
2015 Proposed Executive Budget

**Presentation to the Finance
& Personnel Committee
October 7, 2014**

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 2015 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- **Legacy**: something that remains from a previous generation or time; an outdated system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

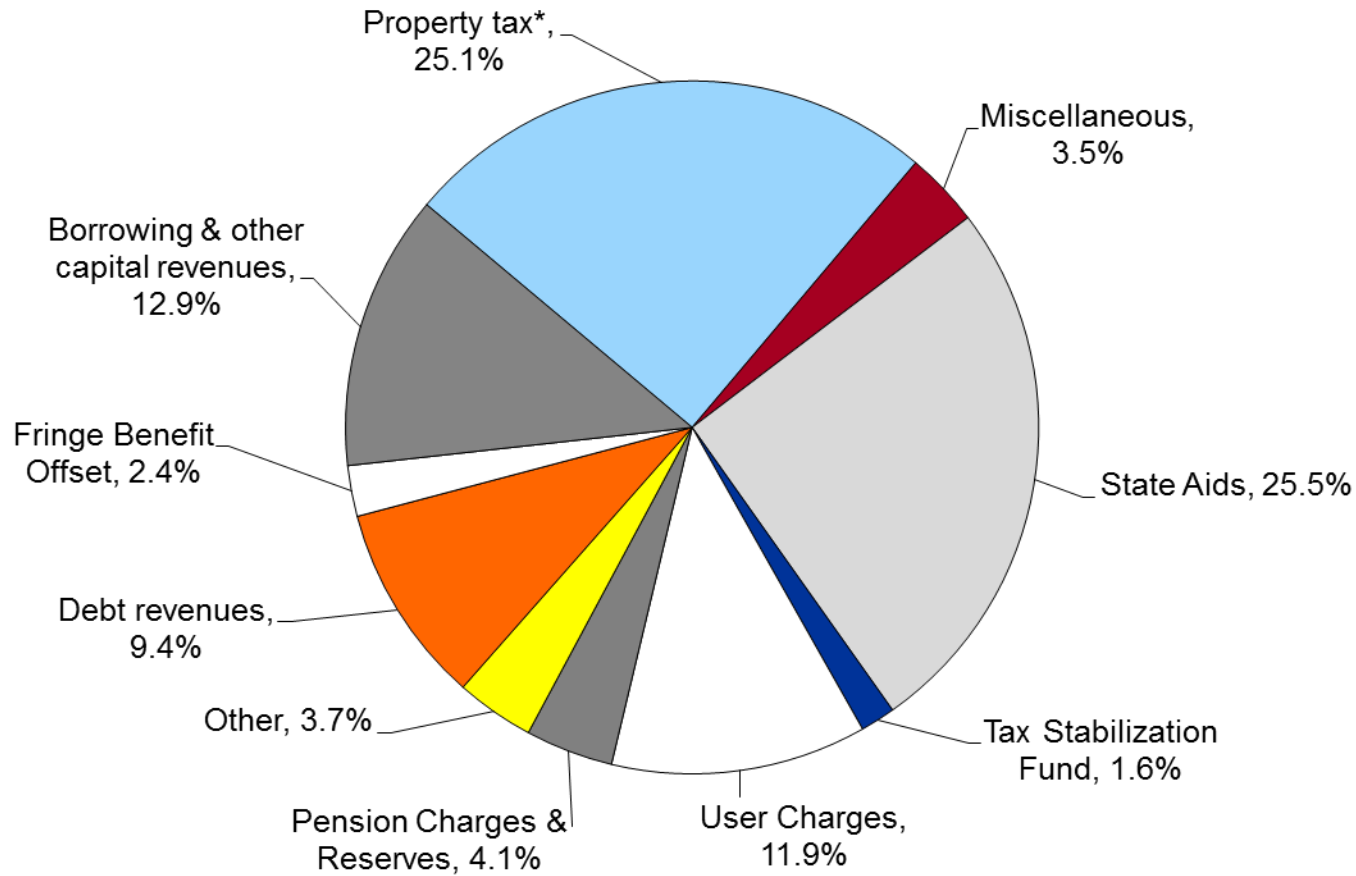
Mission Delivery

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.

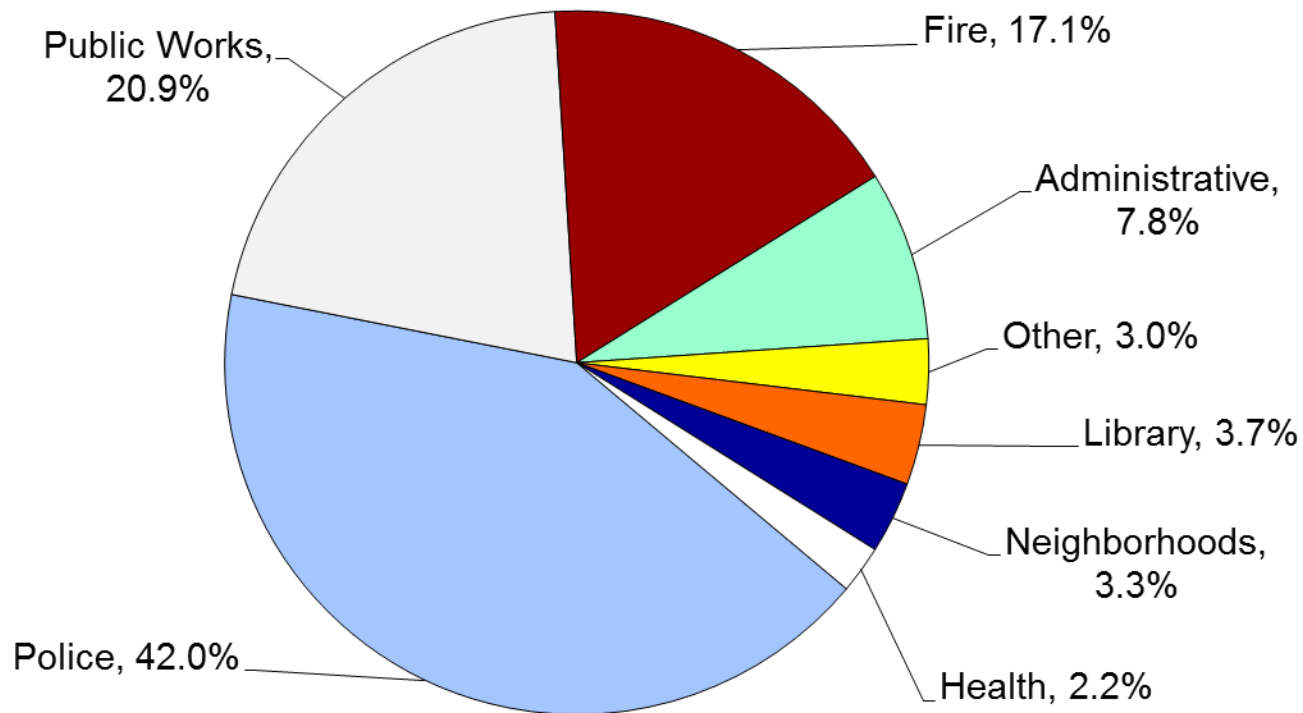
City of Milwaukee 2015 Revenue Sources: Levy-Supported Funds



