

BUDGET BRIEF:
2010 PROPOSED
CITY OF MILWAUKEE BUDGET

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INTRODUCTION

Between a Rock and a Hard Place, the Public Policy Forum's August 2009 report on the City of Milwaukee's fiscal condition, sized up the city's financial struggles as follows:

“City government (is) on the precipice of serious fiscal and programmatic disorder. Despite outstanding bond ratings, a comparatively well-funded pension system and healthy reserves, Milwaukee has exhausted the capacity of its existing revenue streams to support its expenditure needs...this reality is not solely the consequence of economic recession, but one that has been building for more than a decade despite the efforts of city leaders to manage it.”

The mayor's 2010 proposed budget reflects that troubling assessment. It is unprecedented in the financial challenges it confronts, such as the need for a \$49.9 million increase in its pension fund contribution; in the cuts it proposes, such as a \$14.8 million reduction in police department expenditures; and in its revenue initiatives, such as a restructuring of the finances of its water works.

In the few weeks that have passed since the budget was introduced, and in the few weeks that will follow before budget adoption, a great deal of attention has and will be focused on the level of property taxation and fee increases proposed by the mayor, as well as the substantial cuts in positions and services that he argues are an undesirable yet necessary byproduct of the city's fiscal plight. While this focus is both necessary and appropriate, we suggest that another key area of focus should be whether, in attempting to respond to the unprecedented challenges facing the city in 2010, the mayor and his budget team have crafted solutions that not only address the short-term budgetary consequences wrought by recession, but also the longer term structural problems that have been building for years.

In the pages that follow, we highlight the major provisions of the budget document and critically evaluate their impact both upon city services and area residents. We also discuss some new program initiatives, and we consider how the 2010 budget impacts city finances in the long term. Our intent is to contribute to a more objective and informed debate on the City of Milwaukee's 2010 budget.

THE ROOTS OF FISCAL DISTRESS

The recession has hit city government, as well as the citizens of Milwaukee, suddenly and with great force. The greatest impact has been felt in the city's pension fund, where a huge loss in asset value has served as a stress test that has exposed overall weaknesses in the city's financial structure.

This particular fiscal impact not only was severe but unexpected. Heading into 2008, the city had the second most secure public pension fund in the United States, with an asset to liability ratio of 132%. However, a 31% decline in the fund's market value in 2008 lowered assets from \$5.2 billion to \$3.4 billion, creating an actuarially determined unfunded liability of \$713 million.

To address that unfunded liability, actuaries have determined that the pension fund requires a city contribution of \$49.9 million in 2010. An additional payment now projected at \$11 to \$16 million will be required in 2011, though precise amounts both in that year's budget and in future years will be determined by city investment earnings and actuarial factors. This year's pension payment, for example, would have been larger except for action by the city's annuity and pension board in August 2009 that adjusted technical provisions related to amortization of unfunded liabilities and averaging of asset value.

An unexpected pension contribution of \$49 million is an enormous bill for the city to pay. **Table 1** offers some basis for comparison by showing the total budgets of major city departments. It is also worth noting that from 2004 to 2008, operating revenues from all funding sources, including the property tax and state shared revenue, rose by a total of \$60 million, or about \$15 million annually. This average annual revenue increase is less than one-third of the \$49 million needed in 2010 for the pension fund payment alone.

Table 1: 2010 Pension Fund Contribution Compared with Major Departmental Expenditures

Department	2010 Proposed Budget	Pension Contribution as % of Departmental Budget
<i>Pension Fund Contribution</i>	<i>\$49,904,730</i>	<i>n/a</i>
Police Department	\$215,731,900	23%
Public Works	\$108,314,300	46%
Fire Department	\$98,819,700	51%
Library	\$19,862,200	251%
Neighborhood Services	\$13,826,200	361%
Health	\$12,228,300	408%
Administration	\$7,902,000	632%

The recession has influenced the city budget in other less dramatic ways. The decline in economic activity has lowered license and permit revenue, which equaled \$13.7 million in 2007 and is budgeted at \$12.7 million in 2010 despite increases in some individual license and fee charges. Building permit revenues are down to \$2.2 million from \$2.8 million in 2007, while electrical and plumbing permit revenues have seen similar decreases. The fall in interest rates also has caused a sharp drop in city investment income, which generated \$8.7 million in 2008 and \$3.6 million in 2009, but which is budgeted at \$1.5 million for 2010. Finally, recession-induced losses of tax revenue at the state level contributed to an exceedingly difficult state budget that ended up reducing the city's state shared revenue allotment by \$2.6 million in 2010.

