

BUDGET BRIEF:
2009 PROPOSED
CITY OF MILWAUKEE BUDGET

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INTRODUCTION

In his 2009 budget address, Mayor Tom Barrett called the 2009 budget “the toughest we have faced.” A closer examination of his proposed budget reveals he was not exaggerating. Not only must the city contend with typical challenges such as increased wage and benefits costs and stagnant state aids, but this year it also must accommodate significant impacts generated by national economic conditions, including lower earnings on investments and a \$3 million increase in budgeted fuel and energy costs. Additional challenges are the strong desire to maintain recent momentum in reducing crime rates by continuing healthy Police Department staffing levels, and the need to accommodate a loss of intergovernmental revenue from Milwaukee Public Schools.

It is somewhat difficult to summarize the mayor’s proposed budget for 2009 because he was unable to present his preferred budget. Specifically, the mayor preferred to increase the solid waste fee by \$37 per household, for a total revenue influx of about \$7 million. However, the Common Council balked at approving the increase in advance of budget submission, leaving the mayor unable to propose the fee increase as part of his formal budget. Consequently, his budget does not include the fee revenue and contains several significant cuts that he says would not be required if the council were to raise the solid waste fee. He lists those cuts in the budget and is advocating for their restoration. (See below for additional discussion of this “preferred budget” issue.)

The mayor’s overall approach in his preferred budget is to trim positions where he deems possible without materially impacting service levels; make liberal use of reserve funds where possible to help get by for another year; and argue to city residents that with those options exhausted, maintaining existing service levels (which he deems essential) will require increases in property taxes and fees. Even with this approach, the proposed budget concedes that the city’s structural budget issues are not fully addressed, and that difficult decisions on service cuts may be required as soon as next year.

The mayor and his budget team deserve credit for laying out the city’s structural problems and for acknowledging that the present course is unsustainable. It is also refreshing to see a set of new three-year strategies in the proposed budget that present some ideas for altering that course. A key question, however, is whether, in light of the economic pain being felt by their constituents, a majority of the council will be willing to support the property tax and fee increases the mayor deems necessary to buy time to implement these three-year strategies, or whether instead they will choose to start making significant budget cuts now.

ONE BUDGET OR TWO?

The mayor has submitted a budget to the Common Council that is balanced and adheres to city ordinances and state statutes. The proposed budget contains expenditures of \$1.4 billion in 2009, an 8.6% increase from the 2008 spending level. Spending for General City Purposes increases by 2.7%, with the largest departmental increases in police (5%), fire (3.4%), and the Department of Public Works (1.3%). The tax levy increases 4.8%, with the tax rate going from \$8.01 in the 2008 budget to \$8.11 in 2009.

As noted above, this budget is not the budget the mayor would have preferred to present, which would have included an additional \$7 million generated from a \$37 increase in the solid waste fee. The mayor contends that the absence of those additional funds has required him to propose several undesirable cuts in city programs and services, including denying the Police Department 56 new police officers and eliminating 19 additional firefighters. He has therefore strongly voiced his support for the solid waste fee increase, and the proposed budget document lists the funding he would advocate restoring if the fee is adopted.

This existence of both a “preferred” and a proposed budget is due to the legal requirement that the city comptroller be solely responsible for recognizing anticipated budget revenues in the proposed budget. The comptroller’s position—backed by a city attorney opinion—has been to recognize only levels of revenue that have been adopted in the previous budget year. Consequently, no revenue from a new or enhanced fee can be recognized in the proposed budget unless it already has been approved by the Common Council.

The requirement for the comptroller to recognize revenue before it is included in the budget is a sound requirement that adds a layer of independent accountability to the budget process. Because of this requirement, neither the mayor nor council is able to exaggerate revenue projections in order to artificially balance the budget.

The comptroller deserves credit for sticking to his guns on the most basic and critical element of this policy—that he have sole authority for estimating the amount of revenue that a particular tax, fee, or other source will generate. While that general requirement is sound, however, the overall policy can lead to practical difficulties.

