ABOUT THE WISCONSIN POLICY FORUM

The Wisconsin Policy Forum was created on January 1, 2018, by the merger of the Milwaukee-based Public Policy Forum and the Madison-based Wisconsin Taxpayers Alliance. Throughout their lengthy histories, both organizations engaged in nonpartisan, independent research and civic education on fiscal and policy issues affecting state and local governments and school districts in Wisconsin. WPF is committed to those same activities and that spirit of nonpartisanship.

PREFACE AND ACKNOWLEDGMENTS

This report is intended to provide citizens and policymakers with an independent, comprehensive, and objective analysis of the Mayor's proposed City of Milwaukee budget. We hope that policymakers and community leaders will use the report's findings to inform discussions during upcoming budget deliberations.

Report authors would like to thank Milwaukee fiscal officials and staff – including the Budget Director and his staff – for their assistance in providing information on the City's finances.

Finally, we wish to thank the Northwestern Mutual Foundation for generously supporting our local government finance research.

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BUDGET BRIEF:

2019 Proposed City of Milwaukee Budget

October 2018

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INTRODUCTION

It is not unusual for the City of Milwaukee's pension fund contribution to be a leading story line in the Mayor's proposed budget. In fact, the 2018 budget was the most difficult in years because of a $22 million spike in the employer contribution, and huge increases in 2010 and 2013 caused similar upheaval.

For 2019, the employer pension contribution again is a central theme of the proposed budget. In an unusual twist, however, this year it is the primary "good news" theme. A re-estimate by the pension fund actuary allows the contribution to shrink by $13 million heading into 2019, freeing up resources to offset inflationary spending pressures. As a result, while the 2018 budget was marred by controversy over its many proposed cuts, the 2019 version holds the line on core services and is likely to be one of the least contentious in years.

That does not mean the city's typical budgetary challenges vanished in 2019. For example, salary and health care costs will grow by a combined $11 million next year, while one of the city's foremost revenue sources – state shared revenue – remains flat. However, the combination of the reduced pension payment and increases in property taxes and major fees (2.4% and 3% respectively) allow the proposed budget to largely spare departments from notable cuts, while also leaving room for a small increase in the number of sworn police officers.

Unfortunately, the budgetary benefit derived from the pension overpayment will be exhausted in 2020. That is particularly disconcerting given that several concerning fiscal trends will continue in 2019 and are likely to intensify in the years that follow. For example, in addition to seeing its shared revenue payment remain stagnant, the city continues to see its capacity for Tax Stabilization Fund withdrawals diminish and its debt service payments grow. In addition, public safety expenditure growth continues to crowd out other general fund needs, and the divergence between capital project requests and financing capacity continues to expand.

Consequently, while city policymakers should be encouraged by this year's relative budget tranquility, they also must recognize that the collection of factors that have coalesced in recent years to exert severe pressure on city finances remain as intense as ever. Amplifying that point, the budget warns that continued structural challenges could necessitate future annual property tax increases in the 4-5% range just to *maintain* existing service levels.

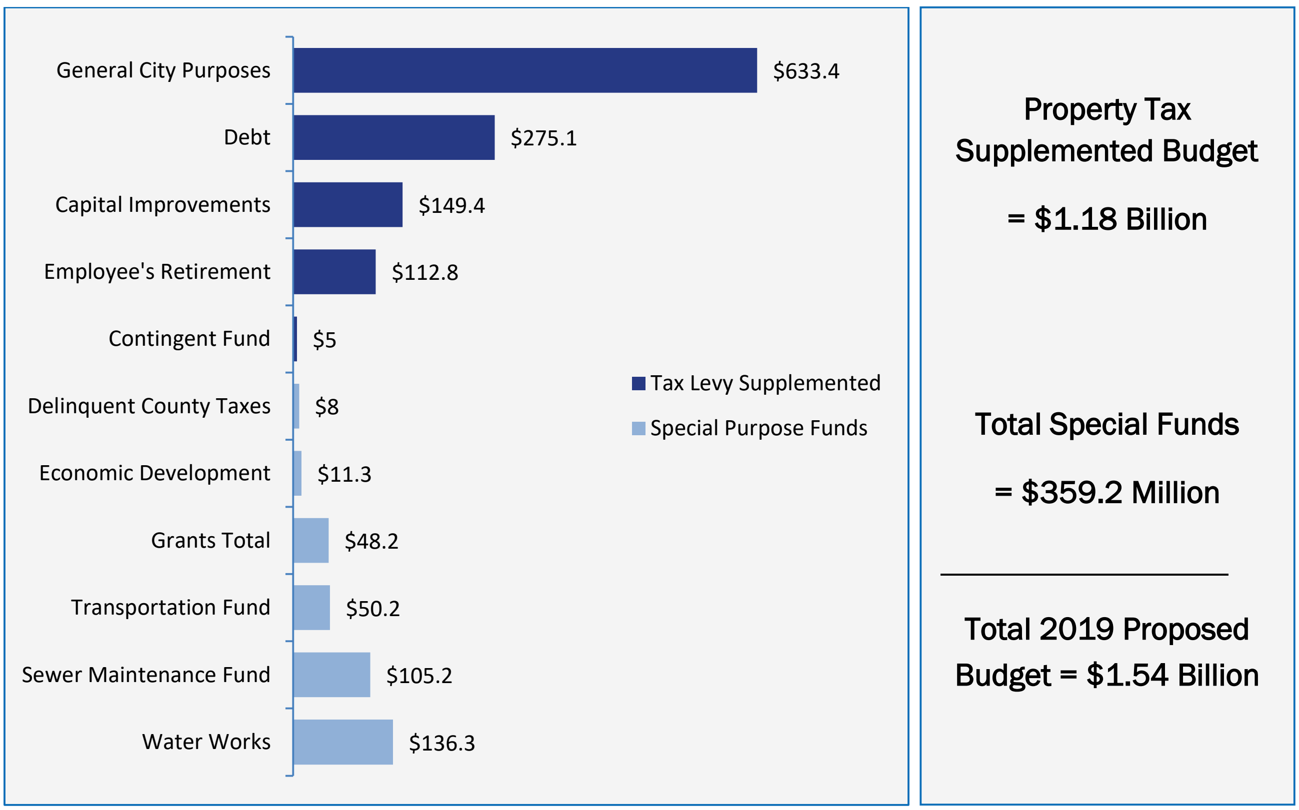
Recognizing that reality, the proposed budget commendably seeks to re-build the pension reserve for use in years when fiscal pressures worsen, and it refrains from launching major new spending initiatives using local dollars. In fact, the single prominent new initiative in the proposed budget – an effort to expand lead abatement efforts – involves mostly federal grant monies and may not be sustainable should those grant dollars disappear.

In the pages that follow, we provide additional detail on these important elements of the 2019 proposed budget, as well as other factors that will influence the city's immediate and longer-term fiscal fortunes. Our intent is to promote more informed discussion and debate as 2019 budget deliberations continue.

