ABOUT THE PUBLIC POLICY FORUM

Milwaukee-based Public Policy Forum – which was 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 regional public policy issues.

PREFACE AND ACKNOWLEDGMENTS

This report was undertaken to provide citizens and policymakers in the Milwaukee region and across the state with an independent, comprehensive and objective analysis of the fiscal condition of the City of Milwaukee government. We hope that policymakers and community leaders will use the report's findings to inform discussions during upcoming policy debates and budget deliberations at both the city and state level.

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

We also wish to thank our dozens of dues-paying corporate, government, institutional and individual members for funding this research, which was conducted with the use of general operating revenues, as opposed to a grant from a specific funder. This research also was made possible with general operating grant revenue provided by the Rockwell Automation Charitable Corporation.

City of Milwaukee's Fiscal Condition:

BETWEEN A ROCK AND A HARD PLACE

An independent third-party analysis

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EXECUTIVE SUMMARY

Milwaukee Mayor Tom Barrett set the tone for the city's 2010 budget deliberations at the first public budget hearing in mid-July, when he declared that "this budget is by far the most difficult that I have faced not only as mayor, but in my nearly 25 years of public service."

Of course, Mayor Barrett is far from the only big city mayor in the United States bemoaning his government's fiscal predicament in the midst of one of the nation's worst economic downturns. A combination of reduced tax and fee revenues and vastly diminished pension fund assets, recession-induced cuts in aid from higher levels of government, and increased demand for services has left many mayors singing a similar tune.

As City of Milwaukee officials grapple with extremely difficult budget decisions this fall, it is important for policymakers and citizens to understand the complete context for the city's fiscal challenges. Are these challenges solely the byproduct of economic recession, or do they reflect a more fundamental structural imbalance that has been building over time? Can they be met with short-term solutions designed to "ride out the storm" until the economy recovers, or do they require radical fiscal and programmatic change?

In order to address those questions and provide additional perspective on the city's fiscal plight, the Public Policy Forum has conducted a third-party assessment of the City of Milwaukee's fiscal condition. Using the same respected fiscal monitoring system employed for a similar report on Milwaukee County government earlier this year, we examine fiscal trends, compare Milwaukee with similar-sized cities, analyze the root cause of problems and discuss potential solutions.

What we find is a city government on the precipice of serious fiscal and programmatic disorder. Despite outstanding bond ratings, a comparatively well-funded pension system and healthy reserves, Milwaukee has exhausted the capacity of its existing revenue streams to support its expenditure needs. We also find that this reality is not solely the consequence of economic recession, but one that has been building for more than a decade despite the efforts of city leaders to manage it.

Key findings from our analysis of the fiscal condition of Milwaukee city government:

- Milwaukee's revenue structure presents tremendous and increasingly difficult fiscal challenges. A standard benchmark of fiscal health for municipalities is having diverse revenue sources, including many under their direct control and tied to inflation. Milwaukee has fewer such revenue sources than similar cities while its largest revenue source – state aid – has not increased in 12 years. Also, unlike most cities, Milwaukee depends upon a single local tax to fund its operating expenditures. As a result, property taxes are higher in Milwaukee even though the city generates less total revenue from local taxation than other cities.

- In recent years, Milwaukee has attempted to combat stagnant state revenue and maintain limited expenditure growth by increasing transfers from the Tax Stabilization Fund and enterprise funds and, especially, by raising user fees and charges. This fiscal strategy does not have long-term viability. There are not sufficient reserves to draw upon in perpetuity, and revenue from charges for services cannot grow much higher because of statutory limitations.

- The city has experienced a sharp increase in fringe benefit expenditures, particularly in the area of health care for employees and retirees. Health care costs grew by $26 million from 2004 to 2008, accounting for 38% of the city's $68 million total expenditure growth, and they are projected to grow even more rapidly in the next three years. Pension costs, meanwhile, remained level during the period, but that circumstance is about to change. The precipitous fall in the stock market devalued the city's pension fund, necessitating an additional $37 million property tax levy contribution in 2010. While many retirement benefits for existing retirees and employees cannot be modified without the consent of those affected, these escalating costs suggest that significant changes to the city's fringe benefit structure must be contemplated as part of a larger strategy to attain long-term solvency.

- Despite modest overall expenditure growth during the past five years, the city's police and public works operations have grown at a rate greater than inflation. Most departments, however, have not seen such funding increases. A few departments – city development, health, and public libraries – accounted for 73% of the loss in non-public safety full-time positions (88 of the total 120 full-time positions lost since 2004). Since public safety constitutes more than one-half of all city operating expenditures, it will be exceedingly difficult to continue to shield it from substantial cuts in the future without decimating other city functions. In the end, the choice may come down to police or potholes.

- From 2004 to 2008, debt service payments funded through the tax levy increased by $20 million, or 37%. This growth in levy-funded debt costs has been a source of concern to the city, but there is no easy solution. Capital assets, particularly local streets, are not in good condition and their repair and restoration will require a substantial investment. Yet, such an investment could cause the city's debt load to add to the already excessive pressures on the operating budget.

- In evaluating the city's long-term fiscal solvency and looking beyond 2010, we find that cost pressures are escalating, highlighted by continued growth in health care and pension costs that are likely to greatly exceed the rate of inflation, and a major unpaid bill to restore the condition of the city's local streets. Reining in these expenditures represents a major fiscal challenge. Yet, even if the city can somehow hold overall expenditures at the level of inflation, revenues are not likely to rise by that amount. Expenditures and revenues will remain structurally out of balance.

Our analysis indicates that by most any standard, the City of Milwaukee is financially well run and management is not the cause of its fiscal problems. That finding amplifies even further the conclusion that Milwaukee's deteriorating fiscal condition cannot be reversed through better

management, but instead requires major policy change, potentially including an entirely new revenue structure.

This report is intended to sound a wake-up call to local and state policymakers and establish a platform for subsequent policy discussion and action. Far too often, governments on the precipice of major fiscal disorder settle on short-term solutions – such as depletion of reserves, deferral of maintenance, and inappropriate use of one-time revenues – that worsen structural problems and make inevitable tough decisions even more difficult. Whatever actions are decided upon must be of the size and scope needed to truly address the city's fiscal challenges, and must involve the active participation of both state and city leaders.

INTRODUCTION

This report presents an analysis of the fiscal condition of the City of Milwaukee government, applying a professional financial evaluation system of the International City/County Management Association (ICMA). The city conducted this type of analysis internally during the 1990s, but it has done nothing similar this decade. In March 2008, the Forum released an evaluation of the finances of Milwaukee County also using the ICMA methodology.

Milwaukee's city government currently is experiencing serious financial difficulties. The recession hit Milwaukee hard, as it has the region and state, and the negative impact on Milwaukee's businesses and property values has had financial repercussions on city coffers. In addition, the massive decline in stock prices has devalued pension investments. While ranked the second most secure public pension fund in the nation prior to the economic downturn, Milwaukee's pension fund now has an unfunded liability of more than $700 million.

These financial challenges will require major changes to the city's 2010 and 2011 budgets, and likely beyond. How Milwaukee responds will reflect not only the inherent nature of the fiscal problems, but the city's interpretation of them. Two starkly different readings now receive prominence in public discussion. The first is that the city's problems are an abnormality caused by the national economic crisis, and that these problems will largely dissipate with the return of calmer economic waters. The second is that the recession has aggravated but is not the cause of the city's current problems, which are rooted in more fundamental financial deficiencies.

Resolving that question of interpretation requires a thorough examination and assessment of the city's finances. The evaluation system of the International City/County Management Association is an especially appropriate basis for such an analysis. Unlike many budgetary methodologies that rely upon a comparison of past trends and projected trajectories in revenues and expenditures, the ICMA system goes beyond budget balance to examine defining fiscal characteristics and structure. ICMA's system incorporates multiple perspectives and time frames. It seeks to understand immediate fiscal pressures but also the impact of short-term actions on long-term prospects.

ICMA created its methodology for evaluating local government finance in the early 1980s. Since that time, many counties and municipalities have used this system to assess their fiscal health. The system rests upon broad concepts and financial data and requires the selection and tracking of fiscal indicators to assess the underlying forces that may affect municipal finance. It focuses on four types of solvency:

- Cash solvency, which refers to a government's ability to pay its bills and meet its payroll.
- Budgetary solvency, defined as "a government's ability to generate enough revenues over its normal budgetary period to meet its expenditures and not incur deficits."
- Long-run solvency, which examines future costs incurred by current fiscal decisions.

- Service-level solvency, which is the "ability to provide services at the level and quality that are required for the health, safety, and welfare of the community and that its citizens desire."

In addition to offering an objective context with which to consider the overall financial condition of Milwaukee city government, this report provides in-depth analysis of familiar issues that significantly impact that condition. For example, as is well known, the state's shared revenue payment to Milwaukee has not grown for more than a decade. The report not only documents this trend, but also shows how other revenues have increased to replace state funds and assesses the feasibility of such resources continuing to fill this gap in the future. Likewise, the report considers the consequences and implications of current expenditure patterns, and adds an additional layer of analysis by examining how Milwaukee's expenditure patterns compare to those of other cities.

The overriding objective of this report is to promote an enhanced understanding of the causes and depth of the city's fiscal challenges so that potential responses can be debated from a commonly agreed upon and factual frame of reference. While such an understanding will not make the difficult decisions that are required any easier, it at least will ensure that policymakers focus on developing solutions, as opposed to arguing about the nature and scope of the problem.

METHODOLOGY AND DATA

In order to provide a thorough and objective assessment of the City of Milwaukee's fiscal condition, this report relies heavily on the ICMA's Financial Trend Monitoring System, the purpose of which is to:

- *Examine local government financial condition—the forces that affect it and the obstacles to measuring it*
- *Identify existing and emerging financial problems*
- *Develop remedies for these problems*

ICMA offers the kind of evaluation that rarely is possible during time-sensitive budget deliberations. The analysis strives for comprehensiveness and sophistication, seeking to take the temperature of a government's finances by examining essential fiscal forces. The ICMA system helps a government better understand the nature of its revenues and expenditures, as well as its long-term and current budget solvency. It also examines the government's cash position and how revenues and expenditures influence service levels.

The heart of the ICMA system is the selection of a group of indicators critical to local circumstances and the collection of information relevant to those indicators. The analysis tracks trend results for the selected indicators over a five-year period.

ICMA does not provide a formula for interpreting the gathered information. Rather, the format organizes and presents data, and provides a context by which to reach considered opinion. As the ICMA handbook says:

> *Evaluating a jurisdiction's financial condition is a complex process…Not only are there large numbers of factors to evaluate, but many of them are also difficult to isolate and quantify. Relationships between the factors add to the complexity. Some are more important than others, but often this cannot be determined until all the factors have been assembled…No single indicator is conclusive.*

This City of Milwaukee analysis, as the ICMA system intends, is broad ranging with indicators specifically selected to address all four forms of solvency cited in the introduction to this report. Indicators on fiscal liquidity and fund balances demonstrate cash solvency. Indicators on retirement, debt, and the condition of city assets shed light on long-term solvency. Indicators on revenues and expenditures reveal underlying factors that affect budget and service solvency. Environmental indicators explore the broader forces influencing fiscal health. Trends are tracked from 2004 to 2008 and, on critical issues, the report examines more recent budgeted data.

In addition to using the ICMA indicators as a primary evaluative tool, this report utilizes a multitude of related data to create a context and an analytical framework that complements indicator information. City of Milwaukee financial reports and records, budget documents, and select studies were the major data sources consulted. This information was provided by officials from the city's budget office, comptroller, and other city offices who were gracious and helpful

despite a demanding workload. The report also draws upon demographic, economic, social, and housing data from the U.S. Census, crime data from the FBI, housing and fire-related data from the National Fire Data Center, municipal finance data from the U.S. Census of Governments, and data on fire and police department expenditures from ICMA. Secondary sources also were consulted and the Consumer Price Index was used to assess the impact of inflation. To augment the analysis, conversations were held with professional staff from the Government Finance Officers Association (GFOA).

Finally, for comparative purposes, the study gathered information about cities roughly similar to Milwaukee. Cities used in these comparisons typically were those with a population in excess of 300,000 that serve as a center of a metro area and that have operating budgets of comparable size and scope and readily available financial information. On many topics, the same benchmark group is used. In other instances, different cities are compared in order to take advantage of databases, such as the ICMA file on police and fire department expenditures, that have limited municipal participation. City-to-city comparisons must be used judiciously given differences in governmental and financial structures and environmental influences.

MILWAUKEE'S ENVIRONMENT AND THE CITY'S FINANCIAL HEALTH

Analyzing the environment with the ICMA system

A local government's environment profoundly affects and shapes its fiscal condition. While the ICMA system and this report focus on fiscal matters, other factors can have a major influence upon fiscal health. ICMA lists an array of environmental indicators that an analysis may choose to incorporate, including changes in community needs and wealth, economic and demographic conditions, disaster risk, and the nature of existing political structures and relationships. These "external" factors can affect citizens' needs and demands for government services and programs, as well as the ability of a government to pay its bills, sustain programs, and maintain long-term solvency. Under the ICMA system, the ultimate purpose of an environmental analysis is to assess whether "environmental factors provide enough resources to pay for the demands they make."

Summary of environmental findings

Milwaukee has suffered the same economic woes—the loss of heavy industry, jobs, and population—that have plagued the Midwest as a whole for more than a quarter century and that have burdened municipal government finance. Yet, this familiar story misses much of importance about Milwaukee, as well as its comparative fiscal position.

In some ways, the city has suffered more than most; but in other ways, Milwaukee still is a financial power. Our analysis shows that Milwaukee enjoys only modest community property wealth and income when compared to similar cities. Also, underlying social problems, such as poverty and crime, place strong demands on city services. Nevertheless, despite such formidable obstacles, the city has become more economically diverse and stable, and a 40-year population decline has halted. Milwaukee remains the financial, trade, tourist, entertainment, and cultural hub of the state's largest metro area. Its central position in the region means that there are many influential stakeholders invested in the city's success and that the city is more integral to its region than many other Midwestern cities.

Analysis

One measure of a city's financial power and well-being is the size of its population and the direction of population change. Most cities have substantial fixed costs for infrastructure and government operations. Consequently, a city whose population is gradually expanding can use a greater share of a growing base of tax revenue for qualitative and programmatic improvements than can a city without such growth. Conversely, a city with a shrinking population must spread fixed costs among fewer people, which places greater pressure on ongoing programs. Population decline also makes it more difficult to undertake and afford new initiatives.

Milwaukee's population reached its high in 1960 at 741,324. The population declined precipitously in the next two decades to 636,212 in 1980 and more gradually to 596,976 in 2000. The city's population drop was part of a broad Midwestern phenomenon that saw large cities

experience population declines, often of a dramatic nature. For instance, from 1990 to 2000, Milwaukee fell from the 16th to the 19th largest city in the U.S, while Cleveland fell from 18th to 33rd and Pittsburgh from 30th to 52nd. Columbus was the only city in the Midwest among the largest 100 U.S. cities to see its national population rank rise during these years. Despite this 40-year swoon, Milwaukee's population has stabilized and even begun to increase during the past decade. In 2000, Milwaukee's population was 596,976. The most recent U.S. Census count in 2008 stood at 604,477.

Another critical aspect of municipal fiscal health is the overall vitality and viability of the local economy. When the economy is strong, the fiscal position of the local government is likely to be good. Of course, the opposite also is the case. In Milwaukee, the decreasing competitiveness of American manufacturing has led to factory closings and job loss. Yet, many Milwaukee firms are keeping their heads above water through product specialization and more aggressive exporting. Because of such adaptations and other changes, national bond rating agencies are upbeat about the region's economy. In January 2009, for instance, Moody's concluded that Milwaukee's economy, despite the recent recession, was "relatively stable, largely due to additional diversity of the financial, governmental, and health care concerns that provide employment opportunities in the tax base." Standard and Poor's also noted that unlike some Midwestern cities where a few industries dominate, "Milwaukee's tax base is diverse with the 10 leading taxpayers accounting for just 4% of total assessed valuation."

Table 1: Trends in Select Environmental Indicators, City of Milwaukee, 2003 to 2007

Year	Median household income	Taxable value*	Percent in poverty	Civilian labor force
2003	$32,293	$20,298	22.1%	284,810
2004	$31,231	$21,730	26.0%	282,027
2005	$32,666	$23,491	24.9%	265,550
2006	$33,990	$26,256	26.2%	279,409
2007	$35,282	$30,227	24.4%	284,557
5-yr difference	**$2,989**	**$9,929**	**n/a**	**-253**
5-yr % change	**9.3%**	**48.9%**	**n/a**	**-0.1%**

* Equalized value, in millions
Source: Comprehensive Annual Financial Reports (CAFRs), 2003 to 2007, and U.S. Census, American Community Survey, 2003 to 2007

While the structure of the local economy may be sound, the environment in which Milwaukee operates nevertheless is challenging. An important environmental indicator is the level of poverty, which does not translate directly into municipal services, but which does give a rough approximation of the need for public safety, social, and health services. By any measure, the city's poverty rate of 24% is exceptionally high. In 2007, this rate compared with the state average of 11% and placed Milwaukee among the cities in the nation with the most poverty. As shown in **Table 1**, this rate has wavered slightly during the past five years but generally has not improved.

