

BUDGET BRIEF:
2013 PROPOSED
CITY OF MILWAUKEE BUDGET

October 2012

Study authors:

Vanessa Allen, Researcher
Rob Henken, President



TABLE OF CONTENTS

INTRODUCTION.....	3
THE 2013 BUDGET ENVIRONMENT	4
2013 BUDGET THEMES.....	5
ANALYSIS OF SIGNIFICANT 2013 BUDGET CHANGES.....	6
Major Revenues.....	6
Major Expenditures – Personnel and Retirement.....	9
Departmental Highlights	12
CAPITAL PROJECTS.....	15
CONCLUSION	16

INTRODUCTION

In last year's analysis of the City of Milwaukee's proposed budget, the Public Policy Forum characterized the budget climate as "a second consecutive year of relative calm before a likely return of dark fiscal storm clouds." As anticipated, those storm clouds now have gathered over City Hall, the byproduct of the start of an unprecedented series of pension payments that will consume a sizeable portion of the city's property tax levy for the next several years.

To their credit, city officials anticipated the approaching storm and, during the past two years, fortified the city's finances to lessen its impacts. Consequently, the 2013 proposed budget is able to largely sustain existing service levels while relying on only a modest increase in the property tax, and while also keeping the city on track with regard to its long-range infrastructure repair goals. Efforts to withstand the storm surge while accomplishing those tasks are likely to grow progressively difficult, however, with each passing year.

Recognizing the magnitude of the city's challenges in the years ahead, the mayor's 2013 proposed budget lays out a set of strategic principles and objectives that will guide the city's efforts to navigate its challenges. The willingness of the mayor and his budget team to look beyond 2013 and propose a revised "business model" to confront the city's new fiscal realities is commendable. Also noteworthy is a change in the budget document to include a description in each departmental write-up that details how the new "resizing, restructuring and reinvesting" model is being initiated.

Specific examples of the "3R" approach come from the Department of Public Works, where trash collection processes are modified to reduce staffing needs; the Police Department, where a new intergovernmental agreement with Milwaukee County for parks and lakefront patrol will produce additional resources to meet other needs; the Fire Department, where a new process for paramedic training will reduce expenditures on special duty hiring to replace firefighters while they are being trained; and the Department of Administration, where information technology functions will be consolidated to reduce redundancy. While these initiatives do not produce huge dollar savings, they are emblematic of a new emphasis on reviewing all city services for process efficiencies that will contribute to structural deficit reduction with minimal service impacts.

Despite the thoughtfulness of the new approach, the creation of guiding principles and a new business model will not minimize the difficulty of actual decisions to cut positions and increase revenues that inevitably will be needed. The proposed budget, however, does set the city on a solid course for doing so.

In the pages that follow, we analyze major revenue and expenditure changes in the proposed budget and the manner in which key strategic objectives are effectuated. Our hope is to encourage an objective and informed 2013 budget debate.

THE 2013 BUDGET ENVIRONMENT

After two years of breathing room, the City of Milwaukee now faces a new budget reality in which sizeable payments toward an unfunded pension liability are a constant and daunting budget line item. Unlike most governments that maintain their own pension funds, Milwaukee has not had to face this burden in most prior years, as the value of its pension fund assets typically has exceeded the fund's liabilities. That changes beginning in 2013, with a required \$59.3 million employer contribution.¹ In fact, for the foreseeable future, a substantial and ongoing property tax levy contribution will be necessary to meet pension funding requirements.

The city has been on a budget rollercoaster since the impacts of the 2008 economic downturn first became apparent. A foreshadowing of tough times came in 2010, when the city was required to boost its pension payment by \$49 million. That necessitated steep cuts in many city services, draws on reserves, and substantial increases in fees and the property tax levy. Fortunately, the structure of the pension system's funding policy delayed further contributions, leaving 2011 and 2012 free of similar expenditure pressures. To their credit, city leaders built the pension reserve during those two years, putting away \$44 million to alleviate the impact of future spikes. In addition, they were able to restore some of the service cuts in hard hit areas, aided by significant health care savings in the 2012 budget.

As city leaders now confront the reality of annual pension contributions that soon will exceed \$60 million, the use of reserves, as well as continued efforts to control the cost of health care, will be critical to balancing the budget. A primary reason is the stagnant nature of the city's key revenue streams. As the Forum has detailed in previous reports, Milwaukee is highly dependent on two key sources of revenue: the property tax and shared revenue from the State of Wisconsin. Unfortunately, both are highly restricted – the property tax through a strict state-imposed cap that largely limits annual increases to the growth in new construction, and shared revenue by an historical unwillingness by the state legislature to provide even inflationary annual increases.