It is hard to fault the Common Council for being unwilling to approve increased fees without knowing how the extra revenue will be utilized within the overall budget context, and it is also hard to fault the mayor for being unhappy with the fact that he is unable to propose a fee increase in his executive budget. Thus, we are left with a question of procedure that detracts from the more serious issues facing the city, namely its structural deficit. As such, this is a process that perhaps deserves re-examination by all parties.

THE PROBLEM OF ONGOING FISCAL SUSTAINABILITY – The City’s Structural Deficit

As the Public Policy Forum has pointed out for several years, the city is running a structural deficit. In other words, the city’s ongoing revenues do not meet its ongoing expenses, or as the budget office calls it, the city’s “cost to continue.”

The leading contributor to the structural gap, according to the mayor’s budget and his budget statement, is stagnant state shared revenue, which has declined by \$61 million in inflation-adjusted dollars since 2003. This has forced a significant increase in the city’s reliance on property tax and service charge/user fee revenue, which now account for 21% and 14.3% of the general city purposes budget respectively, as compared to 10.6% and 4.3% in 1995. Another major contributor, according to the proposed budget, is total compensation costs for city workers that “continue to be unsustainable.”

The budget office projects that if the city were to continue its current spending patterns, then its structural imbalance, or the gap between projected revenues and expenses, would be \$160 million over the next three years. Even with the mayor’s proposed property tax and fee increases and other actions in his proposed budget, the imbalance would total \$55 million over that period. That’s the bad news.

The good news is that the 2009 proposed city budget acknowledges and describes the structural imbalance, and is up front about the difficulties inherent in solving this crisis. This may not seem like much, but it is an important first step. In past administrations, the city tended to rely on one-time revenue streams and short-term spending cuts with the sole purpose of balancing the current-year budget. This short-term approach without a plan for the future exacerbated the city’s structural deficit.

Three-Year Fiscal Stability Strategies

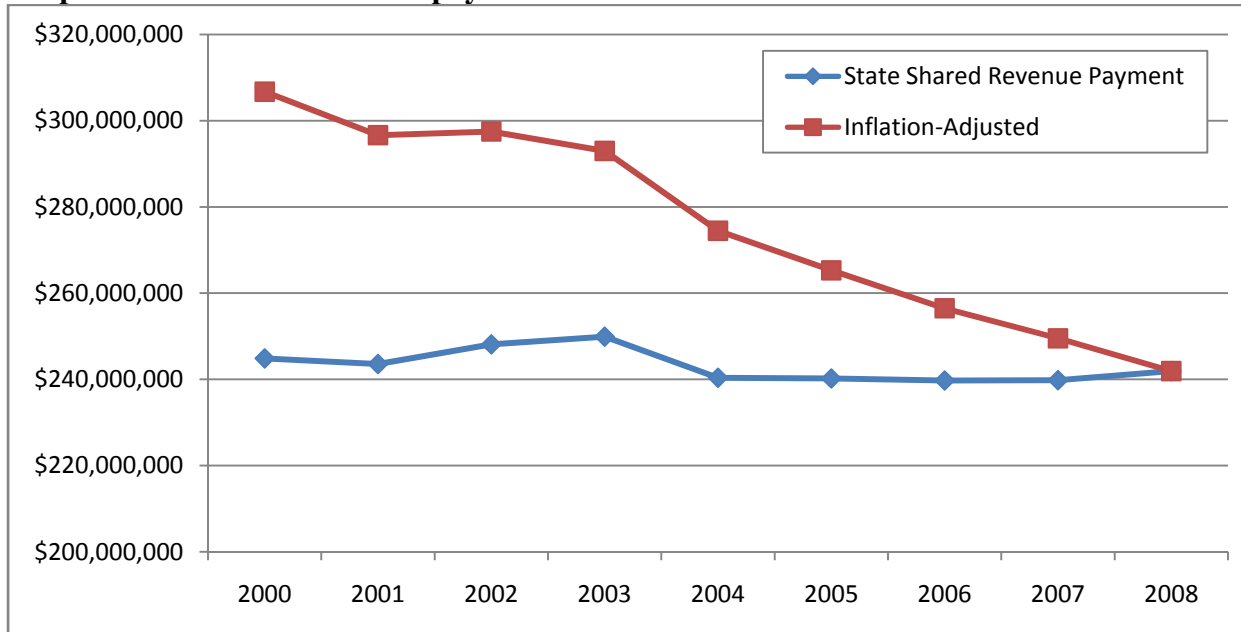
The city embarked on a necessary culture change in its 2005 budget when it began looking toward the future to attempt to solve its structural deficit through a three-year fiscal sustainability plan. The plan stated some of the major obstacles standing in the way of the city’s structural health and laid out some goals to mitigate the problems. In last year’s budget testimony, the Public Policy Forum examined the city’s progress toward achieving its sustainability goals, and found that the city had done well. However, the goals themselves did not go far enough toward solving the structural deficit.

