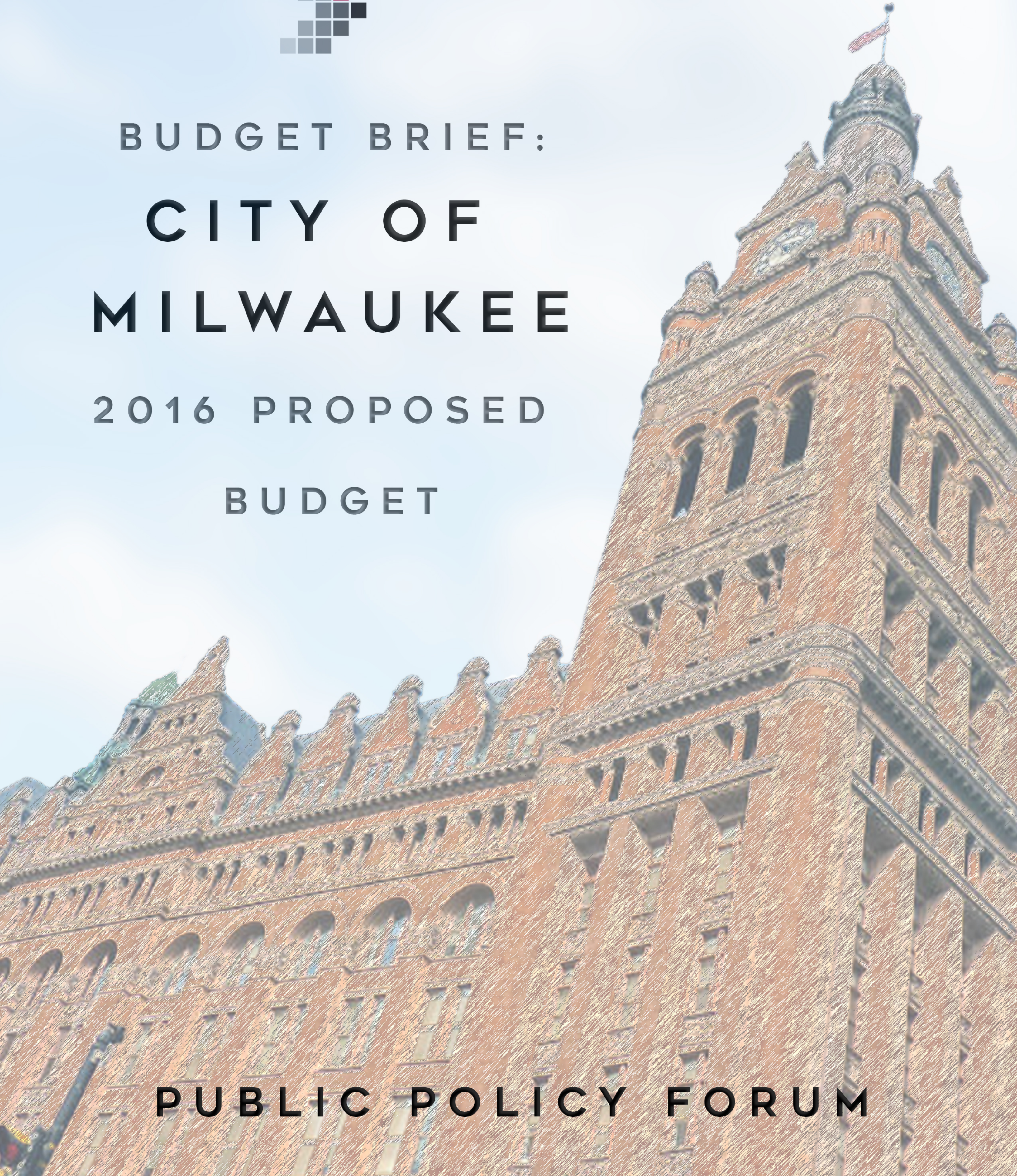
BUDGET BRIEF:

CITY OF MILWAUKEE

2016 PROPOSED BUDGET



PUBLIC POLICY FORUM

About the Public Policy Forum

The Milwaukee-based Public Policy Forum, established in 1913 as a local government watchdog, is a nonpartisan, nonprofit organization dedicated to enhancing the effectiveness of government and the development of Southeastern Wisconsin through objective research of regional public policy issues.

Preface and Acknowledgments

This report is intended to provide citizens and policymakers with an independent, comprehensive, and objective analysis of the Mayor's proposed City of Milwaukee budget. We hope that policymakers and community leaders will use the report's findings to inform discussions during upcoming budget deliberations.

Report authors would like to thank Milwaukee fiscal officials and staff – including the Budget Director and his staff – for their assistance in providing information on the City's finances.

The report cover was designed by Alex Ragusin, the Forum's administrative assistant and graphic designer.

Finally, we wish to thank the Northwestern Mutual Foundation for generously supporting our local government finance research.

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Budget Brief:
2016 Proposed
City of Milwaukee Budget

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Public Policy Forum
Impartial research. Informed debate.

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Introduction

Those looking for insight into the priorities established in the 2016 proposed City of Milwaukee Budget need look no further than the cover of the budget summary document. Photos of refurbished homes and city parks, a graduating class of police officers, and a ribbon cutting for new office space convey the proposed budget's focus on neighborhoods, economic development, and public safety.

In many respects, those priorities – and the proposed budget as a whole – look no different from the past two years. Efforts to mitigate the impacts of foreclosed properties, secure training for the chronically unemployed, and maintain appropriate police staffing levels are supported with modest new investments in personnel and/or technology. Meanwhile, most other City functions and departments are funded at "cost to continue" levels that do not necessarily afford the opportunity for new programs and services, but that spare them from the personnel reductions and reduced service levels that were required in the immediate aftermath of the recession.

The 2016 proposed budget also reflects the final year of the City's largely successful and impressive four-year strategy to achieve "$65 to $75 million of structural improvement." This strategy was launched after a confluence of factors had significantly exacerbated the City's structural deficit heading into 2013. The budget contains additional tweaks in health care, risk management, and pension financing that provide expenditure relief for the upcoming as well as future years. Meanwhile, the City continues to ride the enormous wave of fiscal savings produced by much larger health care changes implemented in the past five years. In fact, the City's ability to *reduce* health care expenditures by close to $5 million from the 2015 budgeted amount is paramount to its ability to avoid meaningful personnel or service reductions in 2016.

Health care savings and other annual benefit adjustments have become a necessity for the City as it continues to fight its way through a gauntlet of limited revenue sources. Once again, in 2016, the City is faced with flat state aids and minimal alternatives to generate additional funds to cover inflationary cost increases. Whether City leaders can continue to generate annual savings in benefits and salaries after 2016 may be the key determinant as to whether the last few years of relative budget calm continue; or whether, instead, the City reverts back to the days of substantial workforce downsizing and the need to pit adequate funding for public safety versus cuts in other important functions.

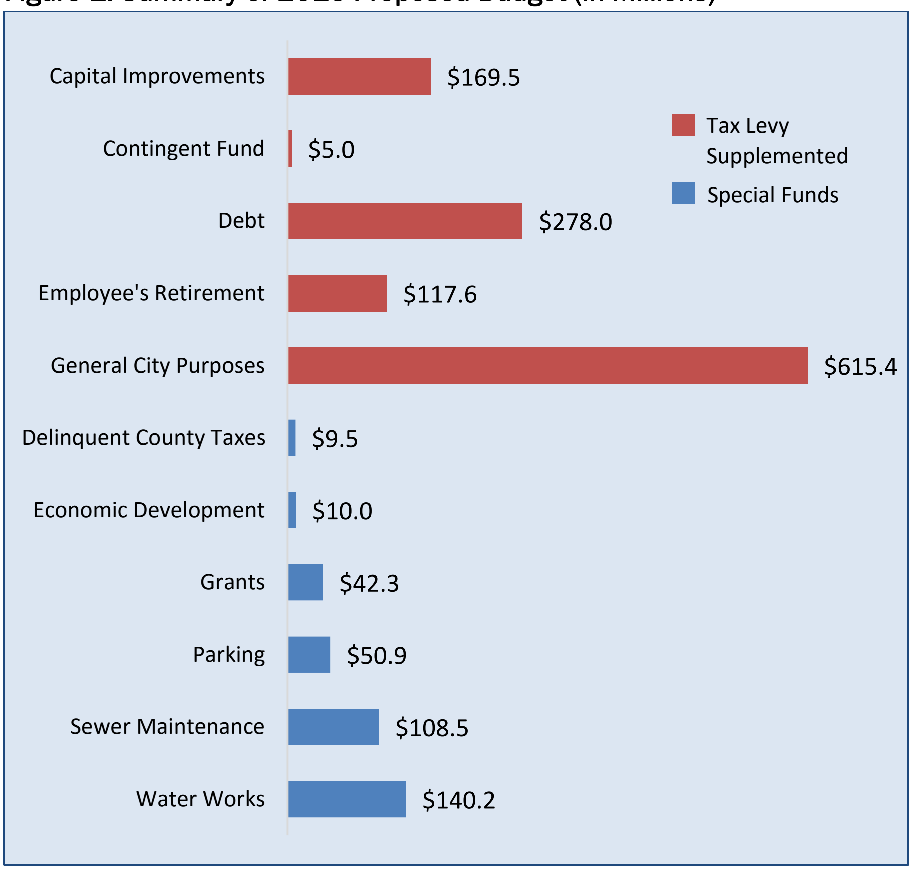
In light of that question, one of the notable changes in the proposed budget is its recommendation to hold one of the primary sources of revenue over which it does have some control – the property tax levy – at the 2015 amount. That decision was made possible mostly by the health care savings referenced above, as well as capacity to increase the transfer from the Tax Stabilization Fund. While this is welcome news to taxpayers, the decision should be considered not only in the context of what is possible in 2016, but also with a view of the City's overall lack of revenue capacity and its future fiscal pressures.

In the pages that follow, we provide more detailed analysis on the key elements of the 2016 proposed budget. Our hope is to provide an independent assessment of the city's fiscal circumstances and outlook that will be used to inform budget deliberations in the weeks ahead.

