City of Milwaukee

Comparative Revenue and Expenditure Report

W. Martin Morics
Comptroller

June 2006

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Introduction

This report was formulated in large part on my testimony before the Wisconsin Legislature's Joint Committee on Finance in March 2003. That testimony involved a provision in the State's 2003-2005 Biennial Budget establishing a property tax levy limit. In that testimony I discussed the City of Milwaukee's fiscal condition, the link between its revenues and expenditures, the cost of city services, and per capita revenue and expenditure comparisons to peer group cities. Since that time, I've received numerous requests for that information.

In recent years, the entire dialogue over whether taxes are too high, should be frozen, or cut, has centered on the level of taxation, with little discussion or analysis of what services are being provided, and whether they cost too much. In fact, there is almost no debate over what services government should provide and whether the cost of these services is reasonable. It could be that the profoundly simple questions of "What should government do and what should it cost?" are not being asked due in part to a lack of reliable data on the subject matter. When confronted with diminishing resources, as well as increasing costs, the basic and difficult question is: What to cut? In other words, the decision to limit property taxes is not the tough decision, but the question of what services to cut or eliminate remains, and that is indeed the tough question.

Thus the concept for this report was born. As noted before, there is much information on what we as a city spend, but little organized information as to how that compares to our peers. After all, if taxes are too high, someone should be prepared to say "Relative to what?" While explanatory, the report attempts not to be critical or judgmental. That part is left to the reader. I am hopeful that this report will provide some factual basis for the reader's conclusions. The data presented in this report deals only with city revenues and expenditures. The funding and costs of public schools, county government, vocational schools and sewerage districts are not a part of this report, although I encourage these entities to provide their own comparative information.

The City of Milwaukee is in the business of providing services to its citizens. The fact cannot be ignored, however, that we are in a competitive business. The market basket of services we provide to our citizens can and should be compared to our competition as one measure of how effectively we are doing our jobs. Our citizens will do this anyway. If they perceive that they are not getting value for their tax dollars they can and will "vote with their feet." Likewise, if we drastically curtail the services we provide and our competitors do not, leaving our infrastructure deteriorating or our health or public safety efforts at a level far below our competition, we will neither attract new growth nor retain the citizens we have now.

This report is divided into eighteen sections. Annual financial reports for Milwaukee and the nine comparable communities for calendar year 2004 or fiscal year 2003/2004 were used to compile this report. The report's methodology is explained on page 19. This is the third annual comparative revenue and expenditure report and I realize that changes may be made to make future reports even more meaningful. In that effort, I encourage the reader to contact me with any suggested changes for future reports.

Revenue Sources from State Aids, Local Taxes and Charges

In recent years, there has been an ongoing discussion on the need to reduce state aids to local governments and control local property taxes. Unlike most other states, Wisconsin's tax system was designed to assess all sales and income taxes at the State level and redistribute these State tax collections back to local governments. The higher level of state aids in Wisconsin has resulted in a lower level of locally generated tax revenues in Milwaukee than other comparable cities. The State of Wisconsin prohibits local governments from assessing local sales and income taxes except as specifically authorized by State legislation, for example, sales taxes imposed by specifically legislated Premier Resort Area Tax Districts. For most local governments in Wisconsin however, the property tax is the only major revenue source. This is not to suggest that Wisconsin should change its state and local taxing structure, but it is intended to show that state aids are a critical component of the City of Milwaukee's revenue structure, given the limited set of local revenue options.

