



**VITAL ISSUES FOR MILWAUKEE:**  
**ISSUE #3: CITY FINANCES**

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**PUBLIC POLICY FORUM**

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# Executive Summary

City finances should be a key concern to both city officials and the taxpayers who foot the bill for city expenditures and receive the benefits of city services. An examination of the city's Comprehensive Annual Financial Reports (CAFRs) over the past ten years reveals that the city's major revenues (property taxes and intergovernmental aid) have grown more slowly than have the city's expenditures in the general fund. Addressing this ongoing imbalance is critical for future Milwaukee policy makers. Additionally, the city's debt burden has grown substantially over the past decade, and although the city has long had strong debt management and retirement policies, the growing debt burden should be monitored by both officials and taxpayers.

## Some Key Findings:

- The city's general fund spending per person grew 15.7% between 1995 and 2001 compared to a 13.6% increase in per capita income (**Chart 1**).
- The city's general fund per capita spending grew 36.5% between 1992 and 2002, faster than both of the city's major general fund revenue sources: property tax revenue (a 17.5% per capita increase) and intergovernmental revenue (a 20.8% per capita increase) (**Chart 2**).
- The general fund's per capita revenue from charges for services has grown dramatically, 263%, over the past decade, causing the service charge revenue to grow from 4% of the general fund's total revenue in 1992 to 11.5% in 2002 (**Charts 3 and 4**).
- According to city budgets, since 1997, the average taxpayer's property tax bill has increased 39.5%, while the new user fee bill has gone from \$0 to \$189.73, causing the total bill for city services to grow 66%, from \$717 in 1997 to \$1,190 in 2004 (**Table 2**).
- The city's total debt per capita has increased 98.8% over the past decade, compared to a 52.9% increase in equalized property values (**Chart 9**).
- The fund balance in the General Obligation Debt Service fund (where the city's general obligation debt is financed) has been relatively healthy over the past ten years, growing 45.3%, from under \$30 million in 1992 to just over \$40 million in 2002 (**Chart 10**).
- The city is only allowed to take out an amount of general obligation debt that equals 5% of its total equalized property value for city purposes. The city's percent of debt limit used has increased significantly over the past decade, from 48.5% in 1992 to 61% in 2002 (**Chart 11**).

# Introduction

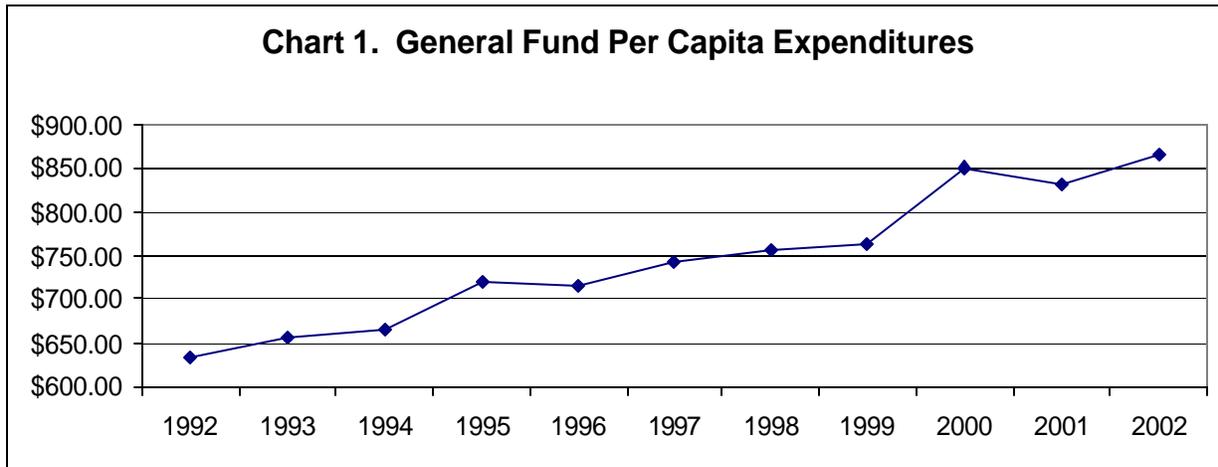
A key function of government is to collect money from constituents and then to spend that money on services for those constituents. It is important for taxpayers to be aware of how their government performs these financial duties in order to hold their elected officials accountable for spending their money wisely.

For this analysis, we depend on the city's Comprehensive Annual Financial Reports (CAFRs). Governments report revenues and expenditures under fund accounting, which is a "system that subdivides an organization's accounting records into separate subentities that are tracked and reported separately within the one larger setting" (Steven A. Finkler, *Financial Management for Public, Health, and Not-for-Profit Organizations*). Types of funds are governmental, proprietary, and fiduciary. Governmental funds are those that are typically used to operate most governments. They include the general fund, which accounts for all financial resources, except those required to be in another fund; two debt service funds in the City of Milwaukee, the general obligation debt service fund for paying off general obligation debt, and the Public Debt Amortization Fund; and the capital projects fund. Proprietary funds are those funds which are operated like a business, charging a fee for certain services; in the City of Milwaukee, these are the enterprise funds: Water Works, Sewer Maintenance, and Parking. Finally, there are the fiduciary funds, funds in which the financial resources do not belong to the government, but are rather held in trust for another party; an example is a pension fund.