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

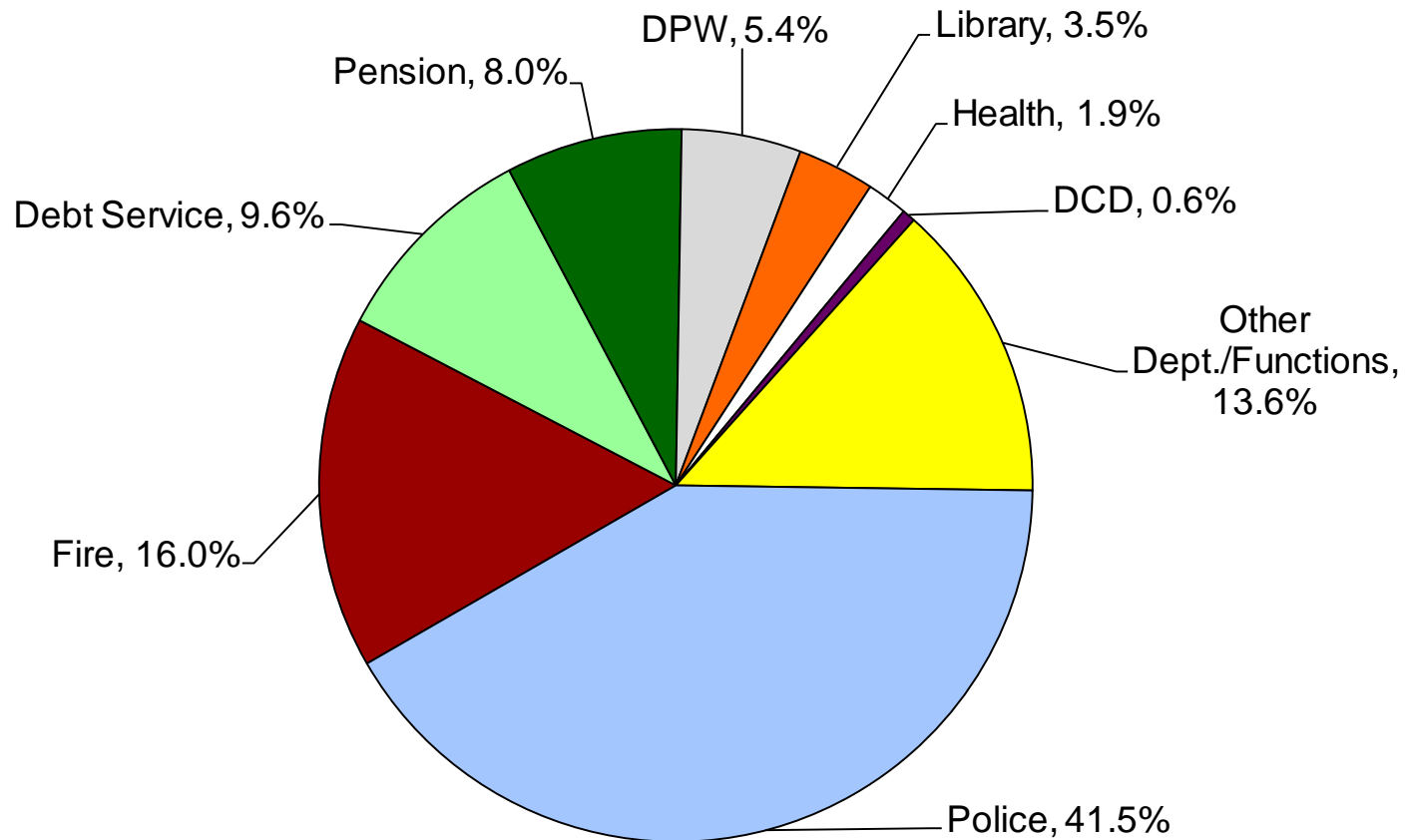
Tax Levy-Funded Operating Budget: By Department

2015 Proposed Budget



Note: Does not include \$292 million of DPW-operated Enterprise Funds (Parking, Sewer, Water). Three departments (DPW, Police, Fire) comprise 80% of the 2015 Operating Budget.

Distribution of Free Cash Flow in Proposed Budget



Free cash flow refers to undesignated revenues available for any purpose.

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

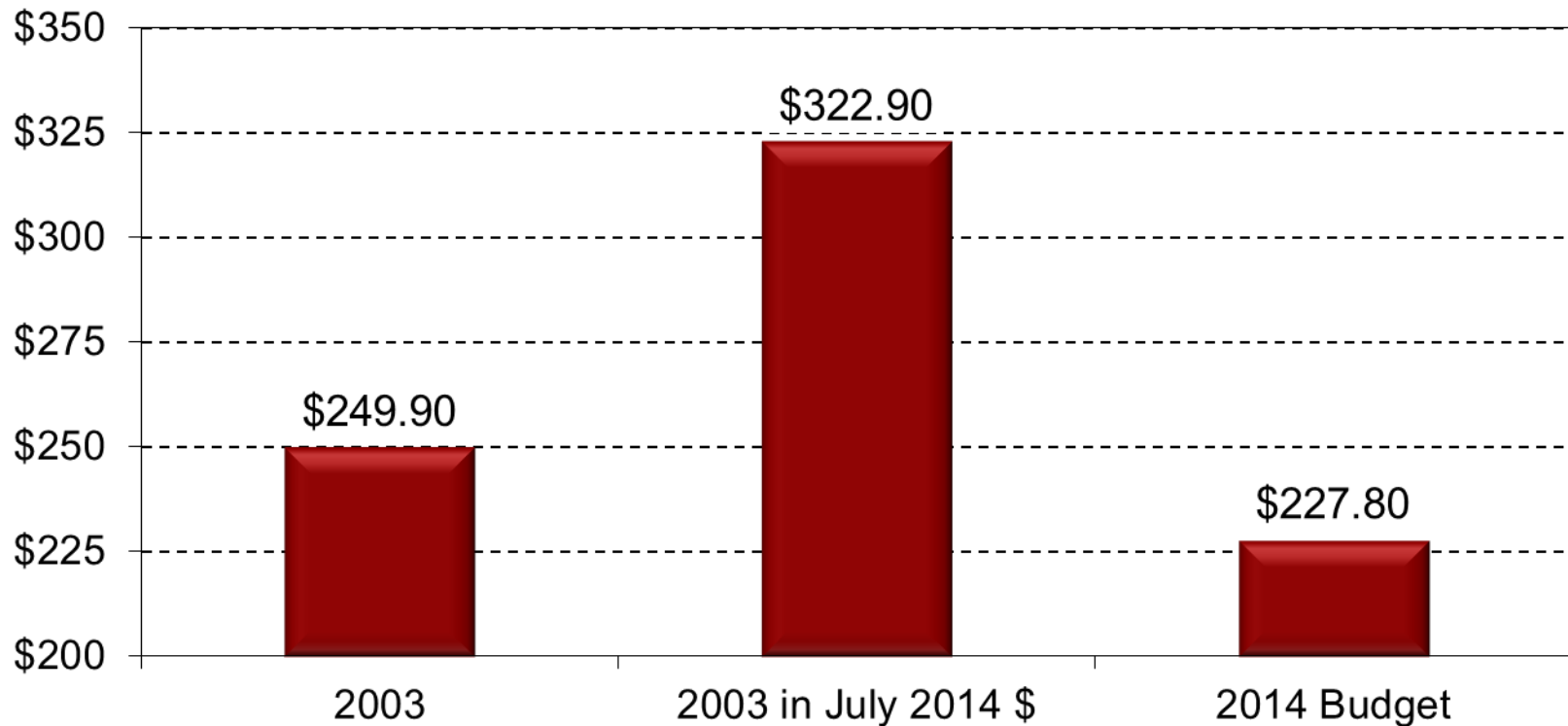
1. 2013 Budget projection: \$65-\$75 million of structural improvement needed by 2016
2. The 2013 and 2014 Budgets produced a total of ~ \$31 million of structural improvement as part of “3 R” strategy
3. In addition, employer pension contribution prepayment strategy and a lower than projected 2013 health benefit cost baseline have contributed to about \$17 million of improved structural condition
4. Resulting 2015-16 improvement needed: ~ \$25 million
 - Includes \$4-5 million of annual increases to pension levy through 2016
 - Moderate assumptions on health care cost growth (~ 4% annual)
 - Relatively stable reserve use during 2015 and 2016
5. Outline of 2015-2016 approach
 - 2-year total revenue growth projected at ~ \$15 million
 - Recapitalize City operations through resizing and investments in equipment, technology, and staff development
 - Continue financial restructuring and adjustments to organizational legacies

Key Challenges to Structural Balance

1. Continued decline in inflation-adjusted 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”

State Shared Revenue Trend

Decline in State Shared Revenue and Expenditure Restraint Program (ERP) Payments to Milwaukee
2003 – 2014 (In Millions)



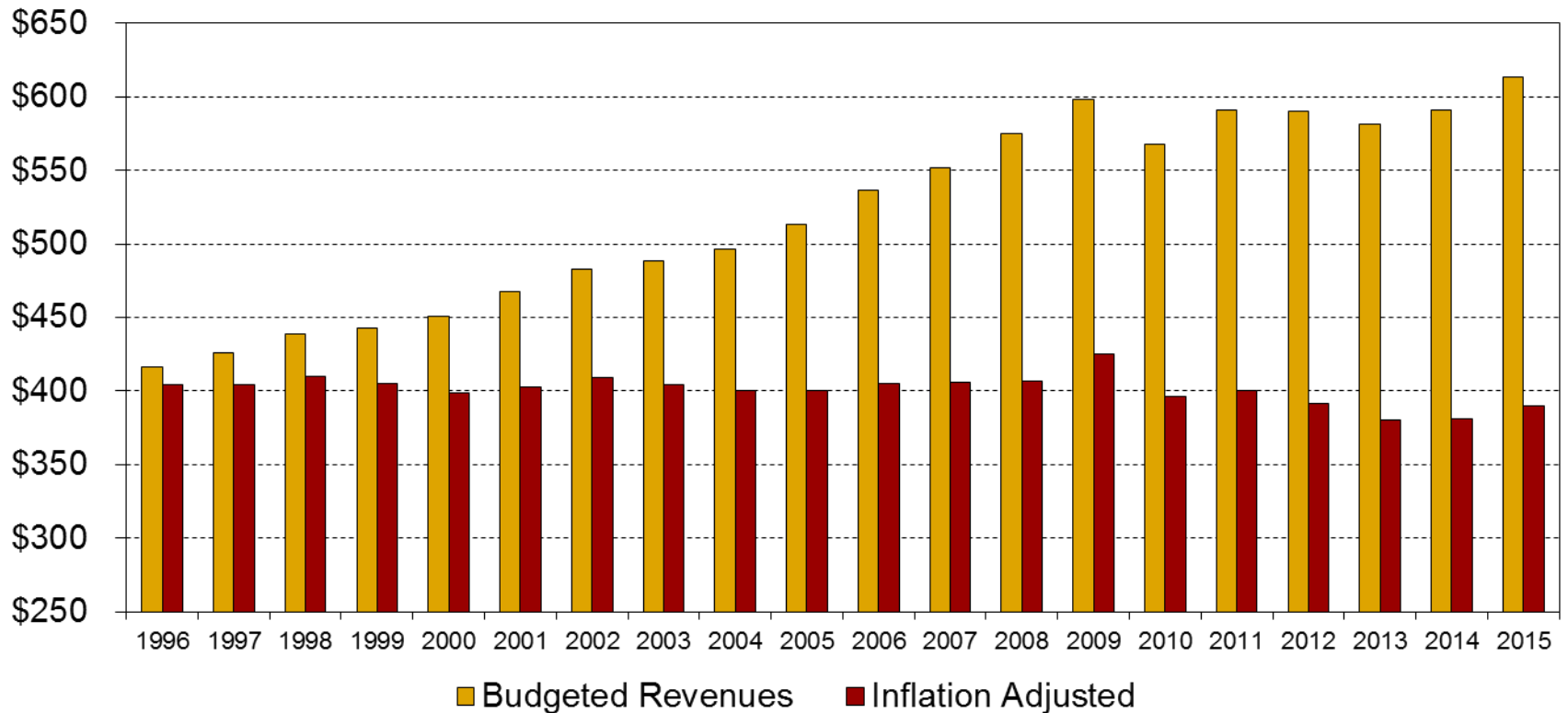
Inflation adjusted decline in Shared Revenue and ERP payments = ~ \$95.1 million (-29.4%).

