BUDGET BRIEF

CITY OF MILWAUKEE

2021 PROPOSED BUDGET

WISCONSIN POLICY FORUM

ABOUT THE WISCONSIN POLICY FORUM

The Wisconsin Policy Forum was created on January 1, 2018, by the merger of the Milwaukee-based Public Policy Forum and the Madison-based Wisconsin Taxpayers Alliance. Throughout their lengthy histories, both organizations engaged in nonpartisan, independent research and civic education on fiscal and policy issues affecting state and local governments and school districts in Wisconsin. WPF is committed to those same activities and that spirit of nonpartisanship.

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.

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

Northwestern Mutual®

BUDGET BRIEF:

2021 Proposed City of Milwaukee Budget

October 2020

Report Authors:
Rob Henken, President
Ashley Fisher, Researcher
Ari Brown, Researcher

TABLE OF CONTENTS

INTRODUCTION

When Mayor Tom Barrett warned the Milwaukee Common Council last month that “this is going to be the most sobering budget we have worked on together,” that likely did not come as a surprise to city hall observers. After all, it was common knowledge that the city’s fierce fiscal challenges have been intensifying (even pre-COVID 19), and it is intuitive that the demands of an ongoing global pandemic and historic economic recession were bound to wreak further havoc on the city’s finances.

Yet, it may come as a surprise to many that the mayor’s accurate depiction of the gravity of the 2021 budget stems far more from the city’s deepening structural problems than from pandemic-related expenditure needs and revenue hits.

As we explained earlier this year when gauging the COVID-19 fiscal fall-out for cities, heavy municipal reliance on state aids and property taxes – while problematic in normal times – is beneficial in the immediate aftermath of a recession given the stability of those revenue sources. That explanation is borne out in the 2021 proposed budget, which shows flat funding for shared revenues and a 2.8% increase in property taxes. Meanwhile, the pandemic certainly has placed considerable extra expenditure demands on the city’s health department and created complications for other agencies, but the use of federal coronavirus relief dollars has eased that burden for now.

Instead, the severity of the 2021 budget challenge can be linked to a set of fundamental problems that have emerged over the past decade and intensified at the worst possible time. Those include a growing capital debt burden, dwindling reserves, escalating fringe benefit obligations (especially for police and fire), and a revenue structure that fails to grow with inflation and is ill-suited to meet the city’s expenditure pressures. The addition to that equation of pandemic-related reductions to several small revenue streams has made what already promised to be an exceedingly difficult budget even more grueling.

The most obvious sign of stress is the proposed reduction of 120 sworn police officers. The bulk of the savings are not re-directed to other needs, but instead are used to offset budget gaps caused by a $10 million hike in levy-supported debt and a reduced draw from the Tax Stabilization Fund. In addition, the Milwaukee Fire Department would lose an engine company and vacant positions would be eliminated across most other city departments.

Under the hood there are perhaps more alarming signs. Those include the proposed budget’s inability to add as much as originally planned to the pension reserve to prepare for a future escalation in pension payments, as well as its need to propose substantial fee hikes despite a worsening economy that is taking its toll on Milwaukee residents and businesses.

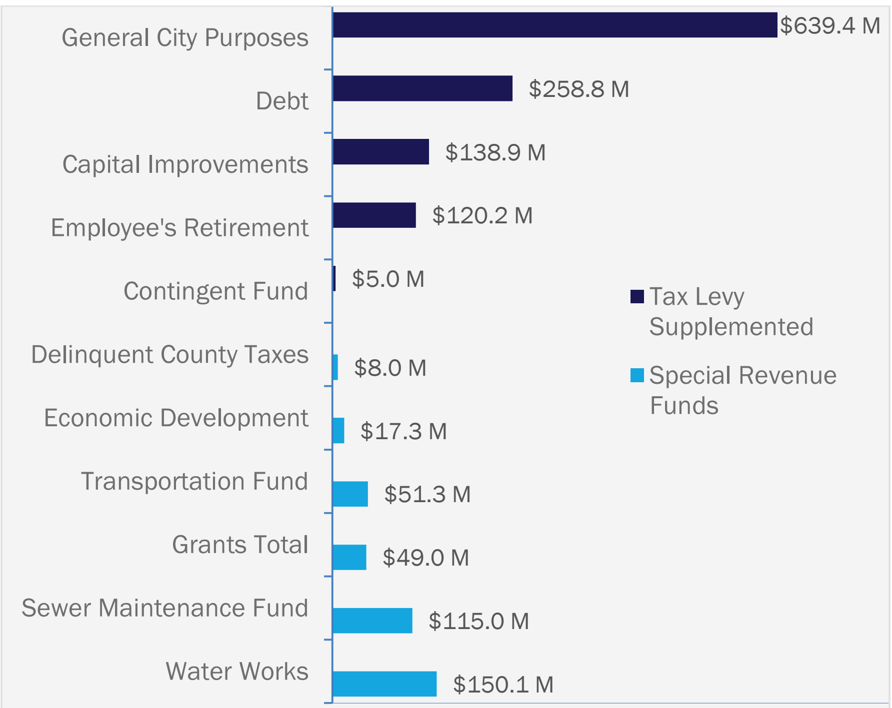
In the pages that follow, we provide additional detail on the keys to understanding the 2021 proposed budget, as well as other factors that will influence the city’s immediate and long-term fiscal prognosis. Our intent is to promote more informed discussion and debate as 2021 budget deliberations continue.

PROPOSED BUDGET OVERVIEW

The city of Milwaukee's 2021 proposed budget totals almost $1.6 billion, an amount that is $58 million (3.6%) lower than that budgeted in 2020. The decline is attributed largely to a drop-off in capital spending and a nearly 50% reduction in grant and aid revenues. The latter is due mostly to elimination of $50 million in grants received in 2020 for the Democratic National Convention.

The "property tax supplemented" portion of the budget refers to those components that receive at least partial support from the city's property tax levy and that generally are controlled by the mayor and common council. As shown in **Figure 1**, that portion totals about $1.2 billion and represents a decrease of $22.7 million from the 2020 adopted budget.

Figure 1: Summary of 2021 proposed budget (in millions)



Property Tax Supplemented Budget

= $1.16 Billion

Total Special Funds

= $391 Million

Total 2021 Proposed Budget = $1.6 Billion

Source: City of Milwaukee budget documents[1]

[1] Unless otherwise noted, the source for all figures, tables, and charts in this report is city of Milwaukee budget documents.

In this brief, we focus most of our attention on the portions of the budget controlled by the mayor and common council, with particular emphasis on the general city purposes budget.