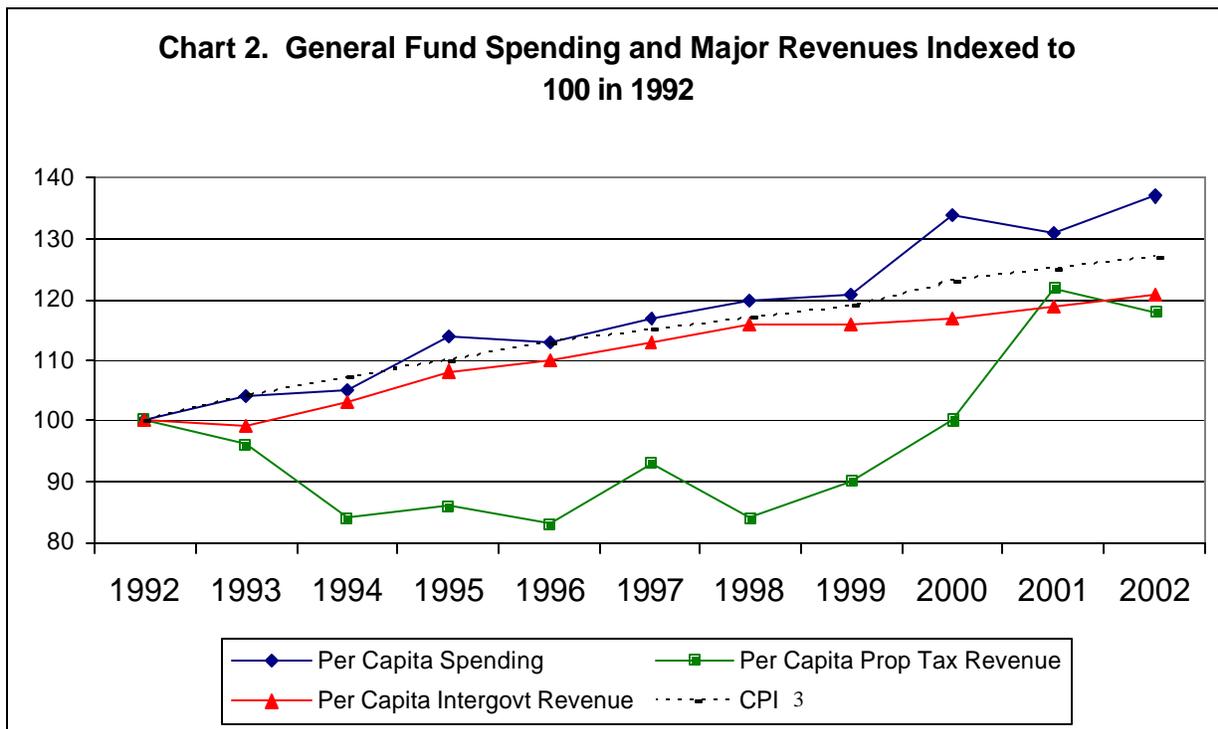
For the first time in 2002 (the most recent year the CAFR was issued), Milwaukee complied with the Governmental Accounting Standards Board (GASB) Statement 34, which requires that, in addition to fund reports, the government provide financial statements for the whole government. Such reporting is useful because it will allow the entire government's fiscal status to be evaluated rather than just the separate funds. However, because this is the first year the city reported its finances this way, we are unable to analyze it over time. Therefore, most of our focus in this report is on the general fund. Exceptions are the discussion of debt, which deals with the complete city finances, and the discussion of user fees and the taxpayers' city services bill; the data here are from the city budgets, and deal with the whole city.

# Revenues and Expenditures

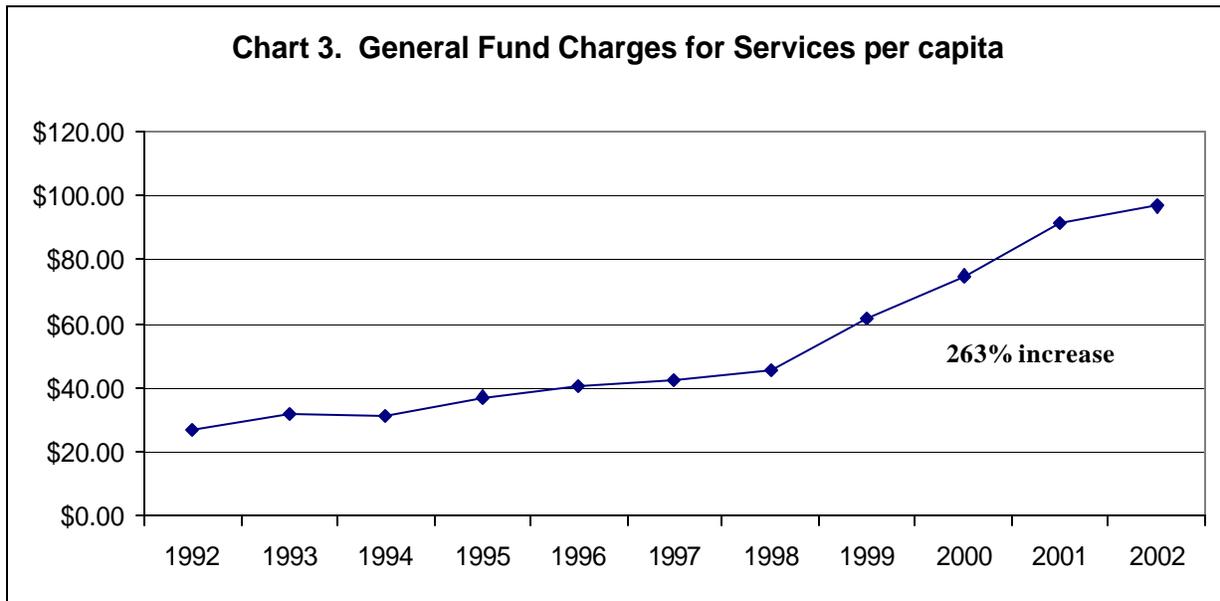
The city spent \$865 per capita<sup>1</sup> from the general fund in 2002, up 36.5% from \$633 in 1992. This spending pace is significantly faster than the 26.9% ten-year inflation rate.<sup>2</sup> Additionally, between 1995 (the first year in which comparable income data are provided in the city's CAFRs) and 2001, general fund per capita spending has increased 15.7% compared to a 13.6% increase in per capita income. Although Milwaukee has experienced a 5.3% drop in population over the past decade, its total general fund spending has increased 29.3%.



