



## Juggling Priorities

### Comparing the Budgets of Wisconsin's Largest Communities

*The fierce fiscal challenges facing the City of Milwaukee and Milwaukee County are well documented and include growing pension costs, vast infrastructure repair needs, and stagnant revenue streams. A comparison with other large cities and counties in Wisconsin finds some similarity on spending pressures, but a more difficult fiscal climate overall in Milwaukee.*

Fall is busy season for municipal and county officials across Wisconsin. Proposed budgets become public in late September or October, public debate and amendments ensue, and a final budget typically is adopted sometime in November.

Fall is a busy time for the Wisconsin Policy Forum as well. For the past decade, we have published annual analyses of the proposed City of Milwaukee and Milwaukee County budgets to provide an objective assessment for the general public and to highlight for decision-makers the key issues they should be contemplating as budget deliberations ensue. Our 2019 budget briefs were released in mid-October and can be found at [wispolicyforum.org/research](http://wispolicyforum.org/research).

In this issue of The Wisconsin Taxpayer, we reflect on key themes

arising from our review of those budgets and consider their relevance to other large cities and counties in Wisconsin. Both the City of Milwaukee and Milwaukee County have faced fierce fiscal pressures as a consequence of growing pension costs and infrastructure needs and limited revenue options. Both governments have responded by redesigning their health care offerings, raising fees, and asking many of their departments to make do with less.

Are the factors that have converged to create such strong fiscal pressures in Milwaukee similarly impacting other big city and county governments in Wisconsin? Using data collected by the Wisconsin Department of Revenue and 2019 proposed budgets from cities and counties across the state, we attempt to shed light on that question.

#### **A TALE OF TWO BUDGETS**

Next year's budgets are unusually calm for the City of Milwaukee and Milwaukee County, though for both that is likely a case of temporary good fortune. The following provides a brief overview of the 2019 budget climates for both governments.

#### **City of Milwaukee**

For the city, an actuarial overestimate of the 2018 employer pension contribution freed up \$9 million in 2019. Those funds—as well as a proposed increase in property taxes of \$6.6 million (2.4%) and major fees of 3%—temper the impacts of the city's annual structural deficit and provide

#### **Also in this issue:**

State Budget Picture Brightens • Bus Rapid Transit Plan Advances

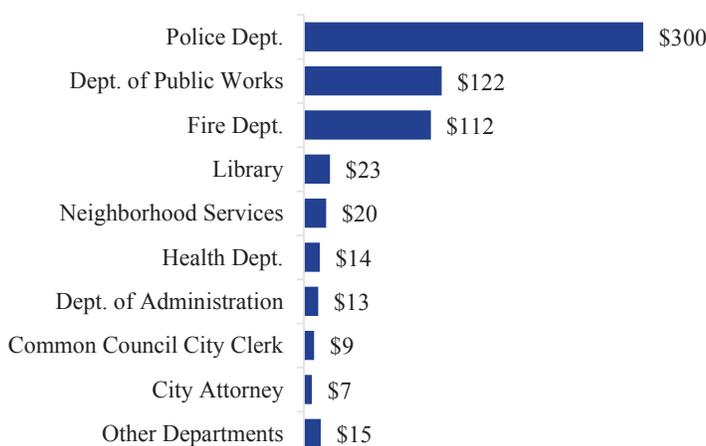
resources for cost-to-continue increases for most departments. The pension coverage is a one-time windfall, however, and future budgets are likely to continue to suffer from an imbalance between rising salary and benefit costs and stagnant revenues.

Growing public safety demands are particularly worth watching; Milwaukee's proposed 2019 police budget alone consumes 47% (\$300 million) of the general fund. (See Figure 1.) We have found that the police budget grew by 36% between 2008 and 2018, while overall general fund expenditures grew by only 8%. Continuing this long-term trend, the police department receives the majority (\$5.9 million) of the city's \$11.1 million general fund revenue increase per the mayor's proposed 2019 budget.

Another pressing challenge for Milwaukee is the mismatch between capital needs and borrowing capacity. Growing levels of general obligation debt—and associated debt service payments—have clashed with the need to use property tax levy growth to support the general fund, compelling city leaders to limit their yearly levy-supported borrowing. Yet, that imperative is at odds with the condition of Milwaukee's aging infrastructure. The magnitude of the challenge is illustrated by the fact that the \$80 million in proposed borrowing for 2019 capital projects surpasses the internal goal of only issuing \$70 to \$75 million in new debt and still leaves out \$44 million in requested projects.