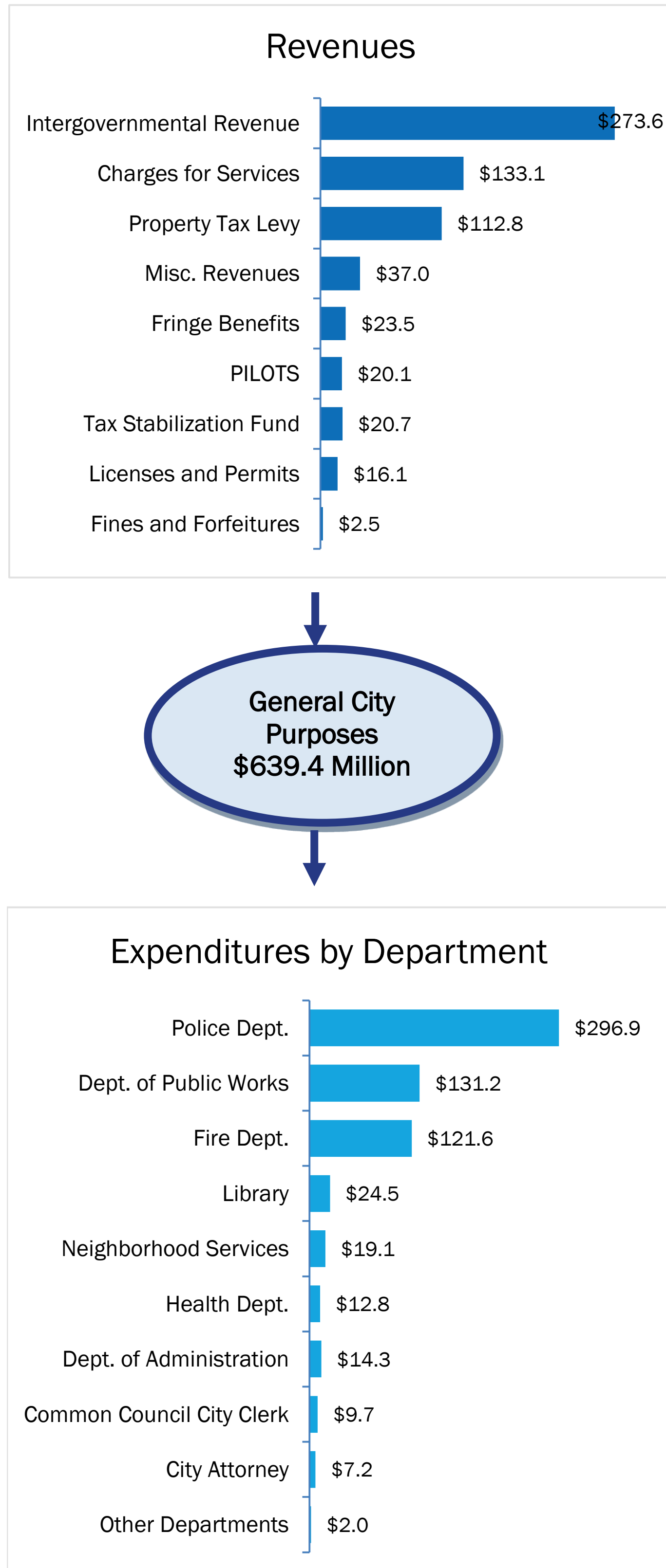
General Purpose Spending

The city's general purpose expenditures support most of the core functions of city government, including police, fire, public works, libraries, neighborhood services, and public health, as shown in **Figure 2.** The $639.4 million allocated to general city purposes in the 2021 proposed budget is a $1.8 million (0.3%) increase over the 2020 adopted budget.

Most city departments would see slight increases, although the Milwaukee Police Department (MPD) would receive a $434,000 (0.2%) reduction. The health department would see a $2 million (13.3%) cut in general purpose funding, but that reduction is largely offset by a shift of several positions and programs to grants and aids. The Department of Public Works (DPW) would see the largest increase at $10.2 million (8.4%), while the Milwaukee Fire Department also would receive a $7.1 million (6.2%) increase.

The relatively small decrease to MPD's budget obscures the proposed reduction of 120 sworn officer positions. Similarly, the 6.2% increase in fire department spending seems counter-intuitive given the proposed reduction of one heavy apparatus (and its associated staffing) and the possible closure of a station. Both largely reflect the need to account for fringe benefit increases and updates to the city's methodology for allocating those costs to departments. Projected fringe benefit expenditures are spread across all

Figure 2: 2021 Proposed General City Purposes Budget (in millions)



departments and impact police, fire, and public works most significantly because of their comparatively large numbers of employees.

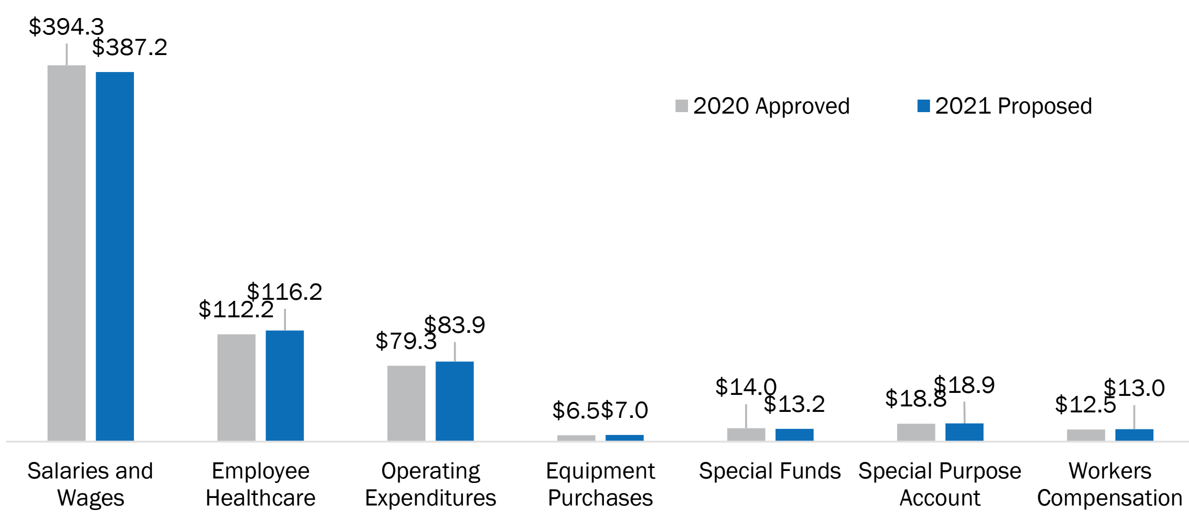
In fact, while a quick read of the budget would seem to indicate small increases in spending for most city departments, that generally does not convey an increase in staff or services given that each must absorb a portion of the increased fringe benefit allocation. A better barometer of the experience of most departments is how they fare with their city-funded full-time equivalent (FTE) positions. Here, we generally see FTE reductions, including 137 from MPD, 22 from the fire department, 17 from DPW, and six from the Milwaukee Public Library (though library hours are not reduced).