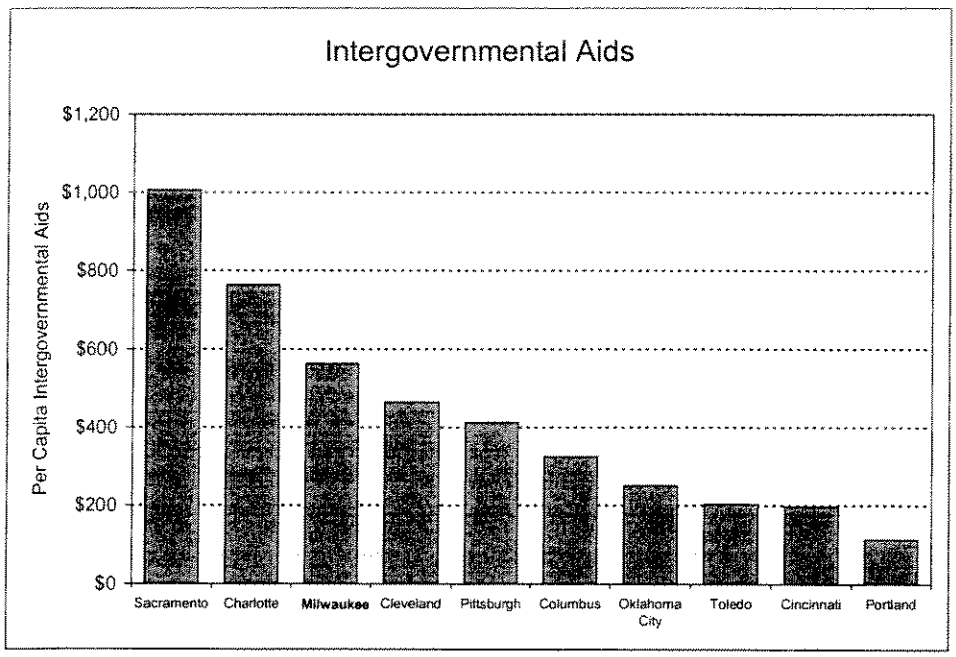
Per Capita Municipal Revenues

	City of Milwaukee	Average of Comparable Cities	Variance: Milwaukee vs Average City	% Variance Milwaukee vs Average City
Property Taxes	$365	$267	$98	37%
Other Local Taxes	0	472	(472)	
Total Local Taxes	**$365**	**$739**	**($374)**	**-51%**
Grants & Aids	$564	$430	$134	31%
Local Taxes and Intergovernmental Aids	929	1,169	(240)	-21%
Charges for Services	399	590	(191)	-32%
Other Revenues	96	77	19	25%
Total	**$1,424**	**$1,836**	**($412)**	**-22%**

Local taxes in Milwaukee are $374 (51%) less per capita than the average of comparable cities. When other local taxes and intergovernmental aids are combined, per capita revenue for the City of Milwaukee totals $1,424 or $412 (22%) less than comparable cities.

Intergovernmental Aids

In Wisconsin, municipalities do not assess sales or income taxes. Instead, the Wisconsin tax system was designed for these taxes to be assessed and collected by the State, then redistributed to municipalities. This is the main reason why Milwaukee ranks third highest in funding from intergovernmental revenues - 31% higher than the average of comparable cities. Unfortunately, in recent years, the State of Wisconsin has both abandoned sharing the growth in sales and income taxes with municipalities, as well as decreased the funding for its major aid program to municipalities - the State Shared Revenue Program. This results in a greater reliance on property taxes for city services in Milwaukee than comparable cities.

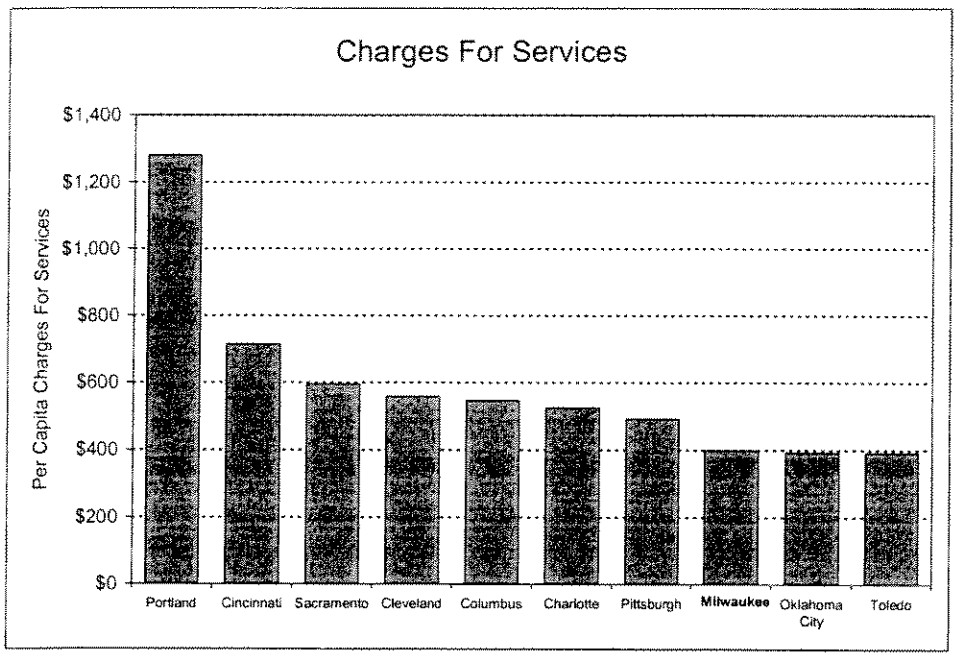


Per Capita Revenues
Intergovernmental Aids

	Amount	Prior Year Ranking
Sacramento	$1,006	1
Charlotte	764	2
Milwaukee	**564**	**3**
Cleveland	466	5
Pittsburgh	413	7
Columbus	326	6
Oklahoma City	252	9
Toledo	204	8
Cincinnati	197	4
Portland	114	10
Average of Comparable Cities	$430	

Charges for Services

City of Milwaukee efforts to control the growth in property taxes and accommodate decreasing state aid has resulted in a need to look for alternative funding sources. In recent years the city has adopted a variety of user charges to provide local revenue alternatives to the property tax. However, in spite of these recently enacted revenue changes, Milwaukee's per capita charges for services still remain low compared to other cities. Milwaukee's per capita charges for services are $191 (32%) less than the average of comparable cities.