Source: U.S. Bureau of Labor Statistics: CPI-U Tables; City Budget documents

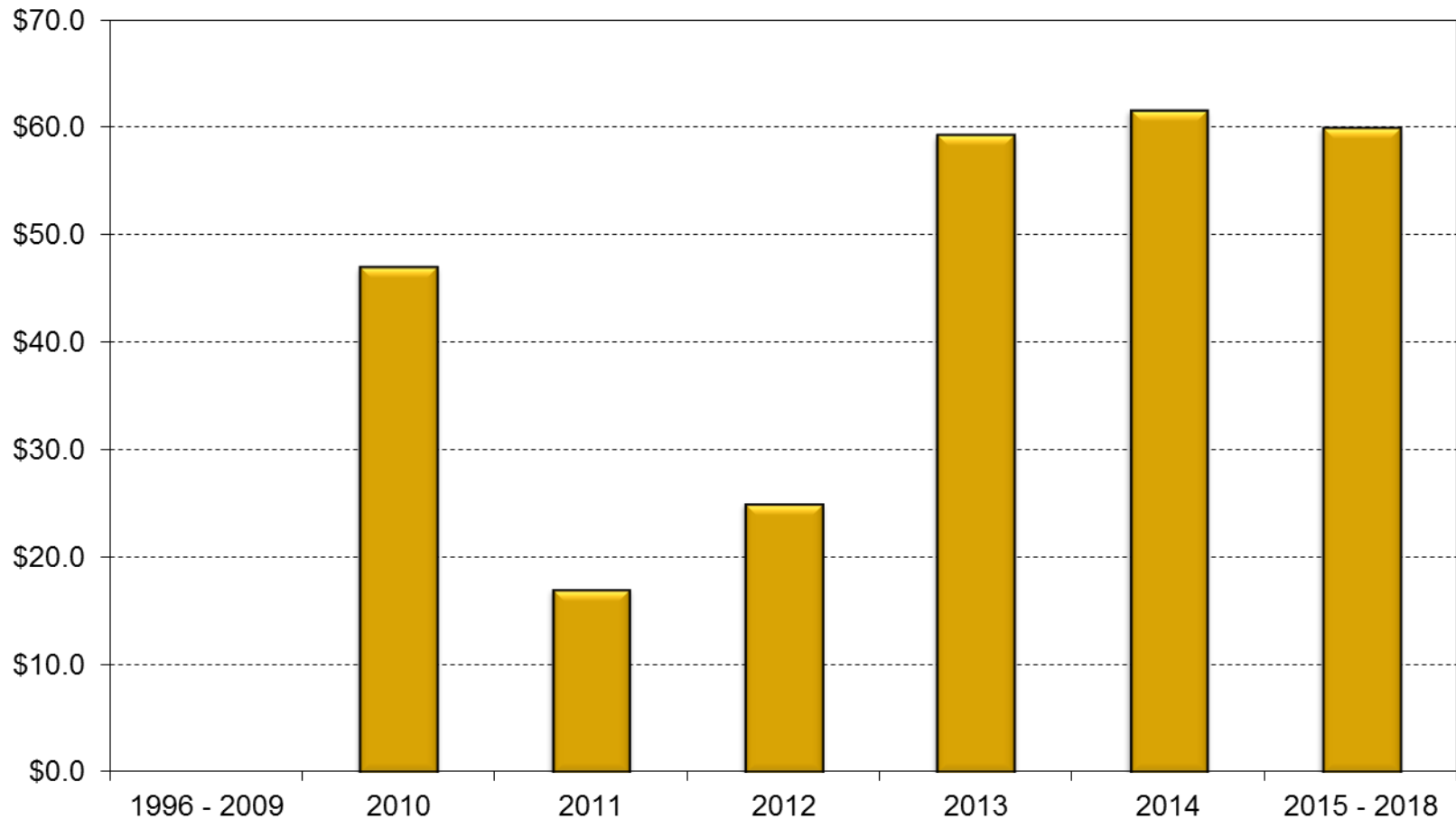
Non-Property Tax Revenue Trend

General City Purpose Revenues

1996 – 2015 (In Millions)

