BUDGET BRIEF

CITY OF MILWAUKEE

2025 PROPOSED BUDGET

WISCONSIN POLICY FORUM

BUDGET BRIEF

2025 Proposed City of Milwaukee Budget

October 2024

Report Authors:
Ari Brown, Senior Research Associate
Rob Henken, Immediate Past President

TABLE OF CONTENTS

INTRODUCTION

The 2024 budget was an unusually easy one that benefited from the new 2% city sales tax and a surge in shared revenues from Wisconsin Act 12, as well as the opportunity to spend the last $110 million tranche of federal pandemic relief aid. As they prepared the 2025 budget, however, the Mayor and his budget team saw a return to more traditional challenges. Faced with the expiration of the American Rescue Plan Act (ARPA) funds, new Act 12 *obligations* to increase police and fire department staffing levels, and typical cost to continue challenges, budget officials initially warned of an $87 million budget gap that might necessitate the resumption of staffing and service cuts in non-public safety departments.

Yet, as the 2025 budget picture came into clearer focus, two important realizations emerged. First, it became apparent that several steps prudently taken in the 2024 budget to prepare for 2025 challenges would work as planned. In addition, it turned out (at least for now) that Act 12 not only would provide a one-year solution to the city's immediate fiscal cliff, but also would pave the way for sufficient annual revenue growth to offset some of the city's ongoing expenditure pressures.

One of the main stories of the mayor's proposed budget is its use of $44.6 million from reserves to eliminate more than half of the projected gap. This was a move that was helped greatly by the decision to cease most reserve withdrawals in 2024 as a means of rebuilding them and providing capacity for large transfers in 2025.

The budget also benefits from $4.9 million of shared revenue growth, an extra $8.9 million from the city sales tax, and a $4.8 million payment from the state to offset elimination of the personal property tax – all stemming from Act 12. Relatively modest property tax and fee increases totaling $14 million fill most of the remaining gap, with minor and mostly harmless reductions from agencies' original requested budgets taking care of the remainder.

The end result – somewhat surprisingly – is a second consecutive city budget that is largely devoid of cuts to city departments. While there is little room for investment in new programs and services, areas like libraries and neighborhood services that have been on the chopping block in previous years are essentially made whole.

There are also plenty of indications, however, that the tranquility will be short-lived. As we will discuss, robust reserve withdrawals may not be sustainable, while continued mandated boosts in public safety staffing levels are likely to consume major chunks of the city's newfound revenue growth in future years. Moreover, unexpected health care savings in 2023 and 2024 – which aided the effort to rebuild reserves and allow for a $1.3 million reduction in health care expenditures in the 2025 proposal – are far from assured in the future.

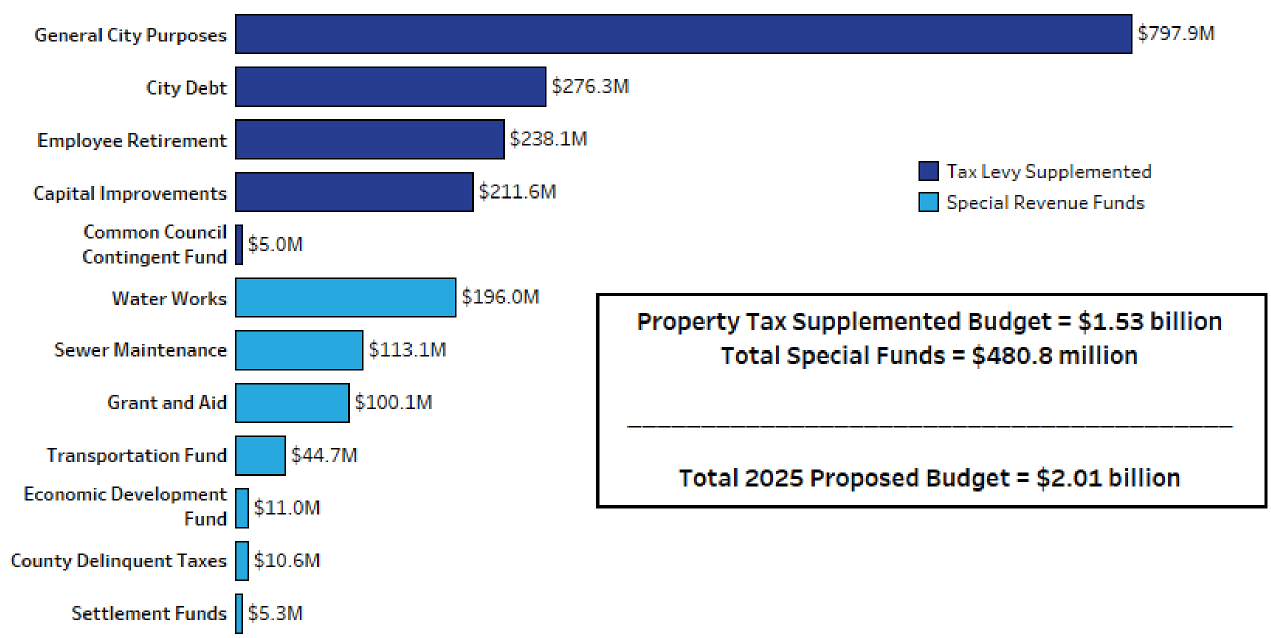
In the pages that follow, we further analyze and discuss these and other keys to the 2025 proposed budget and also explore how these major decisions will impact the city's future outlook. Our intention is to provide an objective, third-party take on both the mayor's proposal and the city's overall financial condition that will provide greater understanding for city lawmakers and the public as 2025 budget deliberations continue.

PROPOSED BUDGET OVERVIEW

The mayor's 2025 proposed budget totals just under $2.01 billion, a 4.6% increase from the $1.92 billion budget adopted last year. However, that increase primarily reflects how the accounting works for the use of federal ARPA funds, as most of the increase in 2025 simply reflects the replacement of $110 million of ARPA-funded expenditures with expenditures backed by traditional city revenue sources. This is the first budget since 2021 that does not include ARPA as a funding source to backfill annual operating expenses.

Five major subcategories of the city's budget are funded by the property tax, including general city purposes – which includes most major city departments – debt, employee retirement, capital improvements, and the common council's contingent fund. The budget for these five items would rise to $1.53 billion in 2025 (see Figure 1), a 2.1% increase from the $1.50 billion included in the adopted 2024 budget including ARPA dollars. Funds not supported by the levy would drop by 3.7% to $480.8 million; the disappearance of a $75 million federal grant to reimburse the city for public safety costs linked to the 2024 Republican National Convention more than accounts for this decline. Special funds such as Transportation and the Water Works would see modest increases.

