BUDGET BRIEF

CITY OF MILWAUKEE

2022 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.

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2022 Proposed City of Milwaukee Budget

October 2021

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INTRODUCTION

For nearly two years, the city of Milwaukee has operated under unprecedented circumstances as it weathered the fiscal impacts of a pandemic while pivoting significant resources toward protecting the physical and economic health of its residents. Fortunately, hundreds of millions of federal aid dollars have arrived to support those efforts. Yet, despite that assistance, the 2022 proposed budget makes evident that the deep structural problems plaguing the city's finances have worsened and remain the undercurrent of budget deliberations.

For the past several years, our budget briefs have described the factors behind the city's worsening financial outlook, a finding corroborated by national ratings agencies through recent credit rating downgrades. The 2022 proposed budget shows further erosion as diminishing reserves limit capacity for withdrawals and locally-generated revenues and state aids remain stagnant. These dwindling resources leave the city with little recourse to meet inflationary cost growth and a massive increase in the employer pension payment that will be required beginning in 2023.

While these concerns have been growing for some time, the city has lacked the financial capacity to alter the trajectory. Indeed, city officials warn of a possible 25% reduction in staffing levels to meet the pension obligation when all available budget tactics have been exhausted.

Incredibly, the crisis has been averted for up to three years through the arrival of $394.2 million from the federal American Rescue Plan Act (ARPA). Yet, the need for some use of those funds to fill immediate budget holes may limit the opportunity to use them instead to make long-lasting progress on structural problems and investment priorities.

The proposed budget sets aside $34.6 million of the ARPA funds in 2022 and suggests using $50 million in each of the following two years to avoid significant staffing and service reductions in the largest city departments. These monies will sustain approximately 190 positions across the Milwaukee Fire Department and Milwaukee Police Department in 2022, while also shielding the Department of Public Works from staffing cuts. Significant amounts of ARPA monies also are proposed for one-time expenditures on major city priorities over the next few years, including $84 million to expand the Milwaukee Health Department's lead program and $81.4 million to finance affordable housing projects.

As we will describe in more detail in this report, the use of more than a third of the ARPA award for immediate operating budget challenges is justifiable on a number of fronts, but it would ultimately cause the city's fiscal structural imbalance to grow. The common council now faces the difficult task of discerning the best way to spend an unprecedented amount of federal money in the context of immediate challenges posed in the 2022 budget, a citizenry and business sector still reeling from the impacts of the pandemic, and an urgent need to prepare for a potentially devastating pension problem in the not-too-distant future.

In the pages that follow, we provide greater detail on ARPA and other budgetary factors that will influence the city's immediate and long-term fiscal outlook. We also offer a glimpse into the health department and attempts to address some of its longstanding service-level issues. Our intent is to promote informed discussion and debate as 2022 budget deliberations continue.

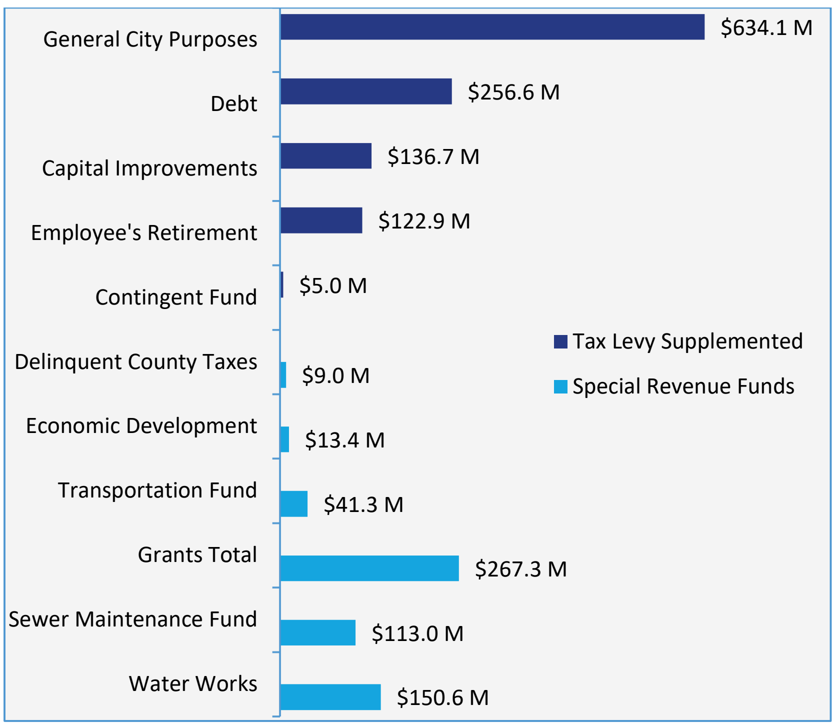
PROPOSED BUDGET OVERVIEW

The city of Milwaukee's 2022 proposed budget totals almost $1.75 billion, an amount that is nearly $200 million (12.7%) higher than that budgeted in 2021. The increase is attributed primarily to the inclusion of the first half ($197.1 million) of the city's $394.2 million allocation from the federal American Rescue Plan Act (ARPA).

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 $6.4 million from the 2021 adopted budget.

Generally, our annual city budget briefs focus on the areas of the budget that are impacted by the property tax, with particular emphasis on the general city purposes budget. This year, we also examine the proposed use of ARPA funds (which fall into the "special funds" category) given the significant impact they will have on city finances and services. As we will show, the nearly $140 million from ARPA that is proposed to plug operating holes over the next three years will alleviate the need for potentially severe service cuts but may ultimately intensify the city's structural challenges.

Figure 1: Summary of 2022 proposed budget by fund (in millions)



Property Tax Supplemented Budget

= $1.16 Billion

Total Special Funds

= $594.6 Million

Total 2021 Proposed Budget =
$1.75 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.

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 **Figures 2** and **3**. The proposed $634.1 million allocation to general city purposes in 2022 is a $5.1 million decrease from the 2021 adopted budget. However, not included in this total are $34.6 million in ARPA grant monies that the mayor proposes to support department operations. The inclusion of these special funds boosts the total to $668.7 million, a 4.6% increase over the 2021 amount. Notably, this would be the largest year-over-year percentage increase to the general city purposes budget since 2006.