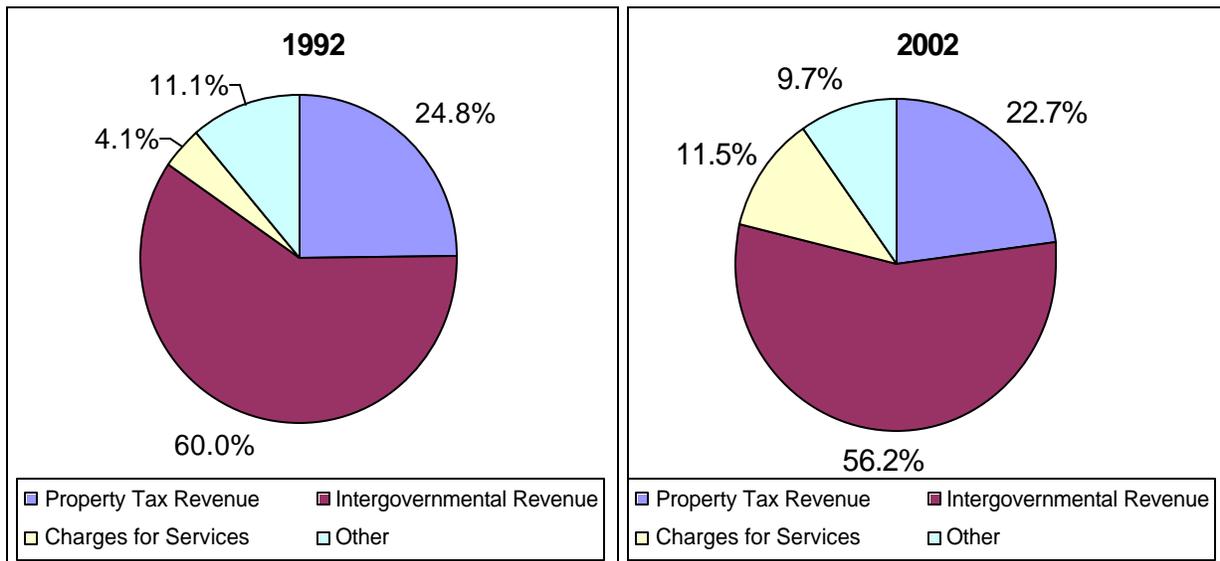
Not only has general fund spending growth outpaced population and income changes, but, perhaps more significantly, spending has outpaced the growth of the city's two major revenue sources: property taxes and intergovernmental revenue. Since 1992, total property tax revenue in the general fund has grown 11.2%, a 17.5% per capita increase when the city's population drop is considered, while general fund intergovernmental revenue has increased 14.3% in total and 20.8% per capita.



Although the city can make up for relatively sluggish growth in certain revenue sources with more substantial increases in other sources, spending that is growing faster than the major revenue sources' ability to pay for it presents a real problem for the city's continued fiscal solvency. For example, although general fund revenue from charges for services per capita has increased 263% over the past decade, even such a substantial influx of new revenue from this source cannot take the place of the revenue taken in through property taxes and intergovernmental aid. On the contrary, although revenue taken in from fees has increased dramatically, from 4% of the general fund's total revenue in 1992 to 11.5% in 2002, property tax and intergovernmental revenue still account for the lion's share of the general fund's revenue: 79% in 2002. In actual numbers, the nearly \$400 million brought in through property taxes and intergovernmental aid in 2002 is nearly seven times the \$58 million raised through charges for services.



**Chart 4. General Fund Revenue Distribution**



The city's difficulty in matching expenditures to revenues over time is further exacerbated by taxpayers' growing frustration with tax and fee levels, a frustration that was starkly evident in the most recent budget period, and can be seen in numbers presented in the city budgets (as opposed to the CAFR's general fund, which we have focused on thus far). Not only did the city receive a \$9.8 million cut in state shared revenue due to state budget problems, but the mayor responded to widespread anger over property tax levels by proposing to decrease the tax levy and to not raise the rates for any of the city's major user fees. However, the final budget (which did include an increase in the tax levy) did not include some of the service cuts needed to bring expenditures in line with the stagnant revenue levels. To bring the budget into balance, the city withdrew a substantial amount from its rainy day fund, and took a step backward from its fiscally sound infrastructure cash conversion policy, paying for some projects with debt as opposed to cash, a move that will cost more in the long run.

In an attempt to both more equitably distribute the cost of city services (to non-taxpayers who use them) and to diversify the city's revenue base, new user fees for specific services began to be imposed on service users in 1998. In that year, a sewer maintenance fee was implemented to pay for sewer maintenance costs. While the fee originally covered only operating costs, over the years, the fee has been increased to pay for sewer capital costs as well. Also, the city has increased the fee to cover the costs of street sweeping and leaf collection. In 2001, the solid waste fee was implemented to fund garbage collection. In 2002, the snow and ice control fee was imposed to fund salting and plowing operations related to snow and ice control.

**Table 1. Total City of Milwaukee Revenue from Fees and Property Taxes<sup>4</sup>**

	1997 Actual	1998 Actual	1999 Actual	2000 Actual	2001 Actual	2002 Actual	2003 Budget	2004 Budget
Sewer Maintenance Fee Revenue	\$0	\$8,502,769	\$8,910,829	\$14,764,766	\$17,374,681	\$27,865,587	\$28,236,959	\$31,661,733
Solid Waste Fee Revenue	\$0	\$0	\$0	\$0	\$8,265,947	\$14,097,921	\$13,875,000	\$13,875,000
Snow and Ice Control Fee Revenue	\$0	\$0	\$0	\$0	\$0	\$2,451,109	\$2,400,000	\$2,400,000
Tax Levy	\$148,091,173	\$146,296,708	\$148,994,368	\$151,360,879	\$182,337,794	\$184,075,665	\$197,021,749	\$199,012,386
General City Purposes Tax Levy	\$49,861,354	\$43,115,936	\$53,963,328	\$55,385,058	\$76,260,767	\$74,364,442	\$84,734,381	\$85,155,728

Although the revenue collected by the city from these new user fees has gone from \$0 in 1997 to \$47.9 million in 2004, the General City Purposes tax levy (where the fee-financed services used to be funded) has increased 71%, from \$49.9 million in 1997 to \$85.2 million in 2004. Taxpayers are now expected to pay fees for services that used to be funded with taxes as well as higher taxes even though those taxes are going to pay for fewer services. In fact, since 1997, the average taxpayer's property tax bill has increased 39.5%, while his new fee bill has gone from \$0 to \$189.73, causing the total bill for city services to grow 66%, from \$717 in

1997 to \$1,190 in 2004.