Figure 1: Summary of 2025 Proposed Budget by Fund



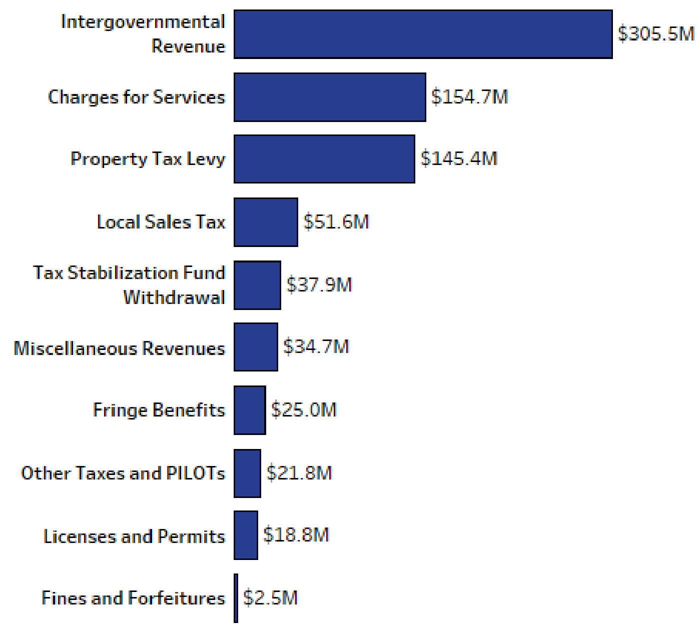
Source: City of Milwaukee 2025 Proposed Plan and Budget Summary

General City Purposes Spending

After setting aside utilities, most operating funds for city services are included in the general city purposes (GCP) budget, including major items like the police and fire departments, public works, and neighborhood services. The GCP budget accounts for about 40% of the city's total budget, and the 2025 proposed budget would fund general city purposes at $797.9 million (see Figure 2 on the next page). This represents a 14.4% increase from the $697.3 million in the 2024 adopted GCP budget, but that budget did not include significant salary and benefit totals that were funded with ARPA monies. After accounting for the additional ARPA spending, the actual increase to the GCP budget is about 3.2%.

Three departments account for the majority of GCP spending each year – police, public works, and fire – and this remains the case in the proposed 2025 budget (see Figure 3). The Milwaukee Police Department (MPD) would receive $314.5 million under the mayor's proposal, a $2.2 million (0.7%) increase over the adopted 2024 amount (after factoring in ARPA) that would be one of the smallest percentage increases of any GCP-funded department. Public works (3.9%) and the fire department (2.5%) would see larger percentage increases, while nine of the 17 departments with budgets smaller than $50 million would see their budgets rise by more than 10%. Only three of the 20 GCP departments would see their budgets decline under the mayor's proposal – the Assessor's Office (-0.2%) and the Fire and Police Commission (-2.3%) would see modest declines, while the city's Election Commission would see a nearly 40% decline due to 2025 being an off year for elections.

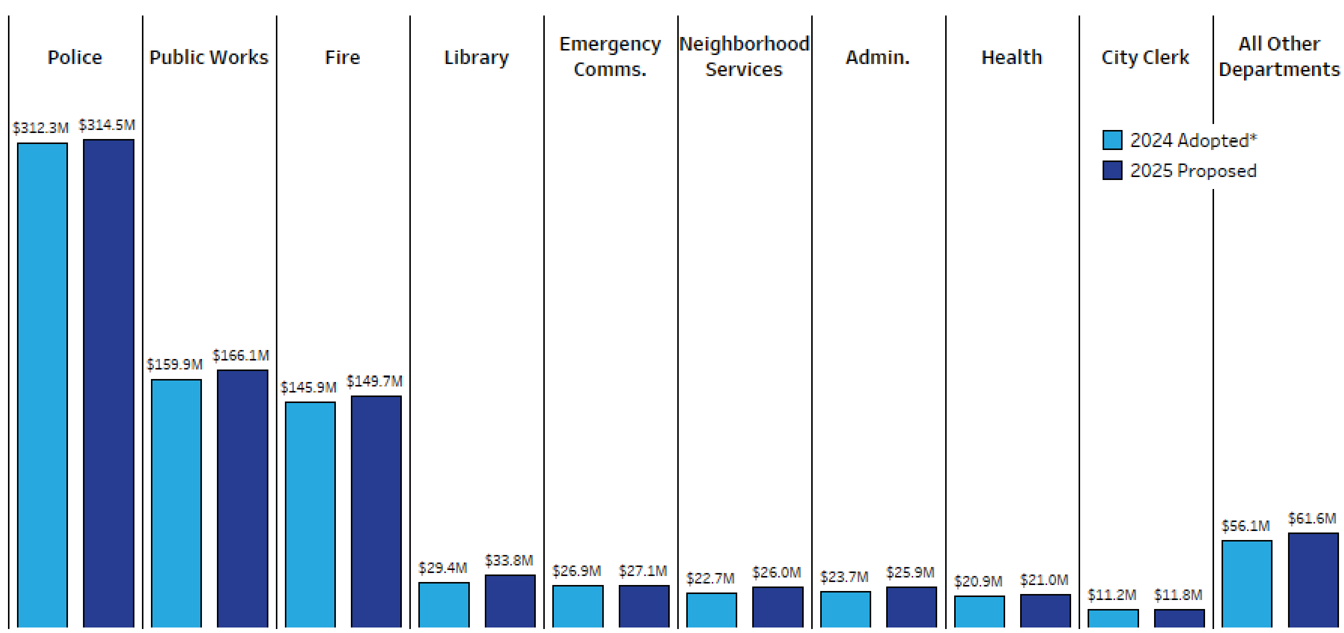
Figure 2: 2025 Proposed General City Purposes Revenues



Source: City of Milwaukee 2025 Proposed Plan and Budget Summary

Unlike each of the last two city budgets, the mayor's proposal does not include a cost-of-living adjustment for city staff salaries. This follows an aggressive move in recent years to restructure

Figure 3: 2024 Adopted and 2025 Proposed General City Purposes Spending by Department



Source: City of Milwaukee 2025 Proposed Plan and Budget Summary *Includes salaries and benefits funded by a one-time infusion of ARPA dollars.

compensation levels for many city positions to better reflect labor market realities. City officials also note that they maintain a sizeable wage supplement fund that gives them flexibility to respond to ongoing salary and wage negotiations for represented employees.