2019 PROPOSED BUDGET OVERVIEW

The City of Milwaukee's 2019 proposed budget totals a little over $1.5 billion, which is slightly ($1 million) higher than the 2018 adopted budget. The "property tax supplemented" portion of the budget refers to those components that receive at least partial support from the city's property tax levy and that generally are controlled by the Mayor and the Common Council. As shown in **Figure 1**, that portion totals about $1.2 billion. The city also has several special purpose funds (totaling $359 million) that have their own dedicated fees or other revenues to support specific functions, such as sewer, water, and transportation.

Figure 1: Summary of 2019 proposed budget (in millions)



Source: City of Milwaukee budget documents[1]

In this brief, we focus most of our attention on the portions of the budget controlled by the Mayor and Common Council, with particular emphasis placed on the general city purposes budget (commonly known as the "general fund"). That portion of the budget totals a little over $633 million in the 2019 proposed budget.

[1] Unless otherwise noted, the source for all figures, tables, and charts in this report is City of Milwaukee budget documents.

GENERAL FUND SPENDING

The city's general fund expenditures support most of the core functions of city government, including police, fire, public works, libraries, neighborhood services, and public health, as shown in **Figure 2**. The $633.4 million allocated to general city purposes in the 2019 proposed budget is an increase of $11.1 million (1.8%) from 2018.

When we examine proposed spending levels for the city's largest departments, we see that the two public safety departments account for about $6.6 million (60%) of the $11.1 million general fund increase. The Milwaukee Police Department (MPD) receives the bulk of the increase with $5.9 million of additional expenditures (2%), while the Milwaukee Fire Department (MFD) would see an increase of $733,000 (0.7%). Prioritization of public safety is not a new development for the city, as we have discussed in previous financial analyses and as we will discuss again later in this report.

Also notable is a $433,000 (3.2%) increase for the Health Department. Sizable decreases, meanwhile, are observed in the Department of Public Works ($1.2 million or 0.9%); Library ($250,000 or 1.1%); and Department of Neighborhood Services ($258,000 or 1.3%). It is important to note, however, that library hours would remain the same, and it is our impression that service-level impacts in other departments would be kept to a minimum.

Figure 2: 2019 City of Milwaukee General Fund (in millions)

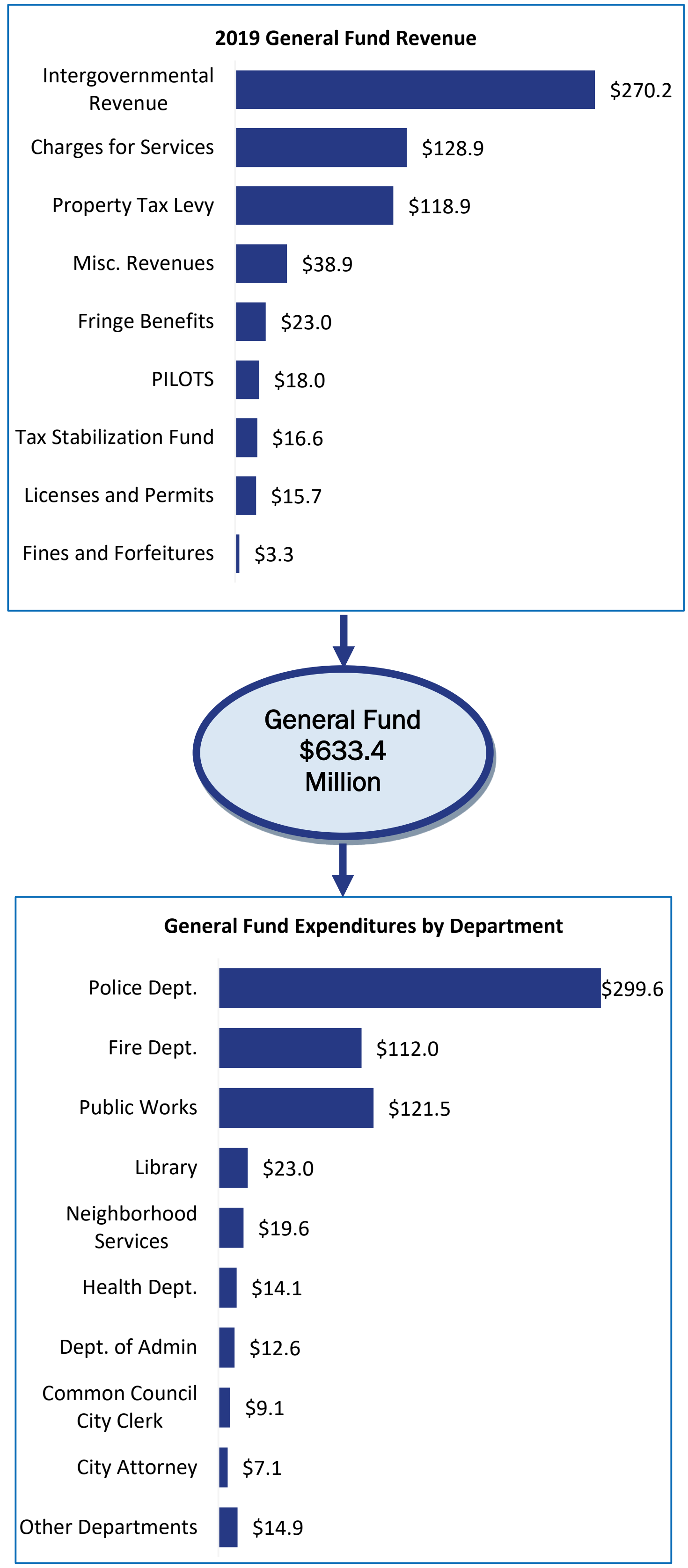
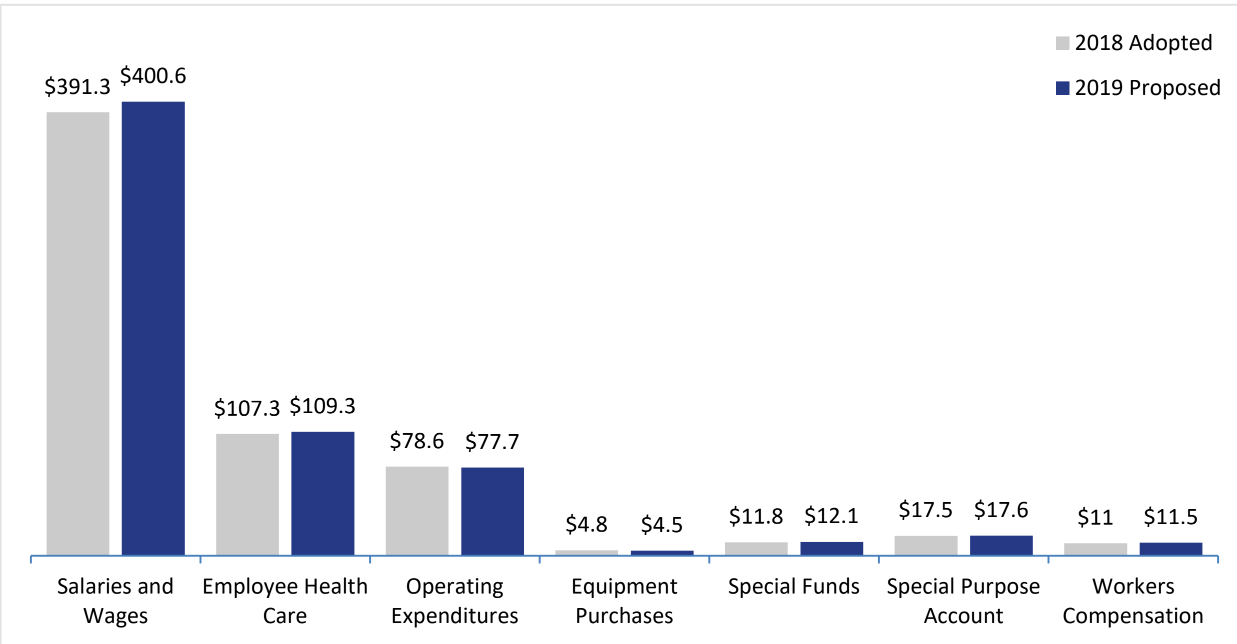