Notwithstanding the above, the proposed budget does include some program enhancements that are financed via the use of grants and other one-time sources. For example, an increase in federal Community Development Block Grant (CDBG) funding provides an extra $4 million to hire more health department workers for contract tracing and related purposes, as well as an extra $200,000 for the Office of Violence Prevention. Also, the budget proposes the use of $6.5 million from extending the life of an expiring tax incremental district to expand a variety of housing programs.

Chart 1 breaks down proposed general city purposes spending by expenditure type and compares 2020 adopted to 2021 proposed amounts. The chart shows that the $1.8 million increase in 2021 is attributed to roughly $4 million increases in both employee healthcare and general operating expenditures, which are mostly offset by a $7.1 million reduction in salaries and wages stemming from a cut of nearly 200 general purpose-funded FTEs. Still, at 61%, salaries and wages are the largest operational cost.

The $4 million (3.6%) increase in employee health care is not alarming in the context of typical health care inflation. However, it comes on the heels of another small (2.7%) increase in 2020 and shows that the city no longer can count on health care savings to offset other cost pressures and replenish reserves, as it did in many of the previous budgets this decade.

Chart 1: General city purposes spending by expenditure type, 2020 vs. 2021 proposed (in millions)



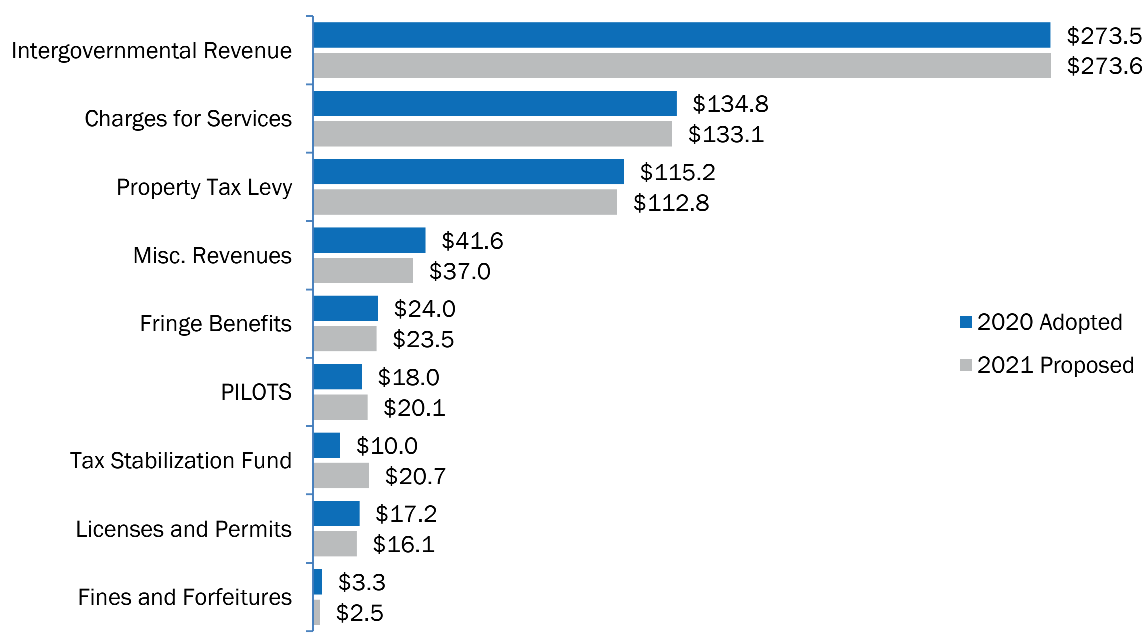
General Purpose Revenues

Spending for general city services is supported by three major sources of revenue: intergovernmental revenue, charges for services, and property tax levy. Together, these three revenue streams comprise 81% of proposed general city purpose revenues in 2021.

Chart 2 shows that the amount of property tax revenue allocated to general city purposes *decreases* by $2.4 million (2.1%) in 2021, continuing a recent trend that has huge implications for the 2021 budget and beyond. The budget proposes a 2.8% ($8.2 million) property tax levy *increase* for city government as a whole, **but $9.9 million is required for debt payments and nearly $700,000 for pensions, leaving fewer property tax resources for general city purposes** (see Budget Keys #2 and #3 below).

It should be noted that while the largest revenue increase appears to be a $10.7 million boost in the Tax Stabilization Fund (TSF) withdrawal, that withdrawal from city reserves actually would decrease by $3.5 million from last year. About $14.2 million in increased revenues from a proposed new street lighting fee, a $10 increase in the Vehicle Registration Fee (VRF), and smaller sources are shown as a TSF withdrawal for now because they have not yet been formally approved and certified by the comptroller. If approval is granted, then the charges for services line would grow by that amount and the TSF line would shrink to $6.5 million. The smaller TSF withdrawal is another factor that limits revenues available for general city purposes in 2021 (see Budget Key #2).

Chart 2: Sources of general city purpose revenue, 2020 adopted vs. 2021 proposed (in millions)



Also worth noting is the minimal increase in intergovernmental revenues ($72,000 or just 0.03%). This source is the largest available for general city purposes but it has grown by only $2.5 million since 2010. State shared revenue is by far the largest source of intergovernmental revenue at $219 million and would grow by only $36,000 in 2021. Given the current crisis, some might consider the city fortunate to see its state aids remain steady next year. Over the long term, however, this minimal growth – which lags inflation by tens of millions of dollars – has placed pressure on other revenue sources and the overall operating budget.

As noted above, the charges for services revenue line would grow by more than $14 million once revenues from new fees are recognized, but it currently shows a $1.7 million (1.2%) drop despite relatively sizable increases in the three largest sources of charges and fees (see **Table 1**). The overall decrease is attributed to a variety of factors, including diminished economic activity stemming from the pandemic (see Budget Key #5). Other key factors include a loss of revenue from the Milwaukee Public Schools' decision to end a contract for police services with MPD; and reduced charge revenues from the Harbor Commission per the city's lease payment schedule with Summerfest.

Table 1: Proposed increases to major service charges

Charge for Service	Rate Increase	Cost Increase for Average Home	Total Average Home Cost
Solid waste fee	4.9%	$11.28	$241.56 per year
Stormwater fee	4.0%	$3.56	$92.76 per year
Snow and ice removal fee	3.9%	$1.60	$42.80 per year

Capital Budget

The proposed capital budget is relatively tranquil, with the $83.1 million proposed for new tax levy-supported debt equivalent to the amount in the 2020 budget. The city hall repair project continues to take up a sizable share of that amount with a proposed $8.5 million appropriation. Lead service line replacement would receive $4 million (the same as in 2020), while bridges and streets would receive about $46 million in levy-funded borrowing (compared to $44.8 million in 2020). The capital budget also maintains a typical schedule for water main and sewer repairs and replacement.