Per Capita Revenues
Charges for Services

	Amount	Prior Year Ranking
Portland	$1,281	1
Cincinnati	714	2
Sacramento	596	3
Cleveland	560	4
Columbus	547	6
Charlotte	526	5
Pittsburgh	493	7
Milwaukee	**399**	**8**
Oklahoma City	393	10
Toledo	393	9
Average of Comparable Cities	$590	

Expenditures by Purpose

Like its peer cities, the City of Milwaukee provides a variety of services to its citizens, businesses, and visitors. City services are critical to supporting a quality of life Milwaukee which meets basic citizen needs and expectations. Maintaining city services at an adequate level to provide for a safe, clean environment is critical to the long term health of a city.

Per Capita Municipal Expenditures

	City of Milwaukee	Average of Comparable Cities	Variance: Milwaukee vs Average City	% Variance Milwaukee vs Average City
Public Safety	$511	$567	($56)	-10%
Public Works	509	609	(100)	-16%
General Government	147	148	(1)	-1%
Conservation and Development **	98	158	(60)	-38%
Interest Expenses	40	64	(24)	-38%
Culture and Recreation	56	79	(23)	-29%
Health *	51	35	16	46%
Total Expenditures	**$1,412**	**$1,660**	**($248)**	**-15%**

* Only five cities including the City of Milwaukee report health expenditures.

** Nine cities including the City of Milwaukee report Conservation and Development expenditures.

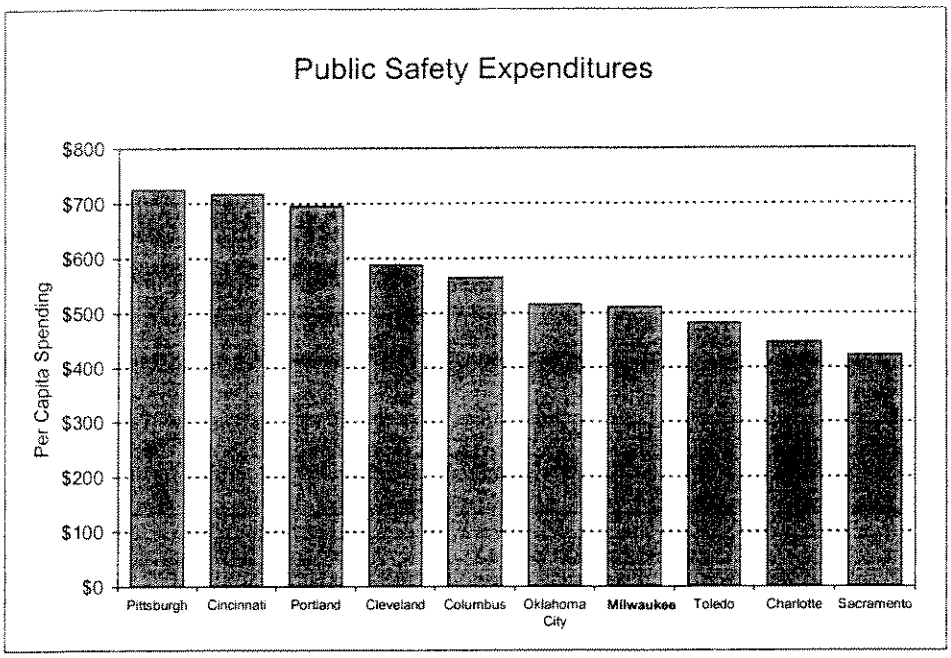
Milwaukee spends $248 per capita (15%) less per capita than the average of comparable cities. The City of Milwaukee spends less than 85% of the average comparable cities on general government, public works, conservation and development, culture and recreation, and interest expense. In only one category (health), Milwaukee's spending is above the comparable cities' per capita average. This is true because only half of the cities report heath service expenditures.

Per Capita Expenditures
Total Expenditures

	Amount	Prior Year Ranking
Portland	$2,203	2
Cincinnati	2,106	1
Pittsburgh	1,995	5
Sacramento	1,880	4
Cleveland	1,794	3
Columbus	1,507	6
Charlotte	1,427	8
Milwaukee	**1,412**	**7**
Toledo	1,165	9
Oklahoma City	1,117	10
Average of Comparable Cities	$1,660	

Public Safety

Public safety expenditures protect people and property within a city. These services are essential to the health, safety, and well being of city residents. Public safety includes police, fire, and building inspection services. Milwaukee spends about $56 per capita (10%) less than the average of comparable cities on public safety.

