
2014 Proposed Executive Budget

**Presentation to the Finance
& Personnel Committee
October 8, 2013**

Presentation Goals

1. Establish an understanding of budget revenues, expenditures, and structural conditions
2. Identify recent improvements to structural condition and remaining challenges
3. Provide the 2014 Proposed Budget “Bottom Line”
4. Identify key expenditure initiatives and proposed changes

Fundamentals

- **Structural balance**: circumstances under which projected revenues under current policy are adequate to fund existing service levels for an ongoing period
- **Capitalization**: the total investment of the owner in a business enterprise. In this presentation, “capital” is used in a broad sense, i.e., funds applied to city government, regardless of fund type (e.g., capital, operating, enterprise)
- **Legacy**: something that remains from a previous generation or time; an outdated system

City Strategic Objectives

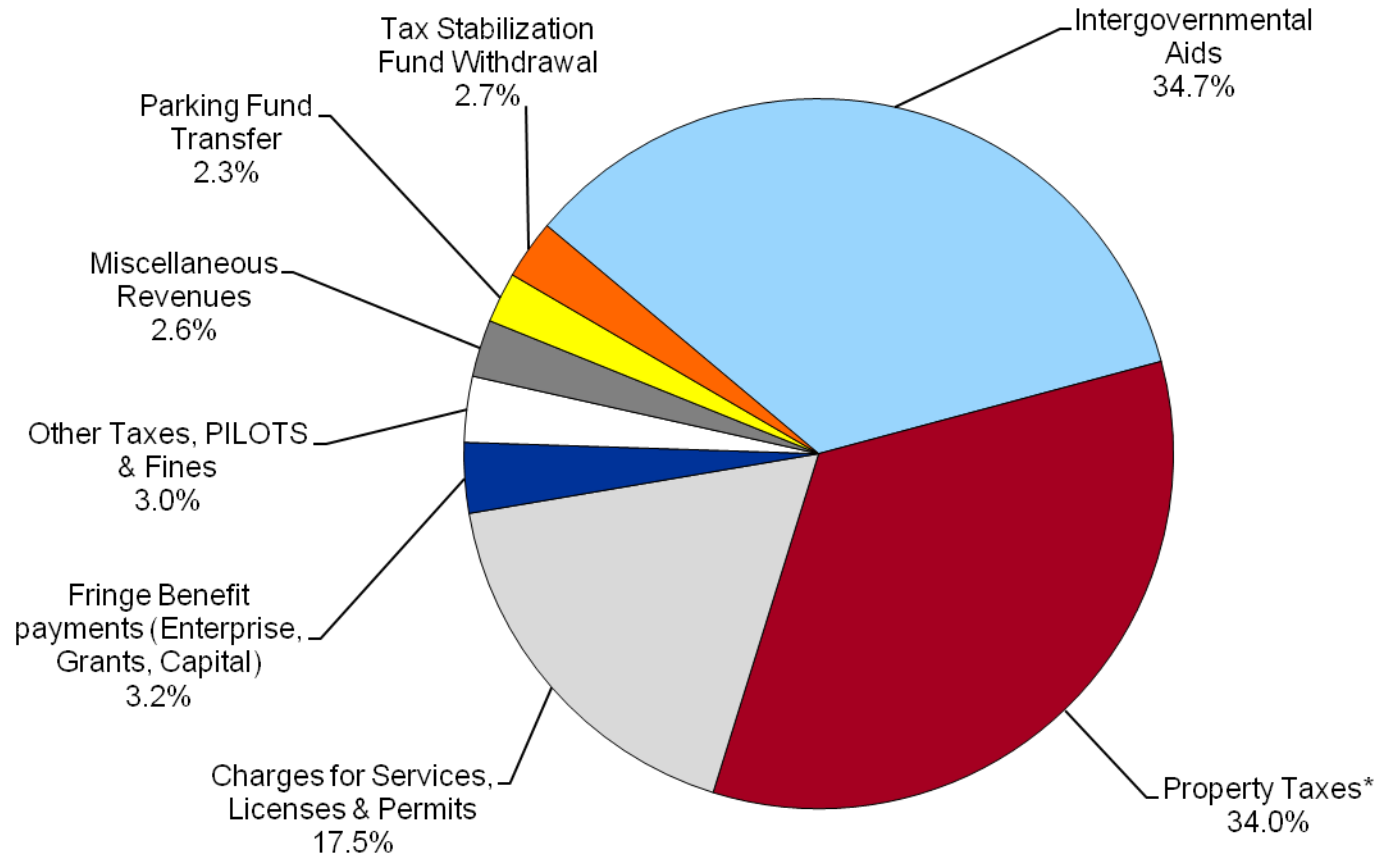
Mission Delivery

1. Build safe and healthy neighborhoods.
2. Increase investment and economic vitality throughout the city.
3. Improve workforce development and connect more citizens to family supporting jobs.
4. Help children succeed, prepare for post-secondary education, and meet their full potential.
5. Sustain Milwaukee's natural environmental assets.

Financial Performance Measures

1. Provide mission critical services through budgets that limit the impact of tax levy and municipal service charge changes on the typical residential property to 3% or less a year.
2. Manage long term obligations such as core infrastructure, debt, and pension benefits in a manner that stabilizes ongoing funding requirements.

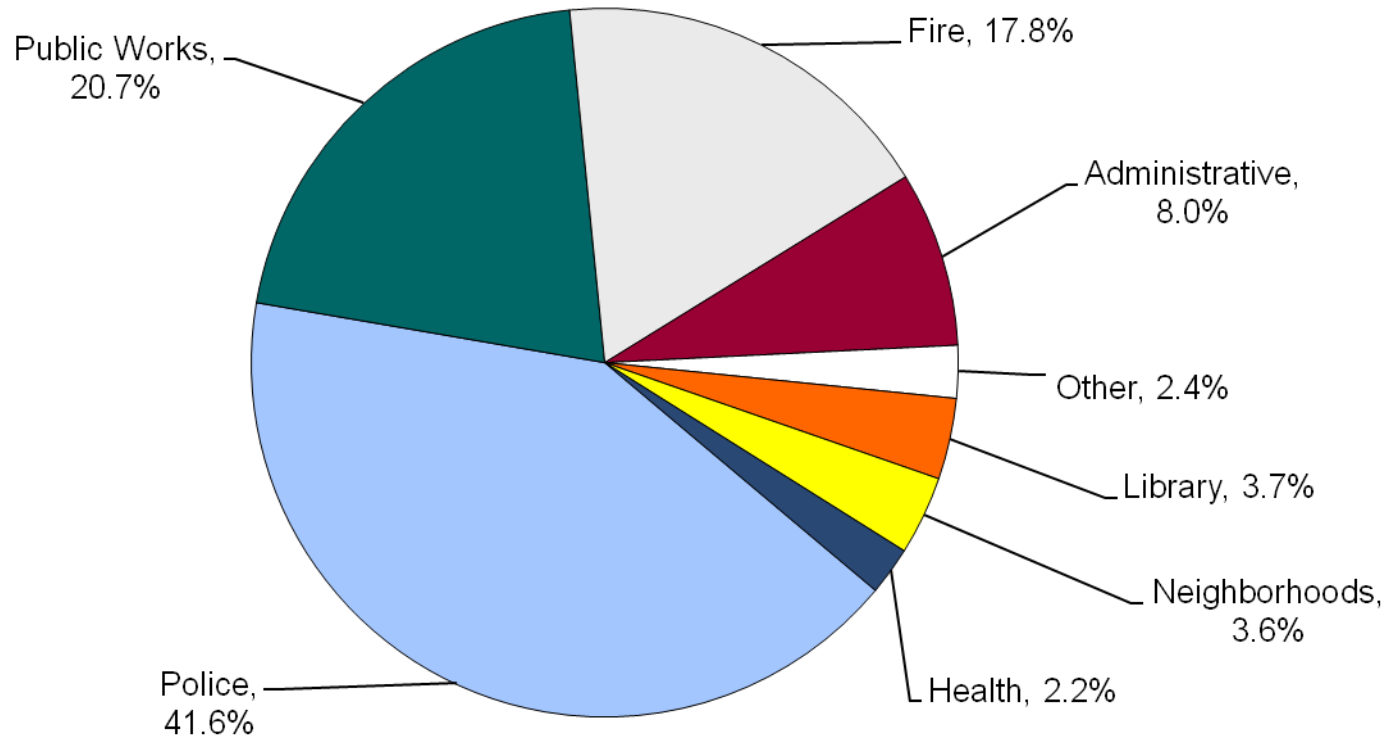
City of Milwaukee 2014 General Fund & Other Levy-supported Funds



* Property tax revenue for all levy supported funds. Based on Proposed Budget.