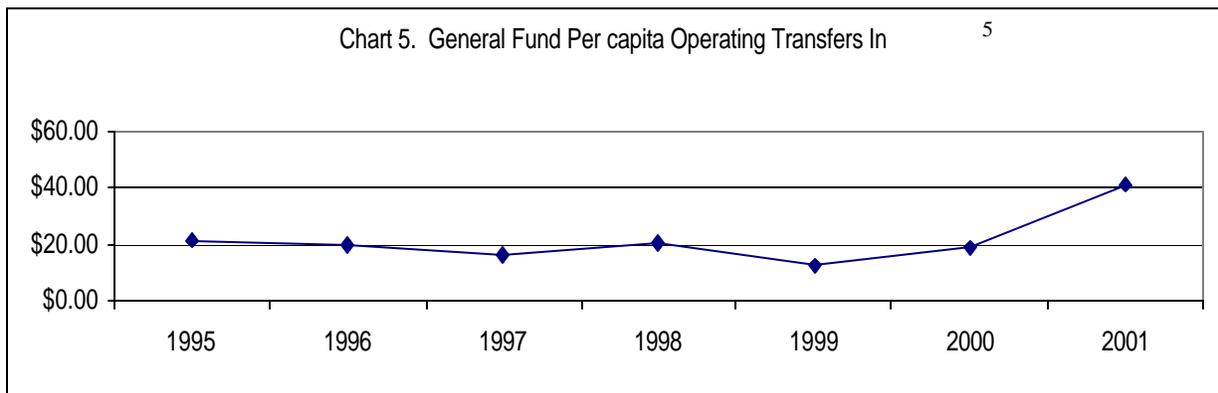
**Table 2. Payment by owner of \$102,805 home for services**

	1997	1998	1999	2000	2001	2002	2003	2004
Home Value*	\$70,000	\$70,000	\$75,250	\$75,250	\$84,280	\$84,280	\$96,079	\$102,805
Tax Rate	\$10.24	\$9.99	\$9.71	\$9.69	\$10.49	\$10.87	\$10.15	\$9.73
Taxes	\$716.80	\$699.30	\$730.68	\$729.17	\$884.10	\$916.12	\$975.20	\$1,000.29
Sewer Maintenance Fee	\$0.00	\$24.78	\$29.76	\$48.44	\$54.89	\$76.63	\$85.20	\$106.52
Solid Waste Fee	\$0.00	\$0.00	\$0.00	\$0.00	\$44.00	\$75.00	\$75.00	\$75.00
Snow and Ice Control Fee	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$8.21	\$8.21	\$8.21
<b>Household Payment</b>	<b>\$717</b>	<b>\$724</b>	<b>\$760</b>	<b>\$778</b>	<b>\$983</b>	<b>\$1,076</b>	<b>\$1,144</b>	<b>\$1,190</b>

\*The change in home value accounts for assessment increases.

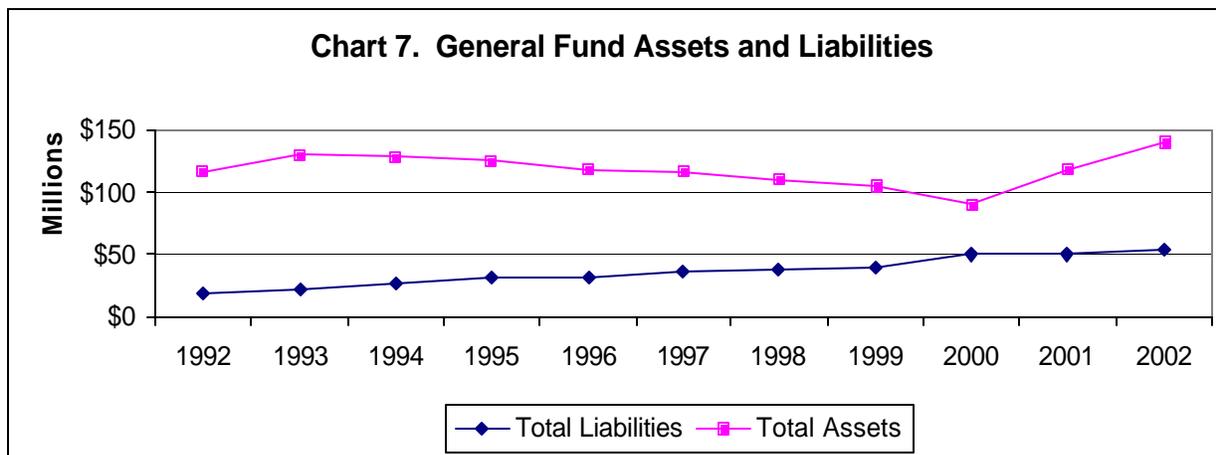
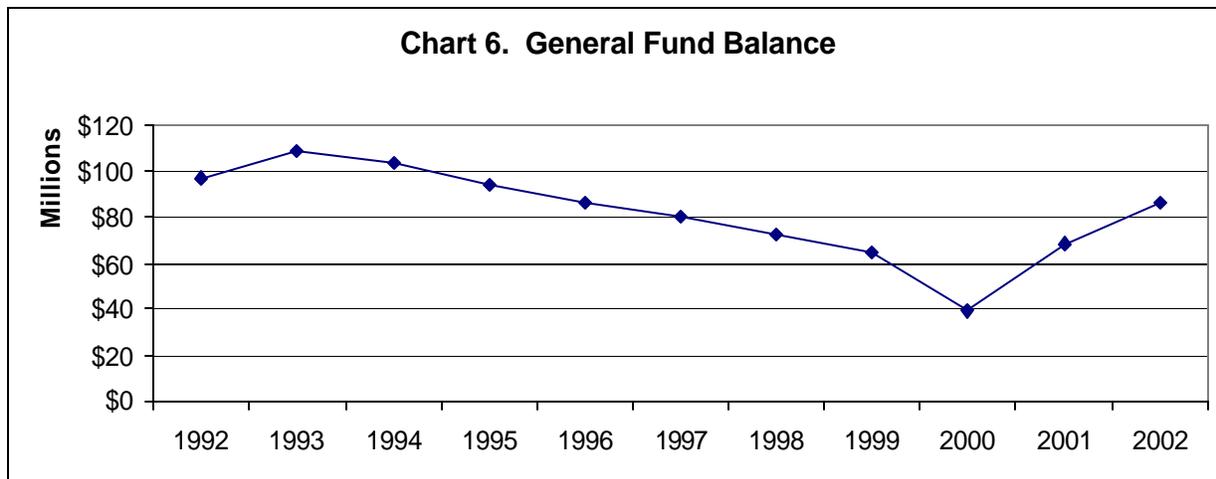
Another factor which exacerbates the city's difficulty balancing revenues and expenditures is continued state-local tension as cities lobby for more aid from the state which, due to a severe budget crisis, has been forced to cut aid to municipalities. The city is always in a relatively precarious financial position since it depends so much on the state for much of its general fund revenue, and as such, the city can neither predict nor control how much money the state will provide. The Government Finance Officers Association (GFOA) emphasizes the city's precarious position: "...unpredictable revenue sources cannot be relied on as to the level of revenue they will generate." (GFOA, "Best Practices in Public Budgeting").