In regard to financial capacity, Milwaukee's ability to meet its residents' needs is handicapped by the city's low median household income, about three quarters of the state average. As **Table 1** indicates, income levels also have increased slowly. On the positive side, Milwaukee's

property values increased by 49% in real dollars from 2003 to 2007, a rise labeled "particularly robust" by Fitch's Ratings. Yet, the recession has put an end to the boom in property values and little growth is anticipated for the next few years.

Perhaps the best way to comprehend how Milwaukee's environmental challenges impact the fiscal stability of its city government is to compare its environment with similar cities in the Midwest and elsewhere. **Table 2** provides such a perspective of financial capacity and **Table 3** looks at indicators that speak to financial demand for city government services.

Table 2: Environmental Indicators Related to Financial Capacity, City of Milwaukee and Comparable Cities, 2007

City	Median household income	Mean household income	Per capita property value
Charlotte	$52,690	$75,847	$68,204
Cincinnati	$31,916	$49,338	$15,780
Cleveland	$27,007	$36,352	$20,739
Columbus	$42,031	$52,492	$45,427
Milwaukee	***$35,282***	***$45,016***	***$30,227***
Minneapolis	$44,423	$65,228	$39,943
Oklahoma City	$41,899	$60,268	$30,609
Pittsburgh	$32,344	$48,510	$21,084
Portland	$47,143	$63,883	$34,521
Sacramento	$49,849	$65,306	$37,183
Toledo	$35,216	$43,569	$13,571
Milwaukee rank*	***7***	***9***	***7***

* Ranked in descending order of financial capacity, for example, the city with the highest median household income is ranked 1st

Source: U.S. Census, American Community Survey, 2007; and CAFRs, 2007

As the two tables make clear, the City of Milwaukee compares unfavorably with its peers, a group that includes a few of the most hard-pressed cities in the nation. In fact, Milwaukee ranks no higher than seventh on the three measures of fiscal capacity. On the broad array of demand indicators, Milwaukee is consistently near the top, meaning that city hall must govern in the face of higher levels of social distress and need. Much could be said about these results. For the purpose of this fiscal condition analysis, however, it might be sufficient to conclude that increasing local taxes and fees and cutting programs in response to budget difficulties may be a more difficult proposition in Milwaukee than in other comparable cities.

Table 3: Environmental Indicators Related to Financial Demand, City of Milwaukee and Comparable Cities, 2007

City	Annual unemployment rate	Percent in poverty	Less than H.S. diploma	Crimes per 10,000		Housing**		
				Violent	Property	Units per 10,000	% owner occupied	Built prior to 1950
Charlotte	5.5%	12.4%	11.3%	108	766	4,578	59.7%	6.5%
Cincinnati	n/a	23.5%	19.2%	108	616	4,921	43.0%	55.0%
Cleveland	8.5%	29.5%	25.8%	147	617	4,926	46.7%	68.3%
Columbus	5.5%	21.0%	13.9%	84	689	4,846	51.9%	20.7%
Milwaukee	***6.6%***	***24.4%***	***20.4%***	***133***	***634***	***4,118***	***47.9%***	***51.8%***
Minneapolis	5.1%	20.4%	12.8%	147	594	4,608	52.7%	58.8%
Oklahoma City	3.8%	16.2%	15.8%	84	585	4,630	61.7%	17.8%
Pittsburgh	n/a	21.0%	13.5%	111	447	5,128	53.8%	63.8%
Portland	5.7%	15.1%	11.2%	68	576	4,623	57.4%	45.0%
Sacramento	8.5%	14.3%	19.3%	112	533	4,123	52.4%	20.7%
Toledo	NA	22.6%	16.0%	123	671	4,710	60.0%	47.4%
Milwaukee rank*	***3***	***2***	***2***	***3***	***4***	***1***	***3***	***5***

* Ranked in descending order of distress or fiscal demand; for example, the city with the highest poverty rate is ranked 1st.
** For housing, a higher incidence of home ownership relates to lower financial demand. A lower incidence of units per 10,000 people reflects higher population density but also fewer units per capita to maintain.
Source: U.S. Census (2000 and 2007), and Bureau of Labor Statistics, Local Area Unemployment Rates in 50 Largest Cities, 2008

The above statistics on community fiscal capacity and demand are not the full story. What they miss is that many environmental influences lie outside the city line. As the bond rating agencies emphasize, Milwaukee serves as a regional hub. Many residents live in its suburbs but work and play in the city. In the past quarter century or so, metro areas have evolved substantial "edge cities" whose services and facilities rival or displace those of the center city. This demographic transformation has not really occurred in Milwaukee, which still serves economically as the center of finance, trade, and tourism. The city also is home to the region's major cultural and entertainment attractions. Compared with similar cities, Milwaukee retains a larger share of its metro area's population and payroll, as **Table 4** shows. Financially troubled cities such as Cleveland, Cincinnati, and Pittsburgh have a smaller share of their metro area's human and economic resources.

Table 4: City Population and Payroll as a Percent of Metro Area, Milwaukee and Comparable Cities

City	Annual payroll (in thousands)	2008 population
Charlotte, City	*$17,993,115*	687,456
Charlotte, Metro	*$27,056,797*	1,701,799
City % of Metro	*66.5%*	*40.4%*
Cincinnati, City	*$9,918,023*	333,336
Cincinnati, Metro	*$31,022,098*	2,155,137
City % of Metro	*32.0%*	*15.5%*
Cleveland, City	*$9,932,234*	433,748
Cleveland, Metro	*$32,986,496*	2,088,291
City % of Metro	*30.1%*	*20.8%*
Columbus, City	*$14,460,148*	754,885
Columbus, Metro	*$26,470,826*	1,773,120
City % of Metro	*54.6%*	*42.6%*
Milwaukee, City	***$11,388,632***	***604,477***
Milwaukee, Metro	***$27,989,731***	***1,549,308***
City % of Metro	***40.7%***	***39.0%***
Minneapolis, City	*$12,244,970*	382,605
Minneapolis, Metro	*$61,553,264*	3,229,878
City % of Metro	*19.9%*	*11.8%*
Oklahoma City	*$8,375,805*	551,789
Oklahoma City, Metro	*$11,788,272*	1,206,142
City % of Metro	*71.1%*	*45.7%*
Pittsburgh, City	*$11,844,191*	310,037
Pittsburgh, Metro	*$33,233,092*	2,351,192
City % of Metro	*35.6%*	*13.2%*
Portland, City	*$11,844,191*	557,706
Portland, Metro	*$30,398,305*	2,207,462
City % of Metro	*39.0%*	*25.3%*
Sacramento, City	*$5,950,322*	463,794
Sacramento, Metro	*$21,469,100*	2,109,832
City % of Metro	*27.7%*	*22.0%*
Toledo, City	*$4,505,719*	293,501
Toledo Metro	*$9,106,150*	649,104
City % of Metro	*49.5%*	*45.2%*
Milwaukee rank*	***5***	***5***

* Ranked in descending order; for example, the city with the largest share of its metro population is ranked 1st.
Source: U.S. Census, Survey of Business Owners, 2002, and U.S. Census, American Community Survey, 2007

BUDGETARY SOLVENCY: REVENUES

Analyzing revenues with the ICMA system

A key feature of any fiscal assessment is whether revenues are increasing at a rate sufficient to sustain existing levels of services and program operations. The ICMA handbook states that "under ideal conditions, revenues would grow at a rate equal to or greater than the combined effects of inflation and expenditure."

Since local governments rely upon multiple revenue sources, ICMA emphasizes that solvency may reflect decisions not just about whether or how much to increase taxes and fees, but also about the nature and relative proportion of revenue streams. Whether a government relies mainly upon the property tax or the sales or income tax, or de-emphasizes local taxes in favor of fees or external state support, can make all the difference in its fiscal circumstances.

The ICMA system, therefore, encourages close examination of a government's revenue *characteristics* and highlights the importance of revenue flexibility and dependability. In the organization's professional judgment, a local government's fiscal condition is strongest when it has diverse revenue sources that are not overly dependent upon external factors, when a significant portion of its revenues vary with the rate of inflation, and when its revenues are flexible and free from spending limitations.

Summary of revenue findings

After comparing Milwaukee's revenue picture with cities throughout the nation, as well as similar large cities, we find that Milwaukee relies much more than most upon a limited number of revenue sources for operational support, namely the property tax and state aids. Local taxes represent a smaller proportion of Milwaukee's operating budget than they do in many other cities. However, its property taxes are higher since the city depends almost entirely upon that single local tax. Other similar cities often draw upon multiple tax sources (such as sales, income, and business taxes) in addition to the property tax.

The most significant revenue trend has been the lack of growth in state shared revenue, the city's largest revenue source. Whereas ICMA emphasizes maintaining revenues at the rate of inflation, the city is highly dependent upon state resources that have shown limited to no growth. Such revenue limitations are inconsistent with escalating expenditure pressures in areas such as health care and retirement.

Has the city's budget reached a breaking point? An examination of the city's revenue trends and options makes it easier to say "yes" to this question than ever before. The city's prospects are not good if it hopes to continue to balance its budget by increasing user fees and tapping into reserves. In recent years, charges for services have grown at an escalated rate. However, state regulations prevent municipalities from charging more than the actual cost of providing most services, and this limitation will confine the future growth of this resource. A diminished Tax Stabilization Fund (TSF) and a drop-off in other income caused by the current recession further complicate the revenue picture. Major revenue restructuring appears necessary.

Analysis

Major revenue sources

Table 5 presents Milwaukee's eight major sources of operating revenues. Each of those major revenue sources is then described, with inclusion of the most recent fiscal data in each description.

Table 5: Major Milwaukee Operating Revenues, 2008 (in millions)

Revenue	2008	% of total
Intergovernmental	$271,100	44.1%
Property Taxes	$141,573	23.0%
Charges for Services	$86,410	14.1%
Tax Stabilization Fund Transfer	$29,457	4.8%
Enterprise Fund Transfers	$28,869	4.7%
Contributions	$21,532	3.5%
Other	$17,703	2.9%
Licenses & Permits	$12,918	2.1%
Fines and Forfeits	$5,277	0.9%
Total	**$614,839**	**100%**

Source: City of Milwaukee, financial records, unaudited

Intergovernmental Revenues are grants and aids that come from the state and, to a much smaller degree, the federal government. About 85% of the city's intergovernmental revenues ($231 million of the $273 million in 2007) come from state "shared revenue" for general government expenditures. Other major state funds include local street aids ($26 million) and expenditure restraint aids ($9 million). The latter provides incentive payments to control growth in local expenditures.

Property Taxes, under state statute, are designated as the major source of municipal tax revenue. The state, as modified by the 2009-11 budget, has limited property tax increases to 3% each year or the value of new construction. Property taxes collected by the city are allocated to four government funds: the General Fund ($141 million in 2008), debt service ($74 million), capital projects ($7 million), and non-major funds ($5 million).[1]

Charges for Services are revenues received for services delivered by city departments. The state legislature has specified the types of services for which user fees can be assessed and has prohibited the establishment of fees that exceed the cost of service. Milwaukee currently has 33

[1] Local governments also are allowed an "add-on" to the State Motor Vehicle Registration fee (the so-called wheel tax) that only can be used for transportation purposes, and they are authorized to levy a hotel/motel room tax of up to 8% (which in Milwaukee flow to the convention center district). In 2008, Milwaukee implemented a $20 wheel tax that is budgeted to generate an estimated $6.6 million in 2009. Under authorizing legislation, half of the wheel tax monies go to the General Fund and half to debt service to offset local street repair costs formerly paid by special assessments.

departmental service charges. Major charges for services include the solid waste fee, the sewer maintenance fee and the snow and ice fee. Charges for services totaled $86 million in 2008.

Tax Stabilization Fund (TSF) is used to reduce fluctuations in the city's property tax rate. Revenues in the fund are generated from unexpended appropriations and revenue surpluses. Each year, as part of the budget process, an amount is set aside for transfer from the TSF to the General Fund. The TSF is not a contingency fund; the city has such a fund to address unanticipated budget shortfalls that occur during the fiscal year. In recent years, TSF revenues have ranged from a low of $16 million in 2006 to a high of $29 million in 2008.

Enterprise Fund Transfers are monies that are not needed for operating or capital purposes by the city's "enterprises" or that reimburse costs incurred by city departments for those enterprises. The city has three major enterprise funds: water works, sewer maintenance, and parking. These funds are entirely self-sufficient and supported by charges for services. The parking fund generates a substantial transfer to the General Fund each year ($18 million in 2008). Among the other fund transfers ($11 million in 2008), the water works generates the largest amount for payments in lieu of taxes.

Licenses and Permits are revenues that accrue from charges assessed by city departments that grant a person legal permission to engage in a business, occupation, or other regulated activity. Of the $14 million generated in license and permit fee revenue in 2007, building permits ($2.8 million), food and health licenses ($1.7 million) and street excavation-related permits ($1.3 million) yielded the greatest revenue.

Fines and Forfeitures constitute revenues received by the Municipal Court from individuals violating municipal laws. The city received $6 million in such legal payments in 2007.

Contributions are revenues received by the city through reimbursement or donation for various municipal purposes. These revenues primarily are reimbursements from the Employee Retirement System for pension-related costs.

Others Revenues include revenues from interest earnings and property tax-related payments. This category also includes rental revenues and monies from the sale of properties.

Distinctive revenue characteristics

Tables 6 and **7** shed further light on the city's revenues. They show that Milwaukee, while not unique, has a distinctive revenue pattern in comparison with other large cities across the U.S. and other municipalities in the state of Wisconsin.

The data in these two tables comes from the most recent U.S. Census of Governments conducted in 2002 and published in 2005. The percentages in the two tables differ somewhat because the first table pertains to general operating revenue and the second table to all government funds (excluding business enterprises). In other words, the second table includes revenues allocated to debt service, capital outlay, and minor government accounts. Because the U.S. Census uses its own revenue definition and categorization scheme, some of the numbers, such as charges for services, differ from City of Milwaukee figures. Despite these complications, the Governmental Census is an excellent way to get a broad picture of Milwaukee's revenues since all cities use the same definitions and data collection format. The U.S. Census will issue a new report on municipal finances in the fall or winter of 2009 which will enable this comparative analysis to be updated.

Table 6: General Revenue Sources for Municipal Governments in Largest U.S. Cities, Wisconsin, and Milwaukee

Revenue Source	U.S. cities average*	Wisconsin average	Milwaukee
*Intergovernmental***	*34.4%*	*35.0%*	*49.7%*
Federal	7.6%	3.7%	8.8%
State	24.9%	28.2%	35.9%
Own Sources	*65.6%*	*65.0%*	*50.3%*
Taxes	41.3%	34.2%	23.5%
Property Tax	16.8%	31.1%	22.3%
Other	24.5%	3.0%	1.3%
Charges for Services	24.3%	30.8%	26.8%

* U.S. cities over 300,000 in population in 2000 U.S. Census
** Includes amounts not shown separately
Source: U.S. Census, Finances of Municipal and Township Governments, 2002, Vol. 4, No. 4, Table 13, published 2005

Table 6 shows that in 2002, nearly half of Milwaukee's operating revenue was intergovernmental (state or federal) in origin. In the U.S. and Wisconsin, this source constituted only slightly more than one third of all operating revenue. Milwaukee also was less dependent upon its own revenue sources than other city governments in both the U.S. and Wisconsin, yet it was more reliant upon the property tax than other large U.S. cities, largely because it had no other substantial local tax source.

Table 7 draws from comparative cities to offer additional perspective about Milwaukee's tax reliance. This data, which is culled from 2007 comprehensive annual financial reports, shows that Milwaukee is the only city in the group that does not have more than one major source of local tax revenue. Comparisons of this sort are far from perfect. For instance, Minneapolis' budget includes sales and entertainment tax revenue from its convention center, while Milwaukee's convention center is separately governed and budgeted. Nevertheless, despite such discrepancies, Milwaukee clearly differs from a pattern of reliance upon multiple local taxes. **Broad distribution of revenues is consistent with ICMA's methodology since cities that spread risk across multiple revenues can better ensure resource dependability**.