Figure 2: 2022 Proposed General City Purposes Revenues with Proposed ARPA (in millions)

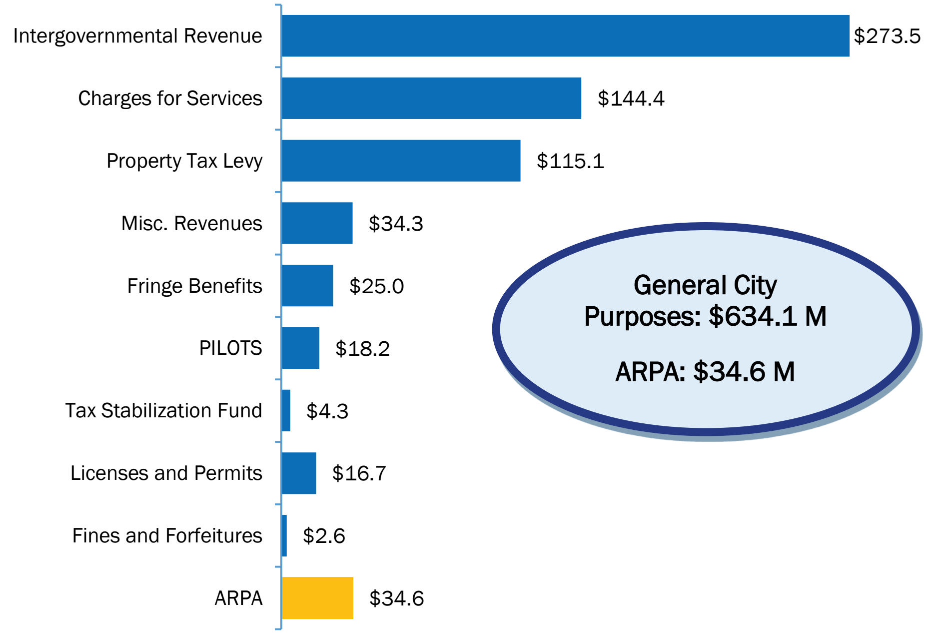
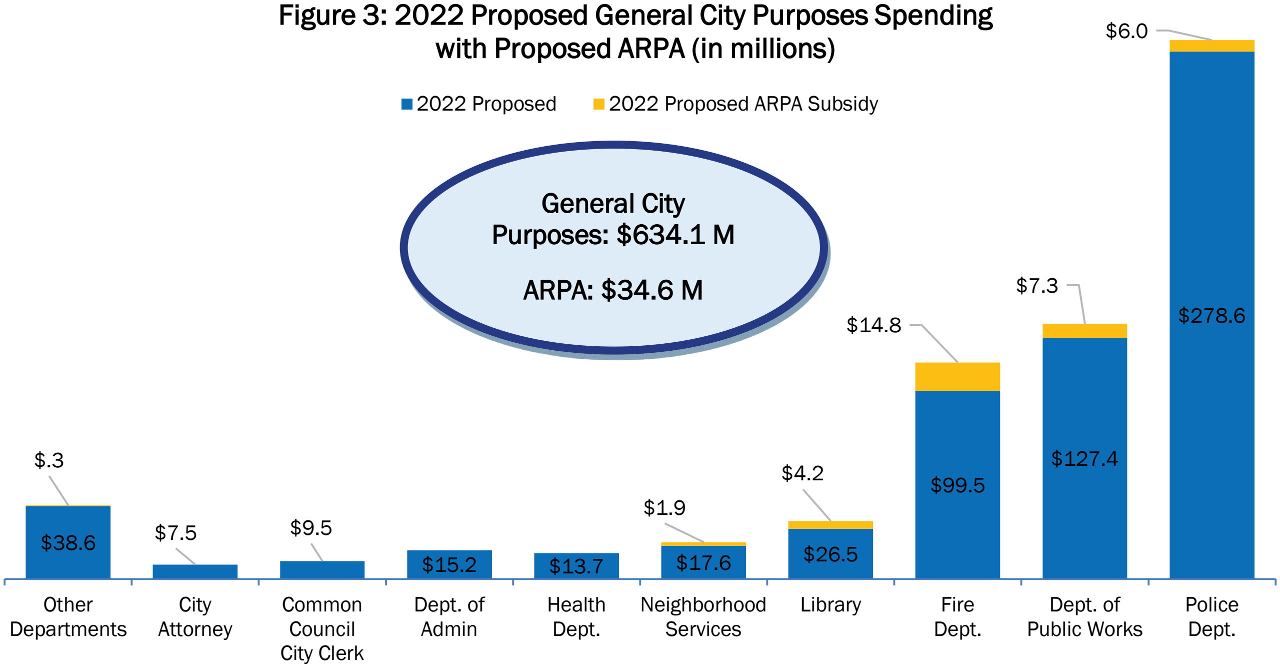


Figure 3: 2022 Proposed General City Purposes Spending with Proposed ARPA (in millions)



On paper, several of the city's largest departments – including police, fire, and public works – would see reductions in general city purposes support, but that is only because dozens of positions would be supported by ARPA funds instead.[2] Specifically:

- The Milwaukee Police Department (MPD) would see a 5.7% ($16.7 million) budget reduction. Approximately $10.6 million of this amount is due to the transfer of emergency communications personnel to a newly created Department of Emergency Communications. The remaining $6.7 million would be absorbed by the removal of general city purposes levy support for 122.5 sworn officers, though the proposed addition of $6 million in ARPA funds ultimately would limit the loss in sworn strength to 25 officers.[3] This would bring the average sworn strength in 2022 to 1,657 officers, a reduction of 207 since 2019.
- The Milwaukee Fire Department (MFD) would receive an 18% ($22 million) reduction in support from the general city purposes budget. Some of these monies are attached to 27 dispatch positions that will transfer to the Department of Emergency Communications. The use of $14.8 million in ARPA funds would absorb inflationary operating costs and support 93 positions that otherwise would be lost.
- The Department of Neighborhood Services would see an 8% ($1.5 million) general city purposes reduction that would be offset by the proposed use of $1.9 million in ARPA funds to pay the city's annual commitment to the Milwaukee Area Domestic Animal Control Commission.
- The Department of Public Works (DPW) is slated for a 3% ($3.8 million) loss of general city purposes support but $7.3 million in ARPA funds are proposed to cover the costs of DPW's energy and construction supply accounts as well as inflationary cost growth.
- The library's operating budget is proposed to grow by $1.9 million (8%). Although the majority is budgeted for salaries and fringe benefits, the increase is not sufficient to prevent the loss of 7.11 full-time equivalent (FTE) positions or an adjustment to locations offering Sunday hours. Also, $4.2 million from the ARPA award is proposed for the library operating budget, but those funds are designated for construction of a new MLK library branch and will not support operating costs.

With ARPA funds replacing general city purposes support for the city's largest departments, other departments would see increases. For example, the Milwaukee Health Department (MHD) and Department of Administration (DOA) would both enjoy 6% operating budget increases. A sizable portion of the additional revenues in MHD would be devoted to temporary positions related to the department's COVID-19 pandemic response as well added staff capacity for data and evaluation, compliance analysis, and oversight of department operations. The increased budget for DOA would fund three new positions in support of the new Department of Emergency Communications.

[2] Key #2 provides detail regarding the ARPA grant's revenue loss provision that allows for these operating subsidies, as well as a description of one-time spending plans for the grant.