This capital infrastructure conundrum—combined with a diminished ability to tap reserves, flat shared revenue payments, and continued growth in public safety and pension costs—creates increasingly difficult budget challenges ahead.

**Figure 1: Milwaukee Police Budget Half of Gen. Fund**  
Proposed for 2019, in \$Millions



Source: City of Milwaukee

## Milwaukee County

Like its municipal counterpart, Milwaukee County benefits from a one-time stroke of good fortune in 2019 that vastly reduces budget difficulties. In the county's case, the good fortune is linked to health care, as lower-than-anticipated actual spending in 2018 wipes out an anticipated \$7 million increase for next year.

That development—as well as a decision to again tap the county's meager reserves—averts the need for a wheel tax increase or public safety cuts, which have been sources of controversy in recent years, and limits the 2019 property tax increase to \$1.6 million (0.5%). Nevertheless, nearly \$14 million of across-the-board departmental reductions still are required to bridge a \$23.5 million operational hole that existed heading into 2019 budget deliberations.

Looking to the future, the comptroller estimates a \$12.8 million annual structural deficit resulting from projected imbalances between needed spending and anticipated revenue growth. Our budget brief notes that eliminating that deficit will grow more difficult in the future. Continued cuts to departmental budgets will be difficult to achieve after a decade of such reductions, reserves cannot be relied on indefinitely without being replenished, and even inflationary increases in major state funding streams are unlikely to allow the county to accommodate its salary and fringe benefit pressures.

In addition, like the city, Milwaukee County faces an imperative to control levy-supported debt, yet its growing backlog of capital needs is even more daunt-

## THE WISCONSIN TAXPAYER

### 2018 Vol. 86 Number 10

Publication Number USPS 688-800

Periodical postage paid at Madison, Wisconsin

### Receiving This Publication:

*The Wisconsin Taxpayer* is a regular publication of the Wisconsin Policy Forum. WPF members receive an e-mail when each Taxpayer is released. For membership information, go to [wispolicyforum.org/join](http://wispolicyforum.org/join).

### Postmaster:

Send address changes to *The Wisconsin Taxpayer*.

401 North Lawn Avenue, Madison, Wisconsin 53704-5033

Phone: 608.241.9789 Fax: 608.241.5807

Email: [publications@wispolicyforum.org](mailto:publications@wispolicyforum.org) Website: [wispolicyforum.org](http://wispolicyforum.org)

### Executive Committee:

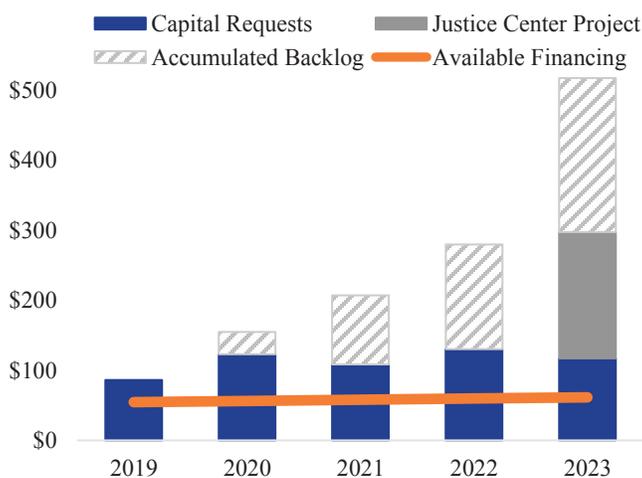
Grady Crosby, Milwaukee; Carol Ward Knox, Fort Atkinson; John Kita, Milwaukee; Keith Lester, Milwaukee; Barry McNulty, Milwaukee; Rich Meeusen, Milwaukee; Henry Newell, Mosinee; Steve Radke, Milwaukee; Thomas Rettler, Neenah; Leigh Riley, Milwaukee; Cynthia Rooks, Milwaukee; Andy Schiesl, Milwaukee; Tom Spero, Milwaukee; Brad Viegut, Milwaukee.

ing. (See Figure 2.) Because of its self-imposed limits on borrowing, the county’s 2019 recommended budget provides \$54.5 million for 36 non-airport projects, as opposed to the requested \$86.3 million for 96 projects. If the county continues to adhere to its borrowing caps, the backlog will grow, particularly as the need to undertake a \$300 million safety building replacement project emerges in 2023.

Another challenge for Milwaukee County is the desire to preserve local resources for its primary areas of discretionary spending: transit, parks, and cultural institutions. Services in those areas differ from other main categories of county spending, such as courts and health and human services, in that they are not mandated by state government and rely heavily on local resources and user fees. Because the county is not fully reimbursed for the cost of its state-mandated services, however, it must allocate substantial property tax levy resources to support those services, thus limiting the amount of levy available for discretionary areas of spending.