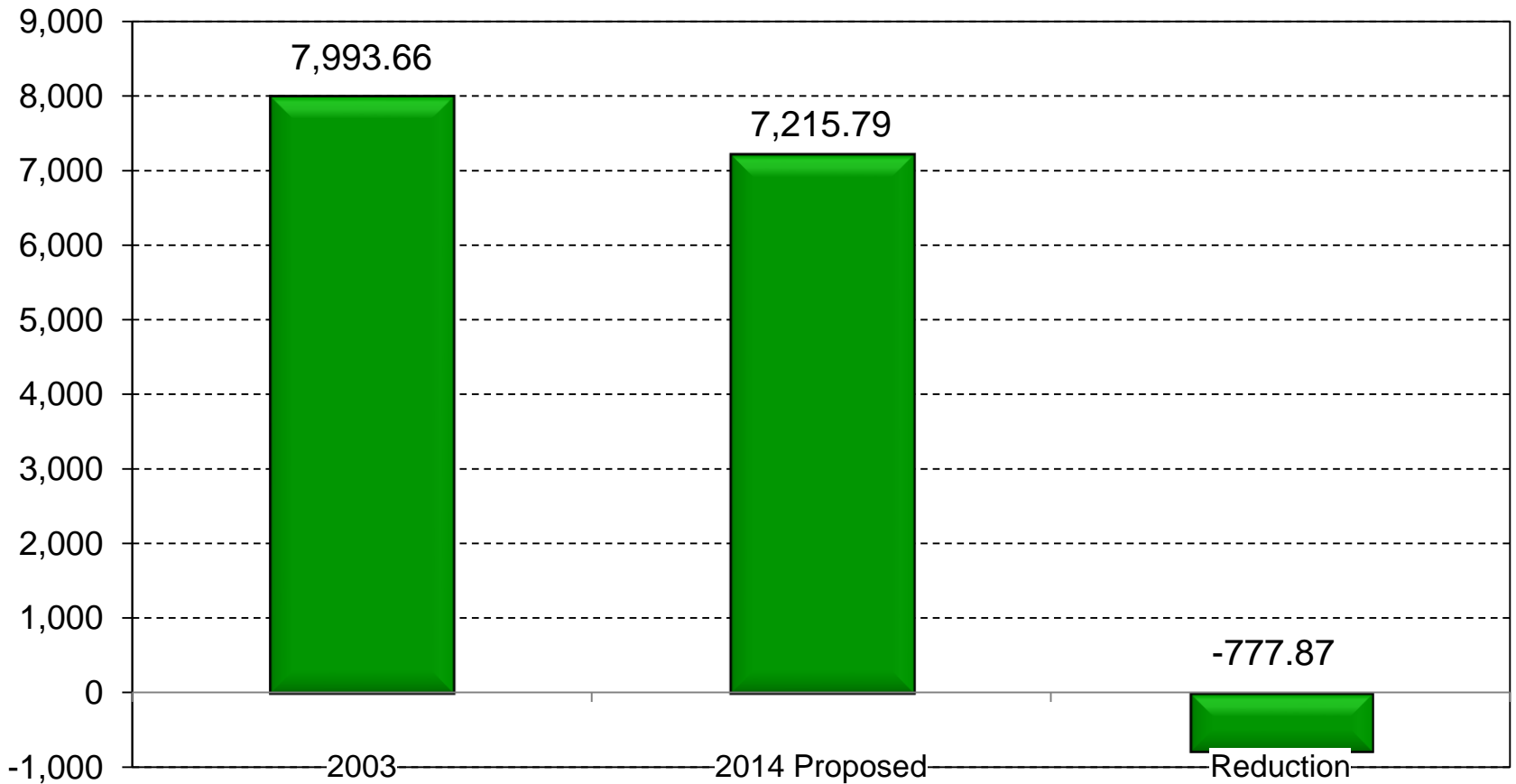
Tax Levy Funded Operating Budget: By Department

2014 Proposed Budget

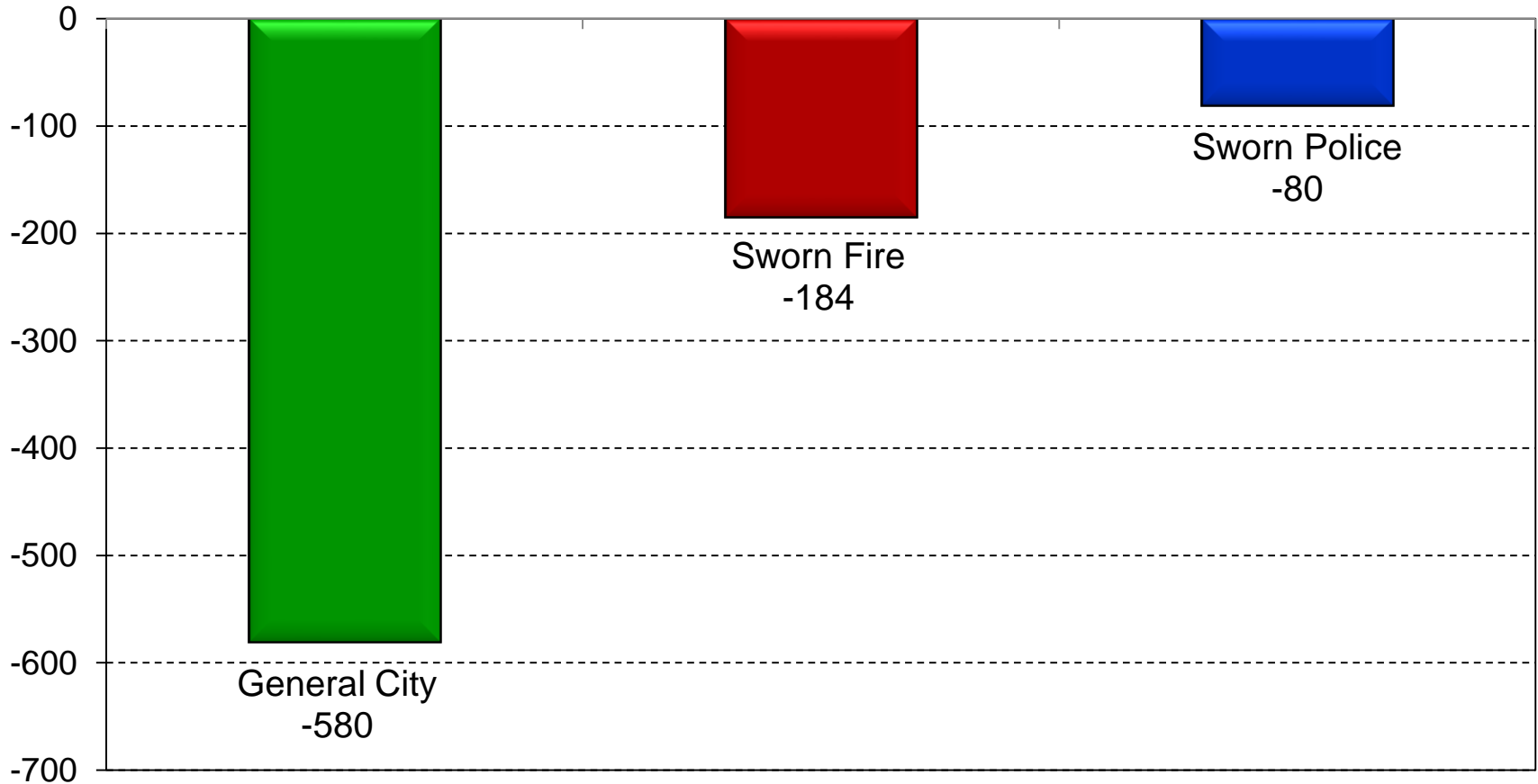


Note: Does not include \$249.6 million of DPW-operated Enterprise Funds (Parking, Sewer, Water).
Three departments (DPW, Police, Fire) comprise 80.2% of the 2014 Operating Budget.

Total City Full-Time Equivalents (FTEs) Change from 2003 to 2014 Proposed



Reduction in Budgeted FTEs: 2003 to 2014 Proposed



2013-2016 Structural Update: Resize, Restructure, and Reinvest (“3 R”)

1. 2013 Budget projection: \$65-\$75 million of structural improvement needed by 2016
2. \$21 million of structural improvement in 2013 Budget as part of “3 R” strategy
3. 2014-16 outlook is ~ \$17 million better than projected in January
 - Pension contribution prepayment and lower health benefit cost baseline have been primary contributors to improved outlook
4. Resulting 2014-16 improvement needed: ~ \$35 million
 - Includes \$5 million annual increases to pension levy through 2016
 - Moderate assumptions on health care cost growth (~ 4% annual)
 - Relatively stable reserve use throughout the 3-year period
5. Outline of 3-year (2014-2016) approach
 - 3-year total revenue growth projected at ~ \$15-\$18 million
 - Recapitalize City operations through resizing and investments in technology and staff development
 - Continue financial restructuring and adjustments to organizational legacies

Financial Performance:

