Update of City Fiscal Condition

Finance & Personnel Committee

June 15, 2009

DOA Budget & Management Division

Presentation Goals

1. Establish a common understanding of budget structural conditions
2. Identify near-term budget challenges
3. Identify the purpose & value of 2009 Budget adjustments
4. Discuss development of 2010 Budget

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

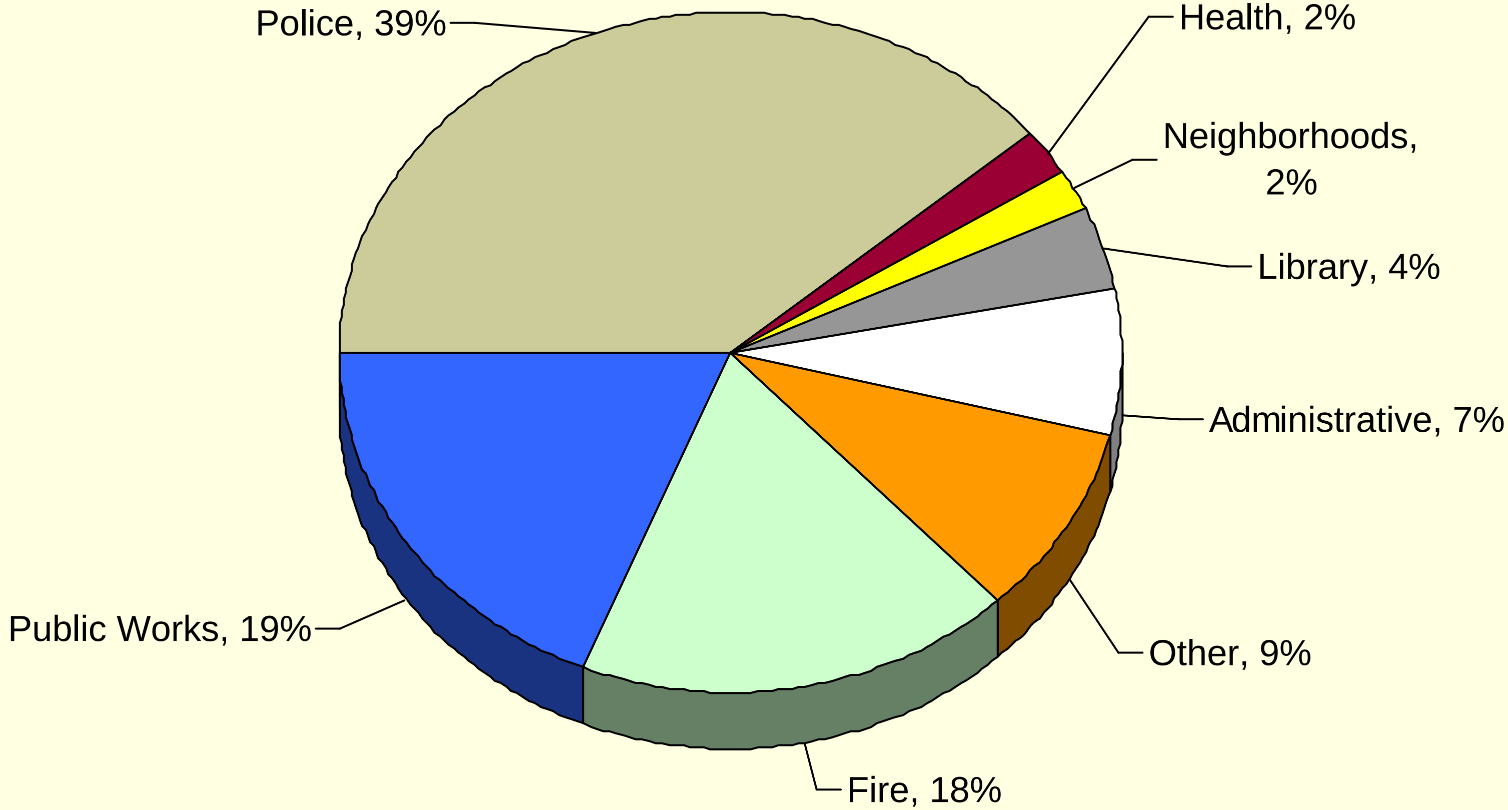
3. 2010 = a higher level of urgency
   - Pension contribution issue

4. Expenditure & Revenue Overview

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 $253.8 million of DPW-operated Enterprise Funds (Parking, Sewer, Water).

Three departments comprise 76% of the $598.6 million 2009 Operating Budget.