Chart 1 breaks down proposed 2019 general fund spending by expenditure type and compares 2018 adopted to 2019 proposed amounts. The chart shows that the increase in 2019 is attributed mostly to increased personnel-related costs, which comprise about 82% of total expenditures. Those include a $9.3 million (2.4%) increase in salaries and a $2 million (1.9%) health care increase. Other categories would see relatively little change from 2018.

While the $2 million increase in health care costs is not insignificant given the city's revenue constraints, the ability to control growth in health care costs continues to stand out as a major success story. The city enjoyed a remarkable $42 million reduction in budgeted health care expenditures between 2011 and 2015, as well as continued annual reductions in 2017 and 2018. The resumption of health care increases in 2019 places added pressure on city finances, but an increase of only 1.9% is still encouraging.

Chart 1: General fund spending by expenditure type, 2018 adopted vs. 2019 proposed (in millions)

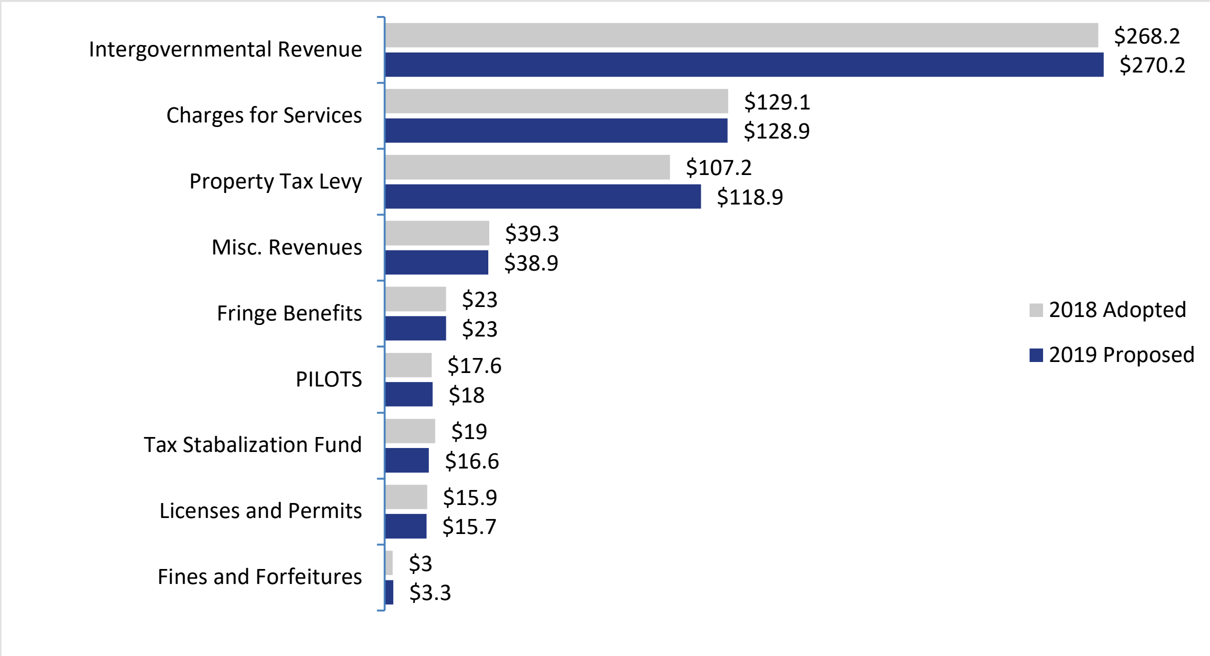


GENERAL FUND REVENUES

The city's general fund depends heavily on three major sources of revenue: intergovernmental revenue, charges for services, and property tax levy. Together, these three revenue streams comprise 82% of proposed general fund revenues in 2019.

Chart 2 – which compares 2018 adopted and 2019 proposed sources of general fund revenue – shows that the $11.1 million increase is attributed mainly to growth in the amount of property tax revenue allocated for general city purposes. That allocation increases by $11.7 million (10.9%) and is attributed mainly to a redirection of property tax levy previously used to support the city's employer pension contribution (we provide greater detail later in the report).

Chart 2: Sources of general city purpose revenue, 2018 adopted vs. 2019 proposed (in millions)



The proposed total property tax levy for all city functions would grow by $6.6 million (2.4%) to $280 million. Because of an increase in property values, the property tax *rate* would drop from $10.75 to $10.55 per $1,000 of assessed value. In addition to the general fund, the city's debt service account receives a $2.2 million increase in property tax levy (to $68.5 million).

Chart 2 also shows that intergovernmental revenue is budgeted to increase by 0.8% ($2 million) to $270.2 million. The increase is mostly attributed to an estimated special payment from the state that is intended to make the city whole for a new statutory provision that exempts certain types of personal property from the property tax. Shared revenue – the largest source of state aids for the city – continues its flat trend with only a $26,000 increase (to $219.1 million).

Charges for services revenue for general city purposes would decrease by $238,000 (0.2%). This decrease is largely due to a $1.7 million reduction in budgeted fee revenues earned by the Department of Neighborhood Services and a $375,000 reduction in cable franchise fees. Despite the overall decrease, the proposed budget includes a 3% increase in solid waste, stormwater, and snow and ice removal fees, as shown in **Table 1.** Those increases would cost the average residential property owner an additional $12.59. The increase in these major service charges is consistent with previous projections by budget officials that such fees will need to increase by 3-5% annually.

