BUDGET BRIEF:

2014 PROPOSED
CITY OF MILWAUKEE BUDGET

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INTRODUCTION

If it was not clear in previous budgets, the importance of the decision to build a sizable pension reserve fund in the aftermath of the economic recession shines through in the City of Milwaukee's 2014 proposed budget. Recognizing the challenges to come after the 2008 stock market plunge, city leaders took steps to shield key programs and services from the potentially devastating consequences of a huge new annual pension obligation. Foremost among those steps was a decision to contribute more than $40 million to a pension reserve over 2011 and 2012 to prepare for a 2013 employer contribution that was projected to rise by more than $60 million.

While the pension obligation remains daunting – at nearly $62 million for the employer share in 2014 – the impacts have been alleviated by withdrawals from the pension reserve, as well as recent policy changes that eliminate wide swings in annual pension payments. In fact, the city's budget planning was so in tune with its short-term financial needs that the general purpose budget actually increases in 2014, despite the ongoing challenges associated with pension costs and flat state revenues. This task is accomplished not only through the use of the pension reserve, but also through heightened use of the tax stabilization fund (TSF), increases in charges for services, reductions to tax levy-supported debt service, and a modest property tax levy increase.

In addition, the 2014 budget benefits greatly from savings realized through significant alterations to employee and retiree health care. Changes adopted in 2012 – several of which were aided by new flexibility granted under Wisconsin Act 10 – ended up saving $37 million, which was $9 million more than originally anticipated. As a result, the 2014 budget benefits not only from another substantial reduction in baseline health care costs, but also from an increased withdrawal from the TSF, which was the recipient of the excess health care savings realized in 2012.

Despite these fortuitous circumstances, the 2014 proposed budget continues to make additional adjustments per its Sustainability Plan, a set of strategic principles and objectives laid out in the 2013 budget to respond to structural challenges. In fact, the budget notes that while additional funds have been provided for certain "limited term initiatives" – including a new Strong Neighborhoods Investment Plan that will address the impacts of foreclosed properties – baseline operations have been reduced by $4 million. In addition, a few notable areas that see increased local resources – including the Milwaukee Police Department – will not necessarily see a boost in service levels, but will simply be made whole from the loss of expired federal grants.

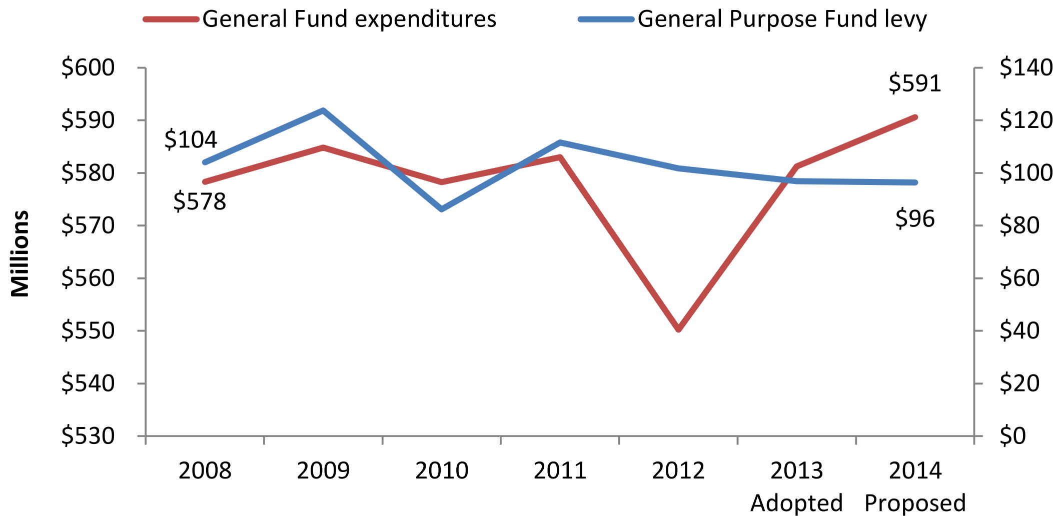
Given the city's substantial pension contribution, stagnant state aids, state-imposed property tax limits, and $7.6 million in expiring grants, maintaining services at existing levels is no small task. When measured against that objective, the 2014 proposed budget receives a high grade, as well as extra credit for its foreclosure initiative and continued diligence on local street repairs. For those anticipating multiple new initiatives or vigorous responses to issues like crime and poverty, however, the budget may disappoint, though any such disappointment must be couched with an understanding of the very challenging financial cards the city has been dealt.

In the pages that follow, we provide more detailed analysis of the major changes in revenue and expenditures in the 2014 proposed budget, and the manner in which the city has adhered to its key strategic objectives and its multi-year fiscal sustainability plan. Our objective is to provide an independent assessment of the city's fiscal circumstances and outlook that will encourage informed deliberations on its 2014 budget.

2014 BUDGET THEMES

The thread that has linked the last four city budgets – an effort to realign city finances to accommodate the need for higher pension fund contributions – remains in 2014. Much of that realignment already has occurred thanks to a judicious build-up of pension reserves. Nevertheless, in 2014, city leaders still need to identify ways to reallocate property tax levy to provide greater pension support, while finding other methods to backfill lost levy from city departments to avoid significant cuts in service.

Figure 1: Growth in general purpose expenditures and general purpose property tax levy



Source: City of Milwaukee, annual adopted budgets and the 2014 Proposed Plan and Executive Budget Summary

Since 2010, the need to steer increasing amounts of property tax levy resources to the city's pension fund has resulted in declining use of levy to support the general purpose budget, as shown in **Figure 1**. At the same time, however, the city managed to increase general purpose spending in 2013 and proposes to continue to do so in 2014. The 2014 budget contains new strategies for accomplishing this feat, including greater use of a newly robust tax stabilization fund and enhanced charges for services.