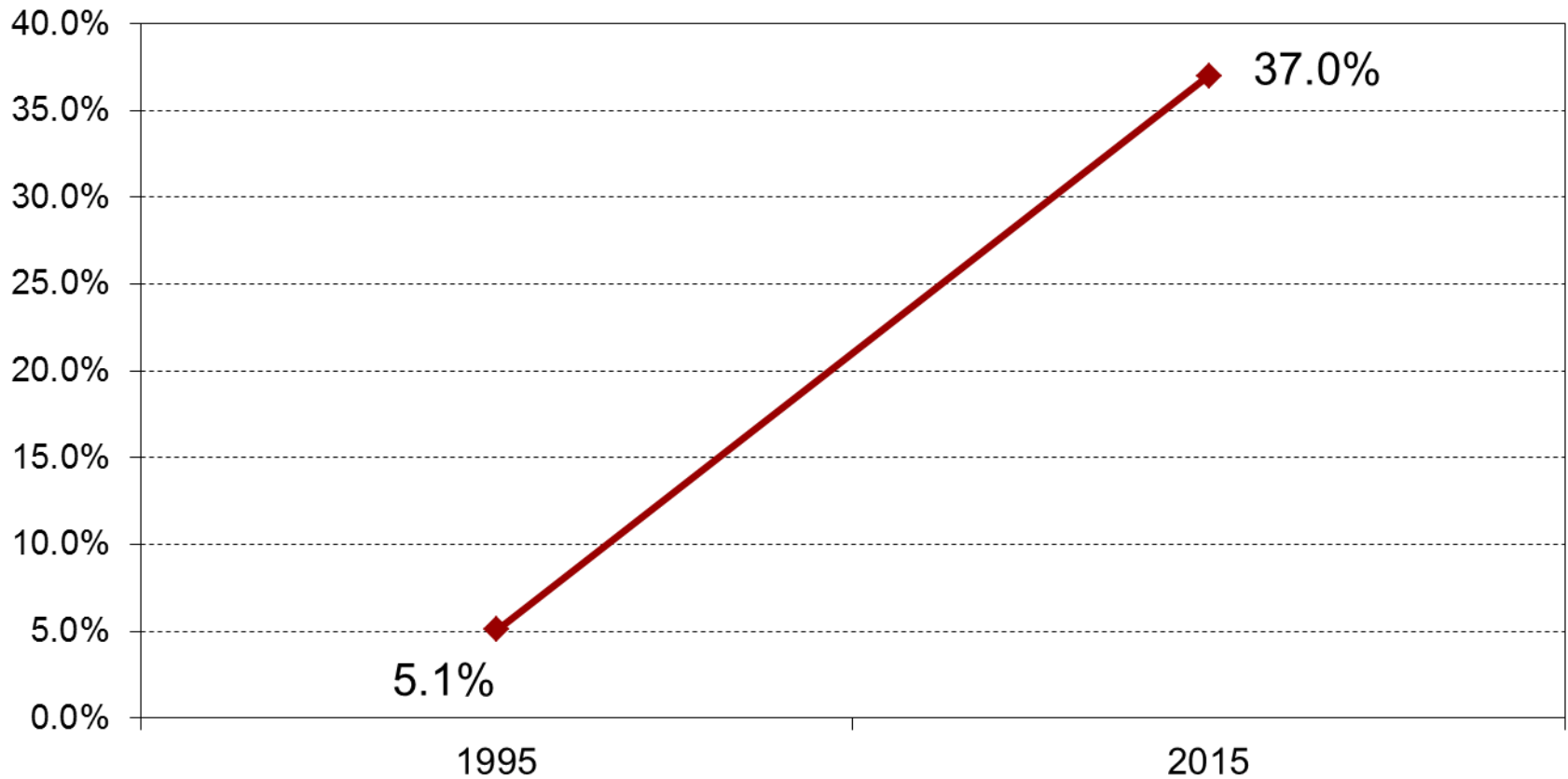


“New Normal” for Employer Pension Contributions



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 2015 Proposed



*Shared Revenue includes Tax Disparity/Expenditure Restraint Program Revenue

Financial Performance Overview

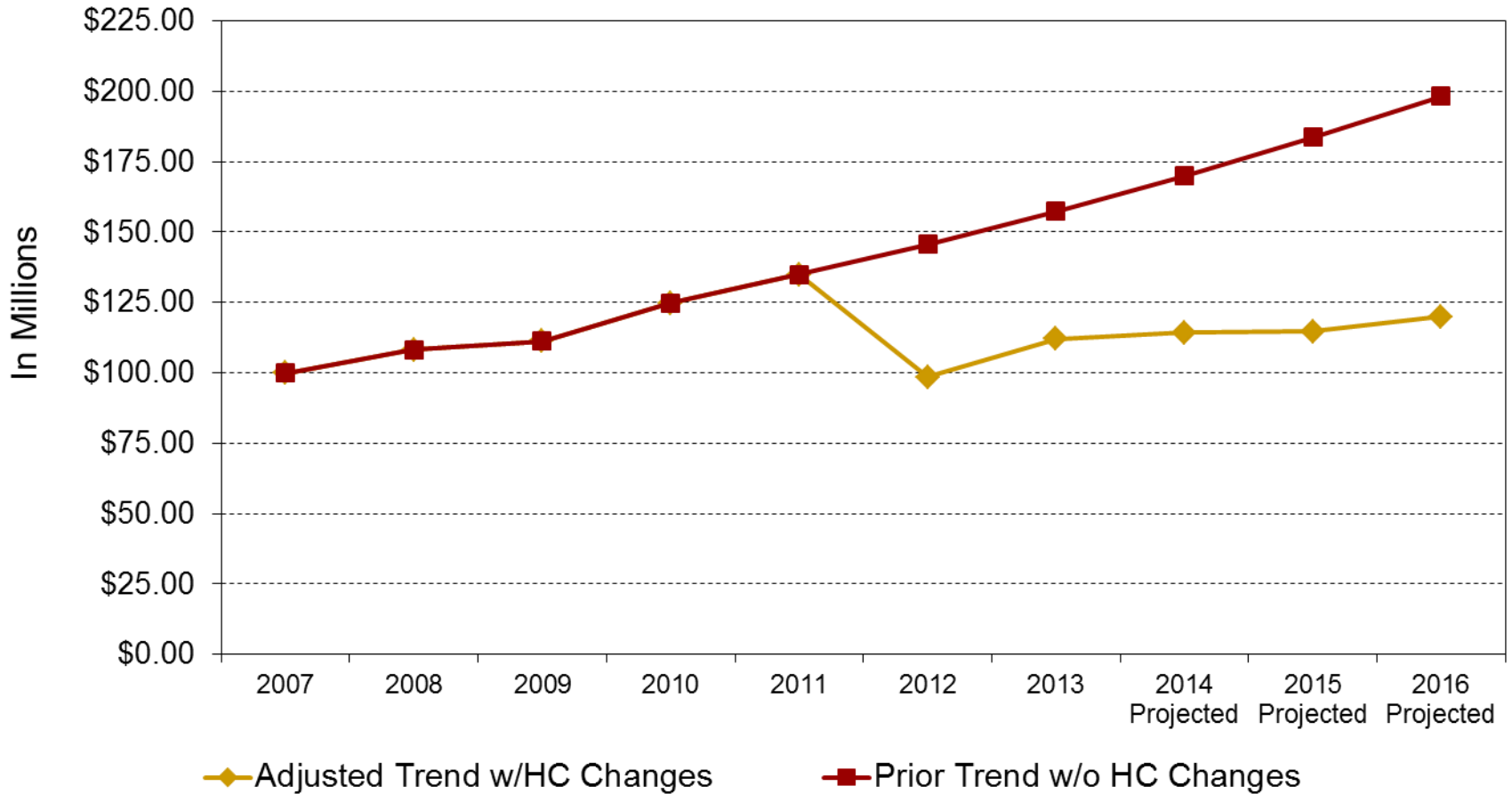
- The City has responded effectively to the challenges posed by the 2007-2008 Global Financial Crisis
 - Budget strategy has adjusted to changing circumstances via a 3-pronged strategy => “Resize, Restructure, and Reinvest”
 - Improved pension plan and fringe benefit sustainability
 - Redevelopment enhances future tax base
 - Strong Neighborhood Plan
 - Commitment to Safe Neighborhoods
 - Improvements to Core Infrastructure
 - 493 funded FTE reductions since 2009

Opportunities for Improving Structural Balance

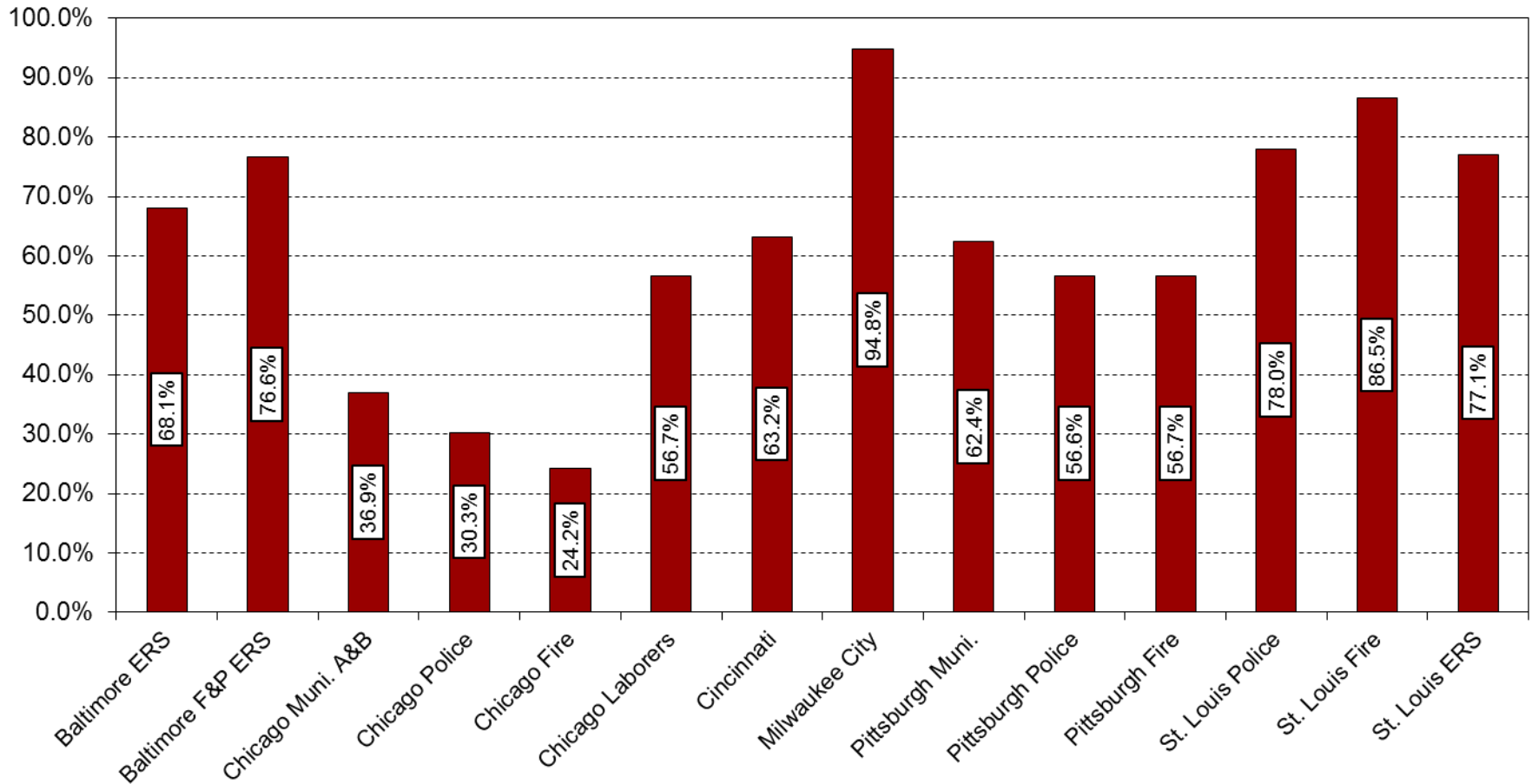
1. Managing Employee Health Benefits frees up resources for services
2. Pension Plan funded status maintains a stable risk environment
3. Stabilizing Debt helps to limit levy increases
4. Strong Reserves & fund balances help finance critical service levels
5. Cost Recovery for Municipal Services enables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