An ongoing challenge is the need to stay on top of capital repair needs without creating an increase in annual debt service obligations. In last year's budget brief, we warned about an emerging backlog of capital needs, which stems both from past efforts to control borrowing and the allocation of such a sizable share of capital resources to the city hall project, which will require additional funding through 2023. In the meantime, other facility needs have been deferred, including major improvements to the Police Administration Building.

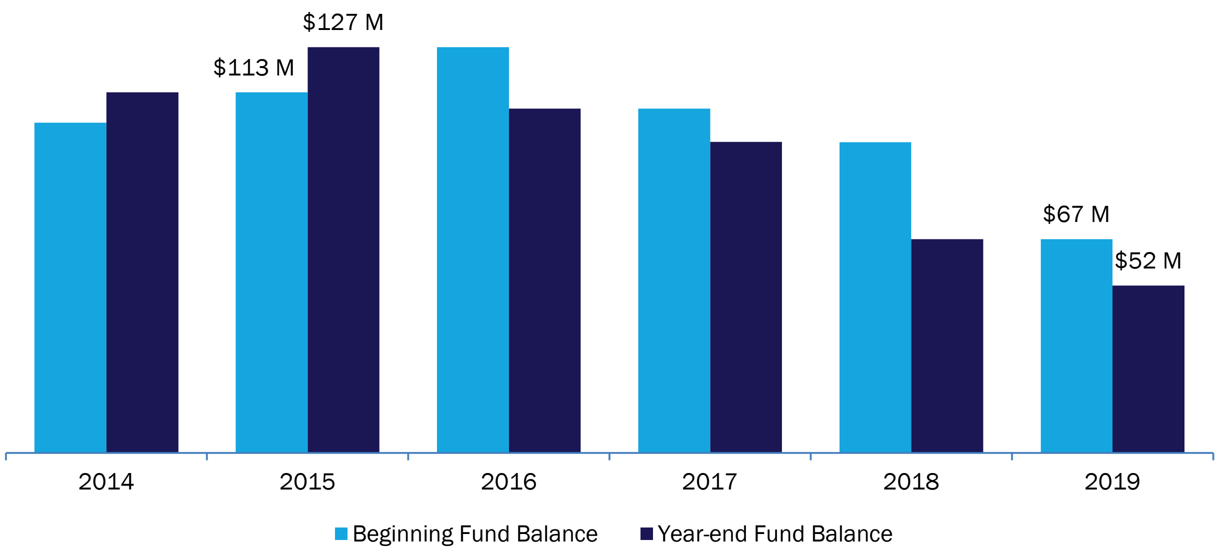
City officials hope that any backlog of capital projects can at least be partially addressed with the annual borrowing that has supported the city hall project once those repairs are completed. While it is good news that the 2021 proposed budget does not appear to lengthen the list of deferred projects, finding the resources to address the city's capital needs may be another difficult looming challenge for future budgets.

General Fund Balance Declining

The term "general fund" applies to revenues, expenditures, and changes in balances of general city purpose, pension, and contingent fund budgets. The general fund balance is a running total of the amount of money remaining after all expenditure obligations have been booked in a given year.

In an ideal world, a government's fund balance would grow annually – at least up to a point – as it takes in more money than it spends. As shown in **Chart 3**, that was the case in both 2014 and 2015. However, beginning in 2016, the city's year-end balance (which was quite healthy at that time) began to decline and it dropped to a low of $52 million by the end of 2019.

Chart 3: Beginning and year-end fund balances for the general fund, 2014-2019 (in millions)



The city's increasingly slim fiscal margins and declining fund balance have been a source of concern voiced by national credit rating agencies for the past several years. In September 2020, Standard & Poor's downgraded the city's long-term rating by two notches (from AA- to A) and attributed the move to "the continued erosion of the city's available reserves, which have declined substantially in recent years because of weakened operational performance."[2] Credit ratings influence the interest rates paid on G.O. bonds; higher interest rates could harm the city's ability to address its infrastructure challenges and may exacerbate the shift of property tax levy resources from the general fund to debt service in the future.

[2] S&P Global "Ratings Direct" for Milwaukee G.O. Bond Issue, September 16, 2020, p. 2.

FIVE KEYS TO UNDERSTANDING THE 2019 BUDGET

Key #1 – MPD Bears the Brunt of Budget Cutting

For the past decade, the Forum's annual reports on city budgets and finances have warned that the efforts of city officials to preserve sworn staffing levels in MPD either could not be sustained in the face of the city's growing structural challenges, or would produce harsh impacts for all other city functions. In our 2016 report, *Making Ends Meet*, we fortified that warning with a prediction that "the city's ability to make its pension payments and maintain police staffing levels without sacrificing service solvency in other departments likely has run its course."

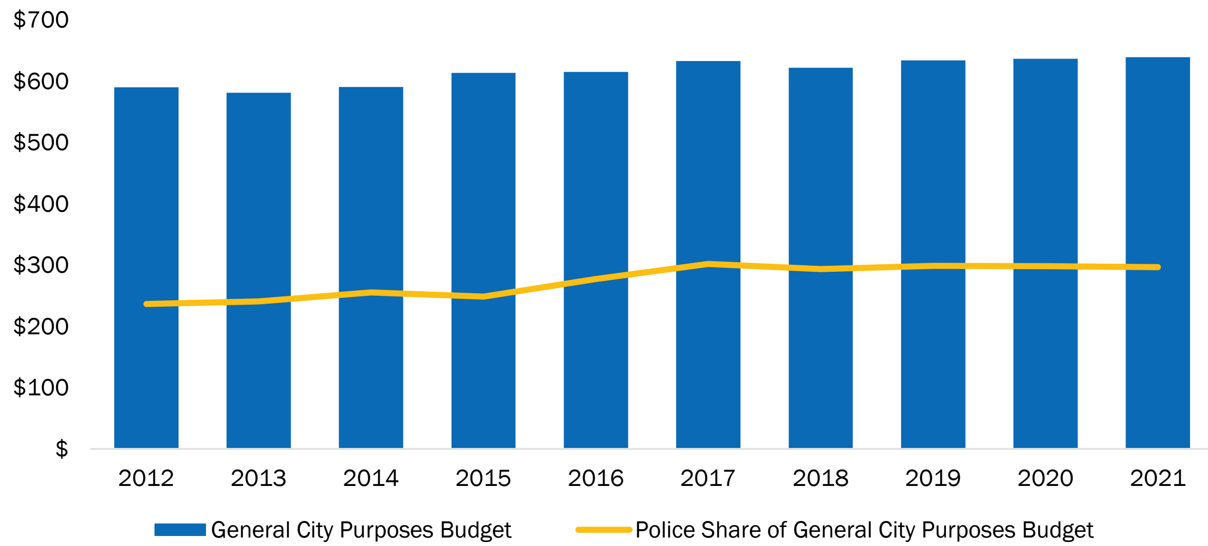
That prediction turned out to be accurate. After years of mostly sparing MPD from sworn strength reductions while asking for greater sacrifice from other departments, city leaders have been unable to maintain that prioritization over the past three years as their fiscal challenges have intensified. In 2018, the budget reduced sworn strength levels by 27 FTEs. Then, after 10 of those positions were restored in 2019, an additional 60 FTE officer positions were cut in 2020.