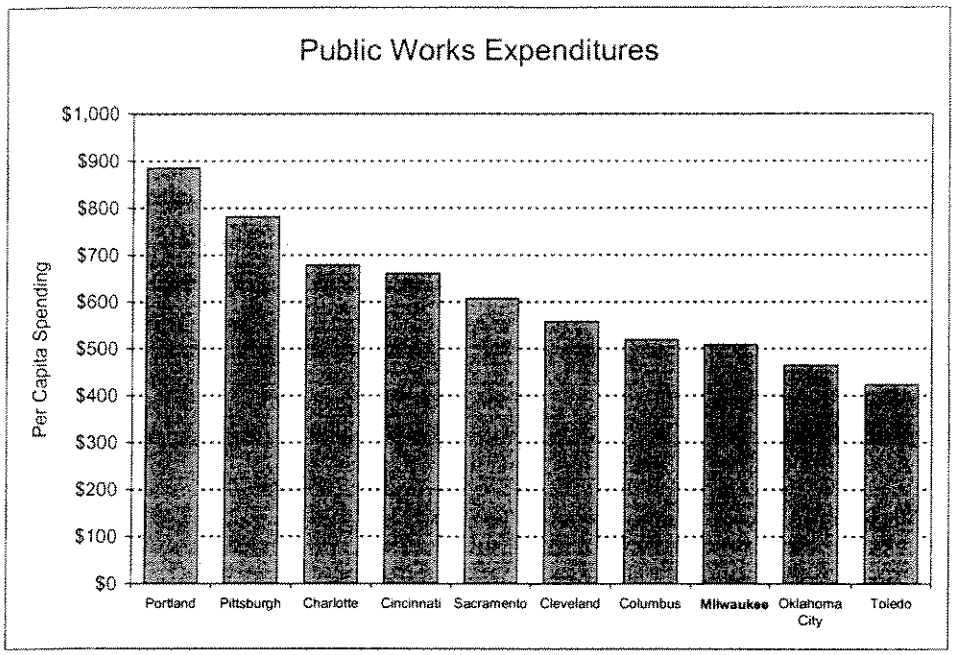


Per Capita Expenditures
Public Safety

	Amount	Prior Year Ranking
Pittsburgh	$725	2
Cincinnati	717	1
Portland	695	4
Cleveland	588	3
Columbus	565	6
Oklahoma City	516	8
Milwaukee	**511**	**5**
Toledo	482	7
Charlotte	447	9
Sacramento	423	10
Average of Comparable Cities	$567	

Public Works

An efficient and well-maintained infrastructure is important to the economic vitality and attractiveness of a city. Maintaining safe and efficient sewers, streets, and other public ways furnish residents with access to employment, goods, and services while also providing businesses with an effective way to transport their products to customers. Milwaukee spends $100 per capita (16%) less than the average of comparable cities on streets, sewers, and other public works' expenditures.

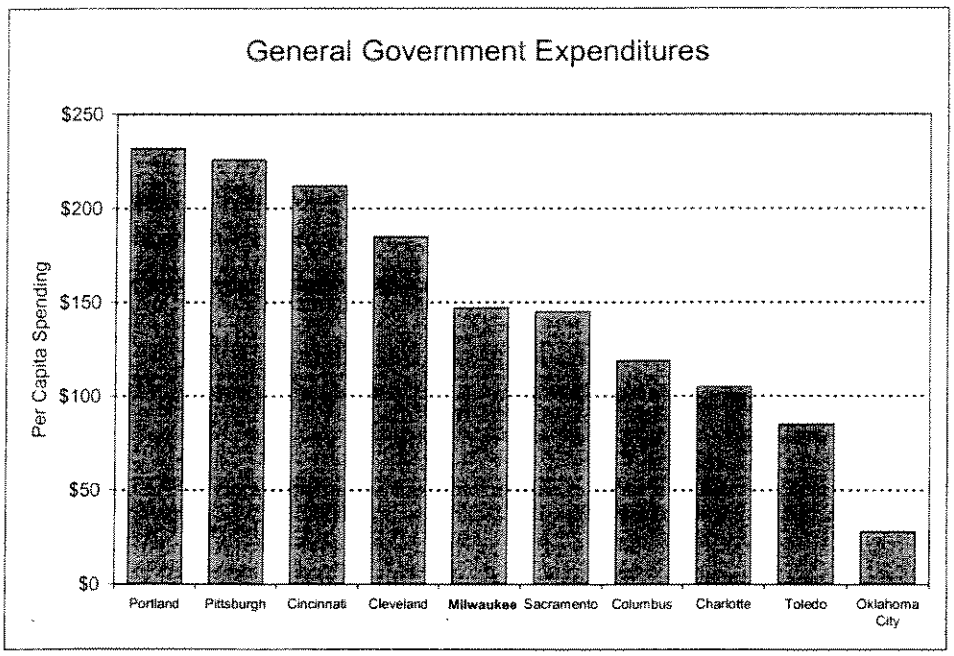


Per Capita Expenditures
Public Works

	Amount	Prior Year Ranking
Portland	$885	1
Pittsburgh	782	5
Charlotte	679	2
Cincinnati	661	6
Sacramento	608	4
Cleveland	558	3
Columbus	520	8
Milwaukee	**509**	**7**
Oklahoma City	465	9
Toledo	424	10
Average of Comparable Cities	$609	

General Government

General government and administration costs are necessary for the operation of any organization. Milwaukee's general government and administration costs are comparable to those of its peer cities. These include expenditures for the Mayor's Office, Common Council, Municipal Court, legal and financial services, elections, property assessments, employee relations, and other city management overhead. Milwaukee spends about $1 per capita (1%) less than the average of comparable cities on general government or administrative functions.