Fortunately, for one year at least, the 2019 budget avoids meaningful service reductions and onerous increases in taxes and fees. Even so, the fiscal outlook for Milwaukee County is cloudy.

**Figure 2: Growing Infrastructure Backlog**  
Milwaukee County Projected Cost in \$Millions



Source: Milwaukee County

### LOOKING TO OTHER CITIES

In light of these similar, longstanding, and growing fiscal challenges in Wisconsin’s largest city and county, we were curious as to whether and how deeply they were affecting other large cities and counties across the state. In this section, we examine how two of the City of Milwaukee’s foremost challenges—police costs and growing debt—apply to the next nine most populous

cities. Those cities and their populations are shown in Table 1.

It is important to note that our comparative analysis of spending levels on various services by cities or counties is limited by the fact that different local governments house different services.

For example, some cities finance or administer transit systems and public health functions, while others do not. Consequently, while it is illustrative to show spending on certain functions as a percentage of overall spending, comparisons among different cities or counties could be skewed by differing service responsibilities.

**Table 1: WI City Populations**

| City       | Population |
|------------|------------|
| Milwaukee  | 595,047    |
| Madison    | 252,551    |
| Green Bay  | 105,079    |
| Kenosha    | 99,489     |
| Racine     | 78,165     |
| Appleton   | 74,286     |
| Waukesha   | 71,699     |
| Eau Claire | 67,381     |
| Oshkosh    | 66,717     |
| Janesville | 63,470     |

Source: WI Dept. of Revenue, 2016

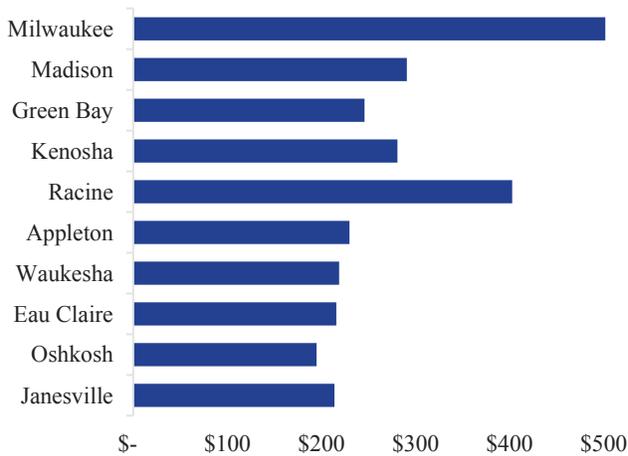
### Police

Police, fire, and ambulance services typically comprise the largest share of cities’ general operating budgets. Police services are the most expensive of the three, comprising from 23% to 47% of general fund expenditures for the 10 cities we examined. Milwaukee and Madison sit on opposite sides of the spectrum, with Madison’s police costs at 23% (\$76.7 million) and Milwaukee’s at 47% (\$300 million) of their proposed 2019 general fund budgets. The other eight cities are budgeted to spend between 27% and 36% of their general fund budgets on police. Milwaukee’s average annual growth rate in police spending was 3.3% between 2009 and 2016, which is considerably higher than that experienced by the other nine cities, each of which had per capita spending growth at 1.7% or less.

In 2016, per capita spending on police in Wisconsin’s 10 most populous cities ranged from a low of \$195 in Oshkosh to highs of \$403 in Racine and \$511 in Milwaukee. (See Figure 3 on page 4.) Not surprisingly, the most expensive cities have higher crime rates and also the highest ratio of sworn police officers to the general population. According to FBI statistics, Milwaukee has a ratio of 3.2 sworn officers per 1,000 citizens, while cities with the lowest ratio (such as Appleton, Eau Claire, and Janesville) employ about 1.5 officers per 1,000 citizens.

Growing police costs can be a key fiscal concern for cities because, in seeking to balance budgets, they are often unable to turn to public safety as a potential

**Fig. 3: Cities of Milwaukee, Racine Lead in Police Spending**  
Per Capita Police Spending



Source: WI Dept. of Revenue, Ordered by Population (2016)

area for savings. One reason is that public safety unions largely are exempt from provisions in 2011 Wisconsin Act 10 that allow municipal governments to reduce various personnel-related costs without being subject to collective bargaining. Even more important, elected officials tend to prioritize public safety based on the desires of their constituents, and reductions to public safety budgets—or even failure to provide for inflationary cost-to-continue increases—can generate media coverage and intense public scrutiny.