2016 Recommended Budget Overview

The City of Milwaukee's 2016 proposed budget totals $1.55 billion, which is an increase of about $35 million (2%) compared to the 2015 adopted budget. As shown in **Figure 1**, of that total, $1.2 billion is supported by a variety of funding sources, including the property tax levy, and is generally thought of as the portion of the budget that is directly controlled by the Mayor and Common Council. The remaining $361.5 million is housed in special purpose funds that contain dedicated fees or other revenues to support specific functions, such as water works, sewer, and parking services. In this budget brief, we focus primarily on items related to the $1.2 billion portion of the budget that includes support from the property tax levy, with specific attention paid to the general city services budget, which totals $615.4 million.

Figure 1: Summary of 2016 Proposed Budget (in Millions)



Property Tax Supplemented Budget

= $1.2 Billion

Total Special Funds

= $361.5 Million

Total 2016 Proposed Budget = $1.55 Billion

Source: City of Milwaukee 2016 Proposed Budget

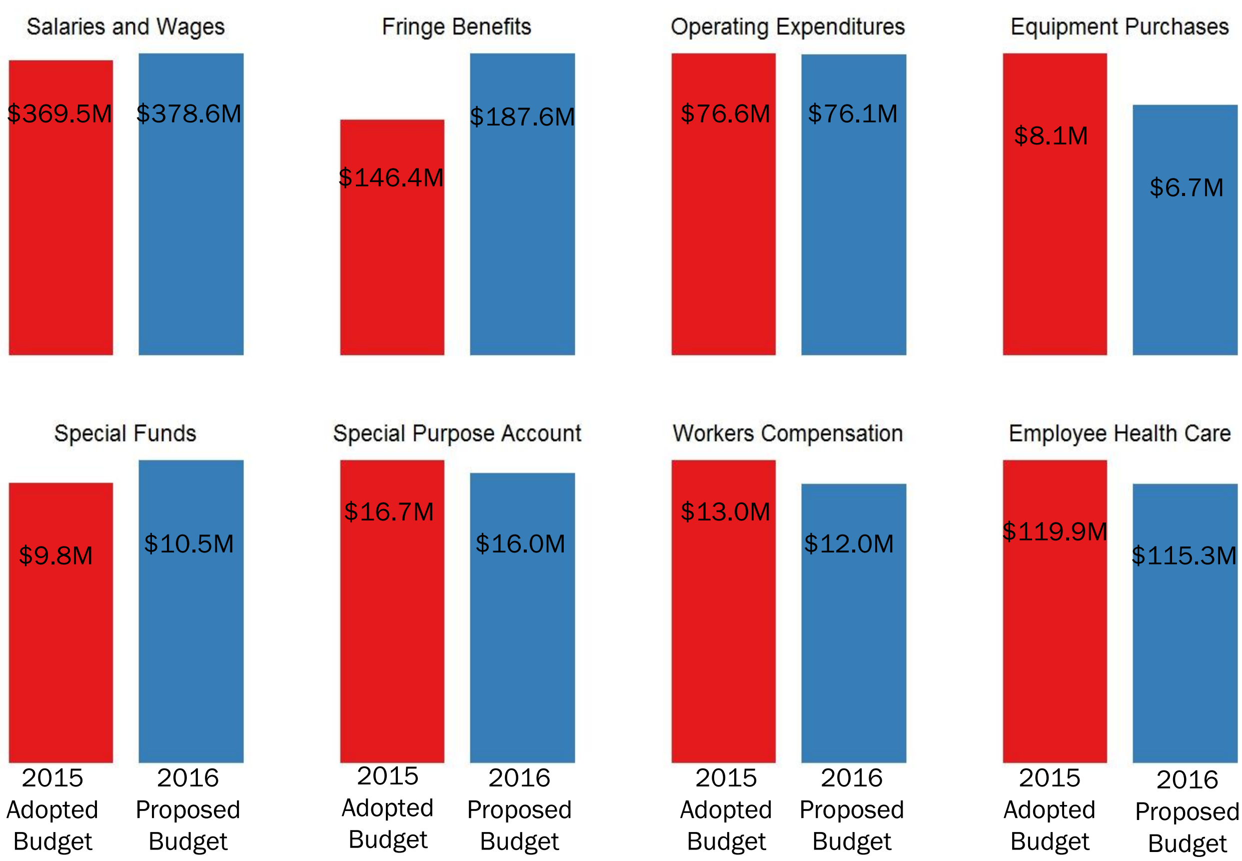
General City Purposes Budget

The general city purposes budget encompasses the services most citizens think about when they consider the activities of their municipal government – like police, fire, public works, etc. The proposed amount for 2016 is a $1.8 million increase over the $613.6 million budgeted for general city services in 2015.

Expenditures by Budget Category

Funding for general city purposes can be broken down by individual department (as we do later in this section), but also can be examined by expenditure category. In **Figure 2**, we show the breakdown of 2016 general city expenditures by the operational categories used in the budget document.[1] This breakdown shows that the bulk of the general city purposes budget is comprised of personnel expenses, such as salaries/wages, health care, and other fringe benefits. The figure also highlights the expenditure changes that are proposed in various categories, which we discuss in greater detail below.

Figure 2: City of Milwaukee General City Services Expenditures by Category, 2015 vs. 2016



Source: City of Milwaukee 2016 Proposed Budget

[1] The totals in these categories exceed $615.4 million because they do not reflect a fringe benefit offset of $187.6 million. The offset accounts for the fact that fringe benefit costs are distributed to departments for informational purposes but also are accounted for in separate accounts elsewhere in the budget.

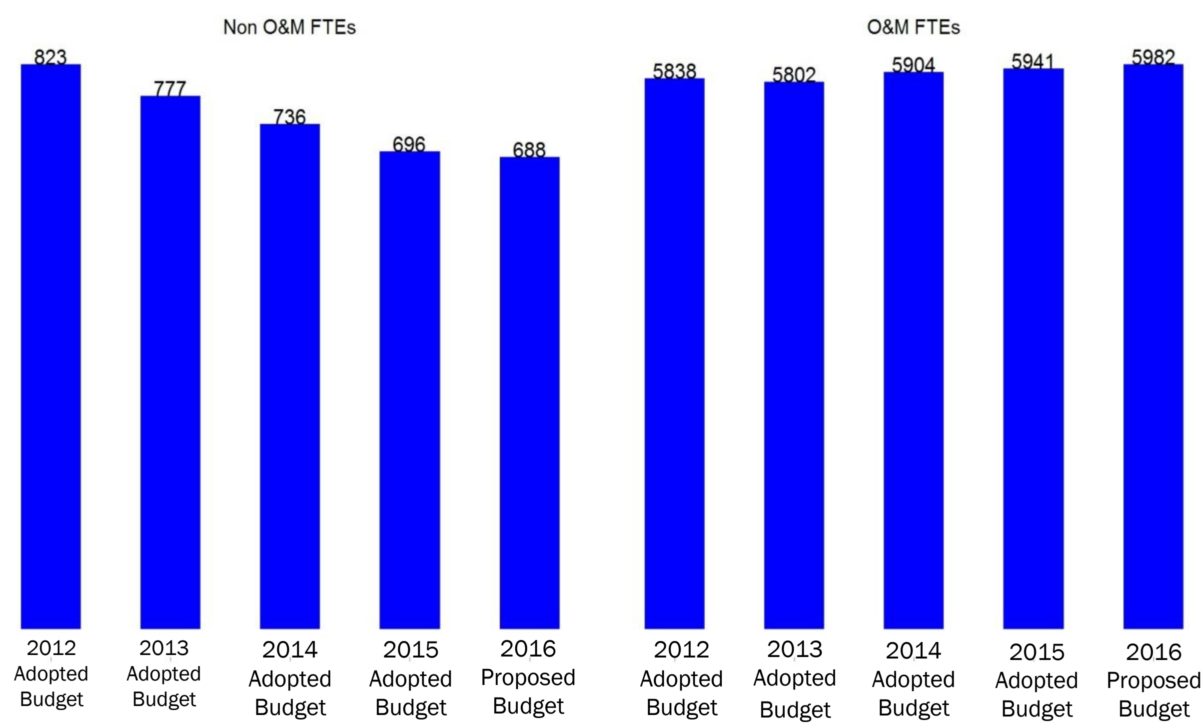
Salaries and Wages

Salaries and wages for City employees comprise the largest expenditure category (by far) in the proposed general city purposes budget, totaling $378.6 million. The proposed amount is $9.1 million (2.4%) higher than the amount adopted in the 2015 budget. There are several factors contributing to this increase, including projected collective bargaining settlements, general city wage increases, the first full-year impact of career step increases, and a significant increase in temporary positions in the Election Commission linked to an increased number of elections in 2016.

There is a net increase of seven positions proposed in the general city purpose portion of the budget, but a more significant development is the addition of 41 full-time equivalent (FTE) positions funded by general city resources (otherwise known as Operating and Maintenance, or O&M funds). Some of those are attributed to a conversion of certain positions to O&M funding instead of outside revenue sources, such as grants. For example, seven public works FTEs were moved to the general fund because of a cut in the State recycling grant, and 4.5 FTEs in the Department of City Development were converted from Community Development Block Grant funding. The proposed budget also adds several positions, including 13 fire cadets and one lieutenant in the fire department and 10 new community service officers in the police department. Also, several positions that were previously unfunded are proposed to be funded in 2016.

Figure 3 shows the change in O&M FTEs over the past five budget cycles. The City has experienced an overall loss of FTEs, but the reductions have occurred in the non-O&M area, while the O&M FTE count has increased. This shift poses a challenge to the City's constrained general purpose revenue streams (which are discussed in detail later in this brief).

Figure 3: Change in Non- O&M and O&M FTEs, 2012 to 2016



Source: City of Milwaukee 2016 Proposed Budget

Fringe Benefits

The 2016 budget reflects the first year of incorporating the full annual cost of employee pensions into the fringe benefit rates that are allocated to City departments. In past years, the rates were based off the member contribution rates of 5.5% for general employees and 7% for police and fire, but the actual cost to the City is higher and varies for different classes of employees.