In the 2021 proposed budget, not only has MPD *not* been spared from budget pain, but it bears the main brunt of departmental budget cutting with a proposed reduction of 120 sworn officer positions. This would decrease the roster from 1,802 to 1,682 positions, a cut of 6.7%. The good news is that as in recent years, the cuts would be accomplished without layoffs through vacancies and attrition.

Despite the sworn officer reduction, the budget shows only a $434,000 reduction in MPD operating expenditures in 2021, which is emblematic of the larger budget challenge. Because of the growth in the per capita fringe benefit rate for each of its positions in 2021, MPD's $8.5 million in salary savings produced by the position reductions is almost fully offset by a $7.8 million increase in fringe benefit spending for its remaining positions. In other words, to accommodate the growth in departmental fringe benefits, more than 100 positions must be cut simply to break even.

As shown in **Chart 5**, despite the proposed reduction, police spending still would comprise almost half (46%) of total general city purpose spending in 2021. This reflects growth of $60 million (25%) in MPD expenditures since 2012. Meanwhile, funding available to allocate across all departments has grown at a slower pace, with the general purpose budget as a whole growing by only 8% ($49 million) since that year.

Chart 4: MPD budget as a share of the general city purposes budget, 2012 to 2021 (in millions)



In the wake of national and local protests calling for police reform and "defunding," some will argue the proposed cuts are insufficient, and that a much greater share of police resources should be re-directed toward other city services that constitute a higher priority and might reduce the need for police response. Conversely, others will insist the cuts are too onerous and will produce unacceptable declines in police presence and responsiveness, particularly at a time when violent crime rates are increasing.

While that question is highly subjective, we would point out that the reduction in sworn officers reflects budget pressures, as opposed to a response to cries for police reform or a reflection of what policymakers might deem the appropriate sworn strength level required to effectively serve the city's needs. Indeed, **the city's worsening fiscal condition greatly complicates the overdue discussions that need to occur on what resources might be diverted from MPD's budget to address other priorities and how many sworn officers are truly needed.**

In the meantime, there are lessons to be learned from the proposed budget. Those who support diverting tens of millions of dollars from the police function should recognize the recent shift in city policy to include MPD in the sizable departmental reductions that are now the norm in every city budget, and that MPD arguably would absorb more pain in terms of positions than any other department in 2021. Moreover, it should be instructive to see that because of MPD's salary and fringe benefit pressures, even a cut of 120 sworn strength positions produces no meaningful savings to divert elsewhere.

On the other hand, those who feel the cuts are too severe should recognize and acknowledge the severe impact that maintaining sworn strength levels would have on other city services in 2021. They might also appreciate the city's specific challenge in controlling the growth of police salaries and benefits, in part because of the exclusion of public safety unions from Wisconsin Act 10. Finally, both sides could consider renewed advocacy to state lawmakers for greater local revenue authority or other forms of budgetary relief.

It should be noted that the proposed budget does make an important public safety change by proposing creation of an independent Office of Emergency Communication to consolidate MPD and fire department dispatch centers into a unified dispatch operation. The move not only promises to improve dispatch operations and coordination, but it also holds potential for cost savings by reducing the number of sworn officers performing dispatching functions.

Given the city's intensifying fiscal woes, these and other cost saving strategies will be essential to avert even deeper cuts to police sworn strength levels in the future, as well as to help the department manage its shrinking roster of sworn officers. For example, future budgets might consider strategies to beef up psychiatric crisis services in partnership with Milwaukee County (the proposed budget includes a new $250,000 appropriation to pilot such collaboration) as well as new forms of service sharing or consolidation with the Milwaukee County Sheriff's Office and other municipal police departments.

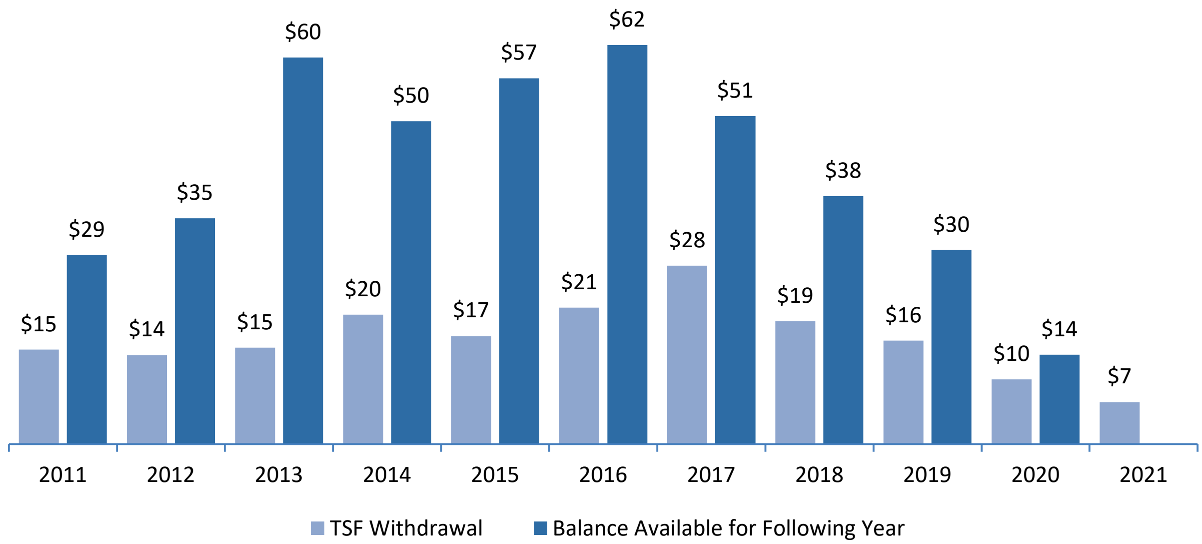
Key #2 – Reserves Depleted When Needed Most

While the city has been experiencing intense financial challenges since its pension contribution first spiked in 2010, for much of that time city leaders at least could take comfort in a well-stocked Tax Stabilization Fund (TSF), other healthy reserves, and an ample general fund balance. Those advantages translated into greater assurance of long-term financial stability and also provided capacity for sizable transfers into the general fund in especially difficult years.

The TSF has been a particular source of strength. It is built via deposits of unexpended appropriations and revenue surpluses in a given year. As part of the budget process, an amount is set aside annually for transfer from the TSF to the general city purposes budget, and a robust TSF has typically provided city officials with flexibility to increase transfers in especially difficult budget years as a means of holding down tax and fee increases or averting deep service cuts.