Governments have sources other than revenues with which to fund the expenditures made from each of their funds. Some of these come under the category, "other financing sources", and are not considered revenues for various reasons. A key "other financing source" is operating transfers. If an operating transfer is made from a fund to the general fund, it is not considered a revenue to the general fund because it is recorded as a revenue in the fund from which it originated. Chart 5 shows a sharp spike in per capita operating transfers into the general fund in 2001 (from \$18.52 in 2000 to \$40.91 in 2001). The reason for this spike is that the parking fund, an enterprise fund that accounts for revenues from the city's parking operations with the purpose of funding the operation and maintenance of the city's parking structures and lots, transferred revenue from parking citations into the general fund, whereas this was reported as general fund revenue in the past.



# Assets and Liabilities

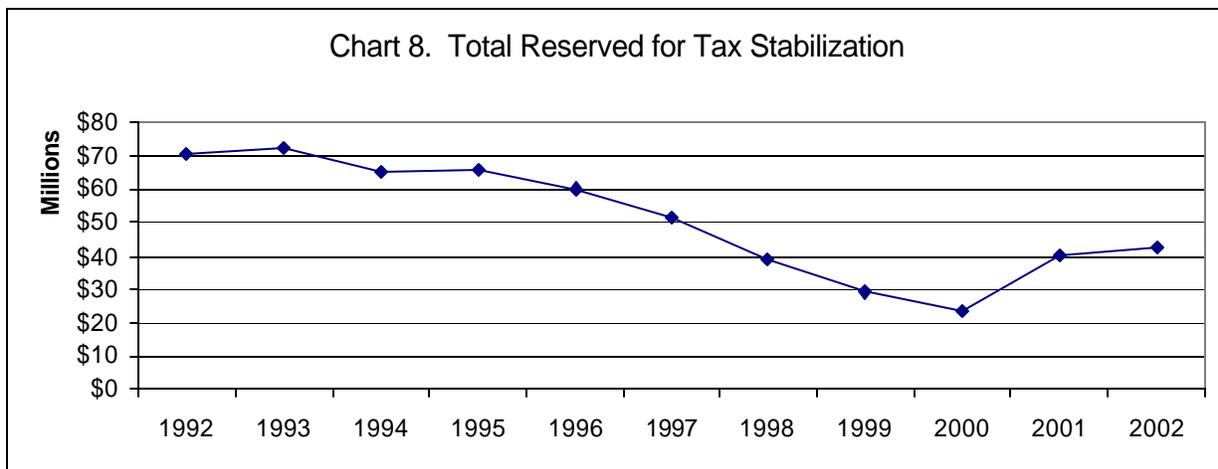
Governments can also fund their expenditures with the portion of their fund balance which is undesignated for specific purposes. The fund balance is the difference between assets – “resources owned or controlled by a government, as a result of a past transaction or other event, that have a recognizable monetary value” – and liabilities – “amounts a government owes” (Dean Michael Mead, “What You Should Know about Your Local Government’s Finances”) in a fund — the gap shown in Chart 7. Chart 6 shows Milwaukee’s general fund balance over the past decade. After a seven-year trend of a declining fund balance due to decreasing assets and increasing liabilities, the balance increased in both 2001 and 2002, so that now the fund balance is higher than it was in 1996.



The portion of the fund balance that the city uses to fund its expenditures is the tax stabilization fund (TSF). Any surpluses in city departments (if they spend less than budgeted or take in more revenue than budgeted) are placed into the TSF at the end of each year. The foremost purpose of the TSF is to ensure that enough money is available in order to keep taxes stable. Accordingly, during the budget process, the Common Council is authorized to withdraw an amount of money from the TSF that will go toward operating purposes in order to prevent the city’s tax rate from increasing more than three percent. Additionally, the Common Council can, with three-fourths in favor, withdraw up to 50% of the fund for purposes other than stabilizing taxes. Such a reserve is necessary both to reassure taxpayers that their taxes will not experience drastic increases and to ensure that the city is prepared in case of an emergency. In essence, it is the city’s “rainy day fund.”

A determination of how much money should be in the TSF must be balanced by two legitimate concerns. The balance should not be too high because that would mean that too much revenue was budgeted in previous years, and that citizens had possibly been taxed too much. However, the fund should also not be depleted too much because the government should have a “rainy day fund.” In fact, the GFOA recommends: “Development of a policy on minimum and maximum reserve levels may be advisable. Policies on stabilization funds should be publicly available and summarized in materials used in budget preparation” (GFOA, “Best Practices in Public Budgeting”). The city followed this advice in the 2002 budget, proposing a draft policy wherein the TSF’s minimum balance would be 5% of the city’s three-year average general fund expenditures, and the maximum would be 10%. However, the city did not formalize this policy, and now seems to focus only on the 5% minimum rather than the 10% maximum.