Overall, the proposed budget recommends a $9.3 million expenditure increase for general city purposes, while decreasing the use of property tax levy in that part of the budget by $531,000. Substantial new investments are made in the city's Strong Neighborhoods initiative to mitigate the impacts of foreclosed properties, and local support is provided to fill gaps in several priority areas that otherwise would have been hit hard by losses in grant revenues. A prime example is the proposal to steer additional local resources to the Milwaukee Police Department to maintain officers who had been funded through a three-year American Recovery and Reinvestment Act (ARRA) grant that expired in June of this year.

The proposed budget also continues to follow the Sustainability Plan adopted last year, which provides a multi-year framework to guide budget decisions in a manner that will ensure long-term financial stability and service solvency, while accommodating increased pension payments and flat state aids. The plan originally identified a $65 to $75 million structural imbalance and cited the possible need to cut up to 600 positions through 2016. Actions taken in the 2013 budget and during the year have yielded $38 million in structural improvement, leaving a remaining gap of $30 to $35 million to bridge over the next three budgets. The 2014 proposed budget does not contain any major program cuts, but continues to chip away at the gap mainly through efforts to achieve greater efficiency in city operations.

ANALYSIS OF SIGNIFICANT 2014 BUDGET CHANGES

In this section, we further describe the major revenue and expenditure items in the 2014 proposed budget that reflect the themes discussed above and that illustrate key components of the city's 2014 budget framework.

Major Revenues

Several significant revenue adjustments occur in the 2014 proposed budget, including a 34% increase in the withdrawal from the tax stabilization fund, as shown in **Table 1**. Other significant changes include a 4.4% increase in municipal charges for services, which largely stems from increases in the solid waste charge, garbage cart fee, and snow and ice control fee. The overall property tax levy increases by 1.6%, though the amount dedicated to general purpose spending continues to decline and reflects the added amount of levy required for the Employees' Retirement Fund.

Table 1: City of Milwaukee major revenues, 2013 adopted and 2014 proposed budget

Revenue Category	2013 Adopted	2014 Proposed	Difference	% Change
Intergovernmental Revenue	$259,575,900	$259,743,700	$167,800	0.1%
State shared revenue	$218,694,000	$218,752,000	$58,000	0.0%
Other revenue	$40,881,900	$40,991,700	$109,800	0.3%
Property Tax Levy*	$250,390,854	$254,368,082	$3,977,228	1.6%
Charges for Services	$112,222,821	$117,121,258	$4,898,437	4.4%
Licenses, Fees & Fines	$18,928,360	$18,678,000	($250,360)	-1.3%
Taxes and Payment in Lieu of Taxes	$16,519,800	$17,931,000	$1,411,200	8.5%
Miscellaneous Revenue	$38,244,400	$36,495,400	($1,749,000)	-4.6%
Tax Stabilization Fund Withdrawals**	$14,900,000	$20,000,000	$5,100,000	34.2%

**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 2014 proposed budget, newly proposed fee increases 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 2014 Proposed Plan and Executive Budget Summary

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

- ***Property Tax*** – The proposed budget increases property tax levy by about $4 million, or 1.6%, to $254.4 million. This increase is in line with state-imposed limits on annual increases in the amount of property tax that can be levied by municipalities, which are largely based on the amount of net new construction experienced in the previous year. In 2013, net new construction equated to 1.13% of the city's 2012 equalized value, but the city was able to exceed that amount because of an exception regarding repayment of debt issued prior to 2005. The property tax rate (i.e. the amount levied per $1,000 of assessed value) increases 3.5%, from $10.25 in 2013 to $10.61 in 2014. The fact that the property tax rate has a higher incline than the overall property tax levy reflects continued diminishing property values within the city. The typical homeowner would pay an additional $4.85 in the city portion of his or her property tax bill in 2014 under the proposed levy.

  While the proposed property tax levy increases by only $4 million, the distribution of tax levy resources changes more dramatically. As shown in **Table 2**, levy dedicated to general city purposes and city debt decrease by $531,000 and $6 million respectively, while almost $10.5 million more is directed collectively to the pension fund and capital investments. Since 2010, in response to devalued pension fund assets, the city has directed $50 million in property tax levy to support pension costs, of which $32.4 million has been redirected from other areas of the city budget.

Table 2: Annual changes in property tax levy support by fund*

	2010	2011	2012**	2013 Adopted	2014 Proposed	Total change since 2009
Total property tax levy	$242,650,107	$246,179,987	$243,069,669	$250,390,854	$254,368,082	
Change from prior year	*$5,969,579*	*$3,529,880*	*($3,110,318)*	*$7,321,185*	*$3,977,228*	*$17,687,554*
Change in levy by fund:						
Employes' Retirement Fund	$45,956,100	($21,831,530)	$6,203,487	$13,481,863	$6,229,389	**$50,039,309**
General Purpose Fund	($37,553,630)	$25,387,681	($9,864,070)	($4,839,569)	($530,514)	**($27,400,102)**
City Debt	($1,547,070)	$90,327	($471,807)	($965,328)	($5,962,647)	**($8,856,525)**
Capital Improvements	($885,821)	($116,598)	$1,022,072	($355,781)	$4,241,000	**$3,904,872**
Total combined funds	**$5,969,579**	**$3,529,880**	**($3,110,318)**	**$7,321,185**	**$3,977,228**	**$17,687,554**

**Property tax levy also goes to support the city's Contingency Fund, however, that fund has remained at $5 million throughout this timeframe.*
***The 2012 amounts reflect the city attorney's opinion that the city is required to pay for the employee pension contribution on behalf of city employees, thus requiring use of $8,200,000 in levy that had been tentatively budgeted in a special purpose account within the general fund.*
Source: City of Milwaukee, annual adopted budgets and the 2014 Proposed Plan and Executive Budget Summary

The $6 million reduction in property tax that is dedicated to debt service masks an $11 million *increase* in the city's general debt service payments in 2014. The levy reduction is accommodated by a $7 million draw in unassigned fund balance from the debt service fund, a funding source that is used for the repayment of outstanding debt. The rationale, according to budget officials, is to free up tax levy to support "limited-term" increases to the capital budget. While the city's short-term capital needs may justify this action, withdrawals of this magnitude from the debt service fund may not be sustainable in future years, thus adding more pressure on the property tax levy if overall debt service is not reduced and capital needs continue to be pressing.

