ON THE MONEY?

THE CITY OF MILWAUKEE'S UNCOMMON REVENUE STRUCTURE AND HOW IT COMPARES TO PEER CITIES

PUBLIC POLICY FORUM

ABOUT THE PUBLIC POLICY FORUM

The Milwaukee-based Public Policy Forum, established in 1913 as a local government watchdog, is a nonpartisan, nonprofit organization dedicated to enhancing the effectiveness of government and the development of Southeastern Wisconsin through objective research of regional public policy issues.

PREFACE AND ACKNOWLEDGMENTS

This report was undertaken to provide citizens and policymakers in the Milwaukee region and across the state with insights into the City of Milwaukee's revenue structure and how Milwaukee's framework for financing its city government compares with other similarly-sized cities across the United States. We hope that policymakers and community leaders will use the report's findings to inform discussions during upcoming policy debates and budget deliberations at both the City and State level.

Report authors would like to thank Milwaukee fiscal officials and staff, as well as budget officials from Pittsburgh, Minneapolis, Cleveland, and Kansas City, for their assistance in providing financial information and for patiently answering our questions. We also would like to thank the Lincoln Institute of Land Policy and its staff for the use of their database and for similarly answering our questions.

In addition, we wish to acknowledge and thank the Greater Milwaukee Committee, which commissioned and helped fund this research as part of its MKE United initiative. We also thank the Northwestern Mutual Foundation and the Rockwell Automation Charitable Corporation for their long-standing support of our local government finance research.

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JULY 2017

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INTRODUCTION

In September 2016, the Public Policy Forum released *Making Ends Meet*,[1] a comprehensive analysis of the City of Milwaukee's fiscal condition. The report emanated from discussions between the Forum and the Greater Milwaukee Committee's (GMC) Downtown Task Force, which had been established earlier that year to provide civic guidance on projects to improve Downtown Milwaukee and adjacent neighborhoods.

Both the Forum and the Task Force agreed that efforts to build a world class downtown would be influenced by the capacity of City government to provide public works, public safety, public health, and other core services that support economic development and quality of life. Consequently, it was important to understand the City's financial condition, and to identify challenges that were threatening its investment capacity and its overall financial well-being.

Making Ends Meet left little doubt as to the foremost of those challenges: a "broken" revenue structure that failed to provide wherewithal for annual inflationary growth; and that was increasingly ill-suited to address the City's retirement obligations, aging infrastructure, and "fierce public safety expenditure pressures." In fact, the report found that whatever limited revenue growth the City *was* able to attain from year to year was being consumed by increased expenditures needed simply to maintain existing Police Department staffing and service levels.

The main culprit behind the City's revenue woes was its extreme reliance on aids from the State of Wisconsin, which had been stagnant for the past two decades. Furthermore, with its local revenue options restricted by the State and limited largely to property taxes and service fees, the City was placing more and more burden on property owners to generate revenue growth, despite the tens of thousands of suburban commuters who use those services each weekday, and the millions of annual visitors to its conventions, special events, and sports venues.

While *Making Ends Meet* identified the problem, this report is dedicated to exploring potential solutions. We do so by considering how similar-sized cities across the country generate the revenues required to sustain core municipal services, and then by applying a handful of those revenue models to Milwaukee. Specifically, we seek to initiate discussion on possible alternative revenue structures that might provide for healthier revenue growth while reducing the City's need for increased shared revenue payments from the State and increased property taxes and fees from its residents.

We begin by reviewing how state governments across the country have set up revenue frameworks for their largest cities, including the history and rationale behind the framework used in Wisconsin. Next, we broadly explore the revenue structures of a 38-city peer group, and then conduct a much deeper dive into the structures of four Midwestern peers: Pittsburgh, Cleveland, Minneapolis, and Kansas City.

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[1] This report can be accessed at http://publicpolicyforum.org/research/city-milwaukee%E2%80%99s-fiscal-condition-making-ends-meet.

Our analysis concludes with a modeling section that shows what alternative revenue structures observed in other cities might look like if applied to Milwaukee. We develop four models, which are loosely based on the characteristics of the four Midwestern cities.

For each model, we show revenue totals that are equivalent to those currently generated. In other words, the goal of our modeling exercise is not to show how alternative structures might produce *more* revenue for the City, but rather to ascertain whether revenue strategies used in other cities might provide for greater reliability, equity, and *future* growth.

There has never been a more urgent and better time for City and State leaders to consider whether a revenue structure established more than a century ago still is meeting the needs of Milwaukee citizens and taxpayers. *Making Ends Meet* conveyed the urgency by documenting the severe financial challenges facing City government. If not addressed, those challenges soon will cause City leaders to reduce service levels, and they will impede or eliminate its ability to invest appropriately in areas ranging from the Police workforce, to neighborhood revitalization, to replacement of the Milwaukee Water Works' lead service lines.

With regard to timeliness, this report shows how other cities have used their growing list of attributes – including new sports and entertainment venues and new offices and housing that accommodate the lifestyles of millennials and empty nesters – to adjust their revenue structures in ways that meet municipal needs while equitably spreading the tax burden among residents, commuters, and visitors. It would appear logical for Milwaukee to consider similar adjustments given the resources it is devoting and the success it is enjoying in making itself an attractive place to live, work, and play.

Changing a local tax structure is difficult, as it should be. Yet, at the same time, living with a tax structure that has outlived its effectiveness makes little sense. The goal of this report is to stimulate an informed, community-wide conversation about whether Milwaukee's revenue structure should be changed, and about what types of changes might enhance the city's economic competitiveness, its tax equity, and its capacity to deliver the core public services demanded by residents, businesses, and visitors.

BACKGROUND: THE CITY OF MILWAUKEE'S REVENUE STRUCTURE

The City of Milwaukee, like other large U.S. cities, has a large, multi-faceted government that provides a wide variety of services. Not surprisingly, its revenue structure mirrors this complexity with funds flowing from multiple sources to an array of programs and accounts that are governed by different fiscal rules and procedures.

Municipal financial operations often are categorized by *governmental activities*, which consist of basic services such as police, fire, and public works that are supported by taxes and general revenue; *business-type activities*, which are self-supporting operations often related to sewers, water, ports, and parking that derive their revenues solely from the enterprise in which they are engaged; and *component activities* that are conducted by separate legal entities whose purposes and finances are closely allied to the home city.[2]

Because this report is concerned with Milwaukee's taxes and tax policy, our focus is on governmental activities. Governmental activities accounted for $834 million (about 75%) of the City of Milwaukee's total revenues in 2015.

Table 1 provides a breakdown of Milwaukee's major revenues for governmental activities in 2015 as displayed in that year's Comprehensive Annual Financial Report (CAFR). As shown in the table, governmental activities are broken down by four distinct categories of funds. The largest of those is the General Fund, which is Milwaukee's fund for ongoing operations and which receives about three-quarters of all revenues dedicated to governmental activities. Other governmental activities cited in the CAFR include debt service, capital projects, and "non-major governmental activities."[3] This study includes these four accounts because, together, they are Milwaukee's primary recipient of state aids and local tax revenue.[4]

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[2] Milwaukee's business-type activities include its Sewer Maintenance and Parking funds, the Milwaukee Water Works, and the Port of Milwaukee, while its component units include the Redevelopment Authority, Neighborhood Improvement Development Corporation, and Century City Redevelopment Corporation.

[3] The fund for non-major governmental activities supports grant and aid projects, community development block grants, delinquent taxes, and some economic development aid. About 80% of this fund's revenue comes from the state and federal governments.

[4] A full accounting of local taxation and intergovernmental revenue is important for peer analysis since cities differ in how they allocate taxes across government fund accounts. An analysis limited to the general fund would not accurately account for other cities' total or types of tax revenue. In *Making Ends Meet* – our September 2016 assessment of the City of Milwaukee's fiscal condition – separate analyses were conducted for general operations, debt service, and capital funding.