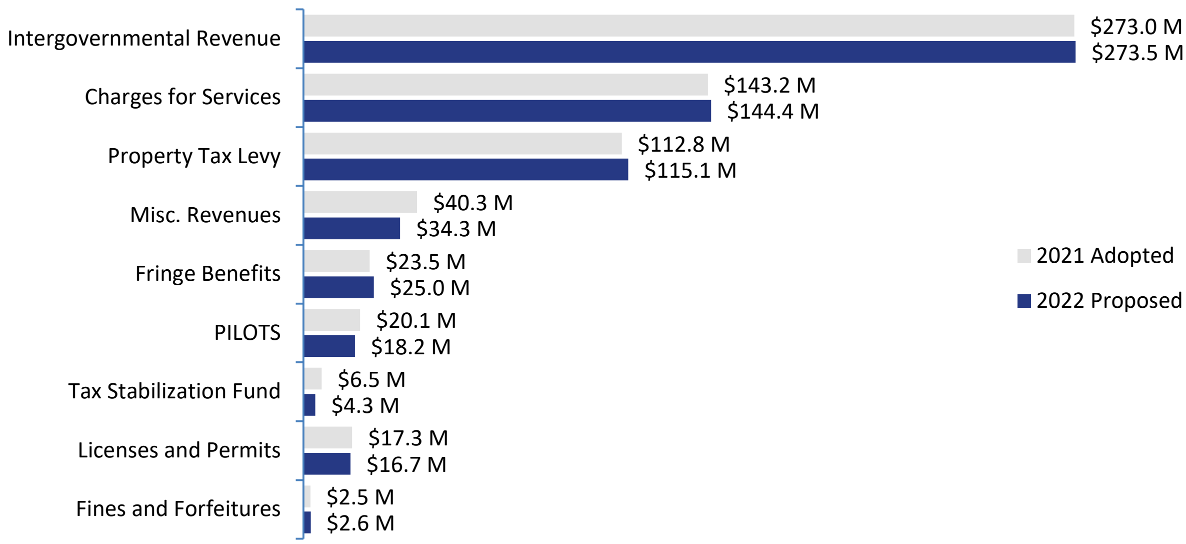
[3] The reduction of 25 sworn officer positions would occur through attrition as personnel retire or leave the department. The use of ARPA funds also allows MPD to initiate classes for 195 recruits to replace other retiring officers.

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 84% of proposed general city purpose revenues in 2022.

The city's single largest revenue stream – intergovernmental revenue – is projected to increase by only 0.2% ($469,000). The growth is primarily from a $291,000 increase in state expenditure restraint aid and a $417,000 increase in local street aids, which are partially offset by small cuts to other forms of aid. State shared revenue, which comprises 80% of total intergovernmental revenues, will decrease $31,000 from the 2021 budgeted amount. This is consistent with the trend in stagnant or falling state shared revenue payments since the early 2000s, which has contributed to significant pressure on other revenue sources and the overall operating budget.

Figure 4: Sources of general city purpose revenue, 2021 adopted vs. 2022 proposed (in millions)



Also shown in **Figure 4** are revenues from charges for services, which are projected to grow by $1.2 million. Notably, the increase is attributed to factors like increased usage of various services and does not reflect an increase in most fee amounts. Major service charges that typically are increased annually – including those for solid waste, stormwater, and snow and ice removal – would not be adjusted. According to budget officials, this decision reflects a desire to shield citizens who are still struggling from the pandemic's economic impacts. While understandable and justifiable, a downside is that the failure to bring in additional revenues from fee increases in 2022 – which typically can amount to $3 million or more annually – puts the city in a deeper revenue hole for future years.

The proposed 2% property tax levy increase would generate an additional $6 million in 2022 and result in a $33.43 increase on an average-valued home of $128,000. About a third of the new revenue ($2.3 million) is allocated to general city purposes, while $2 million is proposed for debt service and $2 million for an increased contribution to the city's pension reserve fund (from $8 million to $10 million). Rising debt service and pension costs have narrowed the amount of tax levy available for general city purposes in recent years, as we will discuss in greater detail in Key #1.

Capital budget

The proposed capital budget totals $257.8 million, an increase of $14.4 million (6%) from 2021. However, the increase largely reflects a $21 million increase in federal grants and aids for city streets; the city-funded portion of the capital budget is actually down by $1.8 million.

The distribution of capital dollars by function largely reflects those of previous years with a couple of notable exceptions. One is a proposed appropriation of $10 million for the completion of the city hall foundation repair project that began in 2016 and will cost a total of $69.4 million, while the other is a reduction in capital appropriations for housing-related projects in light of the mayor's proposal to spend a substantial amount of the city's remaining ARPA allocation on housing.

Lead service line replacement would receive no new financing (a $4 million reduction over 2020 and 2021 amounts), while bridges and streets would receive about $46.5 million in levy-funded borrowing (slightly higher than the $46 million provided in 2021 and $44 million in 2020). Water mains and sewers would maintain their typical repair and replacement schedule.

Overall, $85 million is proposed for new tax levy-supported debt in 2022, an increase of $2.2 million over 2021. The city has struggled for years to control spending on city-funded capital projects in an effort to limit annual debt payments. The proposed increase reflects, at least in part, the difficulty of doing so while also staying on top of capital repair needs associated with aging infrastructure.

The high cost of the city hall foundation repair project has contributed to an emerging but not insurmountable backlog in capital project needs, and it is hoped that finishing off the project in 2022 will create room to chip away at the backlog. It is important to note that departments requested $227 million in city-funded projects in 2022 and the budget only provides 60% of that amount.

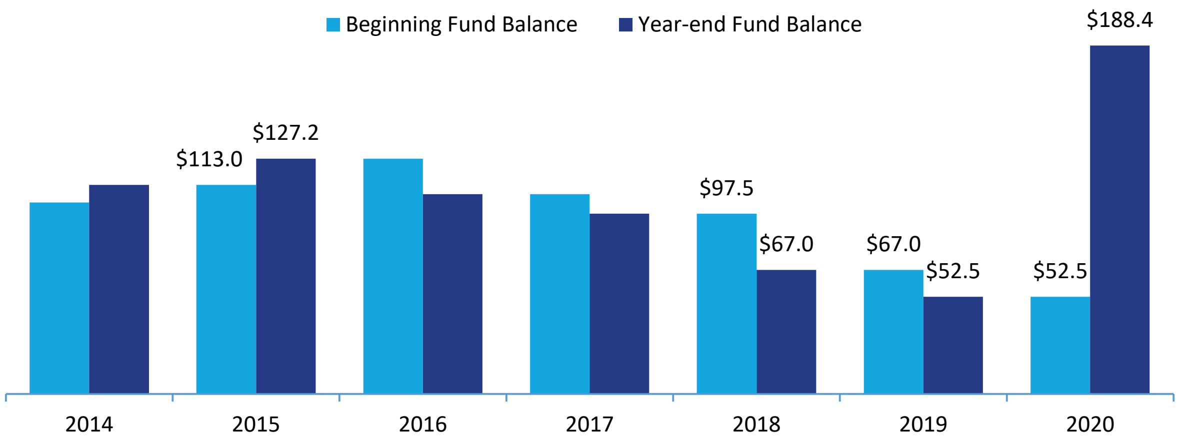
Finally, it should be noted that ARPA is a proposed source of funding for a number of capital budget items in 2022 in addition to those related to affordable housing. For example, ARPA dollars are proposed to fund major upgrades to street lighting infrastructure and projects related to the city's reckless driving initiative. More detail on these and other capital projects proposed for ARPA grant spending can be found in Key #2.