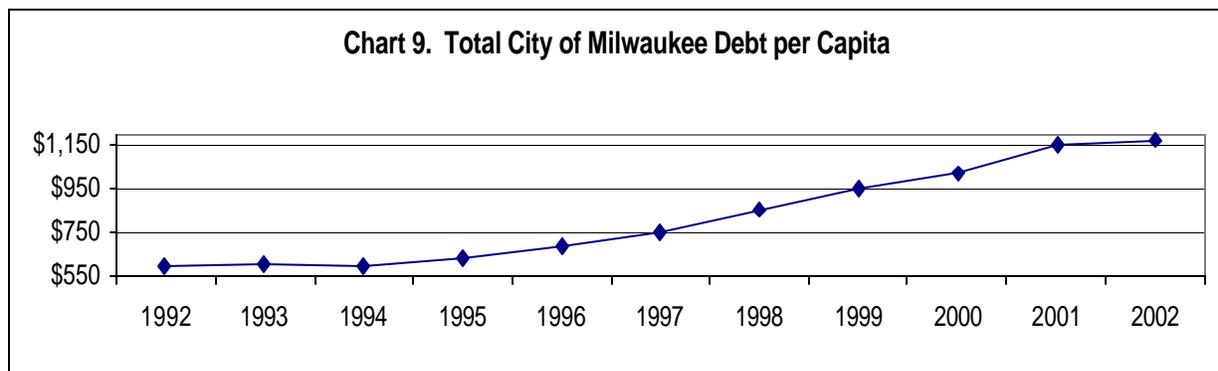
As Chart 8 shows, the city has been depleting its rather high level of reserves over the last several years. City officials explain that this was a conscious policy to spend down the reserves because they believed the TSF balance was too high. In 2001, there was a sharp increase in the balance, followed by a slight increase in 2002. The balance is expected to decline significantly when the 2003 numbers are finalized because the city withdrew the full 50% of the fund allowable in order to balance the 2004 budget.



An important measure of a city's fiscal solvency is its debt burden because every dollar that a city owes in debt is one dollar less that can be spent on services. Also, since the repayment of general obligation debt is pledged based on the government's taxing authority, the first thing that the property tax levy goes to finance is the repayment of debt.

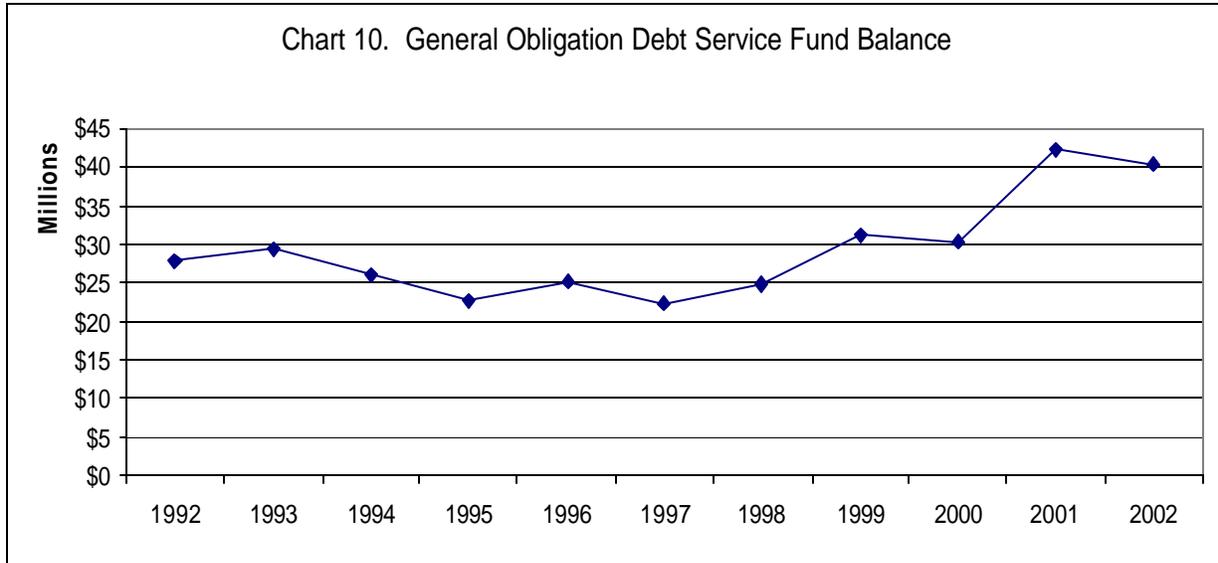
There are two key types of debt which the City of Milwaukee uses. The first, general obligation (GO) debt makes up the bulk of the debt burden and is secured with the "full faith and credit" of the government, which constitutes a promise by the government to levy taxes in order to repay the debt. Second, revenue bonds can be issued to finance projects for the revenue-generating operations of a municipal government (such as enterprise funds like the Sewer Maintenance Fund), and are secured by the revenue generated by the operations of the enterprise for which the debt is incurred.

Chart 9 shows that the city's total debt per capita has increased 98.8% over the past decade, compared to a 52.9% increase in equalized property values (a measure of the community's ability to pay off debt since GO debt is financed with property taxes). While the per capita debt burden was \$594 in 1992, it has increased to \$1,181 in 2002.