Table 1: City of Milwaukee governmental activities revenues, 2015 (in thousands)

Revenues	General Fund	G.O. Debt Service	Public Debt Amortization	Capital Projects	Non-major Governmental	Total
Property taxes	$190,318	$57,833	$0	$5,664	$0	$253,815
Other taxes	$2,765	$27,351	$2,745	$0	$0	$32,861
Special assessments	$0	$2,646	$0	$2,020	$0	$4,666
Licenses & permits	$16,629	$0	$0	$0	$0	$16,629
State aid for General Fund	$263,350	$0	$0	$0	$0	$263,350
Intergovernmental		$817	$0	$14,390	$44,206	$59,413
Charges for services	$141,318	$13,084	$0	$0	$0	$154,402
Fines & forfeitures	$4,110	$0	$0	$0	$0	$4,110
Other	$20,591	$693	$2,395	$10,647	$10,450	$44,776
Total	**$639,081**	**$102,424**	**$5,140**	**$32,721**	**$54,656**	**$834,022**

Source: City of Milwaukee CAFR, 2015

The table indicates that Milwaukee's three predominant funding sources are general state aid ($263 million or 32%), property taxes ($254 million or 30%), and charges for services ($154 million or 19%). We briefly summarize those sources below:

- *General state aid* historically has been Milwaukee's largest revenue source. Most general state aid comes from the shared revenue program (about $219 million of the $263 million in 2015).
- The *property tax* historically has been Milwaukee's second largest revenue source and – per the CAFR's methodology for defining various forms of revenue – constitutes nearly 90% of local taxation.[5] In Milwaukee's 2017 budget, 44% of property tax revenue is allocated for general city purposes, with substantial funding also allocated toward employee retirement (30%) and debt payments (25%).
- *Charges for services* represent funds received for the delivery of certain services for which fees can be assessed under Wisconsin's statutes. Milwaukee's major charges include solid waste and snow and ice fees. Non-profit organizations, which are exempt from the property tax, are required to pay charges for services.

In *Making Ends Meet,* we found that Milwaukee's state aids have been largely flat over the past 20 years, which is highly problematic given that this is its largest revenue resource. The City has increased property taxes and fees to partially make up for the state aid shortfall, and those actions – combined with a successful effort to dramatically reduce health care expenditures – have allowed City leaders to avoid service cuts in recent years. Nevertheless, this persistent trend of stagnant state aid was found to be a major cause for concern given Milwaukee's dependence upon it.

[5] The CAFR, City budget, and U.S. Census Bureau use different methodologies for classifying revenues, which may account for differences in revenue percentages cited in different sections of this report. Per the CAFR, the remaining amount of local taxation in the "Other taxes" category consists largely of revenues received from Tax Incremental Districts (TIDs), as well as smaller amounts of payments in lieu of taxes, interest and penalties on delinquent taxes, and other miscellaneous sources.

THE ROLE OF THE STATE IN LOCAL GOVERNMENT FINANCE

Given the importance of state aid as a source of funding for Milwaukee's governmental activities, it is important to understand the history and rationale for the local government finance paradigm created by the State of Wisconsin. Similarly, it is important to consider how other states have established revenue ground rules for their municipal governments in light of our extensive use of peer city comparisons in this report. In this section, we provide both national and Wisconsin context to help frame our analysis of revenue structures in Milwaukee and the peer cities.

NATIONAL CONTEXT

States provide financial assistance to local governments and establish their fiscal framework. In fact, local finances are rooted in the types of taxes that states authorize. The three broad types of taxation typically authorized by states are the property tax, sales tax, and income tax. States delineate which taxes municipalities may impose, as well as some of the conditions under which they are applied. Generally speaking, a state is deemed to have authorized a local tax if the municipality has "an option to levy the tax, local option to control the tax rate (within some increment, i.e. they have some ability to shift the rate) and if the revenues are for general use."[6]

While states establish municipal taxing authority, local municipalities typically decide whether and when to act on this authority. In some cases, cities operate within a tax ceiling but do not tax up to this limit; in others, municipalities may elect not to impose a tax even if authorized to do so. For example, no city in Arkansas has implemented the income tax authority granted by the state.

Municipalities that are permitted to implement more than one local source of taxation may enjoy certain advantages from the standpoint of flexibility and stability. For example, cities that are allowed to draw upon multiple revenue streams can set lower tax rates for those distinct sources than would be possible if they were reliant upon only one tax.

Diverse revenue streams also provide local governments with fiscal balance. Sales and income tax revenues grow rapidly during a strong economy, but they also can drop sharply when the economy is weak. Changes in these tax revenues are offset, to some degree, by property tax revenues, which tend to deviate more slowly from year to year because of the assessment process and the ability of local policymakers to adjust property tax rates when values decline.

Many states have granted the right to levy a particular tax or to set higher rates for a tax to a large city or cities within their border. For example, Pennsylvania has authorized Philadelphia, but no other city in the state, the ability to levy a general sales tax. New York, meanwhile, has allowed New York City and Yonkers to levy an income tax. Similar situations exist in Baltimore, Maryland; Wilmington,

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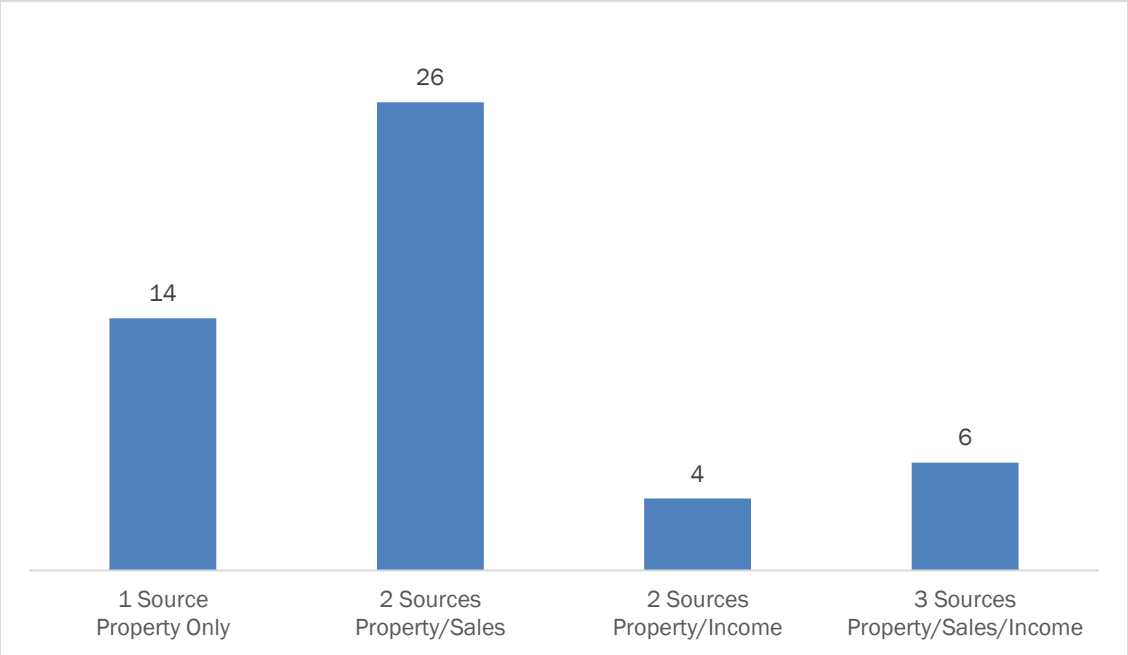
[6] The National League of Cities, Center for City Solutions and Applied Research, *Cities and State Fiscal Structure 2015*, p.4. http://www.nlc.org/sites/default/files/2017-02/NLC_CSFS_Report_WEB.PDF

Delaware; and Kansas City and St. Louis, Missouri, which have income tax authority. There are numerous other examples of this practice.

In a smaller number of states, a particular class of cities is permitted to levy a tax. For example, 22 cities in Michigan and 19 cities in Alabama can impose an income tax, while cities of less than 5,000 in Montana and "resort cities" of less than 10,000 in Idaho can charge a local sales tax. Arizona requires that cities that wish to levy a property tax first receive approval by referendum. Some cities in Minnesota can implement a local sales tax subject to the approval of the state legislature.

Chart 1 breaks down the 50 states by how many of the three types of general taxes they authorize their municipalities to levy. We see that 14 states permit local governments to levy only one tax, the property tax; 30 states allow at least some of their municipalities to levy two taxes;[7] and six states have authorized all three types of general taxes (a property tax, sales tax, and income tax).