These revenue losses, of course, do not produce any corresponding decline in city expenses or program services. In fact, to the contrary, the rise in unemployment and fall in personal income that characterizes any recession creates social needs and heightens demand for services of various kinds.

Complicating and compounding the fiscal difficulties created by recessionary pressures is the fact that the economic downturn occurs at a time when the city's own finances have been

seriously weakened and diminished. Even without the recession, Milwaukee's finances would be in serious trouble, as the *Between a Rock and a Hard Place* report has revealed. Health care costs, infrastructure needs (especially for local streets) and wage increases have driven expenditures and increased pressure on the city budget. While the city has managed to keep overall expenditure increases below the level of inflation in recent years, revenues have not kept pace. The fact that state shared revenue payments, which constitute more than 40% of the city's operating budget, have not increased in 14 years lies at the heart of the problem.

To balance its budget in recent years, the city has increased fee revenue, such as for garbage pick up and sewer maintenance, and has drawn upon the resources of its enterprise funds (especially parking operations) and its healthy reserves. Also, it has required most departments to get by with less than inflationary increases or to make budget and position cuts, for the most part sparing only the police department and public works.

Despite being forced to utilize strategies to stave off fiscal crisis that are less than ideal, the city continues to maintain strong credit ratings and its cash position remains within professional standards. Still, the greater use of fund reserves, decline in the general fund's closing balance, and decline in cash liquidity are signs that, despite strong efforts, the city's finances are weakening as precarious measures are being taken to keep the budget in the black.

PRODUCING A BALANCED BUDGET

The combination of the increased pension fund requirement, reductions in key revenue sources, projected increases in employee wages and health care benefits, and normal costs to continue produced a staggering budget gap of \$90 million for the mayor and his budget team heading into the 2010 budget season. Their response was a proposed budget that employs a combination of expenditure cuts, revenue increases and continued use of reserve funds.

As explained below, while this budget continues to make reductions in departments that already have experienced large cuts in recent years – such as public health and the library – 2010 is the year the protection previously afforded public safety is eliminated, with proposed expenditure reductions of \$14.8 million for the police department and \$5.2 million for the fire department.

Budget-balancing efforts also benefited significantly from an agreement with AFSCME District Council 48, the city's largest labor union, which held retroactive wage increases for 2007-09 below forecasted levels, and which freezes wages for 2010-11. The budget assumes that wage costs for all city employees will remain at the 2009 level consistent with that agreement, though that provision still needs to be negotiated with other unions, including the police and fire unions, which comprise about 40% of the city's workforce.

On the revenue side, the mayor proposes a 4.4% increase in property tax revenues to generate an additional \$10.4 million. The city also will increase charges for services by \$8.5 million, including garbage, sewer, and storm water fees. Transfers to the general fund from enterprise operations also will rise and pension reserves will be tapped. A major proposal for changes in the financial structure of the water works will generate \$3 million in new transfer payments.

The following provides additional details on key budget-balancing strategies used in the mayor's 2010 proposed budget.