Table 7: Major Local Tax Revenue, Milwaukee and Comparable Cities* 2007 (in millions)

City	State	Property tax revenue	Income tax revenue	Retail sales tax revenue	Food service and accommodations tax revenue
Charlotte**	NC	$313	--	$78	$49
Cincinnati	OH	$66	$319	--	$6
Cleveland	OH	$69	$312	--	--
Columbus	MO	$52	$522	--	$4
Milwaukee	***WI***	***$221***	--	--	--
Minneapolis	MN	$238	--	$30	$30
Oklahoma City	OK	$52	--	$365	$10
Pittsburgh***	PA	$127	$57	--	$9
Portland	OR	$354	--	--	$18
Sacramento	CA	$145	--	$56	--
Toledo	OH	$19	$170	--	--

* Governmental Fund tax revenues

** Does not include $16 million in business privilege tax

*** Does not include $44 million in payroll preparation and $9 million in business privilege tax

Source: 2007 Comprehensive Annual Financial Report

Two other revenue characteristics are noteworthy. First, the City of Milwaukee has been able to manage its business enterprises so that each year some revenues revert to the city's general revenue fund either in lieu of taxes (to reimburse for city services rendered) or as profit. As shown in **Table 5**, revenue transfers from the enterprise to the General Fund amounted to $29 million in 2008, or 5% of total operating revenues. Enterprise revenue transfers grew by $6.1 million, or 27%, from 2004 to 2008. Many units of local government have not been as successful as Milwaukee in managing their enterprise funds. Indeed, some have experienced losses and have needed a periodic infusion of tax monies from their General Fund to maintain enterprise solvency.

Second, a smaller share of Milwaukee's tax revenue, as shown in **Table 8**, goes for operating support in Milwaukee than it does in comparable cities because Milwaukee allocates a greater share for debt service and capital outlay expenditures. At this stage of the analysis, it is not important whether this distribution of tax revenue is fiscally appropriate. Rather, the point is that in addition to generating fewer local tax dollars than most other comparable cities, Milwaukee also utilizes a smaller percentage of the local tax dollars it does generate to support its operations and programs.

Table 8: Allocation of Local Tax Revenues between the General Fund and Other Purposes Milwaukee and Comparable Cities, Governmental Funds, 2007 (in thousands)

City	Tax revenues to General Fund	Tax revenues for other purposes	Total tax revenues	General Fund percentage
Toledo	$189,113	$0	$189,113	100.0%
Pittsburgh	$356,662	$563	$357,225	99.8%
Cleveland	$322,674	$58,364	$381,038	84.7%
Charlotte	$251,722	$61,713	$313,435	80.3%
Columbus	$443,427	$130,809	$574,236	77.2%
Portland	$264,410	$106,678	$371,088	71.3%
Cincinnati	$256,789	$135,513	$392,302	65.5%
Milwaukee	***$142,564***	***$99,385***	***$241,949***	***58.9%***
Minneapolis*	$150,886	$175,301	$326,187	46.3%
Oklahoma City	$196,559	$230,966	$427,525	46.0%

* Includes $60 million in tax revenue for Minneapolis's Convention Center. If these funds are excluded from Minneapolis's revenues in order to provide comparability to Milwaukee, which budgets its convention center separately, Minneapolis' General Fund percentage of tax revenue rises to 56.7%.

Source: 2007 Comprehensive Annual Financial Reports

Revenue trends

The ICMA system relies on trend analysis. It follows fiscal changes over a five-year period to provide a more complete perspective than can be obtained from a single year's slice of data. ICMA's trend indicators also serve as a directional guide that signals whether a government's finances are stable, improving, or deteriorating. To analyze the City of Milwaukee's revenue picture, this analysis uses three indicators of fiscal health: operating revenues per capita in constant dollars, intergovernmental revenue as a percent of operating revenue, and local tax revenue in constant dollars.

Table 9 offers an overview of Milwaukee's operating revenues from 2004 to 2008. Consistent with the ICMA system, monies that are related to debt service and financing are excluded from this analysis and not considered operational. The various individual revenue sources that appear in the table were described earlier in this section.

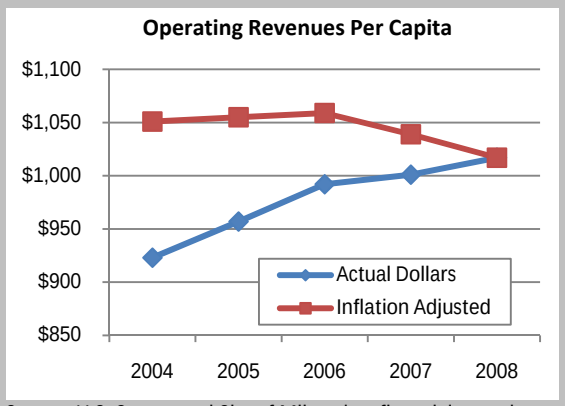
As **Table 9** shows, Milwaukee's total operating revenues increased 10.9% from 2004 to 2008. Since inflation increased by 14%, the city's revenues experienced a net decline in constant dollars, a trend mirrored in per capita operating revenues as seen in **ICMA Indicator 1**.

ICMA Fiscal Indicator 1 – Net Revenues Per Capita

Why it is Important – Steady revenue is generally associated with stable operations and level of service, although total revenue changes may mask sizeable variations in individual revenue sources.

ICMA Warning Sign – Decreasing net operating revenues per capita in constant dollars

City of Milwaukee Finding – The City of Milwaukee experienced a 3.3% decrease in operating revenues per capita when adjusted for inflation. Most individual revenue sources showed greater variation. For example, the major operating revenue resource – intergovernmental revenue – declined by 13% in constant dollars, and property tax revenue declined by 4%. This trend seems destined to continue and, as such, poses a **significant threat** to the city's fiscal health.



Source: U.S. Census and City of Milwaukee financial records

Table 9: Milwaukee Operating Revenues, 2004 to 2008 (in thousands)

Revenues	2004	2005	2006	2007	2008*	5-yr difference	5-yr % change
Intergovernmental	$273,865	$272,875	$272,417	$272,539	$271,100	($2,765)	-1.0%
Property Taxes	$129,120	$135,610	$141,102	$137,253	$141,573	$12,453	9.6%
Charges for Services	$60,825	$63,410	$73,528	$76,496	$86,410	$25,585	42.1%
Tax Stabilization Fund	$16,870	$16,621	$16,328	$23,175	$29,457	$12,587	74.6%
Enterprise Fund Transfers	$22,726	$26,880	$26,761	$27,645	$28,869	$6,143	27.0%
Contributions	$22,236	$25,187	$25,807	$22,270	$21,532	($704)	-3.2%
Other	$11,671	$15,888	$22,555	$24,194	$17,703	$6,032	51.7%
Licenses & Permits	$11,530	$13,374	$13,729	$13,704	$12,918	$1,388	12.0%
Fines and Forfeits	$5,647	$5,893	$5,541	$5,800	$5,277	($370)	-6.6%
Total	**$554,490**	**$575,738**	**$597,768**	**$603,076**	**$614,839**	**$60,349**	**10.9%**

Source: City of Milwaukee fiscal reports, 2004-08; *2008 figures reflect unaudited amounts.

The city's operating budget, adjusted for inflation, shrank by $17 million in constant dollars during these years. **The two largest city revenues, intergovernmental and property tax revenues, which constitute two thirds of total operating revenue, fell in constant dollars by 10%**. This loss was offset to a great extent by a combined 26% increase from three revenue sources: charges for services, transfers from the TSF, and enterprise fund transfers. Had these three revenues increased at the rate of inflation, the city's budget shortfall in constant dollars would have amounted to $47 million from 2004 to 2008.

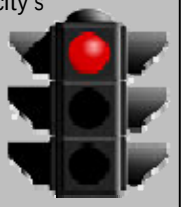
As shown in **ICMA Indicator 2**, the city's intergovernmental revenue also has declined slightly in actual dollars. Furthermore, the flat funding of intergovernmental revenue predates this five-year period. Combined state payments under the shared revenue and expenditure restraint programs, in fact, have not increased for 12 years. These revenues totaled $238.9 million in 1996 and $238.5 million in 2008. During this time, the Consumer Price Index rose by 37%. Had the state payments climbed with the rate of inflation instead of remaining frozen, Milwaukee would have received $88 million in additional funding in 2008.

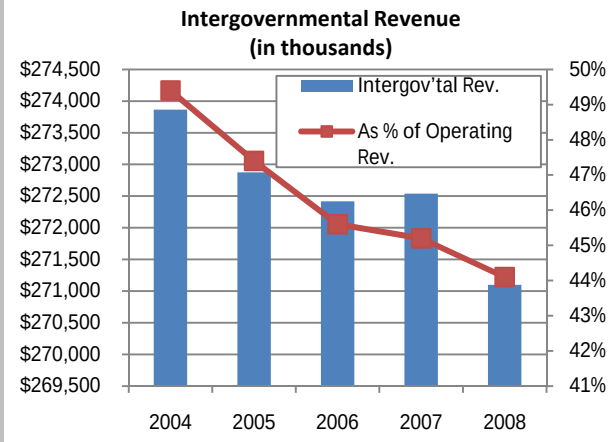
ICMA Fiscal Indicator 2 – Intergovernmental Revenue as a Percentage of Operating Revenue

Why it is Important – Milwaukee depends to a great degree upon intergovernmental revenue, which is derived overwhelmingly from state funds. As a matter of public policy, the state of Wisconsin returns a higher proportion of tax monies to local governments than many other states. Governmental census statistics show that Milwaukee relies upon intergovernmental revenues more than similar cities and even other cities in Wisconsin.

ICMA Warning Sign – An increasing percentage of intergovernmental revenue as a proportion of operating revenues.

City of Milwaukee Finding – The city saw a drop in intergovernmental revenue as a percentage of gross operating revenue, from 49.4% in 2004 to 44.1% in 2008. This declining proportion is primarily due to level funding of the state's shared revenue program, which represented 85% of intergovernmental funds in 2008. On its face, this trend is positive since the city has lessened its dependence upon external revenue sources. However, given the city's strong dependence on this revenue source and its inability to replace it with a sustainable alternative, lack of intergovernmental revenue growth will continue to be a primary cause of budget difficulties and represents a **significant threat** to the city's financial health.





Source: City of Milwaukee financial records

This long-term trend in intergovernmental revenue has complicated and burdened Milwaukee's budget decision making. With half of its operating revenue budget not enjoying inflationary growth, solvency has been more difficult to achieve. Downward revenue pressure has caused city leaders to scrub departmental budgets for savings and search for new resources. Fiscal difficulty has been continuous; solutions have not. Budget remedies adopted in one year have given way to the need to find new remedies in the next year.

In regard to local tax revenue, **ICMA Indicator 3** indicates that this resource grew by 2.7% in constant dollars from 2004 to 2008. While this increase shows that residents are providing sufficient tax revenue to promote budgetary solvency, this overall growth obscures important secondary trends.

From 2004 to 2008, property tax revenue allocated to the General Fund increased from $129 million to $142 million, or 9.6%, which is less than the 14% increase in inflation over that time. In contrast, property taxes allocated to other governmental funds rose by $16 million, or 23%, from $70 million to $86 million.

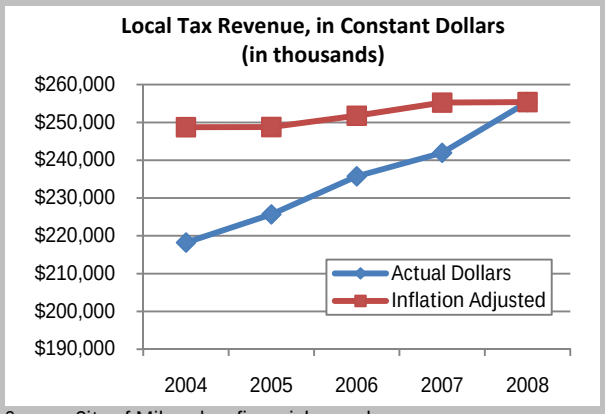
Thus, while the city's main revenue source, intergovernmental revenue, was falling in constant dollars, Milwaukee allocated more than half of the increase from its second largest revenue source to debt payments, capital outlay, and other related costs. As explained below, this action reflected city priorities. Nevertheless, it also constricted the flow of revenues to the General Fund to a rate less than that of inflation and increased the revenue pressure on operations and programs.

ICMA Fiscal Indicator 3 – Local Tax Revenue in Constant $

Why it is Important – Local tax revenue typically consists of property, sales and income taxes. These funds are of fundamental importance to local governments in the resources they provide and in the budget control and flexibility they afford. A decline in this indicator may reflect structural problems, such as a loss of population, a depressed economy, and/or decline in local property values.

ICMA Warning Sign – Decline in tax revenues in constant dollars.

City of Milwaukee Finding – Milwaukee relies upon the property tax as its major local tax resource. From 2004 to 2008, total local tax revenue increased by 2.7% in constant dollars. This is a **positive indicator** of fiscal health, although as explained in the text, tax revenues for *operating purposes* experienced a decline in constant dollars (3.8%).



Source: City of Milwaukee financial records

Not all revenue sources shared the downward trend. The sharpest increase was in charges for services, which climbed by 42% ($26 million). Growth in charges for service income is part of a long-standing trend and a response to other revenue shortfalls. In 1995, the year before intergovernmental revenues stopped growing, charges for services revenues were $23 million. By 2008, however, this resource had expanded by $63 million, or 274%.

Growth in charges for service revenue is largely attributable to increases in existing fees and the creation of new fees. The city instituted a new fee for sewer maintenance in 1998 and a fee for solid waste in 2001. Those fees generated substantial additional revenues from 2004 to 2008, as shown in **Table 10**. Some fees, such as those assessed by the harbor commission and for cable franchise, affect specific populations. Many fees, however, are simply added on to the property tax bill, and essentially are another type of property-related payment.

Property owners have noticed the fiscal impact. An analysis undertaken by the city shows that a house in Milwaukee valued at $133,900 in 2008 had seen its property tax rise by $115 from 2004 to 2008. At the same time, fees for solid waste, sewer maintenance, and snow and ice removal rose by a combined $97.

It is important to note that charges for services do differ from property taxes in that all property owners, including non-profit organizations, pay for these services. City financial staff estimate that about 20-25% of the revenue generated by property-related fees comes from property holders who are exempt from the property tax. From one perspective, then, these charges are appealing as a means of reducing the amount that property taxpayers have to pay for designated city services by spreading such costs among all property owners, including non-profit organizations. On the other hand, since charges for services are uniform and not related to property value, charges for service are more regressive than property taxes.

Table 10: City of Milwaukee Increases in Top Five Charges for Service, 2003 to 2009

Charge	Revenues 2003	Adopted budget 2009	Difference	% change
Solid waste	$14,126,784	$28,500,000	$14,373,216	101.7%
Street sweeping and leaf collection	$4,086,101	$10,097,930	$6,011,829	147.1%
Snow and ice	$2,449,171	$4,965,204	$2,516,033	102.7%
Neighborhood services	$4,000,579	$5,578,830	$1,578,251	39.5%
Harbor commission	$3,453,522	$4,795,011	$1,341,489	38.8%
*Total Top Five**	*$28,116,157*	*$53,936,975*	*$25,820,818*	*91.8%*
All Charges for Services	*$59,167,807*	*$87,154,340*	*$27,986,533*	*47.3%*

* Fire department revenues are not included in the table because of lack of compatibility between budget years

Source: City of Milwaukee, Annual Budgets, 2003 to 2009

Major issue: high degree of dependence upon constricted revenues

Application of ICMA's financial methodology demonstrates that Milwaukee depends more than most cities on a constricted number of revenue sources and that Milwaukee's principal resource, intergovernmental revenue, has not kept pace with inflation for many years. With regard to local taxes, Milwaukee depends upon the property tax, as directed by state statute. This singular dependence has generated higher rates of property taxation while limiting operating revenue growth.

What are Milwaukee's options in the face of these revenue conditions and trends? Perhaps the first question to ask is whether the downward trend in intergovernmental revenues and state shared revenue is irreversible.

Shared revenue has a long history in Wisconsin, dating back to the creation of the income tax in 1911. At its inception, the state intended that shared revenue would reduce reliance upon the property tax and return tax monies to the city or county of their origin. Under this approach, shared revenue became one of the major programs in the state. However, as state government grew, it retained a greater share of tax revenues. The state also modified the shared revenue

distribution formula, most notably in 1976 when taxation equalization payments were substantially curtailed.

During the past two decades, the state has reviewed, restructured and reduced funding for shared revenues. Increasingly, the purpose of the program itself has been brought into question. Should shared revenue fund the differential costs of providing municipal services in Wisconsin, as a 1993 Department of Revenue study advised? Or should it provide incentives to curtail local government cost increases, as a 1997 study advocated? Two major statewide commissions in the early part of this decade, the Kettl Commission in 2001 and the Wisconsin Task Force on State and Local Government in 2002, sought major program changes. The Kettl Commission, for example, called for using shared revenues to establish a base level of municipal services, the so-called "Badger Basics".

