

2010 PROPOSED EXECUTIVE BUDGET

Finance and Personnel Committee

October 2, 2009

**Prepared by Budget
and Management Division**

Presentation Outline

- Identify Key structural challenges
- Provide a 3-year fiscal context
- Summarize 2010 Budget “Bottom Line”
- Discuss response to structural challenges
- Relate Mayor’s budget proposals to a strategic framework

City Budget: Structural Condition

1. Structural balance = ongoing revenues can support continuation of service levels
2. City has an ongoing structural imbalance
 - Economic cycle increases the problem but does not “cause” it
3. 2010 = a higher level of urgency

Public Policy Forum Conclusion on City Revenue Structure

- *“Milwaukee’s revenue structure presents tremendous and increasingly difficult fiscal challenges. A standard benchmark of fiscal health for municipalities is having diverse revenue sources, including many under their direct control and tied to inflation. Milwaukee has fewer such revenue sources than similar cities while its largest revenue source – state aid – has not increased in 12 years. Also, unlike most cities, Milwaukee depends upon a single local tax to fund its operating expenditures. As a result, property taxes are higher in Milwaukee even though the city generates less total revenue from local taxation than other cities.”*

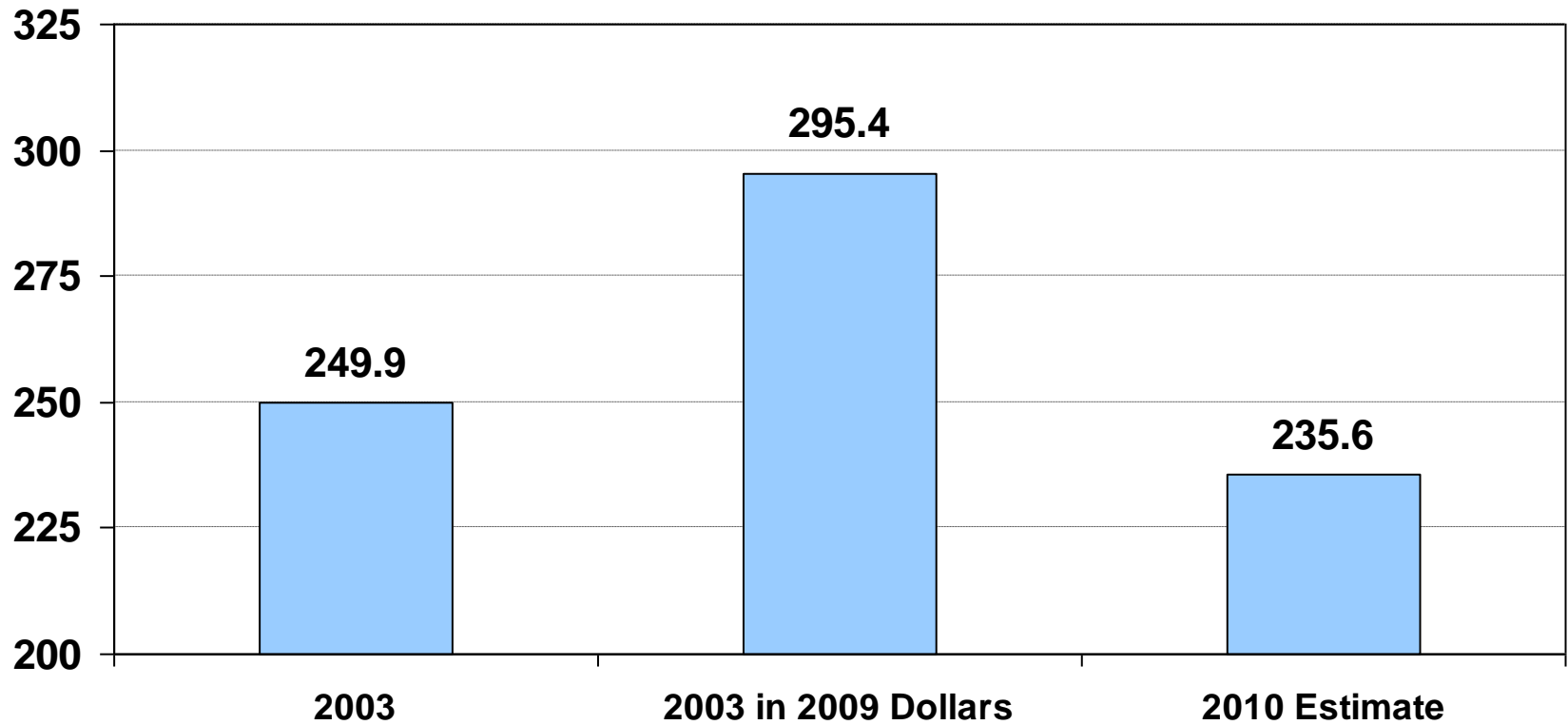
-- Public Policy Forum, *“City of Milwaukee’s Fiscal Condition: Between a Rock and a Hard Place,”* August 2009, page 4