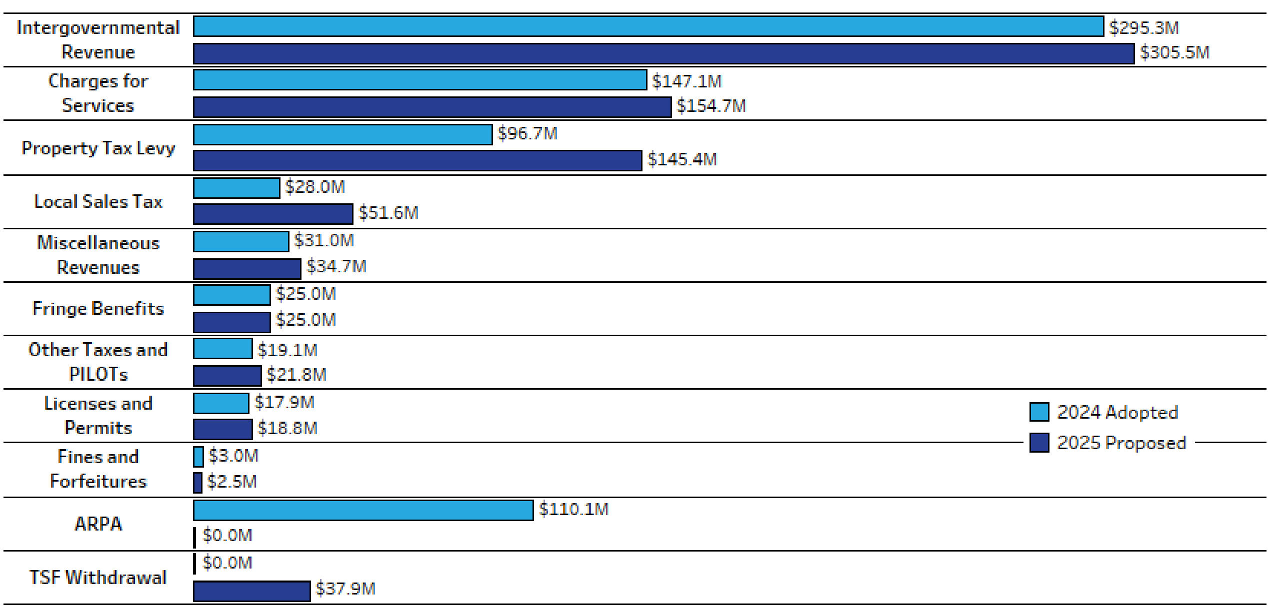
On paper, it appears that the mayor's proposal includes a boost of 198 full-time equivalent (FTE) positions for general city purposes, bringing the total to 6,883 FTEs. That includes an additional 172 FTEs for MPD. However, budget officials say the MPD increase is attributed to a technical change in methodology, and there is no real increase in personnel. The budget indicates that MPD's sworn strength will remain at 1,645 officers (the same as 2024); three new recruit classes of 65 officers apiece would be initiated but would result in no net change in sworn strength in light of retirements and other churn throughout the year.

While most departments see budget increases and many see FTE increases as well, it is difficult to discern any significant program or service enhancements from the added funding and staff. An exception is MFD, which would be able to staff an additional engine and paramedic unit and re-open a previously closed fire house. Otherwise, it appears that most of the departmental increases largely will allow departments to meet costs to continue and perhaps be more aggressive in filling vacant positions. There are no layoffs included in the 2025 proposal citywide.

General City Purpose Revenues

Last year, due to the large infusion of sales tax revenues and continued availability of ARPA funds, the city was able to avoid withdrawals from its major reserves – allowing them to grow – while also using nearly $39 million of property tax levy to cash finance a lengthy list of capital improvement projects. With ARPA exhausted and reserves now at healthier levels, withdrawals have resumed. Meanwhile, property tax financing of the GCP budget will reach nominal heights never before seen (see Figure 4), due in part to the need to replace ARPA dollars but also because the new sales tax now addresses a major share of the city's pension obligations, freeing up more levy for city services.

Figure 4: Sources of general city purposes revenue, 2024 adopted versus 2025 proposed



Source: City of Milwaukee 2025 Proposed Plan and Budget Summary

Intergovernmental revenue – the largest funding source for the GCP budget – will grow by 3.4%, or more than $10 million, to $305.5 million in the 2025 proposed budget. Act 12 tied state shared revenue totals to an amount equal to 20% of state sales tax collections, and the city is expecting that increases in these collections will amount to an additional $4.9 million in 2025. The city will also benefit from a provision in Act 12 that will compensate it for the elimination of the state's personal property tax to the tune of $4.8 million.

The mayor's proposed budget includes $145.4 million in property tax levy funding for general city purposes (out of the total proposed levy of $324.1 million) – the largest nominal amount ever, and a $48.7 million increase over the 2024 budget. A major factor is the elimination of $38.3 million of levy from the capital improvements budget – a maneuver made possible last year due to ARPA. Those funds can now replace ARPA dollars in the GCP budget.

Also, while the huge reduction in levy funding for pensions occurred with the arrival of the sales tax in 2024, there is another $1.2 million pension levy reduction in the proposed 2025 budget as well as a $2.8 million reduction in the levy needed to service city debt. These reductions free up additional levy for general city purposes, as does the overall increase of $6.4 million (2.0%) in the total city levy. This year's GCP property tax total is consistent with inflation-adjusted amounts from the budgets immediately preceding the pandemic, after which the infusion of federal relief aids allowed city leaders to use property taxes elsewhere.

After the city passed Wisconsin's first local sales tax, the 2024 budget included $28.0 million in sales tax revenues for general city purposes, to be used only for police and fire per the requirements laid out in Act 12; the bulk of the city's sales tax collections are allocated to the pension fund. In the mayor's 2025 proposed budget, the combined effect of shifting some sales tax revenue out of employee retirement and growth in expected sales tax collections allow for an 84.2% increase in sales tax revenues allocated to the GCP budget to $51.6 million.

A final huge factor in the proposed budget's ability to maintain and even provide a small increase in GCP funding despite the elimination of ARPA dollars is its renewed capacity to withdraw funds from the Tax Stabilization Fund (TSF). Last year, for the second year in a row, the TSF was not tapped to offset property tax levy and support GCP spending (that was also the case for two other reserve funds, as we will discuss in Key #2). The decision not to withdraw was predicated both on the depleted nature of the TSF and the continued availability of ARPA funds. A sizable general fund surplus in 2023 allowed the TSF to be substantially replenished, and the mayor's proposed budget takes full advantage of that development by including a withdrawal of $32.3 million, which constitutes 50% of the current TSF balance and is the largest percentage withdrawal allowable under city ordinances.[1]

Combined, the growth in these four sources of revenue for the GCP budget – the property tax, the sales tax, intergovernmental revenue, and the TSF withdrawal – will bring in an additional $120.4 million, enough to account for the loss of ARPA and help boost overall GCP spending by 3.2%. The remainder of the GCP spending increase ($14.4 million) will come from smaller increases to other sources of GCP revenue, such as charges for services, licenses, and permits.