General fund balance

The city's "general fund" is broadly defined as revenues and expenditures that apply to 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 Figure 5, that was the case in both 2014 and 2015 when the balance grew to $127 million, or about 11% of property tax-supplemented spending budgeted for that year. However, beginning in 2016, the city's year-end balance began to decline and it dropped to a low of $52 million by the end of 2019.

Figure 5: Beginning and year-end fund balances for the general fund, 2014-2020 (in millions)



The good news is that the year-end general fund balance then reached its highest level in recent memory in 2020 after the arrival of the first major infusions of federal pandemic relief aid. The city received approximately $103 million in direct aid from the federal Coronavirus Aid, Relief, and Economic Security Act (CARES) legislation passed in March 2020, as well as $9.6 million from the state's share of nearly $2 billion in CARES funds.

Expenditure of the one-time CARES award may again return the general fund to a state of increasingly slim fiscal margins, however. National credit rating agencies have made note of these trends 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), attributing the move to the city's erosion of available reserves due to weakened operational performance. Lowered credit ratings translate to higher interest rates paid on G.O. bonds, which in turn could harm the city's ability to address its infrastructure challenges and may intensify the need to direct higher levels of property tax levy resources to debt service in the future.

KEYS TO UNDERSTANDING THE BUDGET

Key #1 – City's structural imbalance intensifies

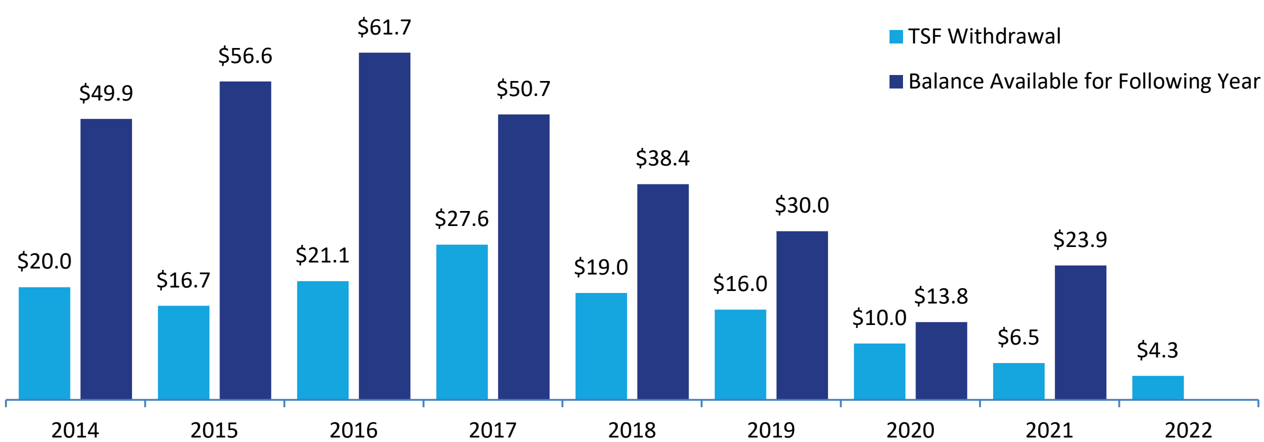
The city of Milwaukee's revenue challenges and their associated impact on service provision have been well documented by the Forum. Our 2016 report, *On the Money*, revealed a "broken" revenue structure unable to generate sufficient growth to keep pace with retirement obligations, aging infrastructure, and fierce public safety expenditure pressures. This inability of a local government's revenue streams to grow at a pace that allows it to meet its ongoing expenditure needs is the very definition of a structural deficit or imbalance.

The city's revenue predicament is linked to excessive reliance on aids from the state of Wisconsin, which have been stagnant for the past two decades; and a lack of local revenue options, which creates undue pressure on the property tax, which itself is constrained by state-imposed levy limits.

Revenues for the city's general city purposes budget have seen little growth for decades. This lack of growth stems from the flat nature of the city's shared revenue payments and property tax levies, as well as an increasing need to divert property tax resources away from departments and toward areas like pension contributions and debt service. From 2016 to 2020, general city purpose revenues grew at an average annual rate of 0.9%. When adjusted for inflation, these revenues *decreased* by a total of 3.9% ($26.2 million) over that time period.

While stagnant major revenue streams and increased use of property tax levy for pension payments are not new challenges for the general city purposes budget, a more recent challenge has been created by the depletion of reserves. For example, a substantial annual contribution from the Tax Stabilization Fund (TSF) has long been relied on to support core services and limit property tax growth. At its height in 2017, the city dedicated $27.6 million from the TSF to support general city service costs. Yet, as shown in **Figure 6**, the TSF has seen diminished levels of replenishment in recent years and the annual transfer to the general purposes budget has similarly declined. The city's shrinking reserves also have been cited by bond ratings agencies as a growing concern.

Figure 6: TSF withdrawals 2014-2022 and fund balances available for the following year (in millions)



By 2021, the TSF provided only $6.5 million to the general city purposes budget. Due to the influx of pandemic-related federal grant monies and other fortuitous circumstances, the fund was rebuilt modestly in 2021, to $23.9 million. Even so, the proposed withdrawal of $4.3 million in 2022 is the smallest in recent memory and reflects the city's need to continue to rebuild the TSF and limit withdrawals for the foreseeable future.

Similarly, transfers from the Transportation Fund (which houses parking fee revenues) have long supported the general city purposes budget. In recent years, annual transfers of $16 million were the norm, but that amount is lowered to $10 million in 2022 due to transportation-related operating pressures and lower revenues as fewer people have used city parking in light of the pandemic.

A third reserve resource – though not directly linked to the general city purposes budget – is the Public Debt Amortization Fund. Earnings on general city investments as well as investment income from the fund's own assets flow into the PDAF, and withdrawals are used to reduce debt service payments. That, in turn, increases the amount of property tax levy available for non-debt purposes, including core services. The fund's annual balance remains healthy but has been falling since 2014, and budget officials cite the need to now curb the pace of withdrawals. Consequently, the proposed withdrawal for 2022 is $5 million, which is $5.5 million less than the $10.5 million withdrawal in 2021 and contributes to a $2 million increase in tax levy allocated for city debt payments.