Managing Health Care Expenditures

Health Care Expenditure Trend



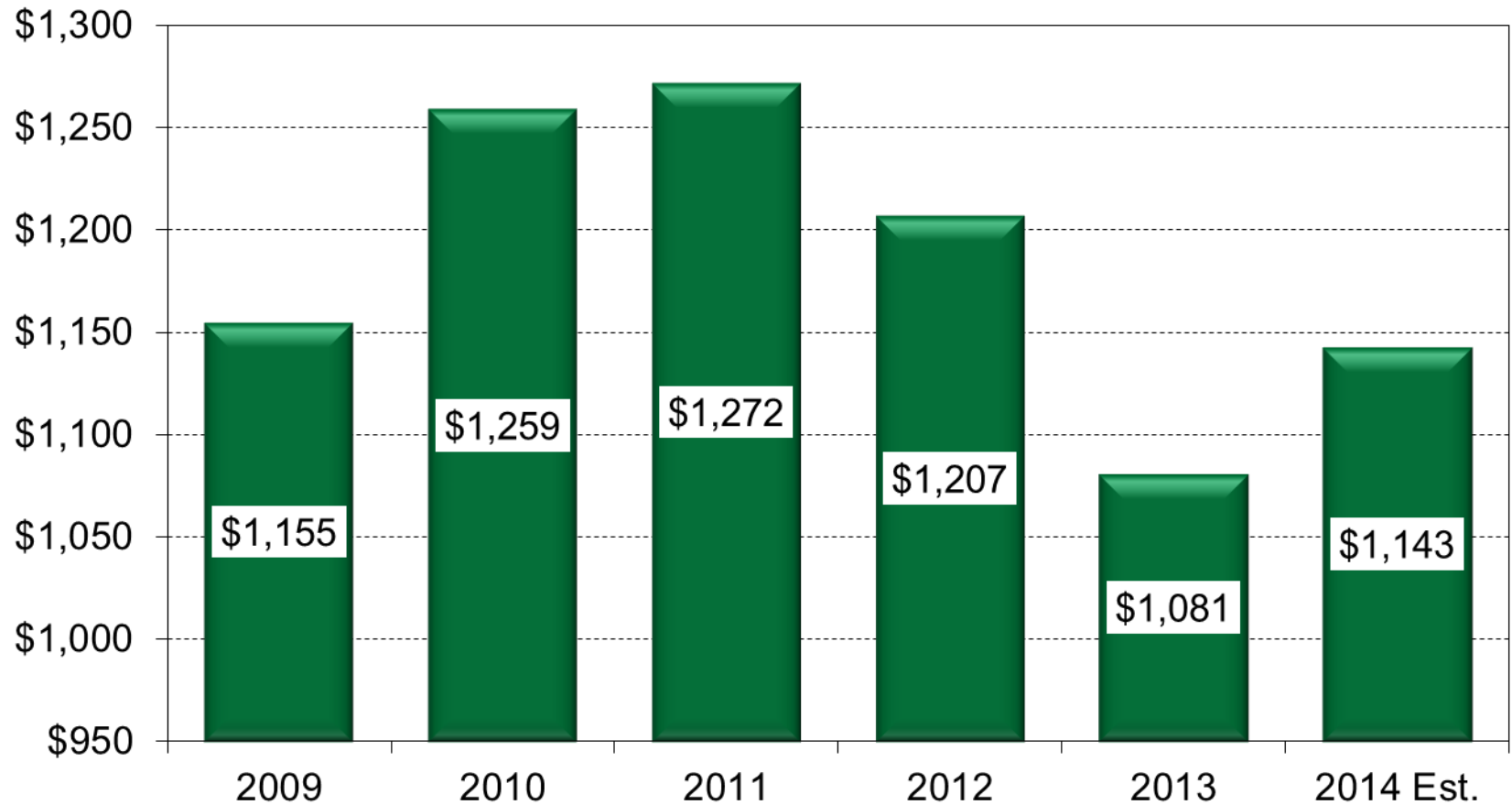
Funded Status of Peer City Pension Plans, 2013



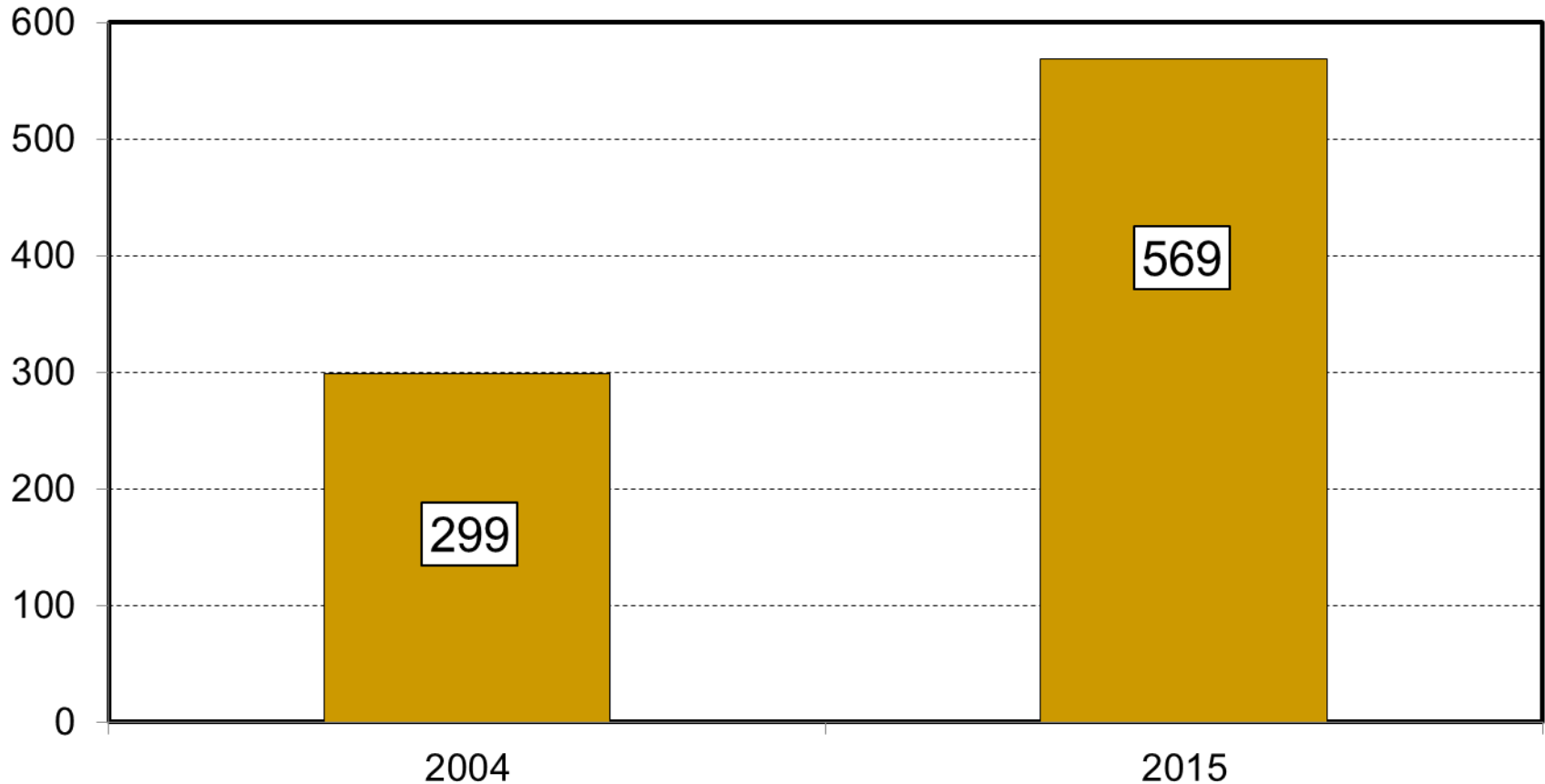
Source: Pension Plan actuarial reports

City Debt is Stabilizing

GO Debt Per Capita



Estimated DPW-Operations FTE Offset by Service Charges: 2004 & 2015 Proposed



Source: Budget & Management Division estimates using Executive Budget documents

2015 Proposed Budget “Bottom Line”

1. General City Purposes Budget: + 3.8% (\$22.5 million)
 - Department-controlled expenses: + 1.9% (\$8.37 million)
 - Increase to Employee Health Care Benefits appropriation = 44% of the GCP increase
2. Total tax levy: + 1.2% (\$3.1 million)
3. Proposed non-property tax revenues: +1.4% (\$6.8 million)
4. State Intergovernmental Aids increase \$1.87 million (< 1%)
5. ERP operating expense limit for 2016 eligibility affects 2015 Budget decisions
 - There is an estimated ~\$600,000 difference between proposed operating budget and the estimated ERP limit for 2016 eligibility.
 - ERP threshold will be finalized in October
 - Expense total over the limit (regardless of funding source) would disqualify City from 2016 ERP aid

Proposed 2015 Budget Impact on Typical Household

Typical Household Impact

- Tax Levy: + \$4.52
- Municipal Services Bill: + \$16.59
- Net Impact: + \$21.11 (+1.4%)

