions

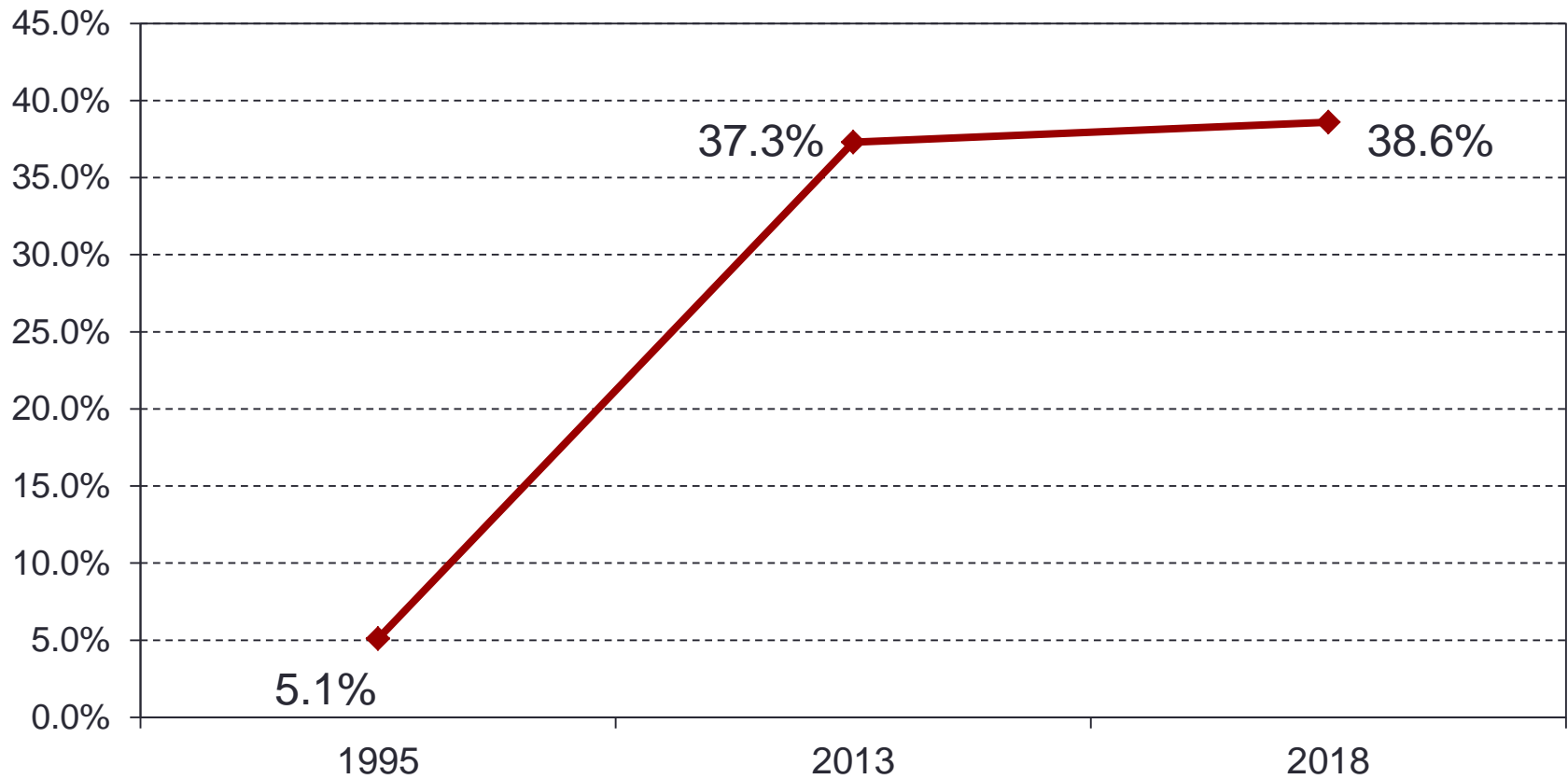
1. City Charter provides for a “rate reset” every 5 years; reset is due for 2018 plan year
2. Two biggest factors on what the new rates will be:
 - “Funded status” at time of reset, largely due to investment returns;
 - Discount rate: used to estimate the value of future obligations into present value terms;
3. Other factors, such as projected inflation, wage increases, mortality, and retirement ages are also taken into account and may have a meaningful impact on the new rates.

“New Normal” for Employer Pension Contributions



Contributions in 2011 and 2012 were made to the employer's pension reserve. 2018-2022 contributions will be based on a reset of stable contribution rates. 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 2018 Proposed



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

2018 Proposed Budget “Bottom Line”

1. General City Purposes Budget: -1.9% (\$-12.2 million)
 - Department-controlled expenses: -2.9% (\$-14.4 million)
 - \$6.7 million decrease (-5.3%) to Employee Health Care Benefits and Workers' Compensation appropriations
2. Total tax levy: +3.7% (\$9.7 million); proposed tax rate = \$10.77 (+ 2 cents)
3. Proposed non-property tax revenues: -0.8% (\$-4.3 million)
4. Expenditure Restraint Program (ERP) operating expense limit for 2019 aid eligibility affects 2018 Budget decisions
 - ERP Aid = \$9.1 million in 2018 Budget
 - There is an estimated ~ \$16.2 million difference between 2018 proposed ERP expense budget and the estimated ERP limit for 2019 aid eligibility.
 - ERP threshold will be finalized in October
 - Operating expense total over the limit (regardless of funding source) would disqualify City from 2019 ERP aid

Proposed 2018 Budget Impact on Typical Household

Typical Household Impact

- Tax Levy: + \$37.07
- Municipal Services Bill: + \$10.75
- Net Impact: + \$47.82 (+3.1%)

**Based on the average residential value of \$105,100
for 2017 and \$108,400 for 2018**

Caution

- ❑ \$9.9 million in property taxes can be added to the budget and meet State levy limits
 - Will limit future levy maximum growth to 2% or less
 - 2019 budget will not support these expenditures
- ❑ Using additional reserves will lead up to twice the level of reductions in 2019
- ❑ 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:

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