Milwaukee's City Budget: 2010-2013

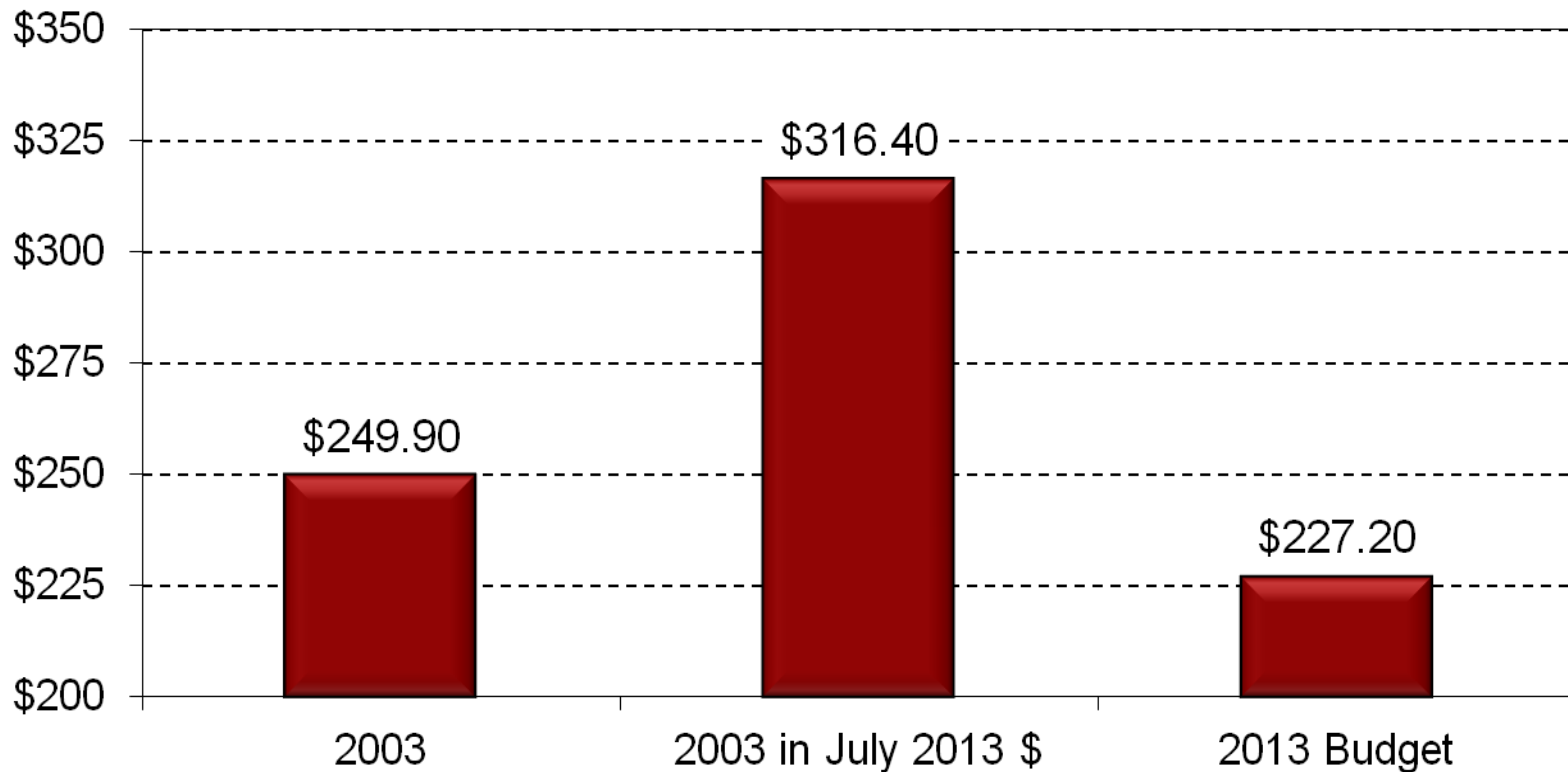
1. 408 FTE decline; total annual savings of ~ \$32 million
2. Employee health care benefit costs declined \$27.8 million from 2011 (-20%)
3. Wage cost reductions (\$18 million) since 2009 (last 4 years):
 - \$5.7 million of O&M overtime reduction (2010-2013)
 - \$12.3 million of total furlough savings (2010-2013):
4. Wage cost avoidance (\$20 million) since 2009 (last 3 years):
 - Police & Fire collective bargaining pay trends 2010-2012: below trend settlements: \$9.5 million
 - General city pay freeze 2010-2012: \$10.5 million avoided cost over 3 years (2010-11 through collective bargaining)
5. Workers' compensation avoided costs => reduction of 11,822 lost work days since 2008 (\$26.0 million in avoided costs)
6. Major improvements to key infrastructure replacement cycles within a stable level of levy-supported borrowing and a declining tax levy for City debt
7. Annual tax levy growth has averaged .5% (1/2 of 1%) during the period
8. Annual levy/municipal service charge increased impact on "typical" residential owner has averaged .7% (7/10 of 1%) during the period

Key Challenges to Structural Balance

1. Continued decline in State Aid
2. Slow growth in non-property tax revenues
3. “New normal” for Employer Pension Contributions
4. Fringe benefit impact on “free cash flow”
5. Limitations of State “tool box”
6. Budget Impacts of foreclosures

State Shared Revenue Trend

Decline in State Shared Revenue and Expenditure Restraint Program (ERP) Payments to Milwaukee
2003 – 2013 (In Millions)

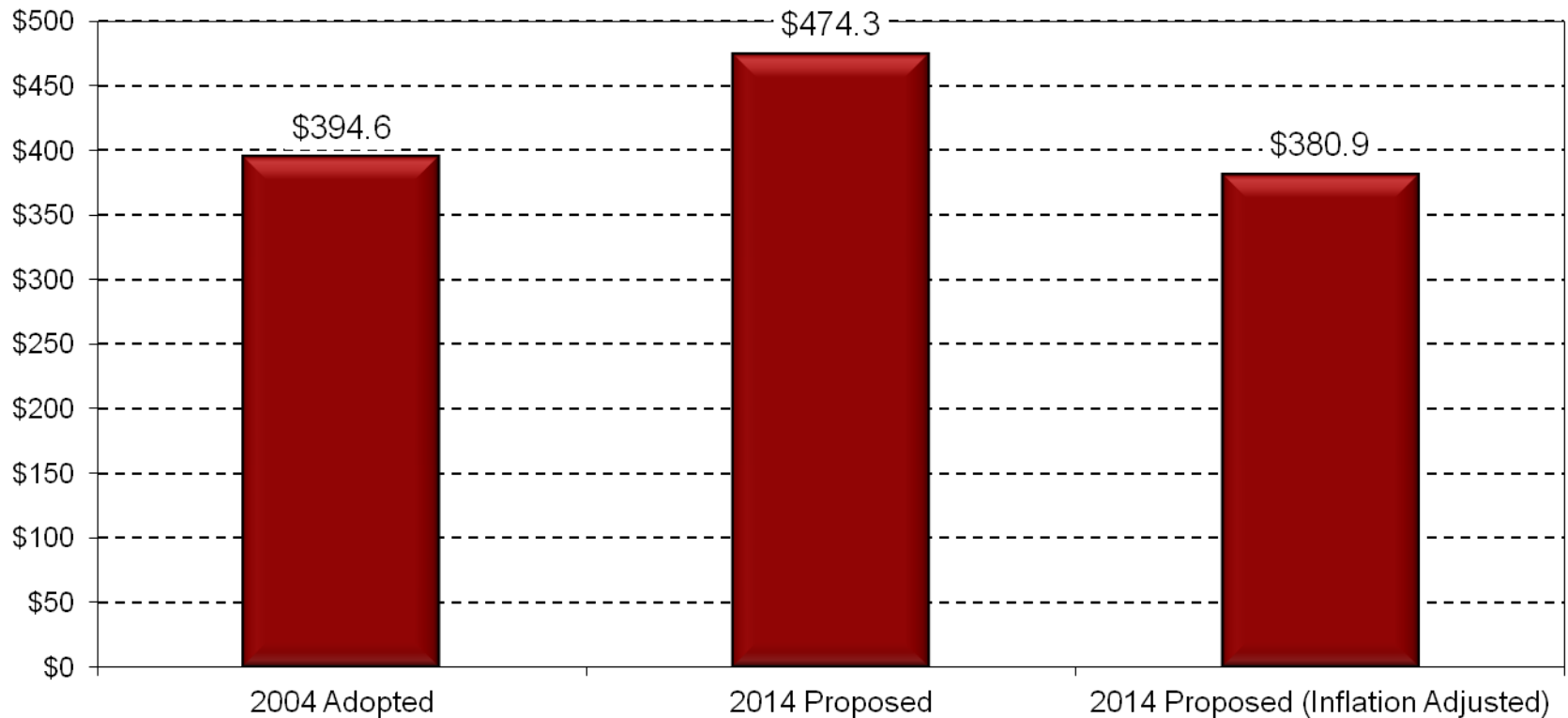


Inflation adjusted decline in Shared Revenue and ERP payments = ~ \$89.2 million (-28%).

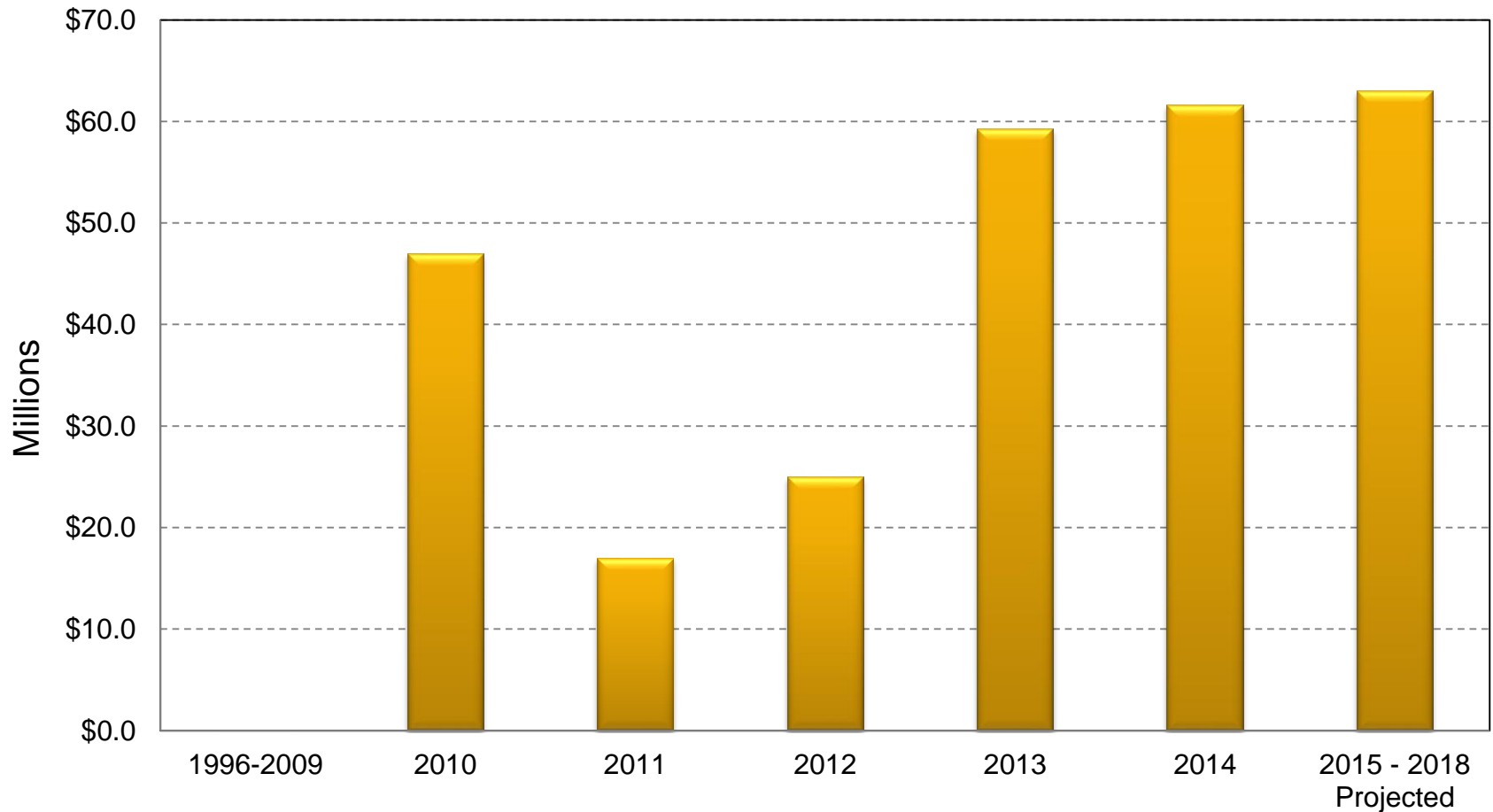
Source: U.S. Bureau of Labor Statistics: CPI-U Tables