In his presentation of the 2009 budget to the Finance and Personnel Committee, the city budget director outlined some of the city’s “sustainable improvements” over the past several years. They include a crime mapping project that allows the Police Department to more efficiently allocate its resources; a storm water charge for the sewer maintenance fee, which allows the fee to more fully recover associated costs; a drug benefit “carve out” in the city health plan that helps to stem health care cost increases; and better police officer hiring practices in order to fill vacancies faster so that overtime spending can be reduced.

The city is continuing to use its three-year outlook model with the inclusion of a new set of strategic responses in its 2009 budget. The plan identifies six key structural problems that must be addressed by the city, the first two of which deal with the city's revenue streams.

Milwaukee's revenue options and actual revenues are both largely determined by the State of Wisconsin. As noted above, the state's own budget problems have translated into decreasing state shared revenue for the city, both in real terms and adjusted for inflation. **Graph 1** shows the extent to which the state's shared revenue payment, which is nearly 40% of the city's general purpose revenue budget, has diminished this decade in both real and inflation-adjusted terms.

Graph 1: State shared revenue payment



Every year, the city laments the state's failure to keep up with its financial obligations to municipalities; this year, the city is working with the Wisconsin Alliance of Cities and other organizations to advocate for a plan that will address that issue.

The Alliance of Cities plan includes a proposed new Regional Economic Development Incentive (REDI) that would form the cornerstone of a new shared revenue program. This new incentive would link growth in state aid to growth in personal income. Revenue from personal income growth would be shared with municipalities in two ways: 25% of the total appropriation would increase the existing state shared revenue base and allow every community to receive an increase in non-property tax revenue as personal income increases; and the remaining 75% would be distributed based on income growth within each metropolitan statistical area based on individual communities' tax effort. It is estimated that if the REDI were included in the state's next biennial budget, Milwaukee would receive an increase in state shared revenue of 2.9%, or \$6.8 million per year.

Another strategic response cited to address the sharp reduction in state aid is movement to full cost-recovery from the solid waste fee. As noted above, this strategy originally was rejected by

the Common Council in September, but the budget notes the importance of increased user charges in diversifying the city's overall revenue picture and decreasing reliance on state government. **Table 1** shows annual fee collections for three of the most significant of these service charges this decade.