Expenditure Cuts: Programs

- ***Non-public safety programs*** – Thirteen of the city's 16 non-public safety budget units have 2010 budgeted expenditures below the level of 2009, while half have expenditures below the level of 2007. Departments showing the greatest reduction from 2009 to 2010 include the Mayor's office (14%), Administration (11%) and the Department of City Development (11%). Budgetary impacts for a few, select departments are explained below:
 - ***Library*** – A reduction of \$1.9 million, or 9%, is proposed. To generate the required savings, the library would restrict branch hours to seven hours a day for five days a week. The city also would reduce the hours of the central library's arts and humanities area and cut the books and materials budget by \$194,000. Reductions in the past five years had already reduced books and material purchases by 30%.
 - ***Health*** – A reduction of \$1.4 million, or 10%, is proposed. The budget plan asserts that, despite this cut, all clinic services will be maintained and savings will be achieved through an administrative reorganization that will eliminate positions such as an office assistant, administrator, compliance officer, and analyst. Additional stress on administrative operations can be anticipated.
 - ***Public Works*** – A reduction of \$5.4 million, or 7%, is proposed. To achieve cost savings, the budget proposes an ordinance change to discontinue the collection of refuse left outside garbage cans. Residents will be asked to take large items to the city's self-help center or put them out for the "clean and green" program, which will now offer a second annual pick up. Also, to ensure weekly garbage collection, the department will add three Saturday pick-ups on summer weekends following holidays. Other changes include service reductions in the urban forestry program, position reductions in fleet and vehicle maintenance, and a new fee for leaving construction debris at self-help centers.
- ***Fire Department*** – A reduction of \$5.2 million, or 5%, is proposed. Major changes include a reduction in the staffing of the eight remaining ladder companies that still utilize five firefighters down to four firefighters each, to generate savings of \$1.9 million and 24 positions; reduction from 52 to 50 fire companies, with the cut to come at firehouses with multiple rigs (thereby not closing any firehouses), generating savings of \$1.9 million and 24 positions; and a reduction of \$990,000 in special duty pay. The latter reduction will curtail department overtime and reduce by less than five percent the number of rigs in daily service. Taken together, the budget states that these position reductions should not have a significant effect on fire response times, which will remain below five minutes. Given the nature of fire department operations and organization, furloughs will not be imposed on most fire personnel.

- **Police Department** – A net reduction of \$14.8 million, or 6%, is proposed. Among the savings are a reduction in overtime funding and the imposition of four furlough days for all department civilian staff and police officers. Outside grant funding offsets some cuts in levy-supported programming. Notable is a grant from the U.S. Department of Justice that will provide \$3 million annually for three years, beginning in mid-2010, to fund the salaries of 50 police officers.

The department will save about \$2 million from the furlough policy and an additional \$2.2 million from a reduction in employee overtime. Another \$6 million in savings will accrue from a “personnel cost adjustment” that will leave specific budgetary reductions to ongoing police management decisions. According to the budget, the department will continue to apply recent management strategies in order to achieve the required cost savings, including redistricting, greater use of civilian staff, differentiating among incoming calls before determining the type of police response, and more effective use of computers in squad cars. As in other areas of the budget, most personnel reductions will apply to positions that are currently unfilled. The number of sworn officers is estimated to decline by about 3%, from 1,943 in 2009 to 1,880 in 2010, and this staff reduction will result in fewer officers available for patrol.

Expenditure Cuts: Wages and Benefits

- **Agreement with AFSCME District Council 48** – On September 21, 2009, the city signed an agreement with AFSCME District Council 48 on wages and benefits covering 2007 to 2011. The budget assumes the provisions of the agreement will be the basis of wage and benefit settlements with other city unions. In regard to wages, the agreement establishes cost of living increases of 2% for 2007 and 1% or less for 2008 and 2009, a settlement that is less costly than expected and that will generate savings of \$3.1 million. For 2010 and 2011, the agreement specifies there will be no pay increases or step increases, measures that should generate savings of \$2.5 million annually. AFSCME members and other city workers, including those employed in enterprise operations (with the exception of fire personnel), also will have four furlough days in 2010. As part of the agreement, no layoffs will be imposed.

The agreement with AFSCME also includes early retirement incentives that are expected to generate substantial savings in wages and unemployment compensation costs, beginning primarily in 2011.

Members of AFSCME District Council 48 also agreed to increases in HMO health care premiums, bringing them to the payment level of the police and fire union. Members also will be eligible for a planned Employee Wellness Program. Total savings from these health care provisions amount to \$750,000.

