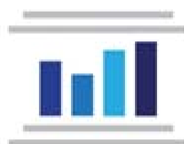
BUDGET BRIEF

CITY OF MILWAUKEE

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.

BUDGET BRIEF

2024 Proposed City of Milwaukee Budget

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INTRODUCTION

Over the last 15 years, the Wisconsin Policy Forum has issued three in-depth analyses assessing the city's fiscal condition. *Between a Rock and a Hard Place*, *Making Ends Meet*, and *Nearing the Brink* each issued stern warnings of a city facing deep structural challenges that threatened its ability to provide reasonable levels of core services to its citizens. While health care savings and various short-term fixes staved off draconian budget cuts over the period, *Nearing the Brink* – written just last year – emphasized that "the city of Milwaukee is once again on the brink of a financial crisis."

With that warning as a backdrop, the remarkable nature of the 2024 proposed budget comes into focus. Most strikingly, this is a budget that for the first time in recent memory adds positions, refrains from tapping into reserves, and almost unimaginably provides departments with the resources they sought in their requested budgets.

This extraordinary turn of events is almost entirely attributed to the passage of 2023 Wisconsin Act 12, the landmark state legislation adopted in conjunction with the state budget this past summer. The legislation provides the city with its first shared revenue increase in decades, while its authorization of a 2% local option city sales tax provides both a huge infusion of revenue and the ability to spread some of the cost of city services to the non-residents who use them. With more than $200 million in projected new revenue now at their disposal, city leaders are able to consider *how to invest* – instead of *where to cut* -- for the first time in a generation.

On top of these two new revenue streams, 2024 is the last year that city leaders can spend down monies from the federal American Rescue Plan Act (ARPA). Between previously unallocated and reprogrammed funds, an additional $110.3 million is available for spending purposes.

The budget that results from this good fortune strives to address the city's current needs while also planning for the future. Budget officials are cognizant that the good times will not last: just one year from now, ARPA monies will disappear, and the city's employer pension contribution that demands more than $180 million in spending each year will remain.

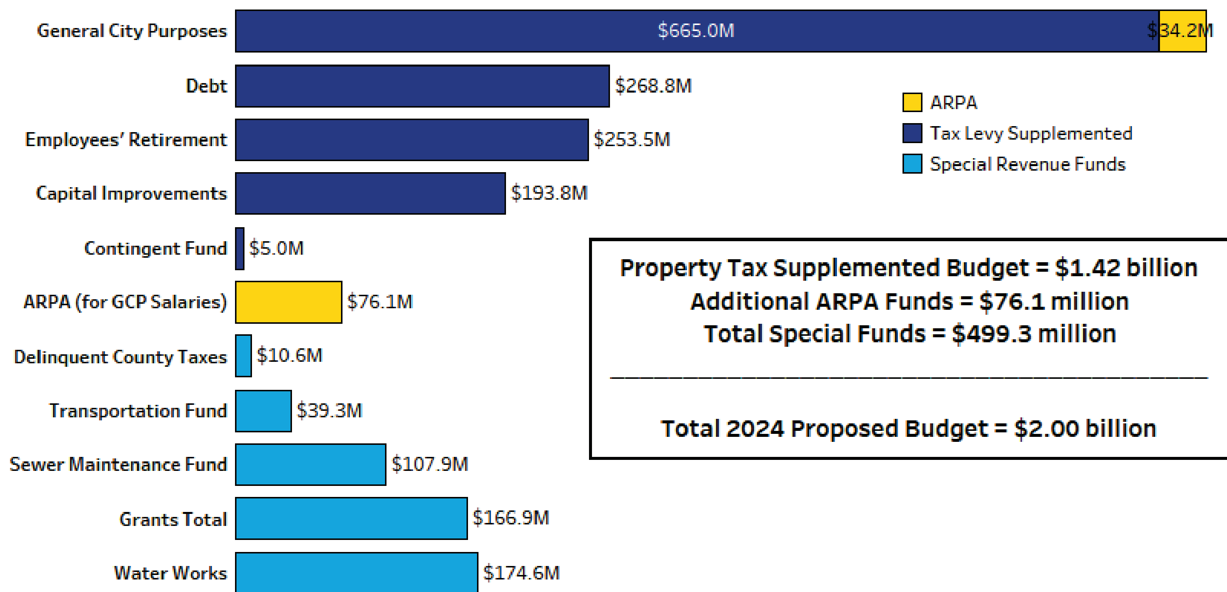
Consequently, in recognition of this year's unique fiscal abundance, the proposed budget makes a number of important investments that are designed to shore up longstanding areas of need while reducing cost pressures in the future. For example, tens of millions of dollars are dedicated to a major restructuring of compensation levels for key city positions in an effort to make recruitment and retention more viable in a historically tight labor market. The proposed budget also seeks to build up critical reserve funds while using cash– instead of funds derived from borrowing – to carry out nearly $37 million in capital projects.

In the pages that follow, we discuss how key spending pressures that placed the city on the precipice of fiscal crisis have been alleviated in 2024, as well as the prospects for renewed structural challenges in 2025 and beyond. Our hope is to provide city leaders and citizens with enhanced perspective on the most important decisions for next year's budget as well as what those decisions will portend for the future.

PROPOSED BUDGET OVERVIEW

The mayor's 2024 proposed budget totals $1.92 billion, an 11.9% uptick from last year's $1.72 billion adopted budget. That amount understates likely actual spending levels in 2024, as only $34.2 million of $110.3 million in ARPA funding that would be used to support salary costs in the operating budget is included at this time.[1] Major spending categories such as general city purposes and capital improvements would see sizeable increases, but none more so than Employee Retirement, which would rise from last year's adopted budget total of $143.9 million to $253.5 million (76.2%).

Property taxes support five major areas in the city of Milwaukee's budget (see **Figure 1**). Other functions – such as water works, sewer maintenance, and transportation – are supported by a combination of user charges, fees, and other revenues. Combined, the property tax levy-supported functions – which we will discuss in depth in this report – would rise by $142.8 million, or 11.2%, from $1.28 billion in 2023 to $1.42 billion in the coming year. This total does not include the $76.1 million in additional ARPA funding referenced above and in the footnote.



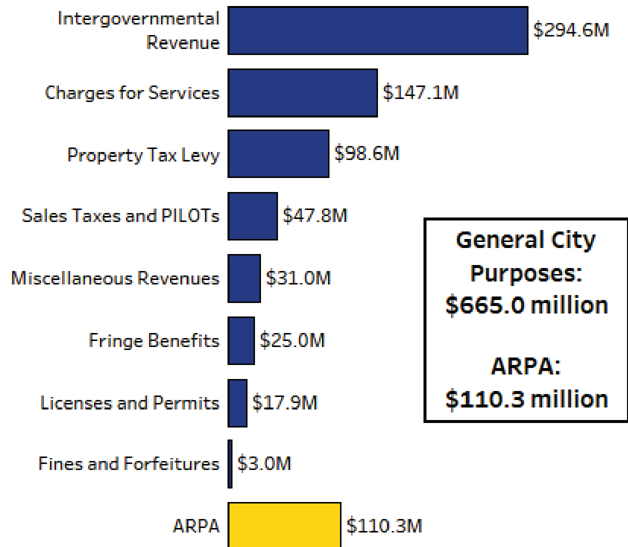
General City Purposes Spending

Day-to-day city functions such as public safety, public works, and libraries are included in the city's General City Purposes (GCP) budget, the largest single budget segment that alone accounts for about 40% of all city spending. Before factoring in ARPA funds, the 2024 proposed GCP budget includes an increase of about $25.5 million, or 4.0%, to $665.0 million (see **Figure 2** on the following page).

