

For more information:

For immediate release

Rob Henken
President
Public Policy Forum
414-276-8240
rhenken@publicpolicyforum.org

Major policy changes required to fix Milwaukee's financial problems

Report says city soon may be deciding between police or potholes

MILWAUKEE, Wisconsin – *Tuesday, September 1, 2009* – In its comprehensive assessment of the city of Milwaukee's fiscal condition, the Public Policy Forum has found "a city government on the precipice of serious fiscal and programmatic disorder."

The 60-page report examines fiscal trends, compares Milwaukee with similar-sized cities, analyzes the causes of problems, and discusses potential solutions. It concludes that despite excellent bond ratings, a well-funded pension system, and healthy reserves, Milwaukee has exhausted the capacity of existing revenue sources to support its expenditure needs.

"Unfortunately, the city's predicament cannot be blamed solely on the economic downturn," says Forum President Rob Henken. "The situation has been building for more than a decade despite the efforts of city leaders to manage it. Our report should be a wake-up call to both local and state policymakers that major change is needed."

Key findings from the Forum report include:

- Milwaukee has fewer revenue sources under its direct control and tied to inflation than other cities its size. Its largest revenue source, state aid, has not increased in 12 years. Also, unlike other cities, Milwaukee depends upon property taxes as its exclusive source of local tax revenue to fund its operating expenditures.
- Milwaukee has made increasing use of transfers from the Tax Stabilization Fund and enterprise funds, as well as higher user fees and charges, to address its revenue challenges. This approach is unsustainable, as reserves cannot be tapped in perpetuity, and revenue from service charges cannot grow much higher because of statutory limitations.
- Milwaukee has seen sharp increases in fringe benefits costs, particularly for employee and retiree health care. Health care costs grew \$26 million from 2004 to 2008, accounting for 38% of the city's \$68 million total expenditure growth, and even greater growth is projected for the future. While pension costs have remained stable during the same period, a decline in pension fund assets will require an additional \$37 million in property tax levy in 2010, followed by projected annual increases of \$29 million in 2011 and \$20 million in 2012. These factors demand consideration of significant change in fringe benefits structure.
- Milwaukee's police and public works expenditures have grown at a rate greater than inflation, a trend that likely can't continue. Since public safety constitutes more than one-half of all city operating costs, it will be exceedingly difficult to shield it from future cuts.
- Debt service payments funded by the property tax increased \$20 million (37%) from 2004 to 2008. Because capital assets, e.g., local streets, will require substantial investment and an increase in debt, the city's operating budget will come under even greater pressure.

“Even if the city can hold overall expenditures at the level of inflation, revenues are not likely to rise by that amount,” says Henken. “The city is now where Milwaukee County was six or seven years ago – on the threshold of major fiscal imbalance. Whatever actions are decided upon must be of the size and scope needed to truly address the city's fiscal challenges. Otherwise, the city faces several successive years of deciding between police or potholes.”

The Forum used the same fiscal monitoring system for this report that it used for its assessment of Milwaukee County government earlier this year. The full report can be accessed at the Forum's web site, www.publicpolicyforum.org.

Milwaukee-based Public Policy Forum, established in 1913 as a local government watchdog, is a nonpartisan, nonprofit organization dedicated to enhancing the effectiveness of government and the development of southeastern Wisconsin through objective research of public policy issues.

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