- **Health Care Benefits** – Health care has been one of the major cost drivers for the city, as it has for other governments and private businesses in southeast Wisconsin. During the past decade, the city’s health care expenditures have risen by 88%. In 2010, the contractual costs

for an individual city employee will increase by an estimated 20%, from \$13,580 in 2009 to \$15,453. However, the city will implement cost-saving measures to hold the total growth in health care costs to 4% - from \$112 million in 2009 to \$117 million in 2010.

In addition, the city will conduct a feasibility study to determine the costs and benefits of establishing an Employer Sponsored Health Care Clinic as an employee option for primary care. In recent years, a number of corporate and non-profit entities have established such clinics as a way to reduce health care expenditures and enhance employee wellness.

Expenditure Cuts: Positions

Through planned and regular attrition, the city intends to eliminate 382 FTE positions funded through its general operating budget. This constitutes a 6% decrease, from 6,165 in 2009 to 5,784 in 2010. When other grant-funded positions and auxiliary positions outside of the operating budget are considered, the decline in total positions is 4%, from 8,333 in 2009 to 8,022 in 2010. This position total would be about 1,000 less than the number at the beginning of the decade.

The preponderance of position cuts will occur in public safety. Elimination of 178 police and 63 fire positions from the operating budget constitutes 63% of the 382 positions eliminated. This action is a reversal of recent trends that saw an increase in police positions from 2004 to 2009, even though the city cut positions in many other departments (including the fire department) during this time.

It is important to note that the vast majority of position reductions proposed for 2010 are vacant positions. Some of these positions have been vacant for a number of years, while others only recently have been vacated and were deliberately not filled because of the anticipated need for budgetary reductions in 2010. Under the agreement with AFSCME District Council 48, no layoffs of members of that union will occur in 2010, nor are any police or firefighter layoffs included in the budget. There will be a small number of layoffs at the non-public safety management level, however.

Revenue Increases

- **Property Tax** – The proposed budget increases city property taxes by \$10.4 million (4.4%), from \$237 million in 2009 to \$247.4 million in 2010. Because of a drop in real estate valuation, the property tax *rate* would increase more significantly, from \$8.09 to \$8.90 per \$1,000 of assessed valuation. This counters a trend of declining tax rates during the past decade, as the tax rate stood at \$10.87 per \$1,000 of assessed valuation in 2001. A home valued at \$125,000 that experienced no re-assessment would see the city portion of its property tax bill under the proposed budget increase from approximately \$1,011 in 2009 to \$1,113 in 2010.
- **Fees and Charges** – Revenue from charges for services would rise by \$8.5 million (9.6%), from \$87.2 million in 2009 to \$95.6 million in 2010. Growth in this revenue source

continues a trend that began more than a decade ago, at about the same time the city's state shared revenue allocation was frozen. In response, the city has turned increasingly to charging higher fees to support certain operations for which service charges are allowable. That strategy is almost exhausted, however, as state statute limits such fees to no more than the actual cost of providing the service. Major fees for solid waste, sewers, snow and ice and storm water service now are at about 100% of cost. Consequently, charges for services should show much smaller increases in future years, rising only at about the amount that city costs are rising.

Table 2 compares the revenue raised by major city fee sources in 2009 and 2010 and the impact of each fee source on the median-valued home in each year. It should be noted that the city links the increase in the solid waste fee in part to an increase in the landfill tipping fee contained in the 2009-11 state budget, which costs the city approximately \$2 million.

Table 2: Major Fee Charges, 2009 and Proposed 2010

<i>Fee</i>	2009		2010	
	<i>City Revenue</i>	<i>Median-valued Home Fee Charge</i>	<i>City Revenue</i>	<i>Median-valued Home Fee Charge</i>
Solid Waste	\$28,500,000	\$150	\$32,250,000	\$170
Sewer	\$26,617,000	\$86	\$28,591,500	\$95
Storm Water	\$18,720,300	\$47	\$19,191,000	\$56
Snow and Ice	\$4,965,200	\$35	\$6,500,000	\$30

