

# Wisconsin Policy Forum: Deepening pre-pandemic issues pose greatest challenge for City of Milwaukee budget

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A global pandemic has collided with longstanding and worsening fiscal problems to create a sobering slew of challenges for the city of Milwaukee in its 2021 budget, according to the annual city budget brief from the nonpartisan, independent Wisconsin Policy Forum.

While the effect of the pandemic is significant, the city's underlying, structural budget woes are the primary cause of the difficult decisions it now must confront – as illustrated by its proposal, as part of the 2021 budget, to eliminate 120 sworn police officer positions. We also find the city, to a greater extent than in recent budgets, seeks to avoid even deeper service cuts with revenue increases from new or increased fees that would affect most Milwaukee residents and businesses – even as they grapple with the economic effects of the COVID-19 recession.

The impact of the pandemic has hit several small revenue streams and placed considerable demands on the city's health department and other agencies. But the use of federal coronavirus relief dollars has eased that burden for now. Further, heavy municipal reliance on state aids and property taxes – while problematic in normal times – is beneficial given the relative stability of those revenue sources. Even in these difficult economic times, the 2021 proposed budget shows flat funding for shared revenues and a 2.8% increase in property taxes.

Yet systemic pre-pandemic budget problems remain, including a growing capital

debt burden, dwindling reserves, escalating fringe benefit obligations (especially for police and fire), as well as a revenue structure that fails to grow with inflation and is ill-suited to meet the city's expenditure pressures.

#### Reduction in police sworn strength

In the 2021 proposed budget, Milwaukee Police Department (MPD) bears the brunt of budget cutting with a proposed reduction of 120 sworn officer positions. This would decrease the roster from 1,802 to 1,682 positions, a cut of 6.7%. The good news is that as in recent years, the cuts would be accomplished without layoffs through vacancies and attrition.

Despite the reduction, the budget shows only a \$434,000 decrease in MPD operating expenditures in 2021, due to the growth in the per capita fringe benefit rate for each of its positions. The \$8.5 million in salary savings is almost fully offset by a \$7.8 million increase in fringe benefit spending for MPD's remaining positions. Even after the proposed cuts, police spending still would comprise almost half (46%) of total general city purpose spending.

#### Reserves depleted in a time of need

The city's general fund balance has plummeted in recent years, and lower parking revenues due to COVID-19 has reduced support from the Transportation Fund. In addition, Tax Stabilization Fund (TSF) withdrawals are down more than two-thirds from 2014-2018 levels, as the city's ability to replenish the fund has diminished since 2016.

The recent discovery of a required, upcoming balloon payment has left the city's debt service reserve with a much lower balance than originally projected, eliminating the city's ability to use reserve monies in the 2021 budget. The unfortunate consequence is the budgeted \$9.9 million boost in property tax levy used for debt service, a leading contributor to the 2021 budget difficulties.

These diminished reserves pose huge problems for the city at a time when its state-imposed revenue woes remain unresolved and its expenditure needs are intensifying during a recession.

#### Increased taxes and fees avert deeper service cuts

Instead of opting for deeper cuts in services, the mayor proposes a substantial

increase in broad-based fees. Increases to the three largest general service charges – for storm water management, snow and ice removal, and solid waste – plus a new street lighting fee and a \$10 increase in the vehicle registration fee (VRF) would add a combined total of nearly \$17 million in fee revenue to the 2021 budget. That amount far eclipses the increased revenues from these sources in the previous four budgets.

The city property tax levy would grow by \$8.2 million, or 2.8%, which exceeds the inflation rate of 1.3% for the twelve months ended in August, but is below last year's 3.6%. The budget states that the impact to the typical residential property owner in the average-valued home is \$25.10 for the property tax increase and \$64.48 for municipal service fees (not including the VRF) for a combined total of about \$90.

### Looking Ahead

Given these challenges, the 2021 budget does not increase city deposits to the pension reserve fund, as proposed last year to cushion the blow of contributions projected to soar from \$70 million in 2019 to \$149 million by 2023. As a result, the challenge looming in 2023 appears even more insurmountable than it did at this time last year.

Add to these difficulties possible state aid reductions as the governor and lawmakers deal with the state's own escalating COVID-19 financial challenges in future state budgets.

As the report concludes, "The city's financial condition is deteriorating and it lacks the wherewithal to withstand the larger challenges that lie ahead without severe impacts to city services and citizens. Either preparations should begin now for that eventuality, or serious deliberations should commence on alternatives."

[Go here to read the 2020 Milwaukee City budget brief.](#)