Revenue Overview: Key Takeaways

1. Shared revenue reductions => greater reliance on levy and user charges
2. State government financial condition => drives interest in local revenue diversification
3. Declining tax base over next 2-3 years => drives higher tax rates

State Shared Revenue Trend

**Decline in State Shared Revenue & Expenditure
Restraint Program Payments to Milwaukee 2003-2010**



Inflation adjusted decline in Shared Revenue and ERP payments since 2003 is \$59.8 million.

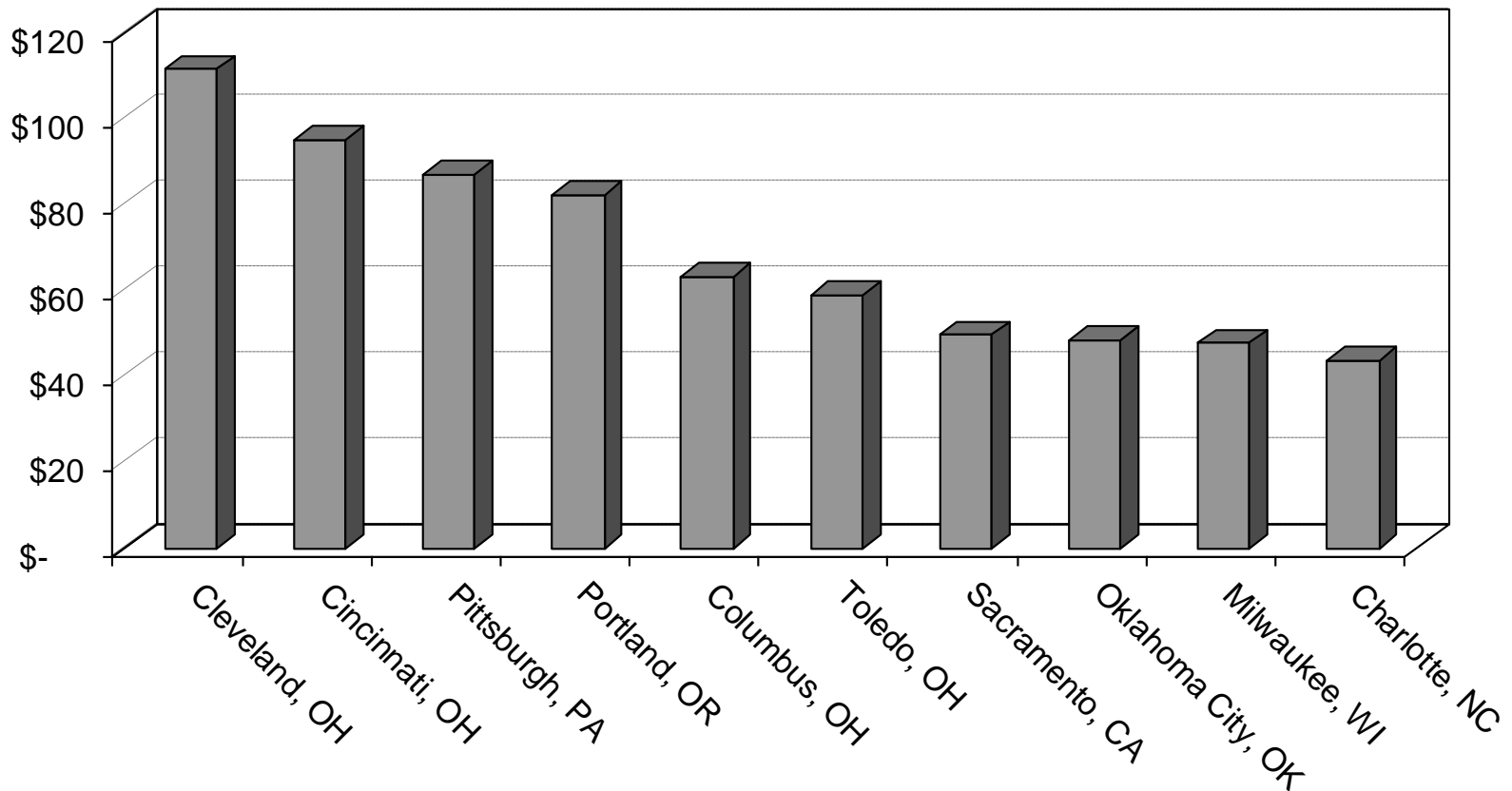
Competitive Problems: City Revenue System