Based on the average residential value of \$103,198

2015 Proposed Budget Highlights

1. Strong Neighborhood Investment Plan
2. Compete Milwaukee
3. Police Department
4. Fire Department
5. Department of Public Works
6. Library
7. Neighborhood Services
8. Capital Improvements Plan
9. Response to Act 10

Strong Neighborhoods Plan

1. The October 8 hearing will include a separate overview regarding the Strong Neighborhood Plan and Compete Milwaukee.
2. Objectives:
 - Blight prevention & elimination
 - Reduction of City-owned inventory
 - Increase private sector investment in the neighborhoods
 - Generate economic opportunities for City residents
3. 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

Strong Neighborhoods Plan: Implementation Framework

1. The Plan's initial efforts were based largely on components of the federally-funded Neighborhood Stabilization program
2. Experience, community input, and planning have generated additional strategies.
3. 2015: increased focus on proactive prevention and revitalization/renewal
 - Less emphasis on mitigation (demolition)
 - Demolition crews have addressed the most urgent priorities

2015 Strong Neighborhoods Plan: New Components

Proactive Prevention:

- Expansion of Code Compliance Loan Program to \$500,000
 - Residential properties in need of repair to prevent/address code violations

- Strong Homes Loan Program
 - Citywide program to assist homeowners who face one or more of the following challenges;
 - ✓ Mortgage balance exceeds the value of their home
 - ✓ Unable to access financing
 - ✓ Living on fixed income

2015 Strong Neighborhoods Plan: New Components

Revitalization/Renewal:

- **Challenge Fund**
 - Provides a source of incentives for organizations to buy and renovate multiple city owned properties
 - Open to developers, non-profits, and other organizations
 - An area focus, as opposed to parcel by parcel

- **Commercial In-Rem Program**
 - Program to market and sell city owned commercial properties
 - Provides potential incentives to assist with renovation costs
 - Expanded commercial corridor revitalization program will support revitalization

- **Vacant Lot Improvements**
 - Home Gr/Own Program: Convert 40 lots to food-related uses

Compete Milwaukee Initiative: Transitional Jobs

1. Purpose: Assess the needs of employers and create strategies around our workforce in order to connect training and employment opportunities for persons with significant barriers to employment
 - Focus includes persons reentering community from the criminal justice system and young adults “aging out” of foster care
2. Partners include Milwaukee Area Workforce Investment Board and UMOS
3. Goal: 133 placements @ the City’s living wage
4. Aligns well with Resident Preference Program and economic development investments
5. City proposed commitment: \$400,000 O&M; \$534,000 CDBG

Police Department

1. Sworn strength levels increased by 12 FTE
 - 1 recruit class of 35 planned for mid-year
 - Budget Cost of strength level increase: ~ \$846,000 with estimated fringe benefits
2. Expansion of shotspotter to 11 square mile coverage area: \$320,000
3. Increased equipment budget: \$842,000 (+42%)
 - Portable digital radio replacements
 - In car data storage
 - Computer replacements
 - Body camera pilot project

Police Department (cont'd)

4. Conversion of crime analysis to civilian function continues (4 civilian analysts)
 - Budget cost of ~ \$196,000 with estimated fringe benefits

5. Capital Budget proposal includes \$4.6 million of levy-backed funding
 - Records Management System (\$2 million)
 - Mobile Computer Upgrade \$1 million (160 MDCs)
 - Police Administration Building & District Station Renovations: \$1.4 million
 - Radio & Communication Upgrade for one site: \$200,000

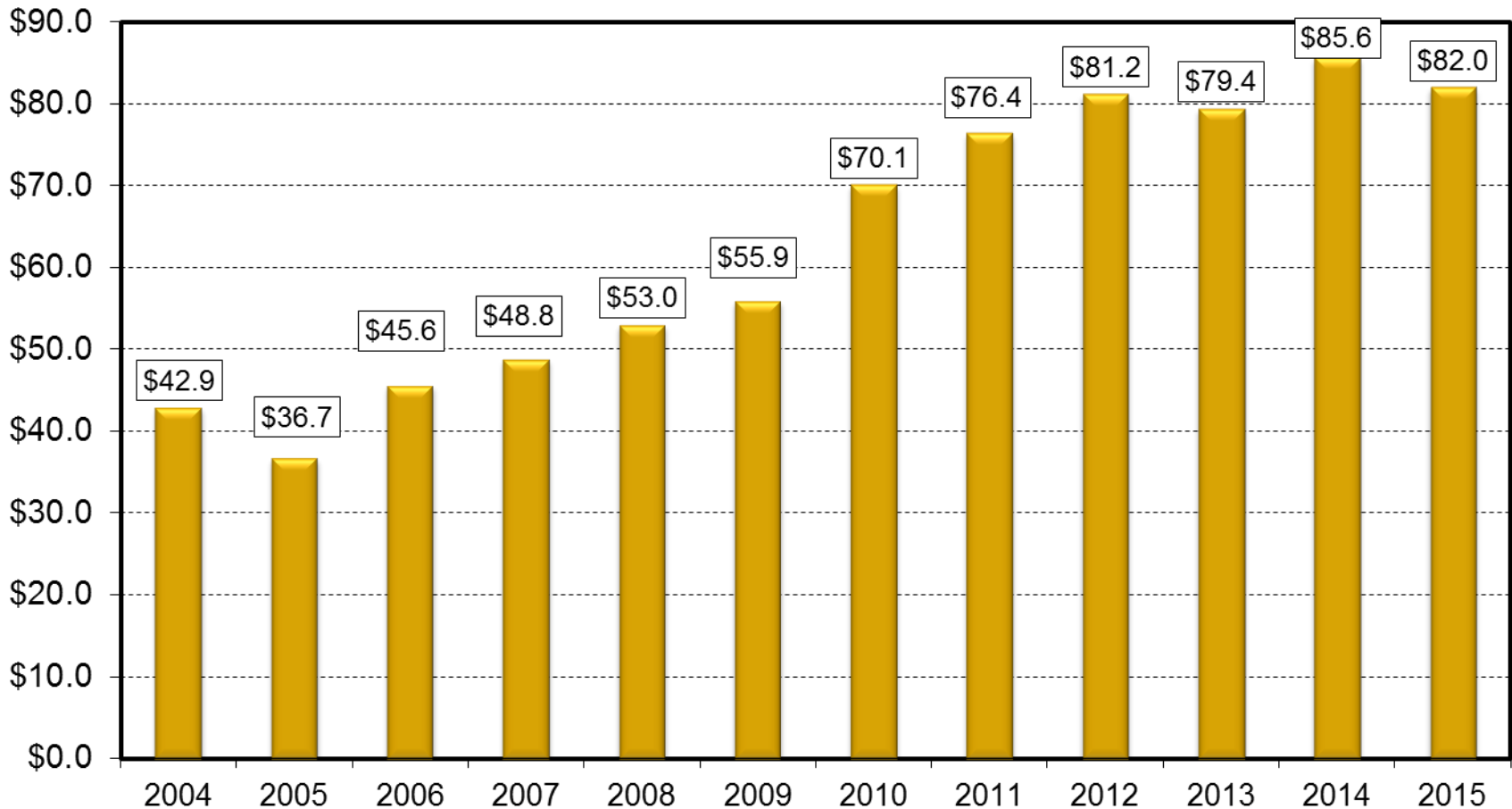
Fire Department

1. No changes to fire suppression companies or MED units
2. 2d year of defibrillator replacement program (\$412,000)
3. 26 Fire Cadets are budgeted to improve diversity of future recruit classes
4. Response times remain superior to national standards & support high safety ranking
5. Capital Budget proposal includes \$4.8 million of levy-backed funding
 - \$2.9 million for Fire Repair shop replacement => drive operational improvements & reduced apparatus downtime
6. FOCUS program will add 1,000 or > additional smoke detector installations

Department of Public Works

1. \$82 million proposed for core infrastructure capital programs
2. Sewer replacement cycle remains at 90 years or less
3. Addition of 22 compressed natural gas fuel vehicles => fleet of 43 will generate \$258,000 of annual savings
4. Reduction of 16 O&M-funded FTE generates ~ \$1.1 million in savings (including estimated fringe benefits)
 - Helps offset cost increases for tipping fees (\$1 million) and salt (\$570,000)
 - Investment in automated collection
5. Major focus of Local & High Impact street programs on preservation: 36 miles of segment improvements forecast for 2015
6. Additional resources (\$+537,000) to improve tree pruning cycle

Total City Capital Funding for Core Infrastructure: 2004 to 2015 (in Millions)



*Includes City funding for Major, Local & High Impact Street Programs, Major & Local Bridge Programs, Street Lighting Program and Sewer Capital Program

Library

1. Continuation of public service hours at current level
2. Continuation of commitment to reading and teacher in library programs
3. Developing strategies to support teenagers' development
 - Educational Specialist position proposed through reallocation
4. Library capital investment totals \$8.75 million
 - Funding for renovation of Tippecanoe
 - \$4.3 million for replacement of Forest Home & Mill Road branch libraries
 - Major renovation of Tippecanoe Library
5. Volunteer initiative has generated > 150 applicants