Taken together, these studies reflected profound uncertainty and disagreement about the fundamental rationale and goals of the shared revenue program. Failing to achieve such consensus, the state suspended the payment distribution formula and reduced its funding by $90 million in the early part of the current decade. Since 2004, each city and county's aid payment has remained relatively unchanged. Today, the shared revenue program maintains a curious twilight existence: too powerful and needed to eliminate, but too indistinct and contentious to further empower. It is the fourth largest state appropriation. However, it remains effectively sidelined as a vital force without a policy rationale to give it meaning and direction.

Shared revenue's loss of influence and funding also indicates that the state has other priorities. While state government has had its own budget problems during the past decade, a few large programs—school aids, medical assistance, and corrections—have received substantial budget support, as shown in **Table 11**. Indeed, during this period, these three programs obtained more than $3 billion in additional funding, and their combined revenues grew by 55%.

Looking to the future, the national recession and the state's own growing economic distress further diminish the city's already slim hopes for additional state aid. The Legislative Fiscal Bureau estimates that state revenues will decline by $926 million (7%) in 2009 and another $399 million (3%) in 2010. Corporate income tax revenues are projected to fall by 26%, individual income tax revenues by 8% and sales tax revenues by 3% in 2009. As a result of these revenue shortfalls, the state's 2009-11 budget made significant cutbacks in expenditures and enacted a variety of tax and fee increases to meet a projected biennial budget deficit of more than $5 billion. Actions directly affecting the city's 2010 budget include a reduction in shared revenue funding of $2.6 million and an increase in "tipping fees" (garbage disposal costs) of $2 million.

Table 11: Major Wisconsin Programs Appropriations, 1999 to 2009 (in millions)

Program	1999	2009	Difference	% change
School Aids	$3,959	$5,409	$1,450	36.6%
Medical Assistance	$927	$1,978	$1,051	113.4%
Corrections Related	$634	$1,154	$520	82.0%
Shared Revenue	$1,008	$953	($55)	-5.5%

Source: Wisconsin, Legislative Fiscal Bureau

In a recent analysis of Wisconsin's economy and the fiscal condition of state government, Moody's summarized its concerns about Wisconsin's finances: "The state's narrow operating margins and financial resources leave the state vulnerable to the continuing impact of economic decline. The lower revenue forecast for the next biennium strains these resources and the state's ability to close budget gaps. The state's narrow liquidity and continued efforts to address structural budgetary issues will continue to be important considerations in future credit analyses."

The chances that the state will increase shared revenue payments in the near or medium-term appear, therefore, to be slim to non-existent. Yet, in the final analysis, budget solvency depends on overall revenue changes and not a single resource, no matter how important. As shown in the previous section, the city has managed its budget with flat levels of state funding for more than a decade.

Can Milwaukee continue to deal successfully with stagnant or reduced state aid? Unfortunately, its ability to do so appears quite limited. First, as has been shown, because of pressing capital/debt service needs, state controls, and already high tax rates, the property tax has not and likely will not have the capacity to make up for flat shared revenue payments. Second, while Milwaukee increased transfers from the Tax Stabilization Fund by $13 million (75%) from 2004 to 2008, increases of this magnitude cannot be sustained, as shown in **Table 12**.

Table 12: Tax Stabilization Fund Transfers and Remaining Fund Assets, 2004 to 2008 (in thousands)

Year	Transfers to General Fund	Remaining assets
2004	$16,870	$50,479
2005	$16,621	$62,656
2006	$16,328	$82,090
2007	$23,175	$62,704
2008	$29,457	$42,418

Source: Milwaukee, Comprehensive Annual Financial Reports, 2004 to 2008

Third, for structural and other reasons, charges for services, the most vital revenue source in the 2004 to 2008 period, cannot continue to grow as before. Charges for services operate under the statutory restriction that fees cannot exceed their associated costs. The city has increased major fee charges and their percentage of cost in recent years and the administration is likely to propose increasing fees to close to 100% of costs in the 2010 budget. Such an action would generate perhaps as much as $10 million in additional fee revenue. Increasing the solid waste fee to 100% of cost would raise the largest amount of revenue, approximately $5.25 million in 2010. Increasing the storm water charge would raise about $2.1 million. Snow and ice removal fees were at about 80% of cost in 2008, but these expenditures vary with the yearly change in weather and are difficult to predict. Enterprise operations, such as the water works, also can increase fee charges and return a greater percentage of their revenue to the General Fund.

Because many charges for services are so closely associated with property taxes, public opinion and political considerations also affect the setting of fees. Charges for services are not a cash cow, and city officials are exploring cost efficiencies and changes in fee-based service levels at the same time they consider increasing cost recovery through higher charges. Increasing the

percentage of cost is basically a form of one-time financing. If and when full funding of cost is achieved, charges for service revenue likely will grow in tandem with costs.
Finally, further complicating the revenue picture is the current recession, a force that will have multiple and serious impacts upon city revenues in 2010 and beyond. As shown, there are fundamental conditions shaping city revenues that go beyond cyclical changes in the economy, no matter how severe the downturn. Nevertheless, it is irrefutable that the recession has and will have a major impact on city revenues, expenditures, and budget solvency. The effect of the recession upon state government and, indirectly, upon city finances has been shown. Another consequence is that equity losses in the city's pension fund driven by the drop in the stock market will require a massive infusion of funds, as described later in this report.

The recession also has had a negative impact on city property values and the resulting income that can be realized from current property tax rates. Also, the decline in economic activity has reduced the fee revenue generated by business and industry. The city's budget office projects that in 2010, licenses and permit revenues will drop by $1 million, fines and forfeitures by $300,000, and miscellaneous revenues by $3.4 million.

In conclusion, the city finds itself with few options to address a situation that has been more than a decade in the making. While creative efforts may prevent revenue crisis and budget insolvency in the short term, **only a major restructuring of existing revenues and development of new revenue sources seem capable in the long run of maintaining incoming revenue at the level of inflation, a key indicator for maintaining existing levels of city services and budget solvency**. Consideration of a new mix of revenues should not be limited to taxes and fees, but also could include the sale or lease of city assets, including the city's water utility.

Earlier in this report, we cite local revenue sources used by other cities (see **Table 7**), and in a later section we detail specific revenue strategies employed by comparable cities to cope with recent financial disruption. Those examples may warrant careful review, as never in the city's post-World War II history has the case for fundamental change seemed more apparent.

BUDGETARY SOLVENCY: EXPENDITURES

Analyzing expenditures with the ICMA system

An analysis of fiscal stability must consider the extent to which a government's expenditure patterns are consistent with its revenue-generating capacity. The ICMA system uses indicators that measure expenditure growth and display how that growth follows revenue trends. The ICMA indicators also demonstrate a city's ability to manage resources over time, and can be used to reveal expenditure patterns that suggest long-term instability even though revenues are available to cover such expenditures in the short-term.

The essence of the ICMA system is an in-depth examination of expenditures and how they contribute to budgetary solvency. ICMA suggests, for example, that fiscal analyses look at the factors driving expenditure increases and their implications for a government's overall fiscal condition. The ICMA system also encourages examination of whether expenditure increases are tied to fixed costs or adding to levels of future costs that place long-term budgetary solvency at risk.

Summary of expenditure findings

Our analysis of city expenditures shows that overall growth has been below the rate of inflation from 2004 through 2008, demonstrating sound fiscal management. A deeper examination, however, indicates the emergence of trends over the period that are cause for concern, and that are expected to worsen considerably during the next several years.

One such trend is an increase in spending on fringe benefits, particularly health care for employees and retirees. As those costs grew during the period and made personnel more costly, city officials were forced to reduce the number of filled positions. This trend of increased spending on fringe benefits will become far more serious during the next few years as city property tax levy must be redirected to support pension costs.

Another trend was the prioritization of public safety expenditures (particularly police), which began to erode support for other functions of city government. About 81% of the city's tax levy-supported expenditure growth throughout these five years occurred in three departments: police, fire and public works. These departments historically have accounted for the majority of city expenditures, but limited overall expenditure growth during the 2004-08 period meant that efforts to preserve expenditures in those areas necessitated sub-inflationary growth or cuts in others. This was particularly the case for police services, which grew above inflation but did not have the same ability as public works to increase fees to offset expenditure needs.

The city's reasonable spending growth has allowed it to achieve budgetary balance. However, as the need to devote additional resources to accommodate rapidly rising fringe benefit costs increases, the ability of city officials to fund city services at historical levels will become even more challenging.

Analysis

Milwaukee's overall net operating expenditures (total expenditures minus debt service and capital outlay) and net expenditures per capita grew by 12% from 2004 to 2008, as seen in **ICMA Indicator 4**. By any measure, that is manageable growth that falls below the level of inflation.

There are several reasons why a government entity might increase its level of expenditures, including population growth and the implementation of new programs or services. In the case of the City of Milwaukee, **Table 13** shows that the limited expenditure growth largely was driven by increases in the public safety function and in fringe benefit costs (which are reflected in the General Government line of the table). In fact, **Table 13** shows that the public safety function accounted for more than half of the $67.8 million increase in city operating expenditures over the period. This trend is discussed in greater detail later in this section.

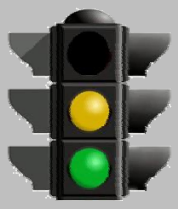
ICMA Fiscal Indicator 4 – Net Expenditures Per Capita

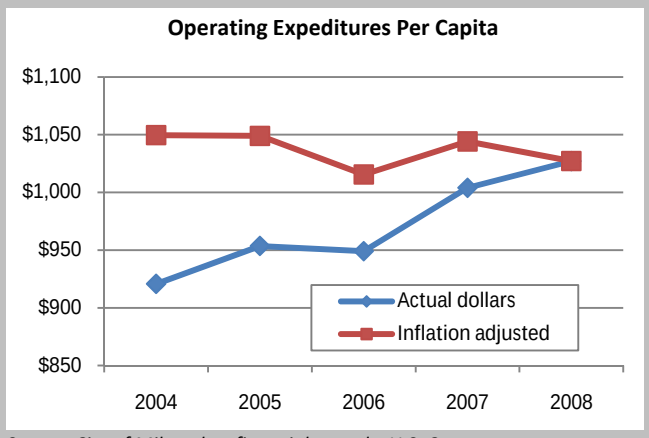
Why it is Important – In a state of fiscal health, a government's per capita expenditures in constant dollars should hold nearly level or increase slightly and should not exceed per capita operating revenues. A scenario in which expenditures increase too rapidly may cast doubt on long-term funding sustainability.

ICMA Warning Sign – Imbalance between expenditures and net operating revenues or a large increase in expenditures in constant dollars.

City of Milwaukee Findings – The City of Milwaukee has seen a small decline in expenditures in inflation-adjusted dollars, with net operating expenditures per capita decreasing by 2%. This trend indicates no threat of unsustainable spending and is a **positive** indicator of fiscal health.

A moderate difference exists between expenditures and revenues dedicated to the General Fund. From 2004 to 2008, per capita operating revenues have declined by 3.3%, which is slightly higher than the decline in operating expenditures. While this difference should not be cause for alarm, it does **require monitoring**, as expenditure and revenue levels may further diverge as a weakened economy and state budget difficulties restrain current revenue streams.





Source: City of Milwaukee financial records; U.S. Census

Table 13: City of Milwaukee Net Operating Expenditures (in thousands)

Expenditures	2004	2005	2006	2007	2008*	5-yr difference	5-yr % change
General Government	$194,033	$197,717	$195,776	$216,213	$214,834	$20,801	10.8%
Public Safety	$231,371	$248,366	$250,672	$257,137	$266,370	$34,999	15.1%
Public Works	$89,562	$89,180	$86,482	$93,956	$103,149	$13,587	15.2%
Health	$10,724	$10,656	$10,428	$10,359	$10,118	$(606)	-5.7%
Culture & Recreation	$17,822	$16,744	$17,882	$17,548	$16,782	$(1,040)	-5.8%
Conservation & Develop.	$3,495	$2,767	$3,217	$3,279	$3,456	$(39)	-1.1%
Interest Expense	$6,091	$8,338	$7,640	$6,568	$6,189	$98	1.6%
Total expenditures	**$553,098**	**$573,768**	**$572,097**	**$605,060**	**$620,898**	**$67,800**	**12.3%**

Source: City of Milwaukee fiscal reports, 2004-08; *2008 figures reflect unaudited amounts.

Another important fiscal indicator pertaining to government expenditures is the size of the government workforce. As demonstrated in **ICMA Indicator 5**, Milwaukee experienced a decline in both full-time equivalent (FTE) positions and positions per capita from 2004 to 2008. The majority of the 129 positions eliminated occurred in smaller departmental budgets, which may have impacted their service provision, an issue that also is discussed in greater detail later in this section.

Fringe benefits

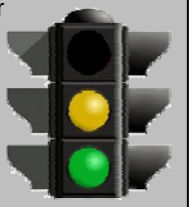
Before considering the impacts of public safety needs and the consequences for non-public safety departments, it is critical to understand the impact of fringe benefit costs on the city budget. Milwaukee's expenditure data from 2004 to 2008 shows that growth in both salaries/wages and fringe benefit costs were significant drivers of overall expenditure growth. During this timeframe, salaries grew by $33 million, making up 49% of the total growth in operating expenditures, while fringe benefit expenditures grew by $25.8 million, accounting for 38% of total growth. It is worth noting that while wage and salary growth lagged the 14% rate of inflation, growing 10% during the five-year timeframe, fringe benefit costs outpaced the inflation rate, growing 18%.

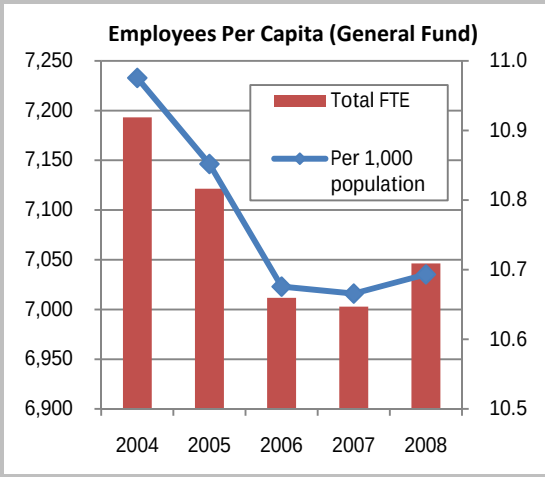
ICMA Fiscal Indicator 5 – Employees Per Capita

Why it is Important – A government's employees per capita has implications for budget solvency because of the significant impact of personnel costs on local government budgets. An increase in employees per capita may have long-term growth implications and may indicate that the government is expanding operations, becoming more labor intensive, or that productivity is declining.

ICMA Warning Sign – Increasing number of municipal employees per capita.

City of Milwaukee Findings – The total number of budgeted full-time-equivalent (FTE) employees has fallen by 2%, or 129 positions. While this generally is considered a **positive** indicator of fiscal health, it may have negative implications for service quality if not accompanied by greater efficiencies or reductions in programs and services provided. Also, in light of the preponderance of position cuts in three functional areas of city government, this is an indicator that **requires monitoring**.





Source: City of Milwaukee financial records; U.S. Census

A five-year growth pattern in fringe benefits that modestly outpaces inflation ordinarily would not be cause for alarm (though the growth of fringe benefits as a percentage of salaries certainly would bear watching, as discussed in **ICMA Fiscal Indicator 6)**. Of particular concern in this case, however, is that the bulk of this growth is attributed to an increase in health care costs for employees and retirees **(**per **Table 14** below**)**. While that fact is not surprising given the rapid rise in health care costs nationally and in Southeast Wisconsin, **it is significant that the city has been struggling to accommodate growing fringe benefit costs at a time when its pension contribution was stable, a factor that will not continue now that the pension fund has lost value**.

Table 14: Health Care Costs as a Percentage of Overall Fringe Benefit Costs (in thousands)

Year	Health care costs	Total fringe costs	Health care as a % of overall fringe costs
2004	$82,597	$144,605	57%
2005	$94,097	$152,089	62%
2006	$89,572	$149,711	60%
2007	$99,791	$161,079	62%
2008	$108,141	$170,438	63%

Source: City of Milwaukee financial records

City budget officials recently indicated that health care costs are projected to grow by $10-$11 million in 2010 and $15-$16 million annually in each of the following two years based on current trends.

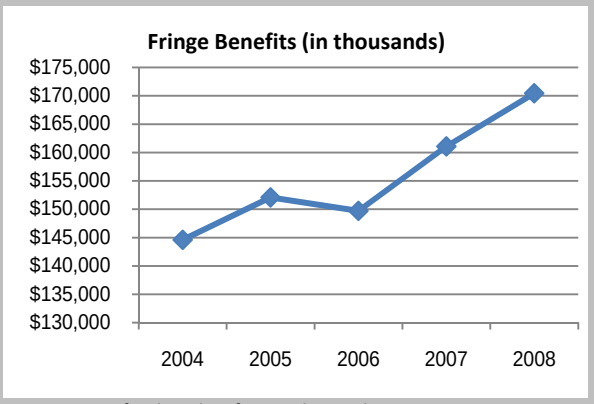
ICMA Fiscal Indicator 6 – Direct Fringe Benefits

Why it is Important – Direct fringe benefits are comprised of employee health, pension, and life insurance benefits and represent one of the largest and fastest-growing items of expenditure in the public sector. In recent years, many local governments have seen increases in health care and pension costs far surpassing the rate of inflation, creating debilitating impacts on budgets and fiscal condition.