The proposed 2013 budget suggests the city still has capacity to adapt, however, by proposing a set of strategic principles that are designed to guide it through its new budgetary realities. Those principles emphasize finding new, cost-effective ways of conducting business, with savings reinvested in priority areas while also supporting the sizeable pension payments. While this concept – labeled “resizing, restructuring and reinvesting” – is both innovative and appropriate, implementing the plan will not be easy. For example, budget projections call for a reduction in the city workforce of 400 to 600 positions, a feat that likely will be difficult to accomplish without noticeable service-level impacts.

¹ An additional \$1.4 million is required to support pension costs in the water works, which is an enterprise fund. In this analysis, we cite the \$59.3 million figure because our focus is on the general city purpose budget.

2013 BUDGET THEMES

The primary theme of the 2013 proposed budget is its effort to navigate the remarkable increase in the city's pension fund contribution without fully depleting reserves and slashing critical services. **Table 1** demonstrates the extent to which pension costs have become a predominant draw on the city's property tax levy. The table shows that in 2009, 15% of the city's total levy was used to support pension costs; five years later, that figure has jumped to 32%.²

Table 1: Levy dedicated to General Fund and Employees' Retirement Fund expenditures

	2009	2010	2011	2012	2013
Total property tax levy	\$236,680,528	\$242,650,107	\$246,179,987	\$248,008,457	\$250,411,347
Total levy allocated to pension	\$35,888,093	\$81,844,193	\$60,012,663	\$66,216,150	\$79,698,013
% of levy to pension	15.2%	33.7%	24.4%	26.7%	31.8%
% of levy to General Fund	52.3%	35.5%	45.3%	43.2%	38.7%

Note: 2012 reflects the city attorney's opinion that the city is required to pay for the employee pension contributions on behalf of city employees, thus requiring use of \$8,200,000 in levy tentatively budgeted in a special purpose account within the general fund.

Source: City of Milwaukee, annual adopted budgets and the 2013 Proposed Plan and Executive Budget Summary

Because of the foresight of city leaders, the city has a pension reserve of \$56 million heading into the 2013 budget season. The use of \$18.4 million from the reserve cushions the blow of this year's spike in the contribution, and budget officials expect to spread the remaining amount to alleviate the impact of pension payments through 2016. Still, as the city draws down reserves, it likely will need to reduce departmental costs – and/or increase municipal service fees to support those costs – to accommodate increased pension payments.

The eventual loss of the pension reserve – plus the city's lack of revenue elasticity – explains the potential need to cut 400 to 600 positions by 2016. In 2013, however, the loss of positions is minimized. In fact, the reduction of 47.5 FTEs funded with general fund revenues pales in comparison to the 362 FTEs cut in 2010, when a \$49 million spike in the pension payment wreaked havoc on departmental budgets.

Another primary budget theme is the introduction of a multi-year Sustainability Plan, which consists of a set of strategic budget-cutting principles that aims to correct a projected structural imbalance of \$65-\$75 million through 2016. The budget's stabilization approach calls for reducing staff and implementing efficiencies in departmental operations to yield the required budget savings with only minimal impacts on city residents. Those efficiencies will be made possible, in part, through better use of technology and new intergovernmental partnerships. The proposed budget contains several new initiatives for 2013 that exemplify those concepts.

A final, less pronounced budget theme is the need to replace lost grant revenue. The city benefited significantly from grants provided under the American Recovery and Reinvestment Act (ARRA) in 2009 and 2010, most of which soon will expire. A three-year federal ARRA grant that currently supports 50 police officers will end in the middle of 2013, for example, and the city has redirected property tax levy to make up for the loss. Continuing to do so for this and other expiring ARRA-funded initiatives will be a difficult feat given the above discussion.

² Total property tax levy-supported retirement fund expenditures cited in the table include not only the employer contribution, which has varied depending on the size of the unfunded liability, but also a steady contribution for the employee share of about \$22 million annually, contributions to the pension reserve, and other items.

ANALYSIS OF SIGNIFICANT 2013 BUDGET CHANGES

In this section, we further describe the major revenue and expenditure items in the 2013 proposed budget that reflect the themes discussed above and highlight the city's 2013 budget framework.

Major Revenues

Table 2 shows the major revenue sources supporting expenditures for the general fund in the proposed budget, and compares the 2013 proposed amounts with those adopted in 2012. Most revenue accounts show only modest changes, though the proposed budget does include a 9% increase in municipal service charges, which is linked most notably to an increase in the solid waste charge and garbage cart fees. Though the overall property tax levy increases by 1%, the proportion dedicated to general fund spending declines by 9.5%, which reflects the added amount of levy required for the Employees' Retirement Fund.