### City Debt

Most city governments own large inventories of physical assets such as buildings and vehicles and rely on financing strategies to support those assets that are different from those used to support general operations. The key distinction is the use of borrowing—typically in the form of issuing general obligation bonds—to ensure that these purchases or repairs can be paid off over multiple years. This means both today’s taxpayers and future taxpayers pay for infrastructure assets, which is logical as both will benefit.

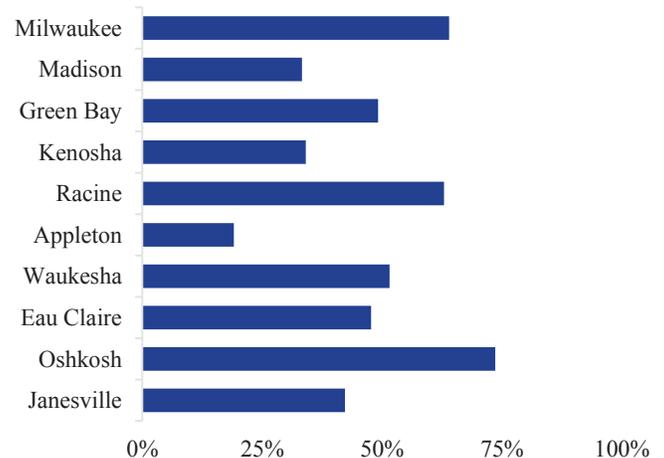
High levels of debt and debt service can signal fiscal distress, however, as principal and interest payments can crowd out needed spending on essential services. Our recent analysis of municipal debt levels (see [Focus #8-2018](#)) found that cities with populations between 50,000 and 105,000 averaged total debt growth of 7.2% during a recent 10-year period. That average conceals changes to debt levels that ranged from substantial decreases to even larger increases. Debt grew by 5% or less in

Racine, Appleton, Green Bay, and Oshkosh while declining by 30% in Kenosha and La Crosse. Eau Claire and Waukesha were outliers, each growing by about 80%. Meanwhile, Milwaukee’s debt increased by 40.9% and Madison’s by 108.6% during that same time frame.

Under state law, municipal debt cannot exceed 5% of a city’s equalized property value. Figure 4 shows where the 10 cities stood in relation to the state’s debt limit in 2016. Oshkosh had reached 74% of its limit, with Milwaukee and Racine trailing close behind at 64% and 63%, respectively. Madison’s significant 10-year growth in debt is tempered by the fact that it had only reached 33% of its limit by 2016.

Jumping forward to 2019 proposed budgets, we find that the cities on the high end of their debt limit are devoting significant amounts of their property taxes to debt repayment. The 2019 proposed budget for Milwaukee would devote \$66.2 million (24%) of the city’s \$273.5 million property tax levy to debt service, while Racine’s proposed 2019 budget would allocate \$17 million (31.3%). Oshkosh’s would appropriate \$11.6 million (30%) in levy for debt service, but the city has a debt reduction strategy that would reduce its debt to 60% of the limit in 2019 and 50% by 2027.

**Figure 4: WI Cities Vary on Debt Limit**  
Debt as a % of State-Imposed Limit



Source: WI Dept. of Revenue, Ordered by Population (2016)

Like Milwaukee, several of the cities use borrowing caps or policy goals to try to control required levy payments for debt. Yet, while appropriate from a fiscal standpoint, if such controls require cities to defer basic repairs to buildings or streets, then the cost of

**Table 2: WI County Populations**

| County    | Population |
|-----------|------------|
| Milwaukee | 948,930    |
| Dane      | 518,538    |
| Waukesha  | 396,449    |
| Brown     | 257,897    |
| Racine    | 195,294    |
| Outagamie | 182,365    |
| Winnebago | 169,032    |
| Kenosha   | 167,658    |
| Rock      | 159,886    |
| Marathon  | 135,483    |

Source: WI Dept. of Revenue (2016)

those repairs could escalate or require full-scale replacement. In addition, project backlogs can become overwhelming. Consequently, for some Wisconsin cities, efforts to control debt can create corresponding problems with regard to infrastructure maintenance.

**DO OTHER LARGE COUNTIES FACE SIMILAR CHALLENGES TO MILWAUKEE COUNTY?**

We also took a look at the 10 largest counties in the state and examined how two of the primary fiscal challenges facing Milwaukee County—the need to use local tax resources to fund parks and cultural functions and the imperative to control debt—impact the other nine counties. A list of those counties and their populations is shown in Table 2.