While the amount of property tax levy dedicated to general purpose expenditures declines by about a half a million dollars in the proposed budget, this is a far smaller reduction than occurred in 2012 and 2013 ($9.9 million and $4.8 million respectively). The effort to hold the general purpose levy contribution relatively steady helps support the overall general purpose expenditure increase of $9.3 million – resulting in the highest spending level since 2009.[1]

The city's Sustainability Plan includes an objective to limit the combined percentage of property tax levy allocated to employer pension contributions and debt service through 2016 to 60% or lower. In 2014, tax levy dedicated to debt service and the employer pension contribution will equal $128 million, approximately 50% of the overall tax levy. Should debt service levy continue to increase only modestly (or decline), then the city will have greater capacity to direct levy toward its pension costs.

- ***Charges for services*** – Charges for services increase by 4.4%, raising an additional $4.9 million in general operating support. This increase is linked largely to better-than-anticipated revenue results in 2013 and increases in service fees that were approved following adoption of the 2013 budget.

[1] In 2009, actual general purpose fund expenditures amounted to $584.9 million, which was an increase of $6.6 million from the 2008 level.

About $2.2 million of the additional revenue is linked to fee increases that are designed to better capture the costs of providing certain services. In keeping with an initiative that began in 2010 to incentivize waste reduction and greater recycling, the 2014 budget proposes an $8 increase to the fee for additional garbage carts beyond the first, bringing the annual cost of each additional cart to $60 ($15 quarterly). This accompanies a $7.20 increase to the solid waste fee for the first garbage cart, to $187 annually. These heightened charges will allow the city to capture 92% of the costs associated with garbage collection/recycling and – combined with adjustments to construction debris charges – will generate an additional $1.7 million in 2014. The city also will continue to capture 100% of snow and ice removal costs by increasing the snow and ice control fee by one dollar, bringing the annual cost to $34.23 for a typical property. This will generate an additional $270,000.

In order to keep up with maintenance of city sewers, there are also 5% increases to the storm water management fee and local sewerage charge. These increases are expected to generate $1.8 million in new revenue for 2014. Such increases have been typical in recent years and are expected to continue to rise should there be additional investment in mitigating private property infiltration and inflow.

The revenue generated by charges for services continues to trend upward both in terms of the dollar amount and as a percentage of general purpose revenues, as seen in **Table 3**. As state aids have stagnated and greater amounts of property tax levy have been redirected toward pension costs, general departmental spending has become more reliant on support from municipal service charges. The table reflects this point, showing an inverse relationship between property tax levy growth and the growth in charges for services. In fact, charges for service revenue now comprises a larger percentage of general purpose revenues than the property tax, at 19.8% versus 16.3%.

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

	2009	2010	2011	2012*	2013 Adopted	2014 Proposed	*% Change*
Total General Purpose Revenues	$603.7	$576.4	$606.4	$597.0	$581.3	$590.6	*-2.2%*
Property Tax Levy	$123.7	$86.2	$111.6	$101.7	$96.9	$96.3	*-22.1%*
% of All GF Revenues	*20.5%*	*15.0%*	*18.4%*	*17.0%*	*16.7%*	*16.3%*	
Charges for Services**	$96.3	$102.4	$108.7	$113.9	$112.2	$117.1	*21.7%*
% of All GF Revenues	*15.9%*	*17.8%*	*17.9%*	*19.1%*	*19.3%*	*19.8%*	

**The 2012 amounts reflect the city attorney's opinion that the city is required to pay for the employee pension contribution on behalf of city employees, thus requiring use of $8,200,000 in levy that had been tentatively budgeted in a special purpose account within the general fund.*
***In the 2014 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 2014 Proposed Plan and Executive Budget Summary

This change in the revenue mix for the city's general purpose budget is likely to remain for the foreseeable future and may be unavoidable given the financial circumstances described above. However, with charges for services now capturing close to 100% of costs, future growth will be limited and may not be able to keep up with the loss of general purpose property tax levy to support pension costs.

The city's Stabilization Plan establishes a policy goal of limiting the annual increase in combined property taxes and service charges for a typical resident to no more than 3% annually. In 2014, the typical Milwaukee homeowner would experience an increase of $13.59 in municipal service fees and a property tax increase of $4.85. This combined increase of $18.44 is a 1.3% increase from the 2013 adopted budget and falls well within the city's strategic objective.

- ***Intergovernmental revenue*** – Revenue from other government entities is the largest source of general purpose revenues, representing roughly 45% of general purpose support annually. The main component of this category is state shared revenue, which is budgeted at $218.8 million in 2014. Both state shared revenue and overall intergovernmental revenue have been relatively flat in 2013 and 2014 after falling significantly in 2012 (overall intergovernmental revenue decreased by $13 million, including a $9.7 million cut in state shared revenue). As noted above, the stagnant nature of this revenue source places considerable additional pressure on local revenue sources.

- ***Payment in lieu of taxes (PILOTs) and other taxes*** – This revenue category increases by $1.4 million in 2014 (8.5%) to a total of $17.9 million. This increase is caused largely by the anticipated receipt of $1.6 million in additional revenue from the closure of tax increment districts, which will be used to support the city's foreclosure initiative.

- ***Miscellaneous revenues*** – The budget includes $36.5 million in miscellaneous general purpose revenue, a decline of $1.7 million. This largely reflects a $1.3 million reduction in the transfer from the city's parking fund, which is the repository for revenues collected from city-owned parking lots and meters. The transfer amount of $17.3 million is the lowest transfer to the general purpose fund since 2008 and continues several years of decline since 2010.