Table 1: Proposed increases to major service charges

Charge for Service	Rate Increase	Cost Increase for Average Home
Solid waste fee	3%	$208.92 to $215.20 per year
Stormwater fee	3%	$83.16 to $85.64 per year
Snow and ice removal fee	3%	$38.85 to $40.00 per year

FIVE KEYS TO UNDERSTANDING THE 2019 BUDGET

KEY #1 – 2018 PENSION OVERPAYMENT EASES 2019 BUDGETARY PRESSURE

The need for a huge increase in the employer pension contribution was the primary factor causing the 2018 budget to be one of the most difficult in years. For 2019, the opposite is true, as some extraordinary good fortune with regard to the contribution provides an extra $9 million that can be allocated across departmental budgets to avert service reductions and allow most departments to largely meet their "cost to continue" needs.

Last year, because of a policy under which the city "re-sets" its employer contribution every five years,[2] city leaders were faced with a need to increase the contribution from $61 million to $83 million. Accommodating that spike necessitated position cuts across virtually all city departments, including MPD, which had been spared in previous difficult budget years.

Remarkably, after receipt of 2017 data early in 2018, the pension fund actuary determined that $83 million was too high, and that the contribution should have been $69.6 million. Because the $83 million payment already had been made, a $13.4 million credit was created in the pension fund.

The 2019 proposed budget addresses both the $13.4 million credit from 2018 and the $13 million year-to-year "saving" the city experiences for 2019 given that next year's contribution has been readjusted to $70 million.

2018 Pension Fund Credit

The Mayor is proposing that the $13.4 million credit be returned to the pension reserve fund in 2019, bringing the reserve balance to $24 million. This is effectively accomplished by reducing the 2019 contribution by an additional $13.4 million, and instead depositing the same amount in the reserve.[3]

This commendable proposal to "bank" the $13.4 million – as opposed to spending it on a one-time basis or using it to temporarily avoid raising property taxes or fees – is reminiscent of a similar far-sighted strategy used by city leaders in 2011 and 2012. While no employer contribution was required in those years, city officials instead wisely built the pension reserve, making property tax

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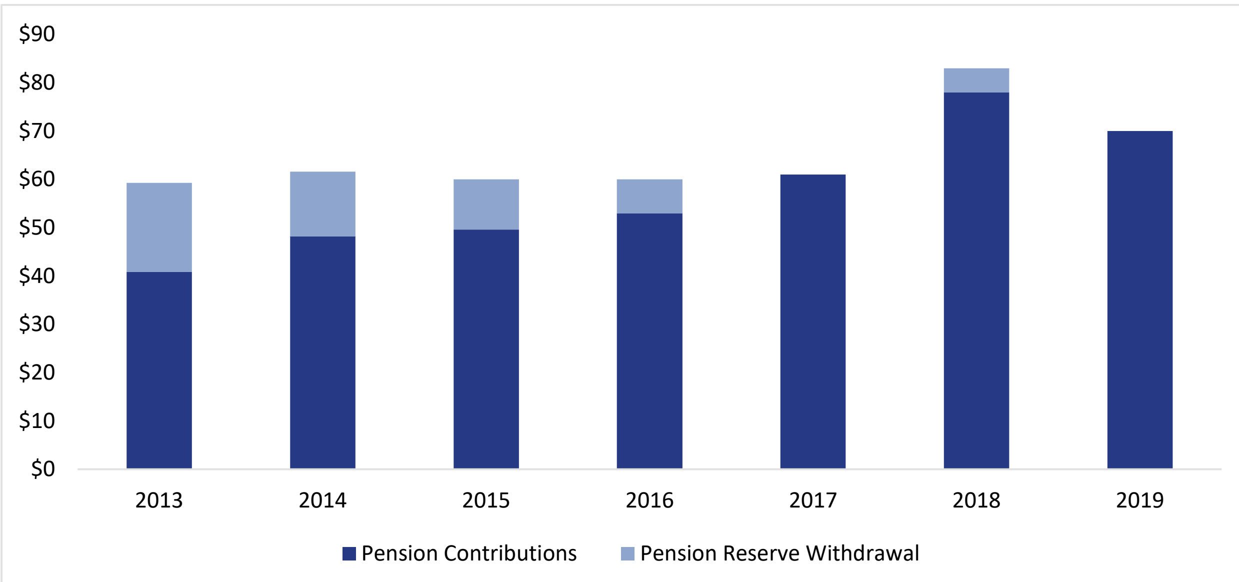
[2] The city adopted a stable pension contribution policy in 2013 that allows it to avoid sharp swings in its employer contribution from year to year. The policy requires the city to contribute an actuarially-determined amount based on a percentage of payroll. The contribution amount is set for a five-year period, after which it is reviewed and re-set for another five years. The policy allows the city to make a contribution regardless of the plan's funded status.

[3] The need to make the deposit in this manner stems from the fact that the City Charter does not allow pension credits to be transferred directly from the pension fund to the pension reserve fund.

levy contributions totaling $44 million in those years to prepare for a projected huge increase in the contribution in 2013.

Chart 3 shows that reserve funds then were withdrawn liberally – as would have been expected – to cushion the spike to $60 million in 2013 and in the years immediately following. Use of the reserve then diminished as its balance was spent down. The availability of the $13.4 million credit now provides an opportunity for the city to re-build its pension reserve to prepare for the next re-set of the contribution in 2023, when a presumed move to lower the investment earnings assumption is likely to precipitate another substantial spike.[4]

Chart 3: Employer pension contributions and pension reserve withdrawals, 2013-2019 (in millions)



2019 Reduced Pension Fund Contribution

As noted above, the 2019 employee retirement fund budget reflects the lower employer contribution of $70 million, as opposed to the $83 million included in the 2018 budget. This frees up $13 million in 2019 for use elsewhere. The first $4 million, however, is used to eliminate an originally planned $4 million withdrawal from the pension reserve (as noted above, the reserve instead would receive a $13.4 million deposit in 2019). The remaining $9 million is tax levy revenue that is re-directed primarily to help offset salary and health care increases in the general fund.