Combined, these reduced reserve withdrawals have a negative impact of $13.7 million in the 2022 proposed budget and help explain the need for such substantial use of ARPA dollars to maintain existing service levels. If the trend of reduced reserve withdrawals continues, then it also will exacerbate the longer-term structural deficit.

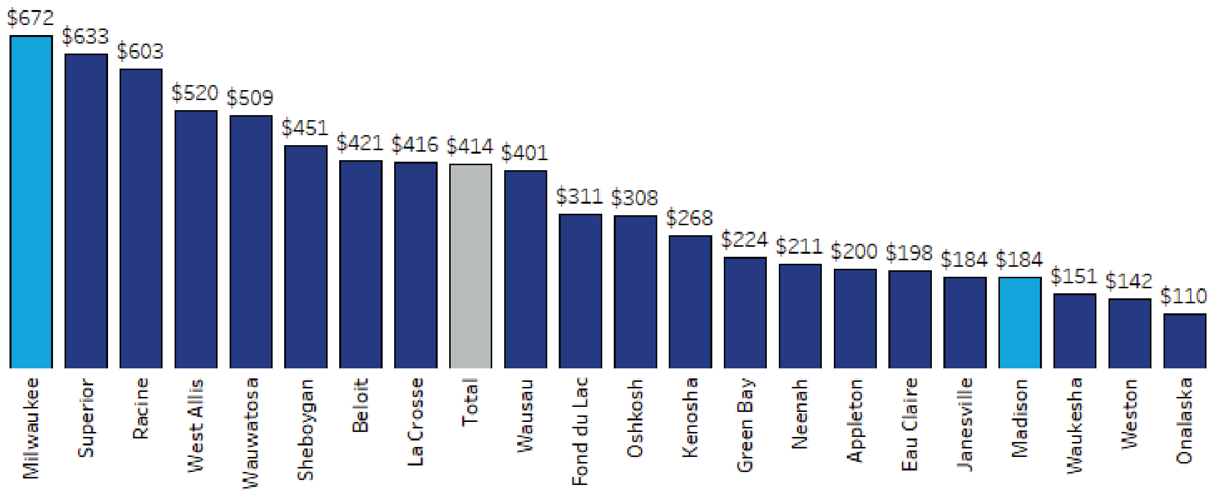
Finally, it is worth noting that given the longstanding challenges to the general city purposes budget and the more recent challenge of diminished capacity for reserve withdrawals, the proposed budget might have been expected to make greater use of its existing revenue tools to help bridge the gap. Instead, it plugs holes with ARPA monies and includes only a 2% property tax levy increase (the lowest on a percentage basis since 2016) while freezing major fees at 2021 levels. This decision is defensible given the desire to relieve pressure on residents still dealing with pandemic-related economic challenges, but it also exacerbates the structural imbalance by failing to keep permanent local revenue streams more in line with expenditure needs.

Key #2 –ARPA spending plan delays fiscal cliff

The ARPA legislation has channeled massive amounts of federal relief funds to local governments around the state and country, largely through what is known as the Local Fiscal Recovery Fund. Milwaukee is slated to receive $394.2 million due to its large population, and also because the federal formula prioritizes areas with high poverty and aging and overcrowded housing.

Because the city ranks high for these metrics, it also received the largest amount of ARPA funds on a per capita basis among Wisconsin's largest cities, as shown in **Figure 7**. For comparison, Madison received the second highest amount in total dollars ($47.2 million), but received among the lowest on a per capita basis given its low rankings in areas like poverty and aging housing.

Figure 7: Per capita ARPA fiscal recovery payments, major Wisconsin cities



Sources: Legislative Fiscal Bureau, Wisconsin Department of Administration

The influx of $394.2 million in federal monies (which must be obligated by the end of 2024) is a once-in-a-lifetime windfall that offers the possibility of addressing some of city government's long-held fiscal challenges as well as some of the pressing needs of city residents. At the same time, the city's immediate financial issues create a difficult dilemma for decision-makers, who must choose between using the funds as a temporary lifeline in the 2022-24 operating budgets or allocating them for longer-term initiatives on a one-time basis.

The double advantage of the latter approach is that it would not create new holes in the city's operating budget after the funds are exhausted and would allow the city to address priorities that have been under-resourced due to budget constraints. The disadvantage is the prospect of harmful service cuts in the near term if the dollars are not used to fill immediate budget holes.

The ARPA legislation establishes specific ground rules for local government use of the monies. The funds may not be used toward pension funds, pension reserves, or debt service payments. Eligible uses include the replacement of revenues lost due to the pandemic, expenditures related to the pandemic or its negative impacts (such as assistance to small businesses, households, and economic recovery), premium pay for essential workers, and investments in water, sewer, and broadband infrastructure.

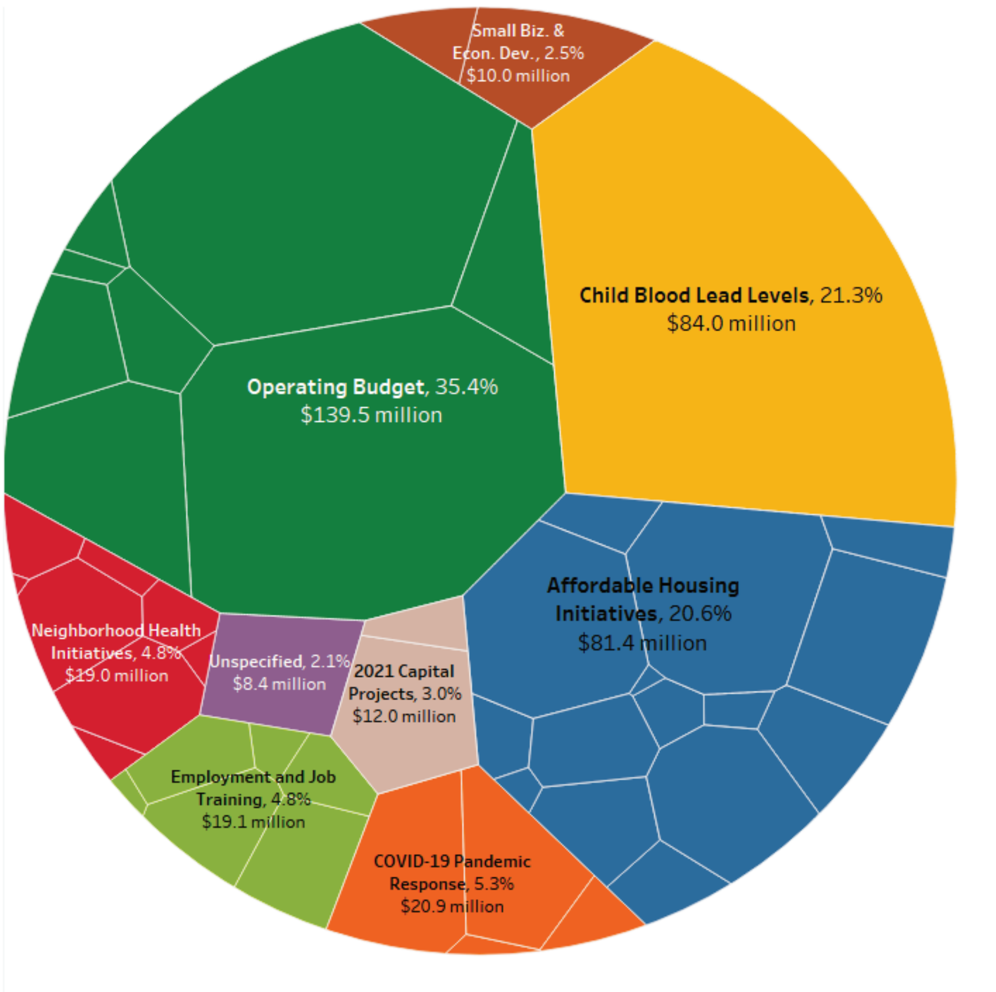
The revenue loss provision is particularly important in understanding the proposed use of ARPA funds in the 2022 budget. Per federal guidelines, municipalities may calculate a "revenue loss" if its major revenues fail to grow by 4.1% annually dating back to the onset of the pandemic. The city is able to document substantial losses under this provision even though key revenue streams like property taxes, shared revenues, and service charges are not projected to actually decline from year to year. In fact, many actually will increase slightly, though not at a 4.1% annual clip.