In the past, differences between true costs and the member contribution rates that were used in departmental budgets were simply folded into the fringe benefit sections of the budget. Placing the full costs in departmental budgets provides a more accurate picture of departmental expenditures. This move coincides with recent efforts to stabilize annual pension funding by modifying the employer contribution policy and accelerating the payment of required contributions.

This change results in the appearance of a $41 million increase in the general operating budget over the 2015 budget (from $146.4 million to $187.6 million). However, the increase is eliminated by the fringe benefit offset, which is a transfer from special purpose funds to the general fund. In short, this essentially is an accounting change that has no effect on the overall general fund or the City's ability to fund city services.

Health Care

Proposed funding for employee health care decreases by $4.7 million, from $119.9 million to $115.3 million. This decrease is a substantial contributor to the relatively calm nature of the 2016 proposed budget, as the mayor and his budget staff were able to use these savings (and the absence of a typical multi-million dollar inflationary *increase* in health care) to hold the line on taxes and fees and maintain existing service levels.

While the 2016 proposed budget does not contain substantial changes in the City's health care plans (with the exception of a new high-deductible plan that will be offered to employees) or increases in required employee contributions, the City continues to benefit significantly from changes made to its health care program design in previous years. Those included conversion to a self-funded system, establishment of an Exclusive Provider Organization (EPO) option (combined with incentives for employees to select that option), and increased cost sharing with employees.

More recent changes have involved attempts to decrease utilization and incentivize employees to make better health care decisions. Such steps have included increased deductibles, out-of-pocket maximums, and co-pays for emergency room visits, as well as establishment of an onsite workplace clinic that employees and their families can use for minor medical issues and preventative measures (like vaccinations) at no cost. The City also continues to operate its wellness program, which rewards employees for making healthy lifestyle choices and meeting certain biometric standards.

The combination of plan design changes and efforts to promote better health care choices have allowed the City to curb annual growth in health care spending to 3-4%, as opposed to the 8-9% experienced prior to 2012. Furthermore, decreases in utilization have positively impacted the health care budget baseline, affording the 2016 proposed budget the $4.7 million in savings noted above. City leaders believe these efforts have produced both lower expenditure levels and positive health outcomes for City employees.

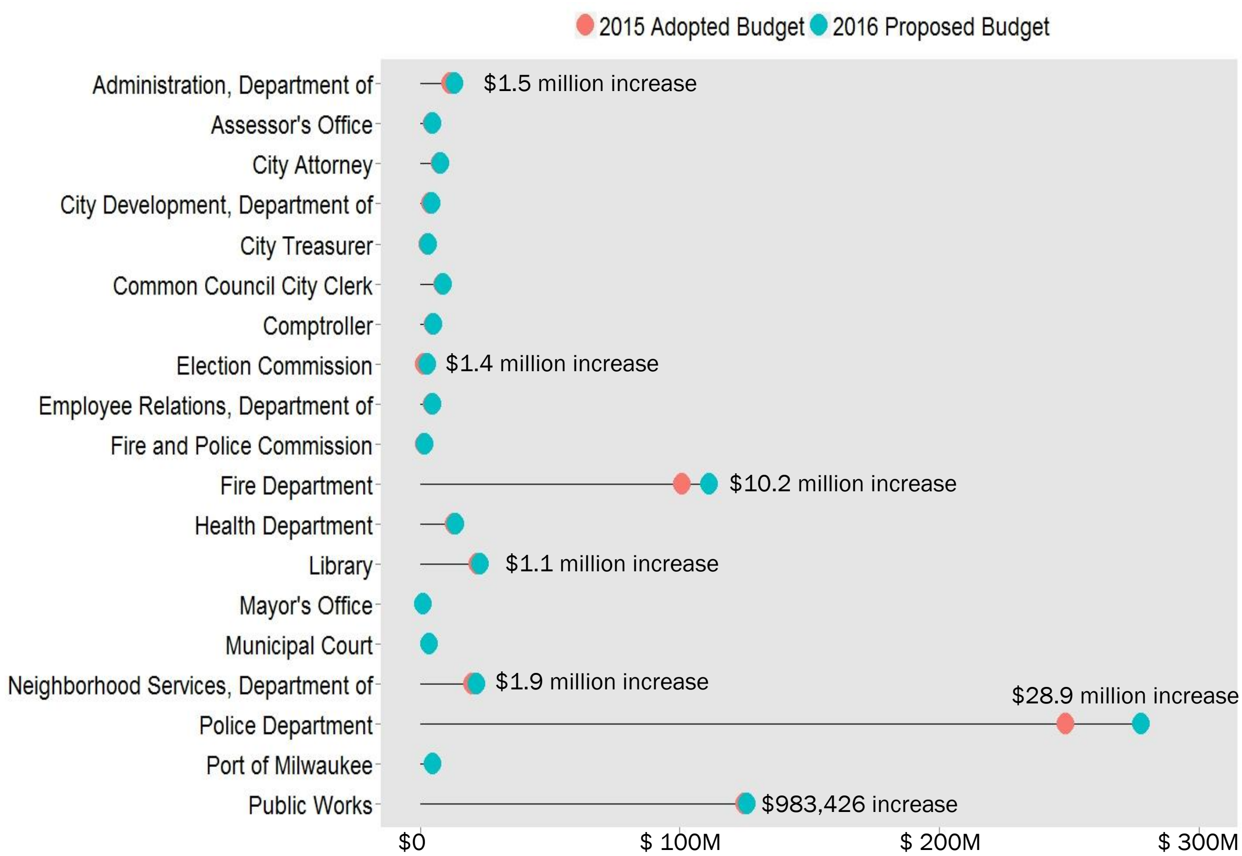
Workers Compensation

The proposed worker's compensation budget falls from $13 million in 2015 to $12 million in 2016. Budget officials attribute this reduction to the City's risk management program. The program requires safety plans from fire, police, and public works – the departments whose workers confront the most job-related risk. Those plans must identify and evaluate safety practices needed to minimize job hazards and prevent injuries. Departments set goals and objectives each year along with action plans. These action plans have resulted in a decline in workplace injuries and claims expenditures.

Departmental Breakdown

As noted above, the general city purposes budget is broken down by category but also contains appropriations for individual City departments. **Figure 4** shows those departments that would experience substantial changes from their 2015 budgeted spending amounts (those that show only a blue dot did not experience significant changes). The figure indicates that the most substantial changes in spending are in the areas of police and fire, though significant changes also occurred in the Department of Administration, Election Commission, Library, Department of Neighborhood Services, and Department of Public Works. We summarize the nature of the changes in those departments below. (Again, the fringe benefit offset explains why the figure appears to show a sizable increase in departmental spending when the overall increase for general city purposes actually is only $1.8 million.)

Figure 4: Proposed 2016 Departmental Expenditure Changes



Source: City of Milwaukee 2016 Proposed Budget

Department of Administration

The Department of Administration's proposed budget includes a number of position additions and reclassifications. These include an Americans with Disabilities coordinator to help manage and monitor future ADA compliance projects; an emergency communications policy manager to oversee the operations and maintenance of the City's emergency communications system; a security and audit compliance analyst to ensure cyber security and assist with auditing activities; and a community analytics analyst to monitor/evaluate the outcomes of city programs and policies.

In addition, two positions are proposed to advance initiatives related to racial equity and community inclusiveness of people of color. The budget appropriates funds to continue the Black Male Achievement Advisory Council and the Milwaukee Fatherhood initiative (MFI), both of which aim to improve outcomes for black males. In an effort to help organize these initiatives and provide collaborative direction on reducing racial disparities throughout the city, the proposed budget includes a position to manage the MFI and work with City staff, officials, and community partners. In addition, an Equal Rights Specialist is proposed to staff the Equal Rights Commission and to help fulfill its mission of enforcing discrimination laws, working with neighborhoods to improve community relations, and creating internal accountability within city departments.

Finally, the proposed budget includes funding for a reclassified position to serve as a community outreach coordinator for the new Safety and Civic Program, which is designed to improve safety and address citywide problems such as drugs, school attendance and graduation rates, littering, and other quality of life issues.

Election Commission

The Election Commission's budget fluctuates from year to year as some election cycles are busier than others. In addition to being a high-turnout presidential election year, 2016 will see spring elections for offices like mayor and county executive as well as primary elections. To account for these elections and the high projected voter turnout, the Election Commission's budget includes funding for several temporary positions. Those workers will help manage voter registration and ballot processing, and will monitor voting activity at the City's 193 polling locations.

Fire Department

As previously mentioned, the 2016 budget reflects the full annual cost of employees' pensions, which means that public safety departments see a substantial increase in their fringe benefit allocations. As such, the fire department's fringe benefits budget increases by $10.7 million over the previous year. This increase is covered by the fringe benefit offset, which results in the overall Fire Department budget actually seeing a decrease of $409,000 from 2015. This is mostly due to a smaller equipment replacement budget than the previous year. The budget does add 13 additional cadet positions along with one lieutenant to accommodate the increased training workload.

Library

Library hours are proposed to remain the same in 2016, with the Central Library open 54 hours per week and branch libraries open 39–50 hours per week. In an effort to meet the growing demand for electronic materials, the library's proposed budget includes $1.7 million to purchase materials in both paper and digital formats. This is a $112,000 (7.2%) increase over 2015.

The 2016 budget restores branch manager positions to 2009 levels. The number of managers was cut from 12 to eight in 2010 in response to budget challenges. Since then, there have been changes to operations, facilities, and service delivery that warrant needing a branch manager at each facility. These positions are being phased in, with two added in mid-2015 and two in mid-2016. Other changes include increasing a part-time staff development position to full-time to accommodate the need for training on new technologies and customer service, and converting part-time circulation aides (typically filled by high school students) with better paid part-time circulation assistants.

Department of Neighborhood Services

Neighborhood services remains a top City priority in the 2016 proposed budget. For example, the budget supports six positions for the Vacant Building Registration Program, which was created in 2010 to help alleviate neighborhood issues caused by vacant parcels and improve overall conditions. In addition, the budget reflects the full year of funding for four special enforcement inspectors hired in 2015 for the Residential Inspection Program, which ensures the proper upkeep of rental properties around the City.