[1] The proposed budget assumes that $110.3 million of unused ARPA dollars will be used to support departmental salaries ($76.1 million) and fringe benefits ($34.2 million) in 2024. Only the $34.2 million is included in the proposed expenditure total, and it appears as a Tax Stabilization Fund transfer in budget documents pending recognition of that amount by the comptroller. The remaining $76.1 million is noted in departmental budgets but is not shown in tables in those budgets or in budget totals, as those ARPA dollars were part of Grant and Aid totals in previous budgets when they were awarded.

However, the budget also plans to recognize a final $110.3 million in ARPA dollars, $92.7 million of which was unallocated heading into 2024 budget deliberations and $17.5 million of which was reprogrammed from previous allocations (either because the allocations were deemed to be no longer needed or there was risk they would not be fully spent before federal deadlines). The proposed budget would distribute the combined total across the salary and fringe benefit line items of most GCP departments.

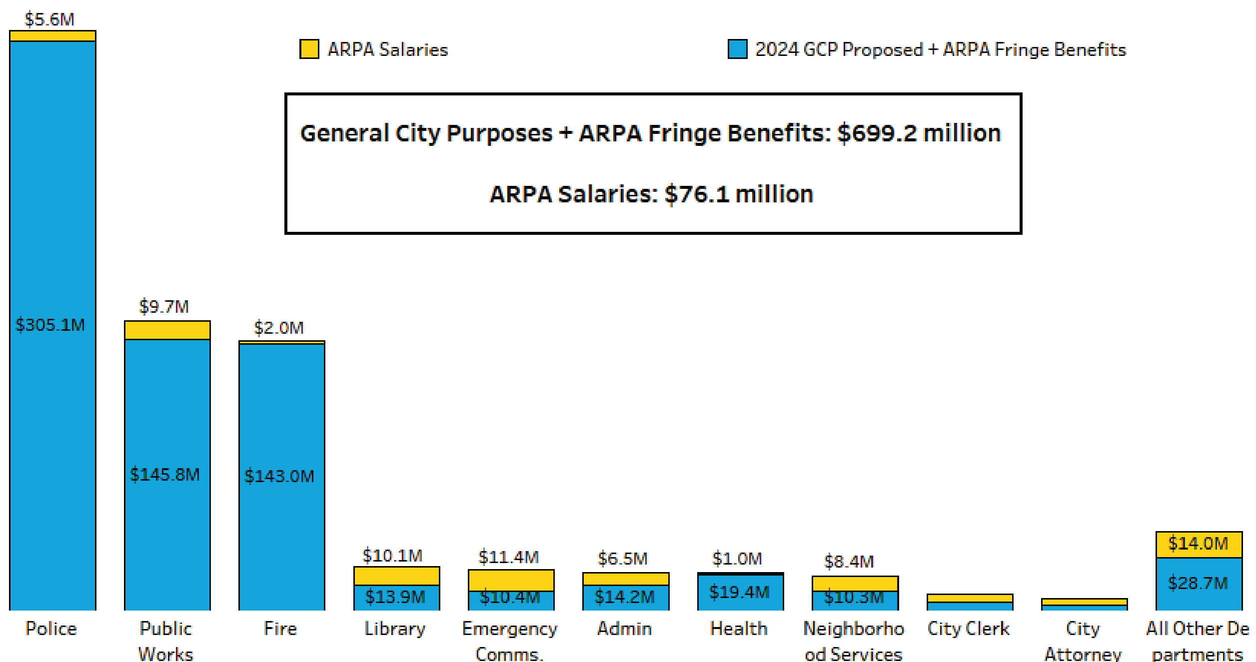
Figure 2: 2024 Proposed General City Purposes Revenues with Proposed ARPA



The 2023 budget dedicates the $80 million-plus ARPA allocation almost entirely to the salaries and benefits of one department – the Milwaukee Fire Department (MFD). In 2024, however, nearly every GCP department would see at least some of its salaries and fringe benefits funded by ARPA (see **Figure 3**).

As we discuss later in this report, 2024 is set to be a uniquely positive year when it comes to investment capacity. The city's remaining ARPA allocation ($110.3 million) – combined with both increased state shared revenue ($21.7 million) and revenues from the new 2.0% sales tax ($184.0 million) – equate to about an extra $300 million. While much of that new revenue is being eaten up by skyrocketing pension obligations (see Keys #1 and #2), a once unimaginable amount is available – for one year at least – for general city purposes.

Figure 3: 2024 Proposed General City Purposes Spending with Proposed ARPA



The proposed budget takes advantage of this largesse to avoid position reductions and spend tens of millions of dollars to boost the city's employee compensation structure. It does so by using dozens of position reclassifications and other tools (on top of a 2% cost-of-living adjustment for all general employees) to try to bring salaries for key positions in line with the recent surge in inflation and make them at least somewhat competitive with similar positions in the private sector.[2]

The budget also refrains – for the first time in recent memory – from withdrawing any funds from major reserves, which reflects both a desire to preserve them for future budgets and their depleted status (see Keys #3 and #4). And, as we discuss below, it also pumps nearly $37 million of property tax levy into the capital budget to help address an emerging infrastructure backlog.

City departments also benefit from the unique opportunity to invest, with virtually all – for the first time in recent memory – receiving what they requested to reflect their "cost to continue" existing levels of service. Public safety departments fare even better with some significant additions:

- When including the supplemental ARPA funds, the Milwaukee Police Department (MPD) budget would increase from $299.9 million in 2023 to $310.7 million, a 3.6% bump. To comply with new mandates contained in Act 12, the proposed budget would ramp up the department's sworn strength, funding three new recruitment classes at 65 per class. Given expected attrition due to retirements and resignations, officials expect total sworn strength to grow by only 15 officers to 1,645. By 2034, the city must employ 1,725 sworn officers.

- MFD's proposed budget would begin to restore staffing cuts that have taken place over the last decade, increasing daily staffing levels by six positions to 198, as well as restoring an engine to service and deploying a new medical unit. Under Act 12, MFD's daily staff levels must rise to 218 by 2034.

- Two years after its creation, the Department of Emergency Communications' (DEC) 2024 proposed budget totals $21.8 million (including ARPA salary funds), making it the fifth-largest GCP department. DEC, which handles dispatching for both police and fire calls, would add 214 positions to reach to full capacity, with many of those transferred from MPD and MFD.