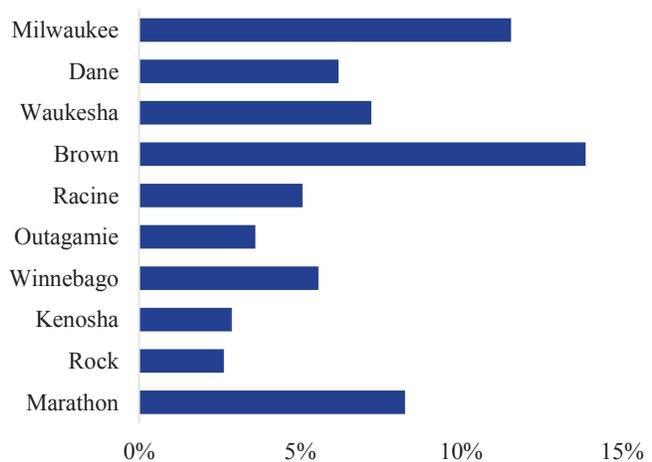
**Parks and Cultural Spending**

As briefly discussed above, counties function as arms of state government in many respects, delivering services on the state’s behalf that are mandated either by state statutes or the federal government. Prime examples are services related to the courts, district attorney offices, sheriff departments, and health and human services.

Because counties typically are not fully reimbursed for the cost of providing such services, they must use the property tax to help support them. That, in turn, creates challenges with regard to non-mandated services like parks and culture.

Milwaukee County has elected to create and maintain a vast array of recreational and cultural amenities, including an extensive system of urban parks and trails, golf courses, beaches, water parks, horticultural attractions, museums, and a nationally acclaimed zoo. Figure 5 explores the extent to which the state’s next nine largest counties face similar pressures from parks and cultural spending. As shown in the chart, Milwaukee County’s spending on parks and culture as a percentage of its overall operating and capital expenditures in

**Fig. 5: Brown, Milwaukee Lead Parks & Culture Spending**  
% of Operating and Capital Expenditures on Parks, Culture



Source: WI Dept. of Revenue, Ordered by Population (2016)

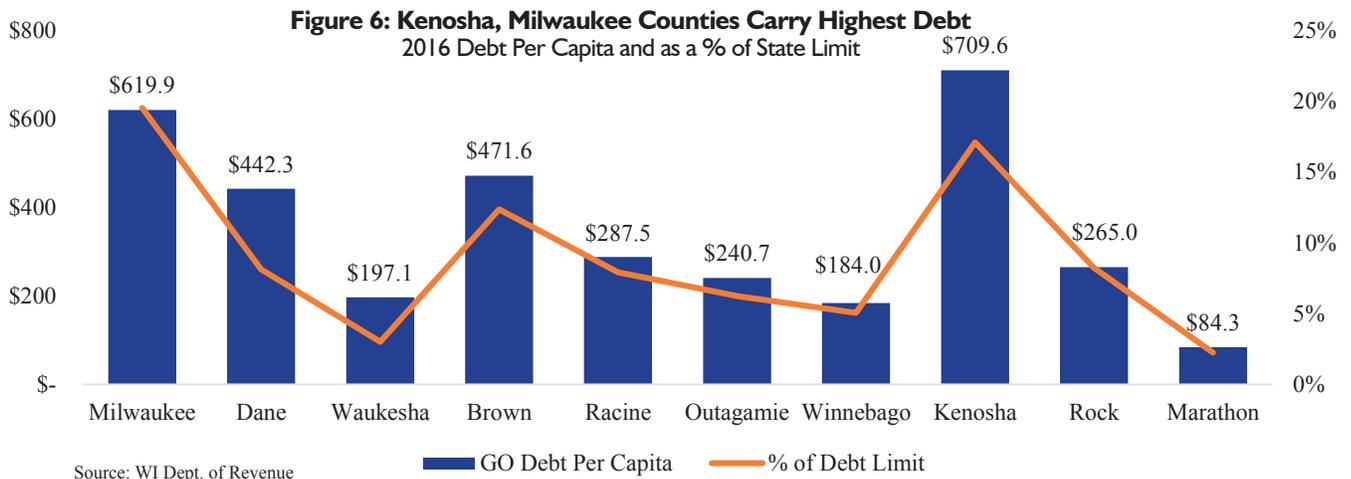
2016 was the second highest among the 10 counties at a little less than 12%. Brown County’s percentage of parks and cultural spending was the highest at 14%, but no other county spent more than 8% of its total on parks and cultural endeavors. Hence, while Milwaukee County is not unique with regard to the financial pressure it experiences from its parks and culture functions, that pressure is considerably stronger than that faced by most other large counties.