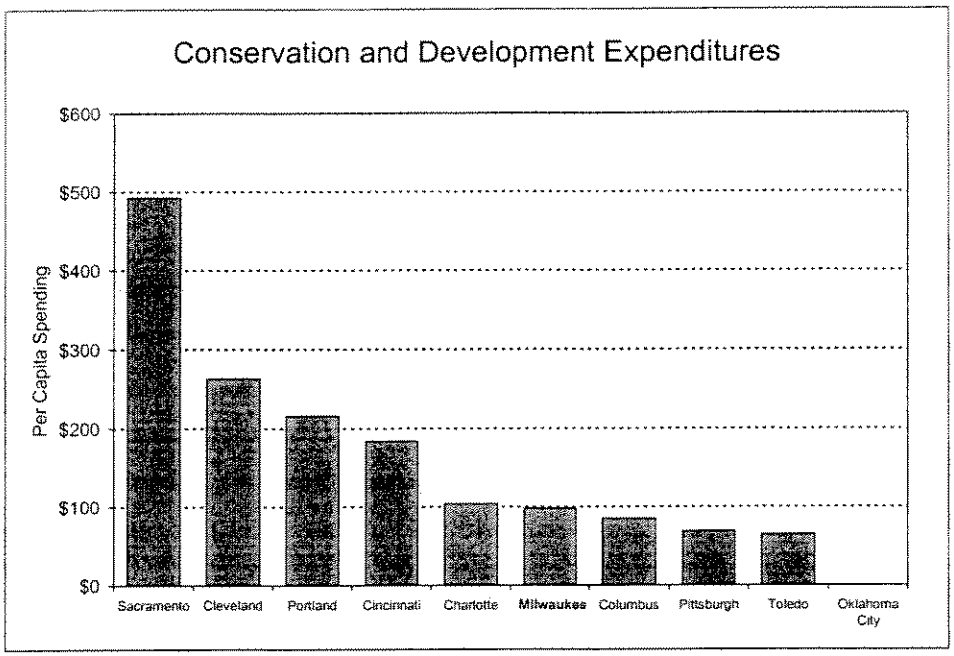


Per Capita Expenditures
General Government

	Amount	Prior Year Ranking
Portland	$232	4
Pittsburgh	226	2
Cincinnati	212	1
Cleveland	185	3
Milwaukee	**147**	**6**
Sacramento	145	5
Columbus	119	7
Charlotte	105	8
Toledo	85	9
Oklahoma City	28	10
Average of Comparable Cities	$148	

Conservation and Development

The promotion of economic development and job creation is provided under this category of expenditures. These expenditures include planning, economic and community development activities. The City of Milwaukee's per capita expenditures for conservation and development are $60 per capita (38%) less than the average of comparable cities.

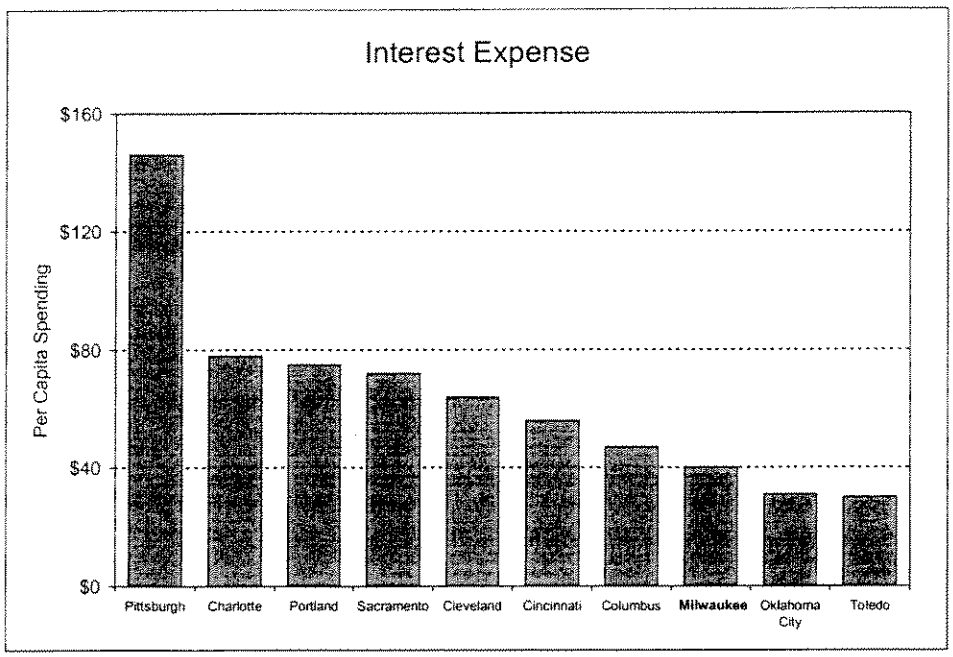


Per Capita Expenditures
Conservation and Development

	Amount	Prior Year Ranking
Sacramento	$493	1
Cleveland	263	2
Portland	216	4
Cincinnati	184	3
Charlotte	104	7
Milwaukee	**98**	**5**
Columbus	85	8
Pittsburgh	69	6
Toledo	65	9
Oklahoma City	0	
Average of Comparable Cities	$158	