The budget also adds $2.2 million in a capital account for the demolition of properties that are deteriorated beyond repair, present a safety hazard, and have an extensive history of criminal activity. An estimated 197 properties will be deconstructed or razed in 2016.

Another new item in 2016 is the addition of five temporary positions dedicated to the arena construction project. These positions will be funded by permit fees and additional charges paid by the Milwaukee Bucks.

Police Department

Similar to the Fire Department, the majority of the $28.9 million increase in the Milwaukee Police Department's (MPD) budget is attributed to accounting related to the full cost of employee pensions. This produces a $24.9 million jump in fringe benefits over the 2015 budget. Again, this amount is covered by the fringe benefit offset. Adjusting for fringe benefits, MPD's proposed budget increases by about $4 million, though $2.5 million of that amount is attributed to previously grant-funded police overtime for major event venues that is now budgeted as operating expenditures (and covered by a full revenue offset). The proposed budget maintains the budgeted 2015 sworn strength of 1,880 officers and provides a full year of funding for 10 community service officers. In addition, the budget includes $880,000 to phase in deployment of body cameras to be worn by patrol officers.

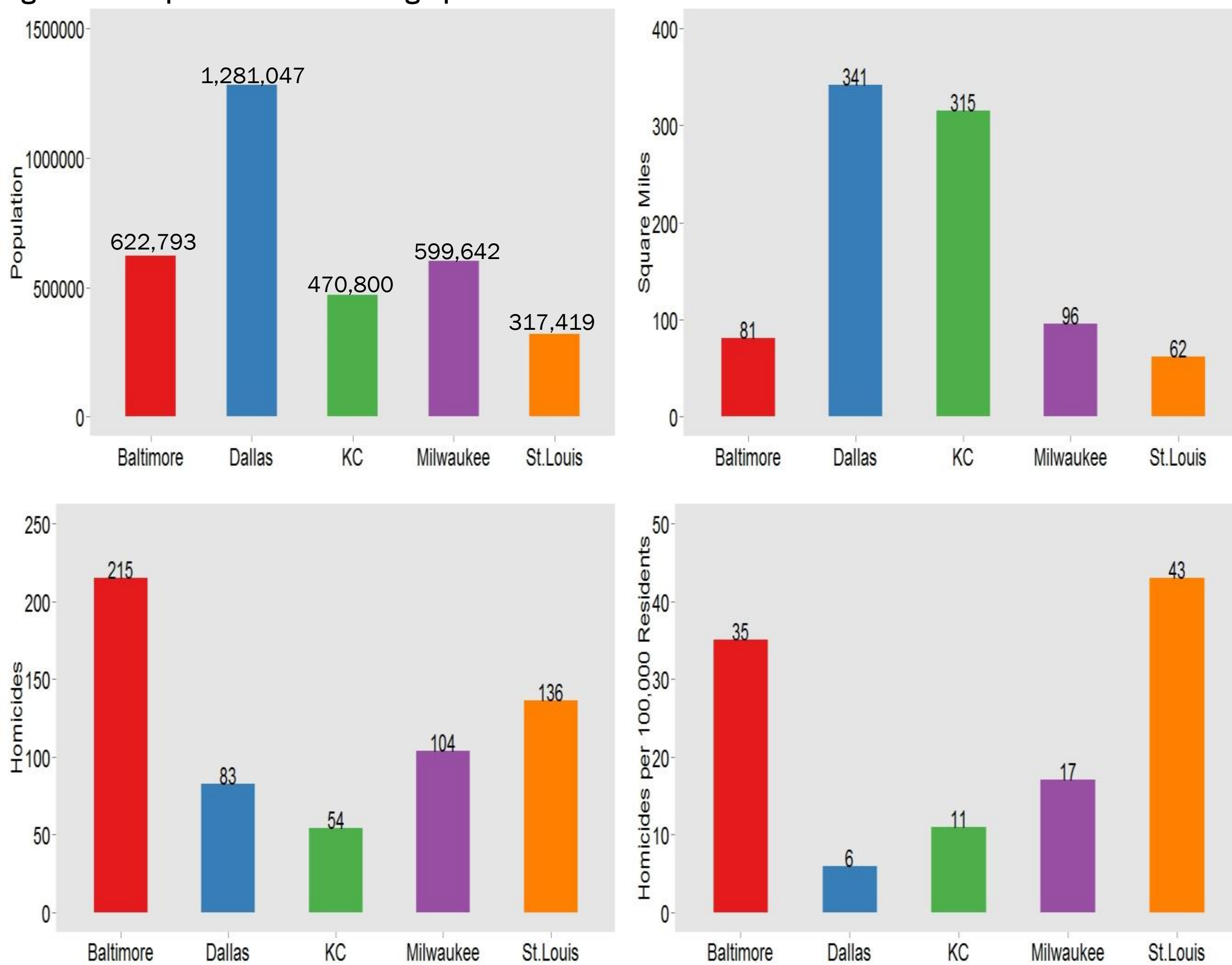
Another important change proposed for 2016 is the elimination of three police furlough days at a cost of $1.5 million. In his budget address, the Mayor suggested that in return, it would be important for public safety personnel (police and fire) to contribute toward their pensions, a requirement that most other City employees have faced since the adoption of Wisconsin Act 10. There is no provision in the budget, however, to reflect that request, which must be collectively bargained.

The increase in the City's homicide rate in 2015 has raised concerns about police staffing levels. In August, the *New York Times* published a story on the increase in homicides in several cities across the U.S., including Milwaukee.[2] Given the contentious nature of this issue, we analyzed some of the cities covered in the article to gain a sense of how Milwaukee's proposed 2016 police budget compares to other cities experiencing rising homicide rates. We focused on the four cities that were most comparable in size to Milwaukee: Baltimore, Dallas, Kansas City (Missouri), and St. Louis.

[2] Retrieved from http://www.nytimes.com/2015/09/01/us/murder-rates-rising-sharply-in-many-us-cities.html

Figure 5 shows the population and geographic size of the five communities for comparative purposes. It also shows the number of homicides experienced in each city as of the publication of the *Times* article and converts that number to homicides per 100,000 residents. This analysis shows that Milwaukee is in the middle among the peer group when looking at total homicides and the number of homicides per 100,000 residents. While total homicides are an important metric, the rate per 100,000 residents gives a better sense of comparison to different cities.

Figure 5: Comparable Cities Demographics and Homicides

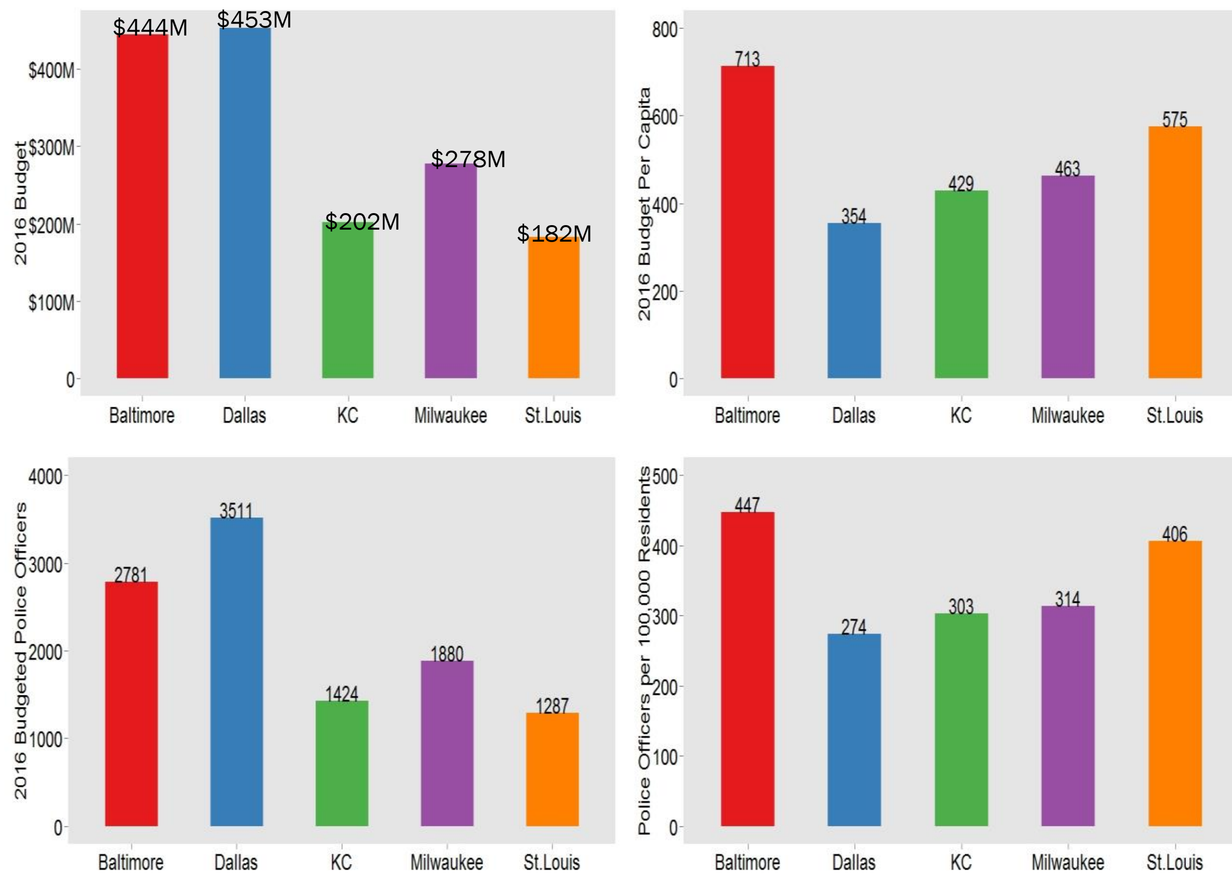


Sources: City of Milwaukee 2016 Proposed Budget, Census Bureau and interviews with officials from comparable cities.

Figure 6 (on the following page) compares the amount each city has budgeted or is proposing for police services in 2016, as well as the planned level of police strength. Again, we also show the numbers per 100,000 residents. The results show that Milwaukee would spend the third highest per capita and would have the third largest level of police strength per 100,000 residents of the five cities.

