



Office of the Comptroller

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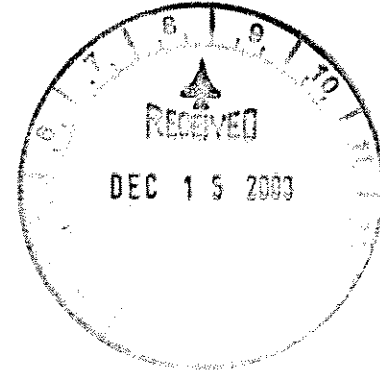
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Audra Millen, Legislative Fiscal Manager
City Hall
200 E. Wells St., Room 601
Milwaukee, WI 53202



Dear Ms. Millen:

Re: Assembly Joint Resolution 55 – Constitutional Amendment Imposing Spending Limits

This letter is in response to your request for comments on Assembly Joint Resolution (AJR) 55, a resolution setting forth a constitutional amendment imposing expenditure limits and reserve requirements.

I strongly feel it is inappropriate to set forth a constitutional amendment for achieving policy objectives that could otherwise be achieved through statutory changes. The formulas and procedural mechanisms outlined in AJR 55 fit more appropriately with the State Statutes than the broad overarching principles outlined in the State Constitution. In addition, an amendment to the State Constitution will be much more difficult to alter if implementation issues arise. Given the resolution sets forth 23 very specific provisions that cover thousands of diverse governmental units, it is likely that there will be some unforeseen consequences for which legislative flexibility is desired. Simply put, a constitutional amendment is not needed to bring about the changes outlined in the resolution nor is it the best means by which to achieve these changes.

In addition, the resolution strips control from local officials who are in the best positions to set local priorities. The resolution effectively places local government on "auto pilot" by replacing local control with "one size fits all" formulas and by placing any remaining discretionary authority with Madison legislators. The result will be less responsive local government as a result of diminished local control.

The resolution is based on the incorrect premise that local government services will automatically become cheaper by imposing spending limits. AJR 55 ignores the fact that municipalities are facing costs that are rising much faster than the rate of inflation. Binding arbitration agreements, which include health care provisions and emerging energy costs, are placing upward pressures on municipal expenditures. A more constructive approach would be for State and local governments to work cooperatively with each other to contain costs while maintaining the core services demanded by citizens.

Even with the issues already mentioned, there are a number of specific provisions of AJR 55 that are problematic. The first is the requirement that all bonding other than refunding or refinancing bonds be approved by referendum. This provision will severely limit the ability of local governments to issue debt for economic development activities. Tax incremental financing (TIF) districts are the primary means by which local governments finance economic development. These districts issue debt, which is later paid off through the incremental value of each district. Since only the properties within a TIF district pay for the improvements, a referendum of the broader community is not appropriate. More importantly, the referendum requirement will limit the number of TIF improvements that are undertaken by local governments and will limit the ability of local governments to increase the value of their communities. Aside from TIF districts, local governments also issue debt for capital projects that help spur economic development. These projects include roads, sewers, street lighting and other similar types of infrastructure. As with TIF districts, the referendum requirement will limit the number of capital projects undertaken by local governments to spur economic development and broaden the tax base.

The referendum requirement also applies to cash flow borrowing. The City annually issues revenue anticipation notes (RANs) for the City and MPS to meet obligations until state shared revenue and equalization aids are received. In 2003, the City issued \$98 million in RANs for City purposes and \$150 million in RANs for MPS. Since these debt issues help the City and MPS manage cash flow, it is not clear what policy objective will be met by requiring a referendum for these types of debt issues.

Another issue involves the interaction of Sections 3(c) and 4(b) of the resolution. Section 3(c) limits all spending of a municipality to the change in CPI for Milwaukee-Racine for the prior two years plus the percent change in net new construction. Section 4(b) requires a referendum for "any tax change causing a net tax revenue gain," thereby prohibiting the City from raising the tax levy, barring approval by referendum. If AJR 55 was in effect today, the City could increase its gross budget of \$1.1 billion by \$44 million in 2005, which is a 4% increase. However, if the City could not increase the levy, there would be no funding for the additional \$44 million. The impact to the City would be the same as a levy freeze (see letter attached). The only alternative for the City would be to increase permits, fees, and charges for services to fill the funding gap, which is not a desirable solution.

AJR 55 also establishes required reserves levels. Under AJR 55, the City would be required to maintain reserves from 7% to 14% of the City's gross budget when fully implemented. Using the City's 2004 gross budget as a base, the City's reserves under the proposal would range from \$76 million to \$151 million. To put these figures into perspective, the fire department budget is \$89 million and the police department budget is \$180 million. The problem of setting reserves based on the gross budget is it includes all of the City's enterprise funds. Since most of the enterprise funds maintain their own reserves, AJR 55, in effect, establishes reserve levels based in part on reserves. In addition, the gross budget includes special revenue funds. These funds, typically grant and aids, support expenditures only to the extent that funding is available. In other words, special revenue fund supported activities are not ongoing expenditures in that they cease to exist if funding is not available. Therefore, these expenditures do not require reserves to carry these activities forward in the absence of funding and it is not clear as to why AJR 55 would include these funds in setting reserve levels.

There are additional concerns regarding the operation of the reserve funds set forth in AJR 55. The resolution does not provide any mechanism to draw from reserves. Also, under Section 9(a) it is not clear how funds are to be deposited into the reserves given the section requires "[a] government unit to reduce tax rates for the next tax year to reflect the excess of revenues over expenditures."

Finally, the resolution excludes water and sewerage districts. It is not clear on what policy basis these exclusions are provided. However, if these exclusions are to be allowed, similar exclusions should be made for municipalities, such as Milwaukee, that operate water and sewer enterprises as part of their overall government operations.

For all of the issues raised in this letter, I recommend the City oppose AJR 55. However, I encourage City officials to continue with the more constructive and effective approach of working with the State and other local units of government to find real solutions to help contain costs and reduce pressure on local property taxpayers.

If there are any questions regarding the issues raised in this letter, or if we may be of any further assistance, please feel free to contact me.

Very truly yours,



W. MARTIN Morics
Comptroller

WMM:cdk
Attachment

REF: PD-6691W.DOC