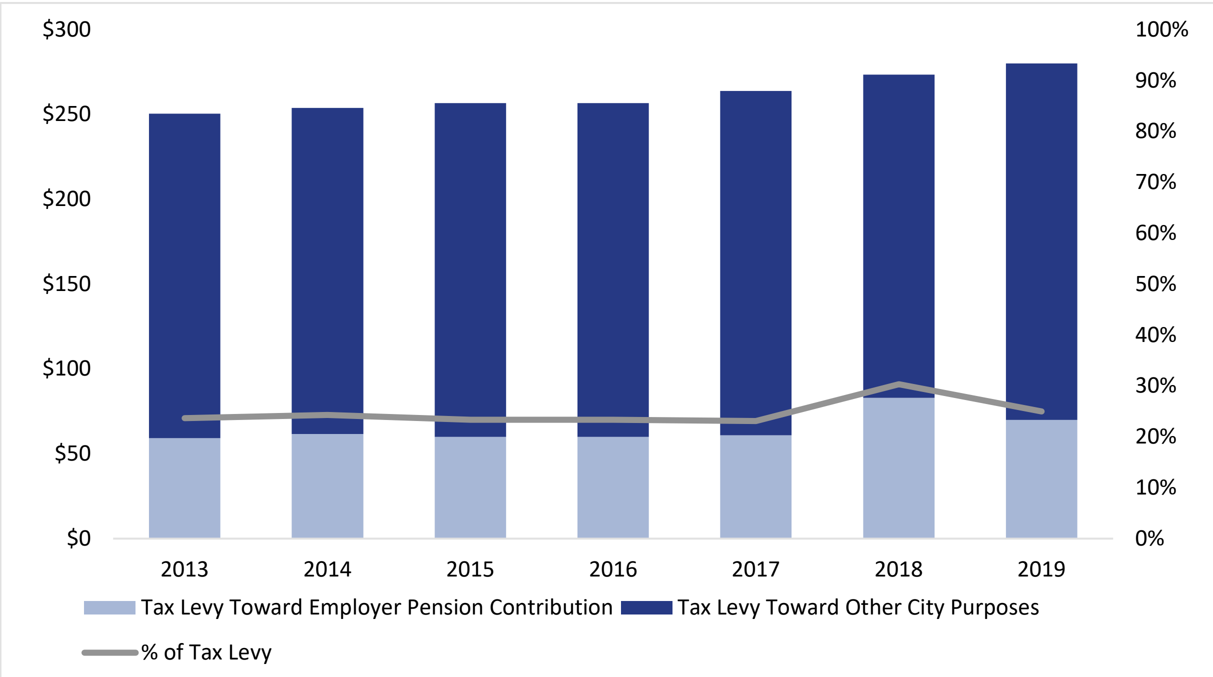
Chart 4 illustrates how the decreased employer pension contribution – combined with the proposed $6.6 million increase in the property tax levy in 2019 – frees up more than $15 million in property tax levy for other city purposes in 2019. The percentage of property tax levy used for the city's employer contribution remained relatively steady in the 23% to 24% range from 2013 to 2017

[4] The city pension fund currently uses an assumed rate of return on fund investments of 8.0%. As noted in the proposed budget, "a rate of return in the 7% to 7.5% range is used by most pension systems."

because of the stable contribution policy and then increased substantially in the 2018 budget (prior to the discovery of the overestimate). In 2019, the contribution would decrease from 30.3% of the total tax levy back down to 25%.

This decrease gives the city an enhanced pool of resources to support general fund operations and levy-supported debt. As noted above, those areas of the budget receive extra tax levy allocations of $11.7 million and $2.2 million, respectively, in the proposed budget.

Chart 4: Employer pension contributions as a percent of property tax levy, 2013-2019 (in millions)



While it is justifiable for city leaders to use the $9 million freed up by the 2018 pension overpayment to alleviate other budgetary pressures in 2019, it must be recognized that this $9 million of "good fortune" will not be available in the 2020 budget. Consequently, the city's ability to absorb personnel-related cost increases without reducing services or imposing greater tax and fee increases likely will again involve a very high degree of difficulty next year.

KEY #2 – ENHANCED COMMITMENT TO LEAD ABATEMENT, BUT HOW IS IT FUNDED?

In light of the serious problems and controversy swirling around the Milwaukee Health Department (MHD) since January – when it was revealed that departmental staff had failed to follow up with thousands of families who had lead-poisoned children – it is no surprise that the 2019 proposed budget includes substantial investment in both the department itself and the city's water utility for lead initiatives. In fact, the Mayor has touted a "historic investment" of $20 million to address the city's lead crisis in 2019.

A deeper dive into this investment, however, reveals that much of the lead investment in 2019 is comprised of unspent federal grant monies and capital funds from previous years, as well as fees from water users. Indeed, there is little investment of new discretionary resources. We point this out not to critique the budget's approach, but to raise the concern that these monies may be temporary in nature and that, consequently, efforts to maintain such a commitment may be challenging.

The proposed budget provides $7.6 million and eight new positions for the Lead Poisoning Program and $158,000 for water filter distribution in the Health Department budget, as well as $12.4 million for the Milwaukee Water Works (MWW) mostly for lead service line replacement. **Table 2** shows the sources of those funds, which are comprised mainly of federal grants for the MHD portion.

Table 2: Source of funds for lead hazard reduction work in 2019

Program	Total
Milwaukee Health Department Funds	
2014 HUD Healthy Homes Grant	$180,653
2014 HUD Lead Hazard Grant	$296,291
2016 HUD Healthy Homes Grant	$1,862,942
2016 HUD Lead Hazard Grant	$399,721
Capital Budget	$912,294
2019 Community Development Grant Block	$2,181,000
2018 Community Development Grant Block	$1,775,091
MHD-Funded Water Filters	$158,021
Milwaukee Health Department Total	**$7,766,013**
Milwaukee Water Works Funds	
Residential Property Owner Fees	$7,441,000
Levy-supported G.O. Debt	$3,100,000
Earmarked Administrative Funds	$1,000,000
Safe Drinking Water Loan Program	$900,000
Milwaukee Water Works Total	**$12,441,000**
Grand Total	**$20,207,013**

As shown in the table, about $2.7 million of the $7.8 million allocated to MHD lead programs comes from grants already received by the city from the U.S. Department of Housing and Urban Development (HUD) and not yet spent. Once these funds are used, the city can reapply for similar grants, although the grant-funded work must be shown to meet HUD specifications and there is no guarantee renewals will be provided.

Also, it should be noted that the $477,000 in HUD grants from 2014 are set to expire at the end of November and will not be available in 2019 unless an extension is granted by HUD. The remaining $2.3 million in 2016 HUD grants will expire in August 2020.

The other sources of the $7.8 million proposed for MHD are $4 million in Community Development Block Grant (CDBG) funds, $912,000 in the capital budget for lead removal activities, and $158,000 in locally generated resources for the department's water filter program. With regard to the CDBG monies, the city's 2018 allocation from the federal government exceeded budgeted amounts, and the 2019 budget reflects the higher actual total. That produces additional dollars – although they may be short-lived – from 2018 and 2019 to dedicate to MHD lead prevention efforts.

The $12.4 million in MWW's budget for lead service line replacement enhances the city's previous efforts and would allow the utility to replace 1,000 of those lines in 2019. More of this work will be conducted in-house with the addition of 15 staff. Funding sources include normal water rate fees paid by residential property owners ($7.4 million), $900,000 in federal Safe Drinking Water Loan Program funds, and general obligation (G.O.) debt issued by the city ($3.1 million).

The G.O. debt amount is double the amount issued for lead service line replacement in the 2018 budget. This levy-funded debt is the primary source of funding backed by local dollars that is committed to lead abatement in the proposed budget. The issuance of such G.O. Debt is required because the city currently subsidizes two-thirds of the cost of replacing the privately-owned portion of a lead service line (running from the curb into the house). The homeowner pays one-third of the cost through a special assessment that can be paid over 10 years and is capped at $1,600.