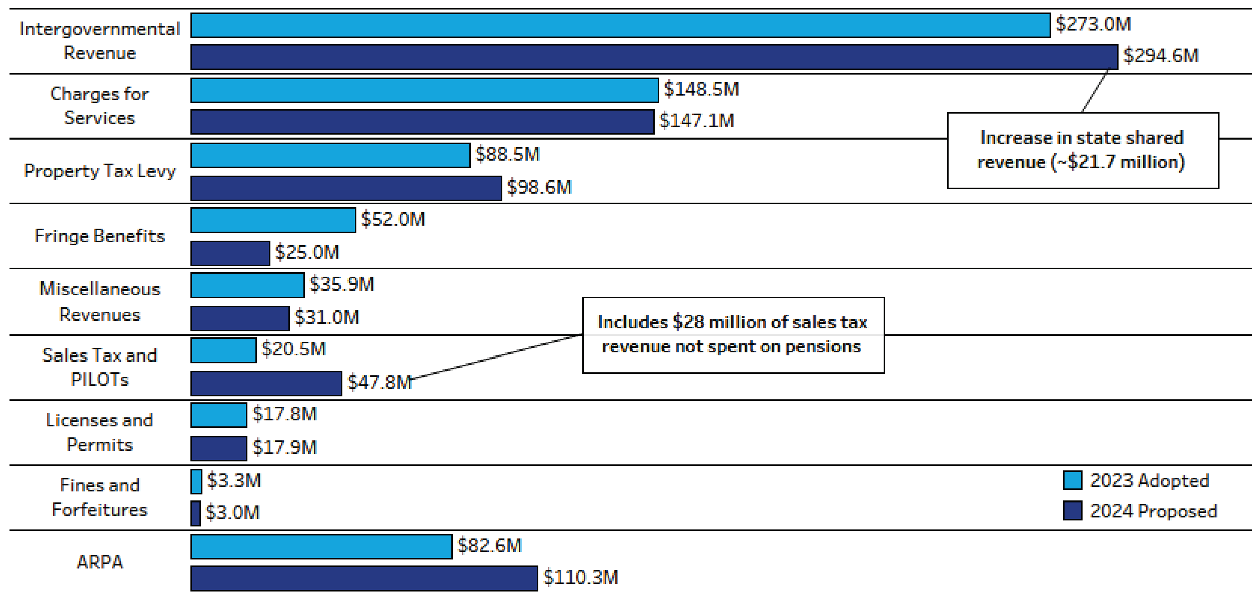
In contrast to prior years, the overlap of ARPA and Act 12 funding mean that the only GCP departments to *lose* FTEs would be the Health Department and the Department of Neighborhood Services, and those losses are mainly attributed to a transfer of positions to different departments (in the case of the Health Department, it is also due to the expiration of pandemic relief dollars). Overall, the city would add just under 175 FTEs for GCP departments, an increase of 2.7% over the 2023 adopted budget.

General City Purposes Revenues

As has been the case in the past, intergovernmental revenue (42.1%), charges for services (21.0%), and the property tax levy (14.1%) will account for the vast majority of GCP revenues (see **Figure 4** on the following page). However, while the big picture is the same, there are four noteworthy distinctions in 2024:

[2] Budget officials were unable to provide a precise estimate of the collective 2024 cost of these position actions but indicated it is likely in the $20 million to $30 million range.

Figure 4: Sources of general city purposes revenue, 2023 adopted vs. 2024 proposed



- ***Increased state shared revenue.*** Act 12 increases and alters the manner in which the state's shared revenue program is financed, tying it permanently to an amount equal to 20% of state sales tax collections. Milwaukee would receive a 10% increase in 2024 under the new formula adopted by the state – the lowest percentage increase of any municipality in Wisconsin – but that still yields a $21.7 million increase in the 2024 budget. Total intergovernmental revenue will rise to $294.6 million, after remaining between $259 million and $284 million in each year since 1999. In the future, the city can expect to see smaller annual increases that mirror the percentage growth in state sales tax revenues, but that still will be an improvement after decades of flat shared revenue funding.

- ***A new sales tax.*** Act 12 also authorized the city to levy a 2% municipal sales tax on top of the state's 5% tax and the county's 0.9% tax, bringing the city-wide rate to 7.9%. While the comptroller expects the city to receive about $184 million in the first year of this new tax, only $28 million will be available to support the GCP budget, with the remainder earmarked for pension contributions (see Key #1 for more on Act 12 and the sales tax).

- ***Additional ARPA funds.*** As discussed above, $110.3 million in ARPA dollars are available for the 2024 budget – the last year the city will benefit from this time-limited funding. As we discuss throughout this report, these funds present a rare opportunity for new and strategic investment in 2024, but their disappearance after next year likely will mark a return to structural deficits for the city.

- ***Increased property tax levy for the GCP budget.*** Overall, the budget proposes a 2% increase in the city's property tax levy (from $311.2 million to $317.4 million). However, the GCP benefits to a greater extent, with a proposed increase in its property tax levy allocation of $10.2 million (11.5%). The new sales tax is a major contributor to this development; the bulk of those dollars must be used to pay down pension liabilities, which frees up property tax levy from the employer pension contribution for other purposes.

Capital Budget

Like the operating budget, the proposed capital budget for 2024 represents a paradigm shift. Over most of the past decade, budget officials have struggled to find a balance between appropriately addressing their aging infrastructure on the one hand, and limiting the issuance of new levy-supported debt to preserve levy for operating needs on the other. In the proposed budget for 2024, however, the capital budget receives a huge injection of cash financing, which allows for both a sizable expansion in capital spending and a small reduction in levy-supported borrowing.

Total capital spending in the proposed 2024 budget is $344.9 million, an 18.4% increase over the $291.4 million appropriated in 2023. City-funded capital improvements (i.e. those not covered by grants and other outside revenue sources) total $193.8 million, an increase of $29.7 million (18.2%) over the current year. Despite the increased spending, the city's tax levy-supported general obligation (G.O.) borrowing would decrease by $1.1 million to $95.0 million, while property tax levy used to finance capital projects skyrockets from $1.0 million in 2023 to $36.8 million in the proposed budget.

The ability to dedicate such a large sum of property tax levy for cash financing is a direct byproduct of the $110 million in ARPA monies dedicated to the operating budget. That move – combined with new sales tax and shared revenue monies - frees up sufficient levy from operating needs to allow investments in other city priorities, and the mayor and his budget team have elected to use that unusual opportunity to chip away at the city's large list of pending capital projects.

This is a strategic move that acknowledges the city's long-term challenges. It not only reduces the backlog – thus lowering pressure on the 2025 and future capital budgets – but also means the city will not have to make future interest payments on the cash-financed projects.

The proposed capital budget includes modest boosts in priority areas like local streets and high-impact paving while launching a major replacement project for the city's financial and human resources information technology (IT) systems and accelerating a similarly comprehensive project to upgrade its public safety radio system. The cash infusion also allows the city to replace $4.7 million of ARPA funds that were used to support housing-related capital projects in 2023 with local funds.

