



# WISCONSIN POLICY FORUM

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## **Federal Funds Give Milwaukee a Budget Reprieve, but Debt Up as Reckoning Nears** *Federal monies supporting more than half of Milwaukee Fire Department positions*

Federal pandemic relief funds give a temporary reprieve to a mounting array of fiscal woes for the city of Milwaukee, helping it avert large-scale service reductions in Mayor Cavalier Johnson's proposal for the 2023 budget.

But city debt levels are escalating more rapidly than anticipated as borrowing costs may soar, according to the Wisconsin Policy Forum's annual brief on the proposed city of Milwaukee budget.

Meanwhile, the proposed budget would use \$80 million of federal dollars from the American Rescue Plan Act (ARPA) to stave off major cuts to most departments in 2023 (though the police and fire departments and the public library do see staff and service reductions) – up more than \$13 million from the amount plugged into the current budget and thus increasing the budget gap that will be created when the federal funds are exhausted.

The budget brief finds this year's proposal reinforces warnings issued in previous Forum research; most recently last month in [our report on the city of Milwaukee's overall fiscal condition: "Nearing the Brink."](#)

"All signs are pointing to a deteriorating and highly alarming fiscal picture," the report finds.

Consistent with findings in that report, the 2023 proposed budget shows the city's principal revenue streams, primarily state aid and property tax revenues, continue to be stagnant. Meanwhile, the ability to tap key reserves, a source of stability in past budgets, has all but disappeared. And a long-anticipated sharp increase in the city's pension contribution in this year's budget is the final element threatening to bring its challenges to a head when federal pandemic aid runs out prior to 2025.

Key findings include:

- Johnson's 2023 budget proposal would tap \$81.1 million of the city's total \$394.2 million allotment of ARPA funds, including \$1.1 million for ARPA administration. **Nearly all would go toward operational costs within the Milwaukee Fire Department**, supporting 470 sworn fire department positions – more than half of the department's authorized positions. Once the federal funds are spent, the potential need to cut all of those positions or substitute others across all city departments – as well as perhaps cut hundreds more as inflation and pension payments rise – "would produce **severe reductions in services that a city with Milwaukee's vast needs arguably cannot afford to endure**," the report finds.

- The proposed budget **increases the amount of property tax levy going to service general obligation debt by 15.3%**, bumping the total to \$98.5 million. This would be **the largest annual debt levy increase since at least 2001**, and it also would increase the share of total levy going to debt. In 2015, debt accounted for just 22.5% of the city's total property tax levy; under the proposal it would account for 31.7% next year, the most since 2008. Future efforts to quell debt payments may have to contend with higher interest rates, and worsening of the city's bond ratings could raise the cost of borrowing further.
- One of the most important contributors to Milwaukee's fiscal challenges over the past decade-plus has been the **lack of combined growth in its top two revenue sources: state shared revenues and the property tax**. In the 2023 proposed budget, shared revenues would remain flat while the property tax levy would increase 2% (\$6.1 million), but the additional amount available for core city services would total only \$3.5 million. **Milwaukee will continue to face steep financial challenges going forward should nothing change in Madison** with regard to these two major revenue sources, or barring other assistance from state lawmakers.
- Another driver of the city's challenges is the need to **increase its yearly employer pension contribution, which rises from \$71 million in 2022 to \$100 million in the proposed budget**. As a buffer against this, city leaders have deliberately built up a pension reserve fund, the balance of which currently sits at \$80.8 million, thanks in part to a \$40 million contribution in the 2022 budget. But the \$100 million figure may increase when the final determination of the 2023 contribution amount is made early next year, and it is anticipated that **the pension reserve balance will be drawn down rapidly once ARPA funds are exhausted** heading into 2025.

As deliberations on the 2023 budget continue, city policymakers should be relieved that they have the federal resources in hand to delay their day of reckoning. And area residents and businesses should be aware of the magnitude of the problem that is emerging, as well as what is at stake if state and local policymakers fail to avert worst-case outcomes.

[Click here to read our 2023 Budget Brief for the City of Milwaukee.](#)

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