---

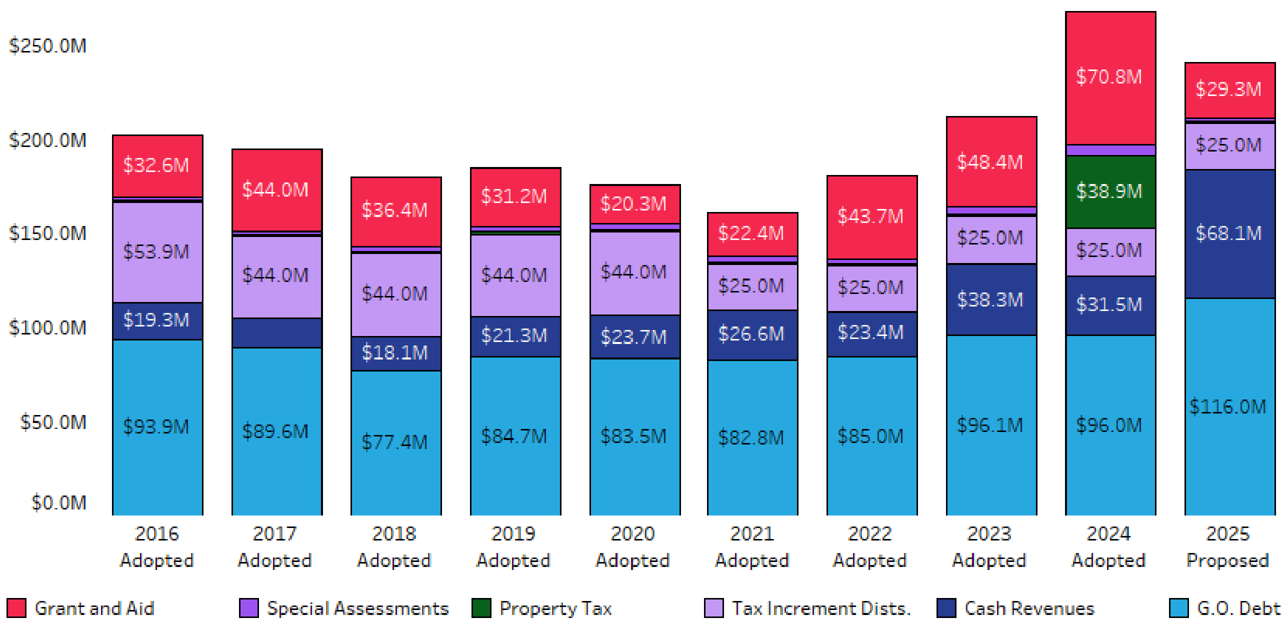
[1] Figure 4 on the previous page shows a $37.9 million withdrawal from the TSF for the GCP budget, of which $32.3 million is a true withdrawal. The remaining $5.6 million is shown as a TSF withdrawal for now because it constitutes parking and other revenues derived from new fees that the budget anticipates but that have not yet been approved by the Common Council and certified by the Comptroller.

Capital Budget

As discussed above, the existence of both $100 million-plus in ARPA monies and the infusion of Act 12 sales tax and shared revenues gave city leaders the opportunity to pump an unusual amount of property tax levy ($38.9 million) into the capital improvements budget to address some backlogged needs and hold down debt financing. As expected, nearly all of this levy is removed from the capital program in the 2025 proposed budget, but capital improvement needs – and spending to support them -- remain at historically high levels.

Total capital improvements spending would equal $240.9 million in the 2025 budget, a 10.0% decrease relative to the $267.7 million in 2024. The decrease is due both to the drop in levy-supported cash financing and to a 58.6% decline in grant and aid funding for these improvements; city support for capital improvements would actually rise by 7.5% from $196.9 million in 2024 to $211.6 million in 2025 (see Figure 5).

Figure 5: Sources of funding for capital improvements, 2016 adopted through 2025 proposed



Source: City of Milwaukee 2025 Proposed Plan and Budget Summary and previous adopted

Particularly notable is the proposed issuance of $116.0 million in general obligation (G.O.) debt to support capital improvements, a 20.8% increase from 2024 and the most in recent memory. Budget officials say that they are seeking to keep up with growing infrastructure needs (including major building replacement projects), as well as rising construction costs and required local match for an injection of new federal monies for road and bridge projects. To do that, they say, G.O. debt issuances will need to remain at this escalated level in the 2026 and 2027 budgets. Prior to the pandemic and the surge in inflation, city leaders sought to restrict annual bonding to about $80 million per year.

The substantial increase in G.O. debt financing over the next three years is expected to produce an estimated $6 million increase in annual debt service costs for several years. This will create another source of ongoing budgetary pressure, but it also reflects the reality of aging city infrastructure and higher construction and borrowing costs.

Cash revenues – which should not be confused with levy-funded cash financing, which shrinks to $565,000 in the proposed budget – would more than double in the proposed budget. This funding source largely consists of cash reimbursement for capital projects from fees and other sources.

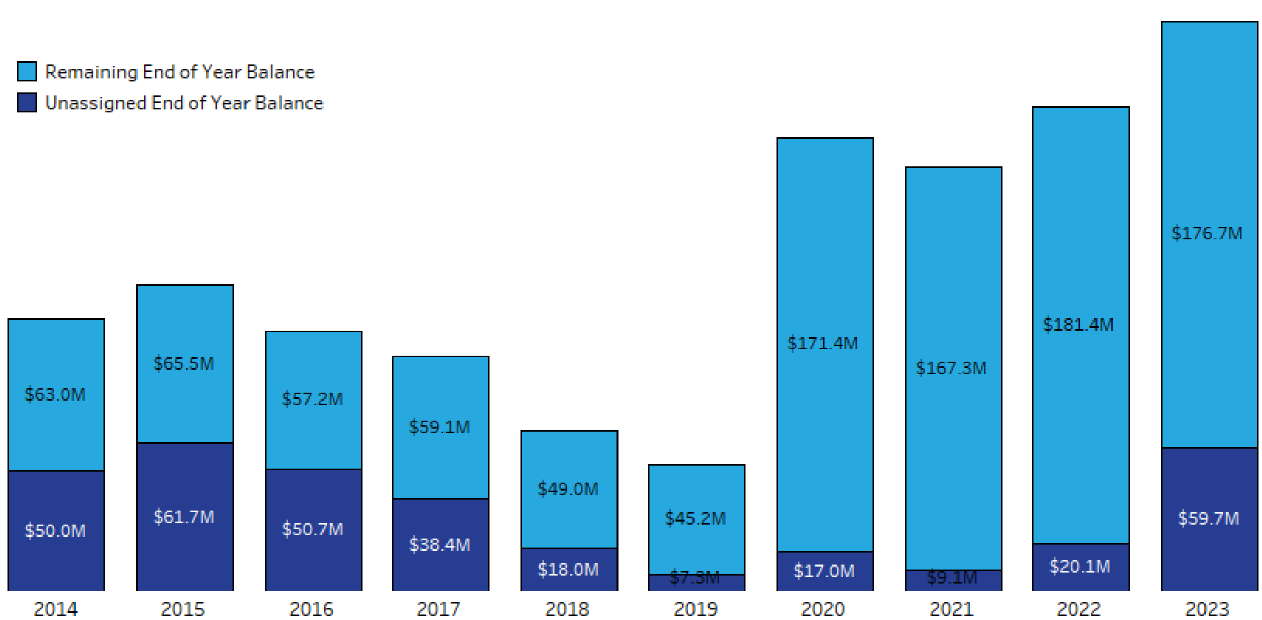
The proposed budget includes installments for a couple of major ongoing projects. The city will spend $40 million replacing fire and police radios, and $3.3 million is included in the 2025 budget for this purpose. It is also in the midst of replacing its Enterprise Resource Planning (ERP) system used for financial and human resources management. The 2025 proposal includes $8.6 million of what officials estimate will be a $28 million project.