Health Department

1. Service levels are maintained

- Aids prevention: (\$110,424)
 - ✓ Funding used for general prevention and clinical services including needle exchange, outreach high risk "negatives", linkage to care, etc.
 - ✓ Services delivered in 5 highest HIV infection rate zip codes, 04, 08, 06, 12 and 15
 - ✓ Targets young at risk - as well as existing populations with HIV infection (medication, social support services, etc.)
- Home visitation programs:
 - ✓ 17.25 tax levy-funded FTE
 - ✓ 8.0 grant-funded FTE
- HUD Lead Grant

2. Food regulation will focus on progressive enforcement and most problematic facilities

3. \$100,000 in O&M funding added to preserve TB Control Clinic (impact of loss of State funding from Refugee Health Screening contract)

MHD Premier Home Visitation Programs Program Birth Outcomes 2012-2013

Birth Outcome Comparison

2012	MHD HV	City of Milwaukee	11 Highest Risk Zip Codes
Number of babies born*	193	9,651	5,192
% Born full term* (≥ 37 weeks)	92.2%	89.2%	87.6%
% Born >2500 grams*	89.1%	90.4%	89.9%

2013	MHD HV
Number of babies born*	177
% Born full term* (≥ 37 weeks)	91.0%
% Born >2500 grams*	89.3%



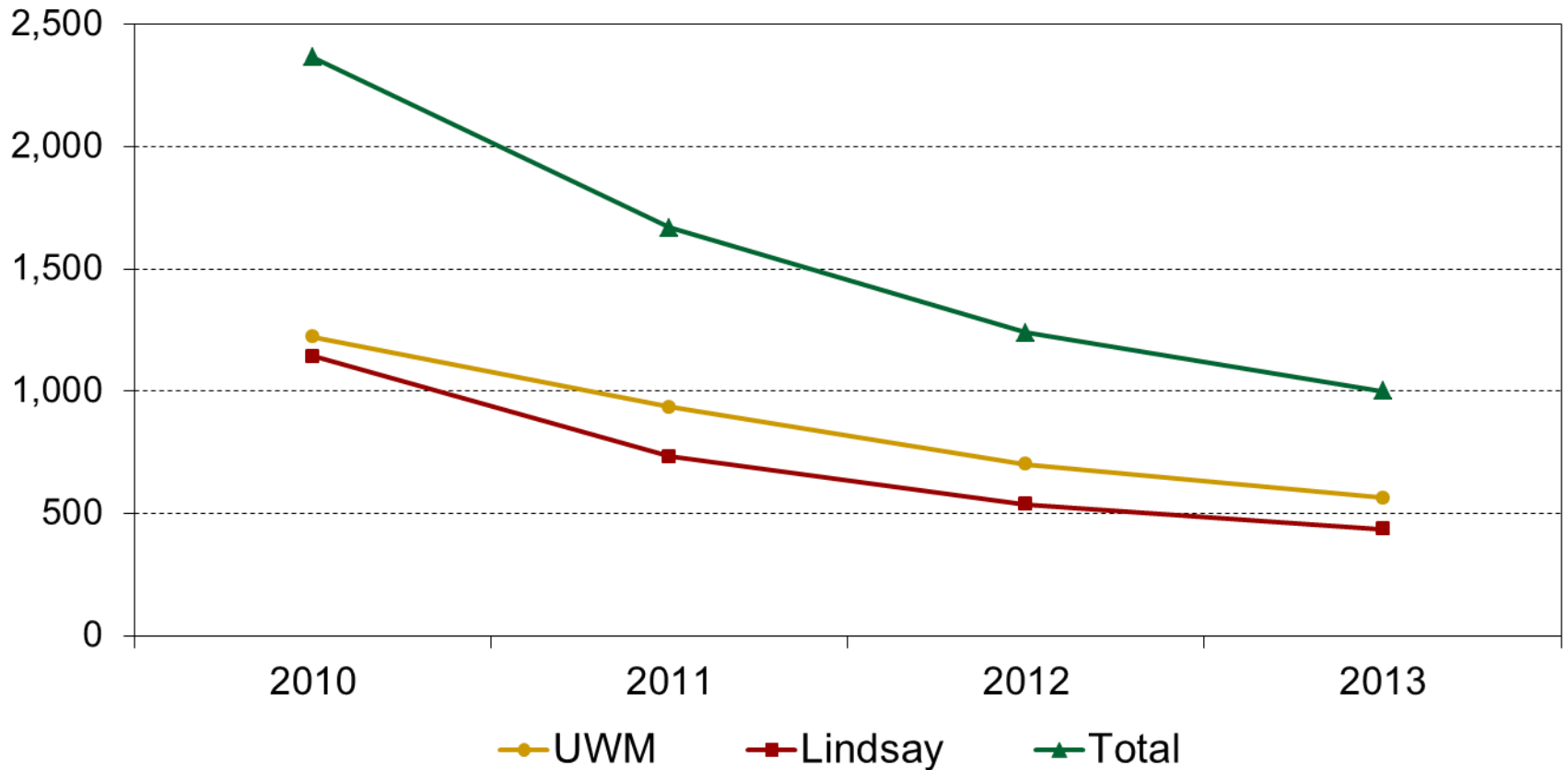
*Singleton Births Only

Neighborhood Services (DNS)

1. Provides critical support to Strong Neighborhoods Plan
2. Proposed initiatives:
 - Continue Residential Rental Inspection (RRI) program in Lindsay Heights & UWM area; expand to St. Josaphat Basilica neighborhood
 - ✓ Inspections & partnerships with neighborhoods have supported investment and decreased complaints
 - ✓ 2 FTE, \$150,000 including fringe benefits
 - BOZA Compliance Inspection program: Subject certain salient uses to special use approval. Support BOZA conditional approvals with an inspection regime.
 - ✓ Periodic inspections will provide “teeth” to conditional approvals and induce compliance with BOZA-imposed conditions.
 - ✓ 2 FTE, \$177,000 including fringe benefits

RRI Addresses Neighborhood Concerns

Orders Issued on Rental Properties in RRI Program



Land Management System (LMS)

- \$850,000 is included in the 2015 Capital Budget for a second phase of the Enterprise LMS project
- LMS Phase 2 will migrate all the licensing functionality currently in the City Clerk's LIRA system to LMS
- A single licensing information system for all city departments is more efficient and effective
- Phase 2 will be completed by early 2016
- To ease the transition, some licenses affected by CCFN 131559 (Self-service Laundries, Massage establishments, Campgrounds, Waste Tire Transporters/Generators, Licensed Dwelling Facilities) will continue to be issued by DNS until LMS Phase 2 is completed

2015 Capital Budget

- **2015 total budget = \$243 million**
 - \$133.1 million General City
 - \$38.4 million DPW Grant & Aid
 - \$71.5 million Enterprise (Parking, Water, Sewer)

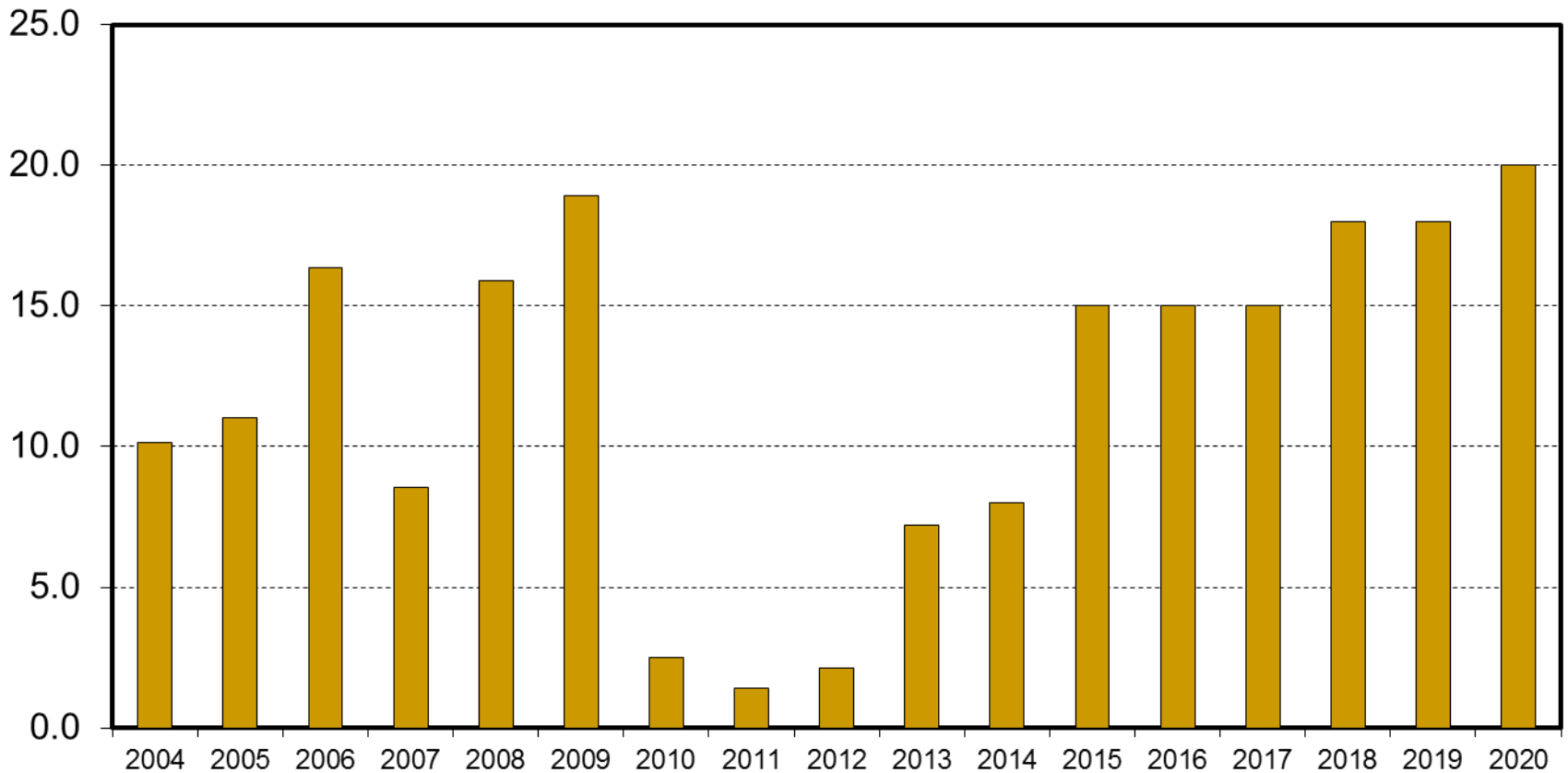
- Levy Supported G.O. Borrowing
 - \$93.6 million