This analysis should not be viewed as definitive in attempting to determine whether the levels of expenditures and sworn officers proposed for MPD in 2016 are sufficient to protect citizens and maintain acceptable crime rates. On the contrary, it is simply one form of analysis that provides some context regarding Milwaukee's spending for police services. This approach does indicate, however, that Milwaukee's police expenditures and sworn strength levels fall toward the middle when compared to peer cities with increasing homicide rates.

Figure 6: Comparable Cities Budgeted Police Department Expenditures[3]



Source: City of Milwaukee 2016 Proposed Budget and interviews with comparable cities.

Finally, we would point out that it also may be appropriate to consider the sufficiency of resources for MPD in the context of other investments proposed in the budget to remediate conditions that are strongly correlated with crime. As noted above, the budget includes expenditures in a variety of programs and initiatives that aim to lower unemployment and improve blighted neighborhoods. There are also programs in other areas of the budget – like a new Youth Violence Initiative in the Department of Public Health – that similarly could be linked with crime reduction. Consideration of the adequacy of investments in those and similar initiatives – as well as whether they are working – may be just as important as consideration of police spending and sworn strength levels in determining whether the budget appropriately addresses public safety.

[3] 2016 Budgeted and total police officer numbers reflect general operating figures and exclude grant funded positions and initiatives.

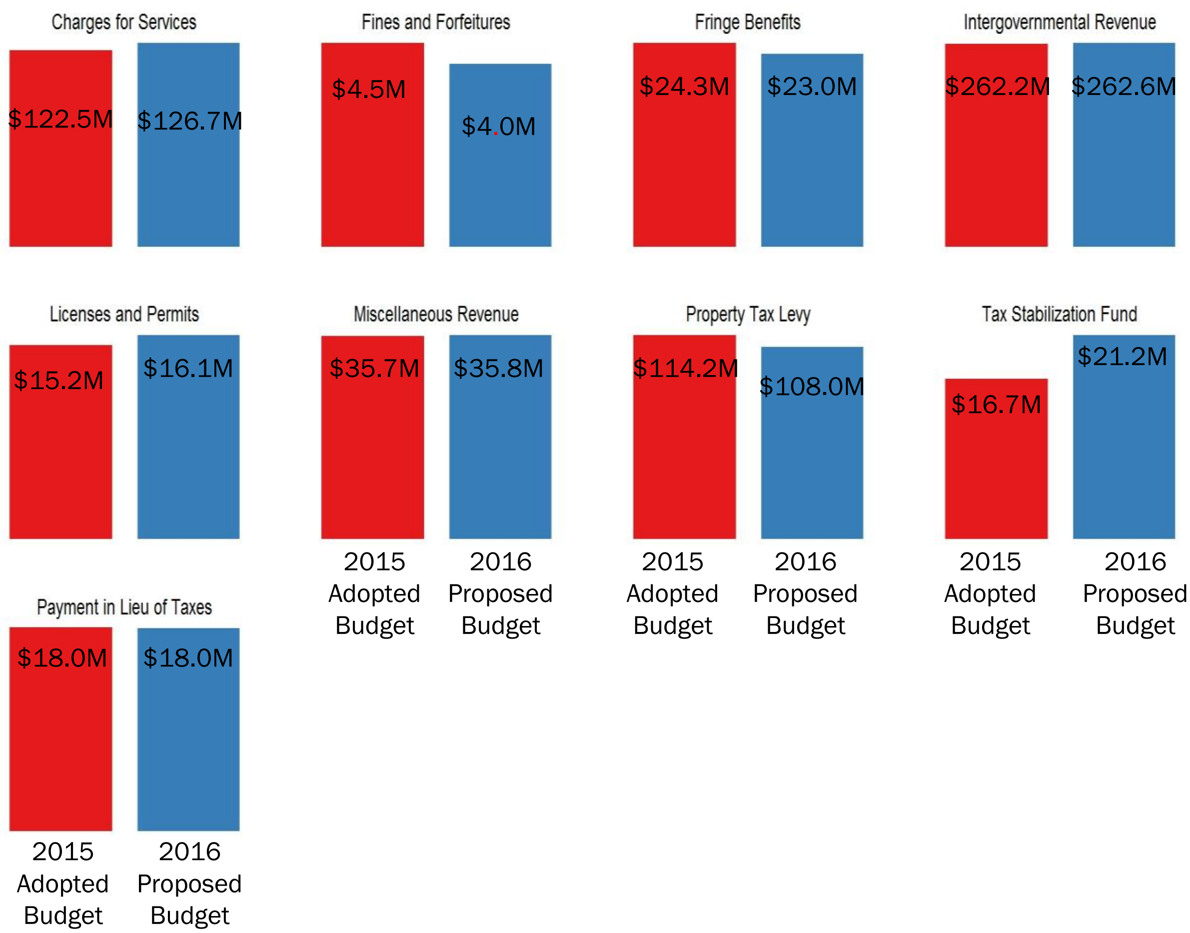
Public Works

The most noteworthy change in the Public Works Department's budget is the $473,000 reduction in the state recycling grant. These funds were used to fund seven FTEs, which are now proposed to be funded with property tax levy. The budget also reflects the continuation of the Strong Neighborhoods program, including $620,000 for the demolition of 90 properties, $96,000 to clean up foreclosed properties, and the funding of 60 transitional jobs in DPW operations.

Revenues by Category

The City's general purpose budget is supported by a variety of revenue streams, though three categories – intergovernmental revenues, charges for services, and property taxes – comprise about 80% of the total. **Figure 7** shows the various revenue sources and proposed changes between 2015 and 2016.

Figure 7: Proposed 2016 Revenues By Category



Source: City of Milwaukee 2016 Proposed Budget

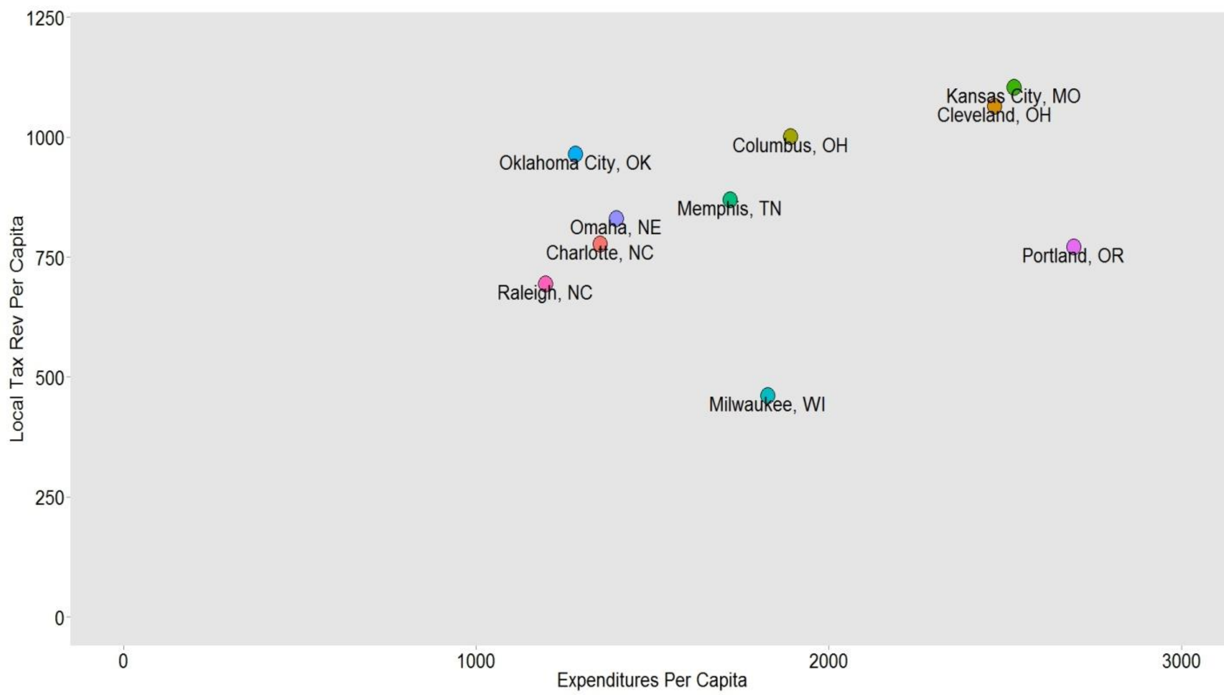
As we have discussed in previous budget briefs and analyses of City finances, this revenue mix creates substantial challenges for City leaders, as each of the three major revenue sources is constrained. User fees only can be set at levels that reflect the cost of the direct services they support (i.e. they cannot support operations other than those for which they are established); state aids are subject to biennial deliberations in Madison and have decreased by more than $22 million since 2003; and growth in the property tax levy is restricted by State-imposed levy limits. This has posed a particular challenge as the City has attempted to accommodate a huge spike in its required pension contribution over the past six years. As that contribution has escalated, it has required a greater share of the City's property tax levy, meaning that the proportion allocated to general City services has shrunk. We discuss these points in greater detail below.

Peer City Revenue Comparison

Earlier this year, the City's Comptroller issued a report comparing Milwaukee's Fiscal Year 2013 revenue and expenses with several peer cities.[4] A key finding – and one that has similarly been issued by the Forum in earlier analyses – is that the City is well below average when it comes to overall local taxes collected per capita. This stems from the property tax being the only general local tax revenue option available in Milwaukee per State statutes; in contrast, almost all peer cities also employ other local tax options such as sales, income, or tourism-related taxes.

The dramatic difference in local tax revenues between Milwaukee and its peers is illustrated in **Figure 7**, which shows where the peer cities stood in 2013 in terms of both total expenses and total local tax revenue. Milwaukee is at the bottom with regard to local tax revenue per capita, but is in the middle when it comes to spending. This implies that the City is able to fund services at comparable levels to its peers despite having the lowest local tax revenue – a factor that is linked to its high level of dependence on intergovernmental revenue from the State, as we discuss below.

