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**Department of Administration
Budget and Management Division**

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May 23, 2002

Ref: 02030

Alderman Angel Sanchez
City Hall, Room 205
Milwaukee Wisconsin

Subject: Jobs Proposal

I appreciate the opportunity to provide you with my opinions on the proposal to create 500 public service jobs. The People's Economic Summit raised important issues regarding employment in Milwaukee.

The proposal submitted would create 500 public service jobs that earned at least \$12 per hour and earned benefits. Assuming that each job would be filled year round at \$12 per hour and receive similar benefits to those working for the city, the annual program cost is approximately \$18.5 million. Attached is a spreadsheet that provides additional information and assumptions used to formulate the projected funding.

The resolution indicates that there are potentially three sources of funds for the jobs program. If a new federal or state grant is developed to fund this program there is no impact to our city budget unless there is a local match. Unfortunately, I am not sure about the likelihood of receiving such a grant given that the grant would be nothing more than an extension of the W-2 program for these individuals that are no longer eligible. Also, with current state budget problems, there maybe no available funding at the state level.

After the federal and state governments, the only possible funding source is the city tax levy. Given state law restricting the growth in local government budgets, there is not sufficient room in our budget for this added expense. This will place at risk our expenditure restraint payment (ERP) from the state in 2004. If the city would exceed the ERP requirement, the additional cost of the program in 2004 would be \$8 million bringing the total 2004 costs to \$26.5 million. The alternative would be a \$18.5 million cut in city services in 2003 in addition to the cuts needed to meet ERP from the existing budgetary growth. This would make the reduction needed in the 2003 budget to approximately \$40 million.

From an economic standpoint, there are several concerns regarding job programs. The first is the base where the funding is provided, second is the expected improvement in the economy and finally the mismatch between available jobs and qualified job seekers.

If the city were to fund this program, it would come from property taxes. The city already has a relatively high property tax rate. The property tax rate would increase \$0.925 per \$1,000 of assessed value for 2003. Many people facing difficult financial decisions pay taxes such as those on fixed incomes or those under the poverty level.

Businesses also pay property taxes. The amount of property taxes paid affects their ability to be profitable. Higher taxes may force them to layoff some of their workforce to remain profitable. This is likely to hit in the areas where many of the additional jobs would be created. It is not clear whether there will be a net gain or loss in employment.

Normally, a higher level of government typically funds jobs programs. The federal or state governments can take advantage of a larger taxing base that would include more affluent taxpayers. If the city funded this program, many of the benefiting poor would pay a higher portion of the costs of this program. Furthermore, those individuals living outside Milwaukee would receive free social benefits through the elimination of poverty. It is important that those benefiting from a program would pay for a portion of that program.

Forecasts for the local and national economy suggest that the recession should be ending with expected growth to begin in the second quarter of 2002. Unemployment in Milwaukee is reflecting this upward movement as indicated by the fall in the unemployment rate of 9.6% in March to 9.1% in April. Employment grew by nearly 360 jobs during that period. This level of growth in employment is expected to continue throughout 2002. What is not certain is the extent of the recovery and eventual level of unemployment. By 2003, the economy is expected to be in full recovery with growth rates that are slightly less than those experienced in the expansionary period in the 1990's.

US census continues to show Milwaukee with a lower number of college graduates than most other major cities. This tends to produce a mismatch between available jobs and persons qualified for those jobs. Based on data in the October 2001 survey by UWM Employment and Training Institute, there are 13,824 part and full time jobs available in Milwaukee with 26,371 unemployed. This indicates that for every job available there are two people to fill that job. If one only considers full time employment, there are 3.4 unemployed for each available job. However, the report indicates that there is a difficulty in filling jobs that require experience or technical skills or college degrees. Several positions difficult to fill include nurses, electrical and mechanical engineers and teachers. With this in mind, this job program will be an on-going program unless the program is enhanced with a training and education piece.

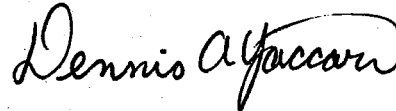
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Regrettably, I must suggest that you not support this proposal. City finances are insufficient to support this program and there is no certainty that an alternative source of funding will be located. An improving economy may only be hurt by such a proposal. Expected growth in the economy should lead to the creation of more than 500 jobs during 2002. Perhaps as an alternative, we could work with the state to extend the W-2 benefits for those nearing the end of the program or the state could assist or intensify W-2 participants' search for employment.

Sincerely,



Dennis A. Yaccarino
City Economist

Attachment
DY:dmr

Adding 500 Public Service Jobs

Salary per Hour	\$	12.00
Assumptions:		
Paid 52 weeks		52
40 hours per week		40
Ave. job salary	\$	24,960.00
Fringe Benefits		
Pension Contrib.	\$	1,372.80
Social Security Contrib.	\$	1,784.64
Ave. Health Care	\$	7,132.90
Total Fringe Benefits	\$	10,290.34
Total Cost per job	\$	35,250.34
Number of jobs		500
Total Job Related Cost	\$	17,625,168.00
Administration 5%	\$	881,258.40
Total Program Cost	\$	18,506,426.40