



Office of the Comptroller

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June 13, 2003

Members of the Judiciary & Legislation Committee
City Hall
200 E. Wells St., Room 205
Milwaukee, WI 53202

Dear Committee Members:

Re: State Joint Finance Committee's Property Tax Levy Freeze Proposal

I have serious concerns about the fiscal impact of the Joint Finance Committee's proposal to freeze property tax levies for 2004, 2005 and 2006. This proposal will be devastating to the City as it will certainly negatively affect the City's bond rating, its economic development activities and the provision of basic City services.

Municipal bond rating agencies look at the City's financial flexibility in assessing its ability to repay debt obligations. Although General Obligation Bonds are secured by a direct levy of property taxes, the City's bond ratings are also based upon the overall financial health of the City. A tax levy freeze places a significant constraint on the City's financial flexibility. In combination with the proposed cuts in shared revenue, the City will be severely hampered in its ability to meet its ongoing operational and capital needs. The credit rating agencies can only view this negatively and reflect this negative impact in the City's bond rating, thereby increasing the City's borrowing costs.

With respect to economic development, Tax Increment Financing is the primary means by which the City and other municipalities finance economic development. For the City of Milwaukee alone there are 37 existing Tax Increment Districts (TID's) with a combined incremental property value of \$464 million. A property tax freeze limits the amount of property tax revenue that can be generated by these TIDs. As a result, these existing TIDs will take longer to fully recover their project costs, thereby delaying the use of these revenues for general government purposes. Also, proposed TID's may not be financially feasible because the projected property tax revenues generated by proposed TIDs may not be sufficient to recover the proposed project costs.

Aside from Tax Increment Financing, other types of economic development activities require sufficient resources to attract and retain businesses. For instance, the proposed tax levy freeze severely limits the City's ability to build and

maintain the infrastructure (roads, street lighting, telecommunications conduit, etc.) necessary to keep and attract businesses.

A tax levy freeze incorrectly assumes the cost of local government services will automatically become cheaper by imposing levy limits. A levy freeze 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 cost provisions and emerging energy costs are placing upward pressures on municipal expenditures. These rising expenditures in combination with a levy freeze and reduced State aid means that the City is facing a budget gap conservatively estimated to be between \$45 and \$50 million.

To illustrate how deeply a \$50 million cut would impact the City of Milwaukee budget, the City spends approximately \$78 million on fire protection, \$22 million on libraries, \$14 million on the health department and \$4 million on City development. This means that the City would have to close almost two-thirds of its fire stations or eliminate nearly all library, health and City development activities along with an additional \$10 million to balance its budget. These are not proposed cuts, but they do illustrate how deeply the City will have to cut its services to achieve a balanced budget. It should also be noted that this illustration only applies to 2004 and that additional cuts will be needed in 2005 and 2006.

Like many Wisconsin communities, Milwaukee needs to provide a competitive level of services compared to municipalities within and outside Wisconsin. Data have shown Wisconsin municipalities, and the cities in particular, have been successful in restraining expenditure growth. In fact, based on Census figures, Milwaukee ranks ninth lowest in per capita expenditures among its peer cities.

**1999-2000 CENSUS DATA
PER CAPITA EXPENDITURE**

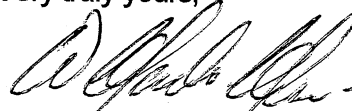
Rank	City	Expenditure Per Capita	Percent Supported by State Aid, Income or Sales Taxes
1	Cincinnati, OH	\$ 2,299	43%
2	Denver, CO	1,860	33%
3	Baltimore, MD	1,748	57%
4	Cleveland, OH	1,601	49%
5	St. Louis, MO	1,590	49%
6	Pittsburgh, PA	1,438	33%
7	Portland, OR	1,427	11%
8	Kansas City, MO	1,306	50%
9	Milwaukee, WI	1,304	43%
10	Columbus, OH	1,274	54%

Also, based on the same Census information, Milwaukee is the only city in the U.S. with a population over 300,000 that is precluded from collecting a local sales or income tax. All other cities impose an income tax, a sales tax, or both. This lack of revenue diversification increases Milwaukee's reliance on State aid, which is proposed to decline by \$24 million in 2004. This means that the tax levy freeze in combination with declining State aid will severely impact Milwaukee's ability to provide critical city services and the quality of life that residents, both individuals and corporate, demand. City residents will

be negatively impacted by a reduction in services, investment in public infrastructure will decline and private sector investment in the City will wane.

Finally, a levy freeze is the epitome of unfunded State mandates. It usurps control from local officials and applies a fixed standard on communities that are very diverse in their spending and revenue priorities. By mandating that local governments make no change in their property tax levy, the State legislature imposes its will on each local government without any regard to the wide variety of different service needs and fiscal conditions present throughout Wisconsin. For example, certain local governments receiving little State aid and witnessing large and continuing tax base expansion through new construction will likely be unaffected by the freeze. In contrast, less affluent governments that are more dependent on State aid and without the benefit of major construction will be required to make massive service cutbacks with no opportunity for citizen input. Moreover, those municipalities, like Milwaukee, that limited property tax levy increases in the past are unfairly penalized due to their prior cost control initiatives.

Very truly yours,



W. MARTIN MORICS
Comptroller

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Attachment

cc: Common Council Members
Members of the Joint Committee on Finance
Joseph J. Czarnecki, Director, DOA - Budget & Management
Marianne Walsh, City Clerk's Office
Patrick T. Curley, Legislative Liaison Director

REF: PD-6542W.DOC