Table 2: City of Milwaukee major revenues, 2012 adopted and 2013 proposed budget

Revenue Category	2012	2013	Difference	% Change
Intergovernmental Revenue	\$259,501,500	\$259,575,900	\$74,400	0.03%
State shared revenue	\$218,490,000	\$218,694,000	\$204,000	0.1%
Other revenue	\$41,011,500	\$40,881,900	(\$129,600)	-0.3%
Property Tax Levy*	\$248,008,457	\$250,411,347	\$2,402,890	1.0%
Charges for Services	\$103,920,603	\$113,295,800	\$9,375,197	9.0%
Licenses, Fees & Fines	\$17,951,600	\$18,963,560	\$1,011,960	5.6%
Taxes and Payment in Lieu of Taxes	\$16,147,300	\$16,519,800	\$372,500	2.3%
Miscellaneous Revenue	\$38,855,057	\$38,194,400	(\$660,657)	-1.7%
Tax Stabilization Fund Withdrawals**	\$13,767,000	\$13,900,000	\$133,000	1.0%

*Includes all property tax revenues, which support both the general operating budget and other funds; all other revenues support the general fund operating budget.

** In the 2013 proposed budget, newly proposed fee increases and payment from Milwaukee County for the memorandum of understanding with the city police department are reflected as temporary withdrawals on the TSF until approved by the Common Council and recognized by the comptroller. This table, however, recognizes these items in their appropriate revenue category rather than as a TSF withdrawal.

Source: City of Milwaukee, annual adopted budgets and the 2013 Proposed Plan and Executive Budget Summary

The following provides a more detailed description of major revenue items:

- **Property Tax** – The proposed budget raises the total property tax levy by \$2.4 million, or roughly 1%, to \$250.4 million. This is well within the limit imposed by the state's property tax levy cap. That cap is largely linked to growth in new construction, which was about 0.7% in Milwaukee, but the city also is afforded considerable additional leeway because of an adjustment involving debt service. The 2013 property tax *rate* shows a larger increase, from \$9.25 to \$10.28 per \$1,000 of assessed value, because of declining property values within the city. According to the budget, a typical homeowner would see a \$43 property tax decrease because of the lower assessed value of his or her property. The city's residential properties have seen a deeper decline in value than commercial properties.

The relatively small property tax increase proposed for 2013 contrasts with that adopted in 2010, which was the last time the city had to accommodate a substantial spike in its employer pension contribution. The 2010 budget contained a \$9.8 million (4.1%) levy increase. Two

years of responsibly building reserves and planning for the 2013 pension spike appears to have paid off by allowing the mayor to propose a levy increase that is only a quarter of that size this time around.

Nevertheless, a cause for concern is the \$10.1 million (9.5%) decline in the amount of property tax levy dedicated to general fund expenditures, which is caused by the need to dedicate additional property tax resources to the Employees' Retirement Fund. The amount of levy dedicated to pension-related expenditures increases by \$13.5 million (20.4%) in the proposed budget. The budget maintains general fund expenditures at roughly the 2012 level by enhancing other revenue streams to make up the difference.

The proposed Sustainability Plan includes a new objective to limit the combined percentage of property tax levy allocated to employer pension contributions and debt service in the next four years to 60% or less. In 2013, that percentage will be about 51%, but the anticipation of larger pension payments in 2014 and the years following will push the percentage upward. Debt service levy, on the other hand, declines by roughly \$1 million to \$67.8 million in 2013, with moderate growth expected through 2018; this frees up more levy to help support pension costs.

- *Charges for services* – Charges-for-service revenue increases by \$9.4 million, the most significant increase in any revenue category in 2013 and the largest increase in charges for services in the last five years. The increase in municipal service charge revenue is linked largely to increases in service fees that were approved following adoption of the 2012 budget. This includes a \$2.5 million increase in neighborhood service fees and a \$2.3 million increase in street sweeping and leaf collection service charges.

The 2013 budget also includes \$3.9 million from newly proposed fee adjustments to support the general fund.³ In order to further incentivize waste reduction and greater recycling, the city has upped the garbage cart fee from \$10 to \$13 quarterly for each garbage cart after the first. The solid waste fee for the first garbage cart also is elevated, from \$171.52 to \$179.80 annually. Upward adjustments also are made to the pricing structure for bulky collection, bringing in \$1 million in additional revenue.

As seen in **Table 3**, as the city has experienced cuts in state aid and as it has redirected property tax levy away from the general fund, general departmental spending has become more reliant on support from municipal service charges. The increase proposed for 2013 raises the percentage of general fund spending that is supported by charges for services to 19.5%, as compared to 15.9% in 2009. **In fact, in 2013, charges for services would be a larger source of support for general departmental spending than the property tax levy, a development that is likely to remain in place for the foreseeable future.**

³ Fee increases also are proposed for non-general fund purposes such as stormwater management (8% fee increase) and sewerage (5%). Budget officials anticipate a need for additional increases in these areas in the future.