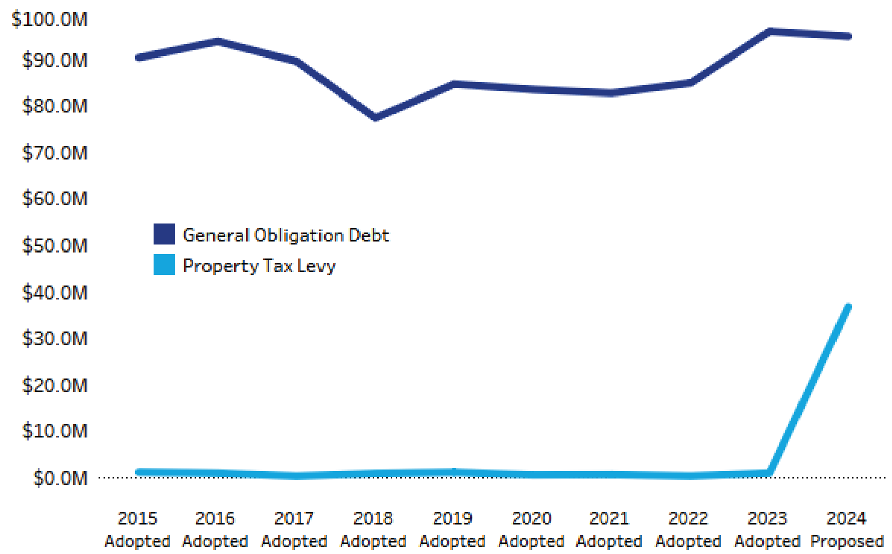
The $95 million in proposed G.O. bonding still is on the high side. As shown in **Figure 5** on the following page, for the past several years, budget officials tried to limit their annual borrowing to $75 million to $85 million in G.O. bonds to control the amount of levy needed for future debt service payments. Levy-backed cash financing also was kept to a minimum, as shown in the figure.

The curbs on borrowing were put aside in 2023, when levy-supported G.O. bonding grew to $96.1 million to begin to address a growing backlog of needed projects. The backlog was caused, in part, by deferrals of projects requested by departments to accommodate more than $60 million in borrowing for city hall repairs over the previous several budgets. The need to address that backlog continues in the 2024 proposed budget.

Indeed, the formidable nature of the city's longer-term capital budget challenges is evident in the 2024 proposal. The IT and radio projects referenced above are initiated with appropriations of $8 million and $19.9 million respectively and also will require sizable appropriations in future budgets. That will exert considerable pressure on overall capital budgeting as soon as 2025, when the

inability to use large sums of tax levy for capital needs may once again force city leaders to choose between borrowing more than they would like or deferring critical investments in city assets.

Figure 5: Budgeted G.O. Bonding and Use of Property Tax Levy for Cash Financing, 2015 to 2024

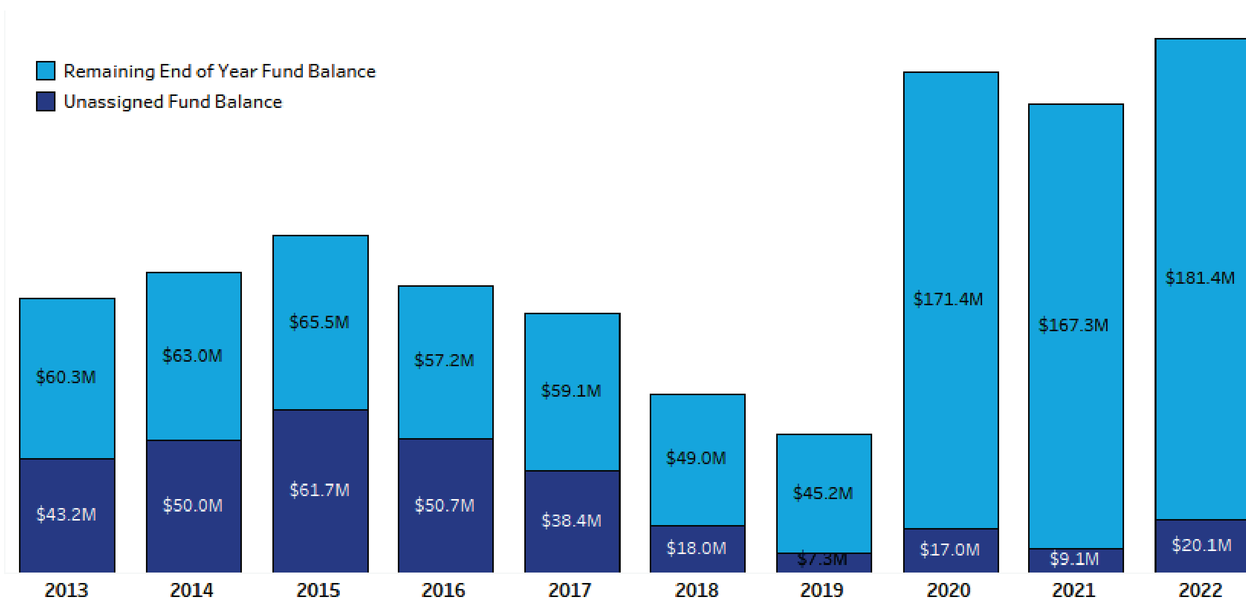


General Fund Balance

In recent years, an alarm bell that has sounded to convey the gravity of the city's fiscal condition has been the decline in its general fund balance. The "general fund" is made up of revenues and expenditures that are budgeted in both the GCP portion of the budget as well as pension and contingent funds. The city's general fund balance is the running total that rolls over each year; there is either an addition or subtraction in a given year depending on whether actual revenue collections exceed or lag actual expenditures.

Increases (or at least stability) in the general fund balance over time are a sign of fiscal health and provide officials with some cushion to weather unanticipated budget difficulties. When the city first encountered severe fiscal challenges at the start of the previous decade due to a sharp spike in pension payments, it still was able to build its general fund balance, largely because of its ability to achieve tens of millions of dollars of unanticipated health care savings. However, as shown in **Figure 6**, the general fund balance plunged from 2015 to 2019 as fiscal challenges mounted and health care savings diminished.

Figure 6: End-of-year and unassigned fund balances for the general fund, 2013-2022



A decision to issue a "revenue anticipation note" of more than $100 million in 2020 to take advantage of low interest rates boosted the general fund balance considerably that year. However, that note will need to be repaid over time, and the city's *unassigned* general fund balance – which constitutes funds that are not already obligated, and is a better barometer of the true nature of this reserve – continued to hit perilously low levels in 2020 and 2021.

One note of good news entering the 2024 budget season is an increase in both the overall general fund balance and the unassigned balance per the city's most recent Annual Financial Report, issued for the year ending December 31, 2022. While the unassigned balance of $20.1 million is still quite low by historical standards, budget officials are hoping for an additional build-up in 2023 and 2024 that will provide greater security when ARPA funds are exhausted heading into the 2025 budget. That same hope applies to other city reserves, as we discuss in Key #3.