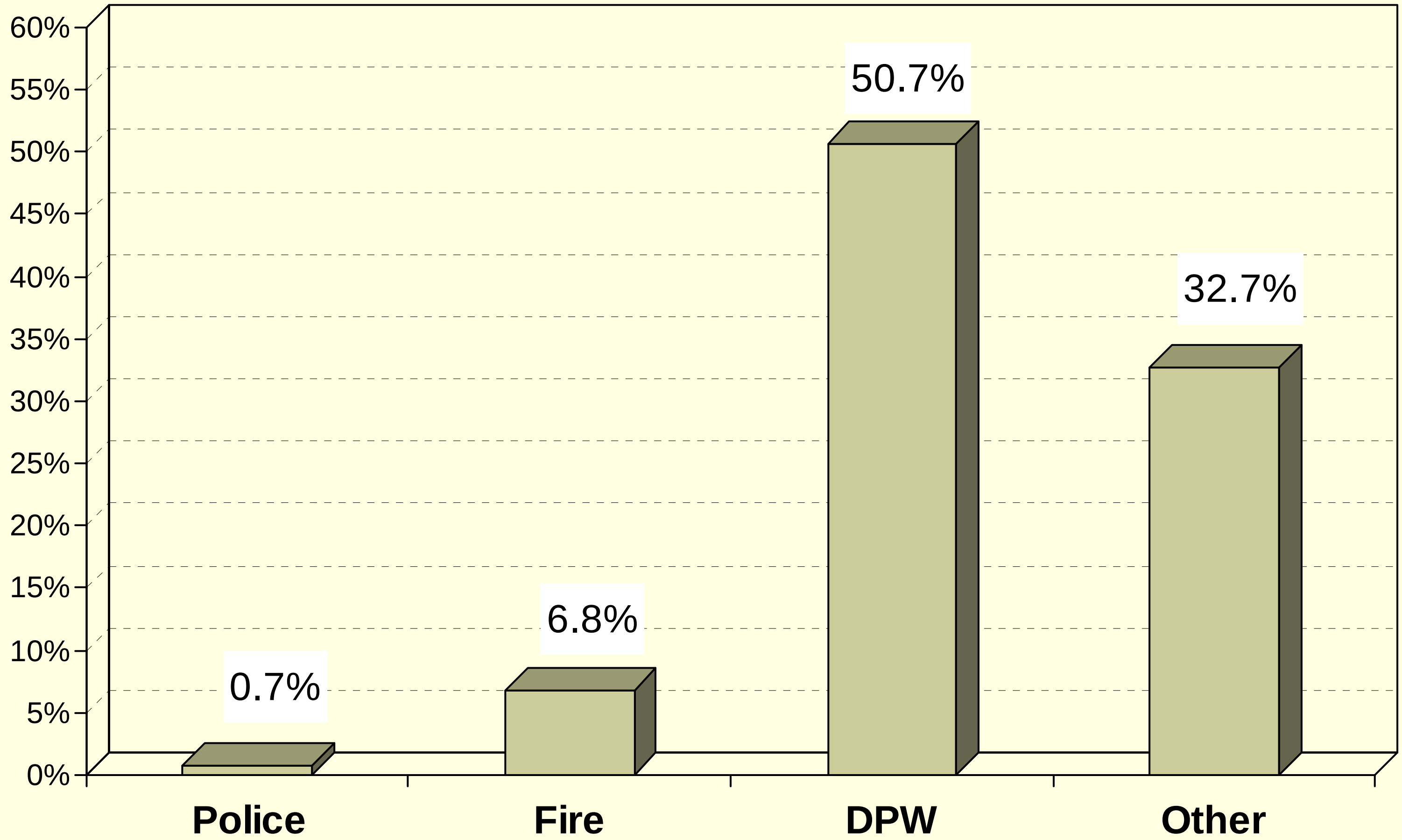
Revenue Consumption: "Where are my property taxes going?"

1. "Discretionary" revenue = funds not tied to an enterprise, specific service or regulatory activity, or debt service
2. Debt service = 30% of total 2009 levy
3. 2009 discretionary revenue: ~ $508.8 m
4. Shares of discretionary revenue:
   - Police: 45%
   - Fire: 19.2%
   - DPW: 11%
   - Admin depts: 5.2%
   - Library: 4%
   - Health: 1.9%
   - DNS: ~ 0%

O&M Budget Cost Drivers

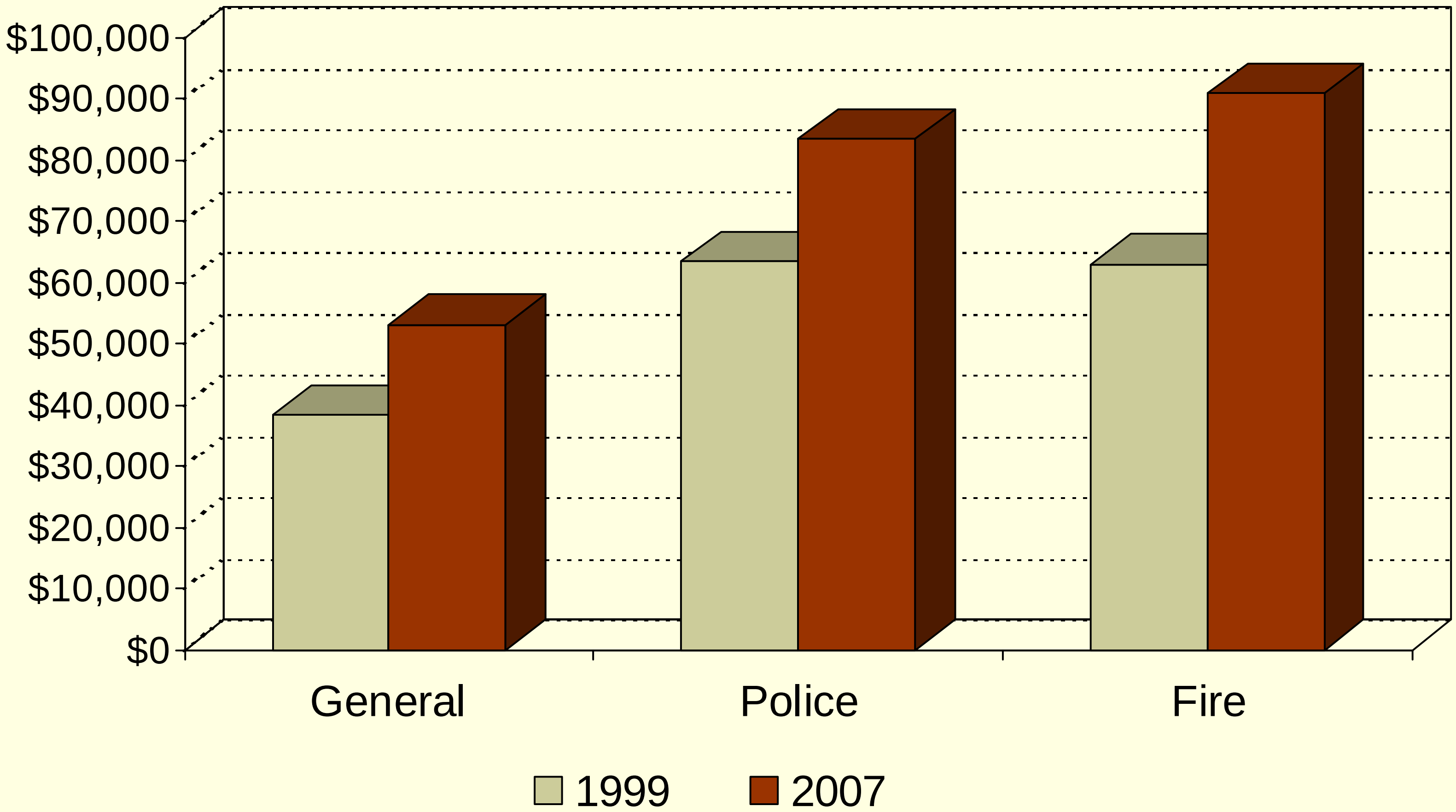
1. Service delivery choices and level of service
2. Community conditions and citizen expectations (“demand” does not decline in recessions)
3. Wages & fringe benefits increase at a rate much higher than revenue growth
   - Health care benefits reemerging as a major cost pressure
   - End of employer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