Table 3: General fund reliance on property tax levy and charges-for-service revenue

	2009	2010	2011	2012 Adopted	2013 Proposed
Total General Fund Revenues	\$603,703,966	\$576,384,737	\$606,390,965	\$582,173,797	\$581,344,872
Property Tax Levy*	\$123,740,757	\$86,187,127	\$111,574,808	\$107,030,737	\$96,895,412
% of All GF Revenues	20.5%	15.0%	18.4%	18.4%	16.7%
Charges for Services**	\$96,273,406	\$102,363,468	\$108,700,962	\$103,920,603	\$113,295,800
% of All GF Revenues	15.9%	17.8%	17.9%	17.9%	19.5%

*2012 reflects the city attorney's opinion that the city is required to pay for the employee pension contributions on behalf of city employees, thus requiring use of \$8,200,000 in levy tentatively budgeted in a special purpose account within the general fund.

**In the 2013 proposed budget, newly proposed charges for services are reflected as temporary withdrawals on the TSF until approved by the Common Council and recognized by the comptroller. However, this table recognizes these items within the charges for services category.

Source: City of Milwaukee, annual adopted budgets and the 2013 Proposed Plan and Executive Budget Summary

This heavy reliance on charges for services may be unavoidable in light of the challenges associated with other major revenue streams and the city's pressing expenditure needs. It does raise some important questions, however, with regard to sustainability and fairness. Because fees charged for city services cannot exceed the cost associated with those services, the city's ability to use this funding source to offset general operating budget challenges is limited. In addition, while the use of fees may have fiscal advantages because they can be applied to nonprofit entities that are exempt from property taxes, a possible disadvantage from too much reliance – from a progressivity standpoint – is that many fees are applied to homeowners uniformly, as opposed to based on the value of one's property.

It is worth noting that the proposed Stabilization Plan would limit the annual increase in combined property taxes and service charges for a typical resident to no more than 3% annually. In 2013, the typical Milwaukee homeowner would realize a \$17 increase in municipal service fees, but a property tax decrease of \$43 as noted above.

- *Intergovernmental revenue* – Revenue from other governments is the largest source of general fund revenue, supporting about 45% of general fund expenditures annually. State shared revenue is by far the largest component of this category. In 2013, the city anticipates \$259.6 million in intergovernmental revenue, a nominal change from 2012. The 2011-13 state budget significantly reduced the city's shared revenue allocation in 2012, but that amount is relatively unchanged in the second year of the biennium.
- *Miscellaneous revenues* – The budget anticipates a \$660,657 decline in miscellaneous revenues, for a total of \$38.2 million. This category is comprised of several revenue sources, the largest of which are an \$18.5 million transfer from the parking fund, \$6.3 million in vehicle registration fees, and \$5.5 million in Potawatomi revenue. The decline is largely attributed to a reduction in the parking fund transfer of \$1.9 million. A one-time water payment of \$750,000 from the Village of Greendale partially offsets that reduction.

The 2012 budget included a parking fund transfer of \$20.4 million to the general fund and \$2 million to the Employees' Retirement Fund. The proposed budget not only reduces the transfer to the general fund by \$1.9 million, but also eliminates the \$2 million transfer to the Employees' Retirement Fund, for a total transfer amount of \$18.5 million. Because of declining parking revenue and increased pension-related charges to the fund, the city anticipates a further reduction to \$15 million by 2017. The capacity of the parking fund to

support general city operations also may be impacted by use of the fund to support a new streetcar system.

- *Tax Stabilization Fund (TSF)* – The withdrawal proposed for 2013 is \$13.9 million, a slight increase from 2012. This is a 40% draw on the current TSF balance of \$35 million, as compared to the 50% draw seen in previous years. The city expects 2012 revenue surpluses to return the TSF to a fund balance of \$35 million.

Major Expenditures – Personnel and Retirement

As previously discussed, the single most influential expenditure item impacting nearly every 2013 budget decision is elevated pension costs. The good news for city officials is that mitigated health care costs provide some offsetting relief. The following discussion describes the major changes in employee compensation costs and discusses their impact on 2013 and future budgets.

Pension

In order to accommodate the \$59.3 million increase in the employer pension contribution for 2013, the budget proposes using \$18.4 million in reserves; the \$25 million of property tax levy already built into the budget from a reserve contribution of that amount in 2012; and \$15.9 million in additional property tax levy.

It is important to note that except for recently hired employees, the city currently is not making use of the Wisconsin Act 10 provision requiring non-public safety employees to contribute toward the cost of their pensions.⁴ The city attorney has opined that the city must continue to pay those contributions on behalf of employees, citing the city's authority over its own pension plan as established in its home-rule charter; the contractual rights of vested employees; and consent to the city's global pension settlement in 2000. That opinion was backed in a recent court ruling, which is being appealed. Barring a reversal, this prevents Milwaukee from being able to offset a share of its pension costs with a tool given to all other Wisconsin governments.

The proposed budget seeks not only to responsibly accommodate the huge increase in the pension payment in 2013 without depleting reserves or slashing services, but also to lay out a strategy for avoiding rapid and disruptive annual fluctuations in future years. Last year, the budget office projected that the pension contribution would fluctuate between \$58 million and \$77 million from 2013 to 2017, as shown in **Table 4**. The 2013 proposed budget presents an alternative approach discussed by the pension study task force, in which the pension contribution would be stable from year to year based on a fixed percentage of payroll, which is proposed at 18%. This fixed rate would undergo review every five years to ensure it has sustained adequate funding. A recent actuarial study determined that this alternative would not jeopardize the funding status of the pension fund and would perform just as well as the current policy. This proposal will require Common Council approval outside of the budget process.