Use of Enterprise Fund Transfers and Reserve Funds

- **Enterprise Funds** – The city operates three “enterprises” – parking, sewer maintenance, and water works – whose finances are separately budgeted. While these programs are operated like a business, they also reimburse the city for various services and transfer substantial monies each year to the general fund. In the 2010 proposed budget, transfers from the parking fund increase by \$3.4 million, from \$18.1 million in 2009 to \$21.5 million in 2010. The proposed budget also increases sewer maintenance reimbursement for city leaf collection and street sweeping expenses from \$10.1 million in 2009 to \$12.2 million in 2010. Also, as explained below, the budget proposes a new initiative to maximize revenue generation from the water works department. Among other things, that initiative produces a transfer of \$3 million to the general fund and increases the water works’ payments in lieu of taxes from \$8 million in 2009 to \$9.3 million in 2010.
- **Pension Reserve Funds** – The budget includes the use of \$6.8 million in pension reserve funds in order to keep levy-supported pension funding at \$49 million. While the extraordinary increase in the city’s pension fund contribution required in 2010 provides more than adequate justification for utilizing the reserve, use of reserves in both 2009 and 2010 will affect the city’s ability to draw from this resource in the future. It is anticipated that reserves are sufficient for one additional withdrawal of about \$7 million.

SIGNIFICANT NEW INITIATIVES IN THE 2010 PROPOSED BUDGET

In addition to the budget cuts and revenue increases described above, the mayor's proposed budget also includes a handful of new initiatives. These include:

Water Works Financial Initiative

As noted above, the proposed budget includes a major change in the financing of the city's water works. The proposal would increase the water utility's rate of return primarily to finance internal capital improvements and also to generate sufficient revenues to transfer \$3 million annually to the city's general fund. Residential water rates would rise by 28% in 2010 to produce the additional revenue. In 2011 and thereafter, rates would increase by about 3.5% per year.

The proposal follows recent initiatives by a number of cities to capitalize upon the income potential of enterprise facilities and related program operations. Chicago, for example, has realized more than \$3 billion in total revenue from three long-term leases with private corporations for the city's Skyway, downtown underground parking garages, and 36,000 parking spaces. Buffalo, Indianapolis, and Atlanta have signed leases with private corporations for the operation of their city water works.

In 2008, the Milwaukee comptroller proposed studying the feasibility of a long-term lease for the city's water works. Some estimate that such a lease might yield the city as much as \$500 million which, if deposited in an endowment, could produce earnings that might yield \$30 million annually to fund other city costs. The comptroller's idea proved controversial, however, in light of concerns about local governance and control, future water rate increases, and water quality, and policymakers blocked its advance beyond the conceptual stage.

By generating \$3 million a year for the city's general operating fund, the mayor's proposal generates financial benefit to the city from the water works resource – albeit potentially to a much lesser extent than a private lease arrangement – while retaining city control over water management, quality, and rates. The city's 28% rate increase will require the approval of the Public Service Commission, though city budget officials are optimistic since the Commission's guidelines permit a rate of return substantially higher (7.5%) than the proposed rate.

Residential Rental Inspection Program

This proposal is intended to improve the quality of the city's rental housing stock by reducing fire and other hazards and bringing rental property owners into greater compliance with building code requirements. The program will be implemented on a pilot basis in two neighborhoods. Program revenues will fund operating costs, including six building code enforcement inspectors. As proposed, each rental unit must obtain a rental certificate and be subject to inspection. Units without serious violations will receive a four-year certificate, while units that abate violations will receive a one-year certificate. Units can have their certificates revoked. The cost of certificates will be \$85, though this new revenue source requires common council approval.

Unified Call Center

This proposal is intended to centralize city communications and achieve cost efficiencies by creating a single phone number for residents to call for non-emergency city services. Currently, this communications function is spread throughout city departments. The centralization of services is expected to produce more than \$100,000 in savings the first year (in a budget of \$540,000), while also improving quality of service and reducing resident wait times. Many major cities throughout the United States have developed unified call centers, and the city's proposal is intended to model those programs. When fully developed in three years, it is anticipated that center employees will handle directly about 70% of incoming calls without having to refer residents to other city departments.