As a result of this definition of revenue "loss," the city has the option of using sizable portions of its ARPA allocation to temporarily plug holes in the operating budget that are created by inflationary costs to continue as well as other factors discussed in this report. There is also a downside, however.

Because the ARPA allocation would fill holes that are structural in nature – as opposed to replacing revenues that have taken a temporary hit but might ultimately rebound once the pandemic subsides – those holes are likely to re-emerge once the ARPA funds are exhausted.

Figure 8 shows how the mayor proposes to allocate the ARPA dollars over the next three budgets and reveals that he seeks both to address immediate budget needs *and* invest on a one-time basis in some longer-term priorities. He suggests that 35.4% ($140 million) be set aside for sustaining departmental operating budgets and offsetting the impact of the projected huge spike in pension costs through 2024, with $34.6 million slated for 2022 and more than $50 million set aside for operating costs in both 2023 and 2024.[4]

Figure 8: Proposed $394.2 million ARPA spending plan, 2022-2024



Source: City of Milwaukee Budget Documents

The second-highest spending target is lead paint treatment and abatement, at 21.3% ($84 million), which has been a point of deep concern and contention since 2018 when news broke that MHD had failed to follow up on thousands of children with high lead levels in their blood. Affordable housing

[4] $4.2 million in the 2022 operating budget is slated for the construction of a new MLK library branch.

initiatives are the third-highest priority, comprising 21% ($81.4 million) of the ARPA award. The remaining monies are proposed for ongoing pandemic response efforts (5.3%), employment and job training (4.8%), neighborhood health initiatives (4.8%), certain capital projects initiated in 2021 (3.0%), and small business and economic development (2.5%). Greater detail for these spending categories is available through an interactive version of **Figure 8,** located [here](https://wispolicyforum.org/city-of-milwaukee-proposed-arpa-spending-plan/).[5]

Generally, a cardinal rule of government finance is that one-time sources of funding (like the ARPA monies) be spent on one-time costs to avoid difficult program cuts or undue pressure on taxpayers when the funds run out. In choosing to disregard that maxim, the city is setting itself up for some excruciating decisions in 2025 in critical areas like fire and police. For example, in the 2022 proposed budget, ARPA funds support 93 fire department positions and 97.5 police positions; when the ARPA funds are exhausted, city leaders will be hard-pressed to maintain those positions without some new infusion of revenue or deep cuts in other departments.

Moreover, while a rationale for using ARPA monies to replace lost revenues is the hope that those revenues will rebound after the dollars are exhausted, that rationale likely will not hold true for Milwaukee. The city did not experience a sizable revenue loss because of its unique local tax structure, which does not allow for the use of taxes like sales and income taxes that would have suffered most during the pandemic. While that circumstance was beneficial in many ways, it also means that after ARPA monies are spent, there is little prospect of substantial revenue growth.

On the other hand, it could be argued that the proposed use of 35% of the ARPA allocation to address immediate operating budget needs is a justifiable strategy to buy another three years to plan for the steep financial hurdles that will materialize when the increased pension payments arrive. The mayor and his budget team acknowledge the risk they are taking but essentially argue it is a better alternative than the deep service cuts and sizable fee increases that would otherwise be required as businesses and residents still struggle with the challenges posed by the pandemic. The strategy also buys time for local officials to lobby in Madison for state authorization for a sales tax referendum and other forms of state support.

It also should be recognized that the mayor's proposal preserves nearly two-thirds of the ARPA dollars for uses that are more consistent with financial best practices, and that we find to be in line with urgent city needs, particularly in the areas of affordable housing and lead paint. Other noteworthy initiatives in the plan include violence and reckless driving prevention efforts and funding for early childhood education and workforce development. Not only do these initiatives address areas that are critical in nature, but they also hold promise to produce financial benefits in the long term by reducing public health needs and improving the employment prospects of residents.

While the impacts of these one-time spending proposals would be far-reaching and in line with major city needs, we would be remiss to avoid mentioning that significant infrastructure needs in areas like city streets, sidewalks, alleys, lead service lines, and broadband infrastructure are not addressed in the spending plan. It is hoped that a federal infrastructure bill may yet provide necessary resources to address these assets, but the amount of such funding and whether it would adequately address these needs is unknown.

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[5] https://wispolicyforum.org/city-of-milwaukee-proposed-arpa-spending-plan/

The Common Council now faces a unique and difficult challenge. Are council members willing to reduce city services or increase fees in 2022 to preserve greater use of the ARPA funds for spending on far-reaching initiatives that may otherwise be unaffordable? Or are they willing to risk a fiscal cliff for 2025 in the name of buying time and averting harmful impacts on residents at least until the impacts of the pandemic subside?

Key #3 – Pension crisis at city's doorstep

Over the past several years, our annual budget briefs have discussed the impacts of the city's structural imbalance and dwindling reserves on city services in the near term. At the same time, we have noted that those impacts likely would reach a crisis point when it came time to "re-set" the city's employer pension contribution in 2023.