⁴ Prior to the adoption of Act 10, the city negotiated an agreement with its general employee unions requiring union members hired after January 1, 2010 to pay the employee share of the contribution. A similar provision also was negotiated with the police and fire unions for police and fire personnel hired on or after October 3, 2011.

Table 4: Initial employer pension contribution projections from 2012 budget (in millions)

	2013	2014	2015	2016	2017
Employer pension contribution	\$58	\$77	\$68	\$68	\$70

Source: City of Milwaukee 2012 Proposed Plan and Executive Budget Summary

The proposed alternative does not impact the 2013 budget, but would instead begin in 2014 with pension payments of \$68 million that would remain at that level annually. The city also anticipates drawing on the \$56 million pension reserve through 2016, after which the employer pension contribution would be fully financed through property tax levy.

In **Table 5**, we put forward one potential scenario that projects the timing and amount of additional property tax levy required to pay the employer pension contribution assuming that the contribution remains level at \$68 million from 2014-2018, and that the reserve is drawn down over the 2013-2016 timeframe. This table shows that the city would need to find an additional \$43 million in property tax levy over the next five years, either through spending reductions or an increase in the levy or other revenues. It also shows that because city leaders prudently built a substantial reserve contribution into the budget during the past two years, the task of accommodating an annual \$68 million pension contribution has been alleviated considerably, though it remains daunting nonetheless.

Table 5: Pension funding model – Contribution levels, financing and potential impact on departmental budgets (in millions)

	2013	2014	2015	2016	2017	2018
Employer pension contribution	\$59.3	\$68	\$68	\$68	\$68	\$68
Withdrawal from pension reserve	\$18.4	\$20	\$ 9	\$8.6	No reserves	No reserves
Total property tax levy	\$40.9	\$48	\$59	\$59.4	\$68	\$68
Already budgeted pension levy	\$25	\$40.9	\$48	\$59	\$59.4	\$68
Additional levy support	\$15.9	\$7.1	\$11	\$0.4	\$8.6	\$0

Health care

The 2013 proposed budget anticipates only modest growth in health care costs, which helps avoid further departmental reductions. As compared to previous growth rates of 9% in previous years, the budget projects health care costs to grow by only 2.2% in 2013 to \$118.7 million. This rate of growth also is lower than the 4% increases in health care costs seen nationally. The health care changes adopted in 2012, including the decision to move to a self-funded plan and to increase employee premiums, co-pays and deductibles, are helping to slow the rate of growth. Beyond 2013, budget officials anticipate annual health care increases of 4%. It will be important for city officials to closely review utilization data to determine whether this modest growth rate is achievable and to alter budget planning if it is not.

Despite the city's impressive efforts to control the growth of health care costs, even a 4% rate of growth adds nearly \$5 million of expenditure pressure to the city budget each year. Combined with the growth in pension costs, these items present a formidable challenge, particularly given the historical flat or reduced growth of shared revenue.

Efforts to control health care costs in the proposed budget also are aided by a new structure for determining monthly premiums for certain city employees. In 2012, the city adopted increased co-pays and deductibles for all employees and retirees, including members of police and fire unions. The police union has challenged the legality of those plan design changes, however, on the basis that they were not negotiated with the union. The city counters that statutory language in Wisconsin Act 10 gives it the ability to unilaterally change plan design for all classes of workers. The case is currently in the appeals process. In the meantime, however, a judge has ordered an injunction blocking the city from requiring the new deductibles and co-pays for police union members, thus negatively impacting projected health care savings in 2012.

In the 2013 proposed budget, police union members continue to pay a 12% employee premium toward the cost of their health insurance like all other city employees. Because the budget assumes no deductibles or co-pays for police officers, however, the overall city cost for insuring those employees is higher. Consequently, the budget applies the 12% premium contribution to the higher amount, resulting in higher actual monthly payments for members of the police union that reduce the city's health care costs. **Table 6** shows the health care premium levels for general city employees versus those of police union members. In 2013, police officers would pay \$14 and \$41 more per month for the city's single and family HMO plans respectively.

Table 6: 2013 Monthly HMO premium rates - general city employees versus police officers*

	General City Employees		Police Union		Difference	
	Single	Family	Single	Family	Single	Family
Employee monthly premium contribution	\$54	\$173	\$68	\$215	\$14	\$41
Employee share as % of total	12%	12%	12%	12%	n/a	n/a

*The city's HMO-equivalent plan would more appropriately be referred to as the Choice EPO. The city also has a PPO-equivalent but most employees utilize the city's HMO plan.