Local Streets

While not a new initiative, the proposed budget includes an additional \$1.4 million for local street resurfacing and reconstruction, increasing from \$8.3 million in 2009 to \$9.7 million in 2010. The funding increase will reduce the average time needed to replace or repave each street from 70 years in 2008 to 61 years in 2010. While the inclusion of additional support for local streets in a difficult budget represents a clear prioritization of this issue, the increase is not sufficient to correct nearly two decades of underfunding, and it will fail to ameliorate in the near term the 21% of city streets found to be in poor condition by a 2008 independent audit.

A PRECARIOUS BALANCING ACT

The narrative above demonstrates that the mayor and his budget team have utilized a broad mix of strategies to respond to the city's unprecedented budget challenges in 2010. Indeed, most budgets are balancing acts, in which officials attempt to weigh costs and benefits to optimize program and fiscal capacities. The difficulty of budgeting is that the process inherently is subjective and reflective of priorities and values. Some, for example, will stress the importance of maintaining city services, while others will stress holding the line on taxes and fees.

Between a Rock and a Hard Place showed that in recent years, the city's balancing act has grown extremely precarious. Expenditure needs have risen at a rate greater than inflation, while state revenue, the largest funding source, has been flat. To bring revenues and expenditures into line has required property tax and fee increases, but those have not been sufficient to prevent budget reductions in several city functions.

In the mayor's proposed 2010 budget, this trend continues but at a more pronounced rate. The fiscal challenges facing the city have grown and, therefore, the potential options are less attractive and the programmatic consequences more serious than they have been in the past.

It should come as no surprise, then, that the cuts in this budget involve all city departments and go deeper than any time in recent years. Public safety departments that previously enjoyed priority funding have had their budgets reduced (police by 6% and fire by 5%). Less fortunate, non-public safety departments have seen significant budget reductions, with a number of key city

departments experiencing cuts of about 10%. Even the city's relatively small contribution to the Arts Board would be slashed, from \$160,000 in 2009 to \$50,000 in 2010.

Despite the largely successful effort to employ a mix of strategies to balance the budget and minimize the impact of service reductions, it must be recognized that the proposed budget makes major changes in the city's level of expenditures that are likely to be noticed by citizens. Whereas operating expenditures increased by slightly less than the rate of inflation in recent years, appropriations for general city purposes would decline by 5.4% in 2010. It is also worth noting that this reduction occurs even though proposed revenues grow substantially, with property taxes increasing 4.4% and charges for service revenue by more than 10%, and at a time when city government faces few inflationary pressures.

These factors indicate the precariousness of the city's balancing act in 2010 and forecast the difficulty of achieving the same balance in 2011. The impending choice of "police or potholes", about which we warned in *Between a Rock and a Hard Place*, appears to have been narrowly averted for now, but doing so in 2011 and beyond will perhaps be even more challenging.

LONG-TERM IMPLICATIONS

Previous research by the Forum found that most other cities were responding to recession-induced financial difficulties by adopting one of two general types of fiscal strategies. Those who were optimistic that their fiscal challenges would improve once the economy recovered tended to implement temporary measures – such as employee furloughs and temporary wage freezes – in an attempt to outlast the downturn without permanently reducing the scope of government programs and services. Others, in contrast, sought to make budgetary adjustments that were of a lasting nature – such as permanent program and staff reductions – in an effort to address long-term fiscal imbalances that had been exacerbated by the recession, but that would remain even after the presumed recovery.

Both strategies are in evidence in the proposed 2010 budget. On the one hand, the budget proposes permanent changes to the size of the city's work force, reflects important provisions in the AFSCME contract that shift a greater share of pension and health care costs to employees, reduces and restructures some city services, and imposes tax and fee increases. On the other, it makes modifications that are unlikely to be sustainable in the long-term, such as drawing down reserves and establishing employee furloughs.

The mayor's proposed budget acknowledges that the proposed actions, in the end, do not solve all of the city's financial problems, but rather constitute a "first step" in that direction. The budget notes, for example, that health and pension benefits will continue to be the source of severe expenditure pressure, with retiree health care costs projected to "consume more than one-third of the projected increase in the tax levy by 2016."