General City Revenue Trend

General City Purpose Revenue
(Excluding Property Tax Levy and Tax Stabilization Fund)

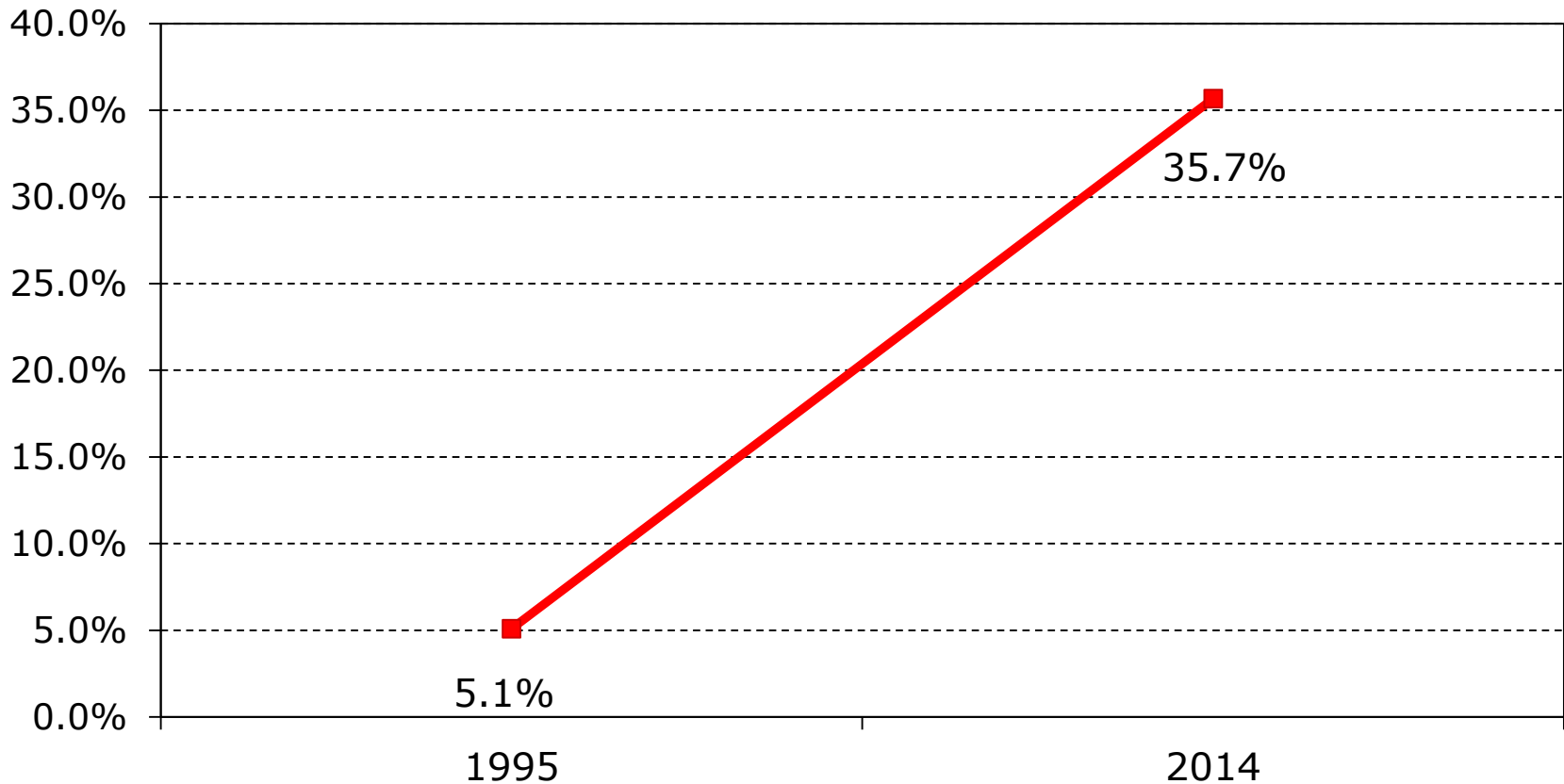


“New Normal” for Employer Pension Contributions



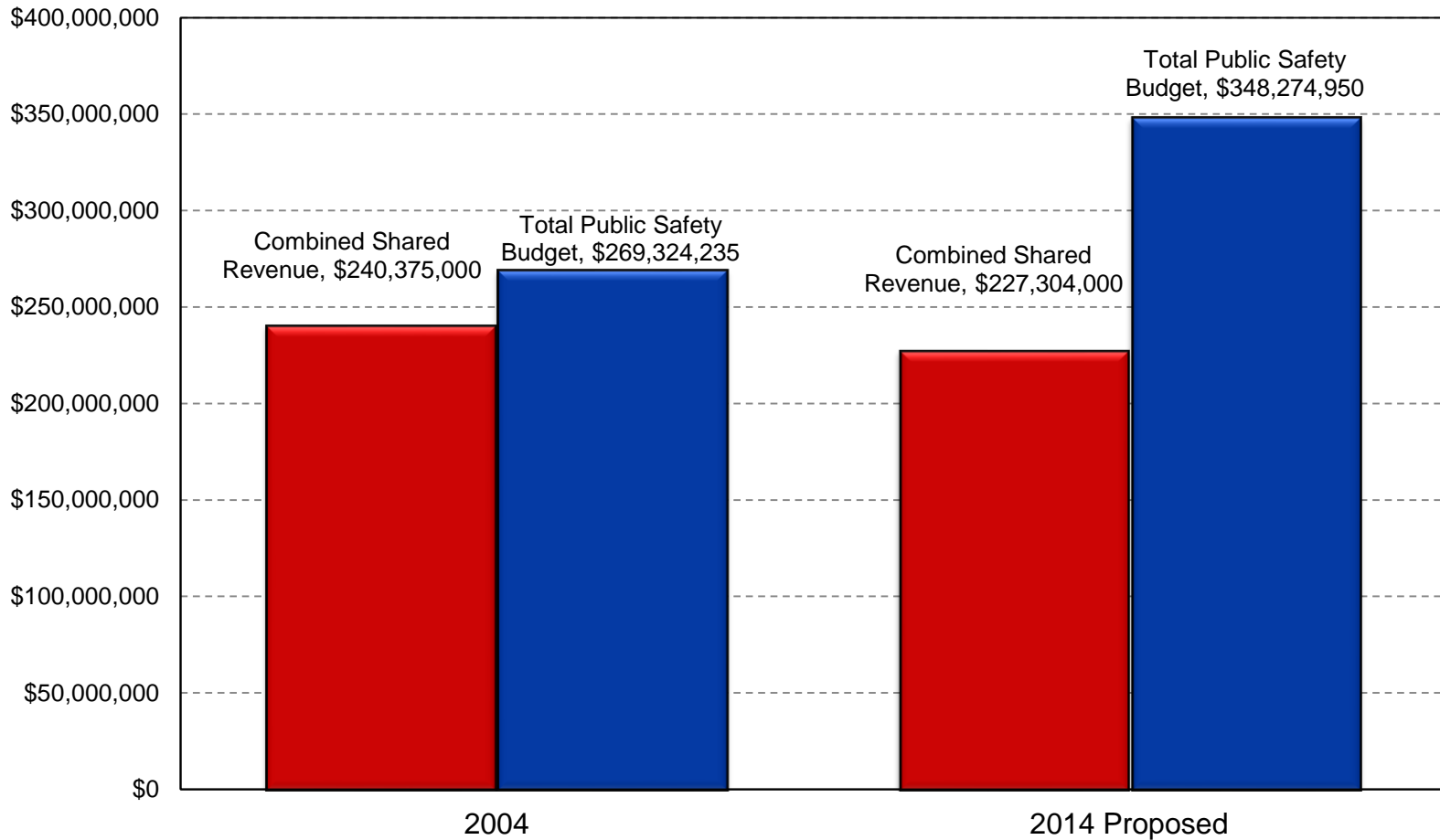
Contributions in 2011 & 2012 were made to the employer's pension reserve. 2015-18 bar represents a projection of annual cost.