Interest Expense

Milwaukee has long been recognized by bond rating agencies for its effective debt management program. Milwaukee currently has a manageable debt burden and an annual per capita interest expense $24 (38%) below the average of comparable cities. One factor related to interest expense is the credit quality. The credit rating for each municipality is reported below. Moody's "investment grade" ratings range from Aaa, the highest rating, to Baa. In addition, Moody's assigns "1", "2" or "3" based on the strength of the issue within each category, with "Aa1" the strongest group of Aa securities and "Aa3" the weakest of Aa securities.



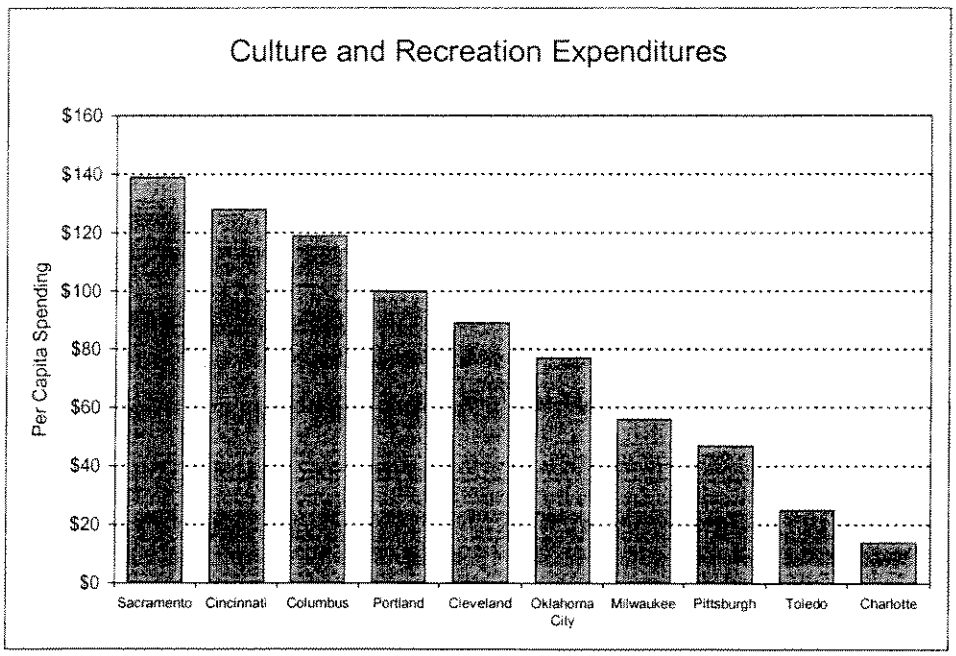
Per Capita Expenditures
Interest Expense

	Credit Rating	Amount	Prior Year Ranking
Pittsburgh	Baa3	$146	1
Charlotte	Aaa	78	3
Portland	Aaa	75	2
Sacramento	Aa2	72	9
Cleveland	A2	64	4
Cincinnati	Aa1	56	5
Columbus	Aaa	47	6
Milwaukee	**Aa2**	**40**	**8**
Oklahoma City	Aa2	31	10
Toledo	A3	30	7
Average of Comparable Cities		$64	

Ratings: Moody's Investors Service

Culture and Recreation

The services provided in this category vary significantly by city. Milwaukee is one of only five cities that report library services. Parks, which in Milwaukee are maintained by Milwaukee County, have reported expenditures in six of the comparable cities.