In addition, the revenue growth experienced in recent years will be difficult to maintain. Charges for services likely only will be able to rise at about the level of inflation, as opposed to the 10% increase budgeted for 2009. In a year or two, transfers from the parking fund will not

be able to maintain past levels and are expected to drop by about \$2 million a year. Finally, pension fund reserves are close to being depleted, and the Tax Stabilization Fund cannot support the \$29 million withdrawal transfer level reached at its high point in 2008 (the TSF withdrawal is budgeted at \$13 million in 2010, down from \$22 million in 2009).

In order to meet future challenges, the mayor's budget calls for revenue restructuring, as well as other program and fiscal changes. It says "the city will continue to pursue initiatives to diversify its revenues in order to deliver services while reducing its reliance on the property tax. These initiatives will include authority for a local option sales tax; application of telephone surcharge to help pay for the cost of first responders; and a 'carve out' of the existing state gasoline tax designed to recognize the impacts that density and a regional economic role have on the city's surface transportation network." The budget also calls for a "series of transformations in city services and finances" in order to achieve "a realistic sustainability framework." This new paradigm likely will require further fundamental changes such as "fringe benefit modifications, ongoing wage freezes, and additional service delivery innovations."

Whether the general approach suggested by the mayor is achievable remains to be seen. On the revenue side, in particular, the measures for which he is calling require state legislative approval, and the mayor has been rebuffed on these or similar proposals in the past.

While it is critical for city leaders to gear up to forcefully present their case in Madison, it is equally critical that they not hedge their bets exclusively on additional revenue authority from the state, particularly in an election year. Instead, it would appear imperative that soon after budget adoption, the mayor and common council jointly agree on a set of long-term and realistic fiscal strategies, and immediately get to work to secure their implementation.

CONCLUSION

It is not surprising, and perhaps unavoidable, that the mayor's proposed budget reacts to recession-imposed stress by cutting the budget of even its highest priority function (public safety) and raising taxes and fees at a time of financial difficulty for its citizenry. Simply put, it is now next to impossible to hold public safety harmless given its significant share of the city's operating budget, unless policymakers and citizens are comfortable with increasing taxes and fees even more, or reconsidering controversial ideas like leasing the water works or other assets to private entities.

The mayor and his budget team argue that given the efficiencies achieved in the police department through recent management changes, a cut of 6% can be imposed without much hardship. Whether that is the case for both police *and* fire, and whether the mayor's proposed increases in taxes and fees are appropriate, stand out as the prominent issues in the 2010 proposed budget. The two are intimately linked, as the mayor's tax and fee proposals reflect the revenue enhancements he deemed necessary to avert an even larger cut in public safety and a fundamental contraction in non-public safety services. While debate will ensue on whether the proper balance has been struck, it appears self-evident that when a budget hole reaches a certain threshold, a balanced approach must be contemplated.

In the end, the budget pain proposed for 2010 will be easier to tolerate if, as a result of actions taken, the city's financial prospects improve markedly in the future. Unfortunately, that is unlikely to be the case. On the positive side, the city has undergone an exceptional loss of equity value in its pension system, and a one-year jump of the magnitude faced in 2010 is unlikely to repeat itself in the near future, if ever. Also, the city has made some adjustments that improve its long-term fiscal prospects, including important wage and benefit concessions and a potential new revenue stream from the water works.

But on the negative side, despite such improvements, revenues and expenditures remain structurally out of balance. Compounding the problem, the recessionary stress placed upon the city's finances accelerates the deterioration by requiring further depletion of reserves, and the post-recessionary revenue "bounce" likely to be enjoyed by other jurisdictions from increased sales and income tax collections will not accrue to Milwaukee.

Consequently, without bold action, the near-term future promises much of what we see for 2010: budgets in which every part of city operations will feel the consequence of financial stress, and in which service and program reductions will become increasingly impactful for city residents.

As was emphasized in *Between a Rock and a Hard Place*, the city's fiscal predicament in many respects is not of its own making, and many potential solutions lie outside its direct span of control. Nonetheless, city leaders do have control over their ability to work together on a long-range fiscal strategy well in advance of 2011 budget deliberations, and to put in place the lobbying and public education strategies that likely will be needed to achieve it.