



Department of Administration
Budget and Policy Division

Tom Barrett
Mayor

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Budget and Management Director

June 16, 2006

File Ref: 06030

Alderman Michael Murphy, Chair
Finance and Personnel Committee
City Hall Room 205

Subject: Finance and Personnel File Number 060222

Dear Alderman Murphy:

This responds to your June 12 inquiry regarding potential 2006 Contingent Fund exposure as well as other possible impacts that may result if the Common Council adopts File Number 060222, which reserves up to \$750,000 from the 2006 Contingent Fund for the purpose of adding additional Police recruits during this year.

I will respond to your questions in the order in which you presented them.

1. What services are you recommending to cut if the Council and Mayor support this request?

- We have re-estimated the full year 2007 impact of adding 40 Police recruits as \$2.33 million. This is approximately 50% of the projected property tax levy increase the city will be allowed for 2007 operations and capital purposes under state levy limits. The projected cost of continuing current levels of service for operations and capital (excluding debt service) in 2007 is about \$30 million.

State law and the City Charter authorize the Mayor to submit his proposed budget expenditures no later than September 28 of the preceding year. Before I make any recommendations, several other uncertainties such as the level of non-property tax revenues and debt service requirements must be resolved. The Budget Office will focus its recommendations on services that provide the best fit with the strategic priorities of reducing crime, supporting economic development, improving early childhood conditions, and protecting the environment.

2. Do you anticipate the city having to borrow money if this file is adopted, and if so, what is the anticipated borrowing date?

- The most important uncertainty regarding the potential need for contingent borrowing - whether or not File 060222 is adopted - relates to the ultimate disposition of *Alexander*

vs. City of Milwaukee. It is unknown whether this matter will be resolved in 2006. The potential liability to the city is approximately \$4.4 million.

I project that up to \$1.2 million for payment of this liability will be available at the end of 2006 from current appropriations in the Damages and Claims Special Purpose Account. There is a current balance of \$4.8 million in the 2006 Contingent Fund. If my previous projections are accurate, an appropriation of \$3.2 million from the 2006 Contingent Fund would be needed to avoid Contingent Borrowing if this matter is resolved in 2006. Therefore, if this scenario unfolds, an appropriation of \$775,000 from the 2006 Contingent Fund would leave a balance of \$825,000.

Therefore, this file in and of itself would not cause the need for contingent borrowing. However, as my response to question 3 suggests, even relatively modest needs for the Contingent Fund in 2006 could generate a need for contingent borrowing, due to the potential impacts of the *Alexander* matter. From a fiscal planning standpoint, it is really the *Alexander* matter that is driving exposure for 2006 contingent borrowing - not departmental expenses or fringe benefits.

It should also be noted that File 060222 provides for a reserve of available Contingent Funds. If circumstances dictate, the reserve of \$750,000 could be rescinded and the funding made available for other purposes.

3. What liabilities do we currently face that may require use of the Contingent Fund for the [remainder of] the year?

- It is premature to project 2006 Contingent Fund exposure at this point. I will comment briefly on known liabilities and the current likelihood of exposure from expenditures that are frequent causes of Contingent Fund exposure. These potential exposures of between \$1.0 million - \$3.5 million are in addition to the potential exposure arising from the *Alexander* matter.
 - ✓ The Budget Office is recommending \$143,000 for the implementation of a skilled trades training and employment program. This funding modifies a debt-financed initiative contained in the 2006 adopted budget, making the initiative both more cost-effective and more suited to successful employment placement.
 - ✓ The Budget Office is projecting the need for an appropriation of up to \$400,000 for Unemployment Compensation benefits.
 - ✓ There is relatively high potential exposure resulting from energy costs. The 2006 budget added \$500,000 to the Contingent Fund that was specifically targeted toward this exposure. The price of crude oil, which external factors determine, would be the primary cause of this exposure. The city uses gasoline and diesel fuel for its most crucial services, including police patrol, emergency medical and fire suppression response, garbage and recycling collections, and snow and ice control operations. I project this potential exposure as between \$500,000 and \$1.5 million, but this projection is subject to substantial uncertainty.
 - ✓ Currently I project moderate exposure resulting from Police Department salary expenditures. This exposure could be reduced if the state takes action to provide the city with additional funding for police services. This exposure could range from \$500,000 to \$1.5 million.

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- ✓ Currently I project low exposure resulting from Employee Health Care Benefits or Workers Compensation, unless the Comptroller modifies his accrual practices for these expenditures relative to practices employed for 2005.
- ✓ Currently I project low exposure resulting from Snow and Ice control operations (apart from energy costs, which are cited separately above), unless the need for such operations during the 4th quarter far exceeds normal 4th quarter experience.
- ✓ Currently I project low exposure resulting from Remission of Taxes. The Council appropriated \$700,000 earlier this year for this purpose. \$211,000 remains available in this account. We are working with the Assessor on this matter. To the extent additional exposure arises, it is likely to come from Circuit Court appeals that probably will not be resolved during 2006.

4. If adopted by the full Common Council on June 20, what is the schedule for training and placing Police Officers on the street?

- Adding recruits depends on whether (a) the MPD can complete its background checks and (b) there are in fact enough qualified candidates, in addition to the funding issue. If background checks are completed on a sufficient number of eligible candidates, 20 recruits could be added to both the September and December recruit classes. September recruits would finish their academy training in mid-March, 2007 and complete 12 weeks of field training in early June, 2007. The December recruits would finish their academy training in May, 2007 and complete 12 weeks of field training in early August, 2007.

Please call me at extension 5060 if you wish to discuss this response.

Sincerely,



Mark Nicolini
Budget and Management Director

MN:dmr

Cc: Mayor Tom Barrett
Patrick Curley

Common/finance/m-mm-060222