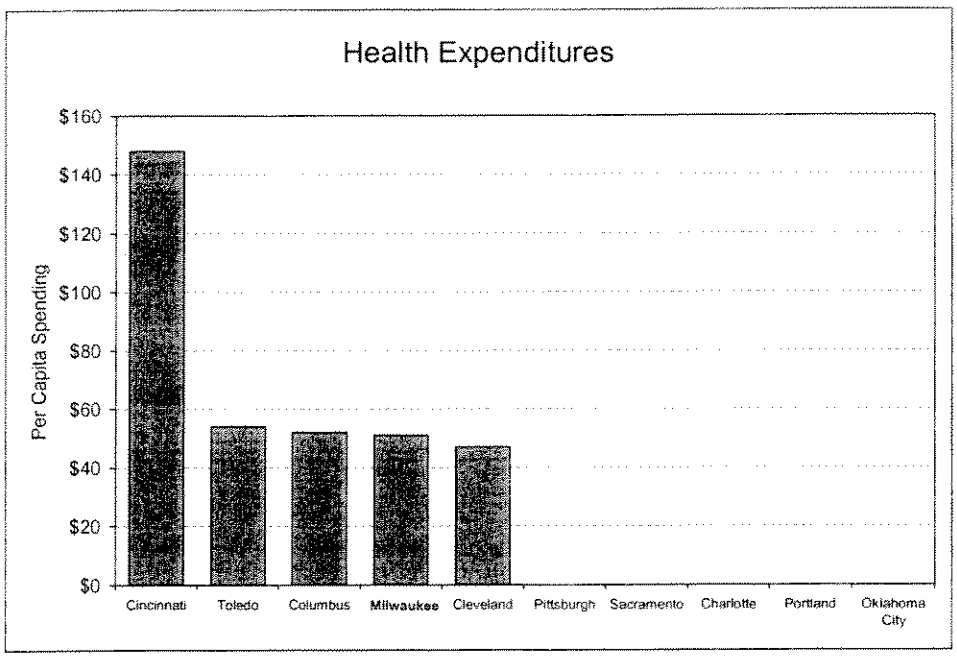


Per Capita Expenditures
Culture and Recreation

	Amount	Prior Year Ranking
Sacramento	$139	1
Cincinnati	128	2
Columbus	119	3
Portland	100	4
Cleveland	89	5
Oklahoma City	77	6
Milwaukee	**56**	**8**
Pittsburgh	47	7
Toledo	25	9
Charlotte	14	10
Average of Comparable Cities	$79	

Health

Health services provided to individuals and families promote and safeguard the health of a community. The range of health services provided at different levels of government varies by community. Five of the ten comparable cities do not report any health service expenditures.



Per Capita Expenditures
Health

	Amount	Prior Year Ranking
Cincinnati	$148	1
Toledo	54	2
Columbus	52	3
Milwaukee	**51**	**5**
Cleveland	47	4
Pittsburgh		
Sacramento		
Charlotte		
Portland		
Oklahoma City		
Average of Comparable Cities	$35	

Appendix I
Per Capita Revenue and Expenditure Trends
(Reports Issued 2004 through 2006
Actuals for 2002, 2003, and 2004)

REVENUES

	2004	2005	2006	% Change
Property Taxes				
Milwaukee	348	357	365	4.9%
Average of Comparable Cities	249	259	267	7.2%
Other Local Taxes				
Milwaukee	0	0	0	N/A
Average of Comparable Cities	430	425	472	9.8%
Grants & Aids				
Milwaukee	590	601	564	-4.4%
Average of Comparable Cities	399	414	430	7.8%
Local Taxes and Intergovernmental Aids				
Milwaukee	938	958	929	-1.0%
Average of Comparable Cities	1,078	1,098	1,169	8.4%
Charges for Services				
Milwaukee	387	396	399	3.1%
Average of Comparable Cities	558	551	590	5.7%
Other Revenue				
Milwaukee	98	96	96	-2.0%
Average of Comparable Cities	76	62	77	1.3%
Total Revenue				
Milwaukee	1,423	1,450	1,424	0.1%
Average of Comparable Cities	1,712	1,711	1,836	7.2%

EXPENDITURES

	2004	2005	2006	% Change
Public Safety				
Milwaukee	487	538	511	.4.9%
Average of Comparable Cities	505	544	567	12.3%
Public Works				
Milwaukee	478	495	509	N/A
Average of Comparable Cities	524	547	609	16.2%
General Government				
Milwaukee	115	127	147	27.8%
Average of Comparable Cities	161	156	148	-8.1%
Conservation and Development				
Milwaukee	87	109	98	12.6%
Average of Comparable Cities	115	153	158	37.4%
Interest Expense				
Milwaukee	50	45	40	-20.0%
Average of Comparable Cities	67	66	64	-4.5%
Culture, Recreation and Health				
Milwaukee	90	86	107	18.9%
Average of Comparable Cities	123	111	114	-7.3%
Total Expenditures				
Milwaukee	1,307	1,400	1,412	8.0%
Average of Comparable Cities	1,495	1,577	1,660	11.0%

Appendix II
The Revenue Structure of Wisconsin Municipal Governments Versus U.S. Average

Comparing City of Milwaukee revenues and expenditures to those of nine similar municipalities throughout the country, shows Milwaukee collects lower taxes and other revenue, and incurs lower expenditures than its peer cities. However, Milwaukee's property tax is higher than the average of comparable cities. This is due to the fact that Wisconsin local governments rely on the property tax as its primary local revenue source. Local governments outside Wisconsin utilize local sales, income and other non-property taxes to supplement the property tax. The limited taxing authority for local governments in Wisconsin has resulted in a greater reliance on property taxes and state aids.

