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Contact:
Mark Sommerhauser, Communications Director/Researcher
(608) 982-0324 or msommerhauser@wispolicyforum.org

Nearing the Brink: An independent review of the City of Milwaukee's fiscal condition

Public safety, basic services at risk if challenges linked to revenues, pension aren't addressed

City of Milwaukee finances are closer than ever to a long-predicted day of reckoning, threatened by an unsustainable revenue mix, shrinking resources for core functions, diminishing reserves, and escalating long-term liabilities, according to a new Wisconsin Policy Forum report.

For more than a decade, the Forum has warned about what the future holds for the finances of Wisconsin's largest city. These impacts were delayed somewhat by outside events, from the passage of Act 10 a decade ago to the more recent infusion of federal pandemic aid. But they are nonetheless approaching, the report finds – necessitating an urgent local and state response.

"Every citizen and stakeholder who cares about maintaining city services such as public safety, streets, and public health should consider the consequences if steps are not taken to stave off this coming fiscal challenge," the report warns.

We find this will likely require action on several fronts, including the revenue and expenditure sides of the ledger. It may include expanding the city's local tax or fee revenues beyond the property tax, reforming its pension and retiree health care benefits, limiting borrowing where possible, and finding new ways to cut spending and increase efficiency, such as consolidating or sharing services with nearby local governments.

The Forum examined Milwaukee's fiscal condition in reports in 2009 and 2016 using metrics developed by the International City/County Management Association (ICMA). In this report, again commissioned by the Greater Milwaukee Committee, we update those findings using the same ICMA indicators.

The analysis is organized around the city's four main fiscal challenges:

1. **An unhealthy revenue mix:** In our 2009 and 2016 reports, we cited concerns about ICMA warning signs that included lack of overall inflation-adjusted revenue growth due largely to shrinking state aid; and local tax revenues increasingly devoted to long-term obligations, such as pensions. This dynamic poses a significant threat to the city's financial health and is growing worse. Between 2011 and 2021, the city's financial statements show revenues grew by only 12.8% in its tax-supported governmental funds, substantially less than the 20.5% increase in inflation during that period.

   The infusion of $394 million in federal pandemic relief aid from the American Rescue Plan Act (ARPA) has helped city leaders build up a pension reserve fund and delay the full impacts of this trend into 2024. Though deep service cuts have been avoided for now, the funds provide only a short-term fix, and using them in this way also may dampen the sense of urgency needed to develop long-term solutions, both in Milwaukee and Madison.

2. **Diminished capacity to sustain core services:** Previous reports warned that shrinking resources available for core services and a desire to avert cuts to public safety had resulted in an increasing proportion of spending on functions like police at the expense of others, like libraries and public health.

   We find in this report that the city was able to hold increases in tax-supported governmental fund spending to a sub-inflationary 14.8% from 2011 to 2021. It also has made difficult decisions to reduce total FTEs by 12.4% (or 1,023 positions) since 2000. However, public safety spending continued to outpace overall governmental spending from 2011 to 2021, rising 20.8%. As additional resources will have to be dedicated to the pension fund beginning next year, public safety also appears on track to become unaffordable at current staffing levels.

3. **Depleted reserves:** Previous reports found the city's finances were relatively strong with regard to short-term metrics like liquidity and general fund balance. However, our latest findings represent some of the most important negative changes for the city from our 2016 analysis. On the positive side, Milwaukee's liquidity is still strong, but only because in 2020 the city issued a more than $100 million revenue anticipation note, a form of debt that will have to be repaid after 10 years.

   The city's liquidity had actually deteriorated substantially in 2018 and 2019 (liabilities grew to nearly 100% of cash and short-term investments) before the debt was issued. Meanwhile, the city's unassigned general fund balance – the best measure of true reserves – fell from $61.7 million (8.9% of annual operating revenues) at the close of 2015 to just $9.1 million (1.3% of operating revenues) at the end of last year.

4. **Suffocating long-term obligations:** In 2016, the threat of huge spikes in the city's pension payments was tempered by the pension system's 97% funded ratio. That has now changed considerably, as the funding level has dropped to 83.4%. Though that still compares favorably with many other public pension funds nationally, the city faces a possible $50 million increase in its employer contribution in 2023. This constitutes "the greatest fiscal challenge it has faced this century," according to the report.

   The city's OPEB, or retiree health and life insurance liabilities, also continue to grow, rising from $1.21 billion to $1.68 billion in just the past three years. Meanwhile, Milwaukee's capital debt burden is increasing, and signs of a substantial backlog in necessary capital projects are beginning to emerge.

The challenges ahead for Milwaukee are clear. By highlighting the storm that is building on the horizon, we hope this study will help local and state officials to take the timely actions needed to protect the city from the impending downpour.

Click here to read the full report: "Nearing the Brink: An independent, third-party review of the City of Milwaukee's fiscal condition."

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