Comparative Revenue & Expenditure Report (2008)

1. Annual report from Comptroller's Office analyzes City government revenues & expenditures from 10 regional "lead cities", including Milwaukee.
2. Key findings include:
 - Milwaukee's **per capita total revenue is 23% less than the 10-city average**
 - Milwaukee's **per capita total expenditures are 17% less than the 10-city average** (8th highest of 10)
 - Milwaukee's per capita total local revenues are 49% less than the 10-city average (10th highest of 10)
 - Milwaukee's per capita property taxes are 32% higher than the 10-city average (4th highest of 10)
 - Milwaukee's per capita intergovernmental revenues are 31% higher than the 10-city average (3rd highest of 10)
 - The other cities in the 10-city sample average \$482 in per capita "other" local taxes (\$0 per capita for Milwaukee)

Impacts on Per Capita Income from City Own Source Revenues

Local Taxes & User Charges per \$1,000 of Per Capita Income



Source: City of Milwaukee Comptroller 2008 "Comparative Revenue and Expenditure Report" adjusted with 2006 population and income data.

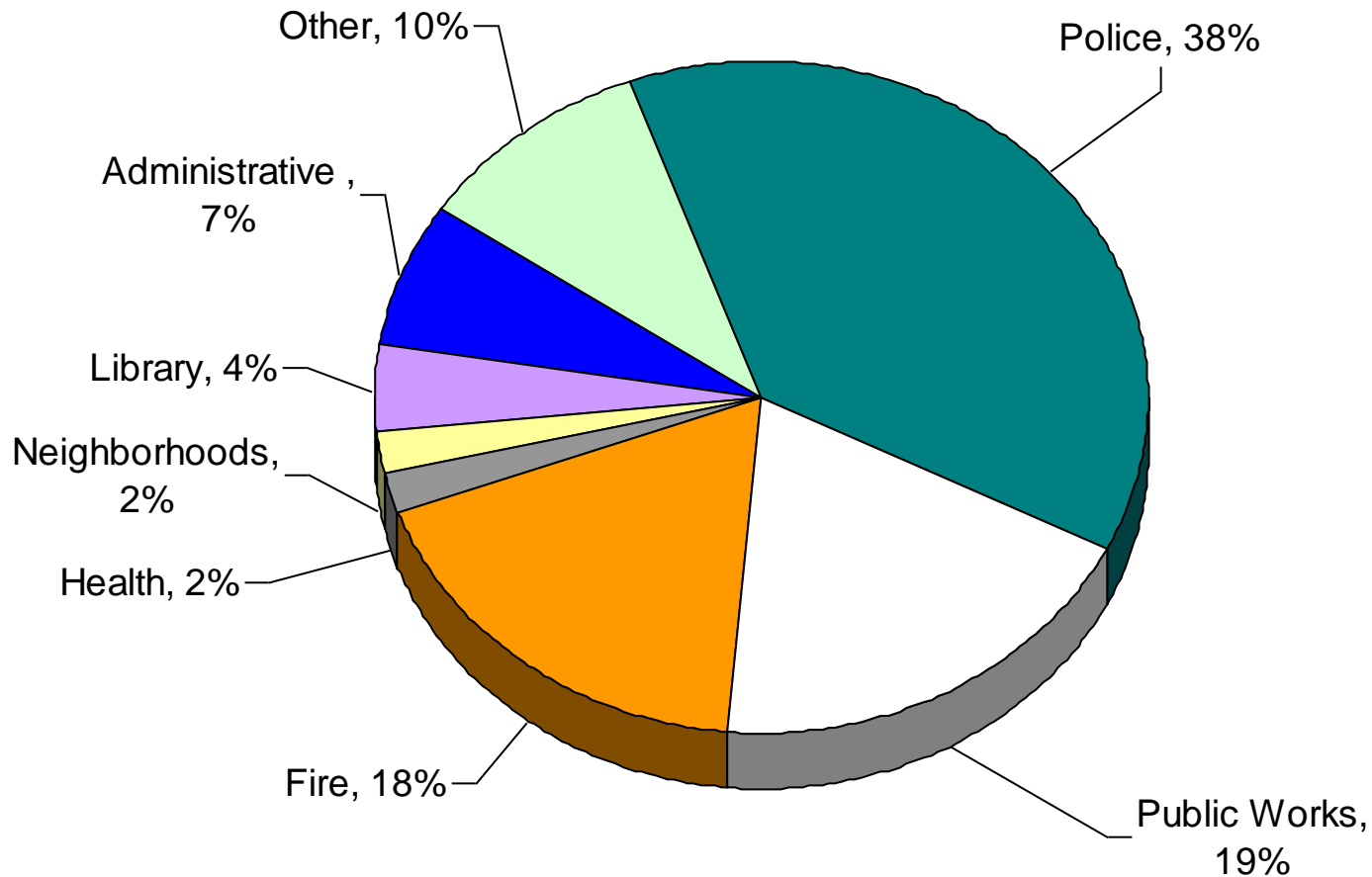
Administration Revenue Proposals

1. Maintain current level of Shared Revenue
2. Gain a local option sales tax
3. Modify gasoline tax distribution to reflect impact of density and regional center role on program needs
4. Gain authority for red light camera enforcement program

Expenditure Overview: Key Takeaways

1. Dominant role of public safety departments in O&M Budget
2. Cost recovery opportunities are limited
3. Fringe benefits = the crucial sustainability issue