For much of the past decade, the city has been able to replenish the TSF at least at the same rate that it has made withdrawals, and it was even able to sharply increase the fund balance early in the period because of large health care savings. As shown in Chart 7, that ability to replenish the TSF has greatly diminished since 2016, however, leaving less capacity to make withdrawals as budget challenges have grown even more severe.

Chart 5: TSF withdrawals 2011-2021 and fund balances available for the following year (in millions)



The proposed 2021 TSF withdrawal is $6.5 million, down from the $10 million withdrawal in 2020 and less than a third of the $21 million average withdrawal from 2014-2018. The $6.5 million also is projected to be 47% of the unassigned TSF balance at the end of 2020, which itself is far lower than the balances enjoyed in previous years. If recent years are any indicator, it is unlikely the city will be able to replenish the fund over the course of the next year; and if that is the case, then little to no TSF monies may be available for transfer in 2022, further intensifying the difficulties ahead.

Another reserve-related challenge involves the Transportation Fund, which receives parking-related revenues. The transfer from that fund into the general fund is reduced by $110,000 (to $16 million) and the budget warns that "debt and pension costs and constraints on revenue growth" may require additional reductions in future years. The Transportation Fund may also be negatively impacted in the future if downtown office and special event parking collections continue to suffer from the lingering impacts of the pandemic, and as larger expenditures from the fund likely will be needed to support the Milwaukee Streetcar.

Yet another new challenge involves the city's debt service fund, which is used to reduce the amount of property tax levy needed annually to service the city's long-term capital debt. A recent discovery that the comptroller had failed to account for a future balloon payment for debt issued on behalf of the Milwaukee Public Schools has left the debt service reserve with a much lower balance than originally projected, thus eliminating the city's ability to use reserve monies in the 2021 budget. The unfortunate consequence is the budgeted $9.9 million boost in property tax levy used for debt service, which is one of the foremost contributors to the 2021 budget difficulties.

Finally, as discussed earlier, the city's general fund has plummeted in recent years, producing a downgrade in the city's bond rating and a lack of budgetary cushion as the economy enters recession. Taken together, **these diminished reserves pose a huge problem at a time when the city's state-imposed revenue woes remain unresolved and its expenditure needs intensify.**

Key #3 – Little Progress on Looming Pension Crisis

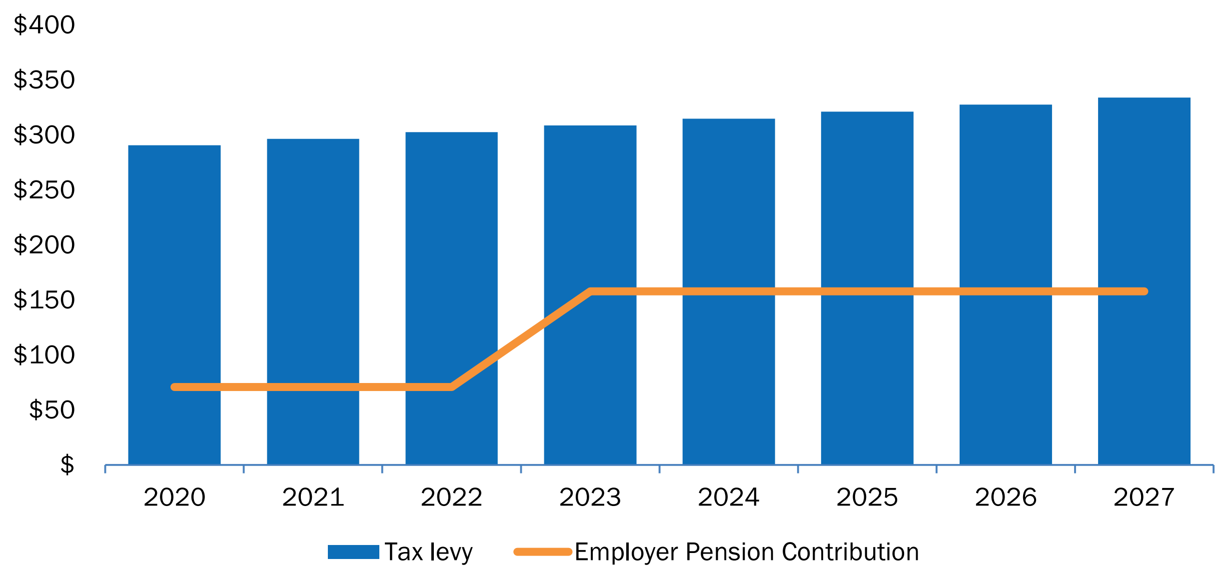
The city's diminished reserves and general fund balance would be a significant cause for concern under ordinary circumstances, but they are especially problematic given the looming threat of a huge increase in the annual employer pension fund contribution in the 2023 budget.

As explained in our recent report, "Bridging the Pension Gap," the pension board voted in 2019 to reduce the assumed rate of return for fund investments from 8% to a more realistic 7.5%. This move was responsible given past and projected investment returns, but it contributed to a sizable increase in the gap between actuarially projected liabilities and pension fund assets. That, in turn, will necessitate much larger taxpayer contributions to make up the difference over time. As of January 1, 2020, the unfunded liability stood at about $1.3 billion and the fund had an 80.1% funded status.

The change in the interest rate assumption has already taken effect but will not be factored into the required city contribution until 2023. That is because the city's stable contribution policy[3] resets employer contributions only once every five years. When the next "reset" occurs in 2023, the budgeted 2021 employer contribution of $71 million is anticipated to more than double to $149 million (which is down about $9 million from this time last year due to strong investment returns in 2019).

To demonstrate the impact of such a leap, **Chart 4** shows how the growth in the employer contribution would affect the use of city property tax levy, which for illustrative purposes we show to grow at this year's rate of 2.8% annually. Whereas in 2022 the projected $71 million employer contribution would comprise about 23% of the $307.6 million property tax levy projected for that year, **the $149 million contribution in 2023 would require use of a whopping 47% of that year's levy.**

Chart 6: Pension contributions as a proportion of projected property tax levy, 2020-2027 (in millions)



[3] The stable contribution policy estimates the city's anticipated actuarially required employer contributions for a five-year period and "smooths" the amount over the five years to avoid sharp swings in annual contributions.

Given the devastating impact that a pension contribution increase of that magnitude would have in 2023, the mayor and his budget team laid out a plan last year to increase contributions to the pension reserve from 2020 through 2022. This strategy was designed to build the reserve so that withdrawals could occur in 2023 and the immediate years following to ease the impact of the much higher levy contributions. Also, by gradually increasing pension reserve contributions in each intervening budget, the city would be required to raise revenues or cut costs in other areas to gradually build up to the extra $78 million needed in 2023 and thereafter.

The strategy was initiated with an $8 million contribution to the pension reserve fund in 2020. When combined with the $71 million employer contribution, that produced a combined pension payment of $79 million in the 2020 budget. The hope was then to increase the reserve contribution by an additional $12 million in both 2021 and 2022.