Chart 1: State authorization of major local taxes, 2015



Source: Center for City Solutions and Applied Research, National League of Cities, Cities and State Fiscal Structure, 2015

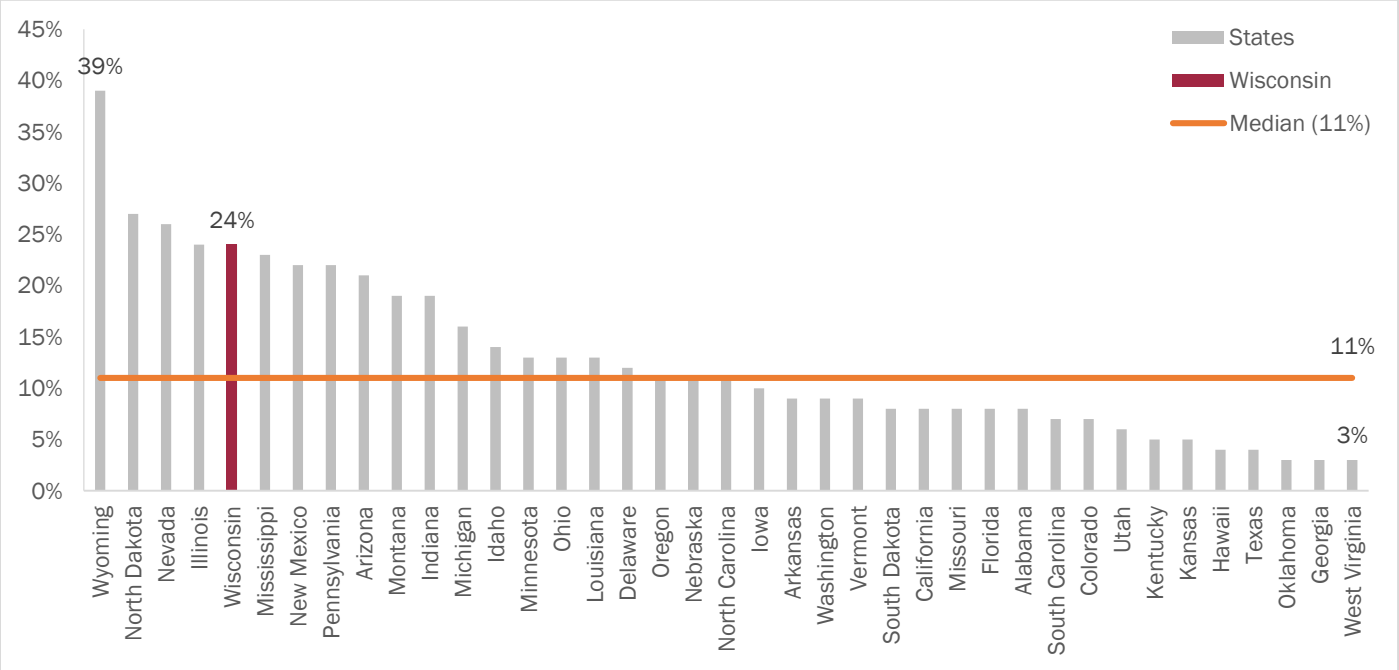
[7] Information comes from *Cities and State Fiscal Structure*, although the categorization of states used here differs from that source. A state is counted as having authorized a revenue source when any city in the state has authority to levy that tax. The table refers only to the authorization of a general sales tax, not selective sales taxes. The next section of this report, on peer cities, suggests that more states have authorized selective sales taxes than a general sales tax.

Wisconsin is the only state in the Midwest that only authorizes the property tax. Of the remaining 13 states whose local governments only have access to the property tax, nine are located along the Eastern Seaboard. The other four states are in the far west (and include Hawaii).

In addition to setting up the local taxing structure, states affect municipalities through their provision of state aid. The amount of state funding that flows into municipal coffers has a direct impact on municipal fiscal strength (although, in most cases, such aid does not approach funding generated by local taxation). Types and purposes of state aid vary and include "re-distributional purposes, general government support, and other reasons that enhance the fiscal capacity of the recipient governments."[8]

A 2015 report by the National League of Cities found that state aid ranged from 3% of municipal general revenue in West Virginia, Oklahoma, and Georgia, to 39% in Wyoming. Across all states, state aid represented, on average, 18% of local general revenue.[9] **Chart 2** shows state aid as a percentage of municipal revenue for various states as reported by the National League of Cities and collected from 2012 U.S. Census data. Wisconsin ranks fifth on this list at 24%, while the median was 11%.

Chart 2: State aid as a component of municipal general revenue for various states, 2012*



*Does not include 11 states where school aid and municipal aid funds to local governments are co-mingled

Source: Center for City Solutions and Applied Research, National League of Cities, Cities and State Fiscal Structure, 2015

[8] National League of Cities, *Cities and State Fiscal Structure*, p. 9.

[9] General revenue represents all incoming funds except for those for utilities, retirement trust funds, and liquor store operations.

STATE OF WISCONSIN

In Wisconsin, the State statutes (as opposed to the Constitution) grant lower levels of government the authority to tax, and they establish the property tax as the main source of local government taxation. The number of taxes currently authorized is smaller than in most states. For example, local income and motor fuel taxes are prohibited.

State statutes stipulate what types of local governments can levy property taxes, and they also limit annual levy increases for different governments. For example, under current State law, municipalities generally cannot increase the property tax levy from one year to the next by a percentage that exceeds the percentage growth of new construction in the previous year (municipalities do have the option of exceeding the levy limits through voter referendum). In Wisconsin, unlike some states, all market value (i.e. 100% of assessed value) is taxed. The city, county, school district, sewerage district, and technical college district impose property taxes in Milwaukee.

Counties are the only form of local government permitted to establish a general sales tax in Wisconsin. Under current law, counties may impose a 0.5% sales tax on the same tax base as the State sales tax. All but 10 of Wisconsin's 72 counties – including Milwaukee County – have established a sales tax.[10] Counties may – but are not required to – share sales tax revenue with their municipal governments. We are aware of only one county government – Sheboygan County – that does so.

Municipalities do have the right to impose a "room tax" on hotels, motels, and certain other lodging establishments, though State statutes dictate that the room tax in the City of Milwaukee is dedicated to the Wisconsin Center District, and not to City government. (The Wisconsin statutes also authorize the Wisconsin Center District – but not the City – to impose sales taxes on certain food and beverages and car rentals; these and hotel/motel taxes are referred to as "selective" sales taxes.)

Municipalities also are permitted to levy a vehicle registration fee (the so-called "wheel tax") on vehicle owners and a franchise fee on cable television companies. The City of Milwaukee avails itself of all permitted taxes: the property tax, wheel tax, and cable franchise fee.

Another sales tax authorized by the state is the "premier resort area tax," which allows qualifying municipalities to impose a 0.5% tax on sales from 44 kinds of retail businesses. Revenue generated from these retail sales may only be used to pay for public infrastructure expenses. A municipality must generate at least 40% of its taxable equalized assessed value from tourism-related businesses to qualify, though six municipalities have been granted exemptions from the 40% rule and are permitted to charge a 0.5 % premier resort tax.[11] Milwaukee currently does not qualify to use this form of taxation.

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[10] The state also has established a 0.1% sales tax in five counties (Milwaukee, Racine, Washington, Waukesha, and Ozaukee) to finance debt issued for the construction of Miller Park.

[11] Wisconsin Dells and Delton meet the 40% requirement and are authorized to assess a 1.25% sales tax. Four of the six municipalities that have been granted exemptions from the 40% rule charge a 0.5% tax (Eagle River, Rhinelander, Stockholm, and Bayfield). For more information, see Wisconsin, Department of Revenue, Premier Resort Area Tax: https://www.revenue.wi.gov/Pages/FAQS/pcs-premier.aspx

The practice of sharing state taxes with local governments in Wisconsin dates back to 1911, when lawmakers decided to share a portion of the new state income tax with local governments, in part to compensate them for property tax exemptions enacted in the same year. Over the years, this "shared taxes" program evolved into one of "shared revenue" to reflect the fact that the state no longer dedicated a specified percentage of state taxes to local governments.[12]

Wisconsin's shared revenue comes in the form of unrestricted aid awarded to counties and municipalities. The term "shared revenue" actually refers to four types of local aid programs authorized under the shared revenue chapter in the Wisconsin statutes: county and municipal aid, utility aid, expenditure restraint aid, and state aid for tax-exempt property (computer aid). Shared revenue payments for county/municipal aid and utility payments in 2015 amounted to $823 million, of which municipalities received $666 million and counties $157 million. Shared revenue is the sixth largest general fund program in the State budget.

In recent decades, the shared revenue program has diminished in force and focus as ad hoc aid has replaced formula funding methodologies. In 1985, the State eliminated automatic shared revenue aid and in 2001 it discontinued the main components of the funding formula. Since 2004, except for one year, annual funding for shared revenue either has remained essentially the same, or has been reduced.[13] In fact, the combined amount of municipal aid and utility payments declined from $719 million in 2005 to $666 million in 2015, and their share of the State's general fund budget fell from 13% in 1995 to 6% in 2015.