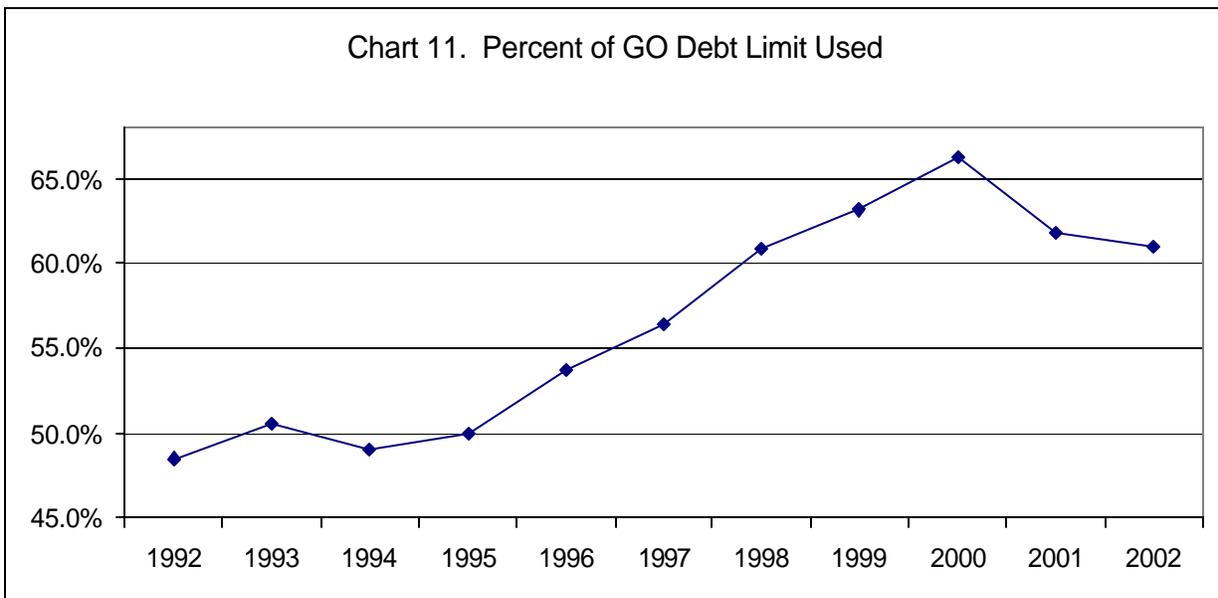
The city is limited by state law in the amount of GO debt it is allowed to incur. It can only have 5% of its equalized property value for city purposes, and (since the city takes out debt for the Milwaukee Public Schools — MPS — which is not allowed to take out debt itself) 2% for school purposes, for a total of 7%. However, in order for debt to be taken out under MPS' debt limit, a referendum must be passed, which has not occurred. Therefore, the city has a deal with MPS to take out debt for the schools under the city's 5% limit. Part of the city's GO debt also includes self-supporting debt, which will be repaid by something other than the city's tax levy. Examples of self-supporting debt are debt for tax increment districts, parking fund GO debt, and water fund GO debt. At the end of 2002, one-third of the city's debt was self-supporting. Although this debt still counts against the GO debt limit and is secured with the city's taxing authority, it should be noted that bond rating agencies generally factor most of it out because it is financed with something other than the tax levy.

The total debt (the number shown in Chart 9) does not count toward the debt limit though. The city deducts its net assets in its general obligation debt service fund (the fund which accounts for resources accumulated and payments made on principal and interest for the city's long-term GO debt) as well as its revenue bonds from its total debt in order to determine how much GO debt it is allowed under the 5% debt limit law. The debt service funds do not count toward the debt limit because those funds are already available to the city to pay off its GO debt. Chart 10 shows that the fund balance in the GO debt service fund has been relatively healthy over the past ten years, growing 45.3%, from under \$30 million in 1992 to just over \$40 million in 2002.

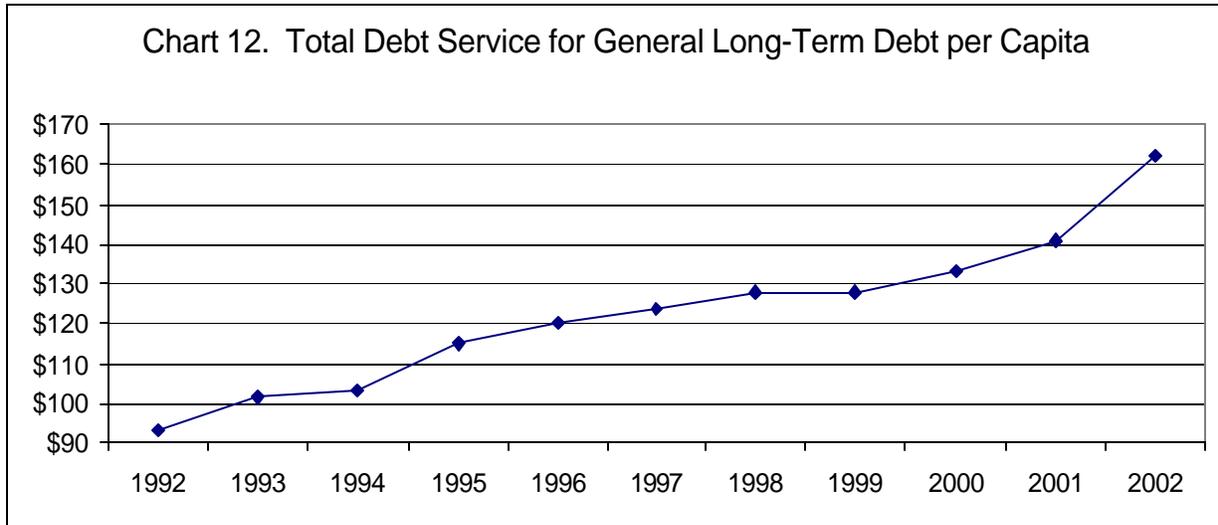


The revenue bonds do not count toward the debt limit because they will be paid off with revenue from their enterprises rather than the tax levy and are not secured with the city's taxing authority. Although there is not a legal limit on the amount of debt a government can incur with revenue bonds, governments should keep their revenue bonds in check both because they are still responsible for paying off the debt and because those people who pay the fees that finance revenue bonds are also usually taxpayers; thus, their debt burden does not decline based on the type of debt that is incurred.