Unfortunately, that hope is not realized in the proposed budget. Faced with the unexpected increase in levy-funded debt service, the impacts of the pandemic, and other budgetary challenges cited in this report, the mayor and his budget team propose another $8 million reserve contribution in 2021, as opposed to the originally planned $20 million.

According to the budget, this would increase the reserve to $42 million, which ordinarily would be an impressive amount but would provide only limited relief if an extra $78 million is needed annually beginning two years from now. Consequently, **while even an $8 million reserve contribution could be considered commendable in light of next year's budget challenges, it causes the challenge looming in 2023 to appear even more insurmountable than it did at this time last year.**

Key #4 – Pandemic Adds to Budget Woes

A key question heading into 2021 budget deliberations was the extent to which pandemic-related fiscal impacts were going to carry over into next year. That question is still difficult to gauge given the continued spread of COVID-19 and ongoing discussions in Washington over a possible relief package (which may or may not include direct aid for cities). However, the assumptions used in the proposed budget show the impacts so far – while still serious for a government with the overall fiscal challenges facing Milwaukee – are perhaps not as severe as once feared.

One reason for the improved prognosis is the availability of funding from the federal Coronavirus Aid, Relief and Economic Security (CARES) Act. The city has used those funds to cover extra costs incurred this year and to invest in mitigation activities and supplies that will continue to meet some pandemic-related needs in 2021. The city received a direct allocation of $103 million in CARES Act funds and also received $9.8 million from the state's share of nearly $2 billion.

The proposed budget generally does not count on any CARES monies or anticipate any new pandemic-related federal or state resources with one exception – a $4 million allocation of extra CDBG funds provided under the CARES Act that is earmarked to the health department. Those funds will be used to offset the cost of positions that perform testing and contact tracing, including 325 auxiliary positions that are added to the budget.

While no other specific pandemic-related costs that require new funding are identified in the proposed budget, **Chart 7** shows there are a handful of negative impacts on the revenue side, which we summarize below:

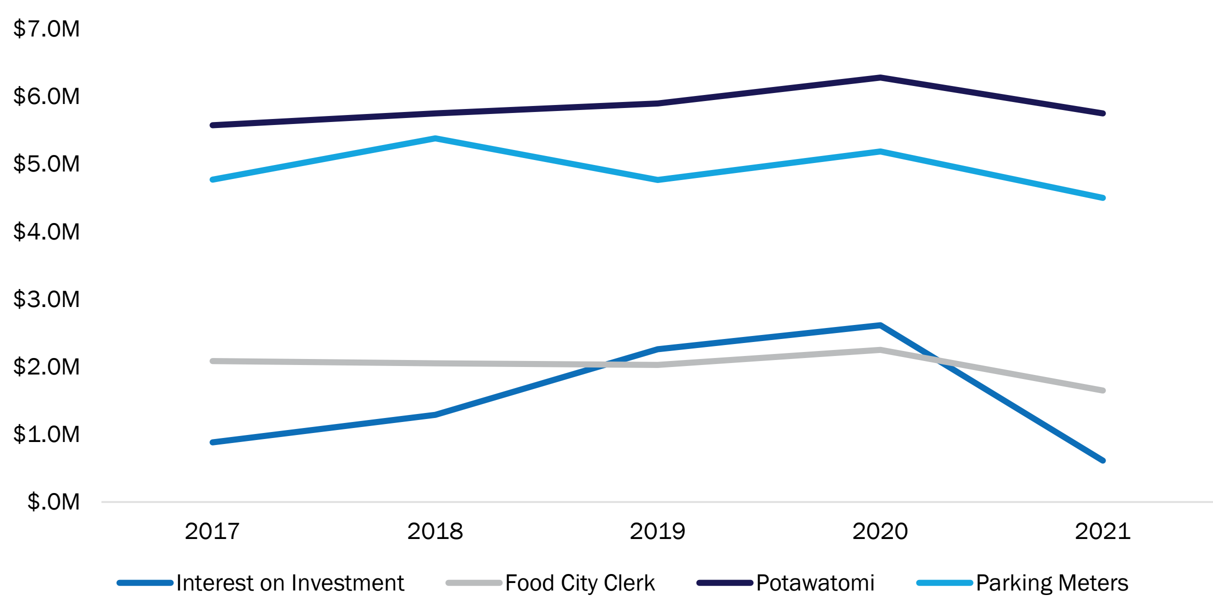
- **Interest income** – the 2020 budget included $2.6 million in investment income from city funds and the city received $3.9 million in interest payments in 2019. The proposed budget lowers the 2020 amount by $2 million to $615,000 in light of the Federal Reserve's decision to reduce interest rates to historically low levels in response to the pandemic-induced economic recession.

- **Food inspections** – the health department charges fees for inspections that assure the safety of food sold in grocery stores, restaurants, food trucks, and other venues. Those fee collections are budgeted to fall from $2.3 million in 2020 to $1.7 million in 2021, with the decrease attributed in part to lower inspection activity as a result of the decreased number of restaurants and restaurant patrons stemming from the pandemic.

- **Potawatomi revenue** – the city receives an annual payment from the Potawatomi Hotel & Casino based on a percentage of the casino's net win. The payment is reduced by $530,000 in the 2021 proposed budget (from $6.3 million to $5.8 million) in light of an expected continued decrease in casino patronage. While it is impossible to predict how long the pandemic will continue to impact casino attendance, it should be noted that Milwaukee County has budgeted for a more sizable $1.6 million reduction in its Potawatomi payment for 2021.

- **Parking** – the city's Transportation Fund receives revenue from parking meters and parking citations, each of which was hit hard by safer-at-home restrictions in 2020 and the shift to working from home that continued for many workers even after those restrictions were lifted. The impacts are projected to continue into 2021 and are reflected in projected reductions of $686,000 for parking meters and $800,000 for parking citations.

Chart 7: Pandemic's effect on four important revenue streams in 2021 proposed budget



While the combined $4.6 million revenue loss from these pandemic-related impacts exacerbates the city's 2021 budget challenges, the situation could have been worse. The proposed budget does not anticipate negative coronavirus impacts in other revenue streams that were projected to experience sizable losses in 2020, including Department of Neighborhood Services permits and inspections, which took a hit from decreased development activity; and city-owned parking lots and structures, which similarly suffered from the loss of special event and other downtown parking revenue. The city also benefits from the fact that, unlike many other municipalities in Wisconsin that are seeing losses in room taxes, these revenues in Milwaukee go to the Wisconsin Center District and do not flow into city coffers.

Of course, it remains to be seen how far and deeply the recession and pandemic will linger into 2021, and whether the budget is too optimistic or conservative in establishing its various revenue projections. Unfortunately, as noted earlier, the shrinking general fund balance and TSF leave little margin for error in a year filled with great uncertainty.