Figure 7: Peer City Comparison of Expenditures and Local Tax Revenue



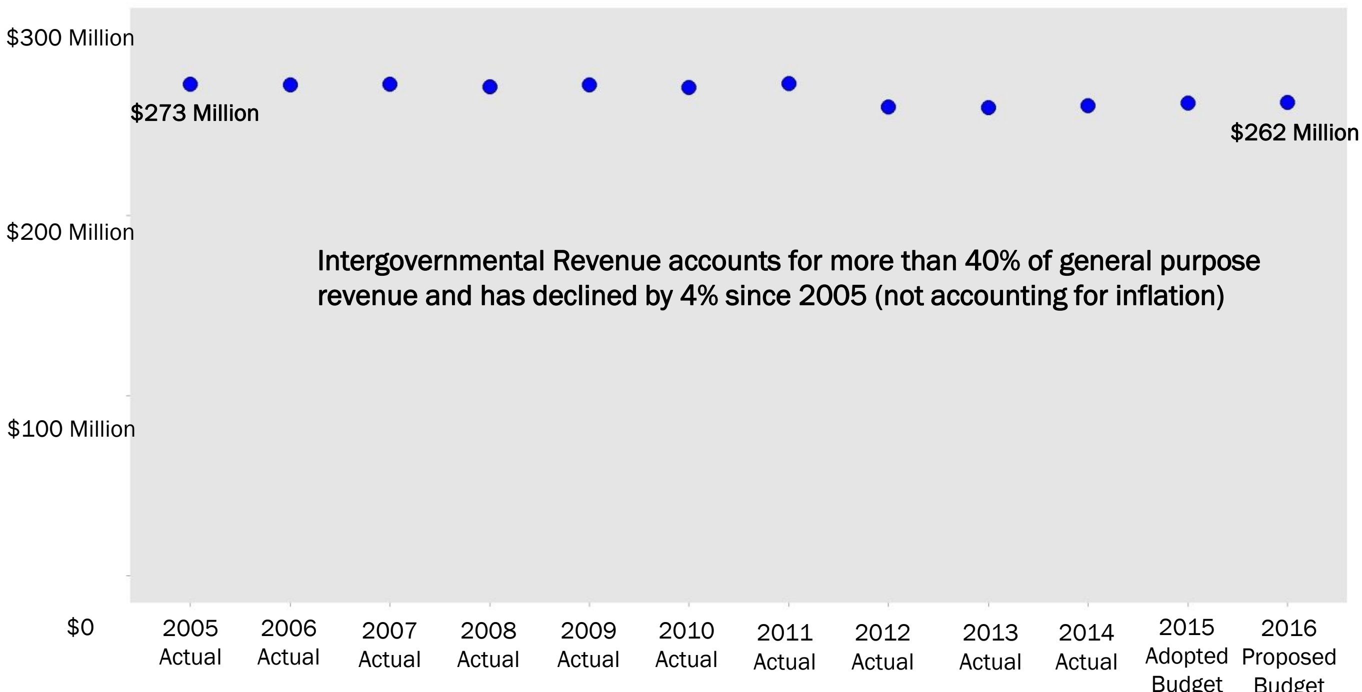
Source: City of Milwaukee Comptroller's Office

[4] The peer cities included are Portland, OR, Cleveland, OH, Kansas City, MO, Columbus, OH, Charlotte, NC, Raleigh, NC, Memphis, TN, Oklahoma City, OK, and Omaha, NE.
The report can be accessed at: http://city.milwaukee.gov/CityLegacySite/FinancialServices#.VhVYfvlVhBc

Intergovernmental Revenue

The City's largest revenue source – accounting for more than 40% of its total general purpose revenue – is intergovernmental revenue, the majority of which is comprised of State Shared Revenue. Anticipated State Shared Revenue in 2016 totals $219 million, or approximately 84% of total Intergovernmental Revenue. **Figure 8** shows that between 2005 and the 2016 proposed budget, the City's annual intergovernmental revenues have declined in nominal terms by 4%. This decrease in the City's largest general purpose revenue source has made it difficult for it to address even inflationary increases in fixed costs. Moreover, it is a substantial contributor to the City's overall structural budget challenges, which stem largely from stagnant revenue sources that fail to meet expenditure needs.

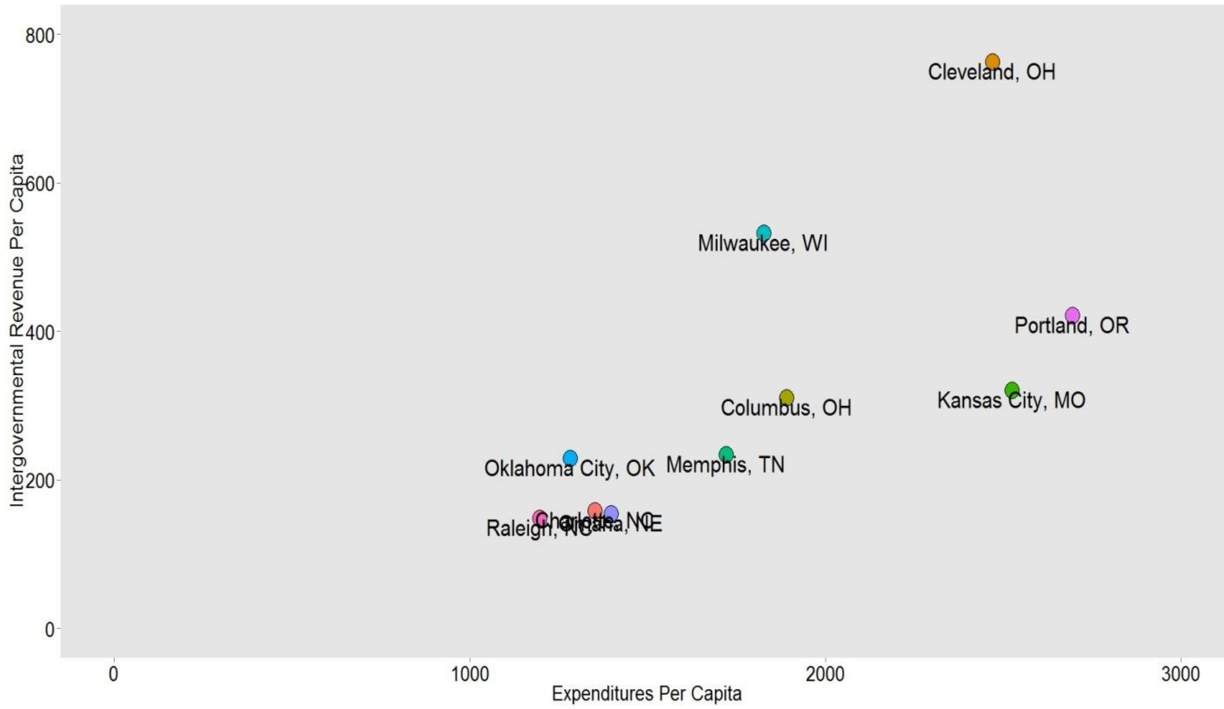
Figure 8: City of Milwaukee Intergovernmental Revenues, 2005 to 2016



Source: City of Milwaukee Budgets

Figure 9 shows the City's reliance on intergovernmental revenue compared to the same set of peers cited above. The results show that Milwaukee is the second highest in terms of per capita reliance on intergovernmental aid.

Figure 9: Peer City Comparison of Expenditures and Intergovernmental Revenue



Source: City of Milwaukee Comptroller's Office

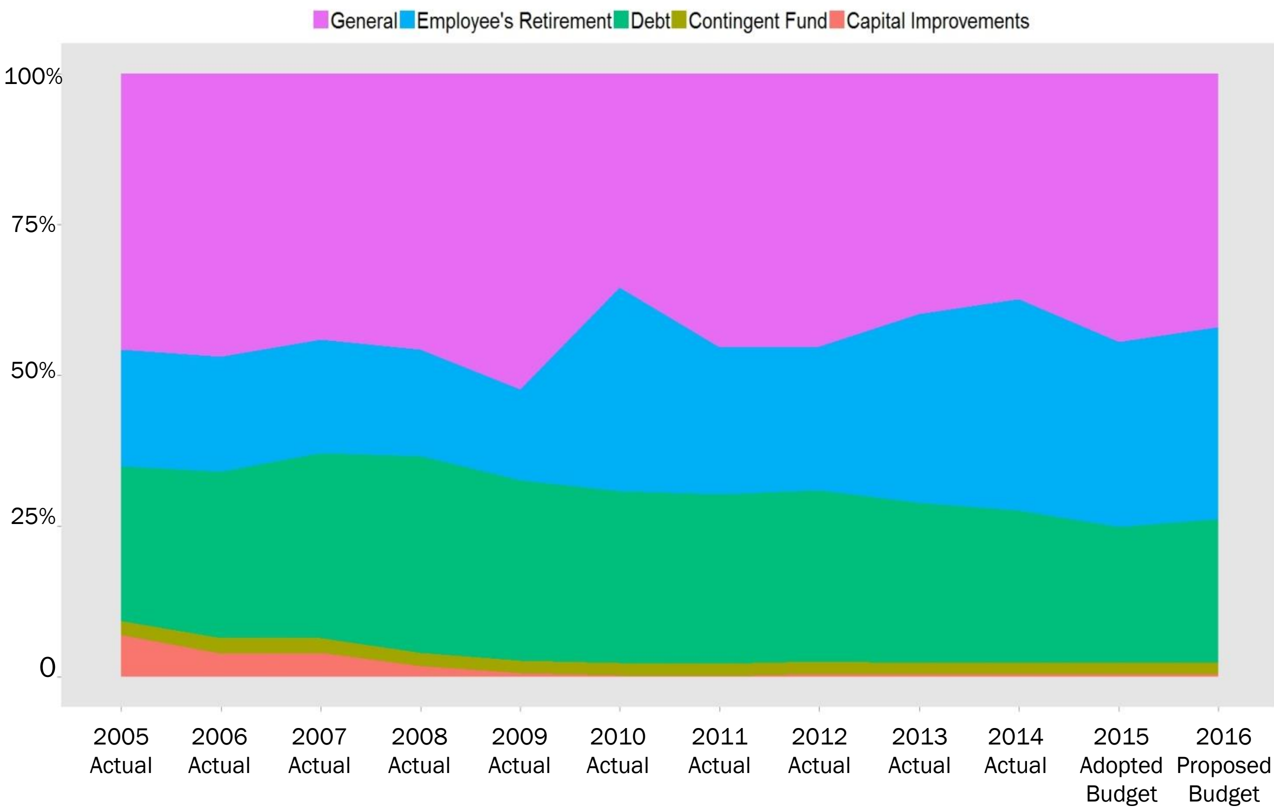
Based on past trends and the State's own fiscal challenges, the City cannot anticipate future increases in State Shared Revenue, which means that its foremost revenue source is unlikely to grow in conjunction with the cost of providing valued City services. This is particularly true in the area of public safety, where the City's ability to restrain growth in personnel costs is limited by the exclusion of that function from Wisconsin Act 10. While substantive health care savings have allowed the City to alleviate that problem in each of the past three budgets, those savings may soon run their course, creating a severe challenge for City leaders as they seek to meet even inflationary increases in personnel, infrastructure, and related costs.