Economic development and transportation infrastructure make up the majority of capital spending in 2025. Tax increment financed (TIF) urban renewal programs are budgeted at $50 million after comprising $38 million in last year's budget. Another $59.5 million of local funds will be spent on street and bridge infrastructure. Other major infrastructure projects include lead service line replacements ($14 million), street lighting ($10 million), and city fleet replacements and additions ($8.2 million).

General Fund Balance

At the end of each year, any overage of GCP revenues compared to GCP expenditures can be used to build up the balance in the city's general fund. Excess expenditures over revenues in a given year, on the other hand, draw down the fund balance. Existing fund balances may be restricted for specific purposes, committed to being used in a certain way due to Common Council action, or otherwise assigned. They can also be unassigned, which makes them available to address annual unanticipated events that cause expenditures to exceed revenues.

Figure 6: End-of-year assigned and unassigned balances for the general fund, 2014-2023



Source: City of Milwaukee Annual Fiscal Reports

From 2015 to 2019, the city's unassigned general fund balance plummeted due to fiscal challenges related to pension payments and other challenges. After peaking at $61.7 million at the end of 2015, unassigned amounts sat below $21 million at the end of each year from 2018 to 2022 (see Figure 6 on the previous page). Though the overall fund balance rose substantially in 2020, that was due to the city issuing a "revenue anticipation note" in order to take advantage of low interest rates.

For the first time in a decade, the unassigned general fund balance is now trending positively. At the end of 2023, there was a $59.7 million unassigned balance, the largest amount since 2015 and nearly triple the 2022 amount. This is both because non-property tax GCP revenue came in $11.2 million above budget, but also because spending came in below budget. Budget officials attribute low spending primarily to vacancies and lower-than-anticipated health care spending.

FOUR KEYS TO UNDERSTANDING THE BUDGET

Key #1: Act 12 Continues to Deliver, But Impacts Wane

Last summer, Gov. Tony Evers signed into law 2023 Wisconsin Act 12, altering the future of local government finance not just in Milwaukee, but statewide. The law provided every city, village, and town in the state with a boost in state shared revenue, while also ensuring that future shared revenue payments would change based on state sales tax collections – a departure from the previous approach in which shared revenue appropriations were subject to budget deliberations and stagnated for much of the last two decades. It also allowed Milwaukee to pass the 2% local sales tax.

Alone, these two items brought monumental changes to the city. The 2024 budget included $184.0 million in sales tax revenue to be spent mostly to cover the city's skyrocketing pension obligations, with $28.0 million left over for general city purposes. The city appears on track to meet and even exceed this projection in 2024. The 2024 budget also included a state shared revenue increase of $21.9 million, entirely devoted to general city purposes.

In the 2025 proposed budget, as intended by the legislation, revenue from these sources will grow. The budget estimates sales tax collections of $192.9 million – a boost of $8.9 million (4.8%) based on projected collections for 2024 and inflationary growth. Of that amount, $51.6 million would go to general city purposes. That would be a significant increase from the $28.0 million dedicated for that purpose in 2024 and results, in part, from the elimination of a one-time, $25.5 million payment to the pension fund that was made in 2024 due to underfunding the fund in 2023.[2]

The budget also projects a state shared revenue increase of $4.9 million to $246.2 million, and beginning in 2025 the city will receive reimbursement from the state for its decision to eliminate taxes on personal property, a payment that is projected at $4.8 million next year. Combined, the impact of state shared revenue growth, local sales tax growth, and the movement of $23.6 million in sales tax revenues out of employee retirement and into the GCP budget will provide $33.3 million in new revenue for core city services. This accounts for more than the entire growth in the GCP budget.

Act 12 also came with certain strings attached, however, that will increase fiscal pressures on the city. First, the legislation requires the city to pay an amount each year to compensate other entities that have employees or retirees covered by the city pension plan (e.g. Milwaukee Metropolitan Sewerage District, Wisconsin Center District, Milwaukee Public Schools, Milwaukee Area Technical College). The compensation is reimbursement for increased costs associated with an Act 12 provision that lowered the fund's assumed rate of return on investments from 7.5% to 6.8%. This provision – which had already contributed to a $45.3 million increase in the city's overall required pension fund payment in the 2024 budget – requires a $6.8 million expenditure in the 2025 proposed budget.

As discussed earlier, Act 12 also requires Milwaukee to meet certain maintenance of effort (MOE) requirements with regard to sworn public safety staffing levels or risk losing 15% of the city's shared

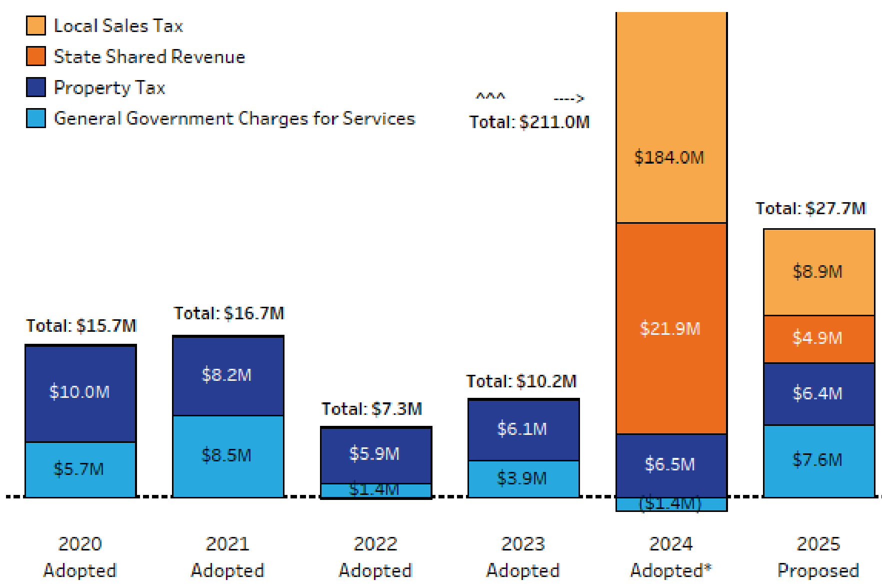
[2] Officials made this one-time catch-up payment in 2024 because the required 2023 contribution was not known until the middle of that year.

revenue payment – an amount that would total an estimated $36.9 million in 2025. For MPD, the city has to reach staffing levels of 1,725 law enforcement officers within a decade of the initiation of the local sales tax, of which 175 need to be detectives. Meanwhile, MFD must maintain 218 non-civilian staff members in the next decade.

There are various factors that impact FTE totals in the proposed budget, but it is worth noting that the number of fire and police FTEs would rise by 209.68. Most of this increase is attributed to a methodological change for MPD, resulting in no net increase in sworn staff, though, as noted above, MFD would add staff for an additional engine and paramedic unit. It is difficult to say right now what the immediate fiscal impacts of hiring will be for either MPD or MFD without knowing how many of their staff leave or retire during the course of next year; that said, in the long run, Act 12 will add salary and benefit costs as both departments increase their staffing levels.