Percentage of General Fund Operations Budget Recovered



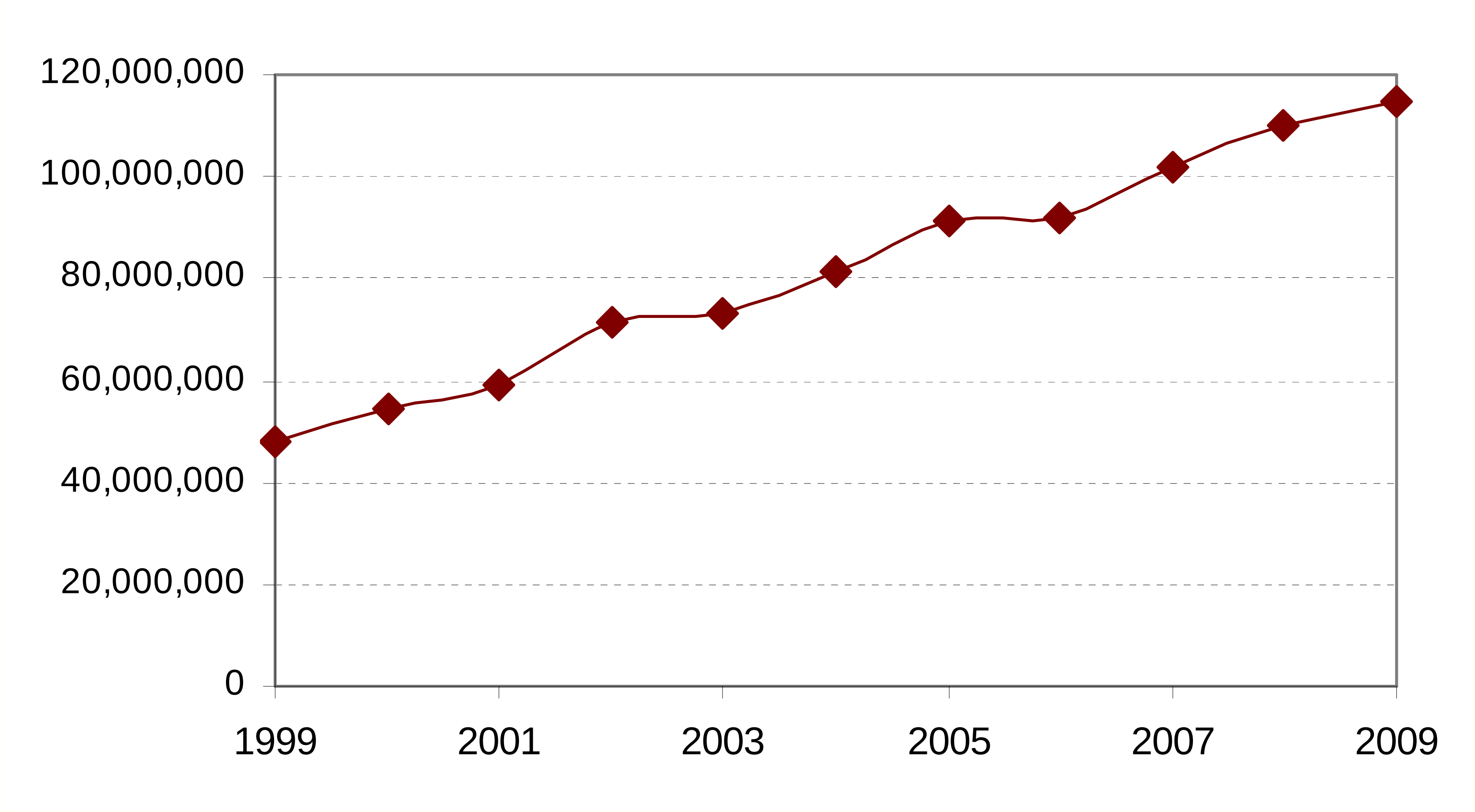
DPW recovers an above average percentage of its operating costs while Police and Fire recover only a small portion of their costs.

Average Employee Compensation Comparison*



* Including fringe benefits.

Total Net Health Care Costs



Pension Costs….
the defining challenge for Budget Sustainability

Pension "Normal Cost"

- The City operates its own home rule defined benefit pension plan, the City Employes Retirement System (ERS)
- As of 1/1/2008, the ERS had a "funded ratio" (ratio of actuarial asset value to total liabilities) of 131%--second best of approximately 150 major public employe retirement systems (PERS).
- Normal cost (NC) is the actuarially calculated value of future pension benefits annually earned by active employees.
  - Conceptually similar to a mortgage. The normal cost in 2008 for City employes was about $63 million.
- The Charter splits the responsibility for normal cost between the employe and employer contribution.
  - As a result of collective bargaining, the employer (City) pays most of the "employe" contribution-- ~ $23 million/year
- For many years the ERS has had a funded ratio of > 100%, and hence the employer contribution was $0—the employer's normal cost share of ~ $40 million was "absorbed" by the Plan's funded status.

Average Normal Cost per Active Employee (2008 Valuation)

Department	Average Salary	Gross Normal Cost	Employee Contribution	Net Normal Cost
Police	$59,989.39	$13,737.57	$4,199.26	$9,538.31
Fire	$64,409.94	$16,360.12	$4,508.70	$11,851.43
General City	$45,890.61	$5,185.64	$2,523.98	$2,661.66

Projected Pension Contribution: Increased City Budget Impacts

The Annuity & Pension Board approves an annual valuation that includes contribution amounts. Current projections:

- 2010- $49 million-$92 million
- 2011- $67 million-$126 million
- 2012- $80 million-$148 million