Towns, Cities, Villages and Special Districts

Per Capita Revenues By Type

	US Average	Wisconsin	Disparity Between US Average and Wisconsin	% Above (Below) US Average
Property Taxes	$311	$324	$13	4%
State Aids	276	285	9	3%
Other Taxes	241	33	(208)	-86%
Subtotal: Local Taxes & State Aids	**$827**	**$641**	**($186)**	**-23%**
Charges for Services	328	205	(123)	-38%
Other Revenues	197	148	(50)	-25%
Federal Aids	113	46	(67)	-59%
Total Revenues	**$1,466**	**$1,040**	**($426)**	**-29%**

Source: US Census Bureau State & Local Government Finances – 2002 Census of Governments Table 2

Based on Census information, municipal governments and special districts in Wisconsin have significantly less revenue, $1040 per capita versus ($1,466 for the national average). This finding coincides with the comparative cities analysis findings on Page 3 that shows the City of Milwaukee's revenues were also lower that its peer cities. Like Milwaukee's peer city analysis, other taxes and charges for services lag the national average. Also, state aids do not fully compensate municipal governments in Wisconsin for the limits on using other taxes to support municipal services. Local taxes and state aids for municipal services in Wisconsin are $186 per capita (-23%) less than the national average.

The Wisconsin tax system was designed to centrally collect most sales taxes and all income taxes. However, in recent years current the State of Wisconsin has redistributed a declining share of this revenue to municipal governments, significantly limiting the funds needed to provide municipal services in Wisconsin compared to that of other states.

Appendix III
Data Source and Limitations

Data used in this report is from Comprehensive Annual Financial Reports (CAFR) from the City of Milwaukee and nine comparable cities. This data consists of actual revenue and expenditure figures, and unlike budgeted figures, revenues and expenditures for each of reported governments may not be equal. The next section of this report titled Comparable Cities Methodology explains how the comparable cities were selected. Local governments use similar classification of expenditures and revenue in their CAFR but there may be some differences in the categorization of this financial data between cities. An example is some cities categorize infrastructure expenditures as Public Works while other cities call this category Public Services. Also, some cities directly finance and administer activities or services that in other municipal governments are undertaken by county government, state government, or the private sector. However, CAFR data is the best and most currently available audited financial data and provides a reasonable basis for comparing cities to get a general understanding of differences between spending and funding of city services. In this report, the Comptroller's Office compares revenue data (local taxes, property taxes, charges for service, etc.) and expenditure by type (administration, public safety, public works, etc.). This Report excludes data from the following categories to enhance the comparability of other cities to the City of Milwaukee:

> Electric Power Generation, Public Transit, Airports & Aviation, Cemeteries, Convention Centers, Golf Courses, Sport Facilities, Pass-Through Costs for Employee Retirement Systems, and Public School Education & School Capital Contributions.

The City of Milwaukee provides services that are not provided by all other comparable cities. The largest of these expenditures included in the City of Milwaukee's data but not all other cities are health services and the Port of Milwaukee.

The population data to calculate per capita values is from the 2000 census.

Appendix IV
Comparable City Methodology

In selecting comparable cities to Milwaukee all US cities with 2000 census populations between 300,000 and 900,000 were chosen. Of these cities, those that are not central cities within their respected MSAs were discarded.

The remaining cities were then classified as either "sunbelt" or "snowbelt". "Sunbelt" cities are predominately located in the South and Southwest, while "snowbelt" cities are predominately located in the Northeast and Midwest. An anomaly is Portland, which is neither a "sunbelt" or "snowbelt" city. Located in the Northwest, Portland made the final selection of comparable cities when classified as either "sunbelt" or "snowbelt". The importance of the classification process is that it allows a variety of cities to be compared to Milwaukee and also ensures that comparable cities are not clustered in one region of the Country.

After assigning "sunbelt" and "snowbelt" classifications, each city's population figure was compared to the population figure of its MSA. For instance, Milwaukee has a population of 596,974 and a MSA population of 1,648,199. This means that the city's population comprises 36% of the MSA population. Five of the closest "snowbelt" cities and four of the closest "sunbelt" cities in terms of city to MSA population were chosen. The cities of Denver and Baltimore were excluded from this selection process, because these cities have municipal governments with combined county and city functions, which would not provide good spending comparisons to the City of Milwaukee.

Last year, financial statements prepared under the new reporting model, as required by GASB 34, were not available for the cities of Kansas City, New Orleans, and Las Vegas. These cities were replaced with Charlotte, Oklahoma City and Toledo, which were the next closest in terms of city to MSA population percentage. To provide consistency with last year's report, no change was made in comparable cities used for last year's report. The Comptroller's Office plans to review the methodology used to determine comparable cities every five years.

Overall, the methodology used generates a list of comparably sized cities located throughout the US that are the population centers in terms of their city to MSA populations and are similar in terms of their government function. (i.e. The list excludes combined city/county governments.)

The comparable cities to the City of Milwaukee included in this report are as follows: Pittsburgh, PA; Cincinnati, OH; Portland, OR; Columbus, OH; Charlotte, NC; Sacramento, CA; Oklahoma City, OK; Toledo, OH; Cleveland, OH.