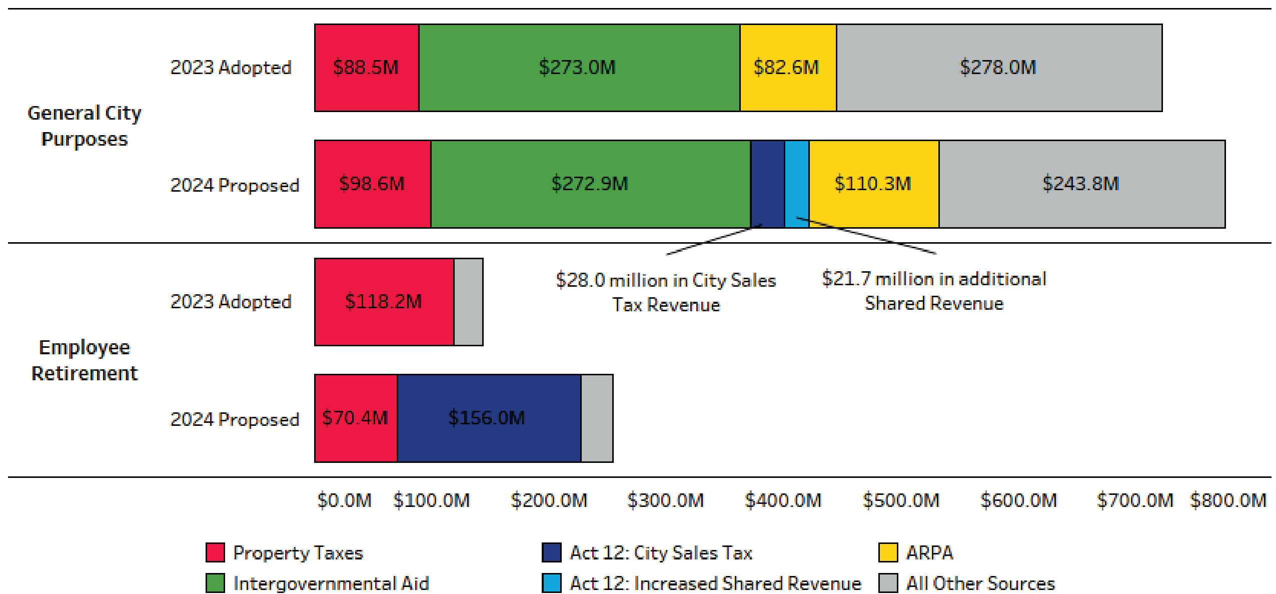
FOUR KEYS TO UNDERSTANDING THE BUDGET

Key #1: Act 12 Alters City's Financial Future

On June 20, Governor Evers signed into law 2023 Wisconsin Act 12, a companion bill to the state budget which fundamentally alters local government finance in Wisconsin. For Milwaukee, it provides two new revenue streams that radically change and improve the revenue mix for the general city purposes and employee retirement funds.

As shown in **Figure 7**, total revenues for GCP would grow in 2024 by $53.1 million, thanks mainly to a combined $49.7 million in additional shared revenue and new sales tax income. A considerably higher employer pension contribution would be financed with the bulk of the revenues generated by the new sales tax, which also leaves room for a reduction in the amount of property tax levy dedicated to pensions.

Figure 7: Major Sources of Revenue for General City Purposes and Employee Retirement



As previously discussed, Act 12 creates a new approach for the shared revenue program that is likely to provide some growth from year to year in the allocations to local governments. In the past, the annual statewide shared revenue appropriation was subject to budget deliberations every two years in Madison, and competition from other priorities had essentially frozen (and in some years reduced) the appropriation over the past two decades. Act 12 changed that scenario by linking the shared revenue appropriation to the equivalent of 20% of the collections from the state's 5% sales tax, which means that it should grow over time as state sales tax collections also grow.

In 2024, all municipalities are set to receive a significant boost; Milwaukee expects to garner an additional $21.7 million (10.0%) to bring its state shared revenue total to $239.2 million. The new bucket of aid cannot be spent on administrative services, but instead must be spent on a select number of items – such as law enforcement, fire protection, and public works – that already

constitute a vast majority of GCP spending. In future years, the city can expect some additional growth depending on how the state's economy is doing and whether its sales tax collections are increasing.

The much larger revenue stream authorized by Act 12 will come in the form of the new 2% city sales tax, which is expected to generate $184 million next year after taking effect on January 1. The city, like the state, can expect that total to grow as prices rise and economic activity grows in the city.

In passing Act 12, however, the state placed several restrictions on how the city could spend the new sales tax revenue. For example, it must use 10% of collections in the first year to ensure that law enforcement, fire, and emergency medical services (EMS) levels are maintained. Also, as noted earlier, it must increase public safety staffing levels over the next decade. According to budget officials, the police and fire positions added in the 2024 proposed budget to jump-start that requirement will cost at least $5.6 million next year and likely more in future years when the full-year cost of the positions must be accommodated.

It also should be noted that both maintaining and enhancing police and fire staffing levels will be a bigger financial challenge than they would be for other city functions. That is because annual salary increases for unionized public safety workers must be collectively bargained without the caps on increases that apply to other city workers under the provisions of 2011 Wisconsin Act 10.

The remaining sales tax revenue must be used to address unfunded liabilities within the City of Milwaukee Employee Retirement System (CMERS). Act 12 requires new city employees to join the Wisconsin Retirement System (WRS), but CMERS will remain in existence for several more decades to serve existing employees and retirees.

Prior to the adoption of Act 12, the required employer contribution to CMERS as calculated by its actuary already had jumped from about $80 million in 2022 to nearly $131.8 million in 2023 as a result of $1.3 billion in unfunded liabilities calculated at the end of last year. Act 12 adds a requirement that the assumed rate of return on CMERS investments be reduced from 7.5% to 6.8% to mirror the rate used by WRS; that, in turn, increases the unfunded liability to $1.9 billion and the employer contribution in 2024 by another $43.1 million to $174.9 million (see Key #2 for further discussion).

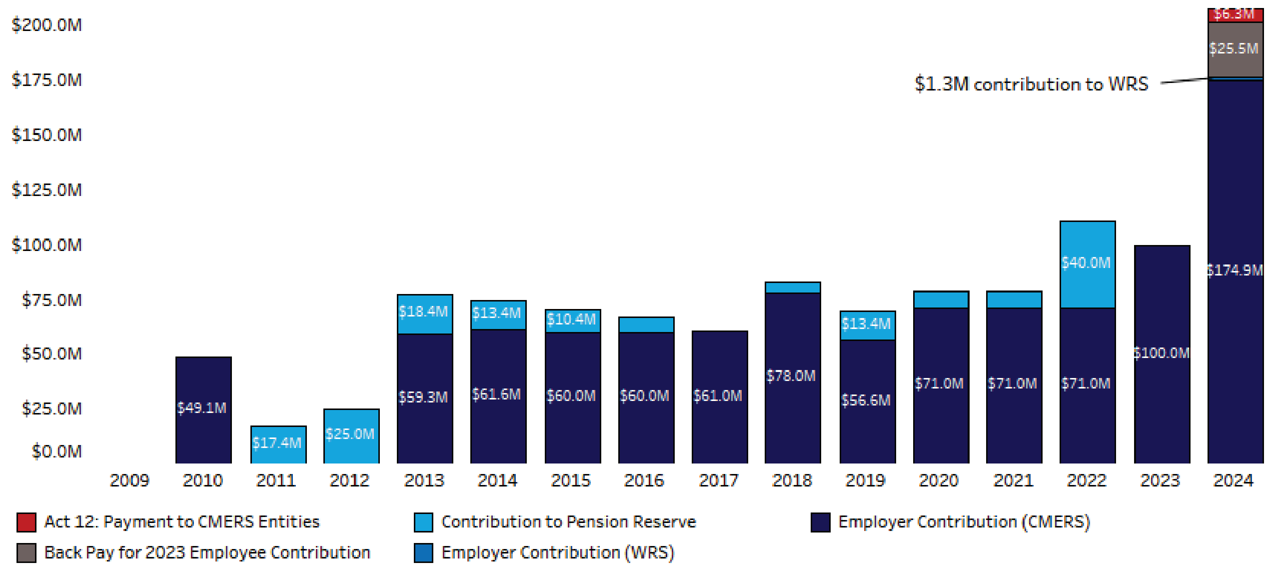
Consequently, while the combined $206 million the city will receive from Act 12 in 2024 is a game-changing revenue increase – and while the promise of at least some annual growth in that total is another very notable development – Act 12 also produced added costs totaling nearly $50 million in the proposed budget. Again, the net increase is a lifeline for the city and allows it to avoid a devastating fiscal cliff when the ARPA monies expire. As we will discuss in subsequent sections, however, when viewed in the context of the city's huge pre-Act 12 structural hole, the fiscal relief it offers may be relatively short-lived.

