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Milwaukee Continues to Reap Act 12 Benefits, But Fiscal Challenges Remain

Proposed 2025 city budget includes bright spots, but future challenges point to need to find savings

For a second straight year, the city of Milwaukee's proposed budget would largely avert staffing and service cuts and limit increases in property taxes and fees as the city continues to benefit from a landmark state law providing new revenue, including from a new city sales tax.

After many years of deeply challenging budgets, Mayor Cavalier Johnson's proposal for 2025 delivers mostly welcome news. It allows most city departments to avoid service cuts; funds three new Milwaukee Police Department recruit classes; restores a fire and paramedic unit; and maintains Sunday library hours. It also boosts city-backed capital spending by nearly \$15 million to address infrastructure needs -- all while limiting property tax and most fee increases to a sub-inflationary 2%.

Yet this newfound budget tranquility could be short-lived, according to the Wisconsin Policy Forum's annual review of the mayor's proposed budget. Some of the mechanisms by which it is achieved, such as the largest drawdown from a key city reserve fund in at least a decade, are unlikely to be sustainable in the future. And amid mounting city infrastructure needs, the proposal would raise city borrowing levels to their highest point in at least a decade.

"City officials, residents and businesses should justifiably view the proposed budget with optimism and relief," the report finds. "At the same time, however, they should keep in mind that the city's structural challenges have not disappeared and may soon intensify, and that future budgets are far less likely to produce the same positive feelings as this one."

Key #1: Act 12 Continues to Deliver: Last summer, Gov. Tony Evers signed into law 2023 Wisconsin Act 12, which provided every city, village, and town in the state with a boost in state shared revenue, while also ensuring that future shared revenue payments would change based on state sales tax collections. It also allowed Milwaukee to pass a 2% local sales tax.

As a result, Milwaukee's 2024 budget included a state shared revenue increase of \$21.9 million. It also included \$184 million in new sales tax revenue, mostly to cover the city's skyrocketing pension obligations, with \$28 million left over for general city purposes. The city appears on track to exceed this sales tax projection in 2024.

The 2025 budget is our first look at how Act 12 will change city finances going forward. It forecasts that revenue from these sources will grow -- a shift from the years prior to the pandemic, when growth in fees and the property tax were typically the city's only major sources of revenue growth. The 2025 budget estimates sales tax collections of \$192.9 million, a boost of \$8.9 million (4.8%), and projects a shared revenue increase of \$4.9 million to \$246.2 million. With sales tax and shared

revenue now joining property taxes and fees as sources of potential annual revenue growth, the city will receive a combined \$27.7 million from them in 2025.

Key #2: Healthier Reserves Accommodate Resumption of Sizable Withdrawals: In 2022, [our report on the city's fiscal condition](#) noted warnings about the city's depleted fund balances, which had left the city's reserve position "significantly weaker than it had been in previous years." Consequently, for the first time in recent memory, last year the city did not withdraw any funds from its three main reserve funds.

Now in the 2025 proposed budget, combined withdrawals from the three reserve funds would jump back up to \$44.3 million. This total amount is driven by a \$32.3 million withdrawal from the Tax Stabilization Fund, the most in at least a decade and the maximum allowable under city ordinances, as well as \$6 million from the city's Transportation Fund – even as the latter has seen revenues dwindle dramatically since the pandemic.

Key #3: Growing Capital Needs Mean Elevated Levy-Backed Borrowing: The Forum has warned that capital needs would emerge as a growing contributor to the city's financial challenges, and the 2025 proposed budget confirms this. The city's capital improvements budget would top \$200 million, up 7.5% from last year, in order to address outdated physical infrastructure and software and to meet local matches for federal transportation grants.

In 2024, the city was able to finance nearly one-fifth of its capital spending with a \$38.9 million infusion of property tax revenues, due to the availability of federal pandemic aid. With the aid no longer available in 2025, cash financing in the capital budget is mostly eliminated, while the need for capital spending grows. General obligation borrowing would rise in the 2025 proposed budget from \$96 million to \$116 million, or 20.8%. Borrowing would sit at its highest level in at least the last decade, and no year in recent memory has seen an increase in borrowing to rival the 2025 proposal.

Key #4: Future Outlook Remains Precarious: Looking beyond next year, a more foreboding picture emerges. Both future sales tax and shared revenue increases will depend on the national economy, and health care savings – instrumental in balancing the 2025 budget – may be short-lived. Meanwhile, increases in Act 12-related costs appear inevitable as the city responds to its mandate to increase police and fire staffing levels.

Increased city debt levels discussed in Key #3 also mean that debt service will be a prominent source of fiscal pressure for the city moving forward. These factors forewarn the potential of higher annual increases in property taxes and fees than city property owners have been accustomed to in recent years.

All of this should add up to an even greater sense of urgency for city leaders to pursue changes aimed at increasing efficiency, the report concludes, without lowering service quality or breadth. The benefits of Act 12 will continue, but fall short of resolving the city's fiscal challenges. It is clear that future solutions to the city's challenges are less likely to come from Madison, and that the need to scour city operations for savings opportunities will grow.

[Click here](#) to read our 2025 city of Milwaukee budget brief.

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