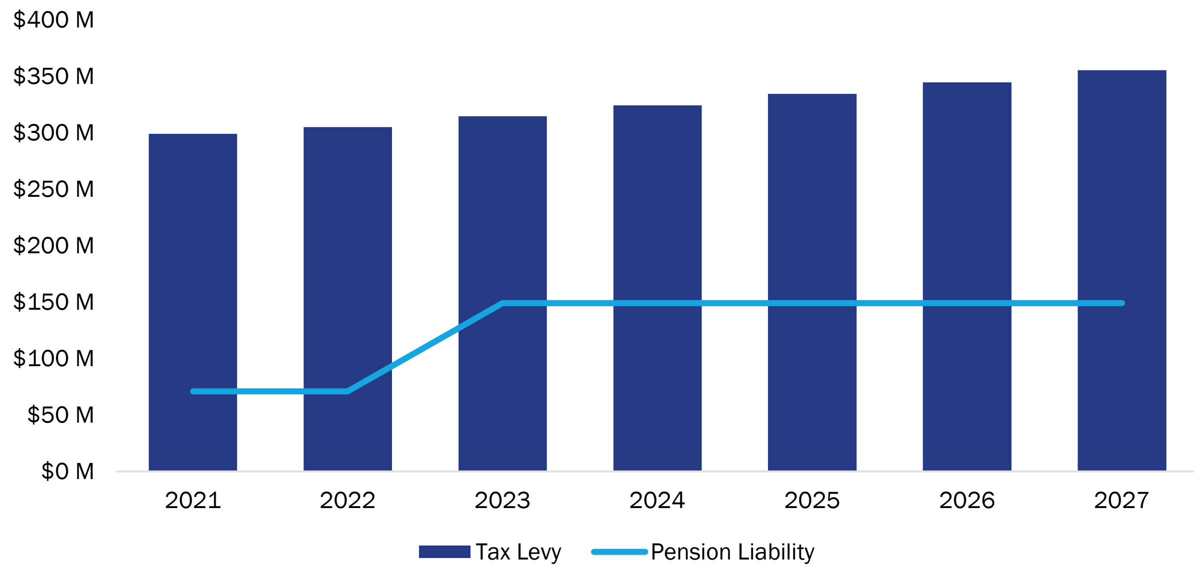
That re-set – which could require the city to increase its annual pension contribution by up to $78 million – is now one budget year away. While modest progress has been made to prepare for the spike, it remains a monumental challenge that ultimately could require massive cuts to city staffing and services.

The huge increase in employer pension payments stems largely from a decision by the city's pension board to lower the assumed rate of return of pension fund investments from 8.24% to 7.5% to more closely align with historical trends and projections for the future. That decision – as well as other actuarial changes – impacts the city's contribution in 2023 because of its "stable contribution policy." The policy dictates that the city will re-set the contribution every five years based on actual investment returns and various updated assumptions. The last re-set occurred in 2018.

City leaders have been aware of this huge challenge for several years and prudently allocated a combined $34.4 million over the past four budgets to the pension reserve fund, which now stands at about $42 million. Unfortunately, while use of those funds will help cushion the blow, they are not nearly enough. In fact, budget officials have speculated that nearly one quarter of the city's workforce may need to be cut in order to afford the payment.

Figure 9 shows how the projected increase in the employer pension contribution – from $71 million in 2022 to $149 million in 2023 – would match up with the city's property tax levy over the next several years (assuming the levy grows annually by 3.1%, which is the average over the past five years). As can be seen, the 110% contribution increase would require the city to devote 47% of its total projected levy in 2023 to pensions as compared to 23% in the 2022 proposed budget.

Figure 9: Projected city levy vs. employer pension contribution payments, 2021-2027 (in millions)



The mayor's proposal to use approximately $100 million from ARPA to support operating costs in 2023 and 2024 would partially cushion departments from the full impact of the pension increase by filling holes in their budgets that would otherwise materialize from the diversion of tax levy to the pension fund. It might also delay for a couple of years the need to use or exhaust pension reserve funds, leaving at least some reserve dollars available to support the payment in 2025 and beyond. The use of ARPA monies in 2022 also helps accommodate a $10 million pension reserve contribution next year (up from $8 million in 2021), increasing the fund's balance to $52.3 million.[6]

Beyond these strategies, the city has limited options for altering the pension contribution amount or minimizing its impact after 2024, when the ARPA monies expire. Recent and continued strong pension fund investment returns between now and the 2023 re-set could help reduce the amount needed, but it is unlikely that would shave more than $10 million to $20 million off the annual total. Given the structural issues discussed above, accommodating a $60 million increase – as opposed to the currently projected $78 million – still would be an extremely formidable task.

The mayor recently formed a pension task force to consider a range of options, including modest relaxation of the city's pension contribution policy, which links the required employer contribution to the actuary's projection of what it will take to fully fund *all* liabilities within a prescribed period of time. However, lowering pension payments in this manner or via other accounting or assumption changes also carry risk that undue burdens will be placed on future generations.

As we have stated in several previous reports, the pension challenge and its threat to vital city services is of sufficient magnitude that help from the state – either in the form of additional local revenue options or direct financial support – needs to be considered. The ability to use ARPA dollars to fill operating gaps may delay the day of reckoning for a few years, but that day still is approaching.

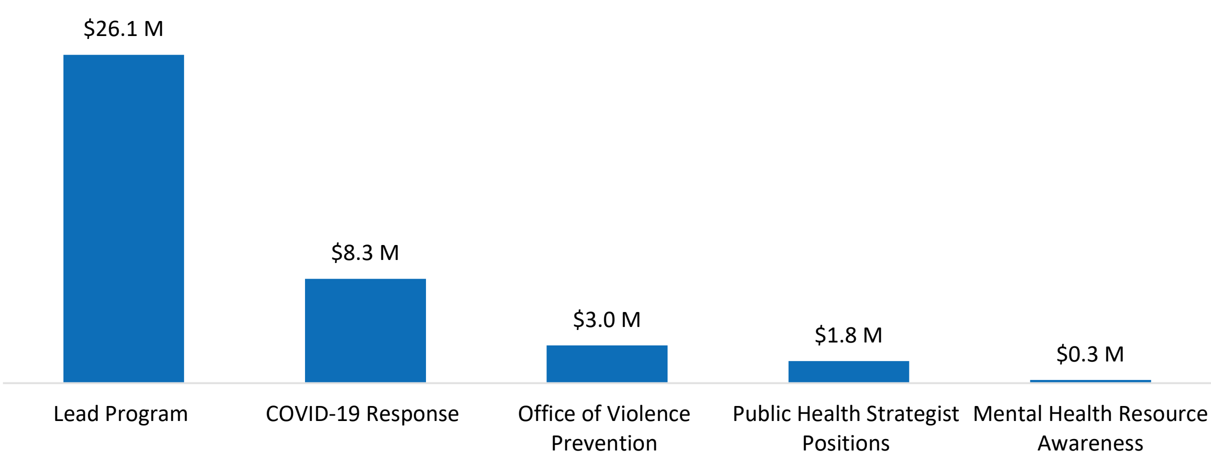
[6] Municipalities are not permitted to allocate ARPA monies toward pensions or reserves. However, the city's use of ARPA funds for other needs provides financial capacity to make a $10 million contribution to the pension reserve fund.