Many would argue that such a commitment is required given that the $6,500 cost of replacing the private portion of a lead service line would be unaffordable to many Milwaukee homeowners. It is important to note, however, that this is a new significant source of levy-funded debt for the city that is likely to be an annual requirement for several decades. If the replacement rate were to remain at 1,000 per year, then it would take more than 70 years to replace all of the 76,000 residential lead service lines in the city.

KEY #3 – PUBLIC SAFETY CONTINUES TO BE A GENERAL FUND PRIORITY

In *Making Ends Meet*, the Forum's comprehensive analysis of city finances published in 2016,[5] we found that city leaders had earmarked the bulk of their limited revenue growth in the preceding five years to protecting MPD (and to a lesser extent, MFD) from personnel cuts. That prioritization, in turn, left other departments to bear the brunt of budget cuts in those years.

The 2018 adopted budget ended that prioritization. With the $22 million increase in the employer pension contribution and other pressures necessitating substantial departmental cuts, public safety was treated like all other functions. MPD saw its sworn officer strength reduced by 27 positions, while MFD saw the decommissioning of five heavy apparatus (four fire trucks and one engine).

The 2019 proposed budget is a return to the more familiar 2013-2017 landscape. While funding is not fully restored to previous levels, MPD would receive an additional $5.9 million and an increase in sworn strength of 10 positions (to 1,871 sworn officers). Meanwhile, MFD would receive an increase of $733,000 and, for the first time in several years, would see no reduction or reorganization of staffing or heavy apparatus.

As we have explained in previous reports, given the high percentage of general fund expenditures that are dedicated to police and fire, any effort to provide even relatively small spending increases to

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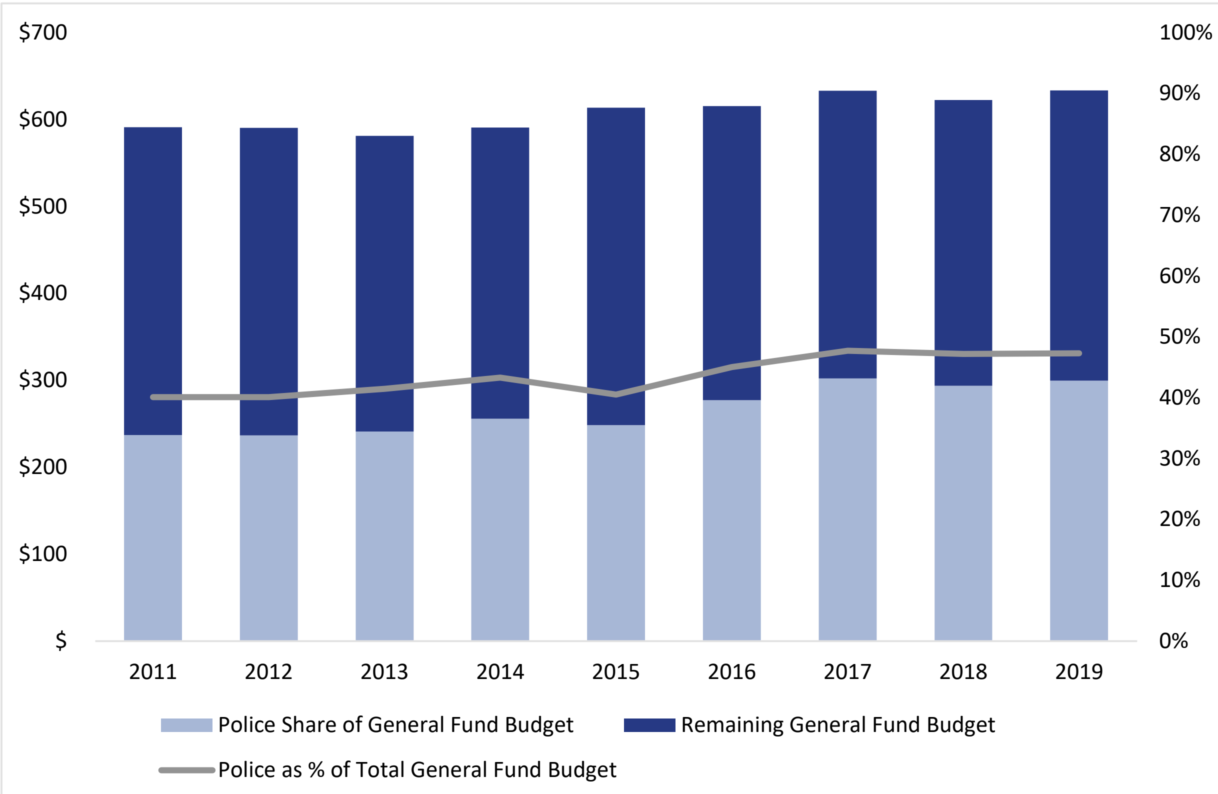
[5] Report can be accessed at https://publicpolicyforum.org/research/city-milwaukee%E2%80%99s-fiscal-condition-making-ends-meet.

those departments – which often are required to allow them to maintain staffing levels while absorbing salary and benefit costs – places severe pressure on other general fund departments.

That is particularly true with regard to MPD, as shown in **Chart 6**. At the beginning of the decade, MPD's $237 million expenditure budget comprised 40% of general city purpose spending. In the 2019 proposed budget, that share would increase to 47% as the MPD budget grows to $300 million.

Chart 6: MPD budget as a percentage of general fund budget, 2011 to 2019 (in millions)



In *Making Ends Meet*, we predicted that "if maintaining MPD staffing levels continues to be a top priority – and if health care costs begin to rise and revenue streams continue to exhibit little growth – then it is likely that non-police services will begin to suffer." While the $5.9 million increase proposed for MPD in 2019 does not appear out of line (constituting a 2% increase from 2018), it does comprise 53% of the overall proposed general fund expenditure increase, leaving little room for cost-to-continue increases for other departments.

In response to mounting concern about this imbalance, the Mayor has renewed his call for state leaders to allow a binding referendum on a half-cent city sales tax. The estimated $35 million in annual proceeds would be allocated exclusively to public safety. While the Mayor's primary argument is that this would provide a mechanism for ensuring the preservation and expansion of public safety services, it also would potentially ease the pressure on other city departments by reducing the need for growth in other general fund revenues to be directed to MPD and MFD.