Table 1: Revenue from Major City of Milwaukee User Fees

	Sewer Maintenance Fee Revenue	Solid Waste Fee Revenue	Snow and Ice Fee Revenue
2000 Actual	\$14,764,766	\$0	\$0
2001 Actual	\$17,374,681	\$8,265,947	\$0
2002 Actual	\$27,865,587	\$14,097,921	\$2,451,109
2003 Actual	\$32,054,649	\$14,126,784	\$2,449,171
2004 Actual	\$30,737,508	\$14,163,402	\$2,442,370
2005 Actual	\$30,532,791	\$14,179,296	\$2,415,402
2006 Actual	\$26,758,568	\$24,942,022	\$2,505,632
2007 Actual	\$23,769,847	\$24,996,994	\$2,653,893
2008 Budgeted	\$25,382,000	\$25,000,000	\$4,300,000
2009 Budgeted	\$26,617,000	\$25,000,000	\$4,300,000

While the mayor and his budget staff should be praised for realistically assessing the city's dangerous reliance on state aids and for offering a plan for greater revenue diversification, it is worth noting that the mayor vetoed a motor vehicle registration fee that provides \$6.6 million for local road and street repairs in the 2009 budget (after a common council veto override), which arguably achieves the same goal.

It is also important to note that while debate on fee increases is likely to remain contentious in this and future budgets, the city's capacity to utilize this approach is limited. The state restricts the types of fees the city can create, and also stipulates that the revenue the city can receive from a service charge cannot exceed the cost of providing the service. Consequently, the city's recent practice of increasing its user fees to offset diminishing state aids may be unsustainable. In fact, if the common council approves the mayor's proposed increase in the solid waste fee, nearly 100% of solid waste costs will be covered by the fee, thereby severely limiting the option of raising the fee in future budgets barring a significant increase in solid waste costs.

Another of the strategic responses set forth in the budget is to lobby the state for more revenue options. Again, it appears logical for the city to explore all of its options, but both this response and the goal of convincing the state to adopt a new shared revenue plan likely will be extremely difficult to accomplish in Madison. This again suggests that the three-year strategic responses—while a solid start—likely are not nearly sufficient to solve the structural problem.

Other Strategies to Bridge the Structural Gap

In previous years, the city has depended on some of its well-performing non-general fund reserves to make up the gap between general revenues and expenses. For example, both the parking fund and the Port of Milwaukee, which have relatively robust revenue streams, contribute to the general fund.

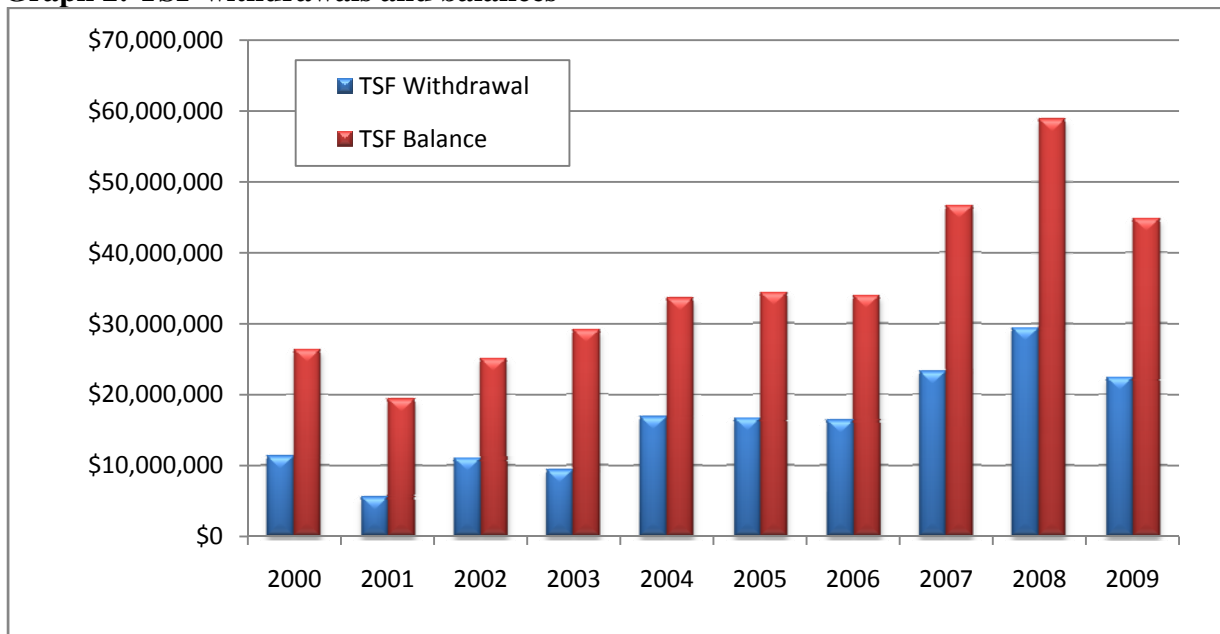
In the 2009 budget, the mayor proposes a \$5.6 million withdrawal from the Employee Retirement System Employers' Reserve Fund, which contains a balance of approximately \$25 million. The purpose of this fund is to help offset the city's contribution to the pension fund should a drop in the fund's value require an unanticipated sharp increase in the contribution. Going into this budget season, the pension fund was "over-funded" at 131%, and the city therefore has not needed to make a contribution over the past several years. This ostensibly justifies the withdrawal on a one-time basis as a means of staving off significant service cuts.