2010 Budget Expense Projections

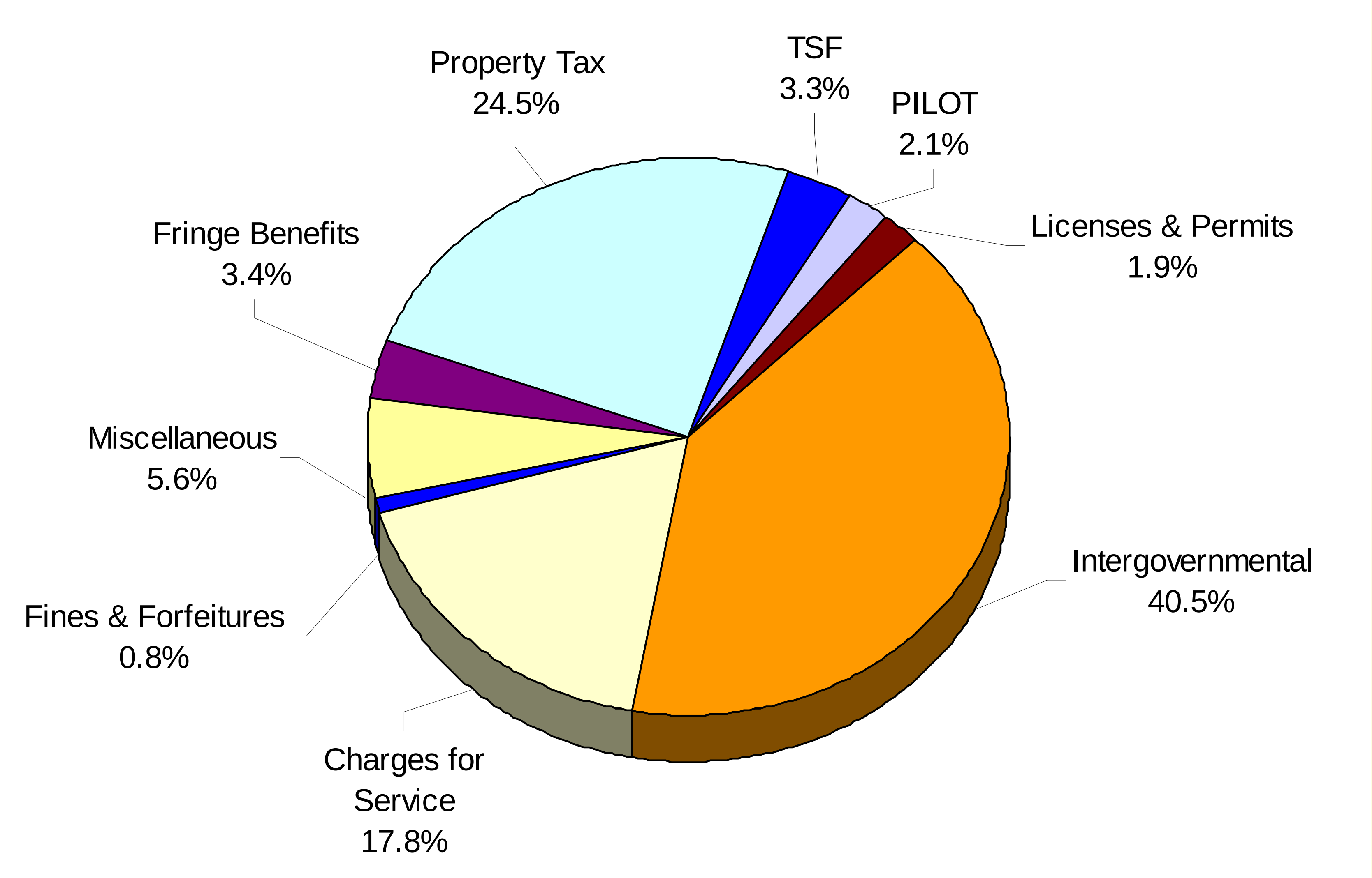
Based on Current Trends…

- Wages increase approximately $15 million per year.
- Health Care costs are expected to increase $16 million annually in 2010 and 2011 and $17.5 million in 2012.
- Workers' Compensation costs are increasing by $1.5 million annually.
- Normal growth in departmental non-salary accounts is about $2.2 million annually.
- Debt service levy expected to grow by $3 million.
- **Pension contribution increase brings 2010 "cost to continue" current service levels to ~ $90 million!!**