Note: The city has a four-tiered plan structure, which include different cost structures for individuals, employees plus dependents, employees plus spouse, and families. This table only provides comparisons between the single and family plan components.

Source: Proposed 2013 Rate Chart for Active Employees provided by the city.

Salary adjustments

While the proposed budget does not specify salary increases for 2013, \$6 million is budgeted in anticipation that wage increases may occur and/or furlough days may be eliminated. Those actions will be determined during 2013.

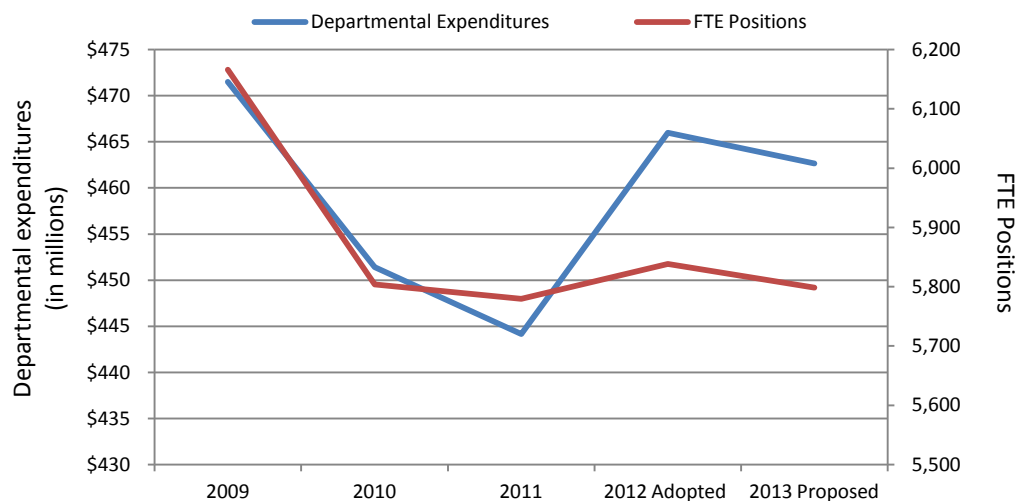
The proposed budget also continues the use of furloughs, continuing a practice that has been in place since 2009. The budget proposes three furlough days in 2013, which would apply to all general city employees and police officers, saving \$3.4 million (sworn police officers other than management were excluded from furloughs in 2010 and 2011). Firefighters still are excluded from furloughs. The Forum has expressed concern in the past about the use of furloughs as anything but a temporary budget-cutting strategy, and we would continue to caution about building furlough-related savings into the budget. Given the pressure of larger pension contributions, however, the proposed budget may be signaling that furloughs will be an annual way of life for city workers.

Departmental Highlights

Despite the intense pension-related pressures discussed throughout this report, the proposed budget includes only a slight decrease in overall general fund expenditures, from \$582.2 million to \$581.3 million.⁵ As previously discussed, a \$10.1 million drop in levy-supported general fund spending is largely offset by a \$9.4 million increase in municipal service charges.

Figure 1 shows how city departments have fared within the general fund by tracking departmental spending and positions since 2009, excluding health care. Departmental budgets experienced a larger decrease of \$3.3 million (0.7%) from the 2012 adopted level when health care costs are removed, as well as a decline of 40 positions funded through the general fund.⁶ The substantial increases in expenditures and FTEs in 2012 were linked largely to reallocation of substantial health care savings realized in that year.

Figure 1: Departmental expenditure history*



*Departmental expenditures include all general fund expenditures; health care costs are excluded as well as expenditures associated with specified grant and aid purposes. Also, this figure does not reflect fluctuations in temporary election workers in the Election Commission.

Source: City of Milwaukee, annual adopted budgets and the 2013 Proposed Plan and Executive Budget Summary

To accommodate the \$3.3 million decrease in departmental expenditures, the proposed budget does include several modifications in departmental budgets, many of which it links to an effort to promote greater departmental efficiencies. Ostensibly, those efficiencies allowed for some reinvestment in priority areas and general efforts to sustain existing service levels. Other notable changes include instances in which expiring grant revenue is replaced with property tax levy, and a new intergovernmental agreement that produces additional resources for the Police Department. The following highlights key changes to departmental expenditure budgets.⁷

⁵ In the 2013 proposed budget, general fund expenditures decline by \$9 million, or 1.5%. However, \$8.2 million of that decline reflects the city attorney's opinion that the city is required to pay employee pension contributions on behalf of most city employees, thus preventing implementation of a 2012 budget proposal that required employee pension contributions. In 2012, \$8.2 million was tentatively budgeted in the general fund to accommodate that proposal, but it was never expended for that purpose and was redirected to the Employees' Retirement Fund.

⁶ General fund expenditures also include a \$1.1 million increase in workers' compensation costs in 2013.