The drop in shared revenue has had a substantial impact on the City of Milwaukee's finances. In *Making Ends Meet*, we noted that if Milwaukee's intergovernmental revenue (of which shared revenue is by far the largest component) had increased at the rate of inflation from 1995 to 2015, then its revenue total would have been 58% higher ($415 million versus the $264 million it actually received). Property tax increases made up for less than 20% of the inflation-adjusted decline in intergovernmental funds during that time.

It should be noted that Wisconsin is not unique in trimming state aids to municipalities. According to *Governing*, state aids to local governments and school districts have declined by 6% in inflation-adjusted terms when compared to 2007-2009 averages. As a consequence, many municipalities have had to reduce their expenditures or increase local sources of revenue.[14]

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[12] State of Wisconsin, Legislative Fiscal Bureau, *Shared Revenue Program (County and Municipal Aid, and Utility Aid)*, Informational Paper # 18, 2015, page 10 https://docs.legis.wisconsin.gov/misc/lfb/informational_papers/january_2015/0018_shared_revenue_program_informational_paper_18.pdf

[13] It should be noted that a substantial reduction in shared revenue in the 2011-13 budget was accompanied by the adoption of Wisconsin Act 10. Supporters argue that Act 10 provided local governments with capacity to offset the impact of shared revenue reductions by granting them the authority to reduce health care and pension benefits for non-public safety employees without having to engage in collective bargaining.

[14] Mike Maciag and J.B. Wogan, *With Less State Aid, Localities Look for Ways to Cope*, Governing, February, 2017, http://www.governing.com/topics/finance/gov-state-aid-revenue-sharing-intergovernmental-revenue.html.

SUMMARY

No other state in the Midwest has a local tax structure like Wisconsin's that relies solely on the property tax. Wisconsin also differs from many other Midwestern states in that Milwaukee, the state's largest city, has the same tax structure as other municipalities throughout the state. That is not the case in Illinois, Michigan, Ohio, Minnesota, and Missouri, as well as numerous other states throughout the country whose major cities can draw on additional forms of taxation.

Wisconsin's strong state aid historically has compensated for the lack of local revenue diversity. However, cutbacks in shared revenue have diminished this program's purchasing power and required Milwaukee to lean heavily on increased property taxes and fees to offset the impact.

REVENUE STRUCTURES OF PEER CITIES

In this section, we provide a high-level review of the revenue structures of 38 cities similar to Milwaukee. To build this peer set, we first examined the finances of all 54 U.S. cities with populations between 300,000 and one million. We then removed cities whose budgets fully or partially funded local county and school district operations. This excluded cities with consolidated (i.e., city/county) governments, such as Indianapolis; cities that perform some typical county functions, such as Baltimore; and cities whose budgets fund or pass through monies to local school districts, such as Boston. The result was a group of 39 cities – including Milwaukee – that we use to compare and contrast revenue structures.

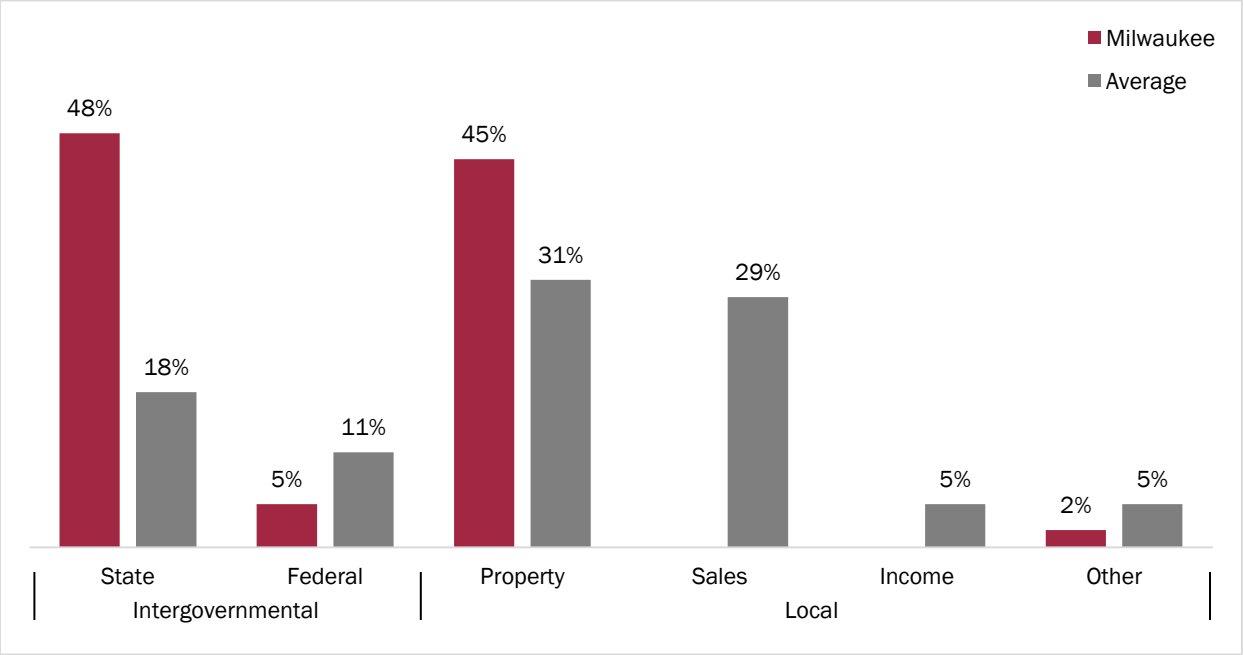
Our analysis examined the major revenues flowing into each of the 39 cities in 2012, the year for which the most recent data were available from the U.S. Census when we conducted our research. This information was accessed via the website of the Lincoln Institute of Land Policy, where it is organized to facilitate such review.[15] Our analysis focuses on state and federal revenue (i.e. intergovernmental funds) and major local taxes (property, sales, and income).

The most common and largest sources of revenue among the 39 peers are the property tax, sales taxes, and state aid. **Chart 3** shows the average amount of revenue received from the major sources among the peers when viewed as a percentage of combined local, state, and federal revenue. The chart also shows Milwaukee's percentages for comparison.

While not shown in the chart, our analysis finds that many cities' peer rank fluctuates from revenue source to revenue source, showing greater than average funding for one type of revenue source and lower than average funding for another. For no city is this more true than Milwaukee, which has two principal forms of revenue – state aids and the property tax – while most peers, at a minimum, have three major forms of support. **Appendix A** details each of the peers' sources of revenue as a percentage of total intergovernmental and local tax revenue and on a per capita basis.

[15] The Lincoln Institute of Land Policy is a nonprofit foundation created in 1946 that, according to its website, "seeks to improve the quality of life through the effective use, taxation, and stewardship of land." The Institute's "Fiscally Standardized Cities Database (FiSC)" was a key resource for this report. Accounting for differences across cities in government structure, this web-based database provides comparative data on local government finances for 150 of the largest U.S. cities across more than 120 categories of revenues, expenditures, debt, and assets. The FiSC database covers the 1977-2014 timeframe using information from the individual unit of government files produced by the Governments Division of the U.S. Census Bureau. The Institute's website can be accessed at http://www.lincolninst.edu/.

Chart 3: Major revenue sources as a percentage of combined intergovernmental and local revenue – peer averages vs. Milwaukee, 2012