Key #2: Pension Obligations Grow Even Larger

For years, we have warned that growing pension obligations pose a potentially devastating budget challenge for the city. As recently as 2009, the city's pension fund was "overfunded" (i.e. its assets exceeded its actuarially assumed liabilities), which meant no employer contribution was required. As shown in **Figure 8**, that circumstance changed dramatically the following year, when a $49.1 million contribution was required. Then, after stabilizing somewhat in the $60 million to $70 million range in

most years over the past decade, the budgeted pension contribution shot up in 2023 to $100 million and skyrockets in the 2024 proposed budget to $206.7 million (including $25.5 million in back pay to offset an underfunding of the contribution in the 2023 budget).

Figure 8: City of Milwaukee Employer's Pension Contribution, 2009 to 2024

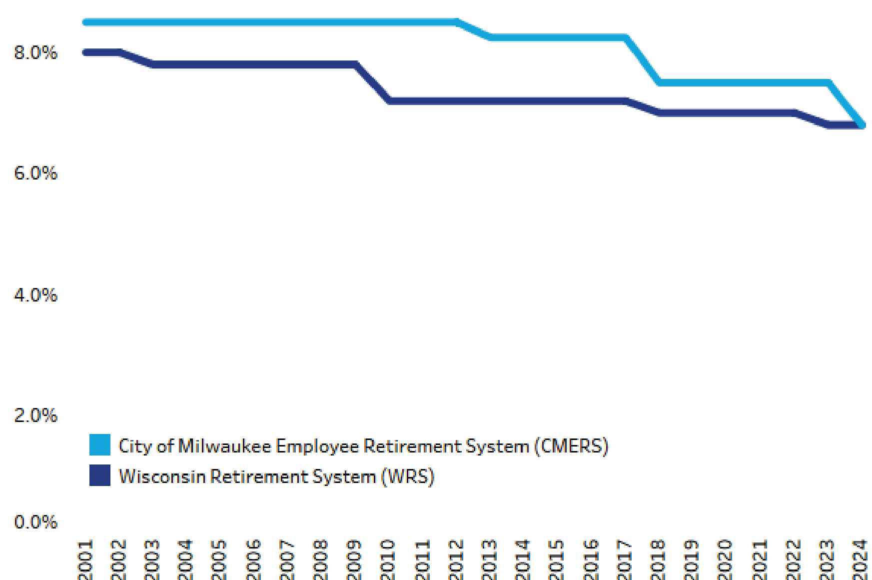


The need for substantial increases beginning in 2023 has been known for years. However, the impacts of Act 12 on the 2024 contribution were unexpected.

Most fundamentally, Act 12 requires that new city employees will be part of WRS, a move that we have suggested will almost surely be a net positive for city finances in the long run. In the short run, though, there will be growing pains.

Because of the ultimate closure of CMERS, certain changes in actuarial calculations are required that add to the employer contribution. And, most notably, Act 12 requires the city to assume the same investment rate of return as WRS, which lowers the assumption from 7.5% to 6.8% for next year. As shown in **Figure 9** on the following page, the assumed rate of return was 8.5% a little over a decade ago, and the need to lower that rate in response to stock market

Figure 9: Assumed Rate of Return, CMERS vs. WRS, 2001 to 2024



performance has been a major driver of the explosion in employer contributions over the past several years. In fact, the change in the investment earnings assumption alone for 2024 increases the city's employer contribution by $40.5 million.

Act 12 also contains a lesser-known requirement that other public sector agencies outside of the city that have employees in CMERS – such as the Metropolitan Milwaukee Sewerage District, the Milwaukee Public Schools, and the Wisconsin Center District – be reimbursed from the city's new sales tax collections for the increased cost they will experience from the new investment earnings assumption. That provision is budgeted to produce a $6.3 million add-on to the employer pension contribution next year.

Another key factor in the proposed budget is the need to make up for a shortfall in the 2023 budgeted employer contribution with a substantial added amount in 2024. The 2023 budget was adopted before actuaries could determine what the city's actual contribution would be; a $100 million employer contribution was budgeted as a placeholder, which budget officials suspected would be too low. Investment losses in 2022 made the actual contribution amount even higher than their original expectations, and the proposed budget includes an additional $25.5 million in 2024 to account for that gap.

Adding those items together – plus the city's first contribution as a member of WRS of $1.3 million – means the overall employer contribution rises to nearly $207 million next year, *more than double* last year's employer contribution and nearly triple the amount paid in 2022.

Fortunately, the new sales tax is budgeted to provide nearly $156 million to contribute toward that cost in 2024, which actually allows city leaders to decrease the amount of property taxes that fund both the employer contribution and other pension expenditures, such as administration and social security taxes. As discussed elsewhere in this report, that decrease – from $118.2 million in 2023 to $70.4 million in 2024 (-40.5%) – frees up sizable sums of property tax levy to address other needs.

Another glimmer of good news is the city's pension reserve, which now sits at $83.5 million thanks to consistent contributions over the last decade. Policymakers were particularly vigilant in building the reserve from 2019 to 2022, as signs emerged that the contribution would need to spike considerably in 2023 due to the need to lower the investment earnings assumption. As we will discuss in Key #4, this reserve likely will be a vital though time-limited source of relief as pressure builds to reduce the property tax levy share of the employer contribution even further in light of increased demands on the levy caused by the expiration of ARPA monies.

Key #3: 2024 is a Bridge Year – Both Out of Design and Necessity

We discuss in earlier sections the ways in which Act 12 will alter the city budget in 2024 and every year going forward. Next year is unique, however, because it is the last in which the city will have a huge allotment of ARPA revenue ($110.3 million) to supplement its new sales tax and increased shared revenues. Cognizant of this, city officials have proposed a budget that would strategically use a portion of the additional revenues to address previously unaffordable needs and ease budgetary challenges in future years.

