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Federal Funds Delay Hard Decisions in Milwaukee City Budget, but Fiscal Cliff Remains

Budget brief sees future impact to public safety, looks at proposed uses of federal pandemic aid

An unprecedented infusion of federal pandemic aid should provide substantial but temporary relief for the city of Milwaukee's budget imbalance for the next three years, starting with its 2022 budget, according to the Wisconsin Policy Forum's annual city budget brief.

But while the arrival of \$394.2 million from the federal American Rescue Plan Act (ARPA) is an extraordinarily welcome development for city finances, it will only delay a reckoning with challenges including a looming pension crisis and stagnant state and local revenues. It may also widen the structural fiscal imbalance the city may face in coming years, with critical public safety positions among those at risk in future budgets.

This year's budget brief examines both the use of ARPA monies to fill operating budget gaps in the next three budgets plus a slate of one-time uses for the funds proposed in Milwaukee Mayor Tom Barrett's \$1.75 billion spending plan for 2022. These include lead abatement, affordable housing initiatives, and continued pandemic response.

The Milwaukee Common Council is now considering Barrett's proposal, and will potentially amend the budget and likely adopt some version of it on Nov. 5.

The budget brief notes that among the many proposed uses for ARPA dollars in the 2022 budget are to support the operating costs of 93 fire department positions and 97.5 police positions. While defensible in light of the city's severe near-term fiscal challenges, this comes despite a cardinal rule of government finance: that one-time revenues be spent on one-time costs to avoid difficult program cuts or undue pressure on taxpayers when the funds run out.

"In choosing to disregard that maxim, the city is setting itself up for some excruciating decisions in 2025 in critical areas like fire and police," the report finds. "City leaders will be hard-pressed to maintain those positions without some new infusion of revenue or deep cuts in other departments."

Four keys to the 2022 budget identified in the report are:

1. **City's Structural Imbalance Intensifies:** The city of Milwaukee's revenue challenges have been well documented by the Forum. The city's predicament is linked to excessive reliance on aids from the state of Wisconsin, which have been stagnant for the past two decades; and a lack of local revenue options that creates undue pressure on the property tax, which itself is constrained by state-imposed levy limits. This has led to an ongoing imbalance between revenues and expenditures that has caused a depletion of the city's financial reserves. Instead of making greater use of existing revenue tools, the proposed 2022 budget plugs

holes with ARPA monies and includes only a 2% property tax levy increase (the lowest on a percentage basis since 2016) while freezing major fees at 2021 levels.

2. **ARPA spending plan delays fiscal cliff:** ARPA is channeling \$394.2 million to Milwaukee – the most of any large Wisconsin city in total dollars and on a per-capita basis – due to its large population, and because its formula prioritizes areas with high poverty and aging and overcrowded housing. These funds, which must be obligated by 2024, offer the possibility of addressing some of city government’s long-held fiscal challenges as well as some pressing needs of its residents. Under Barrett’s proposal, about one-third of the funds would help sustain departmental operating budgets and offset a projected huge spike in pension costs. The remainder would go toward one-time initiatives relating to affordable housing, lead abatement, violence and reckless driving prevention, and funding for early childhood education and workforce development. The Common Council will now have to weigh whether it finds this to be the proper balance of uses for this once-in-a-lifetime financial windfall.
3. **Pension Crisis at City’s Doorstep:** Over the past several years, our annual budget briefs have cited an impending crisis point when it would be necessary to “re-set” the city’s employer pension contribution in 2023 – which could require the city to increase its annual pension contribution by up to \$78 million. With this reset now one budget year away, it remains a monumental challenge that ultimately could require massive cuts to city staffing and services. City budget officials have speculated that nearly one quarter of the city’s workforce may need to be cut in order to afford the increased pension payment. The good news, for now, is the use of ARPA monies in the 2022 proposed budget helps accommodate a \$10 million pension reserve contribution next year and will help fill gaps in departmental budgets for the following two years as tax levy is removed to pay for pension costs. These federal dollars may delay the day of reckoning for a few years, but that day still is approaching.
4. **New Investments in Public Health:** The Milwaukee Health Department (MHD) has played a high-profile role in the city’s response to the COVID-19 pandemic but has also come under fire for faulty performance in child lead poisoning treatment and prevention efforts. The 2022 proposed budget adds \$8.3 million in ARPA funds to support pandemic response while also vastly expanding MHD’s lead efforts by designating \$84 million in ARPA funds over the next three years, including \$26.1 million in 2022. It also includes \$3 million to beef up the city’s violence prevention efforts, in part by expanding a violence prevention interrupter program.

Overall, the report finds that for now, the influx of federal funds is playing a critical role in maintaining city services while shielding residents from large tax and fee hikes. Yet policymakers and citizens should be aware that the federal infusion has not erased the city's moment of fiscal reckoning – but more likely, simply delayed it.

"A budget year in 2025 that would see a reduction of nearly a quarter of the city’s workforce would have deep implications for the city’s residents, visitors, and businesses and broader implications for the state given the region’s economic importance," the report concludes. "The ARPA funds likely extend the crisis from next year to three years from now, but the clock is ticking."

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