Notwithstanding costs associated with adding police and fire staff and compensating non-city entities for higher pension costs, it is clear that Act 12 will have a lasting positive impact on city finances. Figure 7 shows the ways in which four of the largest sources of revenue for the city in 2025 would change relative to the prior year, along with each of the previous five adopted budgets.

Figure 7: Year-over-year change in revenue from major city-controlled sources, 2020 through 2025



Source: City of Milwaukee 2025 Proposed Plan and Budget Summary and previous adopted budget summaries
*2024 bar not fully shown to preserve detail for other years.

In the years prior to the pandemic, growth in fees and the property tax were typically the only major sources of revenue growth the city had at its disposal. Facing structural problems, in each adopted budget from 2017 to 2021, city leaders raised property taxes by at least 2.7% annually, resulting in an additional $7 million to $10 million each year. They also withdrew from the city's reserve funds, depleting them to unhealthy levels (see Key #2). Since that time, ARPA (2022 through 2024) and Act 12 (2024 and 2025) have allowed the city to keep property tax growth at almost exactly 2.0% each year and more recently to rebuild reserves.

The proposed 2025 budget is our first look at how Act 12 will change city finances after the initial huge infusion of funding in 2024. We see that with the sales tax and shared revenue now joining property taxes and fees as major sources of annual GCP revenue growth, the city will receive a combined $27.7 million from these sources in 2025. The Act 12-related growth from the sales tax and shared revenue gives the city $13.8 million in new revenue it did not have access to before the legislation was adopted, allowing it to budget for increased MPD and MFD staffing, approve cost-to-continue budgets for other major departments, and keep property tax and fee increases at more modest levels than likely otherwise would have been possible.

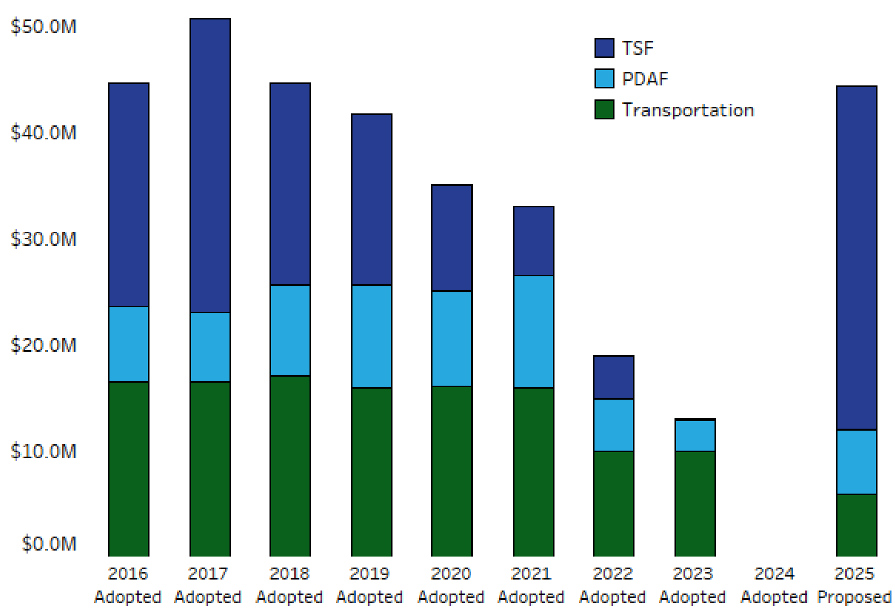
Key #2: Healthier Reserves Accommodate Resumption of Sizable Withdrawals

As the city's financial challenges mounted in the years prior to the pandemic due to escalating pension costs and stagnant revenue streams, one of its key advantages was the ability to make healthy withdrawals from well-stocked reserves. That had changed, however, by 2022, when our report on the city's fiscal condition (*Nearing the Brink*) noted warnings by national ratings agencies about the city's depleted fund balances, which had left the city's reserve position "significantly weaker than it had been in previous years."

Previous city budgets have typically drawn on three main reserve funds – the Tax Stabilization Fund (TSF), the Public Debt Amortization Fund (PDAF), and the Transportation Fund. Last year, for the first time in recent memory, the city did not withdraw *any* funds from these three sources. While the unique overlap of ARPA and Act 12 allowed this to happen, the depleted nature of the TSF and Transportation Fund in particular likely would have precluded them from being tapped regardless.

In the proposed budget, combined withdrawals from the three reserve funds would jump back up to $44.3 million, with $38.3 million earmarked for the GCP and $6.0 million used to reduce levy-supported debt payments. This would be the largest amount withdrawn from these three funds combined since 2018, and would represent more than the entire amount of withdrawals from the last three budgets combined (see Figure 8).

Figure 8: Withdrawals from major reserve funds by budget, 2016 to 2025



Source: City of Milwaukee 2025 Proposed Plan and Budget Summary and previous adopted budget summaries

This total amount is driven by a $32.3 million withdrawal from the TSF alone, the most in at least a decade and the maximum allowable under city ordinances, which state that only 50% of available reserves not needed in order to stabilize property taxes can be withdrawn in a given year. For many years, the TSF was the largest source of withdrawal from the three major reserves, but its balances had fallen to a low of $13.8 million by the end of 2019 and were below $30 million at the end of each year from 2018 to 2022.

Substantially lower-than-budgeted health care expenditures in 2023 and other positive circumstances helped to create a substantial year-end fund balance that year that allowed city leaders to replenish the TSF. In fact, the balance more than doubled from $29.4 million at the end of

2022 to $64.6 million at the end of 2023. City leaders are hopeful that despite the maximum allowable withdrawal in 2025, the TSF will continue to grow, as the $25.5 million catch-up pension payment included in the 2024 budget ended up being accrued to 2023. That and continued health care under-spending should allow for another strong general fund balance in 2024 that again can be used to replenish the TSF.

The PDAF is used to lower the amount of property tax levy needed to service city debt. It grows by receiving one-third of the earnings on overall city investments plus any additional investment revenue from its own fund balance. In nearly every year from 2014 to 2022, the PDAF balance fell, before marginally growing in 2023. Entering 2024, the PDAF grew by more than $10 million to $54.2 million – the highest level since the beginning of 2018. Consequently, the proposed budget includes a $6 million withdrawal – still smaller than took place in many years prior to 2022, but a return to near normal levels.

Earlier this year, we published an in-depth look at Milwaukee's [Transportation Fund](), which accrues revenue from parking permits, meters, lots, structures, citations, and the streetcar. These revenue sources first fund the continued operations of the city's parking and streetcar assets. Any excess (or amount accumulated in the fund's reserve) can then support a transfer to the general fund to support general city purposes.

The Transportation Fund has been strained since the onset of the pandemic, as reduced downtown commuting and parking sharply reduced its revenue streams, which have yet to fully recover. The fund's balance has been almost entirely depleted since the beginning of 2019 – at that time the balance stood at $42.7 million, but by the beginning of 2024 it was just $2.7 million.