Source: Lincoln Institute of Land Policy

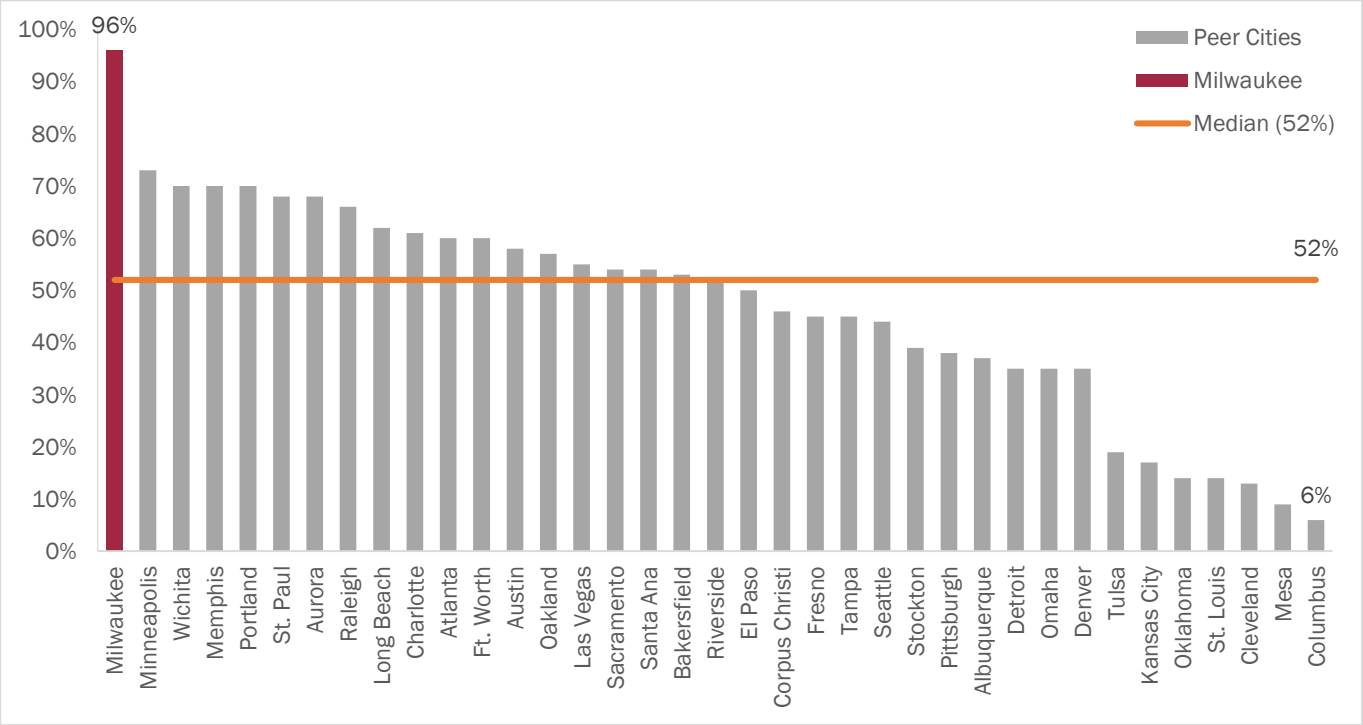
Since municipalities retain latitude in setting the level and mix of local taxation, revenues in a given state can differ significantly from one city to another. For example, Corpus Christi, Texas, obtained 45% of its tax revenue via sales taxes in 2012, while sales taxes in Austin, Texas, comprised 35% of all tax revenue in that same year. Similar revenue variations can be found among peer cities in California, Missouri, and Ohio.

Historically, local governments have relied on the property tax as their main source of taxation. All peers in our study assess property taxes, although not every city that levies such a tax allocates the revenue to its general fund. For instance, Oklahoma City, whose principal local revenue is the sales tax, dedicates its property tax revenues to capital expenditures.

In 2012, property taxes comprised 96% of the local tax revenues supporting Milwaukee's City government.[16] No other city in the peer group approached this level of property tax reliance as a percentage of local tax funds, as shown in **Chart 4**. Minneapolis, the city with the next highest level, received 73% of total local tax revenues from property taxes.

[16] Per the Lincoln Institute's methodology – which is based on reporting to the U.S. Census Bureau – the remaining 4% consists primarily of revenues generated from licenses and permits. Also, this figure differs from the "nearly 90%" figure cited in the previous section because a different year is used and because the Lincoln Land Institute's classification of revenues is different from that of Milwaukee's CAFR.

Chart 4: Property taxes as a percentage of local tax revenues for peer cities, 2012



Source: Lincoln Institute of Land Policy

Starting in the 1930s, many states began granting municipalities the right to levy general sales taxes. Revenue from this source of funding grew steadily, and sales taxes in 2012 produced almost as much revenue as the property tax among this group of large U.S. cities. In total, the peers garnered 44% of all local taxes via the property tax and 41% via sales taxes in 2012.

Our use of the term "sales tax" refers both to a general tax assessed on many goods and services sold within a municipality (with items like food and medicine often exempted), as well as selective taxes on sales of specific items, such as entertainment ticket sales, insurance, public utilities, motor fuels, tobacco, alcoholic beverages, etc. Thirty of the 39 members of the peer group have a general sales tax, while nine (including Milwaukee) do not. Most cities without a general sales tax do raise substantial revenues through selective sales taxes, as shown in **Table 2**. Unlike many other cities, Milwaukee does not have authority under State statutes to levy selective sales taxes.[17]

[17] The U.S. Census defines selective sales taxes as “taxes imposed on sales of particular commodities or services or gross receipts of particular businesses separately and apart from the application of general sales and gross receipts taxes.”

Table 2: Revenue structures of peer cities without a general sales tax, 2012

Cities	Property Tax	Selective Sales Tax	Income Tax	Other Tax
Atlanta	60%	28%	0%	12%
Cleveland	13%	8%	74%	5%
Columbus	6%	2%	87%	5%
Detroit	35%	29%	31%	4%
Las Vegas	55%	29%	0%	15%
Milwaukee	**96%**	**0%**	**0%**	**4%**
Pittsburgh	38%	32%	21%	9%
Portland	70%	12%	0%	18%
Wichita	70%	26%	0%	4%

Source: Lincoln Institute of Land Policy

As a general rule, cities with larger populations tend to draw more heavily on the sales tax and less upon the property tax, as shown in **Table 3**. That may reflect the fact that as cities increase in size, they become more cosmopolitan (i.e. less local) and host greater numbers of non-residents who are engaged in business, employment, tourism, entertainment, etc. The sales tax enables local governments to recoup the costs of services provided to all users irrespective of their purpose for being in the city. The property tax is strictly levied on those who own city property, while the income tax can encompass those who work and live in cities.

Table 3: Relationship of property to sales taxes as percentage of total local taxes for cities (averages grouped by population), 2012[18]

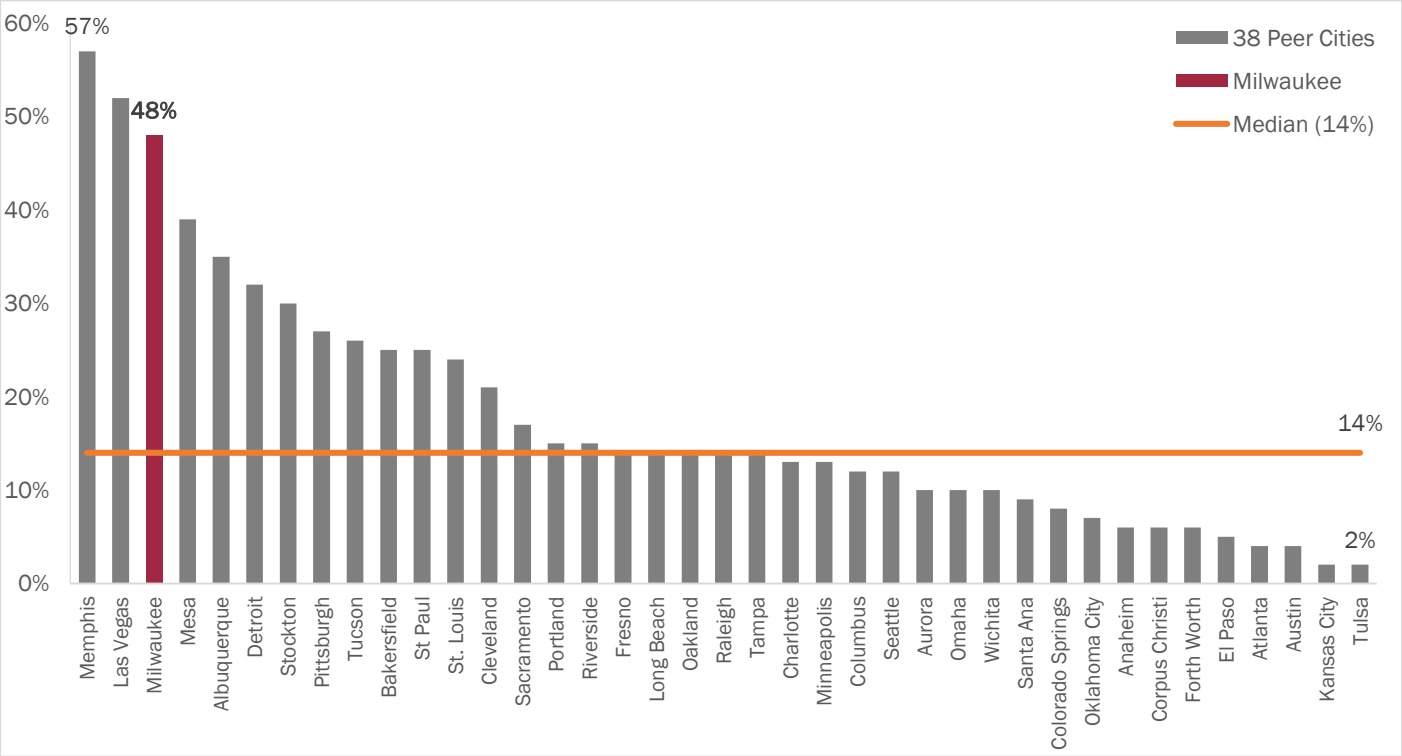
Tiers	Property	Sales	Total
Tier 1-- (1 million +)	43%	42%	85%
Tier 2-- (300,000 to 1 million)	44%	41%	85%
Tier 3-- (circa 150,000+)	54%	28%	82%

Source: Lincoln Institute of Land Policy

State aid is a relatively minor source of revenue for most of the peer cities, providing supplemental financial assistance, but not serving as a principal source of support compared with property or sales taxes. Indeed, our analysis found that state funding represented 14% or less of total combined intergovernmental and local tax revenue for half of the peers. In contrast, state funding equaled 48% of Milwaukee's total and, historically, has been its largest revenue resource. Only two other cities in the peer group had a greater proportion of state funding, as shown in **Chart 5**.