**County Debt**

Like municipal governments, state statutes limit county governments in Wisconsin to general obligation debt levels that do not exceed 5% of equalized property value. However, where a county stands in relation to its debt limit is not necessarily a good indicator of the county’s fiscal outlook. For example, while the most populated counties in Wisconsin maintain debt loads that do not exceed 20% of their limit (Figure 6), the impact of debt is felt most acutely in how much revenue is consumed in debt repayment, thereby limiting a county’s ability to address its operating needs.

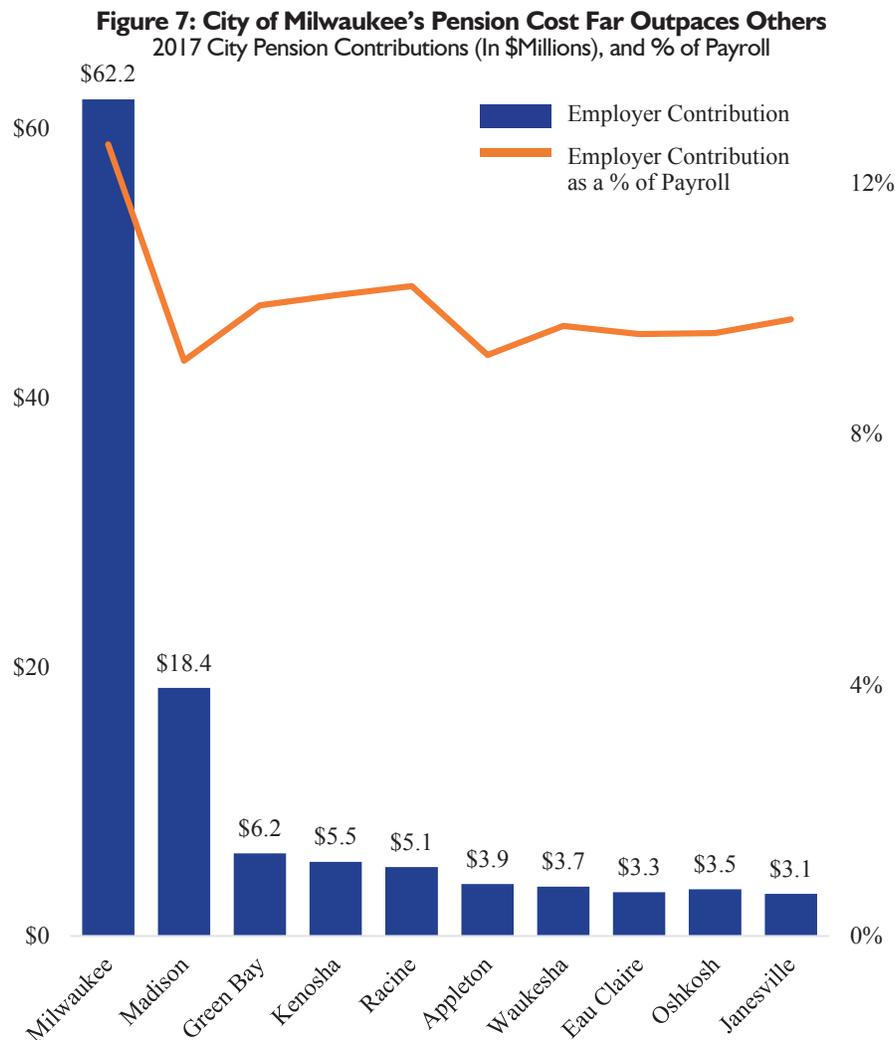
In addition to showing how the 10 largest counties fare with regard to their debt limits, Figure 6 on page 6 shows each county’s general obligation debt on a per capita basis. Kenosha County’s 2016 per capita debt is the highest, at \$710, followed by Milwaukee at \$620, Brown at \$472, and Dane at \$422. Not surprisingly, higher per capita debt is reflected in the counties closest to 20% of their overall debt limit.

For Milwaukee County, one of the most pronounced impacts of having a relatively high amount of long-term



debt is that new debt cannot be issued to the extent desirable to address immediate capital needs. As mentioned earlier, the 2019 proposed budget would provide \$55.1 million (including about \$43 million from borrowing) to finance 36 projects but leaves out 63 other requested projects that would have cost an additional \$36.1 million. By repeatedly deferring

capital projects to future years, the county has created a seemingly insurmountable backlog of repair and replacement needs. Other counties with higher per-capita debt may similarly be facing the choice of taking on debt service obligations that crowd out other programs or kicking infrastructure needs down the road.