Property Tax Levy

Property taxes comprise 18% of the city's total general purpose revenues. The total 2016 proposed property tax levy is $256 million, the same as in 2015. While the freeze benefits property taxpayers, the lack of even a 1.1% inflationary increase in line with the City's growth in new construction (as would be permitted under State-imposed levy limits) compounds the City's stagnant revenue picture and its reliance on State aids.

Approximately $108 million of the $256 million in total property tax levy will go toward funding general city services, while the remainder will be spread across employee retirement ($82 million), debt service ($61 million), capital improvements ($974,000), and contingencies ($5 million). **Figure 10** shows the proportionate change of these levy components since 2005.

Figure 10: Proportionate Distribution of City of Milwaukee Property Tax Levy, 2005 to 2016



Source: City of Milwaukee Budgets

While the proportion of property tax levy used to fund general city services has ebbed and flowed over the past decade, that proportion will be lower in 2016 than at the beginning of the period (42% in 2016 versus 46% in 2005). Meanwhile, the proportion directed to employee retirement costs has grown substantially, from 19% in 2005 to 32% in 2015. This is mostly attributed to the City's need to use levy funds to make employer pension contributions over the past several years.

Prior to 2009, the City's pension fund was able to sustain pension obligations without an annual property tax levy contribution. However, the economy took a toll on the pension fund in 2008 and reduced its market value by 31%, which produced an unfunded liability of $713 million and required a $49.9 million employer contribution going into the 2010 budget year. In 2011 and 2012, no contributions were required, although actuarial projections indicated future annual payments of $60 to $90 million from 2013 through 2016.

To soften the impact, City leaders responsibly put aside $43 million during those two years to build up the pension reserve. These funds were used beginning in 2013 to reduce the amount of property tax levy required to meet the vastly increased contribution amounts. The plan was to gradually increase the amount of levy while decreasing the use of reserves until the fund reached a minimum level desired by policymakers. At that time, the total cost of the pension contribution would be covered by property tax levy.

Heading into 2016, the pension reserve had a fund balance of $15.2 million. The proposed budget allocates $7 million from the reserve and $53 million from property tax levy to cover the employer pension contribution – an increase of $3.4 million over 2015 levy contribution. This relatively small increase – while not inconsequential in light of the City's overall revenue challenges – shows that the foresight of City leaders to build pension reserves continues to pay dividends by smoothing the amount of increased property tax levy needed on an annual basis to pay the employer contribution.

Nevertheless, the City has now reached the point where its sizable pension reserve is almost exhausted, which could create new challenges for City leaders. **Table 1** shows a hypothetical scenario we cited in last year's budget brief in which the City would continue to use the pension reserve to smooth the impact of increased levy contributions through 2017, before ending that use to maintain a reserve balance of $5 million. This scenario is being followed in the 2016 budget, necessitating the increased tax levy contribution of $3.4 million; following it in the next two years similarly would require the City to identify an additional $3 to $4 million of property tax levy each year to fund the employer contribution.

Table 1: Sources of Employer Pension Contribution and Use of Pension Reserve ($ in Millions)

	2014	2015	2016	2017	2018
Employer Pension Contribution	$61.60	$60.00	$60.00	$60.00	$60.00
Withdrawal from Pension Reserve	$13.40	$10.40	$7.00	$3.20	$0.00
Total property tax levy	$48.20	$49.60	$53.00	$56.80	$60.00
Already budgeted pension levy	$40.90	$48.20	$49.60	$53.00	$56.80
Additional Levy Support	$7.30	$1.40	$3.40	$3.80	$3.20
Fund Balance	**$25.60**	**$15.20**	**$8.20**	**$5.00**	**$5.00**

Source: City of Milwaukee Budgets and Budget Office

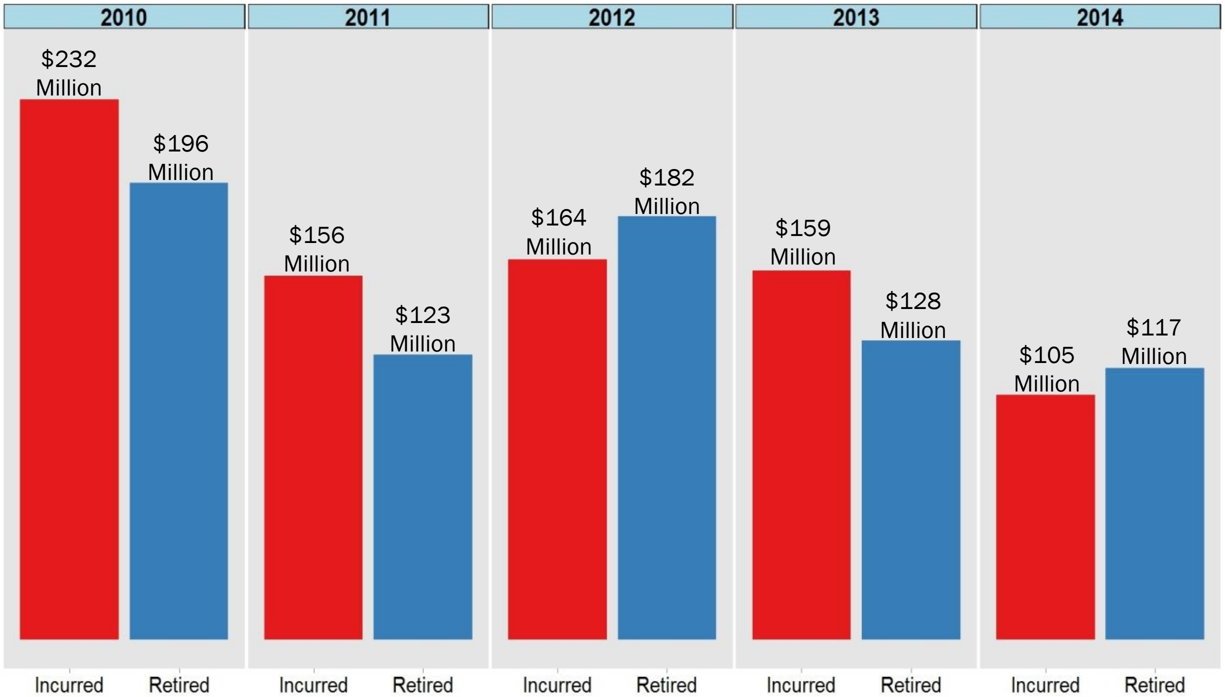
Again, it is important to recognize that while this strategy has produced far less harm than the short-term spikes that otherwise would have been required, the annual levy increases still represent a sizable challenge in light of the City's general revenue challenges and its reliance on state aid. Furthermore, with the pension reserve now almost depleted, the ability to use it as a cushion against unanticipated spikes in the future has been eliminated.

Finally, our analysis shows that both the proportion and amount of property tax levy used to fund capital improvement projects has diminished over the years, from a high of $1.4million (7%) in 2005 to $974,000 (0.4%) in the proposed budget. As a result, the City has needed to use a greater proportion of borrowing to meet its capital needs, though the proportion of levy being used to service that debt has remained relatively stable over the past couple years and makes up 24% of the total levy in 2016.

The extent to which the issuance of greater amounts of general obligation debt may be detrimental to the City's overall financial picture is dependent, in part, on whether the amount of debt it has been retiring is equal or above the amount it is incurring in a given year.

Figure 11 shows the actual amount of debt issued and retired from 2010-2014. The figure shows that the City has been able to come relatively close to retiring an equal or greater amount of debt than it has issued over this period. The debt retired to debt issued ratio ranges from 78% in 2011 to 111% in 2012 and 2014. This indicates the City has effectively managed its debt load and stabilized its annual debt service payments. It is also important to note that these numbers reflect the City's plan in 2013 to issue five-year notes to prepay annual employer pension payments, saving the City millions of dollars in interest. Going forward, it will be important for the City to continue to control annual debt service obligations to ensure that those payments do not take up a greater proportion of the overall property tax levy.