[18] Tier 2 does not include cities with financial and/or operational responsibilities that typically are a part of other local governments, nor city/county consolidated governments. Tier 3 comprises all remaining cities from Lincoln Land Institute's database of the 150 largest U.S. Cities.

Chart 5: State funding as a percentage of total intergovernmental and local tax revenues for peer cities, 2012



Source: Lincoln Institute of Land Policy

Six members of the peer group have a local income tax: Columbus, Cleveland, Pittsburgh, Detroit, St Louis, and Kansas City. These cities are located in four states that authorize local income taxes either for all municipalities, or for specified cities within their borders.

We would note that these six peers have considerable poverty and low median household income, which can create a high demand for government services. An income tax has enabled these cities to raise more revenue than other peers since they also benefit from a property tax and various sales taxes, as shown in **Table 4**. Milwaukee, which depends more on intergovernmental revenue and less on local revenue than its peers, ranked 34th in terms of revenues raised through local taxation. (See **Appendix A** for details on major revenue sources for each of the 39 peers in 2012).

Table 4: Peer cities with the greatest per capita local tax revenue, 2012

Cities	Property	Total Sales	Income	Other	Total Local
1. St. Louis	$233	$816	$581	$76	$1,706
2. Kansas City	$268	$734	$459	$148	$1,608
3. Seattle	$639	$727	$0	$103	$1,469
4. Oakland	$821	$286	$0	$333	$1,440
5. Atlanta	$724	$340	$0	$143	$1,207
6. Minneapolis	$869	$240	$0	$76	$1,185
7. Pittsburgh	$444	$372	$244	$108	$1,167
8. Cleveland	$143	$81	$790	$54	$1,068
9. Detroit	$377	$315	$331	$44	$1,068
10. Portland	$719	$124	$0	$188	$1,031
11. Oklahoma City	$141	$843	$0	$37	$1,021
12. Columbus	$54	$21	$848	$49	$972
34. Milwaukee	**$484**	**$0**	**$0**	**$22**	**$507**

Source: Lincoln Institute of Land Policy

SUMMARY

While *Making Ends Meet* presented the broad outlines of Milwaukee's financial structure, here we delve deeper to compare Milwaukee's revenue framework with those of comparably-sized cities. Our analysis shows the stark difference between Milwaukee and its peers when it comes to raising revenues. As summarized in **Table 5**, Milwaukee ranks at or near the top with regard to state aids and the property tax, but at or near the bottom with regard to sales taxes and total local taxes.

Table 5: Milwaukee's peer rankings, 2012

State Revenue as % of Combined Intergovernmental & Local Tax Revenue	Property Tax as % of Local Taxes	Sales Taxes as % of Local Taxes	Total Local Taxes (Per Capita)	Total Intergovernmental Revenue & Local Taxes (Per Capita)
3rd	1st	39th	34th	19th

Source: Lincoln Institute of Land Policy

In the end, Milwaukee's total intergovernmental and local tax revenues per capita are at the mid-point of the group because of its greater receipt of State funds and higher property taxes.[19] Since all other peers draw on at least two major sources of local taxes, they can spread the cost of their expenditures across multiple forms of local taxation and, thereby, maintain lower property tax rates.

[19] While Milwaukee falls at the middle of the peer group in total tax revenues per capita, it is 8 percentage points below the overall peer group average. A 2015 study by the Milwaukee Comptroller that employed an eight-city peer group and a different methodology for calculating local and intergovernmental revenues found a similar result, reporting that Milwaukee was 11 percentage points below the average in total local tax revenue per capita. See: http://city.milwaukee.gov/ImageLibrary/User/pmensa/2015CompRevRept.pdf

A CLOSER LOOK AT FOUR PEER CITIES

The preceding two sections have revealed both the distinctive nature of Wisconsin's system of municipal government finance and Milwaukee's unique fiscal position when compared with similarly-sized cities. Most states – and particularly those in the Midwest – are not like Wisconsin in that they authorize multiple sources of local taxation and permit their largest cities to have more tax flexibility than smaller municipalities. Most large cities are not like Milwaukee in that they can draw on a greater range of local taxes. Indeed, no peer city depends so heavily on a single source of local tax revenue and no peer depends so heavily on the property tax.

Is Milwaukee's distinctive revenue structure a positive or a negative and what are the alternatives if State and local leaders wish to change it? Those are the questions that we seek to address in the remainder of this report.

In this section, we take a closer look at the revenue structures of four peer cities that were included in the 39-city peer group. Those cities are Pittsburgh, Cleveland, Minneapolis, and Kansas City. Our intention is to provide greater insight into the distinct features of revenue structures used by cities that are comparable to Milwaukee, assess the general pros and cons of such features, and examine their potential relevance to efforts to explore modifications to Milwaukee's revenue structure.

METHODOLOGY

Admittedly, there was no precise science to our selection of these four cities. Our primary criteria were that the peer cities be comparable to Milwaukee in population, climate, size of budget, and breadth of municipal services. We also sought a peer group from the Midwest given the similarities in attitudes toward governance, taxation, and other facets of public policy that tend to exist within geographic regions. Finally, we were careful to select cities from distinct states in light of the impact that state policies have on local government finances. When we applied those criteria, these four cities emerged.

It is important to note that these cities were ***not*** selected because we believe them to be aspirational models for Milwaukee. We did not delve into their finances and local economies deeply enough to determine whether they are financially or economically "better off" than Milwaukee, nor whether the revenue structures of their municipal governments have promoted or deterred economic growth. What we do know is that each city has a revenue structure that is distinctive in its own way, and that those distinctive elements are worthy of consideration by Milwaukee in light of the challenges implicit in its revenue structure.

To compare revenues and expenditures in this section, we again use governmental activities – which include capital and debt accounts – as opposed only to revenues that flow into the general fund. Inclusion of capital and debt service gives us a more complete picture of each government's expenditure needs, and it also allows us to include revenue sources that are specifically earmarked for capital and/or debt.

We lean heavily on CAFRs for our financial data, as opposed to annual budgets. The methodologies used in CAFRs are far more standardized among cities than those used in budgets, which allows us to conduct more accurate comparative analyses. Nevertheless, we discovered that important differences do exist in the way certain expenditure and revenue line items are categorized in CAFRs for the different cities. In such cases, we point out the differences to the best of our ability.

Finally, we would emphasize that we did not have the capacity to do a thorough scrub of each peer city's finances and we do not profess to have a complete understanding of the full range of nuances that contribute to their fiscal condition and the viability of their revenue structures. Consequently, the comparative analysis in this section should be seen as informative, but not definitive.

COMPARING LOCAL REVENUE STRUCTURES

There is no standard definition of an ideal local revenue structure, but many government finance experts agree that high-quality revenue systems are reliable, balanced, straightforward, and equitable.[20]

- A **reliable** revenue system is likely to generate the same amount or additional revenues from one year to the next with a relatively high degree of certainty and generally is expected to grow at a pace that mirrors the pace of local economic growth.
- A **balanced** system relies on a variety of revenue sources that are generated by different types of activities and by different types of taxpayers (e.g. property owners versus consumers of goods and services).
- A system that is **straightforward** does not require an inordinate amount of staff resources to collect revenues; does not place a significant burden on individuals or employers in terms of compliance; and is uncomplicated and easy for citizens to understand.
- An **equitable** system imposes similar tax burdens on people in similar circumstances[21] and has limited regressivity.

