



February 3, 2014

Dear Chairman Murphy and Members of the Committee on Finance and Personnel:

I am writing regarding Common Council File No. 130784, a substitute charter ordinance relating to budget estimates and development.

I recommend that you adopt this charter ordinance.

As you may know, I have extensive familiarity with the City of Milwaukee's budgeting process.

From 1988 to 2001, in my capacity as the City's Budget Director (1988) and Administration Director (1989-1993, and 1996-2001), as well as the Mayor's Chief of Staff (1993-1996), I helped to prepare and present to your Committee fourteen City of Milwaukee budgets.

I also have extensive experience with the State of Wisconsin's budget process and the federal budget process. I served as the State Budget Director in 2003. I have been involved in various ways in many state budgets and several federal budgets.

It is my belief that the City of Milwaukee, on the whole, has an excellent budget process. It is transparent. The Budget Office, the Legislative Reference Bureau, and the Comptroller's Office provide comprehensive and clear information to the Mayor, your Committee, and the entire Common Council. When questions or disagreements arise—as they inevitably do, and as they should in any sound budgeting process in a democratic society—all the participants, in my experience, have dealt with the factual and policy issues with integrity and a genuine concern about reaching a result that is best for the residents of Milwaukee.

But there is a *structural* flaw in the process that I came to recognize during my nearly decade-and-a-half involvement with City budgets.

The flaw is that, as part of the Mayor's budget proposal, the Mayor is not allowed to present revenues that reflect changes (that the Comptroller independently pre-certifies) that would result if revenue-related policy changes (e.g., in taxes, fees, or other items) that are simultaneously proposed by the Mayor were to be adopted.

Thus, the Executive Budget presentation format is *imbalanced*. This imbalance in turn causes several problems.



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Milwaukee's Executive Budgets incorporate—as they should—the Mayor's *proposed changes in expenditures resulting from policy changes proposed by the Mayor* that would take effect in the relevant budget year. Such proposed changes in expenditures that result from proposed policy changes may be included in the Executive Budget whether the Mayor has administrative authority to implement the policy changes *or* whether the policy changes require action by the Common Council (consistent with current state and federal law).

If questions arise about the specific dollar amounts of proposed changes in expenditures that are based on yet-to-be-adopted policy changes, the dialog and at times debate that occurs between the Budget Office staff and the LRB staff may result in your Committee's and the Council's modifying the proposed changes in expenditures. Your Committee and the Council may:

- Concur in the policy change, but revise the dollar amount. (Example: “We agree to buy 10 extra police cars next year, but we conclude that the resulting expenditure increase will not be \$500,000 but \$400,000.”)

- Modify the policy change, and thus revise the dollar amount. (Example: “We agree to buy extra police cars next year, but not 10 extra ones at a cost of \$500,000. We will instead budget for 5 extra police cars at a cost of \$250,000.”)

Alternatively, the Mayor's proposed change in expenditure could be rejected based upon rejection of the entire policy change. (Example: “We do wish to buy any extra police cars at all, so we are deleting the additional \$500,000 in spending from the budget.”)

But as your Committee and the full Council examine any particular proposed change in an expenditure resulting from a policy change proposed by the Mayor, there is no disagreement about whether the Mayor had the *authority* to propose the change in expenditure based upon a policy change yet to be implemented. This is true even if the policy change, in some cases, requires a future revision of a resolution, ordinance, or charter ordinance by the Common Council (consistent with state and federal law).

**The City's budget process is imbalanced, however, because the same principles do not apply to revenue changes.**

When it comes to revenues, the Mayor is currently not allowed to propose changes in revenues that result from policy changes proposed by the Mayor.

This is allowed in the State of Wisconsin's budgeting process. It is also allowed in the federal budgeting process. (The federal budgeting process is in general no model. But its allowance of proposed revenue changes that result from policy changes is appropriate.)



Several bad things happen *because* the Executive Budget currently is prohibited from reflecting revenue changes resulting from proposed policy changes.

First, it is necessary for the Mayor to include arbitrary spending decisions in the Executive Budget—sometimes proposing to spend too much, sometimes proposing to spend too little—because revenue changes (both downward and upward) that balance out common-sense spending decisions that the Mayor would like to propose (and the Council will agree on) cannot be reflected in the budget. (Example: The Mayor wants to buy more efficient salt-spreading equipment for the Sanitation Department’s snowplow, thus reducing salt usage while better salting city streets. The cost is X. An initial 3% increase in the relevant fee will generate X, ultimately allowing a 5% decrease in the fee due to smaller salt purchases. However, the Executive Budget cannot include the additional X to pay for the better salt-spreading equipment because the Mayor cannot reflect in the budget the revenue increase of X.)

Second, we make wiser decisions about both spending and revenue when all spending choices and all revenue choices are viewed *together* as a whole, in a single budget. When governments make fiscal choices *separately* for spending and revenue, it is easy to take the irresponsible position of supporting increased spending, then turn around and advocate decreased revenue...and, of course, demand balanced budgets.

This is why Congress’s budget process has historically been so flawed. Congress’s spending bills had nothing to do with Congress’s revenue bills, and for a long time there was not even a weak budget “outline” that sought to reconcile the two. It was far too easy for members of Congress to push for higher spending (especially for pet projects), vote for tax cuts...and then grandstand for balancing the budget.

Milwaukee, like most cities and many states, deals with spending decisions and most revenue decisions simultaneously. But Milwaukee does not make spending *change* and revenue *change* decisions simultaneously. This inadvertently weakens the strength of our budgeting process. This is the problem—the fly in the ointment—that would be fixed by the charter ordinance you are considering

The only valid objection to allowing the Executive Budget to include proposed revenue changes resulting from proposed policy changes is that the specific dollar amounts, if proposed by the Mayor, might be too optimistic.

But this objection does not apply to Common Council File No. 130784, the *specific* charter ordinance before you. **The charter ordinance revision you are considering would require the Comptroller to estimate “the changes in anticipated**



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**revenue that the [C]omptroller deems appropriate.”** The Budget Office and Mayor, whether they agree with the Comptroller’s estimates or not, would be compelled to use the Comptroller’s dollar amounts in placing in the budget any proposed revenue changes that are based on proposed policy changes.

In conclusion: I urge you to adopt Common Council File No. 130784, and fix the only significant flaw in the City of Milwaukee’s budgeting process.

Sincerely yours,

A handwritten signature in black ink that reads "David R. Riemer". The signature is written in a cursive, slightly slanted style.

David R. Riemer  
Senior Fellow