Tax Levy Funded Operating Budget: By Department

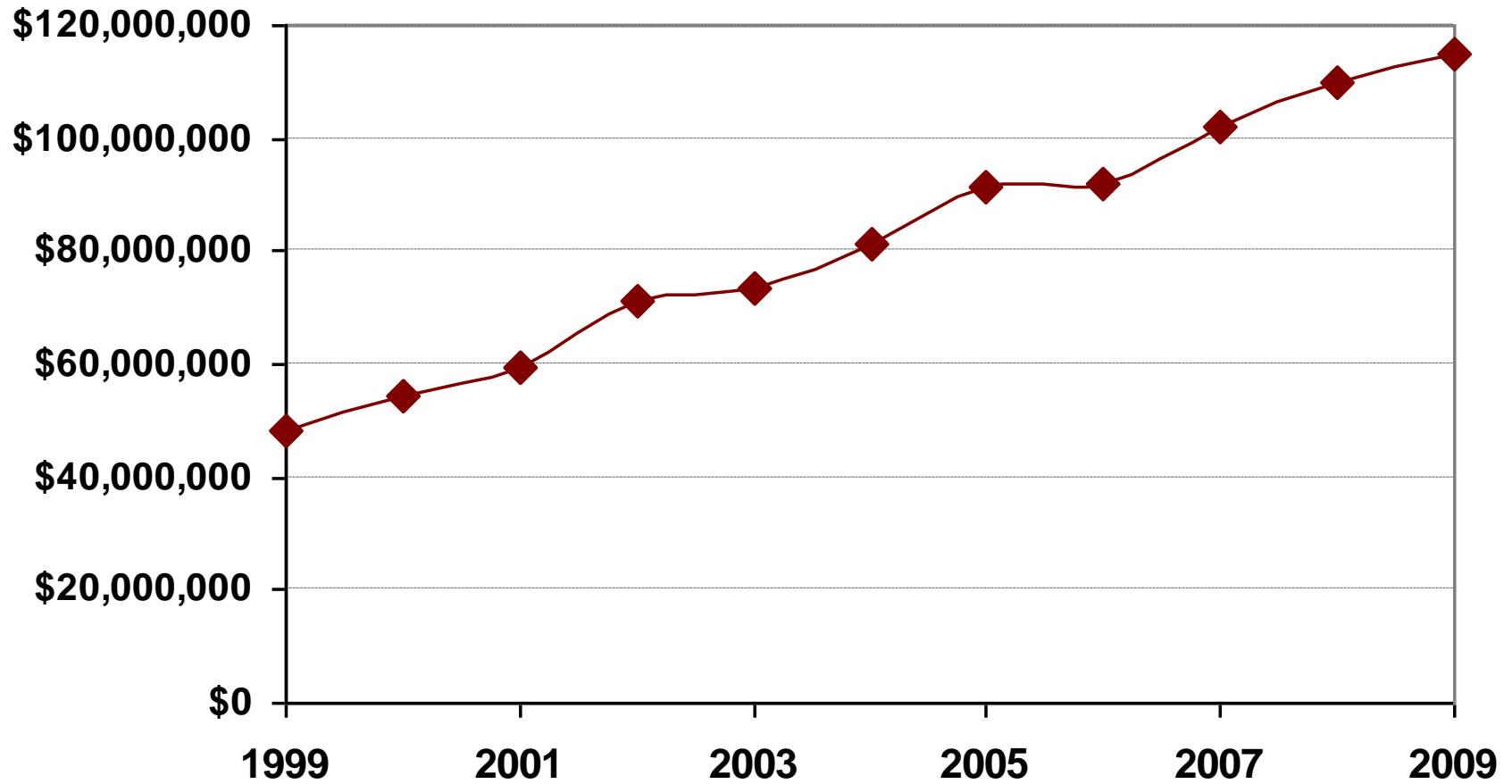


Note: Does not include \$252.2 million of DPW-operated Enterprise Funds (Parking, Sewer, Water)
Three departments comprise 75% of the \$566.5 million 2010 Operating Budget