ICMA Warning Sign – Increasing fringe benefits as a percentage of salaries and wages, and operating expenditures.

City of Milwaukee Finding – From 2004 to 2008, direct fringe benefits grew by $25.8 million, or 18%. Fringe benefits account for 27% of overall expenditures and increased as a percentage of salaries and wages from 45% to 48%.

Rising fringe benefit costs are projected to pose a much more significant threat in upcoming years in light of a significant diminution of pension fund assets. For the first time in several years, pension assets will no longer absorb the city's required pension contributions in 2010, necessitating substantial tax levy support. In light of projections that this trend will continue for the next several years, as well as projections of continued growth in health care costs that significantly exceeds the rate of inflation, this constitutes a **significant threat** to the city's fiscal health.



Source: City of Milwaukee financial records

ICMA Fiscal Indicator 7 – Pension Plan Funding

Why it is Important – Significant increases in required government contributions can place strong pressure on government budgets. Because of the long-term nature of these plans, the difficulty of estimating the value of assets and liabilities, and the costs involved, local governments can be tempted to underfund the annual pension payment.

ICMA Warning Sign

- Underfunding of a government's annual required contribution
- Decreasing ratio of pension plan resources to pension plan liabilities
- Decreasing value of pension plan assets as a percentage of benefits paid

City of Milwaukee Finding – The City of Milwaukee has maintained an overfunded pension system for the past several years and, therefore, has easily fulfilled its annual required contributions. The city's annual required employer contribution was a minimal $46,000 for 2004 and dropped to $0 by 2008 (meaning that the overfunded value of pension fund assets allowed the city to absorb the cost of annual employer contributions, requiring no levy payment from the city). Meanwhile, the ratio of pension fund assets to liabilities increased from 116% to 131% during the period, and the ratio of the value of assets to benefits paid improved from 21 to 1 in 2004 to 23 to 1 in 2008.

While the pension fund's significant overfunded status was an extremely positive indicator of fiscal health during the five-year period analyzed for this report, the precipitous stock market downturn has reversed that situation. Earlier this year, the funding ratio of pension fund assets to liabilities was calculated as 90%, and the city now faces an additional projected tax levy contribution of $37 million in 2010, and an additional $29 million in 2011. Realizing increases of that magnitude will serve as an immense budget challenge for the city, posing a **significant threat** to its fiscal health.

Pension contributions and actual expenditures

Fiscal year ending Dec. 31	Annual required employer contribution	Actual expenditure	% of ARC
2004	46,000	46,000	100%
2005	47,000	47,000	100%
2006	0	0	100%
2007	0	0	100%
2008	0	0	100%

Source: City of Milwaukee ERS actuarial reports, 2004-08

Pension assets (in thousands)

Valuation as of Jan. 1	Actuarial value of assets	Actuarial accrued liability	Funded ratio
2004	3,909,085	3,370,923	116%
2005	4,112,558	3,523,179	117%
2006	4,556,371	3,706,198	123%
2007	4,899,721	3,846,481	127%
2008	5,192,000	3,958,061	131%

Source: City of Milwaukee ERS actuarial reports, 2004-08

Pension assets (in thousands)

Valuation as of Jan. 1	Actuarial value of assets	Benefits paid to retirees	Funded ratio
2004	3,909,085	189,538	21 to 1
2005	4,112,558	195,738	21 to 1
2006	4,556,371	205,911	22 to 1
2007	4,899,721	216,647	23 to 1
2008	5,192,000	229,267	23 to 1

Source: City of Milwaukee ERS actuarial reports, 2004-08

While rising health care costs drove up fringe benefits spending in the 2004-2008 timeframe, the city effectively controlled pension costs, which typically are the other key driver of public sector fringe benefits budgets (see **ICMA Indicator 7**). The City of Milwaukee is one of only two local governments in Wisconsin to operate its own defined benefit pension plan (Milwaukee County is the other), known as its Employee Retirement System (ERS). The ERS maintained an over-funded position for the entire period, meaning that the value of pension fund assets

exceeded actuarially determined future liabilities. Milwaukee's pension system funding position was deemed second best in the country in 2009 when compared to 89 public pension systems by R.V. Kuhns and Associates, a national investment consultant, and it is one of only a few public pension systems that realized a heightened funding position from 2004 to 2008. Milwaukee's over-funded status increased from 116% in 2004 to 131% in 2008.

The overfunded status of the ERS has benefited the city budget by significantly reducing the city's annual property tax levy contribution to the fund. Not only has there not been a required contribution to address an unfunded liability, but the overfunded status of the fund also has eliminated the need for a contribution to cover the city's annual share of the "normal cost", i.e. the actuarially determined value of pension benefits earned annually by active employees. Per city ordinances, this normal cost is to be split between the employer and employees. The overfunded nature of the fund has absorbed the city's employer share of the normal cost, which otherwise would have been approximately $40 million per year according to city budget officials. The city has been contributing approximately $23 million annually to cover the employee share of the normal cost as dictated by contracts negotiated with employee unions.

Unfortunately, a significant decrease in pension fund assets resulting from the recent precipitous decline in the stock market has dramatically altered the funding status of Milwaukee's pension system, as it has for most public and private systems. This will create a significant burden on the city's operating budget beginning in 2010, a factor that is discussed in greater detail later in this report.

Departmental expenditures

Most of the city's expenditure growth from 2004 to 2008 fell within three departmental budgets: police, fire, and public works – operations (all public works expenditures excluding administration and infrastructure spending). As shown in **Table 15**, these three departments, which have a combined share of 75% of overall tax levy-supported departmental expenditures (often referred to as operating and maintenance expenditures), accounted for 81% of departmental expenditure growth during the period.[2]

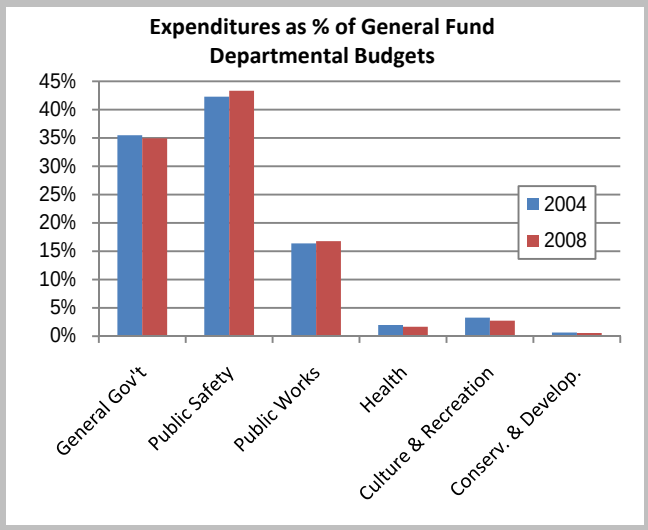
When considering functional expenditures as a percentage of all General Fund expenditures, as displayed in **ICMA Indicator 8**, the expenditure growth for public safety and public works appears more modest, but it is important to recognize that all other functional areas realized slight reductions. Combined, these two analyses demonstrate the extent to which three departments obtained the vast majority of the limited additional dollars available to support city services during the period, leaving other functions with reduced shares of General Fund expenditures. ICMA suggests that such a situation bears watching in light of potential consequences to the level and quality of services (also referred to as service solvency) that can be produced by sub-inflationary expenditure growth in departmental budgets.

ICMA Fiscal Indicator 8 – Expenditures by Major Functions

Why it is Important – This indicator of relative funding by function helps explain the causes and impacts of revenue and expenditure changes.

ICMA Warning Sign – An increasing proportion of operating expenditures by one or two functions.

City of Milwaukee Finding – The public safety and public works functions experienced small increases in expenditures as compared to overall General Fund expenditures, while most other functions experienced small decreases. This trend **requires monitoring** given the potential service impacts to those functions that are seeing reduced share of expenditure growth and the significant potential for substantial reductions in the future in light of the city's overall fiscal challenges.



Source: City of Milwaukee fiscal records

[2]One-year discrepancies can – and in this case did – modestly skew expenditure data in ways that impact trends and conclusions. In particular, fire department salaries in 2008 were impacted by retroactive payments based on labor settlements, while 2004 salaries were based on 2003 levels because labor negotiations were still ongoing, making the overall increase in spending during the period appear somewhat larger than it actually was. Also, public works spending was unusually robust in 2008 because of higher-than-normal snowfall amounts. Nevertheless, the general point that police, fire and public works departments enjoyed the bulk of spending increases during the 2004-08 period remains accurate.

Table 15: Police, Fire, and Public Works Expenditure Growth (in thousands)

	2004-2008 difference	2004-2008 % change
Police	$35,036	18%
Fire	$16,485	19%
Public Works – Operations	$16,319	20%
Total expenditure increase for four units	**$67,840**	
Three units as a % of all departmental expenditure increase	**81%**	

Source: City of Milwaukee fiscal reports, 2004-2008

It is important to note that while the city has been able to support additional public works expenditures through increases in service fees, support for heightened public safety expenditures has come at a cost to other departments. Those departments include the Department of City Development, the Health Department, and the Public Library system. Of the 120 non-public safety, General Fund FTEs eliminated by the city from 2004 to 2008, those three departments absorbed 88, or 73% of the reductions, as displayed in **Table 16**.

Table 16: Department of City Development, Department of Health, and Public Library FTE Reductions

Department	2004-2008 difference	2004-2008 % change
City Development	(42)	-20%
Health	(34)	-12%
Public Library	(12)	-3%
Total FTE decrease for three units	**(88)**	
Three units as a % of non-public safety General Fund FTE decline	**73%**	

Source: City of Milwaukee fiscal reports, 2004-2008

The departments cited above have coped with reductions in various ways. The Department of City Development, which lost 42 positions from 2004 to 2008, has attempted to maintain services by enhancing relationships with partner agencies outside city government, including the Redevelopment Authority of the City of Milwaukee and the Milwaukee Economic Development Commission.

The Milwaukee Health Department, meanwhile, which lost 34 positions from 2004 to 2008, has attempted to become more targeted with its resources, focusing dollars and staff on those areas of the city with the poorest health outcomes. In addition, home visits by nurses, though valued and productive, are performed more on an as-needed, as opposed to a proactive basis.

While not losing as many positions (12 during the 2004-08 timeframe), the plight of the Public Library system has attracted perhaps the most attention from policymakers and the general public. During the five years under review, the central library and several branch libraries operated at reduced hours, and in 2006, the neighborhood bookmobile was eliminated after several decades of operation. These adjustments saved staff time and allowed the Public Library system to operate with fewer staff. In order to mitigate even further staff reductions, the Public Library also made reductions in other areas, including a $700,000 reduction in material expenditures (books, media, magazines, databases, etc.), which represented a 30% decline in material purchases between 2004 and 2008.

As noted above, ICMA specifically warns fiscal officials to evaluate whether expanding expenditures in one or two departments crowds out the needs of others, thereby reducing service solvency to levels that run counter to the needs of citizens and/or the priorities of policymakers. In the case of Milwaukee, the areas of police and fire, though not immune from efficiency measures, have realized the greatest tax levy-supported expenditure increases during a period in which overall expenditure growth was modest. **If continued and/or intensified, this trend likely will produce even greater service level impacts to smaller departments in the future, calling into question whether they are attaining an appropriate level of service solvency**.

Measuring public safety efficiency

It is understandable, of course, that public safety would be the area of government most immune from expenditure reductions in light of its "life or death" nature and the value placed on it by policymakers and citizens. However, given that police and fire expenditures comprise 58% of the city's operating and maintenance expenditures, it is worth examining whether Milwaukee's expenditures in the areas of police and fire compare favorably to other large cities.

The most detailed data we found on police and fire personnel and expenditures in other cities is an annual survey conducted by ICMA. Because it is important to consider spending in the context of demand, we present this data for police expenditures in **Table 17** alongside data indicating crime rates as reported to the Federal Bureau of Investigation. In **Table 18**, we present fire expenditure data from ICMA alongside U.S. Census Bureau data that measures potential demand for fire services. In the absence of uniform data on fire incidences, data indicating the median age of structures in the city and annual heating degree days is utilized. Each table presents a group of cities that responded to the ICMA survey and that are most comparable to Milwaukee in terms of levels of demand. The data used is for 2008 when available and for 2007 when unavailable.

<u>Police</u>

The Milwaukee Police Department (MPD) comprises the greatest portion of city expenditures, accounting for 40% of all operating and maintenance expenditures and 38% of all city positions. In 2008, the total expenditure budget for the police department was $226.8 million, an increase of $35 million (18%) in actual dollars from 2004. This expenditure level supported 2,449 employees, including 1,944 uniformed officers. This is an increase of 69 positions during the five-year period.

As **Table 17** indicates, when compared to other cities with high crime rates, Milwaukee's expenditures per capita and FTE's were on the high side. When it comes to the amount of money spent per full-time position, Milwaukee ranked more towards the middle. This comparison suggests that when compared to other large cities with similar or greater demands for police services, Milwaukee spends more than most per capita, but appears to get more positions out of the dollars spent. This data indicates that, in the face of its fiscal challenges, the city may wish to re-examine staffing levels to determine whether they should be more in line with cities

like Minneapolis, Toledo or Dallas. Conversely, in light of significant recent progress in reducing crime rates, that may be the last option city officials wish to consider.

The potential need to make difficult decisions with regard to police staffing levels has been significantly alleviated by the city's receipt of $10.3 million in federal stimulus funds to support 50 police officers during the next three years. This may obviate the need for deep cuts in police staffing levels and/or elimination of new police recruiting classes in 2010, and perhaps for the subsequent two years. However, in light of the size of the police budget and the magnitude of the challenges facing the city, those funds are highly unlikely to completely spare MPD from reductions and/or pursuit of greater efficiencies. Also, assuming that the stimulus funds are of a "one-time" nature, they may simply delay consideration of considerable reductions in police staffing.

Table 17: 2007 and 2008 Crime Rates and City Police Expenditures for Select ICMA Survey Respondents, Sorted by Violent Crime Rate

State	City	Population	Violent crime rate per 100,000 residents	Murder rate per 100,000 residents	Property crime rate per 100,000 residents	FTE per 1,000 residents	Uniform FTE per 1,000 residents	Per capita expenditures	Exps per FTE
MD	Baltimore	636,919	1,589	37	4,818	5.64	4.73	$545	$96,543
PA	Philadelphia*	1,448,631	1,475	27	4,305	5.15	4.58	$560	$108,742
OH	Cleveland*	438,013	1,469	20	6,170	4.49	3.66	$391	$87,030
MN	Minneapolis	382,605	1,268	10	5,515	2.84	1.62	$323	$113,929
OH	Toledo*	295,614	1,228	4	6,689	2.74	2.32	$243	$88,520
WI	**Milwaukee**	**604,477**	**1,219**	**12**	**6,072**	**4.05**	**3.22**	**$393**	**$97,032**
TX	Dallas*	1,266,372	1,069	16	6,776	2.87	2.42	$258	$90,034
FL	Jacksonville*	803,514	1,022	15	5,696	3.59	2.05	$355	$98,764
NM	Albuquerque	521,999	894	7	6,049	2.71	1.93	$279	$103,013
Milwaukee Rank **		***5***	***6***	***6***	***4***	***4***	***4***	***3***	***5***

*Complete 2008 data was unavailable for these cities, however, 2007 data is provided.
** Ranked in descending order, for example, the city with the highest violent crime rate is ranked number one.
Source: FBI crime reports for 2007 and 2008; International City/County Management (ICMA) Police and Fire Personnel, Salaries, and Expenditures reports for 2007 and 2008; and Milwaukee financial data for 2007 and 2008.

Fire

The Milwaukee Fire Department has the second largest operating expenditure budget in city government, accounting for 19% of all operating and maintenance expenditures and 14% of positions. In 2008, the total expenditure budget for the fire department was $105.4 million, an increase of $16.5 million (19%) from 2004. This expenditure level supported 929 employees, including 850 uniformed personnel. This is a reduction of 78 positions during the five-year period.

As footnoted earlier, an analysis of fire department expenditure data for the period is impacted by the fact that fire department salaries in 2004 remained temporarily at 2003 levels due to ongoing labor negotiations, whereas 2008 salaries reflected a retroactive pay increase provided in 2007. Consequently, the actual increase in expenditures could be more accurately depicted as $10 million, which lags the rate of inflation and which contributed to the loss of positions.

Nevertheless, it is still accurate to point out that the fire department received an increase in actual funding, while several smaller departments did not.