It is anticipated, however, that at some point the city again will need to contribute to its pension fund, and that this could occur sooner than previously expected in light of the recent stock market volatility. The reserve fund was created to help cushion the blow of a sudden need to contribute a sizable amount to the pension fund because of poor investment returns, and it therefore could be argued that this is precisely the wrong time to be withdrawing from the fund.

Again, this is the type of strategy employed by a governmental entity facing a structural imbalance and hoping to buy time to implement solutions. Whether it is justified or not may depend on how serious city policymakers are about addressing the structural problem in the immediate future. Regardless, all should recognize that this \$5.6 million may not be available to help fill holes or reduce property tax levy in the 2010 budget, thus exacerbating the typical budget challenges next year.

In addition, every year, the city relies on a substantial transfer from its reserve account, the Tax Stabilization Fund (TSF), to make ends meet. The proposed withdrawal in 2009 is \$22.4 million, or half the fund's balances as of April 15, 2008, which is about \$7 million less than the 2008 withdrawal. **Graph 2** shows TSF withdrawals and balances this decade.

Graph 2: TSF withdrawals and balances



While using the TSF to control property tax increases in this fashion certainly is consistent with its intended purpose, over-reliance on the fund can be risky. For example, the budget's fiscal stability strategies section notes that the city has benefited from significant infusions of unanticipated and underestimated revenues in recent years (in areas such as permits, licensing and interest on investments), but that good fortune is coming to an end. That means that TSF fund regeneration will not be as robust in the coming years. This could lead to smaller TSF balances in the near future and an inability to withdraw as much as in previous years without depleting the fund.

Finally, it is worth noting that an additional one-time revenue that helps balance the 2009 proposed budget is the \$1.5 million payment from the City of New Berlin as part of the deal to provide that city with drinking water. That deal was specifically structured by Milwaukee officials to provide a one-time payment for the 2009 budget (as opposed to a smaller annual funding stream for a period of several years) in order to help overcome budget difficulties expected in 2009. While it is possible that additional water contracts could be negotiated with other suburban municipalities, if they are not, another \$1.5 million will be added to the 2010 budget challenge.

STRATEGIC PLANNING

The 2009 proposed budget lists six broad strategic goals for city departments, and each departmental budget contains objectives, strategies, and milestones that are linked to those goals. Meanwhile, the mayor’s Accountability in Management (AIM) program, implemented in January 2008, is designed to hold departments accountable for implementing the strategies and achieving the milestones cited in the budget.

City officials should be commended for their commitment to this type of strategic framework. Strategic planning is an important budgeting tool—particularly in difficult economic times—because it allows officials to make spending decisions based on the city’s priorities as identified through a formal planning process.

Evidence-based spending decisions based on planning, as well as some savings achieved through planning, are evident throughout the 2009 proposed budget. A sampling is provided in **Table 2**.