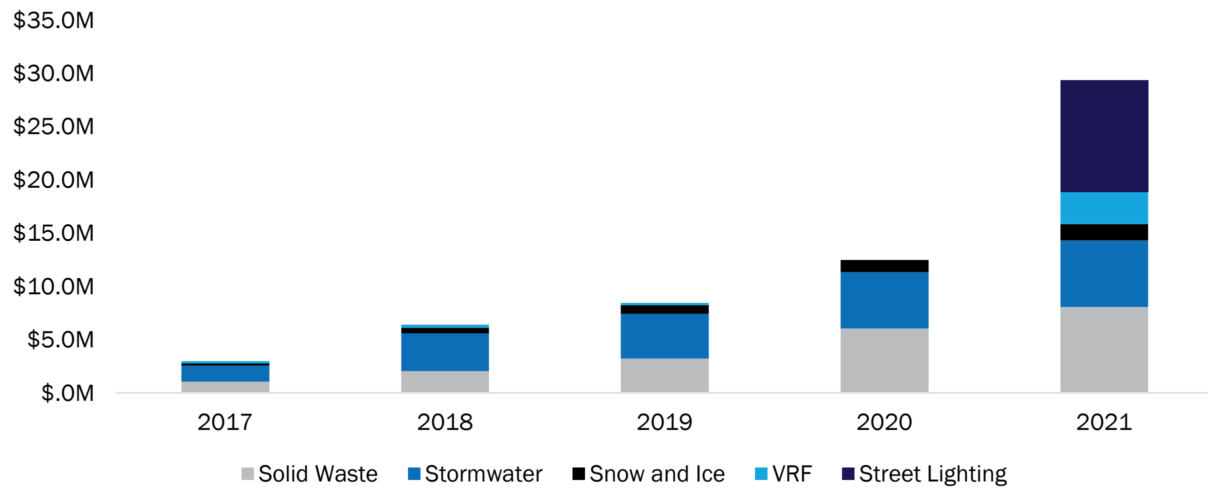
Key #5 – Budget Turns to Increased Fees and Taxes Despite Recession

Most economists and citizens would agree that a time of high unemployment and extreme economic uncertainty is not ideal for local governments to look to higher taxes and fees as a means of balancing their budgets. Unfortunately, Milwaukee officials have little choice but to do so if they wish to maintain key services, which some may argue is just as important as minimizing the tax and fee burden during a period when public health, public safety, and economic support needs are growing.

Discussions of increasing local taxes and fees certainly is not a new paradigm for Milwaukee officials, as in most years they see little material growth in state shared revenue and other intergovernmental aids to offset inflationary increases in salaries, benefits, and general operating expenses. However, the pressure to turn to tax and fee increases is more pronounced for 2021 given the factors discussed earlier in this report.

Instead of opting for deeper cuts in services, the mayor proposes a substantial increase in broad-based fees that would affect most Milwaukee residents and businesses. Increases to the three largest general service charges – for stormwater management, snow and ice removal, and solid waste – plus the new street lighting fee and increased vehicle registration fee would add a combined total of nearly $17 million in fee revenue to the 2021 budget. That amount far eclipses the increased revenues from these sources in the previous four budgets, as shown in **Chart 8**.

Chart 8: Annual increase in revenues from major fees, 2017-2021 budgets



Meanwhile, the property tax levy would grow by $8.2 million, or 2.8%, which exceeds the inflation rate of 1.3% for the 12 months ended in August. Still, the proposed percentage increase in the levy is lower than the previous year's increase of 3.6% and is similar or lower than increases seen in each of the three years before that. The budget states that the impact to the typical residential property owner in the average-valued home is $25.10 for the property tax increase and $64.48 for municipal service fees (not including the VRF) for a combined total of about $90.

The options for city officials are limited if they wish to reduce or eliminate the increased taxes and fees in the proposed budget. To eliminate the new street lighting fee and the VRF increase, for example, they would need to come up with $13.7 million in cuts, which would be roughly equivalent to 200 positions at the salary and benefit cost of an average city employee.[4] Another option would be to reduce or eliminate the $8 million earmarked for the pension reserve or withdraw more from other reserves, but our previous discussion makes clear that those options are not advisable.

While there is no good solution to this dilemma, to the extent that city officials turn to new or enhanced fees it will be important to ensure they are at least linked to valued services and that they are equitable and progressive. In opting for a street lighting fee, the proposed budget argues it would allow the city to address badly-needed street light maintenance and improvements that are critical to safe neighborhoods, in part by providing capacity to increase the pay of electricians to aid in recruitment and retention. The fee would be assessed on all city properties (including nonprofits that do not pay property taxes) under a methodology similar to that used for the snow and ice removal fee. The budget estimates an impact of $44 to $52 annually for the typical residential property.

Because the street lighting fee would be applied to all properties and is predicated on property value, an argument could be made that it is both fair and progressive. The $10 increase in the VRF – which will provide further support for local street repairs – cannot quite meet the same test given that it would be applied equally to any vehicle owner. Because a relatively high percentage of low-income residents in the city do not own cars, however, it could be deemed at least somewhat progressive.

[4] This assumes an average salary of 45,000 and a 50% add-on ($22,500) for fringe benefits.

CONCLUSION

In concluding last year's Milwaukee budget brief, we warned that "the 2020 budget is ominous not only because it reveals another huge pension-related challenge, but more importantly because it shows the city now lacks the tools it once possessed to respond to a budgetary crisis." Little did we know that the crisis was only a few months away, and that the consequences of dwindling reserves and a growing structural imbalance would come into such sharp focus just a year later.

Nevertheless, the city's 2021 proposed budget should not be viewed only from a negative standpoint. The budget is able to weather the pressures created by the pandemic with only minor impacts for most departments, and even the substantial cuts in police sworn strength can be accommodated without layoffs. The budget's capacity to maintain library hours; proceed with typical repair and replacement schedules for lead service lines, sewers mains, and local streets; and add money for mental health awareness, violence prevention, and affordable housing are even signs of encouragement.

As we have discussed in the previous pages, however, the proposed budget also could be viewed as just the second in a long series of consecutive budgets that will grow progressively worse and force harmful service reductions at a time when a weak economy creates even higher service demands. The striking challenges that will handcuff city leaders in the next several years include the huge increase in the pension contribution and likely reduced draws from the TSF and other reserves. There is also a challenge we have not touched upon: possible state aid reductions as the governor and lawmakers deal with the state's own escalating financial challenges in future state budgets.

If citizens and policymakers in both Milwaukee and Madison had not grasped the severity of Milwaukee's financial situation prior to this year, then certainly a proposed reduction of 180 sworn officers in the past two budgets and a significant downgrade in the city's credit rating should serve as an awakening. The city's financial condition is deteriorating and it lacks the wherewithal to withstand the larger challenges that lie ahead without severe impacts to city services and citizens. Either preparations should begin now for that eventuality or serious deliberations should commence on viable alternatives.