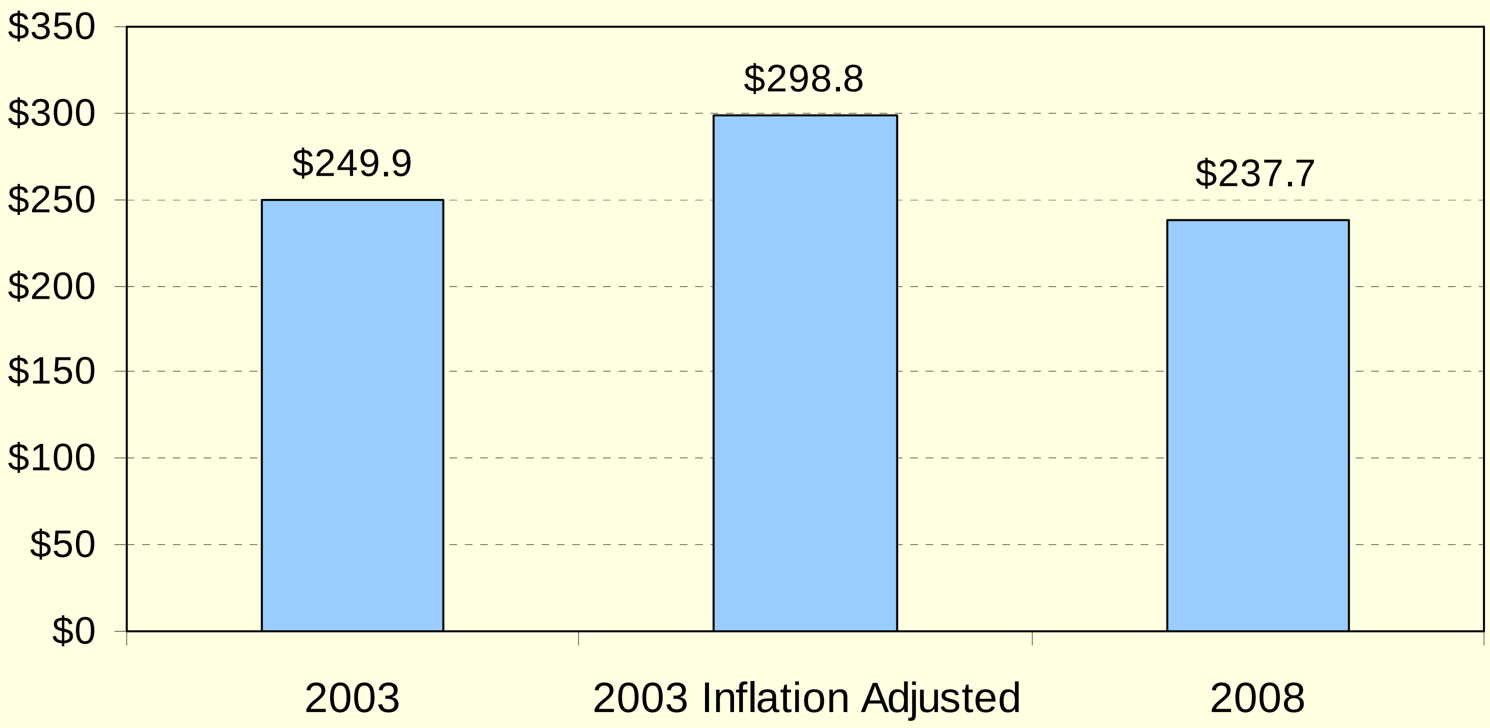
Revenue Overview:
Key Takeaways

1. The City has applied user charges & levies above inflation, in addition to annual service & position reductions, to offset Shared Revenue decline.
2. Above trend TSF withdrawals in 2007-2009 enabled modest service reductions and moderate property tax levy increases.
3. Ability to offset Shared Revenue loss from future user charge increases is now very limited.
4. Reserves will present far less opportunity to offset cost increases and the Shared Revenue freeze.
5. The City's tax base is projected to decline from current levels, and the positive impacts of new construction on the City's tax rate will decline from 2-3% in recent years to less than 1%.

General Fund Revenues



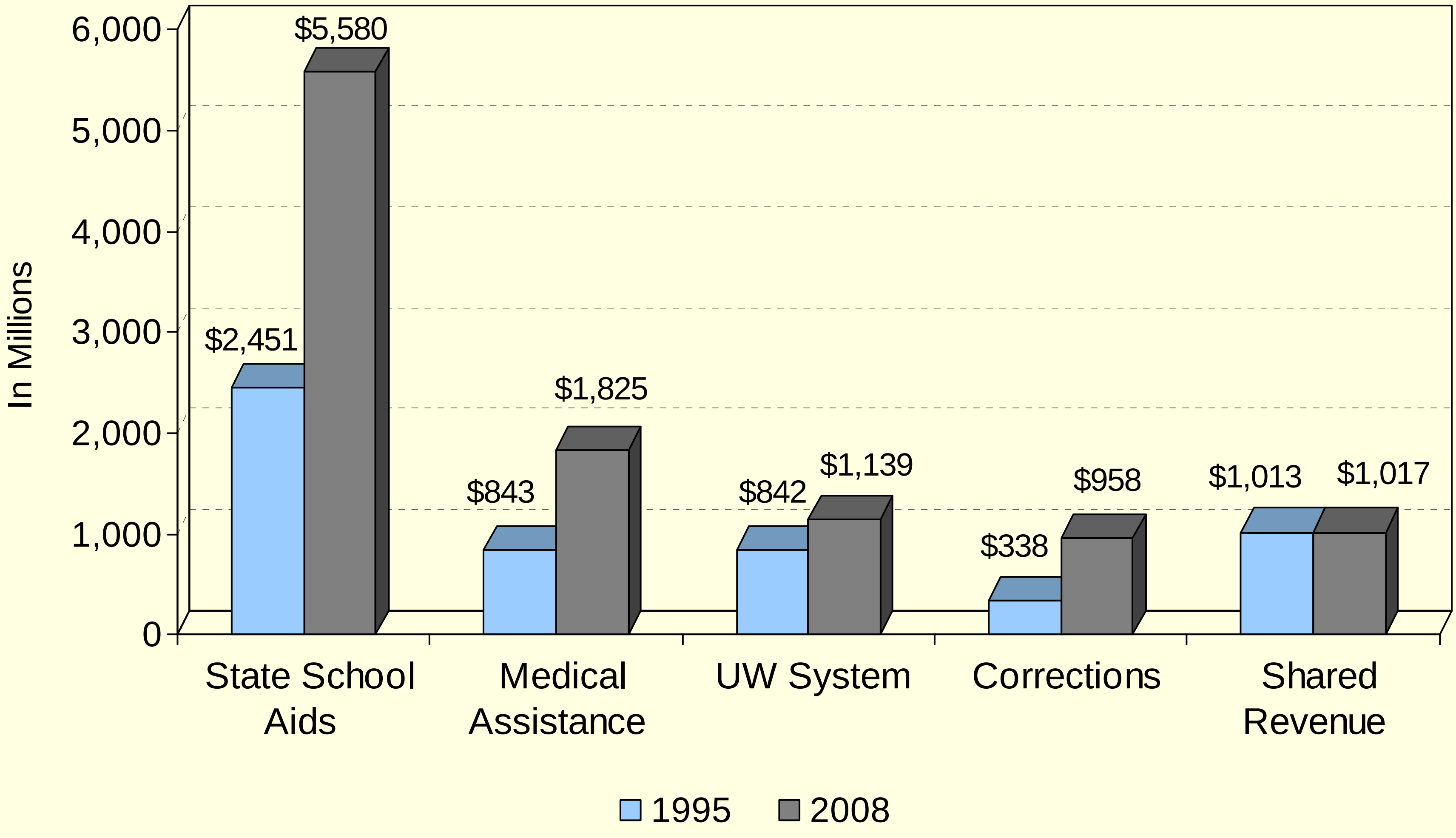
DECLINE IN STATE SHARED REVENUE & EXPENDITURE RESTRAINT PROGRAM (ERP) PAYMENTS to MILWAUKEE