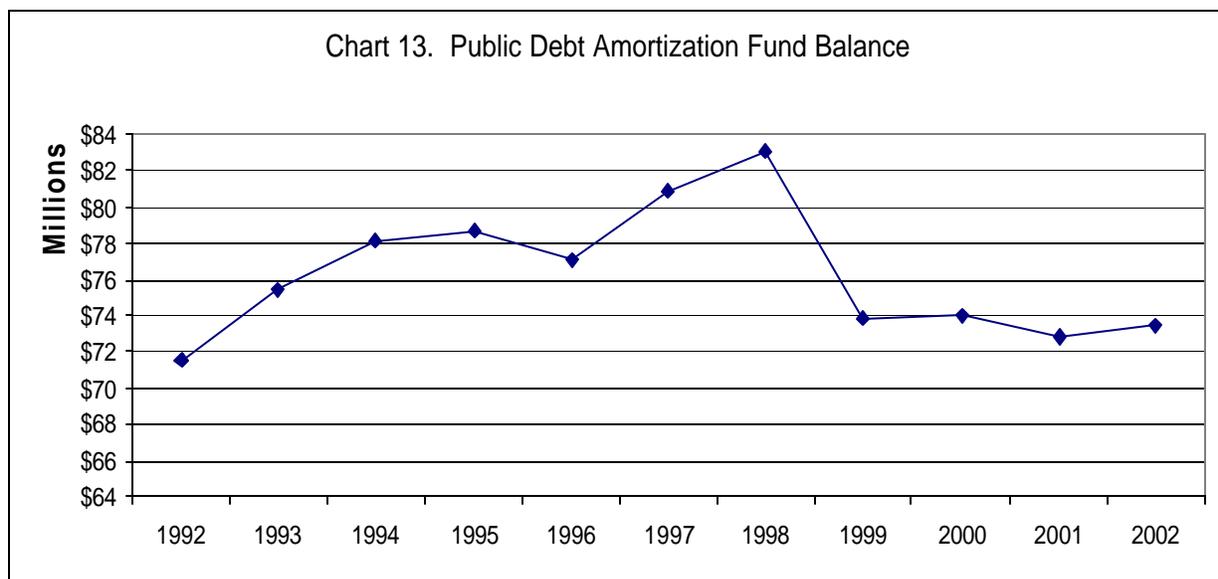
Chart 11 shows that the percent of debt limit used has increased significantly over the past decade, from 48.5% in 1992 to 61% in 2002. The number in 2002 is down from its peak in 2000 because in 2001 the city began its use of sewer maintenance revenue bonds to pay for certain sewer capital projects as opposed to general obligation debt.



The increase over the past ten years in the city's general obligation debt burden relates closely to Chart 12, which shows the ten-year increase in total debt service for general long-term debt per capita. Per capita debt service has increased 74% over the past decade (again compared to a 52.9% increase in equalized property values), from just over \$90 in 1992 to just over \$160 in 2002.



Although the city's debt burden has increased substantially over the past ten years, Milwaukee gets high marks from the credit rating agencies for relatively rapid debt retirement as well as the existence of a debt reserve fund, the Public Debt Amortization Fund (PDAF). The assets in the PDAF (the result of interest earnings) allow the city to prepay a portion of debt due the following year or to purchase city debt and subsequently cancel or invest the debt, thereby avoiding debt service costs in the future. Chart 13 shows that a sharp decrease in the PDAF balance in 1999 has not been replenished over the last few years, and as a result, the fund balance has only grown 2.8% over the last decade.



# Conclusion

The City of Milwaukee's financial health depends on a number of factors: the solvency of the state budget, the income of the city's residents, and a growing property tax base, among others. As debates over both the state and city budgets this past year illuminate, some of these revenue sources are becoming less reliable. The state is struggling with a budget deficit, which led to the \$9.8 million cut Milwaukee received in its substantial revenue source, state shared revenue. Meanwhile, city taxpayers have balked at higher taxes, causing the mayor to propose a budget with no property tax levy increase and no rate increases in the major user fees. Although the Common Council did end up increasing the levy, the tax rate cut that was eventually passed required deeper spending cuts than were made in order to provide a fiscally sound budget.

These problems are not new. The city has been having difficulties matching stagnant major revenues with increasing expenditures for the past ten years, as this Issue Brief illustrates. Issues with the city's finances that need to be addressed include the following.

1. The city's population has decreased over the last ten years. However, its expenditures from the general fund have significantly increased, faster than inflation and faster than the sources that account for the bulk of the city's general fund revenue: property taxes and state aid. Since the city has been having problems with the revenue side of the picture, it needs to focus more on the spending side and see what can be cut to bring spending growth in line with revenue growth.
2. The city's debt burden has been increasing dramatically over the past decade, faster than the city's equalized property values, an indicator of the taxpayers' ability to finance debt. Although the city has freed up some of its general obligation debt limit by transferring some of its debt to revenue bonds, city taxpayers still foot the bill for increasing debt since they also pay the user fees that pay off revenue bonds. Also, although a significant portion of the city's debt is self-supporting, it is still the obligation of the city to repay it. The city should take pride in the fact that it has a strong reserve fund with which to help pay off debt, and that it has been praised for its debt management. However, considering the amount of debt that the city has taken on over the past decade, the debt burden should be monitored by both officials and taxpayers.

# Endnotes

1. Per capita numbers are used throughout this report because population tracking is one “ability-to-pay” measure. For example, if a government’s spending has increased faster than its population, higher costs are being spread among fewer people.
2. The inflation rate was arrived at by calculating the percent change in the Consumer Price Index as reported by the US Department of Labor Bureau of Labor Statistics for the Milwaukee-Racine area (all urban consumers) for 1992 through 2002.
3. CPI: Consumer Price Index
4. The numbers in Table 1 are taken from the City of Milwaukee budgets. Actual numbers in this table are taken from the budget two years after the date listed. For example, 2000 actual numbers can be found in the 2002 budget document.
5. This chart starts in 1995 because prior to that year, operating transfers were reported differently in the CAFRs. The chart does not include 2002 because, in accordance with GASB 34, the city now defines some interfund transactions as other financing sources as opposed to revenues, as they were defined in the past.

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