Despite that vastly reduced state, the proposed budget includes a $6.0 million withdrawal in 2025. Of that total, $2.5 million would come from the remaining reserve, while the remaining $3.5 million would be made in anticipation of the Department of Public Works moving forward with changes to parking rates and citation collection methods that have already been passed by the Common Council. While the proposed transfer does not approach the $16 million transfers that took place in most years prior to the pandemic, it reflects optimism by budget officials that transportation fund revenues might inch closer to their former levels – and that reserve amounts will be rebuilt – as a result of increased collections.

The projected heathier condition of the TSF, PDAF, and Transportation Fund are accompanied by the welcome news that no withdrawals are proposed from the city's pension reserve fund, which now sits at $88.4 million. The reserve was prudently built over a number of years – including by a $40 million infusion in the 2022 budget – in anticipation of being drawn upon when the huge spike in pension contributions began in 2023. However, the availability of ARPA and now sales tax revenues have allowed the reserve to remain untapped, leaving it with a sizable balance that will be available as budget challenges grow more difficult in 2026 and beyond and as TSF withdrawals fall to more typical levels.

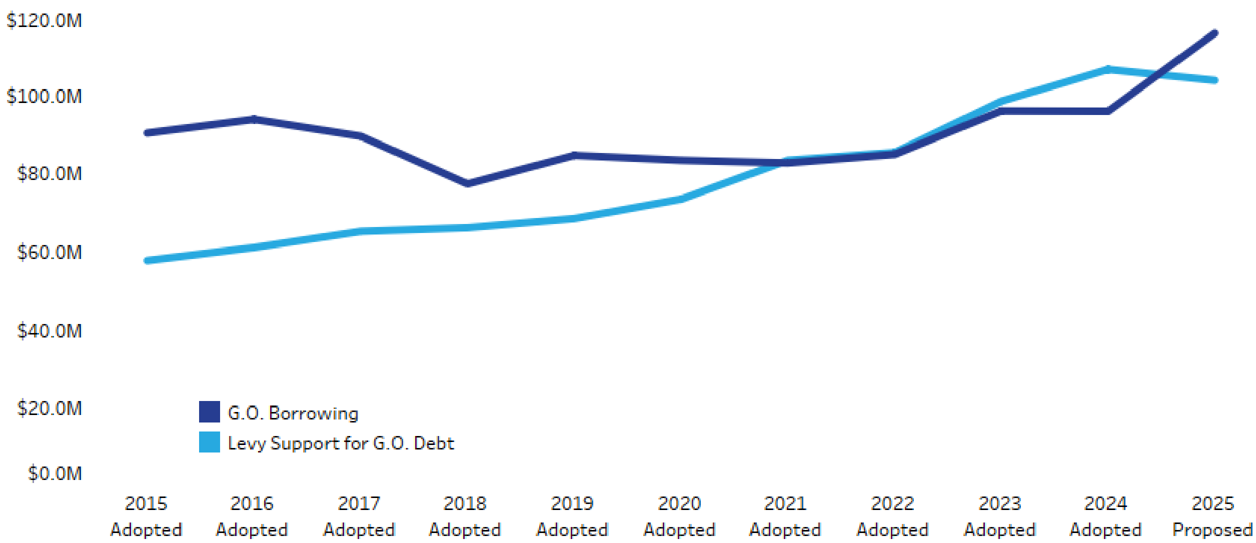
Key #3: Growing Capital Needs Mean Elevated Levy-Backed Borrowing

In past budget briefs, the Forum has warned that future capital needs would emerge as a growing contributor to the city's structural financial challenges. The 2025 proposed budget confirms that warning. For the first time, the city's capital improvements budget would top $200 million, rising from $196.9 million this year to $211.6 million next year (7.5%). As noted in the capital budget section of this report, increased expenditures are needed to continue to address outdated physical infrastructure and software (such as the city's ERP system), as well as meet the local match for increased federal transportation grants.

In 2024, the city was able to finance nearly one-fifth of its capital spending with a $38.9 million allocation of property tax levy, thus addressing several needed projects with cash as opposed to borrowing. This was made possible by the continued availability of ARPA to support the GCP budget. With ARPA funds no longer available in 2025, cash financing in the capital budget is almost entirely eliminated while the need for capital spending grows.

As a result, general obligation borrowing would rise in the 2025 proposed budget from $96.0 million to $116.0 million, or 20.8% (see Figure 9). Borrowing would now sit at its highest level in at least the last decade, and no year in recent memory has seen an increase in borrowing on the scale of what is included in the 2025 proposal.

Fig. 9: City general obligation borrowing and levy support for general obligation debt by budget, 2015 to 2025



Source: City of Milwaukee 2025 Proposed Plan and Budget Summary and previous adopted budget summaries

As the city has maintained higher-than-desired borrowing levels over the past decade and interest costs on new borrowing have grown, greater strain has been placed on the property tax levy to support annual debt service payments. As also shown in Figure 9, annual debt service payments have grown from $57.8 million in 2015 to $103.9 million in the 2025 proposed budget (79.8%). While levy-supported debt payments would decrease in the proposed 2025 budget from the $106.7 million budgeted this year, that is in large part because of the $6 million draw from the PDAF (see Key #2); were it not for this withdrawal there would have been added pressure on the property tax to support borrowing.

As we will discuss in Key #4, the increasing need for the property tax levy to support debt service will be a prominent source of fiscal pressure for the city moving forward. The $46.1 million increase in property taxes going toward debt since 2015 has accounted for more than two-thirds of the rise in the total city levy since that time. Budget officials say they expect G.O. debt issuances to remain around $116 million in the 2026 and 2027 budgets, which as we noted earlier are expected to increase debt service costs by $6 million annually for the next several years.

Unfortunately, there is no obvious solution to the city's infrastructure challenge. Milwaukee County put off necessary investments in its aging infrastructure for two decades when it first began to experience severe fiscal distress in the early 2000s, as county leaders instead focused on reducing their overall debt load and annual debt payments. They controlled debt service costs, but the price was a backlog of infrastructure repair needs that now exceeds $1.5 billion.

Conversely, city leaders have been much more vigilant about making needed infrastructure investments, but now face growing debt service costs that threaten to crowd out other needs or produce steep property tax levy increases. Threading the needle between addressing critical infrastructure needs and managing the affordability of increased debt, therefore, will be one of the most difficult tests for city leaders in the years ahead.

Key #4 – Future Outlook Remains Precarious

Our discussion thus far conveys the far-reaching impact of Wisconsin Act 12. Not only did the legislation allow city leaders to navigate the huge fiscal cliff they were facing with the expiration of ARPA dollars, but its adoption a year before that cliff arrived allowed city leaders to take prudent actions in the 2024 budget that will pay sizable dividends next year. Further good news for 2025 came from unanticipated health care savings that allowed for rebuilding of the TSF, as well as additional Act 12 revenues from the personal property tax exemption.