In **Table 18**, we compare Milwaukee fire department expenditures with those in other large cities with similar demands for fire prevention and control. Ideally, a city's demand for fire services would be measured by the number of fires within its borders, but uniform data regarding city fire rates is not readily available. An analysis conducted by the National Fire Data Center investigated city characteristics that most often are associated with residential fire rates. This study found climate and age of housing stock to be strongly related to fire rates, as cities with colder climates and older housing stock have a greater likelihood of fire. We reflect these findings in **Table 18** by including cities with similar populations, housing stocks and heating degree days.

Table 18: Demand and Fire Expenditure Data for Comparable ICMA Cities, Sorted by Age of Housing Stock

State	City	Population	Median year structure built	Heating degree days***	FTE per 1,000 residents	Uniform FTE per 1,000 residents	Per capita expenditures	Exps per FTE
KS	Wichita	366,046	1968	4,765	1.18	1.16	$94	$79,280
NB	Omaha	438,646	1963	6,311	1.48	1.46	$173	$116,961
OH	Toledo*	295,614	1951	5,464	1.79	1.69	$175	$97,415
WI	**Milwaukee**	**604,477**	**1948**	**6,886**	**1.54**	**1.42**	**$186**	**$120,808**
PA	Philadelphia*	1,448,631	1947	4,759	1.75	1.68	$187	$106,924
OH	Cincinnati *	333,326	1944	4,841	2.60	2.48	$260	$99,967
MD	Baltimore	636,919	1944	4,720	2.72	2.67	$216	$79,585
MN	Minneapolis	382,605	1941	7,876	1.18	1.12	$130	$110,022
OH	Cleveland*	438,013	1939	6,121	2.10	2.08	$190	$90,522
Milwaukee rank*		***3***	***4***	***2***	***6***	***7***	***5***	***1***

*Because complete 2008 data was unavailable for these cities, 2007 data is provided.
** Ranked in descending order, for example, the city with the highest violent crime rate is ranked number one.
*** Heating degree days are meant to reflect a city's demand for heat. Per the U.S. Census 2007 County and City Data Book, one heating degree day is accumulated for each whole degree that the mean daily temperature within a city is below 65 degrees Fahrenheit.
Source: U.S. Census Fact Finder; U.S. Census County & City Databook, 2007

Table 18 indicates that Milwaukee's per capita fire department expenditures are comparable to the other cities, while its expenditures per fire department position and per uniform position were the highest. While the small sample size makes it difficult to draw firm conclusions, this information appears to indicate the reverse of the conclusion drawn for police department expenditures, i.e. Milwaukee has high fire department salary and fringe benefit costs that allow for fewer personnel with dollars allocated. Nevertheless, it could be argued that based on per capita expenditures, Milwaukee's fire department costs are not out of line.

The issue of fire department staffing has been debated by city policymakers during the past several years and again earlier this year, and it is certain to resurface during 2010 budget deliberations. The mayor has sought to generate personnel savings by reducing the number of firefighters on ladder truck crews from five to four, citing national standards that suggest such a move would not impact safety or performance. This proposal has been opposed by the firefighters union, which has argued that larger crews are necessary and appropriate from a

safety standpoint in light of Milwaukee's aging housing stock. The union also cites a reduction of 147 firefighter positions since 2000 as evidence that staffing levels already are stretched thin, an argument that appears to be supported by **Table 18**.

In recent years, the common council has accepted crew reductions on a limited number of ladder companies but restored funding for five-member crews on most others. In the 2009 budget, the mayor proposed cutting the crews to four firefighters on each of the nine ladder trucks that had not already been cut, but the council accepted the cut in only one of the nine.

This issue exemplifies the dilemma faced by city officials in considering cuts to public safety functions. While the depth of Milwaukee's budget challenges seemingly would dictate an approach that spreads the "pain" across all departmental functions, proposed cuts to public safety typically generate the most vociferous response. Furthermore, because the vast majority of costs associated with the police and fire departments are labor-related, significant savings only can be generated by reducing positions and/or negotiating reductions in wages and benefits.

The latter approach may be a worthwhile pursuit for the fire department in light of the finding in **Table 18** that Milwaukee maintains the highest expenditures per FTE among comparable cities. Milwaukee's expenditures are not so dramatically out of line, however, to suggest that sizable reductions could be negotiated. Hence, it is likely that any attempt to wring considerable savings out of the fire department budget also will need to involve discussion about continued reductions in staffing.

Conclusion

Our analysis of city expenditure trends and application of ICMA indicators reveals that Milwaukee maintained conservative expenditure growth from 2004 to 2008, though at a cost of requiring other city functions to make do with less so that fire and police functions could receive modest increases. In light of the severe revenue challenges described in the previous section, and the projected growth in fringe benefit costs noted in this section, city officials now face an extremely difficult dilemma in 2010 and beyond.

An obvious approach would be to attempt to curb spending in the two largest departmental budgets, i.e. police and fire. In fact, a recent briefing by the city budget director noted that "based on current cost, revenue, and pension contribution projections it is arithmetically impossible to achieve budget balance over the next three years without significant changes to these two budgets." As our analysis has indicated, while Milwaukee has a relatively high number of police personnel and the highest firefighter wages and benefits when compared to similar cities, any effort to significantly reduce expenditures in those budgets likely would involve staffing cuts. Because such cuts arguably could diminish recent progress in reducing crime rates or impact firefighter safety, citizens may find them objectionable.

Conversely, should policymakers attempt to focus on other areas of the operating budget, they would get limited "bang for their buck" and perpetuate a potentially troublesome trend of underfunding non-public safety services. The following sections of this report provide additional analysis and context regarding this dilemma and the difficult choices it may require.

BUDGETARY SOLVENCY: CRISIS IN COMPARABLE CITIES

The current recession has profoundly affected the nation's large cities. A rapid decline in economic activity and real estate values has led to a downturn in municipal revenues from sales, income, property, and business-related taxes and from income generated by fees. Some cities also have seen a constriction in their state revenues. Many cities experienced serious budget problems in 2009, and most will find it even more difficult to achieve budget balance in 2010. Faced with sizeable deficits, cities are freezing positions, laying off employees, reducing expenditure levels, and increasing taxes and fees. Many cities, such as in Cincinnati, are planning major budget reductions this year in order to realize a full year of related savings in 2010.

We conducted a general review of the 2009 and 2010 budgets of the 10 cities most frequently used in our comparable analyses. The survey examined the cities' websites, the websites of local newspapers, and other Internet news sources such as business weeklies. The collected information is not complete since some cities have not yet approved their 2010 budgets (although budget discussions are in progress). About half the cities operate under a July 1 fiscal year and have already approved their 2010 budgets. This analysis yielded the following observations:

- No city among the 10 has escaped the recession's wrath. Even Oklahoma City, which has the lowest unemployment rate (5.7%) of the nation's large metro areas, will have no pay increase for city personnel in 2010.

- While the health of a region's economy and the state of municipal finance often are connected, it is not possible to predict a city's fiscal condition from environmental factors. For example, in recent years, Columbus and Charlotte have had strong economic growth and no major problems in local finance. Under the current recession, both regions have seen a sharp rise in unemployment, Columbus to 8.3 % and Charlotte to 12.0%. Yet, despite their upbeat history and now common problems, the cities' finances are headed in different directions. As reported by the city manager, Charlotte "is well positioned to weather the recession in 2010." Columbus, in contrast, projects a 2010 budget gap of $105 million. Another example is the city of Cleveland, which has experienced past economic difficulties and which currently has an unemployment rate of about 10%. Yet, contrary to expectations, city officials are optimistic about Cleveland's 2010 budget prospects. Because of a carry-over of $29 million from the previous year, no change in personnel or services is anticipated in 2010.

- There is a marked difference in the way cities have strategized 2010 budget development.

    - Pittsburgh, which had a budget shortfall in 2009 and expects further revenue declines in 2010, will make significant budget cutbacks in the coming year but hopes to do so in a way that minimizes long-term consequences. The city's "Recession Action Plan" reports that "the steep economic decline is estimated to last at least 30 months….we have put in place cost reduction strategies that will provide one-time temporary budgetary relief." Among other measures, the city has implemented a hiring freeze and employee furloughs and is seeking to reduce or eliminate discretionary spending and non-essential services.

- In contrast to Pittsburgh, Sacramento has adopted a 2010 budget that continues a pre-recession emphasis on the elimination of "structural" budget imbalance and use of one-time revenues. Sacramento also has adopted a multi-year strategy to reduce departmental expenditures.[3] Similarly, the city of Portland has lowered one-time expenditures in an effort to achieve budget "sustainability." Consistent with this approach, the city decided not to draw down its general fund to finance on-going programs. Rather, Portland has implemented a major review of city services and implemented a city-wide expenditure cut of 2.7%. Portland also increased the size of its contingency fund in the face of current uncertainties.

- On August 4, 2009, Columbus city residents approved a referendum to increase the city income tax from 2.0% to 2.5%. The tax increase will take effect on October 1, 2009. Under the tax proposal, non-residents who work in the city will also pay an additional $50 for each $10,000 they earn, raising their total tax to $250 for each $10,000 earned. The revenue from the proposed tax hike will generate an estimated $90 million to $100 million, nearly the amount of the anticipated budget deficit. If the referendum had failed to pass, city officials had said major budget reductions would have occurred, such as a 19% cutback in fire department personnel.

- The only new revenue fee uncovered by the research was a "street lighting fee" proposed by Minneapolis. The annual tax would cost the typical homeowner about $20. The average commercial property would pay about $50 and some large commercial properties could pay as much as $436. Minneapolis' loss in state aid of $21 million is the stated reason for the tax. The city will receive $3 million annually from the fee, revenue that will make up most of the Department of Public Works' loss in state aid ($4.6 million).

- None of the cities, as of yet, has proposed selling or leasing their assets as a budget strategy. One reason, perhaps, is that the recent real estate slump has led to a decline in the value of city-owned property and a drop off in real estate activity in general. Several cities, however, have concluded asset leases or sales in recent years, including Buffalo, Indianapolis, Atlanta, and Chicago. Chicago has inked three long-term leases for major city assets including the Chicago Skyway ($1.8 billion), underground parking lots ($563 million), and 36,000 city parking spaces ($1.2 billion). Under these agreements, the city has received a large infusion of cash that it has dedicated to current budget deficits, long-term budget stabilization, and other purposes.

In sum, these cities offer no single or simple path to budget solvency. The 10 have taken actions that reflect their own particular circumstances and needs. Many are making major financial changes. Most are cutting budgets, while a few are raising revenues as well.

[3] Sacramento adopted its 2010 budget prior to the passage of the California state budget, which uses municipal revenues for state purposes.

As they should, many of these cities are focusing on achieving budget balance both in the short and long run. The outcomes can be quite different. Pittsburgh has not wanted a cyclical recession, no matter how severe, to force a lasting change in the government's scope and services. Sacramento and Portland have not wanted immediate fiscal challenges to divert attention from achieving budget sustainability. All three cities are serving their long-term interests, but they have undertaken different actions given their varied goals.

LONG-TERM BUDGETARY SOLVENCY

Analyzing long-term budgetary solvency with the ICMA system

The ICMA system is an excellent tool for examining long-term solvency, an inherently complex topic. Central to ICMA's methodology is the question of whether a government is "currently paying the full cost of operating, or is it postponing costs to a future period when revenues may not be available to pay these costs." To address this question, ICMA emphasizes exploring three areas that can have a major effect on future spending levels: retirement, long-term borrowing, and maintenance of capital assets.

Summary of long-term solvency findings

Despite well-managed debt and retirement programs, in recent years Milwaukee's long-term costs have grown. Most notably, equity losses in the stock market have produced an unfunded liability in the city's pension fund. To fully fund the pension system, as required by city ordinance, will take an estimated additional $37 million in 2010 and $29 million in 2011. Another substantial increase likely will be needed in 2012 and perhaps in the years beyond depending upon investment growth. In addition to these unfunded retirement costs, health care and life insurance benefits for retirees also have generated an unfunded liability of $881 million (2008 calculation).

Deferred maintenance and the resulting deterioration of city assets also are contributing to long-term costs. The most serious problem is the low level of funding for repair and replacement of city streets. An audit conducted by the city comptroller in 2008 found that 21% of local streets were in poor condition and that the current maintenance budget was insufficient to halt further declines in street quality. Additional annual support of $17 million to $43 million is required to restore all streets to good condition and establish a replacement cycle consistent with the useful life of this asset. Borrowing for this purpose is problematic given the city's relatively high level of levy-supported General Obligation (G.O.) debt. The city administration has established a policy goal of limiting its annual levy-supported G.O. debt service to its current level of about $70 million, or roughly one-third of the total property tax levy.

The impact of many of these long-term costs, particularly those related to the pension fund, will start to be felt with the 2010 budget. Major adjustments, such as decreases in department expenditures and increases in charges for service revenue, can be anticipated, as can some relief from the influx of stimulus funds. The number of changes and the complexity of the situation do not lend themselves to precise budget projections. Nevertheless, despite changes that will be made in the coming year, the relationship between city expenditures and revenues likely will remain significantly out of balance in the years to follow. Long-term fiscal solvency is threatened.

Analysis

Employee retirement system

An actuarial projection earlier this year estimated that the value of Milwaukee's pension fund assets had decreased by approximately $1.8 billion, producing an unfunded liability of $740 million. Consequently, at that time, the city's pension fund was estimated to have a 90% funding ratio based on the actuarial value as of January 1, 2009, and its estimated 2010 employer contribution to the pension fund was projected as $92 million (in addition to the approximately $23 million employee share the city has been contributing annually for the past several years).

A change in accounting methodology approved by the Annuity and Pension Board in late August reduces the city's 2010 employer share contribution to $37 million. City budget officials preliminarily estimate that could be followed by additional increases of approximately $29 million in 2011 and $20 million in 2012. To understand the magnitude of a $37 million increase in the ARC payment in one year, consider that if such an increase were the only increase contained in the 2010 city budget, then it would cause General Fund operating expenditures to increase by 6% over the 2008 total. Such an increase also would constitute a 22% increase over 2008 fringe benefit expenditures.

It is worth noting that the city does maintain an ERS Employers' Reserve Fund, which was created to help offset the city's contribution to the pension fund, particularly if a drop in the fund's value required an unanticipated sharp increase in the contribution. In the 2009 budget, despite the fact that the need for an increased contribution had not yet occurred, the mayor proposed a $5.6 million withdrawal from the fund, which at that time contained a balance of approximately $25 million. That proposal, which was approved by the common council, allowed the property tax levy share of the city's normal cost employee contribution to be reduced from $23.8 million to $18.2 million.

There will be considerable pressure, therefore, to allocate at least $5.6 million from the fund in 2010 to avoid an additional property tax levy shortfall, and there likely will be consideration of an even larger allocation in light of the sharp increase in the required contribution. Use of these reserves consequently may provide some short-term relief, but once the reserve is exhausted, the pension fund obligation likely would worsen. As we noted in our analysis of the 2009 city budget, "this is the type of strategy employed by a governmental entity facing a structural imbalance and hoping to buy time to implement solutions. Whether it is justified or not may depend on how serious city policymakers are about addressing the structural problem in the immediate future."

Retiree health care

Another growing threat to the city's operating budget in the long-term is health care for retirees. The city's health care expenditure budget is comprised of costs associated with both active and retired employees. In 2008, 27% of the city's health care expenditures, or $28.8 million of the $108.1 million total, supported retiree costs.

Like many other governments, Milwaukee faces significant unfunded post-retirement liabilities. According to the city's preliminary 2008 financial statements, its other post-employment benefit (OPEB) liability is $880.7 million. This total consists of both health and life insurance liabilities for retirees, though the most significant portion is for health insurance.

Unlike Milwaukee County, which in the early 1990s eliminated employer-paid health insurance for retirees hired after 1994, the City of Milwaukee provides some level of health insurance benefits in accordance with negotiated labor contracts to virtually all retirees who have attained at least 15 years of service. The level of benefit depends on the number of years of service, age of retirement and the nature of occupation. At its most generous level, it includes full health insurance coverage for those with 30 years of service who retire at age 55 until they reach age 65.

The Government Accounting Standards Board (GASB) recently adopted a policy requiring government entities to report such OPEB liabilities, but funding those liabilities is not a requirement. The city, like many other government entities, pays OPEB costs on a pay-as-you-go basis, meaning that it only pays retiree health care costs incurred in a given year and does not pay down future liabilities. In order to support future liabilities, the city would need to contribute an estimated $68 million annually, or nearly $40 million more on an annual basis than it pays today. In light of other budget constraints, it is obviously highly unlikely that it will identify the resources to do so.

City budget officials recently indicated that health care expenditures are projected to grow by $10-$11 million in 2010 and $15-$16 million annually in each of the following two years based on current trends, which include anticipated growth in retiree health care costs. Consequently, health care will continue to be a growing burden on the city's expenditure budget for the foreseeable future barring efforts to increase employee/retiree contributions and/or modify benefits. City officials have indicated that substantive changes to employee/retiree health plans must be on the table in upcoming labor negotiations.