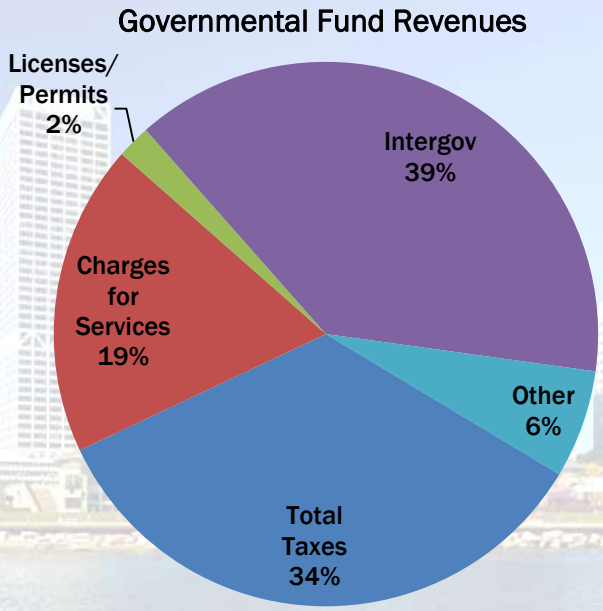
In our analysis of the revenue characteristics of the four peer cities, we use these considerations as a means of objectively assessing the strengths and weaknesses of their overall revenue structures.

[20] There is considerable academic and related literature on ideal revenue structures for state and local governments. One particularly useful example – from which we draw here – is "Principles of a High-Quality State Revenue System" published by the National Conference of State Legislatures. That document is available at http://www.ncsl.org/research/fiscal-policy/principles-of-a-high-quality-state-revenue-system.aspx.

[21] "Principles of a High-Quality State Revenue System," National Conference of State Legislatures.

MILWAUKEE

Population: 600,155
Governmental Fund Revenues: $834,022,000



Distinguishing characteristics:

Heavy reliance on intergovernmental revenues with a local tax portfolio that consists of only one primary source.

Earlier in this report, we provided background information on the City of Milwaukee's revenue structure and finances. Here, we again present basic information on the City's finances, but for comparative purposes we do so in a manner that corresponds with our presentation of revenue and expenditure data for the other cities considered in this section.

Our starting point is a summary of governmental fund *expenditures*, broken down by function. While the focus of our analysis is the *revenue* structure of the peer cities, efforts to compare revenue structures must take into account the differences that may exist in the types and levels of core services provided by each city government. Comparing functional expenditures can provide insight into that question.

Table 6 categorizes Milwaukee's 2015 governmental fund expenditures by function per the City's 2015 CAFR.[22] Public safety is the largest component of Milwaukee's governmental fund expenditure budget, followed by general government and public works.

Table 6: City of Milwaukee 2015 governmental fund expenditures by function

Activities	Expenditures	Per Capita
Public Safety	$399,620,000	$666
General Govt.	$204,691,000	$341
Public Works	$182,340,000	$304
Conservation & Development	$88,252,000	$147
Culture & Recreation	$25,315,000	$42
Interest on Long-Term Debt	$24,749,000	$41
Health	$20,249,000	$34
Total	**$945,216,000**	**$1,575**

While a functional breakdown of expenditures provides some insight into the core responsibilities of a city government, it does not tell the whole story. For example, comparison of functional spending also should take into account the activities that comprise the functional categories. Some cities, like Milwaukee, have robust public health functions and will show significant health-related expenditures, while other cities cede that responsibility to counties. Also, those cities that operate convention centers, museums, sports facilities, recreation venues, and parks systems likely spend more in the culture and recreation category than cities that do not house such activities. In the same vein, those cities that operate transit systems will exhibit higher levels of spending in the public works category.

Also, as noted above, using data from CAFRs to summarize governmental fund expenditures has limitations given that different CAFRs may categorize certain expenditures in different ways. **For example, Milwaukee's CAFR considers fringe benefits as general government expenditures, thus boosting expenditure amounts in that functional category**. Conversely, CAFRs in other cities may allocate fringe benefit expenditures to departments based on their number of employees and spread those costs across all departmental functions.

On the revenue side, we again use a basic breakdown of governmental fund revenues by the categories used in each city's CAFR. **Table 7** provides that breakdown for Milwaukee per its 2015 CAFR. This table again illustrates how Milwaukee's revenue structure is characterized by a heavy reliance on intergovernmental revenue, while local taxes and charges for services comprise the second and third largest revenue categories. Also, it should be noted that the revenue total in **Table 7** is more than $100 million lower than the expenditure total in **Table 6** because we do not show bond proceeds as revenues in **Table 7**.

[22] The 2015 CAFR was the latest available at the time during which our research was conducted.

Table 7: City of Milwaukee 2015 governmental fund revenues by revenue category

Revenue	Amount	Per Capita
Intergovernmental	$322,763,000	$538
Local Taxes	$286,676,000	$478
Charges for Services	$154,402,000	$257
Licenses & Permits	$16,629,000	$28
Fines & Forfeits	$4,110,000	$7
Other	$49,442,000	$82
Total	**$834,022,000**	**$1,390**

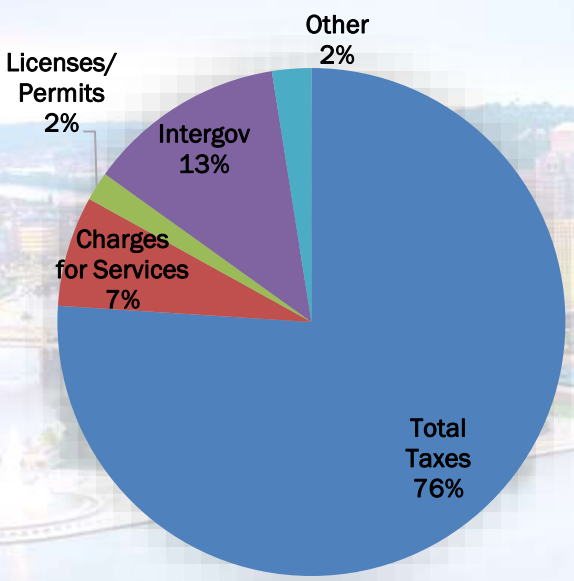
For the other cities in this section, we also include tables breaking down the major sources of local taxes, followed by descriptions of those sources. We do not do so here for Milwaukee because there are only two such sources. In 2015, $253.8 million (89%) of the City's $286.7 million in local taxes was derived from property taxes. The remainder – characterized as "Other Taxes" in the CAFR – was generated primarily from payments from Tax Incremental Districts (which similarly are linked to property ownership), as well as smaller amounts from miscellaneous sources.

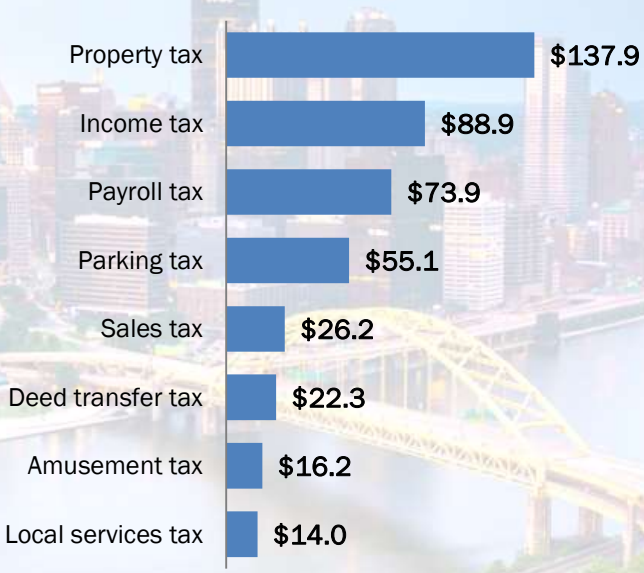
As with expenditures, our ability to make apples-to-apples comparisons between cities using revenue figures from CAFRs is somewhat limited. For example, we observe differences in the way CAFRs categorize fees charged to utilities (some consider these to be local taxes while others consider them to be service charges or license fees); in the classification of certain taxes that are levied locally but collected and redistributed by the state (some consider these to be intergovernmental revenues while others consider them to be local taxes); and in the general classification of license-related fees (some combine these with charges for services).

Finally, our tables in this section that lay out categorical expenditures and revenues for Milwaukee and the peer cities show both total amounts and per capita amounts. Per capita amounts generally provide a more effective means of comparing spending and taxing among different governments. That also may be the case here, but we would caution against drawing firm conclusions given the limitations cited above. For example, differences in the responsibilities held by the various governments – as opposed to the willingness of elected officials to tax and spend – may be the foremost contributor to differences in per capita spending and revenues,.