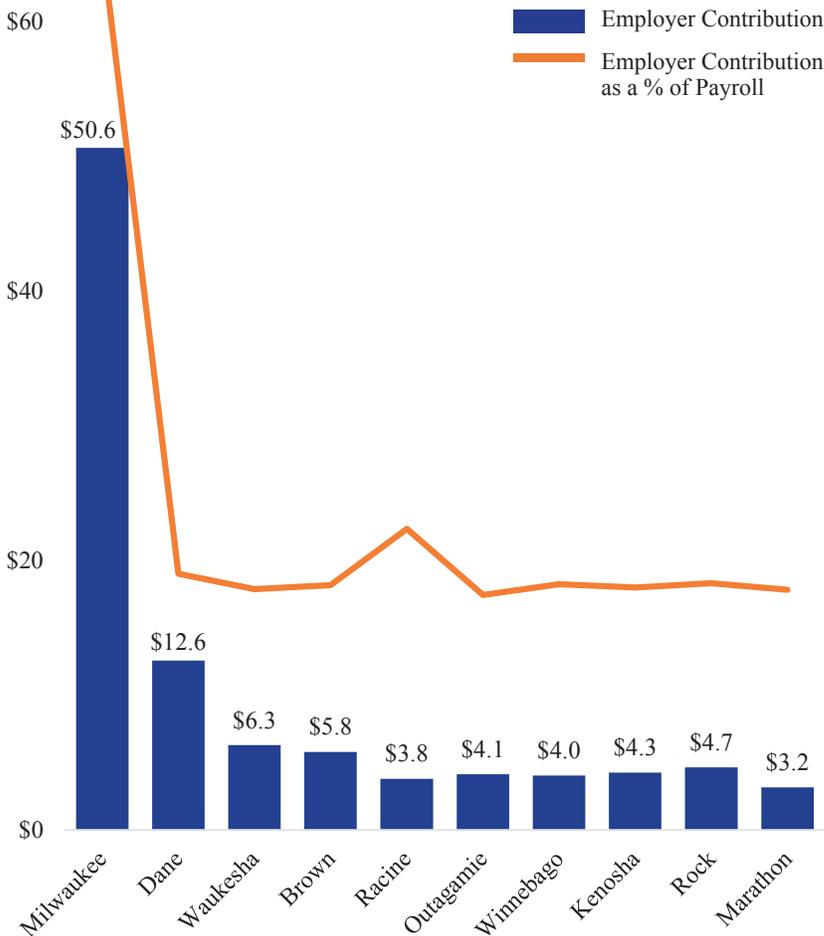


### A PENSION PROBLEM UNIQUE TO MILWAUKEE

While the preceding analysis provides an overview of prominent fiscal challenges that are shared by many large Wisconsin cities and counties, the City of Milwaukee and Milwaukee County face an additional fundamental problem that none of the others must confront. Employer contributions to support pension benefits are consistent across most of the state's local governments because most are part of the Wisconsin Retirement System (WRS). The two exceptions are the City of Milwaukee and Milwaukee County, each of which maintains its own pension system that requires huge annual outlays of property taxpayer dollars to support.

Figure 7 shows how the city's 2017 employer pension contribution of \$61 million compares to those of the other nine cities, while Figure 8 shows how Milwaukee County's \$51 million contribution compares to the other nine counties. Milwaukee County's pension costs actually are about \$33 million higher when annual debt service on \$400 million in pension obligation

**Figure 8: Milwaukee County's Pension Cost Far Exceeds Peers**  
2017 County Pension Contributions (In \$Millions), and % of Payroll



bonds issued in 2009 is added to the employer contribution. The range in employer contribution costs is logical given that larger local governments will have larger workforces, so the charts also show the contributions as a percentage of payroll. It is important to note here that pension costs—when viewed either as dollar amounts or as a percentage of payroll—are impacted by the different benefit structures offered over time by WRS, the City of Milwaukee, and Milwaukee County, as well as their different levels of unfunded liabilities.

Milwaukee's pension contribution costs rise above those required of other cities, both in terms of dollar value and as a percentage of payroll. For context, if Milwaukee's required employer contribution were similar to Madison's at 10% of covered payroll, then the city would have \$12.4 million in savings to put toward other operations or capital projects.

A similar story emerges for Milwaukee County. The other most populous counties in the state—all of which are part of the WRS—contributed between 7 and 9% of their covered payroll amount to pensions in 2017.

