

September 15, 2006

Honorable Members
Zoning, Neighborhoods, and Development Committee
City Hall, Room 205

Re: City Budget Impacts of Milwaukee Housing Trust Fund Task Force Recommendations

Dear Aldermen:

I am writing to advise you of the impacts that the Milwaukee Housing Trust Fund Task Force recommendations will have on the City of Milwaukee budget. In short, if implemented in full, the financing recommendations will reduce the city's capacity to provide essential services and will add to the city's structural fiscal imbalance.

I will present my comments in the order that the Task Force's pertinent recommendations appear in the June 16, 2006 minutes.

1. Issuance of \$5 million of levy-supported General Obligation Debt.

Based on a 5% interest rate, a 15 year term, and a level principle repayment structure, this item would add an annual average \$453,333 to the city's debt service levy, or \$6.8 million over 15 years. This debt service will add to the city's current structural budget imbalance.

Since 1995 the debt service tax levy has grown 43%, compared to a 14% increase in the total tax levy supported budget during the same time period. Mayor Barrett has made the reduction of new levy-supported debt a centerpiece of his fiscal stabilization strategy. His goal is to limit the amount of newly issued levy supported debt for city and school purposes to the amount of levy-supported debt retirements by 2008, in order to stabilize future debt levies. If this recommendation is adopted, the city may need to reduce borrowing for city infrastructure such as sewers and streets, public facilities and equipment such as fire engines, and the repair of MPS school buildings.

2. Earmark of Potential Growth in Revenues from the Potawatomi Casino

A major cause of the city's fiscal imbalance is the disproportionate role of a frozen State Shared Revenue appropriation, which remains at essentially its 1995 level, and of property taxes, which are capped by the State's levy limit. Potential growth in gaming revenue

represents one of the city's few opportunities to diversify revenue in a manner that does not affect the typical homeowner or renter. Losing this revenue growth would have a direct impact on the city's fiscal capacity. A \$2 million loss in revenue growth equates to the amount needed to continue operating four neighborhood libraries.

3. An annual tax levy equal to the prior four years' of City Tax Increments from Tax Increment Finance projects

This recommendation, if it were in effect for 2007, would severely reduce the city's fiscal capacity to provide essential services. The estimated "Trust Fund Levy" for 2007 is approximately 50% of the projected allowable increase to the city's 2007 tax levy for operating and capital purposes. City property taxpayers would face decreases in basic services such as police and fire protection, garbage pickup, library hours, and infrastructure, or substantial increases to user charges, as a result of this levy requirement.

4. Designation of 80% of the proceeds from sale of city owned property to the Trust Fund

Currently the proceeds of such sales are credited to the city's Tax Stabilization Fund (TSF). The TSF is used as an annual budget revenue to help stabilize both city services and the annual tax levy. This recommendation would restrict the city from using the sale of public assets to maintain city services without resorting to additional tax increases.

5. Earmarking new Payments in Lieu of Taxes (PILOTS) to the Housing Trust Fund

PILOTS are a means for tax exempt entities to help offset the cost of city services from which they benefit. This recommendation would further limit the city's capacity to diversify the revenue stream that supports essential city services. It would prevent the city from relieving some of the existing property tax cost of government.

Summary Observations

Public finance specialists from the entire political spectrum share the viewpoint that local government is not the appropriate level of government to redistribute income or to finance poverty alleviation. These recommendations have the practical effect of having local government bear the financial burden of the federal government's inadequate attention to real problems such as affordable housing. Unfortunately, these recommendations also reduce the City of Milwaukee's capacity to provide essential services to the city's residents - most of whom are low and moderate income persons. This reduction in services will cause risks to public health and safety and reduce the city's capacity to support the operations of the local and regional economy.

I hope this information is useful.

Sincerely,

Mark Nicolini
Budget and Management Director