Table 2: Examples of Strategic Planning throughout 2009 Proposed Budget

Department	Program	Description
Health	Citywide Violence Prevention Plan	to "provide strategic direction and oversight for the city's effort to reduce the risk of violence through a variety of strategies"
Health	Food Inspection	"Implementation of a tiered model of delivery will help inspectors better target more complex establishments and concentrate on violations that pose the greatest health risk for consumers."
Neighborhood Services	Neighborhood Index	"to measure and monitor the conditions in neighborhoods in a more systematic manner"
Police	Homicide Review Commission	"to gain a better understanding of the nature of homicide through strategic problem analysis; to develop innovative responses to the problem of homicide; and to strategically focus limited enforcement and intervention activities on identifiable risks"
Police	Weekly Crime Analysis	"examines localized crime trends in detail and holds supervisors accountable for addressing specific trends or concerns"
Police	Neighborhood Task Force	"utilizes tangible crime data and analysis to deploy resources in neighborhood hotspots and fully integrate with existing District level policing activities"

Another example of the city’s commendable move toward a performance-based philosophy is the Department of Employee Relations’ new Management Pay plan, which calls for a “linkage between pay and performance” and “reinforce[s] the need for a paradigm shift to a performance management culture across the city.”

DEBT/CAPITAL

Over the last few years, city officials have recognized that the capital budget and accompanying increasing debt are key drivers of the structural deficit in the operating budget. In fact, between 1996 and 2008, the city's property tax-supported debt service as a percentage of its shared revenue and overall property taxes grew from 10.7% to 16%. This year, the proposed budget cites a policy to be implemented in the 2009-2014 period that will attempt to limit new property tax levy-supported debt in a given year to the amount of debt retired that year. That policy goal, however, is not achieved in this budget, and proposed tax levy-supported debt financing is up modestly from 2008.

The effort to limit new property tax-supported debt is justified from a fiscal perspective and again reflects a proactive effort to strategically address a structural problem. The concern is that such a limitation will render the city unable to appropriately address its infrastructure needs, thus leading to more expensive future capital projects with costs that are more difficult to control. This also brings up the possibility that the city could return to capital spending problems of the past, when unrealistic initial cost estimates – combined with poor planning and oversight – led to significant capital project cost overruns. An appropriate solution that is noted in the budget may be a renewed effort to identify and prioritize the city's most pressing infrastructure needs, which may need to be accompanied by decisions to liquidate, abandon, or sell lower priority infrastructure.

CONCLUSION

Structural problems require structural solutions. Eventually, the city will not be able to solve its ongoing budget difficulties by tinkering at the edges of the typical city budget.

In many respects, the 2009 proposed budget reflects the mayor's recognition of this fact. There are several measures worthy of praise, including the strategic planning process and the three-year fiscal stability strategies. It is clear and even acknowledged, however, that this budget seeks most of all to get by for another year, as it does not propose the types of comprehensive measures that ultimately will be necessary to bring the city's expenditure needs in line with its revenue realities, barring an unlikely surge of new revenue from the state or federal government.

The comptroller has suggested one potential comprehensive move to improve the city's financial position: privatization of the city's water utility, with sales proceeds used to establish an "endowment" that could provide a steady and significant source of general purpose revenue for an extended period of time. This is an example of the type of dramatic change that city officials may have to consider in order to maintain priority services, and it is refreshing that both the mayor and council leaders have expressed openness to exploring and debating the idea.

In the end, the 2009 city budget, while not containing comprehensive solutions to the city's severe structural problem, does properly define the problem and suggests some responses that could help to reduce the structural deficit and restore the city's fiscal health. Success will not be possible, however, unless both the mayor and the council dedicate themselves to following through on the mayor's proposed strategies, or on alternatives on which they collectively agree. Squeaking through another budget year is always tempting, but, as Milwaukee County has found, delaying solutions to long-term problems only makes them worse.