Employee Health Care Benefits & Employer Pension Contributions as a Share of Tax Levy & Shared Revenue: 1995 and 2014 Proposed

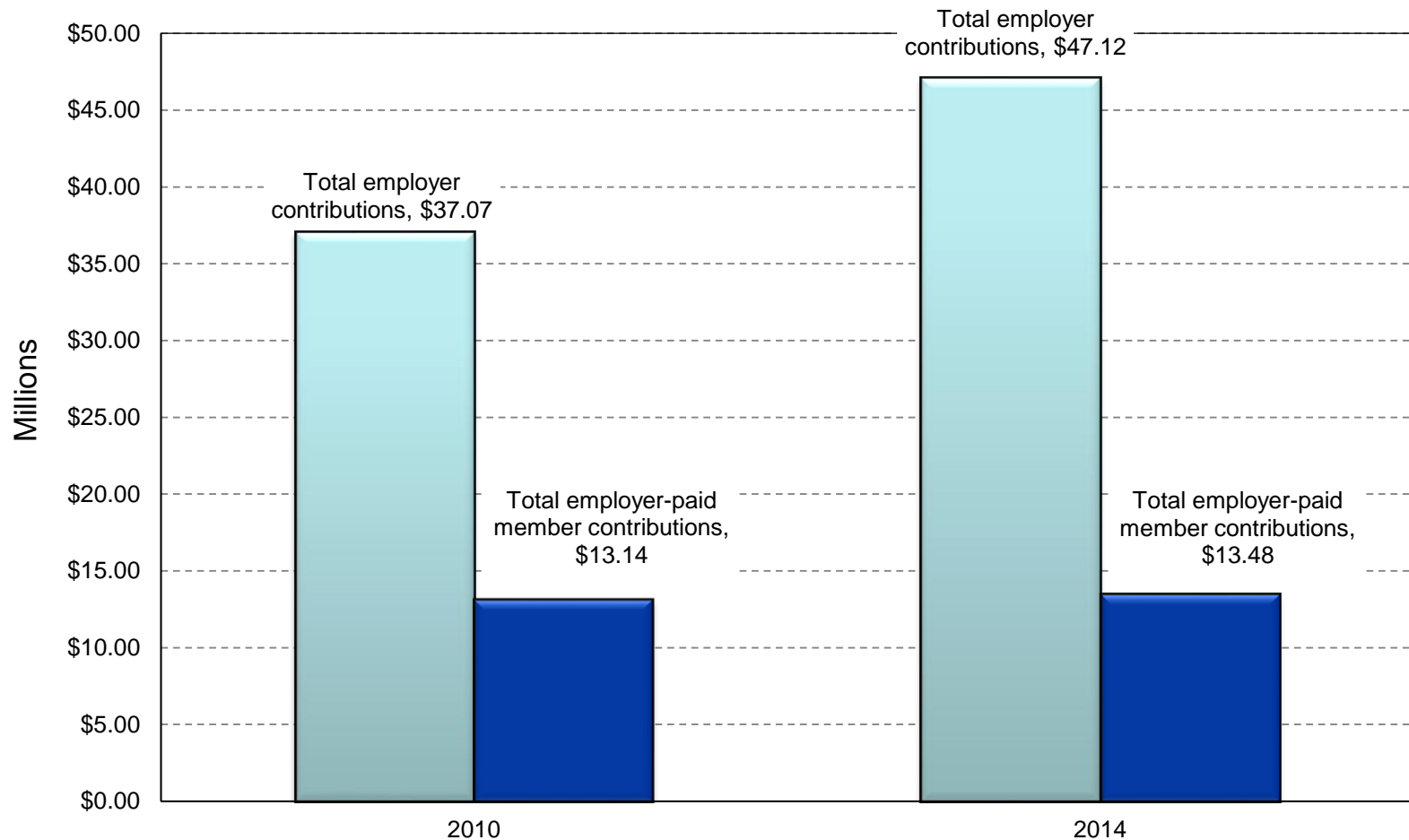


*Shared Revenue includes Tax Disparity/Expenditure Restraint Program Revenue

State Shared Revenue & Expenditure Restraint Program Compared to Police & Fire Budgets



Estimate of City Pension Expenses for Police & Fire: 2010 and 2014 Projected



State tool box does not control City pension expense for Police Officer and Firefighter pension contributions
Sources: 2009, 2010, and 2013 ERS actuarial valuations; CMERS and Budget & Management Division estimates

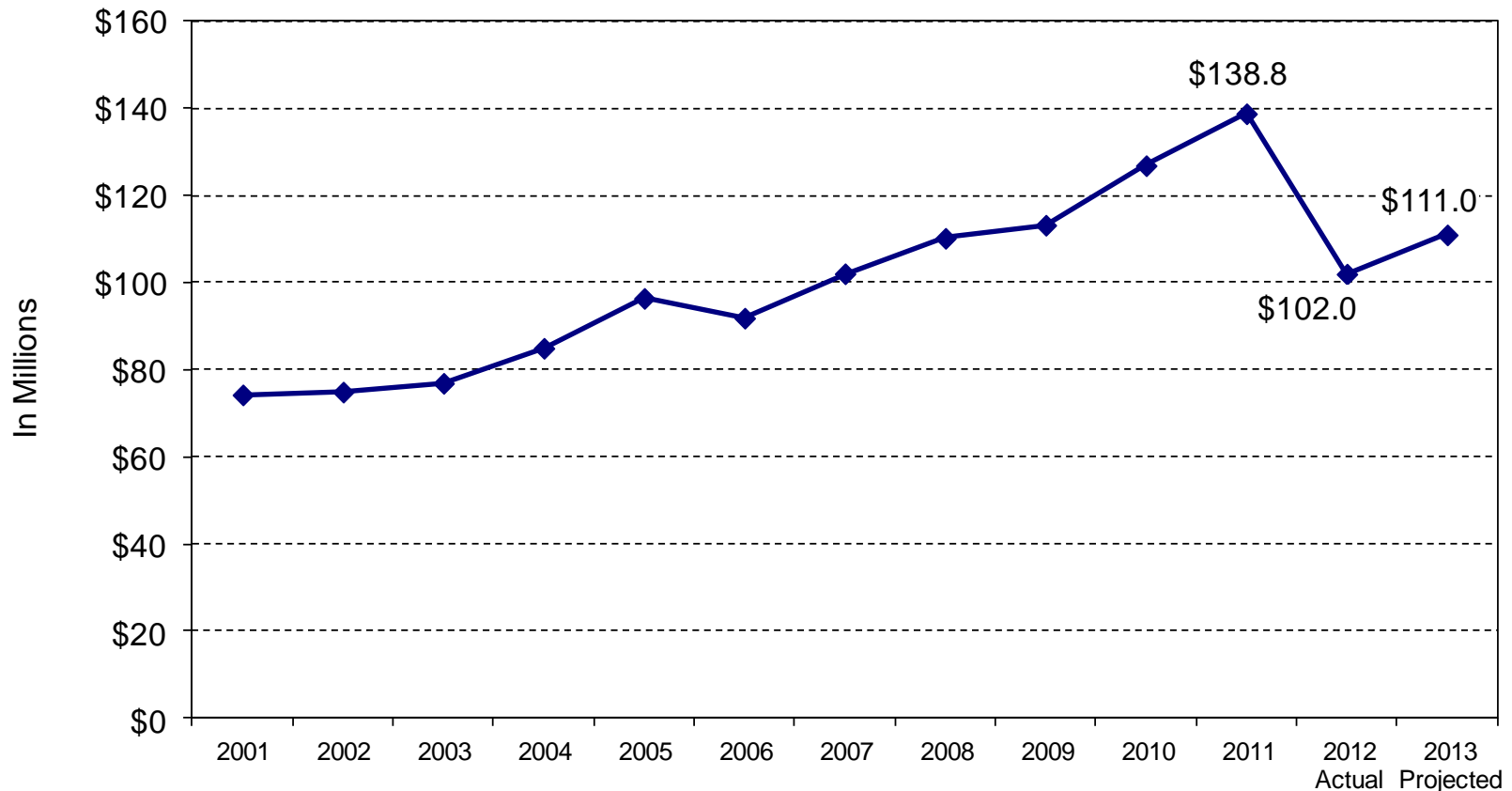
Impact of Foreclosures on the City Budget

1. The City's inventory of in rem improved properties has increased from 134 in 2008 to more than 1,000 currently
2. The inventory has caused a significant Budget impact:
 - 2010 O&M & levy-supported CIP impact: \$1.9 million
 - 2013 O&M & levy-supported CIP impact: \$3.73 million
3. In addition, there are significant departmental expense impacts that aren't tied to specific allocations
4. The operating impact alone consumes 3% of the 2013 general city purposes levy
5. This does not include any grant-supported expenditures