Conversely, Milwaukee County's contribution was 27% of payroll. The county would have experienced \$33 million in savings if it were part of the WRS and had contributed an amount closer to Racine County's 9.3% of covered payroll.

### CONCLUSION

The City of Milwaukee and Milwaukee County experienced relatively easy budget deliberations for 2019 because of one-time good fortune. But for both, fierce long-term structural challenges remain, and our analysis finds those challenges likely exceed those faced by most other large cities and counties in Wisconsin.

Employer pension costs for Milwaukee's two largest governments soar above those paid by other large cities and counties. Per capita police expenditures in Milwaukee are higher than in any of the state's largest cities, while parks and cultural expenditure needs place greater pressure on Milwaukee County than all but one of the 10 largest counties. Relatively high levels of debt pose problems more intense than those faced by most of the state's other large cities and counties.

Overall, it is difficult to draw precise comparisons between the cities and counties covered in this report. Differences in budget allocation practices may skew the analysis, while different service area needs, crime rates, municipal borrowing policies, and shifts in intergovernmental revenue over time create budget challenges unique to each location.

Even so, our research suggests that while most large cities and counties face similar challenges created by substantial public safety and infrastructure spending pressures and limited revenue options, the challenges facing Milwaukee's city and county governments are of a higher magnitude. Efforts to address those specific spending pressures in Milwaukee—including consideration of whether the city and county *should* maintain distinct pension systems—would appear to be in order. Similarly, while it would be useful to examine the revenue options provided to all urbanized cities and counties, consideration of different revenue approaches to address the extraordinary challenges facing Wisconsin's largest city and county would be particularly worthwhile.

## POLICY NOTES

■ **State Budget Picture Brightens.** The state is now projected to end the current fiscal year with \$440.9 million more than expected, according to a report released on Nov. 20 by Gov. Scott Walker's administration.

Boosted by better than expected tax collections and lower than expected costs, the state is now expected to end the fiscal year on June 30 with \$622.6 million in its general fund, or main account. In addition, the state is expected to deposit \$82.6 million in its rainy day fund at the end of the year, bringing its total to a projected \$402.6 million.

The state's total reserves would then equal 5.9% of general fund spending for the year, or about enough to run state government for three weeks.

Through June 2021, the state is expected to take in an additional \$2.1 billion in projected revenues, the report states. The state would still need to find an additional \$1.1 billion, however, to cover the additional spending requests from state agencies for the 2019-21 budget, including the \$1.4 billion in increased state school aid sought by Governor-Elect Tony Evers.

State agencies typically do not receive all their budget requests. So to provide a better picture of the upcoming two-year budget, the Wisconsin Policy Forum calculated how much new revenue would be needed to cover existing commitments in state law, the cost-to-continue increases in state Medicaid health programs, the same \$621 million increase in school aid as in the current budget; and 1% increases for all other state programs over both years. (See [Focus #21.](#))

**We are moving to digital!**

Please register your email to stay up-to-date on our latest research, events, and more. Email us your information at [info@wispolicyforum.org](mailto:info@wispolicyforum.org)

The additional expense came to a little more than \$2.2 billion over the 2019-21 budget, a cost that seemed difficult to cover under the old revenue forecasts. With this latest revenue forecast, the state would be within striking distance of covering these potential commitments. Doing so, however, would mean burning through the general fund reserves that the state is expecting to add this year.

■ **Bus Rapid Transit Plan Advances.** The Milwaukee County Transit System's planned bus rapid transit (BRT) service took a major step forward last week when its environmental assessment received federal approval. Our 2015 report, *Picking up the Pace*, got the ball rolling on this project, which is envisioned as an east-west spine for the transit system. The 9-mile route would provide frequent service from downtown Milwaukee to the Regional Medical Center in Wauwatosa.

The Milwaukee County Executive and Board of Supervisors have committed local funding in the 2019 county budget to develop the BRT project and purchase electric buses to operate on the route. The county has also applied for a federal Small Starts grant that would cover 80% of the project's capital costs and expects a decision from the U.S. Department of Transportation in 2019. Construction could begin in 2020 and service in 2021.

---

### In FOCUS . . . recently in our biweekly newsletter

- Rural Counties Face Psychiatrist Shortage ([#19-18](#))
- Wisconsin's Prison Population on the Rise ([#20-18](#))
- Challenge and Change Ahead for the State Budget ([#21-18](#))
- Under the Gun on Conservation Funding ([#22-18](#))
- School Referenda Reach New Heights ([#23-18](#))
- Municipal Voters Approve Levy Hikes ([#24-18](#))