Figure 11: Amount of Debt Issued and Retired, 2010 to 2014



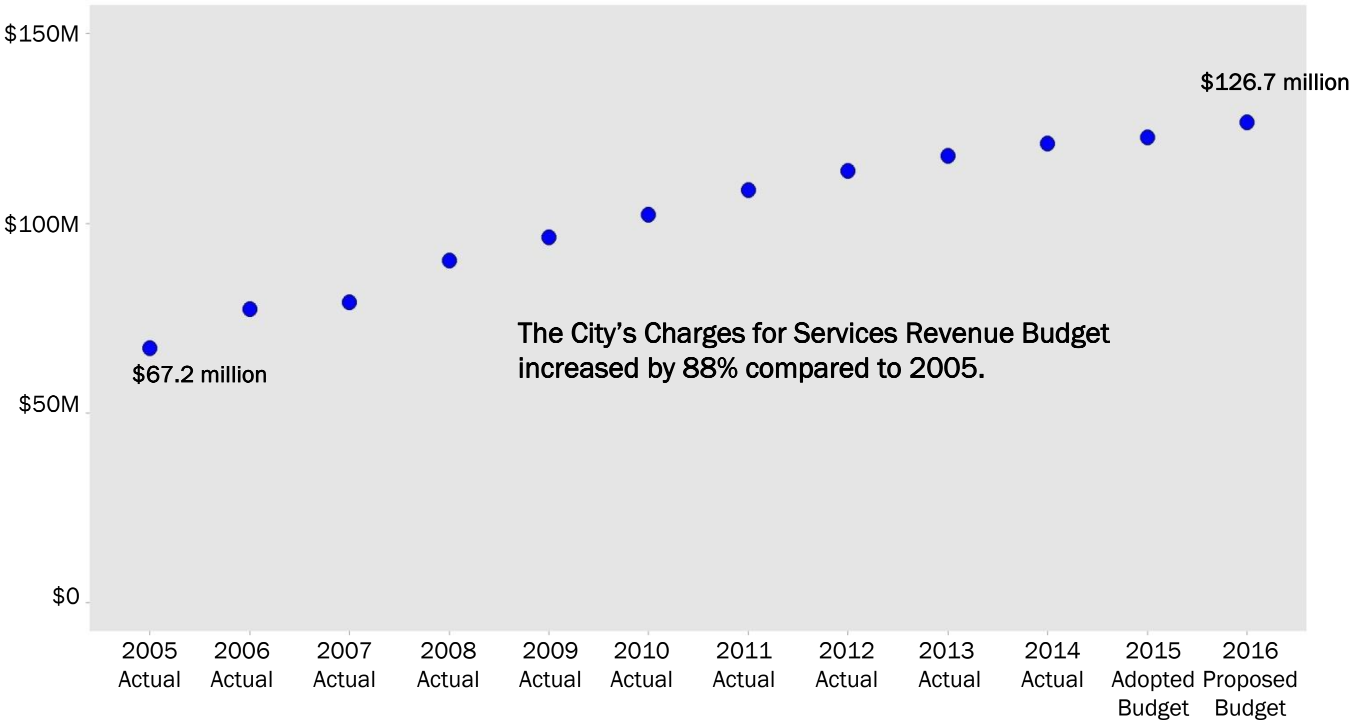
Source: City Budget Office

Charges for Services

Revenue from Charges for Services comprises 20.5% of the City's total general revenue and totals $126.7 million in the 2016 proposed budget. The majority of income included in the Charges for Services category comes from user fees such as solid waste, snow and ice, and waste control. The fees generated are used to directly offset the cost of providing these types of services.

Over the past several years, the City has increased its fees to fully recover the cost of providing services that are transactional in nature. This approach helps to balance the budget without placing too much burden on the property tax levy or reducing service levels. **Figure 12** (on the next page) shows that in 2005, the City brought in $67.2 million in Charges for Services, which was about 12.5% of total general city revenue at the time. That total would stand at $126.7 million in the 2016 proposed budget, reflecting an 88% increase in the Charges for Services category over the time period. As noted above, Charges for Services now account for a fifth of total general revenue sources, up from about an eighth in 2005.

Figure 12: Charges for Services

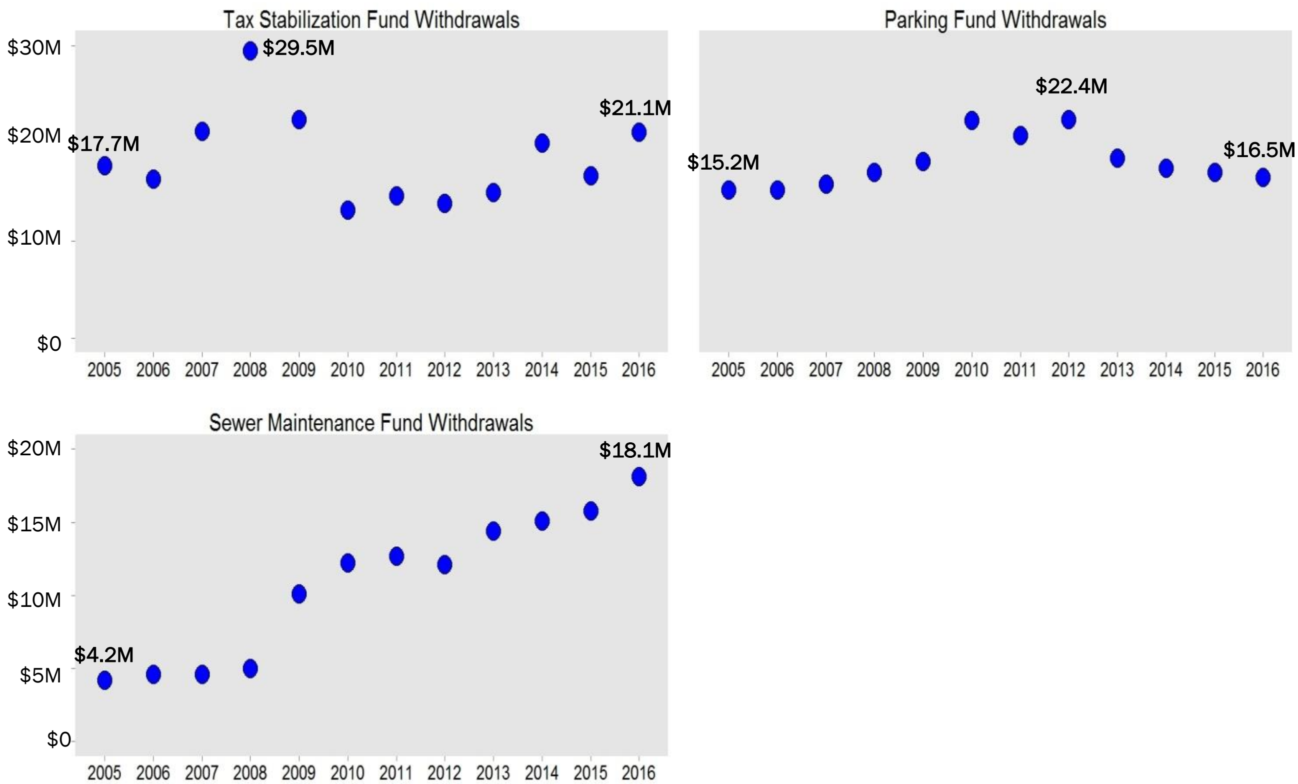


Transfers from Other Funds

Included in the 2016 proposed budget are a number of transfers from other funds to help meet general city service expenditure needs, including a $21.1 million transfer from the Tax Stabilization Fund (TSF), a $16.5 million transfer from the Parking Fund, and an $18.1 million transfer from the Sewer Maintenance Fund. **Figure 13** (on the following page) shows trends since 2005 in the annual transfers from each of these funds.

The TSF withdrawal has seen significant swings from year to year, as the withdrawal is based both on expenditure need and the success achieved in replenishing the fund with surplus monies in a given year. In 2016, in part to keep the tax levy flat, the budget proposes to increase the withdrawal by $4.4 million over the 2015 amount, to a total of $21.1 million. That effort was buttressed by the fact that the City was able to lapse $28.5 million into the TSF at the end of 2014. The anticipated ending fund balance in 2016 is approximately $51 million.

Figure 13: Annual Transfers from Reserve Funds[5]



Source: City of Milwaukee Budgets

With regard to the parking fund, the City increased transfers from 2005 through 2010 and again in 2012, but it has recently scaled back the amount of money transferred in an effort to maintain adequate fund balances to sustain future debt service and accrued pension liability payments. The proposed amount in 2015 is $16.5 million. The budget document indicates that to absorb these costs and maintain the fund's viability, future fund transfers may need to be reduced to $15 million.

The Sewer and Maintenance Fund withdrawal has increased significantly since 2005, from $4.2 million to $18.1 million. This transfer is used by the City to offset the costs of providing services covered in the general fund that help prevent storm sewer backups, such as street sweeping, leaf collection, brush collection, and pruning. Through the years, the City has become more aggressive in trying to recoup these costs.

Overall, the City's reliance on special purpose fund transfers and reserves to support ongoing operations does not constitute a major red flag given that the funds have been sufficiently replenished and that they are being closely monitored to ensure that withdrawals generally align with deposits. Nevertheless, as we have pointed out in previous years, such reliance does carry some risk given that there are years in which unanticipated circumstances may prevent the City from appropriately replenishing its reserves, or when needs associated with competing uses for special purpose funds may preclude the ability to transfer anticipated levels to the general purpose budget.

[5] FY2005 – FY2015 reflects adopted budget numbers. FY2016 reflects the proposed budget.

Conclusion

Our analysis of the annual City of Milwaukee budget has become similar to the theme of the movie "Groundhog Day." Each year since 2012, we have discussed the severe challenges caused by the City's stagnant revenue streams; and each year, City leaders have overcome those challenges to produce fiscally sound budgets that hold the line on existing services while minimizing the damage to taxpayers.

The 2016 proposed budget is no different. The budget again avoids cuts to key services by reaping the continued benefits of earlier health care changes and squeezing additional savings from pension and risk management plans. The budget also makes use of its capacity to make responsible transfers from special revenue funds, allowing it to keep the property tax levy flat and to accommodate another year of flat State Shared Revenue.

As in previous years, we commend City leaders for their efforts to manage the budget in this responsible fashion. Yet, once again, we also question whether this familiar set of circumstances is sustainable.

For example, it is unreasonable to think that the City will continue to enjoy health care *savings* from year to year, and even a return to 3-4% inflationary growth would require additional annual expenditures of $3 to $4 million. In addition, the City will need to come up with an additional $3 to $4 million in each of the next two years for its employer's pension contribution, and the transfer from the Parking Fund may need to be reduced by $1.5 million.

These are the types of challenges that a government with inflationary revenue growth likely could accommodate. As we have discussed throughout this report, however, even that limited amount of revenue growth will be difficult to achieve, particularly if the property tax is to remain flat.

Overall, the 2016 proposed budget again sustains service levels and allocates revenues in a fiscally responsible manner. Yet, in keeping with the Groundhog Day theme, we would repeat our caution from last year's budget brief that this laudable effort "should not mask the underlying structural issues that continue to inhibit investment in new programs and infrastructure, and that will continue to pose serious challenges until they are resolved."