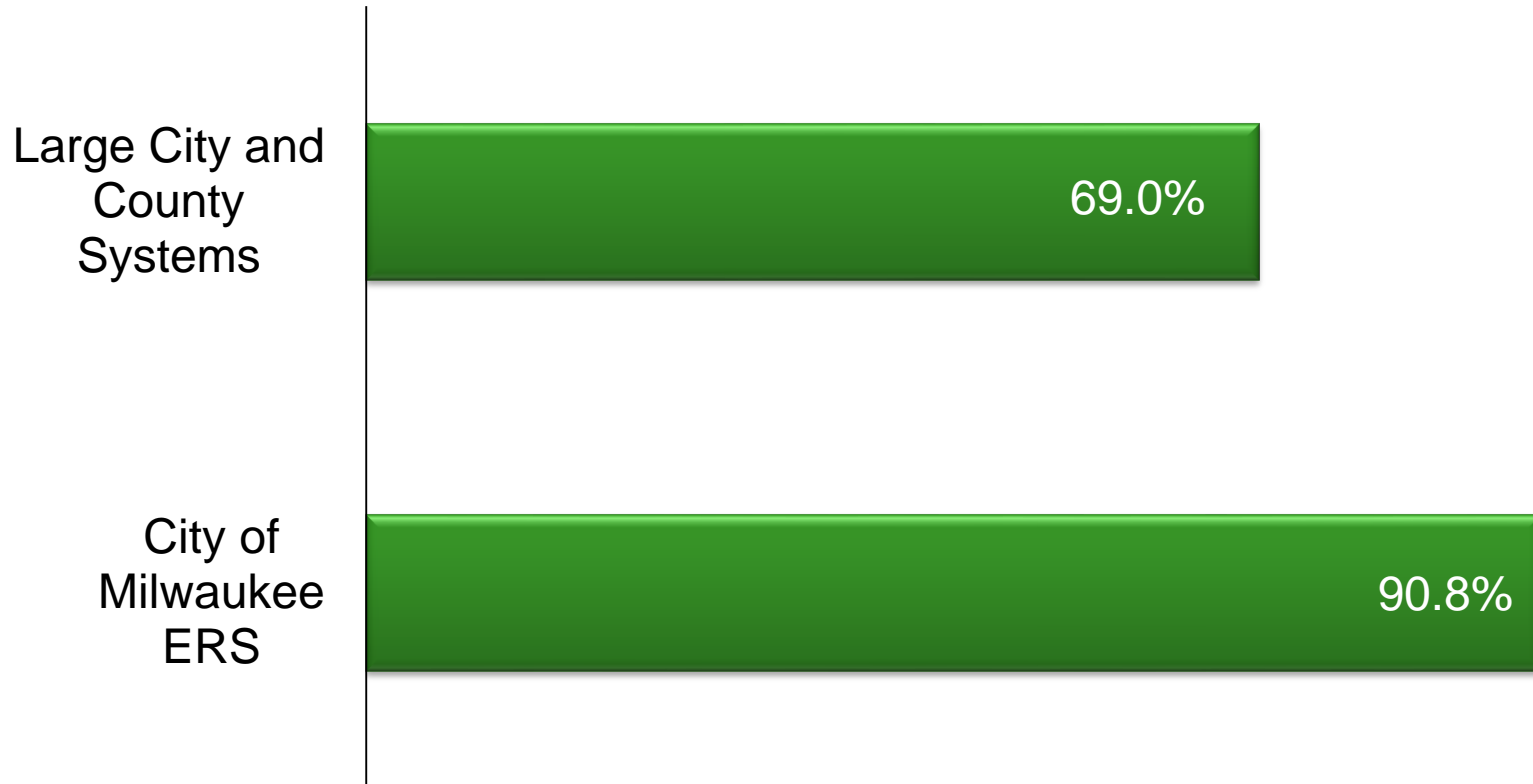
Opportunities for Improving Structural Balance

1. Bending the Employee Health Benefits Cost Curve frees up resources for services
2. Pension Plan funded status maintains a stable risk environment
3. Stabilizing Debt helps to limit levy increases
4. Strong Reserves & fund balances help finance limited-term initiatives
5. Cost Recovery for Municipal Services enables redirection of levy to non-revenue generating services

Health Care Benefits: Structural Reform Bends the Cost Curve

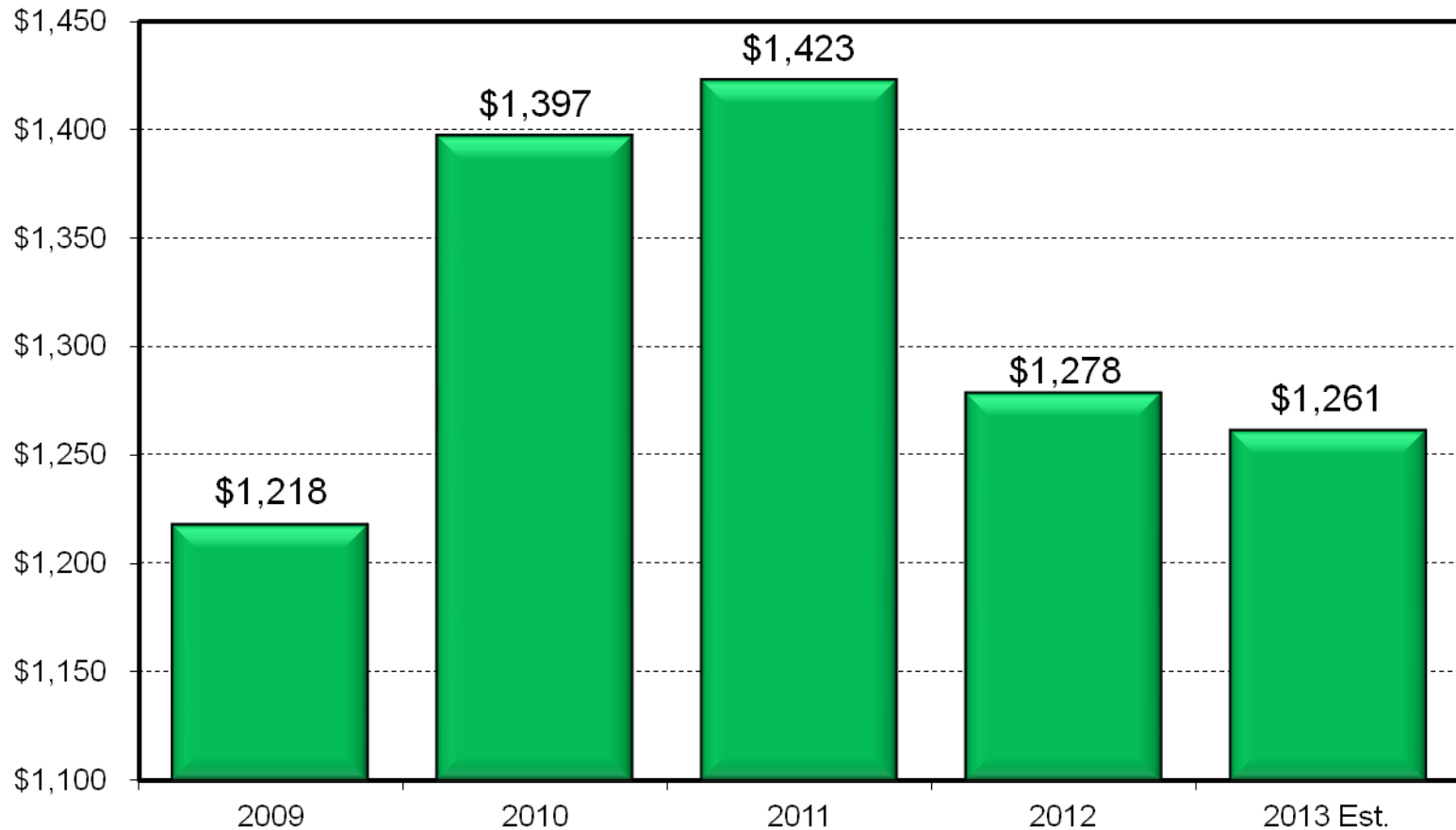


Funded Status of City of Milwaukee ERS Compared to 106 Large City and County Systems

