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Milwaukee's revenue mix is unique when compared to peers

Milwaukee is only city among 39-member peer group that is limited to use of the property tax as its sole form of local taxation

MILWAUKEE – A new report by the Milwaukee-based Public Policy Forum shows sharp distinctions between the City of Milwaukee and similar-sized cities when it comes to financing the workings of their city governments. The report, commissioned by the Greater Milwaukee Committee (GMC) as part of its MKE United effort, also suggests that the revenue framework under which Milwaukee is required to operate is ineffective and outdated.

"Our detailed analysis of how other cities raise revenue suggests there's an urgent need to review the City of Milwaukee's financial structure and to consider whether it is still relevant and appropriate," says Forum President Rob Henken. "A key question is whether a structure that was imposed on Milwaukee by State government more than a century ago – and that makes no distinction for the City's unique economic attributes – is adequately meeting the City's financial needs and the expectations of its residents, businesses, and visitors."

The report follows a September 2016 Forum report – *Making Ends Meet* – that assessed the City's recent financial trends and what they hold for the future. That report warned of a "broken" revenue structure that left the City far too dependent on State aids, which had been stagnant for the past two decades. It also noted that the existing revenue structure placed virtually all the local tax burden on property owners, despite the thousands of commuters and visitors who use City infrastructure and services each day.

The new report provides much deeper context by considering how similar-sized cities across the U.S. generate revenues to support municipal services. It begins with analysis of the revenue characteristics of a 39-city peer group with populations between 300,000 and one million, and then conducts a much deeper dive into the structures of four Midwestern peers: Pittsburgh, Cleveland, Minneapolis, and Kansas City. The report concludes by modeling what alternative revenue structures observed in other cities might look like if applied to Milwaukee.

"As a financial management best practice, the tax and fee structures supporting large municipal governments should be reviewed periodically to determine whether they are generating resources fairly and effectively, and whether they are providing the revenue needed to sustain local growth and meet local needs," says Henken. "Our research suggests that Milwaukee's financial structure is long overdue for such a re-examination, which also must include State leaders given the State's pre-eminent role in determining which revenue tools municipal governments can use."

The following are key observations from the Forum's analysis of city revenue structures:

- **No other Midwestern state has a local tax structure like Wisconsin's.** Wisconsin is the only state in the Midwest that limits municipalities to the property tax as the sole major form of local taxation, and one of the only whose largest city has the same tax structure as all other municipalities.
- **Milwaukee is particularly unique in its absence of general and selective sales taxes.** Each of the 39 peer cities except Milwaukee has multiple taxes, and most have general or selective sales taxes (i.e. sales taxes on select items like entertainment, food/liquor, etc.). In fact, 30 have a general sales tax and each of the remaining eight generates substantial revenue from selective sales taxes and/or other forms of taxation besides the property tax.
- **As a general rule, cities with larger populations tend to draw more heavily on the sales tax and less upon the property tax.** The analysis shows that on average, sales taxes comprise more than 40% of the local tax revenues collected by cities with populations over 300,000, but just 28% for those with populations between 150,000 and 300,000. That may reflect the fact that as cities increase in size, they host greater numbers of non-residents who are engaged in business, employment, tourism, entertainment, etc.

- **State aid is a relatively minor source of revenue for most peer cities.** Among the 39 peer cities, state aids typically serve only as a supplement to locally-generated revenue. State funding comprised 14% of total intergovernmental and local tax revenues for the median city in the peer group, while it accounted for 48% of Milwaukee's total in 2015.

The deeper analysis of four Midwestern peers shows how more balanced approaches to local taxation – typically involving a mix of property, sales, and/or income taxes – work in practice. While there is no single or ideal model for Milwaukee to follow, the analysis suggests that in their ability to draw on multiple sources of local taxation – and to have greater latitude to establish a structure that reflects their unique economic strengths – some peer cities appear to have substantial advantages.

The report acknowledges that discussion of any new forms of taxation will be "contentious and controversial," but emphasizes that consideration of *some* change is appropriate given the distinctiveness of Milwaukee's revenue approach and the fact that it is not serving the City well.

"Initially, the question of whether the City requires *more* revenue should be put aside," says Henken. "Instead, we should consider the type of revenue structure we would want to create – if starting from scratch – to equitably spread the existing tax burden among all users of city services, take advantage of Milwaukee's economic strengths, and ensure annual revenue growth that is linked to the city's economic growth and that parallels inflation."

The report also contends that now is the time for such discussion given the impressive amount of development in Milwaukee's greater downtown and the city's enhanced attractiveness to businesses and residents. Those developments, according to the report, make Milwaukee "better positioned than it has been for decades to take greater control of its own financial destiny."

"In the end, Milwaukee's ability to prosper economically will be linked to its ability not only to provide, but also to equitably pay for core municipal services," concludes the report. "Unfortunately, without modification to the existing structure, that ability will continue to come under increasing duress."

The full report – as well as a report brief and video summary – can be downloaded at the Forum's web site, www.publicpolicyforum.org.

The report was commissioned by the GMC as part of its MKE United initiative. Over the last year, MKE United has engaged in wide-ranging civic engagement efforts designed to create a shared and inclusive vision for Downtown Milwaukee and its adjacent neighborhoods. As part of that work, the City's revenue framework was identified as one of the key challenges limiting the City's progress. More information about MKE United is available online at www.mkeunited.com.

Milwaukee-based Public Policy Forum, 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 public policy issues.