  This trend is expected to continue, as expenditure pressures to the parking fund from debt service and pension costs, as well as declining revenues, are expected to reduce the transfer to the general purpose fund to $15 million by 2017. Though this reduction may be necessary in light of the needs of the parking fund, it will exacerbate pressure on the already-challenged resources that currently support general city operations. The ability for the parking fund to maintain even $15 million in support for general city operations may further diminish should parking fund revenues be needed to support a new streetcar system, as has been previously discussed by some city leaders.

  Moreover, the proposed budget includes a new annual payment from the parking fund to the Bradley Center in the amount of $175,000, which will be provided for the next five years. This initiative reflects the substantial use of the city-owned parking structure at 4th and Highland by Bradley Center patrons. The $175,000 payment amounts to roughly 35% of the revenue generated by the structure. The Bradley Center will use that funding for repairs and maintenance on the 25-year-old facility. This proposal comes during a challenging time for the parking fund and during a period of deliberations over the future of the Bradley Center.

- ***Tax Stabilization Fund (TSF)*** – The 2014 proposed budget increases the TSF withdrawal by $5.1 million to $20 million, a 34% increase from 2013. As seen in **Table 4**, this would be the first time since 2009 that the TSF withdrawal would exceed $20 million. Overall use of the city's varied reserve funds decreases in the 2014 budget when compared to 2013, however.

Table 4: History of Tax Stabilization Fund balances and withdrawals (millions)

	2007	2008	2009	2010	2011	2012	2013	2014 Proposed
Balance prior to withdrawal	$46.6	$58.9	$44.8	$25.5	$29.1	$29.2	$35.0	$59.8
TSF Withdrawal	$23.2	$29.4	$22.4	$13.1	$14.6	$13.8	$14.9	$20.0
Change from prior year	42.9%	27.1%	-24.0%	-42.6%	12.7%	-6.7%	8.2%	34.2%
Withdrawal as % of fund balance	52.0%	50.0%	50.0%	51.3%	50.2%	47.1%	42.6%	33.4%

Source: City of Milwaukee, annual adopted budgets and the 2014 Proposed Plan and Executive Budget Summary

The TSF is an important source of reserves that is replenished through unexpended appropriations and unanticipated revenue surpluses. At the end of 2012, $39.7 million in surplus funds "lapsed" (i.e. were transferred) into the TSF, which left the TSF with a fund balance of $59.8 million following the $14.9 million 2013 withdrawal. A lapse of this magnitude has not been seen since 2006, when the city realized $35.4 million in unspent appropriations and surplus revenues.

The 2014 withdrawal of $20 million is 33.4% of that fund balance, which is considerably lower than the more typical withdrawal of 50% seen in prior years. **Table 5** provides a breakdown of the factors that contributed to the $39.7 million lapse to the fund, which has given the city greater capacity for TSF withdrawals. The most impactful elements include a $9.7 million health care expenditure surplus, $4.9 million in excess health care revenues, and $9.1 million in unanticipated revenues from Department of Neighborhood Services (DNS) and Department of Public Works (DPW) charges for services.

Table 5: Factors contributing to 2012 lapse to the Tax Stabilization Fund (millions)

Expenditures under budget	Savings	Revenues over budget	Savings
Health Care Expense	$9.7	Excess health care revenues	$4.9
Social Security	$1.0	Excess DNS revenues	$3.7
Pension - Employee Share	$1.6	Excess DPW revenues	$5.4
Wages Supplement Fund	$2.8	Other excess revenue from charges, licenses and permits	$2.7
Port	$0.7	Unanticipated intergovernmental revenues	$0.6
Wages	$1.5	Excess Port of Milwaukee lease revenues	$0.7
Operating Expenses	$1.2	Unanticipated PILOTs	$0.6
		Fringe Benefit Offset	$0.6
		Miscellaneous	$2.0
Total Expense	**$18.5**	**Total Revenue**	**$21.2**
Total lapse to the TSF of $39.7			

Source: Provided by the City of Milwaukee's Budget and Management Division

The elevated withdrawal in 2014 appears defensible given the size of the 2012 lapse and the reduced use of other reserves, as well as the desire to maintain key city services while dedicating greater sums of property tax levy to support pension costs. In fact, the additional $5.1 million in TSF revenue allocated to the general purpose fund is a major contributor to the budget's ability to secure an overall $9.3 million increase in general operating expenditures. A word of caution, however, is that the TSF is unlikely to be able to continue to provide this level of operating support in the future. The hope is that the amount of property tax levy needed to support pension costs will stabilize, which will reduce demand on the TSF as annual inflationary increases in local revenue sources can once again be dedicated to general purpose expenditures.

Major Expenditures

As noted above, the need for elevated pension expenditures has taken center stage in every city budget since 2010. A major source of relief, however, has been anticipated and unanticipated health care savings, which not only have helped the city manage its pension costs, but also have provided resources for greater investment to combat the city's foreclosure challenges and in other city services. The following discussion reviews the city's evolving employee/retiree compensation picture and describes key departmental expenditure changes.

Pension

The employer pension contribution for 2014 amounts to $61.6 million, which the administration proposes to fund with $13.4 million in reserves; the $40.9 million of property tax levy already built into the budget from the 2013 payment; and $7.3 million in additional property tax levy.[2] The city projects pension payments from 2015 through 2018 to be a stable $63 million per year and anticipates that the annual payment will be fully supported by property tax levy (as opposed to reserves) by 2017.

The city has prioritized efforts to stabilize its annual pension payments in order to avoid large annual deviations that would disrupt city services. Its strategies have included not only the effort to build a sizable pension reserve fund in the 2011 and 2012 budgets, but also the formation of a pension study task force to review and modify pension fund policies and assumptions with an eye toward reducing or smoothing out contribution requirements without sacrificing the fund's healthy actuarial status. The success of those efforts is demonstrated by the decline in the projection for the 2014 employer portion of the pension payment, which was $77 million in 2012, was later reduced to $68 million, and now stands at $61.6 million.