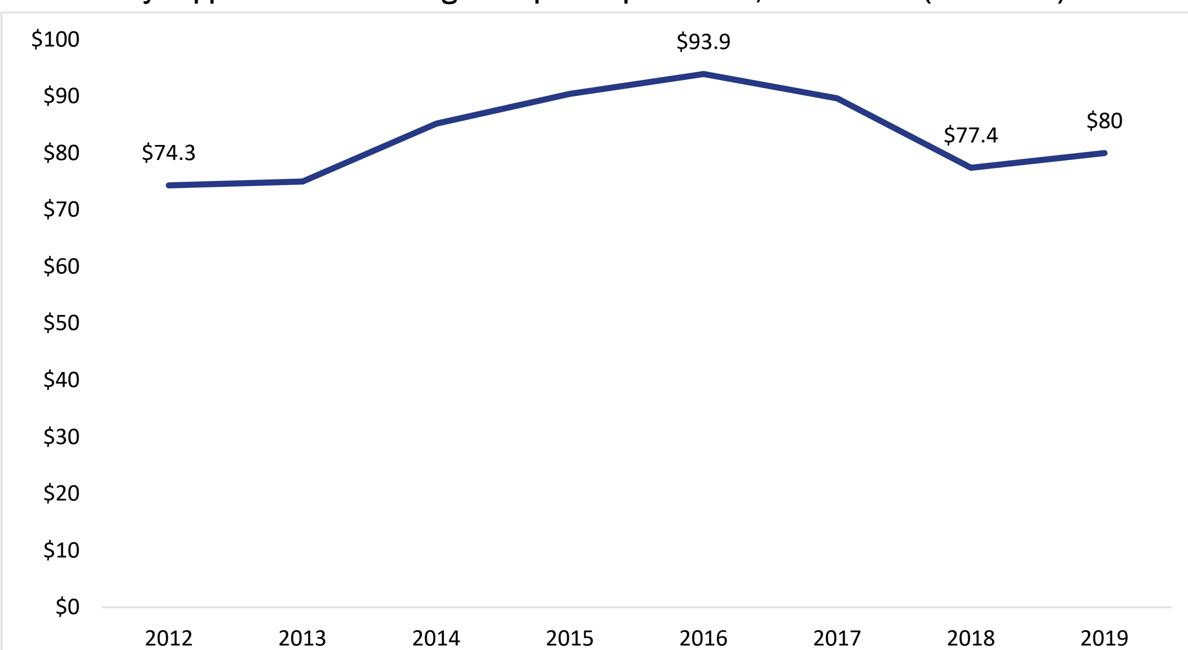
KEY #4 – CONFLICT BETWEEN CAPITAL NEEDS AND DEBT POLICY CONTINUES

As the Forum has pointed out in our multi-part series of reports on local government infrastructure, there is a substantial disconnect between the needs associated with the city's aging infrastructure and its imperative to control property tax levy-supported borrowing in light of the many pressures on the city's levy. Simply put, borrowing to address all of the city's capital needs over a prolonged period would drive up debt service costs to a level deemed unaffordable.

Several years ago, the city established a policy goal of limiting the amount of new levy-supported borrowing each year to no more than the amount of levy-supported debt coming off the city's books. The goal was designed to ensure that annual levy-supported debt service payments would not grow from year to year, thus preserving tax levy resources for other needs.

In a typical year, the city retires approximately $70 to $75 million of levy-supported G.O. debt. However, as shown in **Chart 7**, annual levy-supported G.O. borrowing substantially exceeded that amount from 2014 through 2017, peaking at $93.9 million in 2016. The 2018 budget reduced levy-supported borrowing to $77.4 million in an effort to come closer to meeting the policy goal, and a new goal of $78 million was established for the 2019 budget. The proposed budget would exceed that amount, however, by issuing $80 million of levy-supported debt.

Chart 7 Levy-supported G.O. bonding for capital expenditures, 2012-2019 (in millions)



While missing the target by $2 million to address pressing needs should not be viewed as fiscally irresponsible, the magnitude of the city's capital challenge is illustrated by the fact that capital projects requested by departments would have required nearly $124 million of levy-supported borrowing. In other words, even in a year when it slightly exceeded its debt issuance goal, the city did not have the capacity to finance $44 million in requested projects, a large portion of which presumably will remain on the list of requested projects for next year.

The single largest appropriation of levy-supported debt in the 2019 proposed capital budget is $8 million to continue a multi-year project to stabilize the city hall foundation. Other notable appropriations include $2.2 million for branch library construction and Central library improvements; $1.7 million to replace fire department equipment; $3.1 million for lead service line replacement (as discussed above); and $3.9 million for police vehicles. With regard to the latter, it had originally been hoped to include substantial dollars in MPD's operating budget for vehicles, but operating budget pressures require the city to borrow, instead.

As in previous years, city street and bridge needs also comprise a significant portion of the capital budget, with a total of $42.4 million in borrowing proceeds dedicated to those efforts. The budget notes that an increase of $8 million (for a total of $15.8 million) is appropriated for street lighting, traffic control, and underground conduit work associated with a large number of state and federally aided paving projects, putting "pressure on other parts of the capital budget." Nevertheless, the total surface transportation budget would decrease by $8.3 million, including reductions of $1.8 million from the high impact street program, $200,000 from the major street program, and $500,000 from the local street program.

The pressure to borrow to appropriately address the city's core infrastructure needs has intensified, but debt service remains a looming concern. In fact, as noted earlier, the property tax levy devoted to debt service would increase by $2.2 million in the proposed budget. A contributor to the problem is the lack of available property tax levy to devote to the capital budget in the first place, thus necessitating higher levels of borrowing, which in turn requires greater allocations of levy dollars in future years to service the debt. The budget notes that tax levy financing in the capital budget has declined from a high of $17 million in 2002 to just $1.1 million in the 2019 proposed budget.

Obviously, there are no easy solutions to this conundrum. Strict borrowing limits are appropriate from a fiscal standpoint, but if such controls require the city to defer projects involving basic repairs to buildings or streets, then the cost of those repairs could escalate, or basic repair projects could turn into projects involving full-scale replacement. In addition, as a backlog of needed projects develops and grows, it can become so overwhelming that it simply cannot be resolved. As city leaders look to the future, it appears that infrastructure may exceed pensions and health care as their foremost financial challenge.