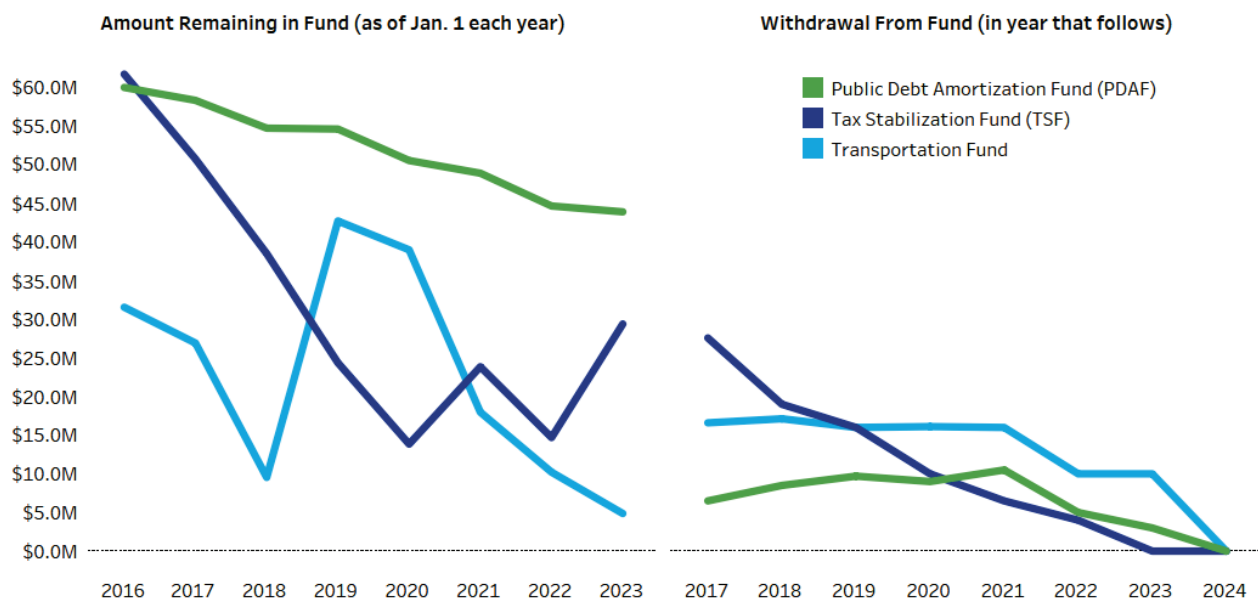
We have discussed previously the efforts to chip away at the capital backlog – and avoid an increase in general obligation borrowing – by cash financing nearly $37 million of capital improvements; and to address record turnover by investing an estimated $20 million to $30 million to update the city's

compensation structure. The latter move will not save money in the long run, but it makes a sizable investment to improve the city's compensation structure in a year in which the ARPA monies make such a move affordable, responding to a pressing need to enhance the city's prospects for filling key vacancies.

Another key decision in the proposed budget is to refrain from withdrawing any funds from major reserves. That decision, however, not only reflects the relatively "flush" nature of the 2024 budget, but also the reality that those reserves have been depleted to the point that they no longer can sustain sizable withdrawals.

As shown in **Figure 10**, the balances in those three reserves – the Tax Stabilization Fund, Public Debt Amortization Fund, and Transportation Fund – have all diminished over the past several years. This has caused annual withdrawals to diminish as well and has removed from the city's fiscal toolbox – at least temporarily – one of the key tools used previously to combat escalating budget challenges.

Figure 10: Amounts Remaining in and Annual Withdrawals from Key Reserve Funds, 2016 to 2024



While each of the funds has a different purpose, they face similar pressures.

- The ***Tax Stabilization Fund (TSF)*** is designed as a buffer against volatile budgets. In difficult years, withdrawals from the fund can be used to avoid sharp increases in the property tax levy, and fiscal officials seek to replenish the fund each year from unbudgeted savings. The TSF's balance declined from $61.7 million in 2016 to a low of just $13.8 million at the beginning of 2019, before rebounding somewhat to $29.4 million at the beginning of the current calendar year. Last year, for the first time in recent memory, city officials also chose not to withdraw from the TSF, which contributed to the increased balance.

- ***Public Debt Amortization Fund (PDAF).*** One-third of the city's investment earnings, as well as earnings on the fund's own investments, flow into the PDAF each year. Similar to the TSF, it is used to limit increases in property tax levy, but in this case for debt service. The largest of the three reserve funds at the beginning of this year, the PDAF has seen its levels decline in each of the last seven years, dropping by 26.8% from $60.0 million at the beginning of 2016

to $43.9 million at the beginning of 2023. While the fund still has ample resources, budget officials hope to reverse the decline by avoiding a withdrawal in 2024.

- *Transportation Fund.* Formerly called the Parking Fund, this reserve receives revenues from parking permits, meters, facility rentals, vehicle towing and disposal, and more. It also receives various advertising and sponsorship revenues related to the Milwaukee Streetcar. Monies are dispersed from the fund to support parking, streetcar, and other transportation-related operations. A sizable sum also has typically been transferred out of the fund on an annual basis to support the GCP budget – in each of the last seven budgets, those transfers have totaled at least $10 million. The Transportation Fund's balance has shrunk substantially since 2019, however, in part because parking lot and meter usage have decreased as more individuals now work from home, and it stood at just $4.9 million in 2023. This precludes the potential for a sizable withdrawal in 2024, which may not have been necessary anyway in light of the city's uniquely positive budget prospects next year.

City officials anticipate that by avoiding withdrawals for one year, the three reserves will be replenished to the point that withdrawals can resume in 2025. Further, they hope that reserve levels and withdrawals might perhaps eventually rebound to approximate the levels seen six or seven years ago given the city's enhanced overall revenue stability and continued recovery from the pandemic. Whether that can occur will depend, in part, on economic circumstances city leaders cannot control, but their prudence with regard to reserve withdrawals in 2024 should increase those odds.

Key #4: Proposed Budget Foreshadows Tough Times Ahead

There was little question in the minds of most informed onlookers – including the Forum – that the adoption of Wisconsin Act 12 would avert the financial catastrophe for the city that appeared imminent by 2025. A key question, however, was whether the landmark legislation would steer the city toward a long-term path of fiscal stability; or whether, instead, it would be only a temporary lifeline.

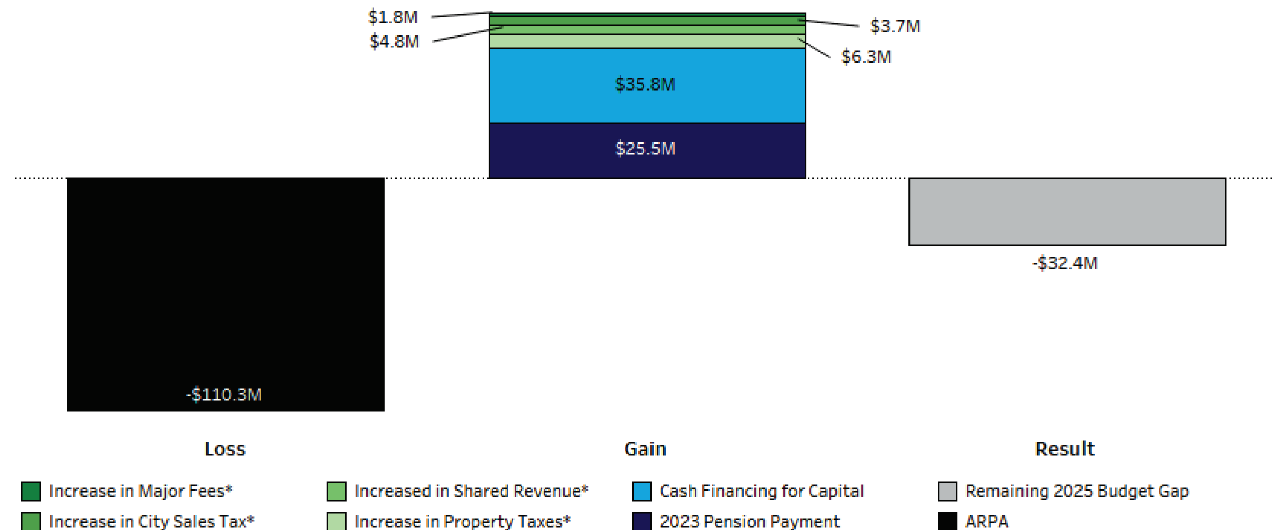
With an influx of $184 million in sales tax revenues and nearly $22 million in additional state shared revenue in 2024 – plus the promise that both will grow in the future – it certainly appeared that the city would receive sufficient new revenue to curb the need for major cuts and delay the re-emergence of a sizable structural gap at least for a few years. Yet, as the dust clears and both the positive and negative impacts of Act 12 become more apparent, it turns out that even that modest hope may have been overly optimistic.