The first revision to the 2014 pension contribution projection resulted from an actuarially approved stable contribution policy adopted in 2013 that links annual payments to a percentage of payroll (currently 17.3%). Subsequent revisions resulted from two recent developments. First, an experience study found lower-than-expected pension liability growth as a result of lower salary growth, which saves $2 million. Additionally, the city has accelerated payment of required plan year contributions, paying contributions 12 months in advance to avoid $4 million in interest costs.

Beginning in 2019, pension contributions will reflect the results of changes to plan design for new general city employees hired on or after January 1, 2014. The new plan design changes were part of the city's pension study task force report and include an increase in the normal retirement age (from 60 to 65 years of age); a reduced pension multiplier (from 2% to 1.6%); and delayed cost of living increases for those receiving pension payments (from the second year of retirement to the fifth year). These adjustments already have been approved by the common council and are anticipated to save $93 million collectively over 20 years.

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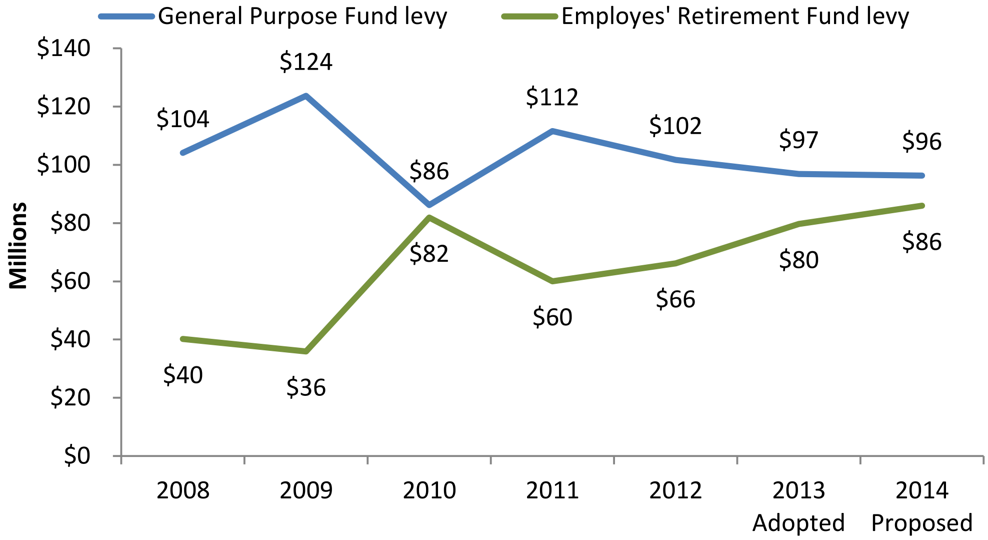
[2] The city currently is barred from using the provision granted under Wisconsin Act 10 that requires non-public safety employees to contribute toward the cost of their pensions. The city attorney has opined that the city must continue to pay those contributions on behalf of employees, citing the city's 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.

The city will continue to balance the use of pension reserves and property tax levy in order to support annual pension payments and shield departments from significant expenditure reductions in the next three budgets. As shown in **Figure 2**, despite that balancing act, the amount of property tax levy dedicated to the pension fund is now only $10 million below the amount earmarked for general city operations.

Figure 2: Correlation between annual changes in general purpose and pension fund property tax levy*



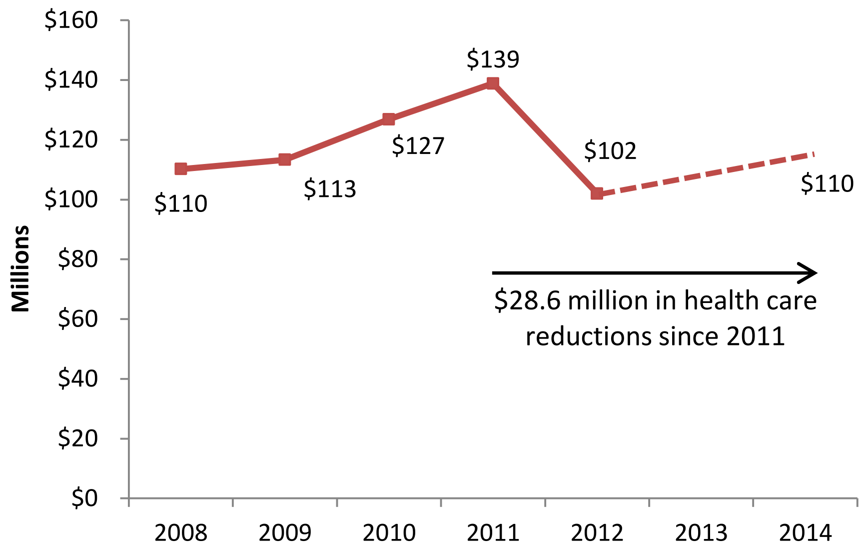
**2012 reflects the city attorney's opinion that the city is required to pay for the employee pension contributions on behalf of city employees, thus requiring use of $8,200,000 in levy that had been tentatively budgeted in a special purpose account within the general fund.*
Source: City of Milwaukee, annual adopted budgets and the 2014 Proposed Plan and Executive Budget Summary

The pension reserve stood at $42.6 million at the end of 2013 and will be reduced to $29.2 million if the proposed 2014 withdrawal of $13.4 million is approved. Budget officials anticipate drawing on the pension reserve through 2016, after which the employer pension contribution would be fully financed through property tax levy. Based on the current schedule for withdrawing pension reserves and anticipated pension contribution levels, the city still will need to find $14.8 million in property tax levy to support pension costs once the reserve is exhausted.

Health care

Health care costs for 2014 decrease by $8.5 million from the 2013 adopted budget. The city is still benefiting greatly from health care benefit changes adopted in 2012, including its decision to move to a self-funded plan and to take advantage of the flexibility granted under Wisconsin Act 10 to increase employee premiums, co-pays and deductibles. The city also has achieved about $1.3 million in savings related to employee participation in a tobacco reduction initiative and other elements of its wellness program. As previously mentioned and shown in **Figure 3**, the city achieved nearly $37 million in health care savings in 2012. Health care spending in 2014 is projected to be at about the same level as experienced in 2008, which is a remarkable feat given the overall rate of health care inflation in southeast Wisconsin.