Key #4 – New investments in public health

The Milwaukee Health Department (MHD) has been in the public eye often over the last five years, for reasons that are both understandable and distressing. Most recently, the department has been a key player in the city's efforts to protect the health, housing, and livelihoods of residents during the COVID-19 pandemic. Prior to that, MHD had been in the headlines for negative reasons after the discovery in 2018 that it had failed to follow up with needed services for thousands of children who had tested positive for high lead levels. A recent newspaper report that three lead risk assessors received "notices of noncompliance" from the state indicates that MHD's lead programs are still under considerable scrutiny and that efforts to correct them still are a work in progress.

As the department continues to take center stage in pandemic response efforts, it is also seeking to fortify its lead program and spearhead the city's violence prevention efforts while breaking in another new commissioner – the third in the past four years. A key to understanding the 2022 proposed budget is how it directs resources to the critical public health function and the important role that federal ARPA funds will play as the department continues to reshape itself. **Figure 10** summarizes some notable areas of investment, which we describe in greater detail below.

Figure 10: Proposed major new health department spending in 2022 (in millions)



Lead

The proposed budget vastly expands MHD's lead efforts by designating $84 million in ARPA funds to increase program capacity over the next three years. Of that amount, $26.1 million is proposed in the 2022 budget. Program expansion includes hiring at least 15 additional staff and offering services to approximately 1,280 children who test positive for blood lead levels at 10 mcg/dL; currently, only children who test positive for lead at 15 mcg/dL qualify for MHD services. According to department officials, there are approximately 520 children with blood lead levels between 5 and 10 mcg/dL who still would not qualify under the proposed program expansion.

High levels of child lead poisoning in Milwaukee are attributed mainly to lead paint generally found in homes built before 1978, as well as to lead service lines that allow for the flow of drinking water into homes, schools, and daycare facilities. While ARPA funds are proposed to remediate housing and other buildings with lead paint, the proposed 2022 budget does not provide additional resources for lead service line replacement beyond the 1,100 lines typically budgeted in recent years. However, city officials hope the yet-to-be-passed federal infrastructure bill will provide a substantial source of additional resources to increase the rate at which lead service lines are replaced in the future. At the current pace, it would take over 60 years to replace the city's more than 70,000 lead service lines.

Pandemic Response

MHD's response to the COVID-19 pandemic has involved substantial contact tracing, setting up testing clinics and mass testing sites including the major operation at American Family Field, performing in-house lab tests of COVID-19 swab samples, setting up vaccination clinics, distributing free masks, and operating a residential isolation center at Clare Hall for low-income and housing insecure individuals who test positive for COVID-19. At its height, nearly 320 temporary FTEs, as well as community volunteers and workers loaned from other city departments, supported the response. The majority of this work was supported by $41 million in federal CARES dollars.

The proposed budget allocates $8.3 million in ARPA funds to MHD to continue supporting its response efforts. These include the provision of staff resources for vaccination activities, such as vaccination campaigns in neighborhoods particularly hard hit by the pandemic, as well as testing and contact tracing. Up to 325 temporary positions for these efforts would be supported via ARPA.

Other initiatives

The mayor's proposal for the use of ARPA dollars not allocated in his 2022 proposed budget includes $3 million to beef up the city's violence prevention efforts, which are housed in MHD's Office of Violence Prevention. Specifically, according to the budget document, the dollars would be used to expand the violence prevention interrupter program to south side neighborhoods and enhance the existing program on the north side of the city.

The proposed budget also includes a $250,000 grant for a pilot initiative in partnership with Milwaukee County that will make residents aware of mental health services and how to access them. In previous reports we have expressed concern that the city and county have not made sufficient effort to collaborate effectively on behavioral health issues so this is a welcome development.

The proposed budget also creates five public health strategist positions that are funded by a four-year, $7 million federal grant. These positions would accelerate MHD's efforts to expand its activities beyond direct services to also encompass broader public health strategies aimed at improving social determinants of health, like housing instability, unemployment, and systemic racism.[7]

While it is still too early to fully assess the progress MHD has made in responding to the myriad issues and challenges identified over the past several years, the 2022 proposed budget takes steps to accelerate those efforts. The next important step will be finalizing additional allocations of ARPA funds to MHD and seeking to ensure that those additional investments will buttress the city's public health capacity and effectiveness.

[7] This effort is consistent with the public health 3.0 model supported by the U.S. Centers for Disease Control and others, which urges public health departments to partner with multi-sector stakeholders to address social determinants of health.

CONCLUSION

In concluding last year's budget brief, we expressed a sigh of relief that the city appeared to be weathering pressures created by the pandemic without significant changes in services (outside of a reduction in sworn police strength). At the same time, however, we noted that "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."

A year later, there is more relief. Dwindling reserves, marginal revenue growth, and a potential increase in the pension contribution of more than $70 million in 2023 were expected to bring those challenges to the city's door step next year, but the arrival of $394.2 million from ARPA has delayed the moment of truth.

The proposed budget suggests that 35% of the ARPA monies be set aside for operating purposes from 2022-2024 in the hope that they will avert significant staffing and service reductions while allowing the city to meet its pension obligations. That objective is achieved for next year with the use of $34.6 million of ARPA funds to support nearly 200 positions and address other immediate operating challenges. Yet, we find the proposal to be a double-edged sword: the fiscal cliff may grow higher once the ARPA funds are exhausted even as its timing is pushed back.

Using more than a third of the ARPA dollars in this manner also would shield taxpayers from substantial hikes in taxes and fees at a time when many can least afford them. Moreover, the maneuver gives city leaders more time to plan for the cliff and to lobby state lawmakers for help. Finally, nearly two-thirds of the funds would remain for one-time spending that could address some of the city's long-standing challenges, including child lead poisoning, affordable housing, and job training.

Nevertheless, both policymakers and citizens should be aware that the magnitude of the city's long-term structural problems has not diminished, and that the relief provided by ARPA is only temporary and carries risk. In fact, that risk is not only fiscal in nature but is also psychological in terms of the false comfort it may provide to citizens and the false message it may send to Madison that the city's financial challenges may not be so bad after all.

A budget year in 2025 that would see a reduction of nearly a quarter of the city's workforce would have deep implications for the city's residents, visitors, and businesses and broader implications for the state given the region's economic importance. The ARPA funds may extend the onset of fiscal crisis for three more years, but the clock is ticking.