Indeed, at first glance the $110.3 million of ARPA monies used to support salaries and benefits in the 2024 proposed budget suggests the creation of a gap of at least that size when the ARPA dollars disappear in 2025. But a deeper look reveals two major one-time expenses that likely will be eliminated in the 2025 budget. The first is the $25.5 million "catch up" payment that equates to the underfunding of the employer pension contribution in 2023; and the second is the additional $35.8 million in property tax levy pumped into the 2024 proposed capital budget. While returning to a cash financing level of only $1 million in 2025 would not be desirable, it would clearly be an option to help offset the ARPA gap.

The city also will benefit from new sources of revenue growth, assuming that both the city and statewide economy are healthy enough to produce increases in collections of both city and state sales taxes (as 20% of state sales tax collections will now flow to local governments under Act 12).

As shown in **Figure 11**, if we were to conservatively estimate 2% increases in both of those revenue streams plus a decision by city leaders to increase both property taxes and major fees by 2% (as is proposed for 2024), then the "ARPA gap" would shrink further to $32.4 million.

Figure 11: Projected 2025 Budgetary Gap Based on Loss of ARPA Revenue



*Assumed increase of 2%.

A few additional items would need to be considered before this rough estimate could be used to prognosticate the city's overall budget gap heading into 2025. First, the city will need to wrestle with annual "cost to continue" increases in items like salaries, benefits, and commodities that would fall on top of the need for ARPA replacement. In addition, Act 12 specifies that any incremental increase in the city's sales tax collections above the 2024 baseline must be dedicated to increasing police and fire staffing levels until the legislation's 10-year staffing requirements are met; consequently, those dollars would need to be dedicated to public safety expenditures that *exceed* costs to continue.

On the positive side, the use in the proposed budget of a $184 million estimate for sales tax collections next year per the comptroller may be on the conservative side, as the Wisconsin Department of Revenue previously projected $193.6 million in collections. If the actual collection total turns out to be midway between the two, then that would mean nearly $5 million in additional revenue in 2024 and a higher baseline from which to budget for 2025.

Finally, legislation recently introduced by Republican legislative leaders includes a requirement that the city allocate $2.5 million per year through 2050 for renovations and improvements to American Family Field. While that proposal has a long way to go until final passage, if approved in some form it could add to the 2025 gap and also pose a potential challenge for 2024.

Consequently, a budget gap of $35 million to $45 million is not inconceivable for 2025. That is a far cry from the city's pre-Act 12 warnings of a gap exceeding $180 million, but it is certainly not insignificant. Moreover, in light of the new Act 12 mandates with regard to public safety staffing levels, spending cuts needed to fill the gap would have to come from all other areas of the budget, and would most likely fall heavily on property tax-dependent functions like administration, libraries, neighborhood services, and public health.

City officials hope that the ability to once again draw from reserves will address a sizable portion of the 2025 gap. That hope applies not only to the three reserves discussed in the previous section, but also to the pension reserve fund discussed in Key #2, which now contains more than $83 million and was built from 2018 through 2022 with the clear intent of drawing it down over time once the huge spike in the employer contribution occurred.

These are all reasonable aspirations, but the city has learned from recent experience that reliance on reserves is only a temporary stopgap, as those reserves ultimately will become depleted. Consequently, while there is no question that the city's financial outlook has dramatically improved, its long-term prospects appear shakier than they did when the Act 12 legislation was signed and the magnitude of its revenue increases first became apparent. That conclusion should intensify the efforts of city leaders to identify and implement budget efficiencies and service sharing options as early as next year, including those that will be identified in upcoming reports by the Greater Milwaukee Committee and the Forum.

CONCLUSION

In light of the devastating loss of more than 1,300 positions previously projected by budget officials if no action was taken to enhance the city's revenue streams by 2025, it is difficult to say anything negative or even cautionary about a 2024 proposed budget that actually adds dozens of positions and invests in several long-neglected needs. Yet, as we have discussed, the first budget proposed after the passage of the historic Act 12 is not entirely rosy.

By far the most notable element is the opportunity to collect the new 2% city sales tax a full year prior to the arrival of the 2025 fiscal cliff. That allows city leaders to use their final large tranche of ARPA dollars to prepare for the day when those funds disappear, instead of simply filling holes to stave off service cuts for one more year. The proposed budget takes advantage of that opportunity to build reserves, eat away at the capital backlog, and fortify employee recruitment and retention efforts.

Unfortunately, the 2024 proposed budget also shows that the city's financial outlook was even worse than previously believed, particularly when costly new Act 12 mandates are added to the equation.

In late February, we were asked by the Metropolitan Milwaukee Association of Commerce to share our insights on the city's five-year fiscal outlook. At that time, only seven months ago, we warned of a budget gap that would minimally start at about $114 million in 2025 and grow to $134 million by 2028.

One would have assumed, therefore, that state legislation providing the city with more than $200 million annually not only would have filled the initial hole, but also provided ample resources to keep the city's structural deficit in check for at least a few years.

Instead, we find that the "cost to continue" gap was much higher – in part due to the priority to remedy budget cuts and pay freezes from previous years as well as poor pension fund investment returns in 2022, which boosted the employer contribution. In addition, Act 12's requirements with regard to pension assumptions and public safety add tens of millions of new costs. Consequently, it appears likely that a sizable structural gap could re-emerge as soon as 2025.

There is no question that the budget cuts needed to fill the new and smaller gap – if indeed necessary and at least for the first year or two – should be more along the line of those made annually in the first few years following the initial pension spike in 2010. During that time, efforts to find efficiencies limited the impacts of position reductions and strategic use of reserves kept overall service reductions to a minimum. Yet, a disconcerting reality is the likelihood that the structural gap again will compound with each passing year, coupled with the realization that the ability to again turn to Madison for help may be precluded for quite some time by the historic action taken this year.

For now, city leaders at least can breathe a sigh of relief that their immediate fiscal crisis has indeed been averted, and they can use the next year or two to redouble efforts to identify spending cuts and savings that will be relatively painless in nature while also using the pension reserve to provide some relief. Few could have predicted those luxuries just a year ago, but few also would have expected after the passage of Act 12 that the relief might be so short-lived.