Figure 3: Annual change in budgeted and actual health care costs, 2008 to 2014



Source: City of Milwaukee, annual adopted budgets and the 2014 Proposed Plan and Executive Budget Summary

The city also has adopted health care changes that will take effect at the beginning of 2014, including an increase in the employee share of the premium for general city employees for its more expensive Preferred Provider Option (PPO) plan. This change essentially increases the percentage of the PPO plan paid by employees from 12% to 25%, and it equates to an increase in the single and family PPO plans of $97 and $290 respectively. Police union members continue to pay similar shares for both the PPO and lower-cost plans. **Table 6** reflects the new premium costs that will take effect in 2014.

Table 6: 2014 Monthly EPO and PPO premium rate comparison

	General city employees				Police Union			
	EPO		PPO		EPO		PPO	
	Single	Family	Single	Family	Single	Family	Single	Family
Total monthly premium cost	$621.76	$1,865.28	$731.48	$2,194.42	$621.76	$1,865.28	$731.48	$2,194.42
Employee monthly premium	$74.62	$223.84	$184.34	$552.98	$64.62	$203.84	$77.78	$243.34
Employer share as % of total	12%	12%	25%	25%	11%	11%	11%	11%

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: 2014 Rate Chart for Active Employees provided by the city.

The 2014 proposed budget also includes a second phase of the city's wellness program, which involves an incentive program that provides a $150 reward to employees who take part in an assessment process and who reach certain biometric and activity-related goals. The $150 incentive payment is placed into the participant's health reimbursement account.

Budget officials anticipate annual health care increases of 4% in future years, which is less than half of the 9% that was typically assumed prior to the 2012 health care benefit changes. Nevertheless, despite the city's impressive efforts to control the growth of health care costs, even a 4% rate of growth adds nearly $4.4 million of expenditure pressure to the city budget each year. In light of the city's relatively flat revenue streams and other expenditure pressures, those costs will continue to present a formidable challenge.

Salary and wages

While the proposed budget does not specify salary increases for 2014, $7.9 million is budgeted in anticipation that wage increases may occur. The proposed budget leaves the use of furlough days unchanged, which would make this the sixth consecutive year in which the city has relied on furloughs to help balance its budget. The budget proposes three furlough days , which would apply to all general city employees and police officers, saving $3.5 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, and the fact that furloughs have now been employed in six consecutive budgets, it does appear that furloughs have become an annual budgeting tool to which city employees should become accustomed.

Foreclosure initiative

The city continues to struggle with the economic and social impacts of the dramatic increase in home foreclosures that emanated from the economic recession. In response, the 2014 proposed budget includes a new Strong Neighborhoods Investment Plan, a multi-year strategy that includes an additional $7.6 million in 2014 (bringing total foreclosure-related spending to $11.6 million) to address foreclosure issues on a number of fronts.

The Department of City Development (DCD) is at the center of this initiative, though DNS and DPW also have prominent roles. In addition, a new Interagency Housing Coordinator is created in the mayor's office to help manage and coalesce these resources. The distribution of operating and capital appropriations allocated to this effort is shown in **Table 7**.

Table 7: Breakdown of appropriations dedicated to the foreclosure initiative

	Mayor	DCD	DNS	DPW	2014 Total	2013 Total	*$ Change*
Operating	$78,933	$1,060,016	$1,859,349	$3,145,000	$6,143,298	$3,284,961	*$2,858,337*
Capital		$2,400,000	$2,220,000	$707,000	$5,327,000	$600,000	*$4,727,000*
Grant and aids		$99,090			$99,090	$91,980	*$7,110*
	$78,933	**$3,559,106**	**$4,079,349**	**$3,852,000**	**$11,569,388**	**$3,976,941**	***$7,592,447***

Source: Provided by the City of Milwaukee's Budget and Management Division

A particular focus will be on mitigating (and in some cases demolishing) foreclosed properties that are now owned by the city itself. From 2009 to 2013, the city's inventory of foreclosed properties has grown by 300%, from 267 to 1,062. About $8.4 million of the $11.6 million investment will go toward mitigation/demolition, including $5.3 million to demolish 300 abandoned or foreclosed homes, including 100 city-owned properties. A new demolition crew will be created within DPW to handle city-owned properties, adding six FTEs for a cost of $289,000, and additional equipment at a cost of $707,000 in the capital budget. DNS also will receive an additional $2.2 million in capital support for demolition activity. Land management and property maintenance activities – including mowing and debris removal – will receive an extra $1.3 million.

DCD will use the staffing and program infrastructure of the once federally-supported Neighborhood Stabilization Program to focus largely on revitalization and renewal of foreclosed homes and their surroundings. The proposed budget includes $2.7 million for these efforts, an increase of $1.9 million from 2013.

Finally, DNS will continue to work on prevention efforts, receiving an additional $65,000 to double the size of the city's Maintenance and Essential Services program. The program will now offer no-interest deferred payment loans to low-income owners of properties that are in need of repairs in order to avoid fees related to code violations.

Departmental Highlights

Despite the substantial pension-related pressures discussed throughout this report, the proposed budget includes a $9.3 million increase in overall general fund expenditures, from $581.3 million to $590.6 million. As previously discussed, this increase is not supported by an increase in general purpose property tax levy, but by a $4 million increase in municipal service charges and a $5.1 million increase in the withdrawal from the TSF.

Overall, the ability to secure additional resources to support the general fund allows city departments to maintain current service levels and largely absorb inflationary "costs to continue," and most departments only see modest modifications to their budgets. Continued efficiencies that are part of the city's Sustainability Plan have allowed for some reinvestment in priority areas, however, and expiring grant revenue is replaced with new general purpose support in some instances, though in others departments have been required to absorb the loss.