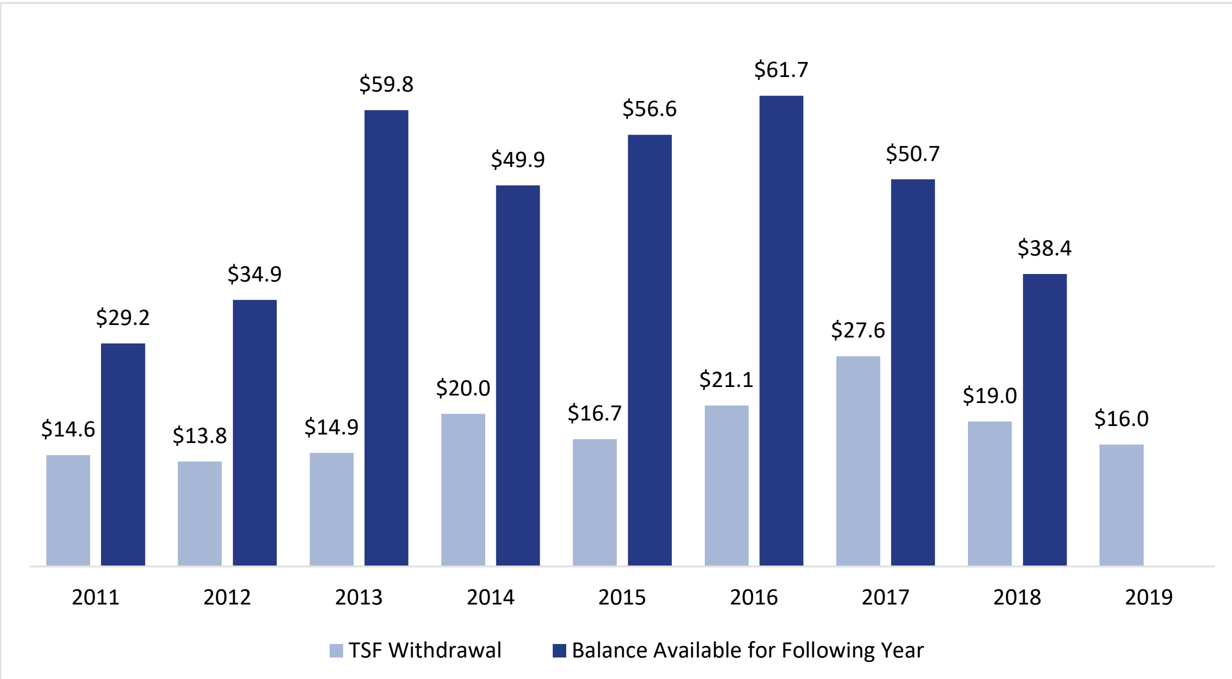
KEY #5 – ABILITY TO RELY ON RESERVES AND TRANSFERS MAY BE SHRINKING

The city is able to draw upon reserve accounts and transfers from enterprise funds in annual budgets to help limit the impacts of annual fluctuations and/or to alleviate challenges caused by its variety of operating and capital pressures. Foremost among these is the Tax Stabilization Fund (TSF), which is specifically intended for use to reduce fluctuations in the city's property tax rate. The TSF is built via deposits of unexpended appropriations and revenue surpluses in a given year. As part of the budget process, an amount is set aside annually for transfer from the TSF to the general fund.

Chart 10 shows the withdrawal of TSF funds from 2011 to 2018, as well as the proposed withdrawal for 2019. Annual withdrawals, of course, reduce the TSF fund balance available from the previous year. Over the time frame depicted, TSF transfers ranged from a low of $13.8 million in 2012 to a high of $27.6 million in 2017. The unassigned fund balance reached a high of $61.7 million in 2016 and has been in decline since that time.

The 2016-2018 budget cycles suggest that the TSF is not being replenished at rates high enough for current withdrawal levels to be sustainable over the long term. Since 2016, TSF draws have comprised 37% or more of the previous year's unassigned fund balance. The $16 million proposed draw in 2019 is 41.7% of the $38.4 million unassigned balance in 2018.

Chart 10: TSF withdrawals 2011-2019 and fund balances available for the following year (in millions)



As we reported in *Making Ends Meet*, during the 2011-2015 period, the city responsibly built the TSF – primarily with higher-than-budgeted health care savings – for use in downturns or for unanticipated fiscal challenges. The decline in the TSF fund balance over the past few years does not reflect poor fiscal management, but is instead a reflection of the exhaustion of those health care savings and the tightening of the city's budget climate. It is cause for concern, however, as it means that the city likely will not be able to count on increasing TSF withdrawals for the foreseeable future.

It is also worth noting that one of the national credit rating agencies has expressed concern about the city's increasingly slim fiscal margins. In January 2018, Standard and Poor's revised the city's outlook from stable to negative, writing that "there is a one-in-three chance of a lower rating within the next two years because of the city's declining available fund balance caused by general fund deficits." This declining fund balance has contributed to the city's inability to replenish the TSF in recent years to the extent that it was able to do so earlier in the decade.

The annual budget also has counted on transfers from the Transportation Fund (formerly known as the Parking Fund) and Sewer Maintenance Fund for general fund relief, as well as a payment in lieu of taxes (PILOT) from MWW. With regard to the Transportation Fund, the city's ability to continue to count on transfers at accustomed levels may be declining.

The proposed budget contains a Transportation Fund transfer of $16 million, which is a reduction of $1.1 million from 2018. In addition, the budget document warns that “debt and pension costs and constraints on revenue growth” may require additional reductions in future years. While similar warnings have not yet been issued for the other two enterprise funds, the fact that they are issuing more debt to maintain and replace aging infrastructure may place similar constraints on their ability to transfer funds in the future.

Overall, the city’s ability to count on sizable TSF withdrawals and enterprise fund transfers has reflected its healthy liquidity and strong fee structures. However, as pension obligations and debt service needs grow, and as the city’s general fund balance becomes more precarious, its ability to do so at previous levels may be in doubt and may cause this issue to be added to the “watch list” of future financial challenges.

CONCLUSION

The 2019 proposed City of Milwaukee budget is a classic case of "good news, bad news." It is certainly good news that the budget is able to convert an overestimated 2018 pension payment into stable departmental budgets and a re-stocked pension reserve. It is bad news, however, that the pension savings are one-time in nature, and that the annual structural deficits caused by the city's faulty revenue structure and pension- and public safety-related expenditure pressures are almost certain to re-emerge in the years ahead.

Indeed, as we also point out in our analysis of the 2019 Milwaukee County budget – which similarly benefits from a substantial one-time health care savings – there is danger that a relatively calm 2019 budget will send a message to Madison that the city's deep fiscal problems have been solved. As we point out in the preceding pages, that is certainly not the case.

For one thing, the city's ability to tame its structural problems with substantial TSF withdrawals and transfers from the Transportation Fund is likely to diminish as TSF replenishment and the fund's pension and debt payments become more challenging. For another, the discrepancy between capital needs and borrowing capacity continues to grow, creating the future possibility of unhealthy levels of debt, an expanding backlog of infrastructure needs, or both.

The city faces other growing financial challenges, including the likely return of annual inflationary increases in health care expenditures and the need to accommodate growing public safety personnel costs that cannot be controlled through the Wisconsin Act 10 toolbox. Hence, while the severe fire and police cuts seen in 2018 may not need to be fully replicated in the near future, continued public safety service and position reductions and 4-5% annual property tax levy growth may need to become the norm unless the city can manage to attract more dollars from the state or otherwise generate new revenue.

Even the city's lead abatement efforts, while needed and commendable, may force difficult fiscal decisions or prove unsustainable. An influx of funding for the Health Department's lead program is primarily linked to federal grants that will expire by 2020; if they are not renewed, the department will be hard-pressed to continue its program with the heightened staff and programmatic resources planned in 2019. Similarly, funding to assist homeowners with replacement of lead service lines requires $3.1 million in G.O. debt and represents a commitment that will need to be repeated – and that will compound for decades – as more than 70,000 service lines are replaced.

Still, it is hard to be too gloomy about the 2019 proposed budget. For one year, at least, departmental service levels are kept intact, tax and fee increases are modest, and salary and fringe benefit pressures are accommodated. While likely the calm before the storm, the relative tranquility associated with next year's city budget is a welcome reprieve from the difficulties experienced a year ago and the challenges that lie ahead.