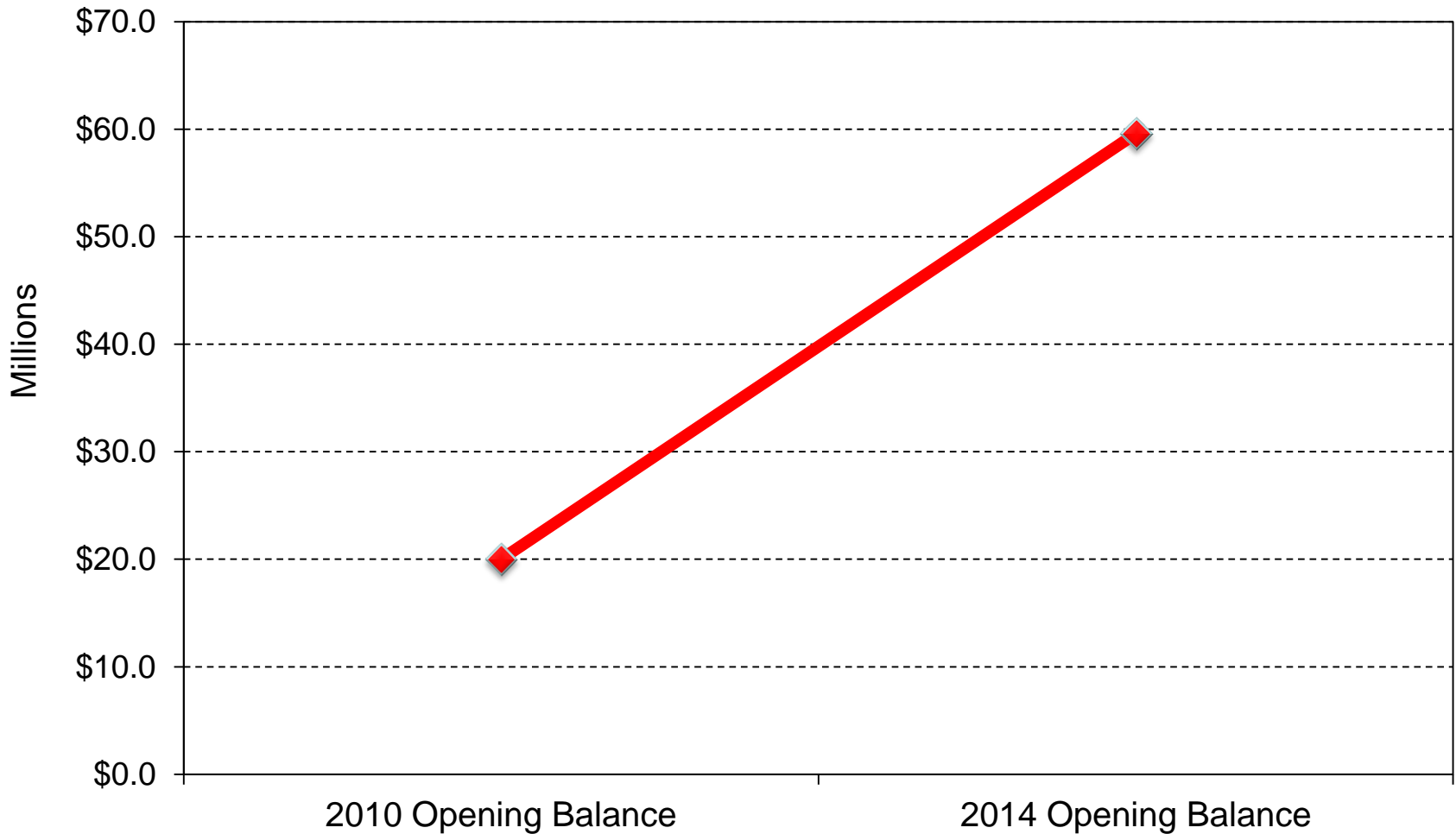


City Debt is Stabilizing

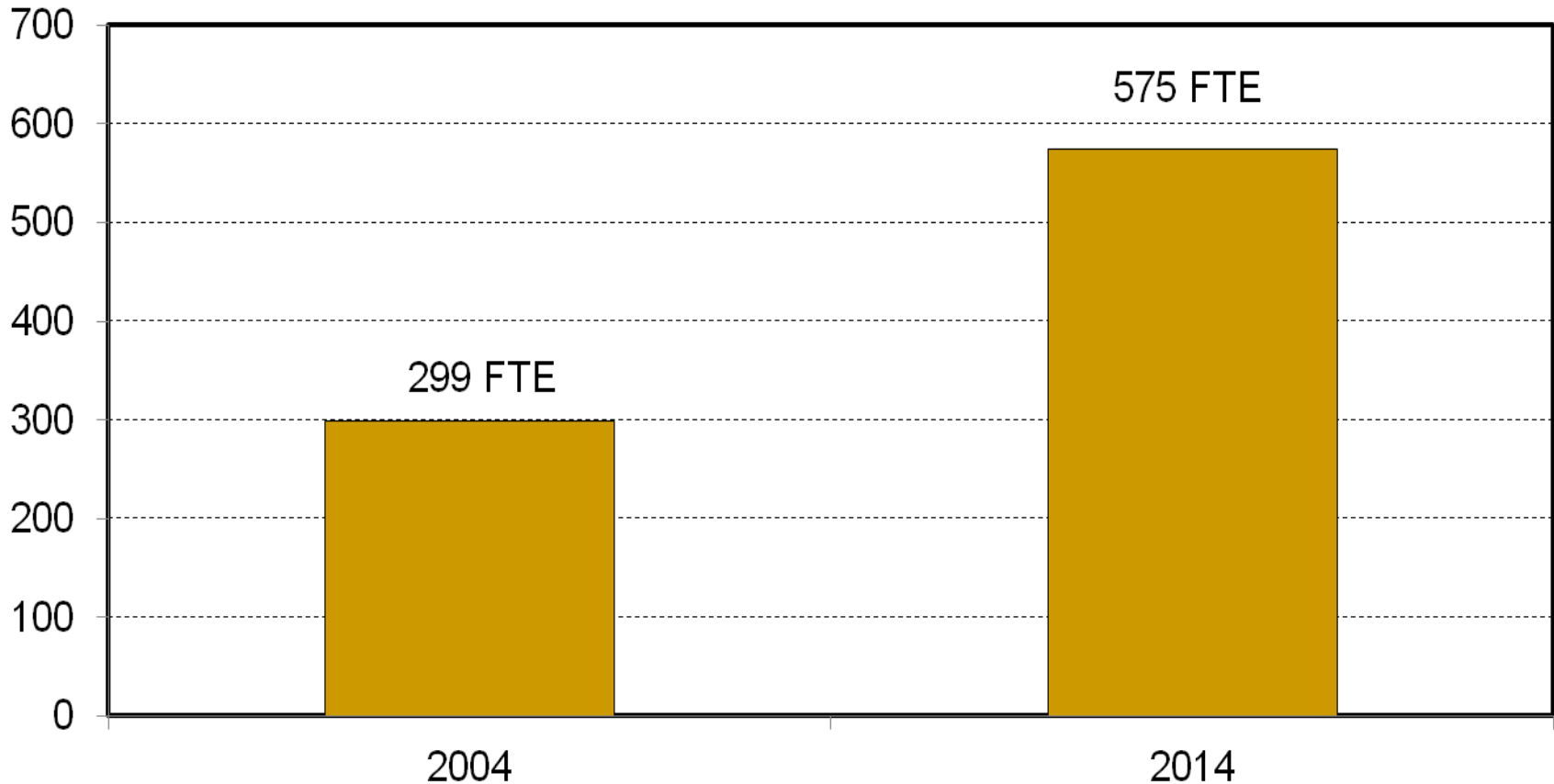
GO Debt Per Capita



Rebuilding the Tax Stabilization Fund



Estimated DPW-Operations FTE Offset by Service Charges: 2004 & 2014 Proposed



Source: Budget & Management Division estimates using Executive Budget documents

2014 Proposed Budget “Bottom Line”

1. General City Purposes Budget: + 1.6% (\$9.4 million)
 - Department-controlled expenses: + 2.4% (\$10.12 million)
 - Decrease to Employee Health Care Benefits is a major offset to GCP total
2. Total tax levy: + 1.6% (\$4 million)
3. Proposed non-property tax revenues: +1% (\$4.8 million with municipal service charges)
 - Proposed changes to 4 municipal service charges: + \$14.50 (+3.9%; \$1.6 million of general fund revenue)
4. State Aids are essentially flat

Proposed 2014 Budget Impact on Typical Household

Typical Household Impact

- Tax Levy: + \$4.85
- Municipal Services Bill: + \$14.50
- Net Impact: + \$19.35 (+1.3%)

Based on the average value of \$103,229

2014 Proposed Budget Highlights

1. Strong Neighborhood Investment Plan
2. Police Department
3. Fire Department
4. Department of Public Works
5. Library
6. Capital Improvements Plan
7. Baseline Budget Reductions

Strong Neighborhood Investment Plan

1. Today's hearing will include a separate overview regarding this initiative.
2. Multi-year expenditures are needed; builds on recent Neighborhood Stabilization Program (NSP) experience
3. Objectives:
 - Blight prevention & elimination
 - Reduction of City-owned inventory
 - Increase private sector investment in the neighborhoods
 - Generate economic opportunities for City residents
4. Incorporates 4 strategies:
 - Prevention: e.g., Vacant property registration program; Essential services assistance
 - Mitigation: e.g., Demolition of blight-generating properties
 - Revitalization: e.g., rehab and sell City-owned properties
 - Renewal: Plan for productive reuse of vacant land

Police Department

1. Sworn strength levels maintained
 - 2 recruit classes of 50 planned
 - Budget Cost net of attrition: \$583,000
2. Complete conversion of federally-funded officers
 - \$1.75 million
 - Total ongoing commitment: ~ \$3.0 million + in wages
3. \$390,000 reduction to overtime
4. Conversion of crime analysis to civilian function
 - Net Budget cost of ~ \$250,000
 - 8 officers added to community policing by end of 2014

Fire Department

1. Elimination of 1 company
 - \$1,040,00 wage reduction, no layoffs
2. 2-year defibrillator replacement program (\$480,000/year)
3. 39 Fire Cadets are budgeted to improve diversity of future recruit classes
4. Response times remain superior to national standards

Department of Public Works

1. \$5.5 million increase to street capital programs (Major & High impact streets)
2. Sewer replacement cycle remains at 90 years or less
3. Conversion to 21 compressed natural gas fuel vehicles => \$126,000 annual savings
4. Pilot residential food waste program addresses a major cost factor
5. Establishment of a demolition crew to increase responsiveness of City mitigation
6. Year-round cart set-out (see next slide)