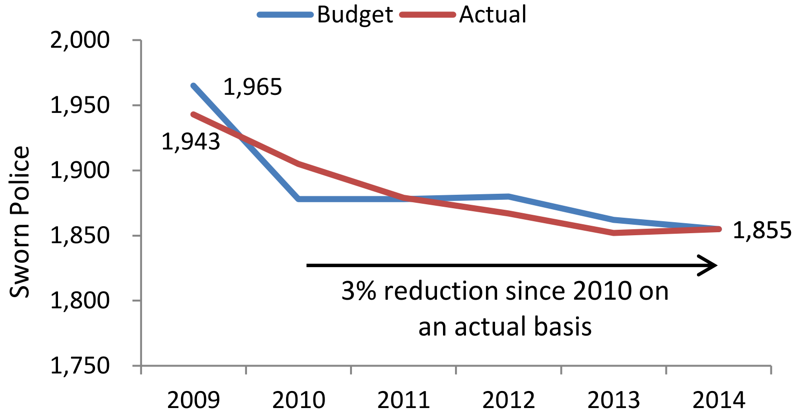
The following highlights key changes to departmental expenditure budgets in the 2014 proposed budget. [3] It is important to note that there remains $7.9 million in unallocated salary and wage increases that have yet to be allocated to departmental budgets.

- *Police* – Expenditures increase by $6.2 million (2.6%), with no change to overall positions but an increase of 20.5 full-time equivalent (FTE) positions funded through local funds. The expenditure increase is mostly attributed to $4.2 million in increased fringe benefit expenditures within the department. The remaining growth largely reflects the expiration of the federal Community Oriented Policing Services (COPS) grant, a three-year ARRA grant that was secured in 2010 and has provided $3 million to fund 50 officers annually. The grant expired in June 2013, and the 2013 budget added property tax levy funding to support those positions for the remaining six months of the year. The 2014 budget proposes funding those positions for a full year at a salary cost of $1.8 million.

  While the COPS grant aimed to help cities sustain their police forces after the economic recession and undoubtedly helped Milwaukee to do so, budgeted police strength at the 2014 proposed level will have fallen by 23 positions since the start of the grant, while actual levels will have fallen by 50 positions, as seen in **Figure 5**. In 2014, the sworn police strength will be relatively unchanged from 2013, falling from 1,862 to 1,855 positions on a budgeted basis, but growing by three officers on an actual basis.

[3] 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.

Figure 5: History of police strength, budgeted versus actual



Source: Provided by the City of Milwaukee's Budget and Management Division

It also should be noted that the city is moving to free up more officers to police the streets by replacing sworn officers with civilian employees to handle data collection and management. The budget proposes the creation of eight new civilian positions for a salary cost of $250,000.

- *City Development* – The budget provides a $499,473 (16%) increase for DCD, largely resulting from the foreclosure initiative. DCD is at the center of addressing the city's foreclosure problem and has been provided both operating and capital resources to be used in conjunction with resources provided in the mayor's office, DNS and DPW for foreclosure mitigation, revitalization and renewal.

- *Neighborhood Services* – DNS receives an additional $976,630 in expenditure authority, an increase of 4.9%. Roughly one-third of this increase relates to a shift of the garbage cleanup contract for privately-owned properties from DPW to DNS. The budget also includes an additional $65,000 to double the funding for the Essential Services and Compliance program that offers certain low-income property owners no-interest deferred payment loans for needed repairs to correct code violations and avoid fines. The budget also funds two new Special Enforcement inspectors who will work with police and the city attorney to resolve nuisance complaints after hours and on weekends.

- *Public Works – Operations* – Expenditures increase by $4.4 million (5.8%), with a reduction of 1.4 FTE. About $2.4 million of this increase is linked to the foreclosure initiative, which includes funding for an in-house demolition program and additional funding for maintaining the exteriors of city-owned properties acquired through foreclosure.

  The department continues to seek greater operational efficiencies to lower costs while maintaining current service levels. The proposed budget includes a capital purchase of three additional fully automated garbage trucks to increase the number of one-person routes, an initiative that began with a similar capital purchase in 2013. The budget also requires residents to set out garbage and recycling carts year round, rather than just during summer months, for additional savings.

  As described earlier in the revenue section of this report, charges for services increase by $4 million, reflecting increases to the solid waste fee, garbage cart fee, and snow and ice control fee.

- *Public Works – Infrastructure* – Spending essentially is unchanged, declining by $98,636, or 0.3%. There is an increase of 31.3 FTE positions which largely reflects minor miscellaneous position adjustments to reflect departmental experience. Changes to existing operating procedures produce additional savings, including a new initiative for the department to perform repairs on electrical and communication manholes in-house, as opposed to contracting for those services. The department estimates that this adjustment will cut costs by 50% by eliminating the need to create design specifications for repairs as currently required by outside vendors. Funding for four additional FTEs is provided for the new in-house operation.

- *Fire* – Expenditures increase by $663,685, or just under 1%, with a total position reduction of 8.2 FTEs. One fire company is removed from service in 2014. This results in roughly $1 million in reduced costs and a reduction of 11 FTEs.

- *Library* – Library appropriations increase by $174,478, an increase of less than 1%, and 2.6 FTEs are added. This level of resources allows city libraries to maintain existing hours of operation. The proposed budget also offsets the expiration of the Broadband Technology Opportunities Program grant, an ARRA-funded program that expired in July of 2013, and re-dedicates general operating support to the six previously grant-funded Technology Specialist positions. In order to absorb these costs as well as other new initiatives within an essentially flat 2014 budget, however, small adjustments likely will be needed in other areas. This includes absorption of a newly created position that will work to identify and coordinate volunteer opportunities within the library.

  The proposed budget also provides $3.6 million in capital funding for a new 16,000-square-foot East Library to replace the current aging structure. The new library will be part of a mixed-use development that will include apartments and retail space. Additional funding of $600,000 is provided to begin two more similar mixed-use projects to replace the current Forest Home and Mill Road libraries.