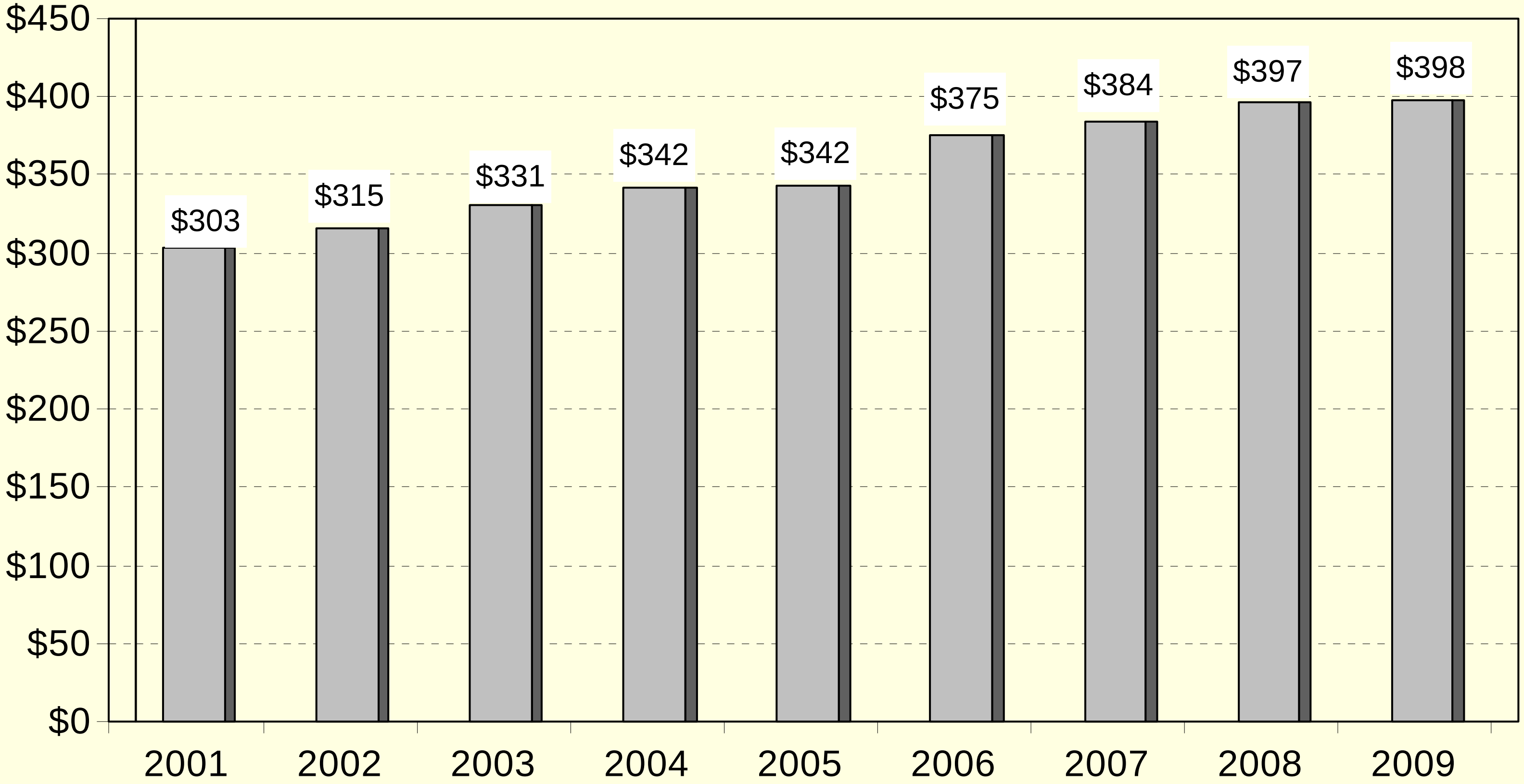
The inflation-adjusted decline in Shared Revenue and ERP between 2003 & 2008 is $61.1m.

Source: City of Milwaukee Budget & Management Division

State Appropriations: 1995 and 2008 By Major Category



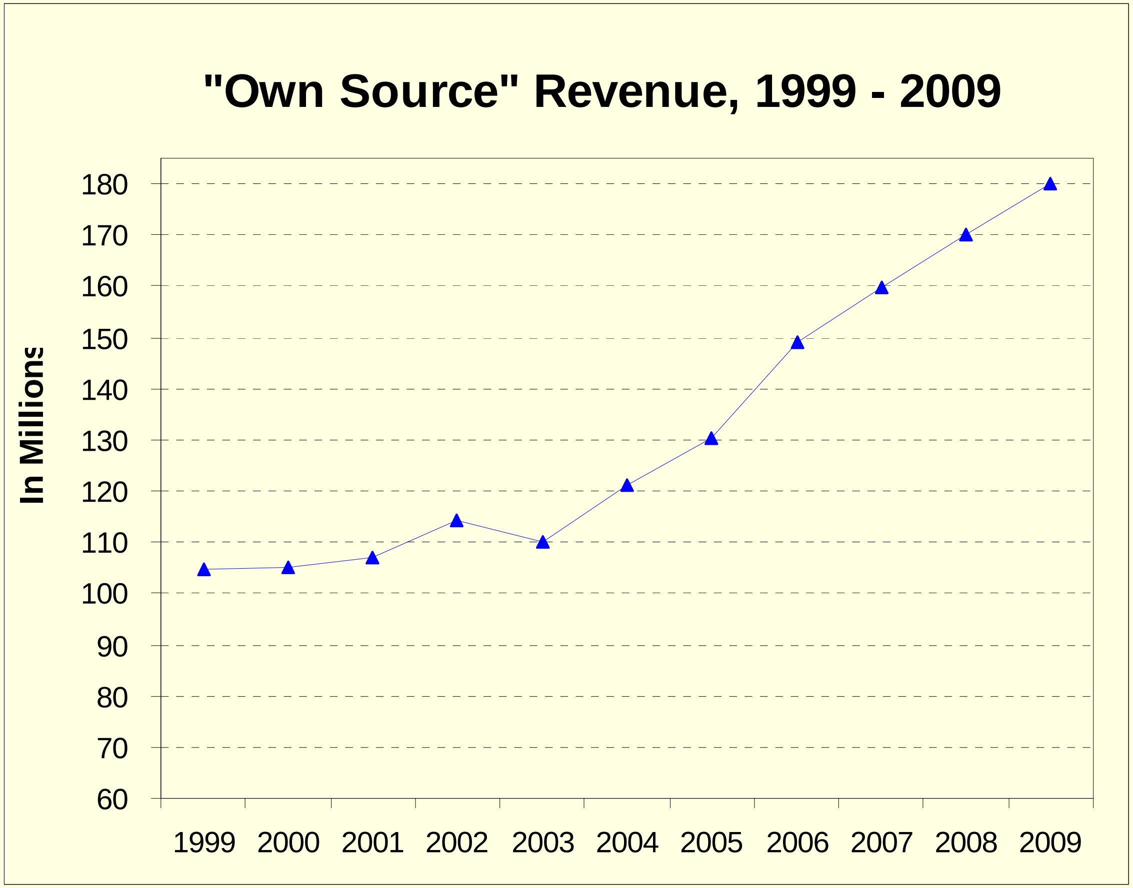
City Tax Levy Per Capita



Source: City of Milwaukee Budget & Management Division

“Own Source” Non-Property Tax Revenue: City of Milwaukee

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
2008	$169,810,095
2009	$180,240,515