Year Round Cart Set Out

Rationale for Service Delivery Change

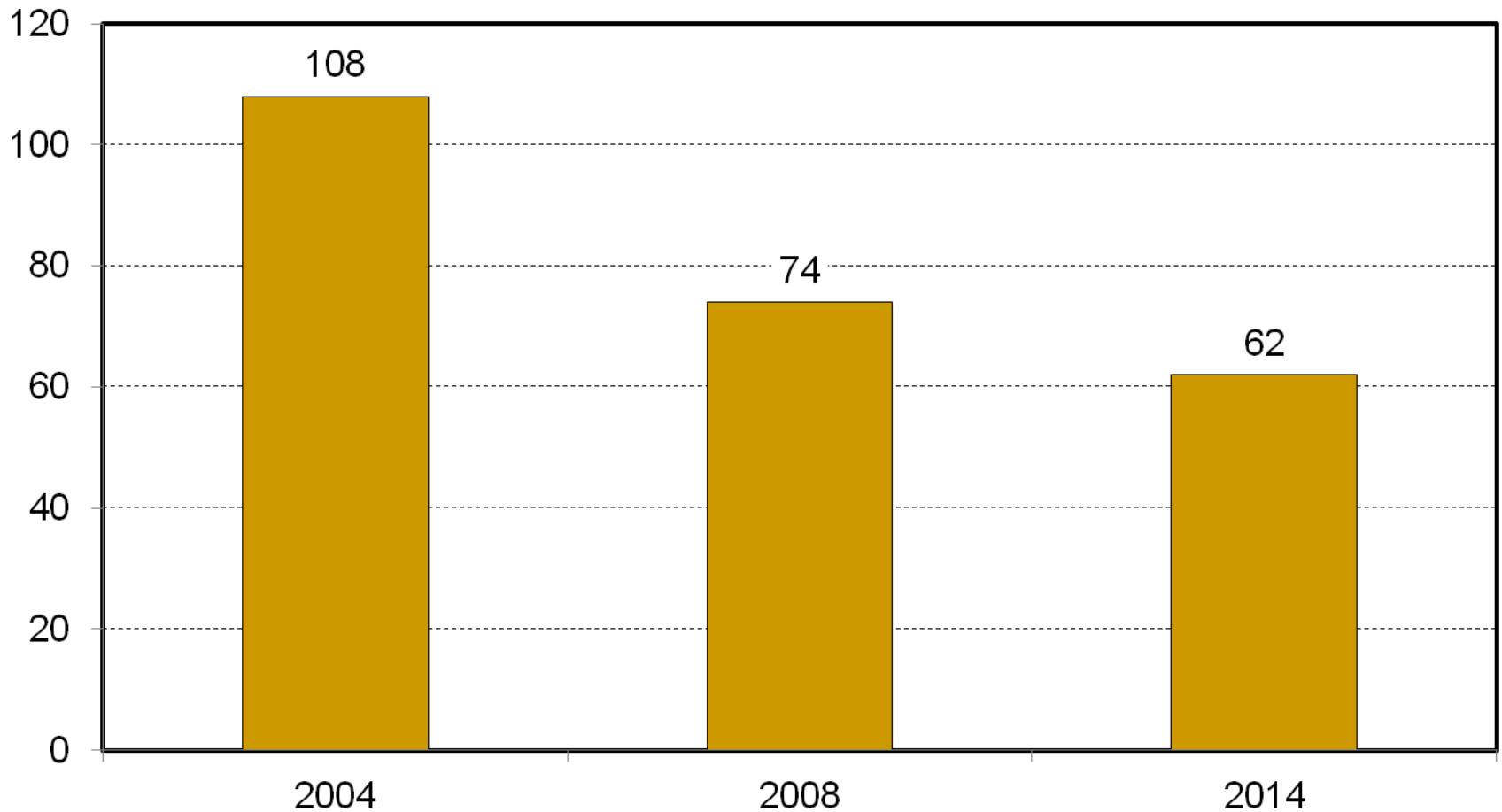
1. ~ \$225,000 in savings (includes estimated fringe benefits)
2. Reduced workers compensation exposure
 - 2013 YTD: 70 injuries reported due to icy conditions
3. Facilitates move to greater automation of routes

In the event of general snow plow days

1. Automated routes will be collected
2. Garbage cart collection to occur day after plowing is completed
3. Recycling cart collection to occur Saturday after plowing is completed
4. Carts left at curb until collection

Local Streets Replacement Cycle

Selected Years: 2004-2014



Library

1. Continuation of broadband initiative with local funds (5.8 FTE; \$206,000 in wage costs)
2. No changes to public service hours
 - ❑ Restoration of most of 2010 decrease => ~300,000 > visits
3. Replacement of 4 facilities included in 6-year capital plan
4. Major renovation of Tippecanoe Library
5. Teacher in the Library program continues (\$100,000 in CDBG allocation)

2014 Proposed Capital Budget

1. 2014 total budget = \$233.2 million
 - \$123.3 million General City
 - \$44.8 million DPW Grant & Aid
 - \$65.1 million Enterprise (Parking, Water, Sewer)
2. Debt levy reduction of \$6 million
 - Use available balances to increase cash share of capital
 - Allocate to core infrastructure & Strong Neighborhood Investment Plan uses
 - Limit future debt impacts of 2014 capital budget increases
 - Match limited term funding to limited term increases

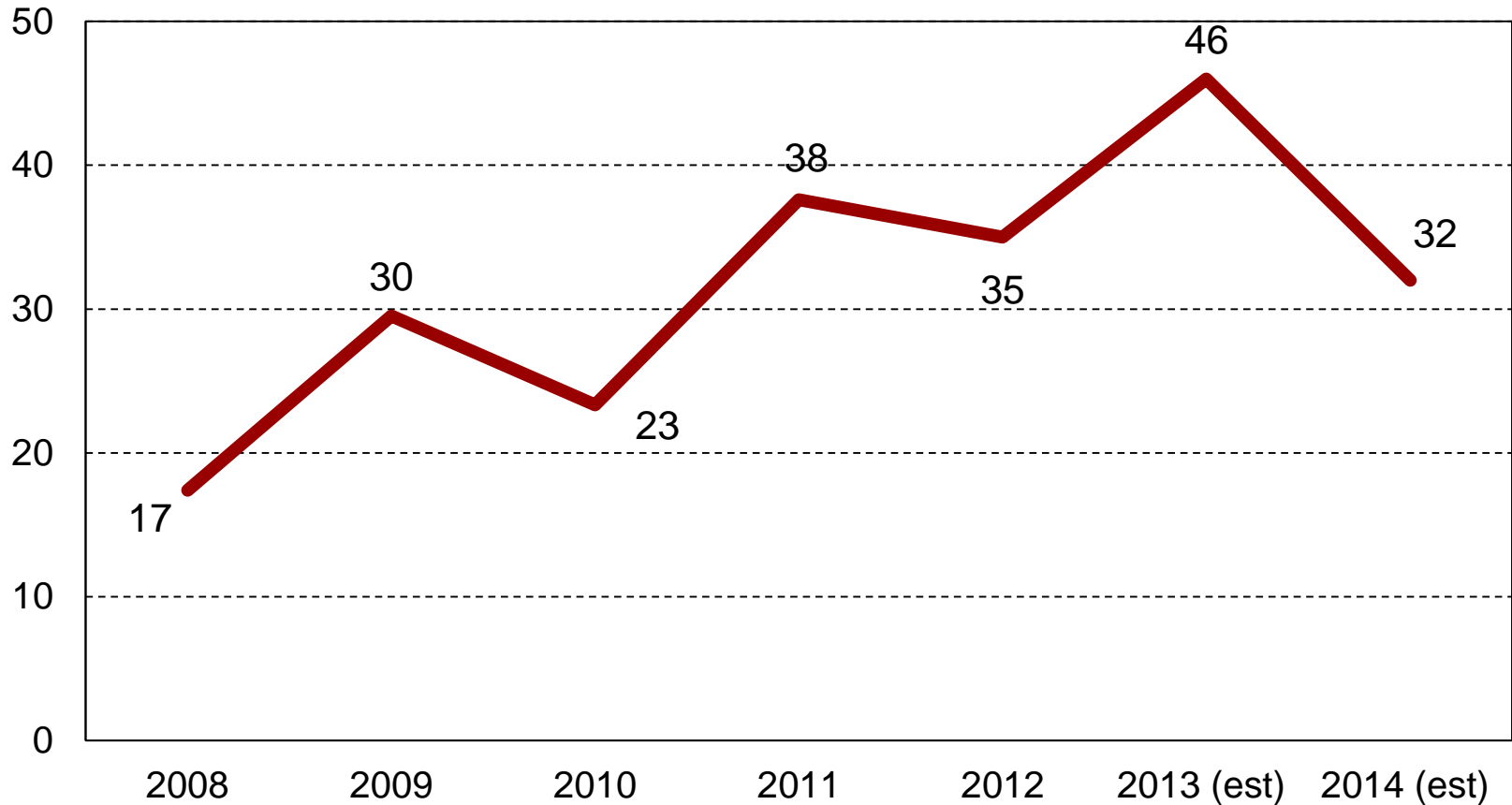
2014 Proposed Capital Budget Highlights

1. \$5.5 million net increase in Major Streets, High Impact Streets, New Streets
2. Increase in Street Lighting funding continues
3. Library investment totals \$22.4 million 2014-19
 - Replace 4 neighborhood libraries, renovate 1
4. Solid waste productivity
 - Materials Reduction Facility & Major Fleet equipment
5. Strong Neighborhoods Investment Plan
 - \$2.9 million for demolition and maintenance
 - \$2.4 million for revitalization & rehab activities
6. Sewer program continues its progress

Financing

	2013 Adopted	2014 Proposed
Tax levy (cash)	\$1.1	\$5.3
Levy-supported debt	74.9	85.3
TID	14.7	19.5
Assessments	2.2	1.6
Cash Revenues	3.3	2.9
Grant & Aid (<i>DPW</i>)	64.6 (56.6)	53.5 (44.8)
Subtotal City	\$160.8	\$168.1
Enterprise	64.8	65.1
TOTAL	\$225.6	\$233.2
Debt Levy	\$67.8	\$61.8

Sewer Maintenance Fund: Miles Replaced or Relined



Proposed Baseline Budget Reductions

1. SNIP, wages supplements, & conversion of federally-funded police officers => O&M net increase
2. Proposed Budget contains ~ \$5.25 million reduction to baseline department, fringe benefit, & various SPA expenses
3. Reductions promote improved ongoing sustainability & enable limited-term initiatives
 - Planned \$5 million annual increase to pension contribution levy through 2016
4. O&M absorption of COPS grant positions will smooth out in 2015

2014 Budget Development:

The “3 R” Strategy is Succeeding

1. The 2013 Budget linked four-year structural improvement to a strategy of resizing, restructuring, and reinvesting in City government
2. The 2013 Budget improved the ongoing structural balance by ~ \$21 million
3. Improved health care benefit baseline and pension contribution projection have added ~ \$17 million of additional improvement

Key Takeaways

1. City will finance its long-term obligations responsibly
2. State aid and levy limit policies, if maintained: => expenditure/service adjustments will continue
3. City fiscal planning enables a transition that can preserve mission critical services and respond to community needs
4. Restructuring and reinvesting are needed to make resizing work for the long-term

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