Long-term borrowing

Milwaukee has a well-managed, large-scale, and multi-purpose debt program. Standard and Poor's (S&P) rates the city's financial management practices as good, and its debt policies and practices contribute to this positive assessment. The city enjoys outstanding bond ratings from all three ratings agencies – S&P, Fitch's and Moody's – though Moody's has changed the city's financial outlook from stable to negative due to "a rapid drawdown of reserves with limited revenue raising flexibility; pressured state aid; and weakened pension coverage in the face of recession."

Even with this negative adjustment, Moody's finds the city's overall debt "manageable", while Fitch's labels it "affordable" and S & P "moderate". The agencies comment favorably on the rapid rate of debt retirement— 83% of outstanding principal amortized within 10 years—and the existence of a Public Debt Amortization Fund (PDAF). Created in 1925, the PDAF is intended

to moderate the fluctuations in debt service payments and serves as a partial debt service reserve. At the end of 2008, the PDAF had $60 million in assets. Under fund restrictions, the city may not draw more than 40% of the PDAF balance in any one year. The fund must maintain a minimum balance of $2 million.

Such borrowing and reserve practices reap benefits to all city residents. A study conducted by the comptroller's office in 2007 found that Milwaukee's per capita interest costs for debt service were 40% below the average of comparable cities. These reduced costs result from lower borrowing charges and accelerated repayment rates, however, as opposed to lower levels of debt. In fact, total borrowing is above the average of similar cities.

The city's debt program serves multiple purposes. Milwaukee borrows to meet the capital needs of its major programs and to maintain city assets and infrastructure, such as buildings, streets and bridges. Milwaukee also borrows to fund the capital costs of its business enterprises—water, sewer, and parking—and to pay capital improvement costs incurred by tax incremental districts (TIDs). Milwaukee also engages in short-term borrowing to make up for cash flow fluctuations. Finally, the city issues debt on behalf of Milwaukee Public Schools.

At the end of 2008, the city had outstanding debt of $881 million. Of this total, debt backed by G.O. bonds amounted to $761 million, which is 13% higher than in 2004. Revenue bonds amounted to $61 million and had declined by 19%. About 60% of this total debt was incurred, in roughly equal proportions, for three purposes: TIDs, city buildings, and schools. About 20% financed streets and sewers. The remaining 20% went to 10 or so other purposes such as water, parking, bridges, and libraries.

Table 19: Milwaukee Tax Levy Debt Service Payments, 2004 to 2008 (in thousands)

2004	2005	2006	2007	2008	5-yr difference	5-yr % change
$53,995	$84,699	$58,725	$67,422	$74,201	$20,206	37.4%

Source: Comprehensive annual financial reports, 2004 to 2008

As **Table 19** indicates, from 2004 to 2008, debt service payments funded through the tax levy increased by $20 million, or 37% (compared with a 14% growth in inflation). This growth in levy-funded debt costs has been a source of concern to the city. While recognizing the importance of maintaining infrastructure and capital assets, the 2009-2014 capital improvement plan also stresses the need to moderate "growth in the tax levy supported capital budget…by pursuing alternatives for financing capital needs." The plan establishes five capital financing strategies to achieve this goal:

- Limit new borrowing in a given year to an amount equal to the amount of debt retired in that year
- Borrow only for MPS's self-supporting debt (a policy in place since 2008)
- Focus on repair and refurbishment, not capital expansion, and prioritize among capital projects

- Improve project management to ensure capital projects are completed on time and within budget and, thereby, avoid additional construction costs

- Diversify capital funding by using alternative sources such as water and sewer fees. Also, use leases to fund capital costs in the city's business enterprises and continue to rely upon the wheel tax.

Debt service expenditures were reduced in the 2009 budget to $70.6 million.

ICMA evaluates long-term debt by evaluating whether overall borrowing endangers future ability to repay, and the impact of debt service payments upon current budgets. Under its standard, a local government's debt "is proportional in size and rate of growth to its tax base; does not extend past the useful life of the facilities that it finances; is not used to balance the operating budget; does not require repayment schedules that put excessive burdens on operating expenditures; and is not so high as to jeopardize the government's credit rating."

A common measure of long-term debt is its relationship to equalized value. Under state statutes, Milwaukee's debt cannot exceed 7% of equalized value. In 2007, Milwaukee's debt equaled 32% of the state limit. In other words, Milwaukee could have assumed a twofold debt increase and remained under the state threshold. On another measure, overall net debt as a percentage of equalized value, Milwaukee also is substantially below the rating agencies' warning threshold, as shown in **ICMA Indicator 9**.

ICMA Fiscal Indicator 9 – Long-term Debt

Why it is Important – Net direct debt is bonded debt for which the local government has pledged its good faith and credit and which is supported by tax revenues. Overall net direct debt includes city debt plus all bonded debt issued by other governmental units in the city, such as MPS. It also includes city residents' relative proportion of debt for Milwaukee County, the Milwaukee Metropolitan Sewerage District, and the Milwaukee Area Technical College district. Credit agencies routinely examine a local government's debt load in setting a bond rating. Increasing debt is one possible indication of a deteriorating fiscal condition. Conversely, low debt may indicate an underinvestment in capital facilities.

ICMA Warning Signs

- Increasing net bonded debt as a percentage of assessed valuation.
- Overall net debt exceeding 10% of assessed valuation.

City of Milwaukee Finding – In 2008, Milwaukee's net direct debt represented 2.4% of equalized value, a decrease from the 3.1% in 2004. Overall direct debt issued by all governmental units represented 4.6% of equalized value, substantially below the warning threshold. While this is a positive indicator of fiscal health, the impact of debt service payments on the city's operating budget (as described in the report) makes this an indicator that **requires monitoring.**

Year	Equalized value*	Net direct debt**	% of equalized value	Overall net direct debt**	% of equalized value
2004	$20,298	$629,124	3.1%	$1,195,674	5.9%
2005	$21,730	$666,203	3.1%	$1,253,265	5.8%
2006	$23,491	$755,178	3.2%	$1,358,386	5.8%
2007	$26,256	$671,562	2.6%	$1,289,210	5.8%
2008	$30,226	$713,783	2.4%	$1,388,576	4.6%

Source: CAFR, 2004 to 2008
** in millions*
*** in thousands*

A few words of caution about debt standards. It is a positive sign that the rating agencies find Milwaukee to have manageable debt. Such evaluations are synonymous with a good credit rating and lead to lower interest costs. However, in looking at professional debt standards, one should keep in mind that these are general criteria applied across a vast range of circumstances. Consideration of whether a particular city's level of debt is appropriate should reflect its specific fiscal condition, and not simply whether it falls within a general guideline.

As has been shown, Milwaukee's financial capacity and demands for service place it in a more difficult budget position than similar cities. Moreover, since Milwaukee depends heavily upon property taxes and to a greater extent than other cities, capacity to pay for debt, as measured in **Indicator 9**, should not be confused with willingness to pay. Finally, since Milwaukee repays its debt more quickly than other cities, its debt service payments are higher for an equivalent amount of loan debt. These factors, coupled with the city's new policy to halt growth in tax-levy borrowing, are signs that the city's debt load is close to putting "excessive demands upon operating expenditures," something ICMA warns against.

Milwaukee has conceived thoughtful policies to maintain its capital assets and curtail growth in levy-supported debt. However, it is an open question as to whether these polices can accomplish the city's goals. There is good reason for the city not to increase levy-supported debt, since financing such costs may need to come, at least in part, from internal reallocations at the expense of public safety. On the other hand, as the next section shows, capital assets, particularly local streets, are not in good condition and their repair and restoration will require a substantial investment. Can the city find other strategies to address its basic capital needs? If not, Milwaukee may find itself in the sad state of choosing between police or potholes.

Maintenance of capital assets

A local government's wealth is rooted in the value of its capital assets, i.e. its streets, buildings, land, utilities, vehicles, networks, and equipment. Appropriately maintaining these assets requires a continuous long-term commitment. Yet, as ICMA has observed, many governments have not been willing to fully fund such costs and have discovered that underfunding capital assets is "a relatively painless way to temporarily reduce expenditures and ease financial strain." The ultimate consequence of sustained inattention can be severe and include "1) decreasing usefulness of the asset; 2) increasing cost of maintaining and replacing them; and 3) decreasing attractiveness of the community as a place to live or do business."

A six-year capital plan, reviewed annually as part of the budget process, guides Milwaukee's capital investments. The plan establishes the objectives, processes, and management rules and practices that affect capital decisions and project oversight. In addition to the capital plan, the Department of Public Works uses an Oracle database to assist in project development and implementation. Nevertheless, despite these management strengths, the city's ability to properly maintain its capital assets is hampered by the lack of a comprehensive assessment of their condition.

In order to evaluate the condition of the city's capital assets, we consulted two recent city studies: its Facility Condition Information System (FCIS) report, and an audit of the residential streets paving program. The city began the FCIS in 1995 and last conducted this analysis in 2006. Milwaukee routinely uses the latest FCIS assessment to prioritize capital projects and funding requests. The 2006 evaluation examined 111 sites and facilities that are under the direct responsibility of the Department of Public Works and represent about one third the value of all city assets. The evaluation examined all aspects of these facilities including their physical structure and interior systems, such as heating and plumbing. Not included in the capital assessment were 60 or more facilities operated by the library, Port of Milwaukee, water works, and fire, health, and police departments. The city has not conducted a condition assessment of those assets.

The FCIS evaluates the condition of DPW-managed assets by comparing their deferred maintenance needs with the facilities' current replacement value, a common industry standard. When deferred maintenance costs exceed 11% of replacement value, the assets are found to be in poor condition.

Under the 2006 FCIS application, DPW's deferred maintenance needs amounted to $82 million, or 25% of the asset replacement value of $321 million. Deferred maintenance costs associated with the City Hall exterior renovation—earmarked but not expended at the time of the study – were not included in this assessment. The report concluded that the poor condition of DPW's assets was due to a decline in city maintenance funding, which was seen as an ominous sign given the ongoing rise in construction costs. It recommended that maintenance funding would "need to be substantially increased to keep pace with the construction costing trend across the nation." In the 2009 budget, repair and maintenance funding of DPW assets remains at $5.6 million, the same level as at the time of the FCIS study.

The audit of residential streets reviewed the condition, funding, and management of these assets. The City of Milwaukee has 1,145 miles of roads, of which less than 10%, or 122 miles, are the responsibility of another entity (primarily highways and freeways that are under the control of the state and federal governments). The audit concluded that, overall, local streets were in "fair condition and getting worse." A total of 212 miles, or 21% of all city roads, were in "poor" condition and in need of restoration, while 44% were in "fair" and 35% in "good" shape.

The audit attributed the cause of asset deterioration to "nearly two decades of underfunding". Monies budgeted to local street repair had been cut in half in 1993 and had not been restored. As a result, the streets were on a 106-year replacement cycle, or two to three times the length of their "useful life".

Perhaps understandably, in light of the lengthy replacement cycle, the audit notes that DPW had focused on paving the streets in poorest condition. However, this policy has left little money available for preservation, which is deemed a more economical way to maintain these assets. In the end, the audit projects that the current paving policy and the level of funding would result in further street deterioration. The report recommended that Public Works shift towards preservation to optimize available funding. However, this approach also would create a "backlog" of streets in poor condition whose upkeep would depend upon periodic patching and development of a dedicated funding plan. Under the city's existing funding and paving strategy, the audit estimated that half of local streets would be in poor condition within 25 years.

In regard to program costs, the audit concluded that "the funding required to address the present backlog and ongoing residential street replacement is staggering" and, by necessity, would require a long-term commitment and funding plan. Given the fiscal challenge presented, the report put forward multiple funding scenarios. Under the current paving strategy, it concluded that current annual funding of $8.8 million would need to increase by $33 to $42.8 million "in order to both eliminate the present backlog and improve the entire network of residential streets to good condition." In contrast, a preservation first strategy could restore 95% of local streets to good condition by adding $16.9 million a year, still a substantial sum. Another option would increase the annual budget by $6.6 million a year and restore 75% of streets to good condition, but that option would not address the sizeable backlog of streets in poor condition.

ICMA Indicator 10 shows trends in capital outlay expenditures, as well as repair and maintenance expenditures for Department of Public Works facilities. Those expenditures constitute about one third of all city assets and provide the best available information for this indicator. The city's capital outlay and repair and maintenance expenditures reveal no clear trend. The Public Works expenditures do not include any funds associated with the City Hall exterior restoration ($70 million total cost) or with Menominee Valley facility relocation ($24 million total cost). Repair and maintenance funding in 2007 was unusually low because of the sizeable costs incurred in that year for the City Hall restoration.

Long-term budget prospects

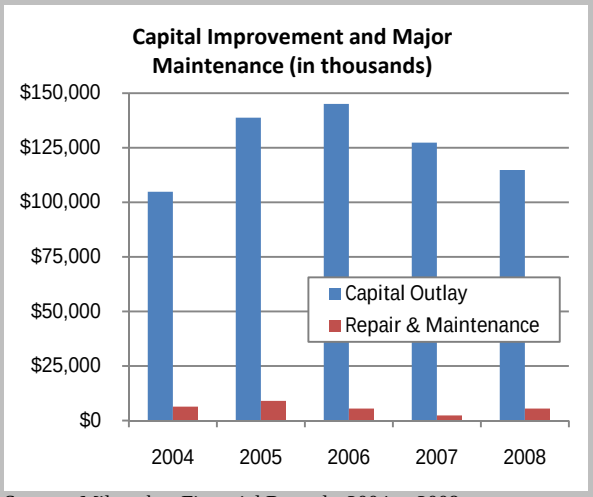
The years reviewed for this ICMA analysis, 2004 to 2008, were characterized by modest change. There was one major cost driver for the operating budget (health care benefits) and three secondary revenue sources (charges for services, enterprise transfers, and the TSF) that increased above the rate of inflation. Overall, expenditures and revenues approached but did not reach the level of inflation.

ICMA Fiscal Indicator 10 – Capital Improvements and Repair and Maintenance

Why it is important? – Capital improvements and repair and maintenance expenditures provide an indication of whether capital needs are being addressed.

ICMA Warning Sign – A three year or more decline in capital improvement and maintenance expenditures.

City of Milwaukee Finding – Repair and maintenance expenditures, as explained in the text, are for Department of Public Works facilities. Neither capital outlay expenditures nor repair and maintenance expenditures present a definite expenditure trend. Also, neither indicator displays the kind of changes that would warrant an ICMA warning. Lack of funding growth, however, suggests these trends **require monitoring** in the future.



Source: Milwaukee Financial Records, 2004 to 2008

In 2010, things will change. Driven by recessionary influences, revenues and expenditures will depart from past experience and the city will need to undertake new initiatives and exceptional actions to maintain budget balance. Uncertainty about the economic recovery and those actions complicates budget projections. However, two broad conclusions seem appropriate. First, city hall's fiscal actions in 2010 will have long-term implications. Second, no action or combination of actions taken in the coming year is likely to eliminate the structural imbalance that exists between revenues and expenditures.

The key challenge in 2010 will be the need to significantly increase property tax levy support for the city's pension fund. As explained in this report, a contribution of $37 million will be required in 2010. On top of this exceptional increase, the city's budget office projects that wages will rise by about $15 million and health care by another $10-$11 million. Other non-salary

costs normally grow by about $2 million annually and, in addition, a jump of $1.5 million is expected in workman's compensation. In total, the budget office projects that a cost-to-continue budget would require $75 to $80 million in additional revenue, or roughly $55 to $60 million beyond the rate of inflation (assuming a 3% rate of growth).

City revenues from 2004 to 2008 increased by $15 million a year, just a fraction of the amount needed to fund a cost-to-continue budget in 2010. Moreover, the recession's lower levels of economic activity should continue to produce a decline in licenses and permits, charges for services, fines and forfeitures, and miscellaneous revenue. The city projects income from these sources to decrease by a total of $4.9 million in 2010. Intergovernmental revenue also will fall since the state of Wisconsin has lowered aid to Milwaukee by $2.6 million and upped fees for garbage disposal by another $2.0 million as part of the 2009-11 biennial budget. In addition, the city's draw from the Tax Stabilization Fund is anticipated to be about $15 million less than in 2008.

The only bright spot in this ominous fiscal cloud are the monies to be received under the American Recovery and Reinvestment Act (ARRA). It is not possible to estimate ARRA's impact at this time. Certainly, the program will help city finances, but it does not represent an answer to its problems. For one thing, many stimulus grants are given for purposes unrelated to the maintenance of existing city services. Also, many of these grants will go towards capital and not operating purposes, though funds for infrastructure improvements may enable the city to lower future debt service costs. Finally, since ARRA is intended as a fiscal stimulus, grants are for a short period of time. For operations-related grants, the city either will have to discontinue the program or find other revenues for it once the grant has expired.