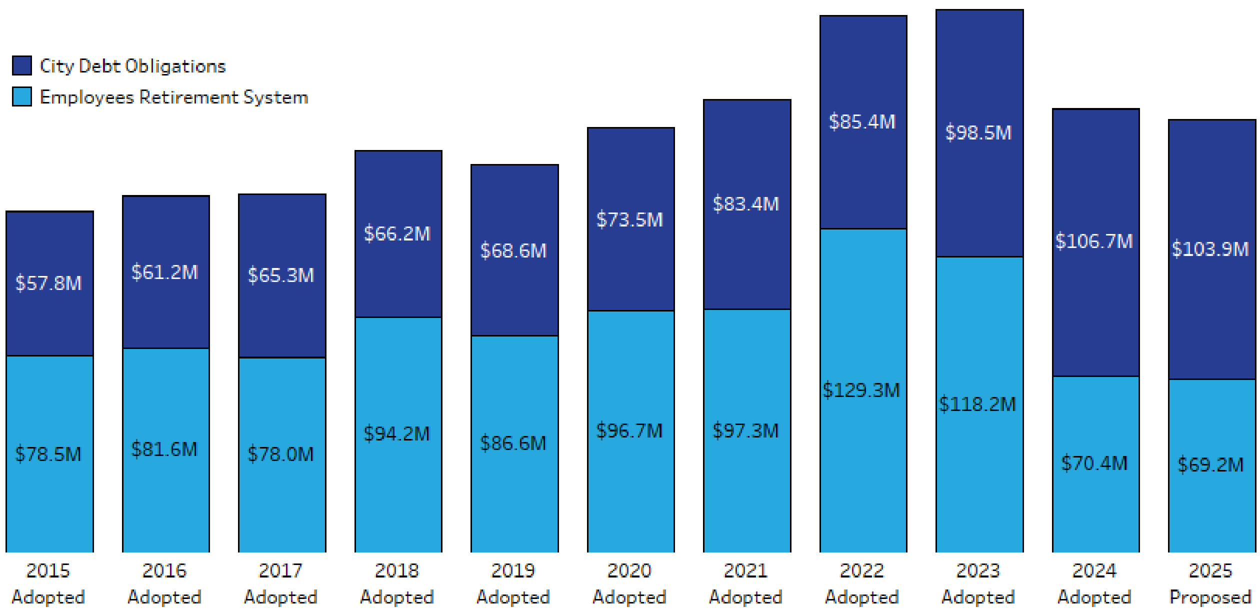
But when we look beyond next year, a more foreboding picture emerges. Both future sales tax and shared revenue increases will be dependent on the national economy, and on that front growth has slowed. Health care savings – which were instrumental in building reserve capacity and balancing the 2025 budget – likely will be short-lived. Meanwhile, increases in Act 12-related costs appear inevitable as the city responds to its mandate to increase police and fire staffing levels and as ongoing labor negotiations with the Milwaukee police and fire unions are resolved.

An additional concern, as we discussed in Key #2, is the reliance on unusually large reserve withdrawals in 2025, which may not be replicable in 2026 and beyond. Fortunately, while the annual TSF withdrawal almost certainly will need to shrink, city leaders potentially could offset some of that decrease with steady withdrawals from the pension reserve. That reserve was not tapped in the proposed budget (nor in 2023 or 2024 as originally anticipated) and currently stands at $88.4 million.

However, with the city's stable contribution policy eliminated by Act 12, the annual pension contribution is now subject to much higher volatility linked to annual investment performance, thus arguably justifying a smaller but still healthy pension reserve balance. Also, large pension reserve withdrawals represent only a short-term budget balancing strategy.

These factors – combined with growing levels of G.O. debt, as discussed in Key #3 – forewarn the potential of higher annual increases in property taxes and fees than city property owners have been accustomed to in recent years. As shown in Figure 10 on the next page, the Act 12 revenue increases have allowed the city to greatly reduce the amount of property tax levy needed to pay for its skyrocketing pension contribution. Yet the benefits are being eroded by the rise in annual levy amounts needed to service its growing long-term debt.

Figure 10: Property tax levy funding for city debt and employee retirement system, 2015 to 2025



Source: City of Milwaukee 2025 Proposed Plan and Budget Summary and previous adopted budget summaries

Because state-imposed levy limits apply only to operations, city leaders will be able to match increased levy-supported debt obligations with increased tax levy without running afoul of state law. But if they do so while also striving to keep operating levy increases to a minimum to cushion the blow for taxpayers, as they have been able to do in recent years because of the sales tax and ARPA, then city services likely would suffer. The same predicament likely will emerge with regard to general fee increases, which have been similarly modest in recent years but may have to increase at more substantial levels to meet future expenditure demands.

All of this should add up to an even greater sense of urgency for city leaders and administrators to pursue changes aimed at increasing efficiency without lowering service quality or breadth. Two reports undertaken with the participation of city leaders in 2023 – an "operational review" commissioned by the Greater Milwaukee Committee and our report on administrative service sharing opportunities for the city and Milwaukee County – provide dozens of potential options, ranging from the sale of city assets to new strategies to lower employee benefit costs to opportunities to consolidate functions like fleet or facilities management with the county.

Some of those options are being reviewed by city leaders, while many others undoubtedly have or will be deemed impractical or ineffective. But regardless of whether these or other options are considered, it is clear that future solutions to the city's ongoing financial challenges are less likely to come from Madison, and that the need to scour city operations for savings opportunities will grow. It is equally clear that with another somewhat unexpected year of relative budgetary calm, the next several months provide an opportune time to accelerate the search for locally generated solutions.

CONCLUSION

The game-changing nature of Wisconsin Act 12 on the city's near-term financial outlook has been apparent since its passage. What has been less certain since the legislation was adopted in the summer of 2023 is how long the benefits would last, and at what point the increased costs produced by Act 12 mandates and the city's other expenditure pressures would exhaust the additional funding brought in by its newly diversified and fortified revenues.

Those questions still cannot be answered definitively, but the proposed budget provides both hope and caution. The overwhelming good news is that Act 12 did not provide only a one-year respite from a return to gaping structural deficits and consequential service and position cuts. Instead, the mayor's proposal is able to initiate three new MPD recruit classes, restore a full-time fire engine and paramedic unit, maintain Sunday hours for libraries, and boost city-backed capital spending by nearly $15 million to address major infrastructure needs. As an added bonus, the budget would keep increases in property taxes and most general user fees at a modest 2%.

The troubling news is that these accomplishments would be made possible only by substantial draws on reserves that may not be sustainable in the future. In addition, the robust capital spending would be backed by a $20 million increase in borrowing that will produce growing debt service costs. While it is too early to prognosticate, there are also signs that the cost of continuing to build police and fire sworn strength levels may eat up most or all of the increased annual revenue growth secured under Act 12, especially at times when the local and state economies are stagnant. That, in turn, may soon threaten non-public safety departments and services, albeit to a far lesser degree than existed prior to Act 12's adoption.

Overall, it would be inappropriate to cast gloom and doom over a budget proposal that maintains key city services while making reasonable demands on property taxpayers. Indeed, city officials, residents and businesses should justifiably view the proposed budget with optimism and relief. At the same time, however, they should keep in mind that the city's structural challenges have not disappeared and may soon intensify, and that future budgets are far less likely to produce the same positive feelings as this one.