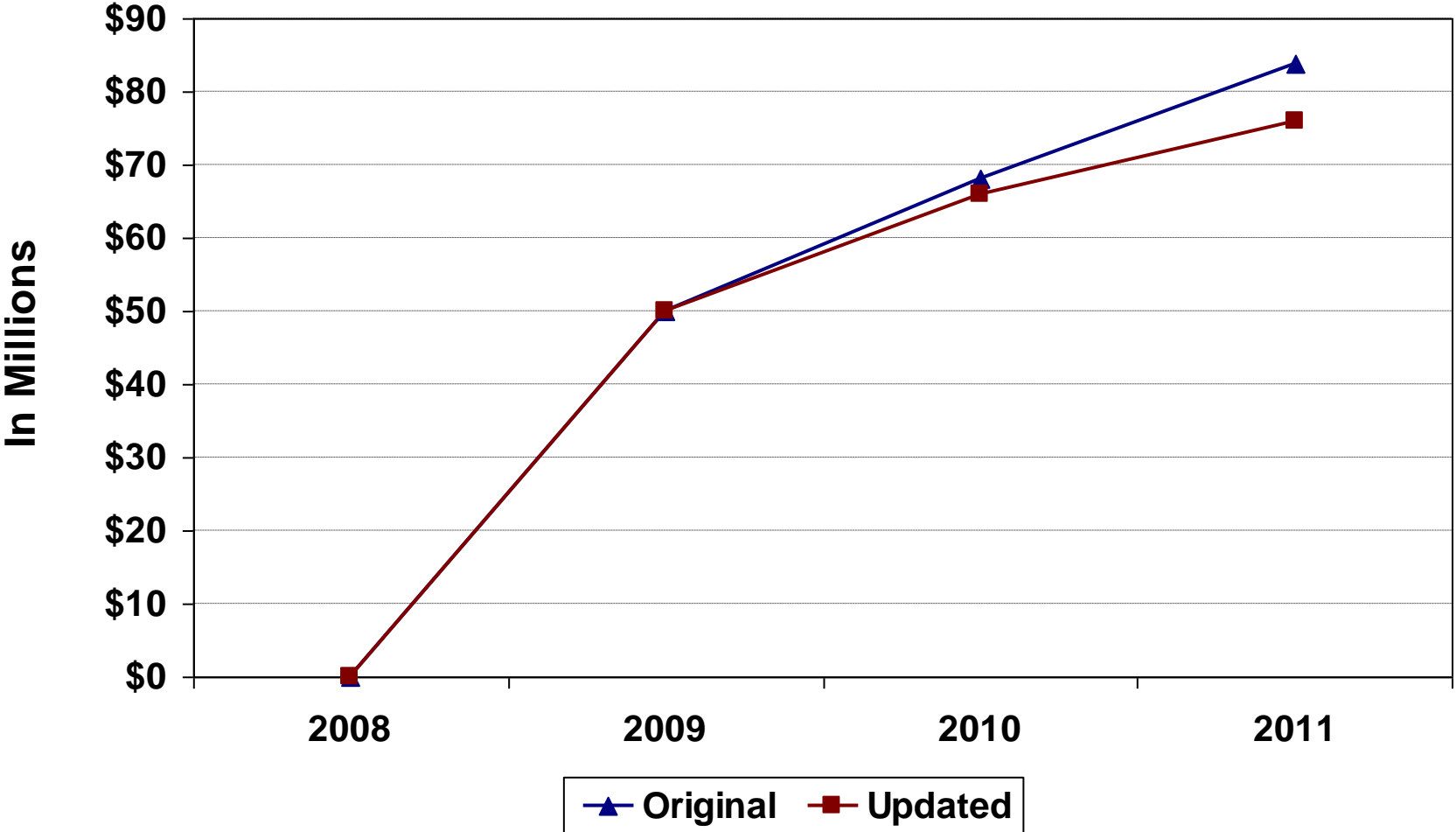
O&M Budget Cost Drivers

1. Service delivery choices and level of service
2. Community conditions and citizen expectations (“demand” does not decline in recessions)
3. Wages & fringe benefits increase at a rate much higher than revenue growth
 - Health care benefits remain a major cost pressure
 - Pension contributions => a threat to future budget viability

Health Care Benefit Costs



Employer Pension Contribution Challenge



2010-2012 Structural Balance Projection

- 2010 - Balanced Budget where revenues equal expenditures
- 2011 – Structural Imbalance between \$26.5 million to \$34.2 million
- 2012 – Structural Imbalance between \$30.0 million to \$38.0 million

Key Factors in 2010 Budget Development

1. \$49.9 million increase in Pension Contribution (\$47.9 m levy-funded)
2. \$2.5 million decrease in State Shared Revenue
3. \$2.2 million decrease in City interest earnings
4. \$2,050,000 increase in State garbage tipping fees

2010 Proposed Budget: “Bottom Line”

City-wide Impact

- Total Budget: + 2.4%
- Operating Budget: - 5.4%
- Tax Levy: + 4.4%
- Tax Rate: + 10%

2010 Proposed Budget: “Bottom Line”

Typical Household Impact *

- Tax Levy: + \$23.02 (+ 2.1%)
- Municipal Services Bill: + \$32.13 (+10.5%)
- Total Increase: + \$55.15 (+ 3.9%)

* Impact is based on average home value of \$127,516.

Response To Structural Challenges: Revenues

1. Proposed full cost recovery for solid waste charge, snow & ice removal charge & tree care: ~ + \$8.4 m of operating & capital revenue
 - Solid waste charge reflects program changes
2. Omnibus file: + \$3 million
3. Water Works surplus revenue: + \$3 million
4. Parking Fund net transfer: + \$1.7 million
5. TSF: - \$9.4 million decrease

