For release:
Oct. 2, 2023

Contact: Mark Sommerhauser, Communications Director/Researcher
(608) 982-0324 or msommerhauser@wispolicyforum.org

Act 12 Reshapes Milwaukee's City Budget Outlook in 2024

Leaders still must consider efficiencies as budget gap likely to re-emerge when federal aid runs out

The city of Milwaukee's 2024 budget proposal features a paradigm shift: after years of warnings about its finances nearing the brink, a revenue infusion from a new sales tax and state aid increase is enabling the city to generally maintain existing service levels and even invest in some key areas.

Triggering the shift was the landmark 2023 Wisconsin Act 12, which gave the city a long-sought increase in state shared revenue while authorizing an even more consequential 2% local option sales tax.

These developments prevented the dire outcomes warned about in three in-depth reports issued by the Wisconsin Policy Forum since 2009, each of which warned the city faced deep and growing structural challenges that would eventually threaten its ability to provide core services to residents.

Our 2024 City of Milwaukee Budget Brief finds that a budget gap likely will re-emerge in 2025, however -- sooner than many expected, given the more than $200 million generated annually by the key Act 12 provisions. In that year, federal American Rescue Plan (ARPA) monies will disappear -- and the city's employer pension contribution, which demands more than $180 million in annual spending, will remain. Our analysis suggests that this outlook should prompt immediate exploration of opportunities to find spending efficiencies, potentially by partnering with other local governments.

"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," the report finds. "That conclusion should intensify the efforts of city leaders to identify and implement budget efficiencies and service sharing options as early as next year."

Mayor Cavalier Johnson's proposed spending plan for 2024 totals $1.92 billion, an 11.9% uptick from last year's $1.72 billion adopted budget. The Milwaukee Common Council is now considering the proposal, and will potentially amend it and adopt some version of it in the coming weeks.

Our report identifies four keys to understanding the budget:

Act 12 Alters City's Financial Future: The landmark state legislation, adopted in conjunction with the state budget in June, provides the city with its first shared revenue increase in decades. Its authorization of a 2% local option city sales tax, subsequently adopted by city leaders, provides an even bigger infusion of revenue and the ability to spread some of the cost of city services to the non-residents who use them. These changes produce 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. With these new revenues at their disposal, city leaders are able to consider how to invest

– instead of where to cut -- for the first time in a generation. The mayor's proposal would use some of the new fiscal space to pay cash – instead of borrowing – to address part of the city's capital projects backlog and accelerate major IT and public safety radio upgrades. It also would boost the city's employee compensation structure to aid in employee recruitment and retention.

Pension Obligations Grow Even Larger: The city's 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. Act 12 requires that new city employees be part of the Wisconsin Retirement System (WRS) that covers state and most other local government workers – a move that almost surely will be a net positive for city finances in the long run. In the short run, though, there will be growing pains. The act requires the city to assume a lower investment rate for the City of Milwaukee Employee Retirement System (CMERS), which in turn increases its unfunded liability and requires an increased employer pension contribution. Also increasing the city's pension contribution are a new requirement that it reimburse other public agencies with employees in CMERS for their added costs resulting from the change in the investment earnings assumption, and the need to offset a $25.5 million shortfall in the 2023 pension contribution.

2024 is a Bridge Year – Both Out of Design and Necessity: Next year not only is the first year in which city leaders can tap new revenue from a local sales tax and increased shared revenue, but it is also the last year that city leaders can spend down monies from ARPA. Between previously unallocated and reprogrammed funds, an additional $110 million is available to spend. The budget strives to use the ARPA monies both to address the city's current needs and prepare for budget challenges in the future. One example is the decision to refrain from withdrawing any funds from three major reserves, which were significantly depleted in recent years. 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 – and that reserve levels and withdrawals might perhaps eventually rebound to levels seen six or seven years ago.

Proposed Budget Foreshadows Tough Times Ahead: After Act 12's passage, it appeared the city would receive sufficient new revenue to avert a substantial structural gap at least for a few years. Yet it now appears that may have been overly optimistic. While the city's likely budget gap for 2025 will not be equal to the $110.3 million in ARPA funds that will disappear after 2024, a gap of $35 million to $45 million is not inconceivable. In light of new Act 12 mandates of 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 anticipated 2025 budget gap. While this is a reasonable plan, the city has learned from recent experience that reliance on reserves is only a temporary stopgap. Consequently, we suggest that city leaders would be wise to use the next year to redouble efforts to seek budget efficiencies and explore service sharing options with Milwaukee County and other municipal governments.

Click here to read the full report.