⁷ Expenditure changes listed in this section only recognize costs budgeted in the general operating fund and not changes to appropriations supported by the grant and aid fund, though large aid reductions are discussed. Position changes, on the other hand, reflect the impact of both general fund and aid adjustments.

- *Police* – Expenditures increase by \$2.5 million (1%), with a total position decline of 16.5 FTEs.⁸ Sworn officers are reduced from 1,880 to 1,862 positions, which amounts to a 1% decline in police strength. Reductions will occur through attrition and a smaller recruit class.

The federal Community Oriented Policing Services (COPS) grant, a three-year ARRA grant that provides \$3 million to fund 50 officers annually, expires in the middle of 2013. The budget proposes a \$1.2 million property tax levy allocation to support those positions after July 1 and anticipates funding the positions entirely with tax levy in 2014, which would require an additional \$1.8 million.

The proposed budget also includes a three-year memorandum of understanding with Milwaukee County under which city police would patrol county parks within city limits and the lakefront and handle all cellular 911 calls, tasks previously performed by the Milwaukee County Sheriff. The city would receive a \$1.6 million payment from the county, of which \$1.3 million would be used to pay for additional overtime costs for park patrol and 11 new dispatch positions. The arrangement would net the city a financial benefit of about \$250,000.

- *Fire* – Expenditures decline by \$1.3 million, with a total position reduction of 3.1 FTEs. Since changes to health care benefits for firefighters occurred following the adoption of the 2012 budget, fringe benefit costs within the department decrease substantially from 2012.

One additional fire engine is removed from service in 2013, reducing the fleet to 32 engines. This action, in addition to the elimination of a Rescue Squad created in 2012, reduces positions by 18 FTEs. This position reduction allows for an increase in the 2013 fire cadet program of 13 FTEs, which continues an effort to increase diversity within the department. The department realizes savings amounting to \$732,000 from implementing a more predictable training schedule that substantially reduces expenditures for special duty pay.

- *Administration* – Expenditures within the Department of Administration (DOA) increase by almost \$1 million, or 11%, with positions increasing by 21.8 FTE. This is mainly attributable to an effort to provide a more centralized and efficient approach to the city's information technology (IT) structure by consolidating IT functions under the DOA umbrella. IT resources currently budgeted in the Department of Public Works – as well as the 28 FTEs in the Unified Call Center – are transferred to DOA.
- *Public works – Operations* – Appropriations decline by \$3.7 million, or nearly 5%, with a reduction of 11.2 FTE positions. The budget indicates that most of these adjustments are attributed to increased operational efficiency within the division. Charges for services increase by \$5.8 million, reflecting increases to the solid waste fee, garbage cart fee and bulky waste collection as previously described in the revenue section of this report.

⁸ We cite a \$2.5 million departmental increase, even though the budget document shows an increase of \$1.2 million. The discrepancy results from the fact that the police budget does not yet include \$1.3 million in additional revenue from the intergovernmental agreement with Milwaukee County. New revenue technically cannot be included in the budget prior to Common Council approval.

Adding to efficiencies noted above, residents will now need to place their garbage carts curbside all year round to allow for faster garbage collection, saving \$151,000. This step, in addition to a capital purchase of three fully automated garbage trucks, provides opportunities to maintain existing service levels while lowering expenditures. The proposed budget also includes \$35,000 to contract out barricade services and suggests the possibility for further privatization in the future for bulky waste collection and cart delivery.

- *Public works – Infrastructure* – Expenditures decline by \$2.2 million (6%). A savings of \$500,000 is produced from minor restructuring and unfunding vacant positions. Changes to existing operating procedures produce additional savings. For example, staff is eliminated to service street lighting circuit outages on weekends and on second and third shifts during week days. This will increase response times from 24 to 48 hours. Further savings accrue from changes in charges to residents for driveway and sidewalk repairs related to street reconstruction. Residents will be charged a standard rate rather than a charge based on property measurement, reducing the staff time needed to calculate the charge.
- *Library* – The library budget declines by \$1 million (4.5%) and 13.9 FTEs. Library hours are reduced at Central Library, with the library to open on Mondays at 12 p.m., rather than 9 a.m. Another adjustment is a reduction in reference services hours in six neighborhood libraries. These two initiatives combined save \$291,000. In addition, the Broadband Technology Opportunities Program grant, an ARRA-funded program, expires in July 2013, eliminating funding for 2.5 FTE Library Technology Specialist positions. Levy partially replaces this loss, supporting 1.7 FTEs for the remainder of 2013 at a cost of \$60,000. The library budget also includes a self-service vending library in keeping with the budget's long-term emphasis on enhanced efficiency.
- *Neighborhood services* – The budget proposes a transfer of the Development Center from the Department of City Development to Neighborhood Services, which accounts for most of a \$2.6 million (15.4%) expenditure increase in this department. The transfer will include initiatives to expedite the permit review and authorization process as well as to revamp the center's website so that it becomes more user friendly for developers. Four additional positions at a cost of \$258,000 are added to build capacity in this area.
- *City development* – The department continues to address the problem of foreclosures in 2013, with a proposal to add a position to work solely on foreclosed properties in the city's real estate portfolio. The proposed budget also includes \$150,000 in capital funding to improve foreclosed properties held by the city in order to prepare them for sale. An additional position is added to promote city property to manufacturing firms. On the negative side, the department will face a reduction in grant funding for small housing rehab projects, but instead of eliminating project staff, costs will be shifted to the property tax levy.
- *Health* – The proposed budget reduces the Health Department budget by \$556,000 (4.2%), with a decline of 14.9 FTE positions. A reduction in the lead abatement grants provided by the Department of Housing and Urban Development explains most of the position loss. While there is currently other grant support for lead abatement activity, this is a significant decrease that may impact service levels.