Response To Structural Challenges: Expenditures

1. Operating Budget decrease: - **\$32.1 million** from 2009
2. Full-time equivalent O&M (FTE) decrease: - **381**
3. The Budget assumes **0%** pay increase for all employe groups in 2010
4. **Four furlough days** in 2010 for all groups except Firefighters

2010 Budget: Strategic Framework

1. Ensure crucial service priorities are adequately funded—not “across the board cuts”
2. Establish new approaches to operations that improve ongoing sustainability-e.g., less labor-intensive service delivery, consolidate services for economies of scale, improve energy efficiency
3. Fund pension costs responsibly
4. Limit new levy-supported borrowing authorizations (acceleration of 30th Street Corridor redevelopment funding => 1-year “blip”)
5. Reduce total compensation trend line through collective bargaining
6. Limit the combined impact of tax levy increase & municipal service charge increases on “typical” homeowner to less than 4%

2010 Proposed Capital Budget

1. 17% increase for local streets program
 - Replacement cycle at 61 years (based on 960 mile network)
 - \$1.3 m levy-supported GO & \$1.3 m CDBG funds for preservation strategies
2. Other priorities include:
 - City Hall foundation
 - New Villard Library
 - Redevelopment in 30th Street Industrial Corridor (former Tower site)
 - Unified Call Center

Major Federal Stimulus Impacts

1. \$25 m for Major Streets program
2. \$10.3 million for 3-year Police COPS grant
3. Byrne JA grant for police overtime & equipment
4. \$5.8 million for Energy Block grant
5. \$4.5 million for CDBG-funded initiatives

Comments & Questions?

- You may contact Mark Nicolini (286-5060) or Dennis Yaccarino (286-8552) for information about this presentation