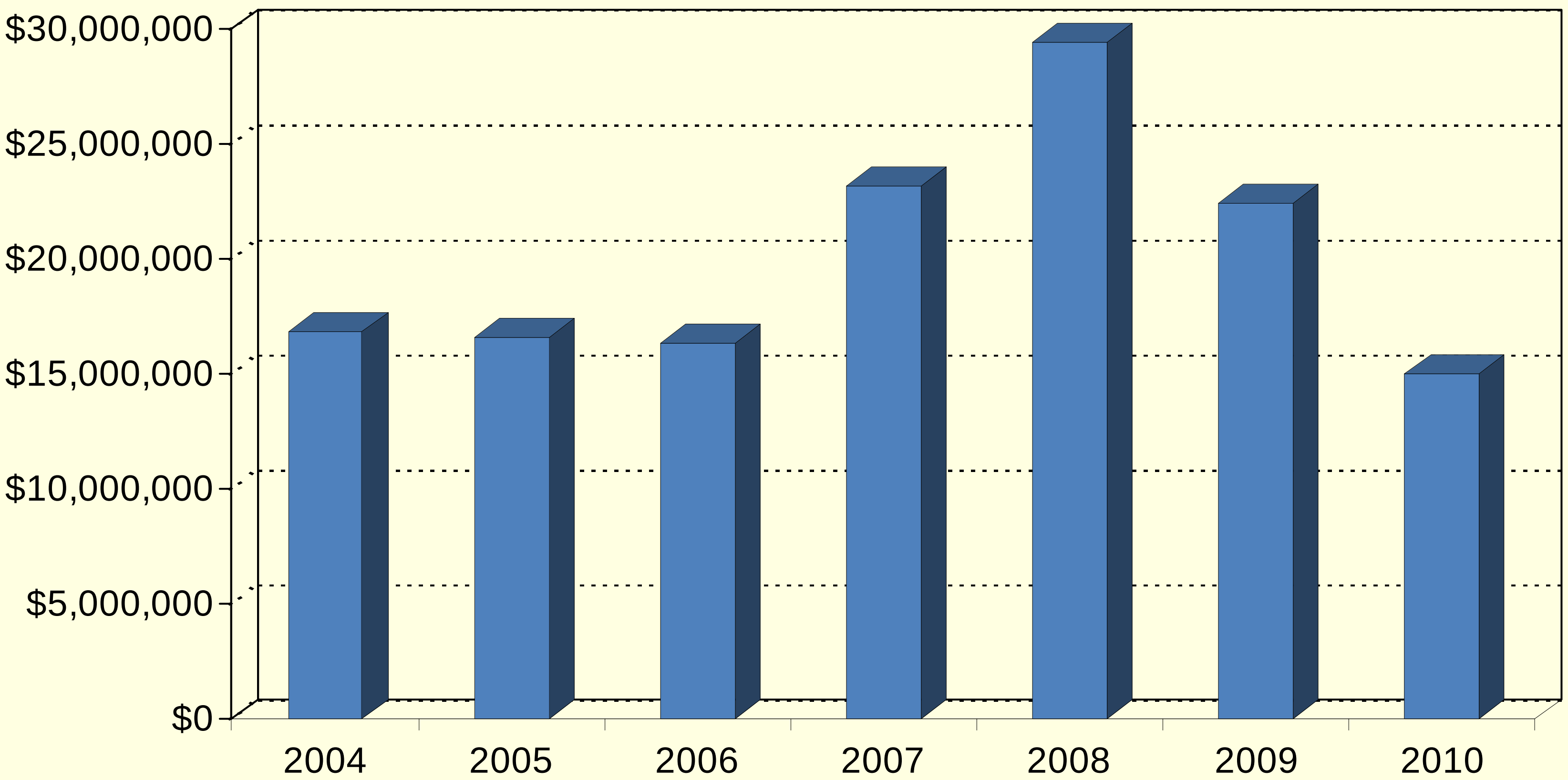
*Amounts = Budgeted Levels

City of Milwaukee Municipal Service Fees: Annual Revenues

	Solid Waste Charges	Snow & Ice Fee	Storm Water Charge	Local Sewer Charge
1999	---	---	---	9,522,524
2000	---	---	---	15,539,870
2001	7,951,900	---	---	17,255,434
2002	13,875,000	3,000,000	---	25,097,111
2003	13,875,000	2,400,000	---	26,286,959
2004	13,875,000	2,400,000	---	23,861,733
2005	14,000,000	2,400,000	---	31,000,000
2006	24,600,000	2,400,000	6,575,552	27,600,000
2007	25,000,000	2,400,000	13,451,392	23,605,260
2008	25,000,000	6,100,000	12,600,000	25,382,000
2009	28,500,000	4,965,402	18,720,330	26,617,000

Source: City of Milwaukee Budget & Management Division

Tax Stabilization Fund Use: 2004-2009 & 2010 Projected



Source: City of Milwaukee Budget & Management Division

Tax Base Projections

1. Residential property values will decline by more than 5% for 2009. Flat to moderately negative growth expected for 2-4 years thereafter.
2. Commercial property values are expected to be flat for 2009, with the possibility of negative growth for 2-3 years thereafter.
3. Value of new construction will decline from 2-3% annual increases in recent years to less than 1% a year.