- Self Supporting G.O. Borrowing
 - \$99.4 million

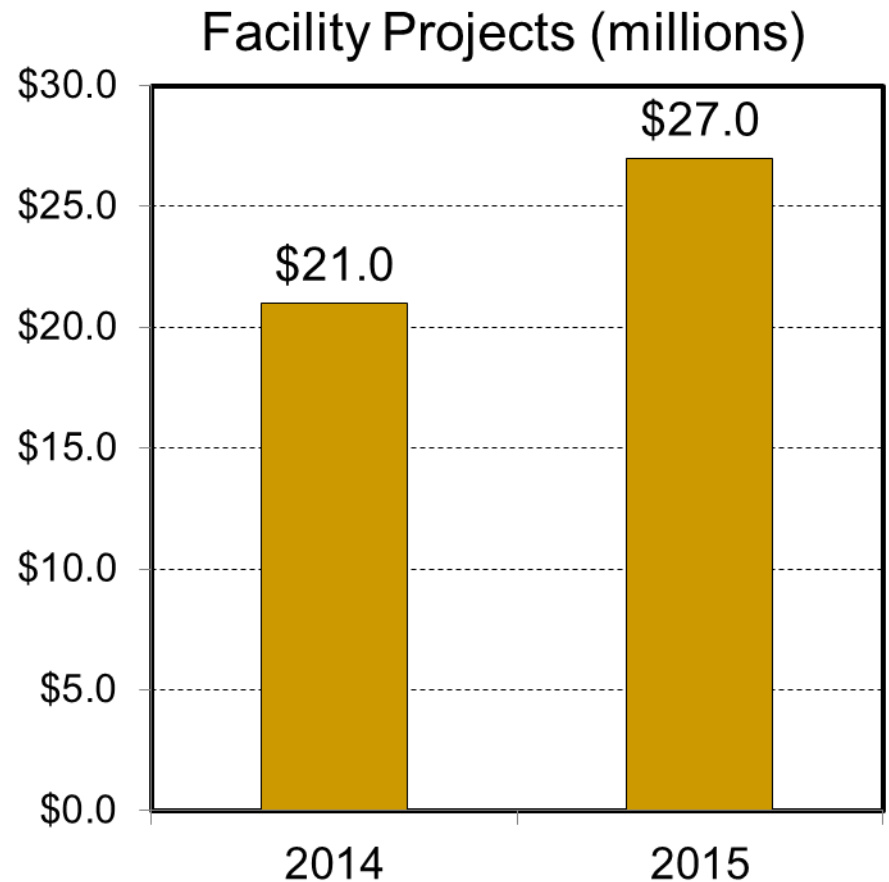
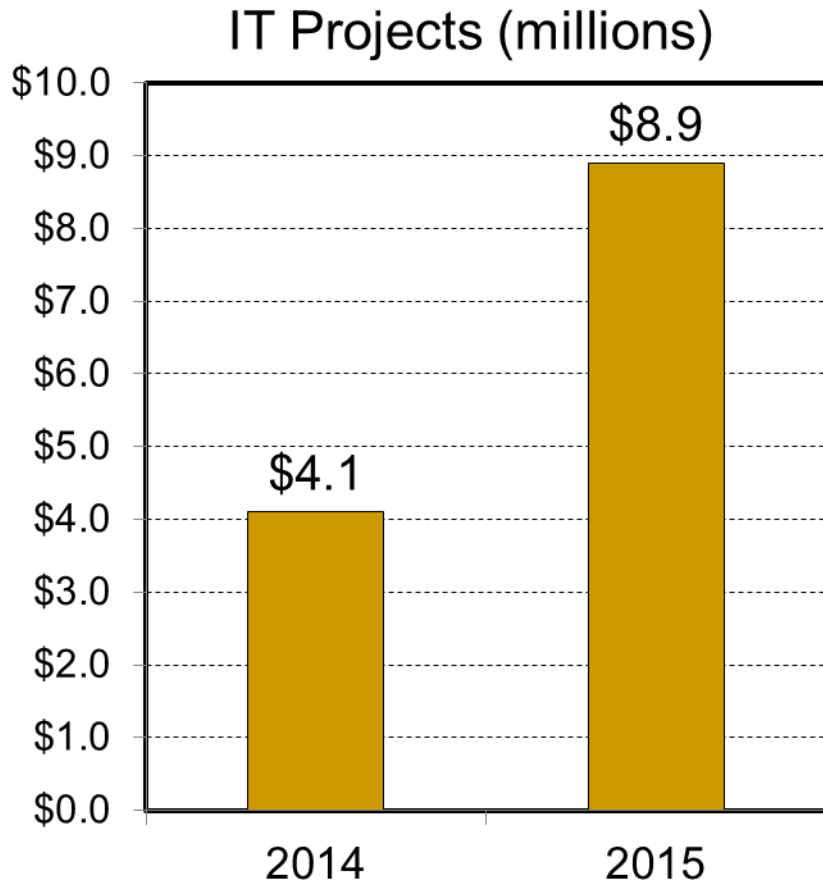
- Total Cash Levy for Capital
 - \$1.2 million

Water Main Replacement 2004 to 2020

Miles of Main Replaced



Funding for IT and Facility Projects Increases by \$10.8 Million from 2014 to 2015



DPW-Infrastructure Capital Programs

Program	2014 Adopted	2015 Proposed
Major Bridge	\$260,000	\$500,000
Local Bridge	\$9,815,000	\$8,810,000
Major Street	\$49,993,000	\$44,998,907
Local Street	\$13,500,000	\$13,500,000
High Impact Street	\$3,000,000	\$2,000,000
Alley Reconstruction	\$1,675,000	\$2,025,000
Sidewalk Replacement	\$1,425,000	\$1,800,000
Street Lighting	\$9,300,000	\$8,860,000
Traffic Control	\$1,993,000	\$700,000
Underground Conduit	\$500,000	\$1,000,000
Electrical Manhole Reconstruction	\$750,000	\$1,100,000

DPW-Operations Capital Programs

Program	2014 Adopted	2015 Proposed
Environmental Svcs. Facility Modifications	\$100,000	-
Brine Makers		\$275,000
Materials Recycling Facility	\$2,300,000	-
Concealed Irrigation/Boulevards	\$500,000	\$500,000
Tree Planting & Production	\$1,483,000	\$1,520,000
Hazardous Tree Removal	\$75,000	\$75,000
Stump Removal	\$200,000	\$360,000
EAB Readiness/Response	\$952,000	\$1,000,000
Major Capital Equipment	\$7,517,000	\$7,080,000
Vacant Lot Beautification	\$200,000	\$200,000

2015 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. Ongoing structural balance has improved by ~ \$48 million since that time
3. Prioritization, financial restructuring, and prudent reserve use have enabled critical service levels to continue and implementation of new initiatives

Response to Wisconsin Act 10

1. State law provides that 1st class cities may not pay the member contribution to the pension system on behalf of general employees
2. July 31 2014 WI Supreme Court decision affirms the legislation
3. Proposed Budget includes:
 - Substitute version to File 110740 effectuates employee payment of 5.5% member contribution
 - Increase of 3.9% for certain general employees offsets a portion of compensation reduction

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

Key Timelines

- September 23: Mayor introduces the 2015 Proposed Executive Budget
- October 6: Joint Public Hearing, 6:30 pm, Council Chambers, 3rd Floor City Hall
- October 7-20: Finance & Personnel Committee Budget Hearings
- October 31: Finance & Personnel Committee Budget Amendment Consideration
- November 7: Common Council Budget Adoption

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**