CAPITAL PROJECTS

The proposed capital improvements budget totals \$220.3 million, a decline of \$21.8 million from 2012. This will be the first year of a new six-year Capital Improvements Plan for the 2013-2018 period.

The city's largest capital program is the Major Streets program, which declines in 2013 by \$27 million, from \$78.3 million to \$51.3 million. Funding for this program is largely determined by the Southeast Wisconsin Regional Planning Commission's allocation of state and federal funding. The proposed budget does carry over \$18 million in authorized levy-supported borrowing, however, in an effort to help support the program at close to 2012 levels. The program is supported by \$50.9 million in county, state and federal aid as well as a \$435,000 local city match. The grant and aids level is lower than those of 2011 and 2012 (when ARRA funds boosted those levels), but higher than previous years. The 2013 funding includes support for 12 major street reconstruction projects.

Funding for water infrastructure increases, as the proposed budget seeks to elevate replacement of water mains to historical levels, with an \$8 million appropriation for this purpose. Water rate increases of roughly 3% annually are anticipated over the next few years to continue to build these investments.

City-funded capital projects for general fund departments declines by \$9.5 million, largely reflecting an \$11 million decrease in funding for tax increment financing districts (TIDs) resulting from project closings and the creation of fewer new districts. Levy-supported general obligation (G.O.) debt supports 72% of these projects, up from 65.5% in 2012, at a total of \$74.7 million. The projects that comprise the majority of this investment include \$14.5 million for the city's local street reconstruction program (an increase of \$200,000), \$9.8 for local bridge reconstruction (an increase of \$2 million), and \$8.5 million for improvements to city street lighting (an increase of \$300,000). These projects make up 44% of levy-supported G.O. debt.

Levy-supported projects also include a new High Impact Street initiative, with an investment of \$1.5 million. This program will focus on high traffic streets that are in poor condition and serve an area with significant employment. In addition, another substantial capital increase is proposed for the Police Administration Building, with \$5.8 million for continued remodeling.

Overall, the proposed capital budget demonstrates the administration's continued prioritization of investments to expedite the replacement cycle for local streets and its intent to try to keep pace with the needs of the city's other aging infrastructure. Its ability to do so will be challenged, however, by the severe pressures described above on the city's operating budget, which necessitate efforts to control annual property tax-funded debt service payments.

CONCLUSION

Elevated pension payments dominate the 2013 budget and likely will continue to do so for the foreseeable future. Because of the foresight exhibited in the last two budgets, the impact in 2013 is manageable. The 2013 proposed budget “only” needs to come up with an additional \$15.9 million to support a \$59.3 million employer pension contribution. It does so largely through a mix of departmental efficiency initiatives and increased service charges, while also benefiting from continued controls on health care spending produced by the major changes adopted in 2012.

With a new state budget looming and the pension reserve fund shrinking, the next few years may not be as manageable. Responding to that concern, the budget lays out a set of guiding principles to navigate upcoming challenges. While details have yet to be determined, the budget suggests that \$65 to \$75 million of structural improvements will be produced by reducing the city’s workforce by 400 to 600 positions and pursuing efficiencies through resizing and restructuring initiatives. The precise ways in which these workforce reductions and efficiency savings will be achieved could be contentious, but the guiding principles provide a basis for attacking the problem in a strategic manner.

While the 2013 proposed budget largely maintains existing service levels and keeps position reductions at a minimum, it is highly questionable whether enough efficiency can be identified in departmental operations in future years to achieve the needed savings without reducing services. The answer to that question will depend, in part, on the approach the city takes to the revenue side of the equation (including the disposition of city leaders toward increased reliance on municipal service charges), as well as how shared revenue fares in future state budgets. Potential changes to pension fund accounting and funding requirements also could provide relief. In the end, however, it is hard to imagine a scenario under which difficult decisions will not have to be made to reduce service levels in lower-priority areas so that high-priority areas may be maintained.

Overall, the 2013 proposed budget continues the tradition of recent budgets by responsibly confronting immediate problems while not losing sight of the future. Unfortunately, the set of circumstances that has converged to shape that future suggests the problems will grow far more difficult, and the solutions more painful.