- *Health* – The proposed budget keeps the Health Department generally at the 2013 level, increasing appropriations by $39,406 (0.3%), with a reduction of 1.2 FTEs. In response to lost CDBG revenue, the city will provide local support in the amount of $47,000 for the Safe Sleep/Infant Mortality initiative, which funds the distribution of pack-and-play crib sets to at-risk families. Additional staffing adjustments are proposed to create greater efficiencies without impacting services.

- *Election Commission* – The budget proposes a $1.3 million increase for the Election Commission given the increased workload that will result from elevated election activity in 2014, including gubernatorial primary and general elections.

- Administration – Expenditures within the Department of Administration (DOA) increase by $605,636, or 5.9%, and three FTEs are added. The city continues to consolidate its information technology (IT) structure under the DOA umbrella, with DOA now supporting the IT needs of DCD and the Port of Milwaukee. The city will continue to invest in the Unified Call Center as it takes on more calls from various city agencies. Due to the fact that the majority of parking information, permission and complaint calls are now handled by the call center, the 2014 budget proposes that two positions be reimbursed via parking fund revenues.

CAPITAL PROJECTS

The 2014 budget initiates the first year of a new six-year Capital Improvements Plan. Overall, the 2014 capital program demonstrates the city's continued emphasis on expediting the replacement cycle for local streets, making new investments to battle the foreclosure crisis, and introducing additional cash financing through the property tax levy to support its efforts to control debt service payments.

The total 2014 capital budget amounts to $228.2 million, an increase of $7.7 million (3.5%) from 2013. This includes a $10.3 million (14%) increase in general obligation borrowing, a $4.2 million (404%) increase in levy-financed projects, a $4 million (36%) increase in tax increment financing districts (TIDs), a $289,000 increase to enterprise fund projects, and an $11 million (26%) reduction in projects supported with grants and aid.

The largest program within the capital budget is the Major Streets program, though its appropriation declines from $51.3 million in 2013 to $50 million in the proposed budget. Total 2014 support is comprised of $43.8 million in county, state and federal aid, as well as a $6.2 million local city match. Those funds will support 10 major street reconstruction projects in 2014. The Major Bridge program, meanwhile, would experience a decline from $5.7 million to $1.3 million as a result of lost state aid.

Spending on capital projects for general fund departments increases by $19.1 million (15.5%) to $123.3 million. Levy-supported general obligation debt supports 69% of the cost of these projects, down from 72% in 2013, and amounts to $85.3 million. Included in this capital budget category is $12.5 million for the city's local street reconstruction program (a decline of $2 million), level funding amounts of $9.8 million for local bridge reconstruction and $9.3 million for improvements to city street lighting, and $7.5 million for replacement of major DPW fleet equipment (an increase of $1 million). These projects make up 45% of levy-supported G.O. debt.

As discussed above, the proposed budget also makes $4.7 million in new capital investments related to the mayor's foreclosure initiative. Activities funded with those investments include urban renewal projects, proactive management of city-owned foreclosed properties, and concentrated blight elimination.

As previously mentioned, the city has increased the amount of capital spending that is cash financed by the property tax levy by $4.2 million to a total of $5.3 million. This was made possible, in part, by a $5.9 million decrease in levy-supported debt service costs. The proposed budget allocates $2 million of this increase to boost the city's High Impact Street initiative, which is also funded with $1 million of G.O. bonds for a total investment of $3 million. This program will focus on high-traffic streets that are in poor condition and serve areas with significant employment.

A notable new capital project involves the city's pursuit of a partnership with the City of Waukesha to construct a new regional materials recycling facility. The two sides have entered into a memorandum of understanding and issued a request for proposals that will determine the exact cost of the project. Milwaukee's share of the project may be upwards of $10 million, and $2.3 million is included in the 2014 capital budget to begin the initiative.

Finally, no new funding is provided for Water Works projects, though reductions in plant, facility, and backup power projects allowed for reinvestment in the water mains program. In 2014, $3.5 million is reinvested into the water mains program, providing a program total of $11.5 million. This brings the program closer to Water Works' stated goal of substantially elevating such investment. The goal is to gradually build up to a capital program of $20 million for this purpose through annual rate increases of roughly 3%.

CONCLUSION

The 2014 proposed budget strives to continue the city's multi-year effort to deftly manage a sharp increase in the employer pension contribution without visible reductions to service levels and unreasonable impacts to taxpayers. The use of well-funded reserves and higher-than-anticipated health care savings – combined with modest increases to property taxes and fees – allows the proposed budget to accomplish that goal.

Indeed, despite the substantial pension-related pressures discussed throughout this report, the proposed budget is able to increase general purpose spending by $9.3 million and accommodate a major new initiative to combat the impacts of foreclosed properties. Departmental staffing cuts are kept to a minimum (though the fire department does lose eight FTEs), and additional local funds are identified to supplant expired federal grants and maintain service levels in most departments.

Despite the relative pain-free nature of the proposed budget, the city's long-term fiscal challenges remain daunting. The effort to fully accommodate increased pension contributions without the use of the pension reserve remains a work in progress, as an additional $14.8 million of property tax levy will need to be identified within the next three years to accomplish that goal. Meanwhile, the substantial savings generated by major health care changes in 2012 soon will run their course; the ability to rely as heavily on the TSF will depend upon the city's tenuous ability to continue to generate robust annual surpluses to replenish the fund; and the capacity of the debt service fund to offset annual debt service payments and free up cash for capital projects may not be sustainable on a long-term basis.

The good news is that the structural hole – originally estimated at $65 to $75 million – already has been cut nearly in half and would be reduced further with adoption of the proposed budget. Any optimism should be countered, however, by the reality that several of the strategies used to date may be largely exhausted, which will make the effort to avoid service cuts in the future even more challenging than they have been in the past.

Overall, city leaders should be proud of their efforts to manage their way through a set of economic circumstances that have generated far more fiscal upheaval in several other cities across the nation. The proposed budget continues those efforts, but that should not camouflage the fact that the challenges will continue to be intense.