In April 2009, Milwaukee announced that it had been awarded $4.5 million for Community Development Block Grants under ARRA. Of these monies, $1.1 million will go to the Department of Public Works for its street improvement program. Other funds will go toward diverse purposes such as housing, urban forestry, graffiti mitigation, and a streetscape project. More recently, the city also received $10.3 million in stimulus funds to support 50 police officers for three years. While the grant does not require matching funds, the city must pay these officers' salaries for a fourth year.

Many ARRA funds have yet to be awarded and the federal government will continue to announce grants at least through the fall of 2009. The city has submitted proposals to purchase equipment to enhance lakefront security, buy and upgrade foreclosed property, extend internet access at six public libraries and three public housing projects, upgrade the police department's statistical capability, enhance and expand new crime prevention programs, and provide infrastructure improvements for city sewers, bridges, and transit.

No matter the outcome of these grant proposals, any money received will only make a small dent in Milwaukee's operating budget. As a consequence, city hall will need to enact major expenditure reductions, revenue increases, or likely some combination of both in order to balance its budget in 2010 and beyond. State aid, as described in this report, should not be expected to increase, which places considerable pressure on other resources to provide revenue

growth. For the city's second largest revenue source, the property tax, a 1% increase in revenue would generate about $1.6 million for additional operating support. A 3% increase in levy proceeds, then, would produce about $5 million in additional operating budget revenue.

Given the above, it is easy to understand why the mayor and his budget team already have focused on extending major charges for services revenues to cover the full cost of their operations. This change could yield as much as $10 million in 2010. Another possible initiative would involve increasing the amount of monies transferred from enterprise operations, such as the Water Works, to the General Fund.

However, because the kind of revenue changes discussed above cannot begin to provide the resources needed to balance the 2010 budget, the city also will need to enact major expenditure reductions. The budget office currently is talking about lowering expenditures by as much as 10% in 2010. In terms of long-term solvency, a key issue is whether these reductions will moderate major cost drivers. If so, the city will begin to address its structural problems. If not, they will shrink the overall level of government to achieve budget balance in one year—with all the attending service cutbacks that entails—but will not avert the need to make similar contractions in the future. Further complicating this issue is the fact that major change is not easy and requires extensive internal analysis and administrative review, as well as broad consultation with city employees (including labor contract negotiations), program recipients, and the public at large.

Looking beyond 2010 to future budgets, the four major cost drivers discussed above will continue to push city expenditures beyond the rate of inflation for at least the next two years, threatening budget solvency. The post-2010 impacts of these items are briefly summarized below.

- Health care—Milwaukee's health care costs show no sign of slowing down, with increases of $15 to $16 million projected for 2011 and 2012. Costs have been driven not only by the rise in medical prices, but also by the rate of utilization of medical services and the level of benefits provided, especially to retirees. While the nation seems poised to adopt changes in the overall health care system, prudence suggests that four decades of escalating costs will not be easily halted and that any cost control measures adopted may take years to achieve their full effect.

- Pension—Prior to the change in accounting assumptions approved by the Pension Board in August, pension contributions were projected to continue to grow by a minimum of $18 million in 2011 and $13 million in 2012. According to city budget officials, preliminary estimates indicate the new assumptions, while reducing the additional 2010 contribution from $49 million to $37 million, would require an additional $29 million in 2011 and an additional $20 million in 2012. To put this into context, Milwaukee's operating expenditures, in total, grew by $15 million a year from 2004 to 2008. While a rise in the stock market will restore some equity value to the pension fund, the amount and rate of any rise is difficult to predict. Maintaining costs at a reasonable level over the long-term, therefore, may necessitate a change in pension benefits, which are higher than

state pension benefits in a number of employee categories. Of course, any such change must be negotiated with employee unions and likely would take years to have a significant fiscal effect.

- Salaries and Wages—City budget officials have estimated that funding salaries and wages on a cost-to-continue basis will require an estimated $15 million on an annual basis barring a significant reduction in personnel and/or advantageous labor agreements negotiated with employee unions.

- Capital Maintenance and Replacement—As noted above, the city eventually will need to budget additional funds for the maintenance and replacement of the city's capital assets, especially local streets, in order to avoid further deterioration in their condition. These costs are substantial and will only continue to grow if funding remains inadequate. A recent study estimated that restoring 95% of local streets to good condition would require an additional $16.9 million a year, even if the city were to adopt a repair and replacement strategy that optimized costs.

In sum, the city will be severely challenged for the next several years to bring its expenditure increases within the rate of inflation without seriously harming its program and service capabilities. Yet, even inflationary growth in revenues – the ICMA standard – is unlikely to be attained.

CASH SOLVENCY

Analyzing cash solvency with the ICMA system

Cash solvency refers to the ability of a government to pay its bills. Two ICMA measures for cash solvency pertain to liquidity and General Fund balance. Liquidity examines the flow of money in and out of the treasury. If revenues are on hand to cover expenditures, a government has positive liquidity or cash flow. If such revenues are lacking, the government must borrow to pay its bills. A positive fund balance provides an indication of a government's ability to maintain cash solvency, as well as meet unanticipated emergencies.

Summary of findings on cash solvency

Milwaukee maintains a reasonable cash balance, liquidity levels that conform with ICMA standards, and several reserve funds (Tax Stabilization Fund, Public Debt Amortization Fund, ERS Employers' Reserve Fund and contingency fund) to respond to revenue and fiscal challenges. In 2008, however, the city's withdrawal of revenues from the TSF and PDAF resulted in balances that were below previous levels. These actions also reduced the General Fund balance and liquidity. Such actions, if continued in the future, would be a cause for concern.

ICMA Fiscal Indicator 11 – Liquidity

Why it is Important – A key measure of a city's short-term fiscal condition is its liquidity. ICMA defines liquidity as the ratio of cash and short-term investments to current liabilities. Assessing liquidity is complicated by the flow of payments in and out of government coffers in the course of the year. For this reason, evaluation of liquidity should take place at the same point in time, as we do here.

ICMA Warning Sign

- A decreasing amount of cash and short-term investment as a percentage of current liabilities
- Three or more years of a ratio of greater than 1 to 1.

City of Milwaukee Finding – Over the past few years, Milwaukee's liquidity ratio has worsened slightly. However, levels of cash and investments still exceed current liabilities and the city meets ICMA's liquidity ratio. As a result, this a **positive indicator** of fiscal health, yet one that still will require monitoring given the city's fiscal challenges.

Year	Ratio
2004	1 to 0.4
2005	1 to 0.5
2006	1 to 0.4
2007	1 to 0.8
2008	1 to 0.8

Source: City of Milwaukee, CAFR, 2004 to 2008

Analysis

Milwaukee's cash solvency rests upon a three-line level of defense: its cash liquidity, General Fund balance, and reserve funds. As **ICMA Indicator 11** shows, Milwaukee has a liquidity ratio well within ICMA standards, although the relationship between cash/investments and current liabilities declined between 2004 (a ratio of $119 million to $50 million) and 2008 ($75 million to $61 million).

In 2007, the city's General Fund balance of $73 million represented 12% of its operating revenues, a fall-off from $105 million in 2006, the high point of the trend, as shown in **ICMA Indicator 12**. As a percentage of operating revenues, Milwaukee's cash balance is lower than most comparable cities. **Table 20** demonstrates that Sacramento (36%) and Charlotte (32%) are in the best position, while Cleveland (6%) and Toledo (5%) are in the worst.

Unlike some other local units of government, the City of Milwaukee has had the foresight to establish reserve funds to prepare for downturns in the economy and changes in the city's fiscal condition. The Tax Stabilization Fund, the Public Debt Amortization Fund, the ERS fund and budget contingency fund are described elsewhere in this report. Taken together, the reserve funds buttress cash solvency.

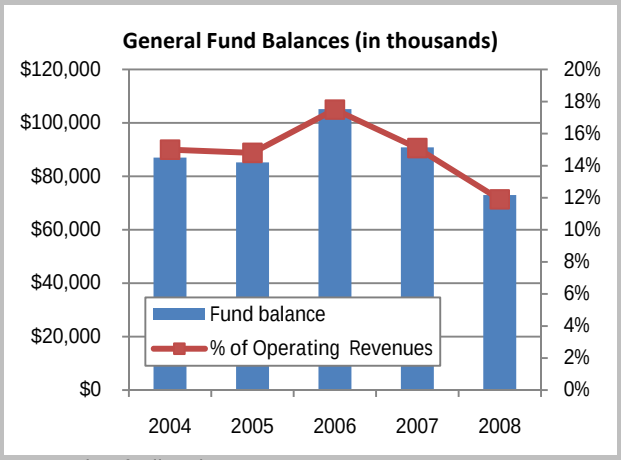
In 2008, the city drew upon the TSF and PDAF more than in previous years. At the close of 2008, the TSF balance was $42.4 million, or two-thirds the average closing balance from 2004 to 2008. The PDAF balance was at $59.9 million, or 83% its average closing balance. Depending upon one's point of view, the city's increased reliance upon these reserves at a time of fiscal difficulty can be seen as a sign of good sense or as a harbinger of future difficulties. Moody's cited the "rapid drawdown in reserves" in revising the city's fiscal outlook from stable to negative. On the other hand, Standard and Poor's found that the remaining TSF assets were at a "good" level. Obviously, the larger fund withdrawals in 2008 mean that Milwaukee will have fewer resources upon which to rely in the future. The city should continue to monitor the use and level of these funds.

ICMA Fiscal Indicator 12 – Fund Balance

Why it is Important – Fund balances are a form of financial reserve that affect a government's ability to meet unanticipated costs and emergencies.

ICMA Warning Sign – Declining General Fund balance as a percent of net operating revenues.

City of Milwaukee Finding – In 2008, Milwaukee had a $73 million ending fund balance, which represented 11.9% of its operating revenues. The city's balance had declined by $18 million from a level of $91 million in 2007, and a downward trend is observable over this period. Given these changes and the city's other fiscal challenges, this is an indicator that **requires monitoring**.



Source: City of Milwaukee, CAFR, 2004 to 2008

Table 20: General Fund Balance as Percent of Operating Expenditures, 2007 (in thousands)

City	Percentage
Charlotte	32.3%
Cincinnati	20.8%
Cleveland	6.4%
Columbus	17.5%
Milwaukee	**15.1%**
Minneapolis	18.7%
Oklahoma City	27.5%
Pittsburgh	19.8%
Portland	19.8%
Sacramento	35.7%
Toledo	5.2%
Milwaukee rank*	**9**

* Ranked in descending order; for example, city with highest % of General Fund balance ranks 1st.
Source: City CAFRs, 2007

CONCLUSION

This report has used the Fiscal Trend Monitoring System of the International City/County Management Association to evaluate the fiscal health of the City of Milwaukee government. The system examines key fiscal characteristics and follows trends in various indicators to determine a government's financial condition. Major findings from our analysis are as follows:

- Milwaukee shows deterioration in all four ICMA categories of fiscal solvency. In budget solvency, Milwaukee's operating expenditures have grown faster than revenues, as major revenues have languished while expenditures have become harder to control; in cash solvency, the General Fund balance and the level of reserve funds declined as did liquidity; in long-run solvency, unfunded retirement obligations climbed and the condition of city assets, especially local streets, worsened due to insufficient funding; and in service solvency, most city departments' budgets have not kept pace with inflation, necessitating position reductions that have impacted the level and scope of services delivered.

- Milwaukee's revenue structure presents tremendous and increasingly difficult fiscal challenges for the city. ICMA states that under a condition of fiscal health, a municipality should have diverse revenue sources, many of which are under its direct control and which rise with the level of inflation. In contrast, Milwaukee has fewer revenue sources than similar cities. State aid, the city's largest revenue source, has not increased in 12 years. Unlike most cities, Milwaukee depends upon a single local tax to fund its operating expenditures. As a result, property taxes are higher in Milwaukee, even though the city generates less revenue from local taxation than other cities.

- In recent years, Milwaukee has been able to maintain expenditure growth, albeit not at the rate of inflation, by drawing down revenues from the Tax Stabilization Fund, increasing transfers from enterprise funds, and (especially) by raising charges for service revenue. This fiscal strategy does not have long-term viability. There are not sufficient reserves to continue past rates of utilization and charges for services are limited by statute to no more than cost, a level they are rapidly approaching.

- There is no reason to be hopeful about the prospects of even modest increases in state aid. The shared revenue program is frozen in place. The state has eliminated not only new funding, but also the very policies and formulae that normally would serve as a mechanism by which to reassess and adjust annual levels of support and aid distribution. State priorities lay elsewhere – in school aid, medical assistance, and corrections – programs that have grown rapidly during the past decade. Even a change in priorities, however unlikely, would not produce significant state revenue increases since the recession has brought a fall-off in state tax revenues. State government finances will remain troubled for the next few years, at a minimum.

- ICMA encourages analysis of expenditure patterns and the factors driving expenditure growth. In the case of Milwaukee, the results are hardly encouraging. The city has experienced a strong increase in fringe benefit expenditures, the type of costs that are

difficult to control. Health care costs grew by $26 million (31%) from 2004 to 2008, accounting for 38% of the $68 million in total expenditure growth, and they are expected to continue to grow by an average of $13 million annually in the next three years. In addition, the precipitous fall in the stock market has created an unfunded liability in the city's retirement fund, necessitating an allocation of an additional $37 million in 2010 and additional increases in future years. Additional retirement costs should total at least $66 million in the next two years, an amount nearly equal to the overall growth in operating expenditures from 2004 to 2008. While city officials have limited options for cutting retirement benefit costs for existing retirees and employees without their consent, these factors suggest that significant prospective changes to the city's fringe benefit structure must be contemplated as part of a larger strategy to attain long-term solvency.

- Another key source of expenditure pressure is capital debt, as debt service payments funded through the tax levy increased by $20 million, or 37%, from 2004 to 2008 (before declining by $4 million in 2009). Reducing this burden is no easy task given that capital assets, particularly local streets, are not in good condition and their repair and restoration will require a substantial investment. Also, the city's prudent and conservative debt repayment policies make it difficult to reduce debt service payments (while appropriately investing in infrastructure) since the city's G.O. debt is paid off over a shorter period of time and at a higher annual level than comparable cities.

- By increasing program revenues and prioritizing annual funding increments, the city has maintained police and public works operations at a rate greater than inflation. Most departments, however, have not seen such funding increases. A few departments – city development, health, and public libraries – accounted for 73% of the loss in non-public safety positions (88 of the total 120 positions).

- Since public safety constitutes more than one-half of all city operating expenditures, our analysis compared police and fire data with data from similar cities. The results show that Milwaukee spends more per capita on police than most and more on firefighter salaries and benefits than all. In light of the city's overall budget challenges, those findings could prompt policymakers to re-examine police staffing levels and firefighter compensation. However, any attempts to do so may contradict the high priority placed on public safety by constituents as well as recent progress in reducing crime rates.

- The City of Milwaukee is well run and management is not the cause of its fiscal problems. Policies and practices for general obligation debt load and rate of amortization meet or exceed professional standards. Multiple reserve accounts buttress budget and long-term solvency. Enterprise operations do not draw upon tax revenues but rather contribute surplus funds to the city's operating budget.

- The recession has aggravated, not caused, the city's fiscal problems. Even before the recession occurred, Milwaukee was on a downward financial path. Major revenues could not keep pace with inflation. Fringe benefit costs rose significantly forcing budget reductions (when adjusted by inflation) in some departments, and internal cutbacks in non-fringe benefit

costs. In its weakened state, the city was vulnerable to the loss of revenue and asset value that has accompanied the recession. Major cutbacks in program operations and budgets will be necessary in 2010.

- Without major changes, Milwaukee's fiscal condition will become more severe and fiscal pressures will escalate. Fringe benefits are climbing and are difficult to control. The condition of city assets, particularly local streets, is deteriorating and will require additional funding. Maintaining expenditures at the level of inflation will be difficult to achieve. Yet, there is little likelihood that incoming revenue will even reach this level. Major cutbacks in service and a loss in service solvency are a looming prospect.

The purpose of this report has been to provide information and analysis to establish a platform for subsequent policy discussion and action. It is hoped that whatever action the city decides upon will be of the size and scope needed to address its fiscal challenges.

Milwaukee has serious, deep-seated fiscal problems. Its revenue structure is broken and expenditures exceed levels of sustainability. Given the difficulties, getting by seems like an achievement. Yet, incremental change is unlikely to overcome the ongoing debilitation.

Can Milwaukee overcome institutional obstacles and lack of support from state government to consider the kind of fundamental fiscal change that is truly needed? In order to do so, city hall must be able to engage the residents, organizations, and businesses in the city (and indeed, the region and state) to think deeply about its problems, and to join it in setting forth a course of action in which short term budget fixes and long-term goals are compatible and systemic in nature.