2010 Budget Revenue Change from 2009 Budget

PILOTs	+$0.5 million
Licenses & Permits	-$1.0 million
Intergovernmental	-$1.4 million
Charges for Service	-$0.2 million
Fines & Forfeitures	-$0.3 million
Miscellaneous	-$3.4 million
Fringe Benefits	+$0.4 million
Total	-$4.3 million

Implications for 2010 Budget Challenge

Projected cost to continue current services

\- Projected available revenues #

= Structural Imbalance

Assumes a trend total levy increase of 3.5%

- Based on our initial projections, the opening 2010 imbalance = $85-$90 million

Competitive Problems: City Revenue System

Comparative Revenue & Expenditure Report (2008)

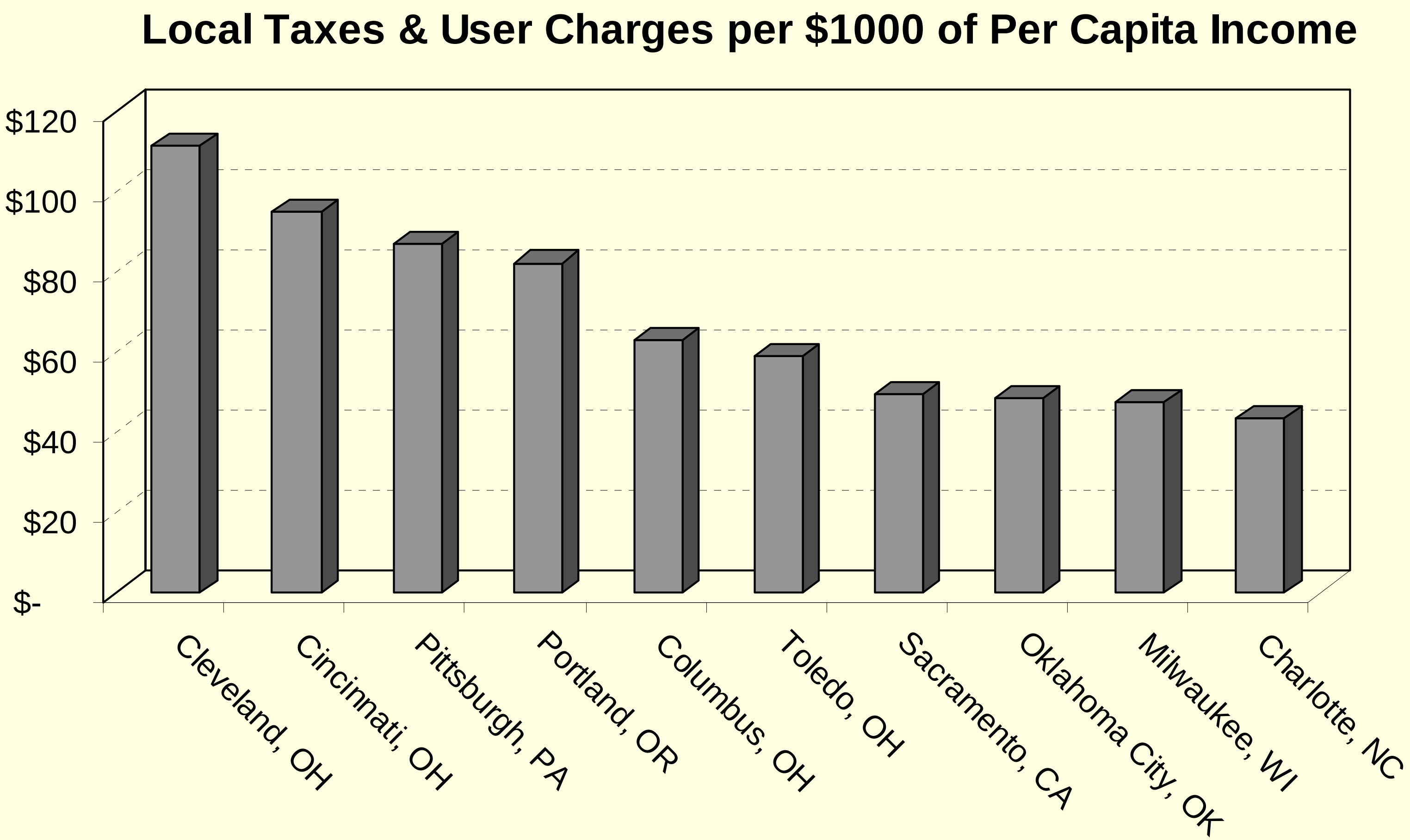
1. Annual report from Comptroller's Office analyzes City government revenues & expenditures from 10 regional "lead cities", including Milwaukee.
2. Key findings include:
   - Milwaukee's per capita total revenue is 23% less than the 10-city average
   - Milwaukee's per capita total expenditures are 17% 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)

Competitive Problems: City Revenue System (cont'd)

***Comparative Report*: Policy Implications**

1. State-local government fiscal relationship no longer equalizes fiscal capacity:
   - Purpose of Shared Revenue was to equalize local government fiscal capacity by redistributing state tax revenues while limiting local option taxes.
   - Fiscal capacity results from the interaction of state aids & the local revenue system
2. Milwaukee's local revenue diversification relies heavily on extractions from property & the residential sector.
3. Milwaukee's local revenue portfolio lacks a consumption component to redistribute some of the tax burden from residential property & export some cost of government to non-residents.
4. State income tax and sales tax revenue growth is being applied to the other 4 major State GPR programs—not to Shared Revenue.
5. Interaction of a stagnant state shared revenue component combined with a poorly diversified local revenue structure => uncompetitive fiscal capacity.

Impacts on Income from City Own Source Revenues



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

2010 BUDGET DEVELOPMENT

Goals:

1. Ensure crucial service priorities are adequately funded.
2. Establish new approaches to operations that improve ongoing sustainability.
3. Fund pension costs responsibly.
4. Limit new levy-supported borrowing authorizations to less than $70 million.
5. Limit the combined impact of tax levy increase for City purposes & municipal service charge increases on “typical” homeowner to 4% or less.

2010 BUDGET DEVELOPMENT (cont'd)

Some Basic Issues:

1. Cost recovery levels for municipal service fees
2. New operational approaches
3. Strategies to reduce impact of fringe benefits
4. Making central services more effective
5. Integrating operating and capital strategies

Value of 2009 Budget Adjustments

1. Increase TSF “regeneration”
   - Improve future budgets’ reserve capacity
   - Address rating agency concerns
2. Enhance 2010 budget flexibility
   - Vacancies => reduced layoff exposure
   - Carryover potential in limited cases
3. Ensure adequate funding for Q4 snow & ice operations
4. Reduce future debt impact of emergency borrowing in 2009
   - $15 million of expenses for 2008 snow & ice operations => $2.8 million estimated borrowing

Comments & Questions??

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