PITTSBURGH

Population: 304,391
Governmental Fund Revenues: $573,396,431





Distinguishing Characteristics:

Heavy reliance on local taxes with a highly diversified tax portfolio that includes property, income, payroll, sales, and selective sales taxes.

BACKGROUND

The City of Pittsburgh has a population of 304,000 and occupies 58.3 square miles (this compares to Milwaukee's population of about 600,000 and geographic size of 96.9 square miles). With $573 million in governmental fund revenues in 2015, its budget is about two-thirds the size of Milwaukee's.

Pittsburgh's economy has experienced rejuvenation in recent years, stemming largely from concerted efforts to modernize. Pittsburgh's 2015 CAFR – published in April 2016 – cited growth in the manufacturing, financial business services, health care, and technology sectors as "contributi(ing) significantly to the increase in economic and employment vitality of the city" and helping to reduce the unemployment rate to 4.3% at the end of 2015 (compared to 4.7% for the state and 4.8% nationally). Pittsburgh also has undertaken concerted efforts to revitalize its downtown, and now

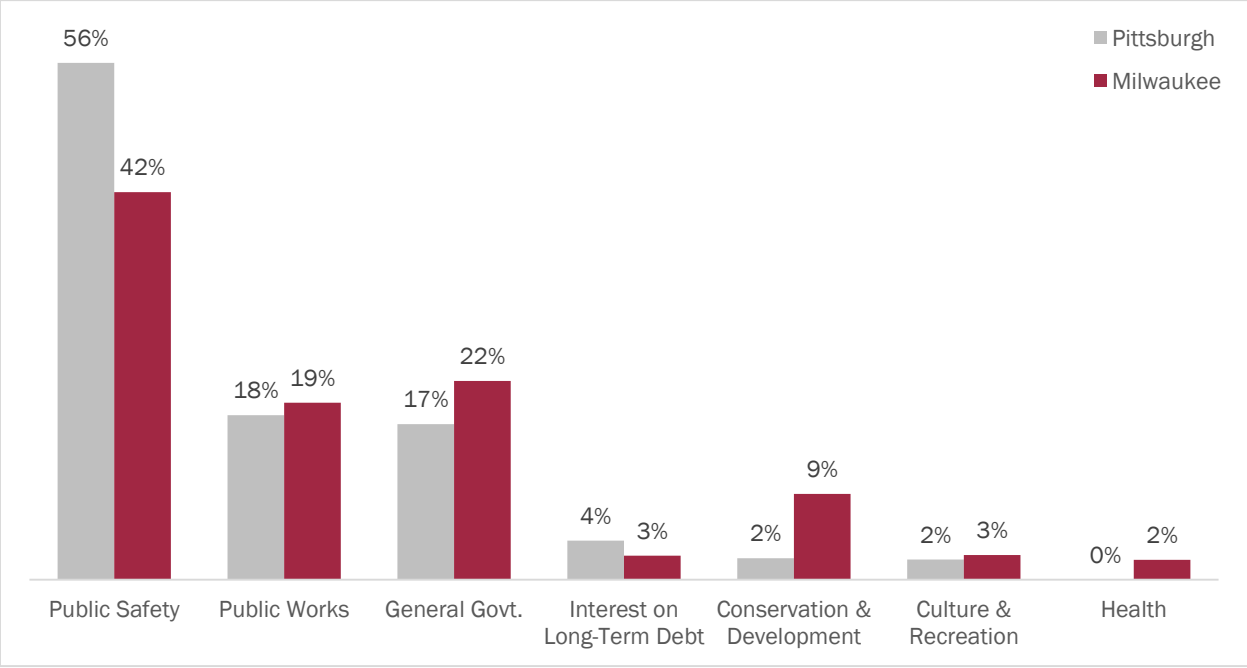
boasts of 12,600 downtown residents and more than 800,000 annual visitors to its Market Square shopping and entertainment area.[23]

As shown in **Table 8**, public safety is the largest component of Pittsburgh's governmental fund expenditure budget, followed by public works and general government. Both Pittsburgh's array of services and its distribution of resources among those services are somewhat similar to Milwaukee (as shown in **Chart 6),** with the exceptions that Pittsburgh does not engage in public health (this is done at the county level) and that Milwaukee spends considerably more on conservation & development.[24] (The fact that Pittsburgh spends proportionally more on public safety may be explained by the way fringe benefit expenditures are classified.)

Table 8: City of Pittsburgh 2015 governmental fund expenditures by function

Function	Expenditures	Per Capita
Public Safety	$307,202,644	$1,009
Public Works	$97,762,357	$321
General Govt.	$92,461,452	$304
Interest on Long-Term Debt	$23,075,567	$76
Economic Development	$12,630,440	$41
Culture & Recreation	$11,889,380	$39
Total	**$545,021,840**	**$1,791**

Chart 6: 2015 governmental fund expenditures by function, Pittsburgh vs. Milwaukee



[23] City of Pittsburgh CAFR for Year Ended December 31, 2015.

[24] The chart combines Pittsburgh's Highways & Streets and Sanitation expenditure categories into a "Public Works" category for the sake of comparison with Milwaukee.

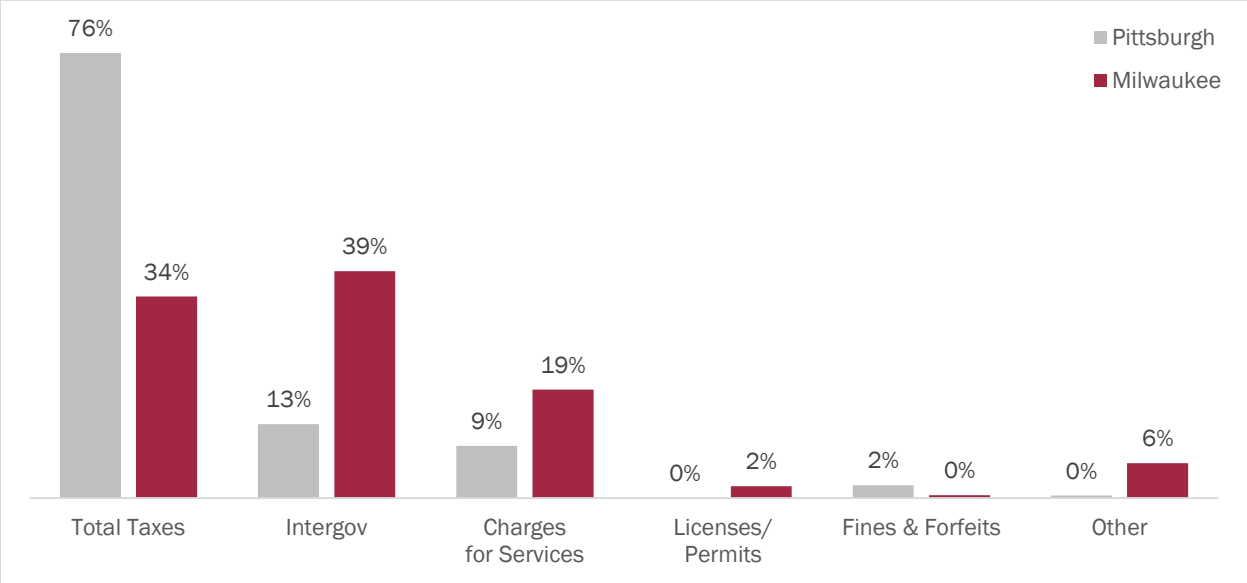
REVENUE STRUCTURE

Pittsburgh's revenue structure is characterized by a heavy reliance on local taxes and by a local tax portfolio that consists of several different types of taxes that spread taxation across residents, employers, commuters, and visitors. As shown in **Table 9**, Pittsburgh's revenue portfolio is strongly linked to its local economy. Local taxes comprised $436 million (76%) of Pittsburgh's $573 million in governmental fund revenues in 2015, with intergovernmental revenues and charges for services accounting for the bulk of remaining revenues. **Chart 7** shows the stark contrast between Pittsburgh's revenue structure and that of Milwaukee.[25]

Table 9: City of Pittsburgh 2015 governmental fund revenues by revenue category

Revenue	Amount	Per Capita
Local Taxes	$435,519,826	$1,431
Intergovernmental	$72,287,991	$237
Charges for Services	$50,905,304	$167
Fines and Forfeits	$12,293,000	$40
Other	$2,390,310	$8
Total	**$573,396,431**	**$1,884**

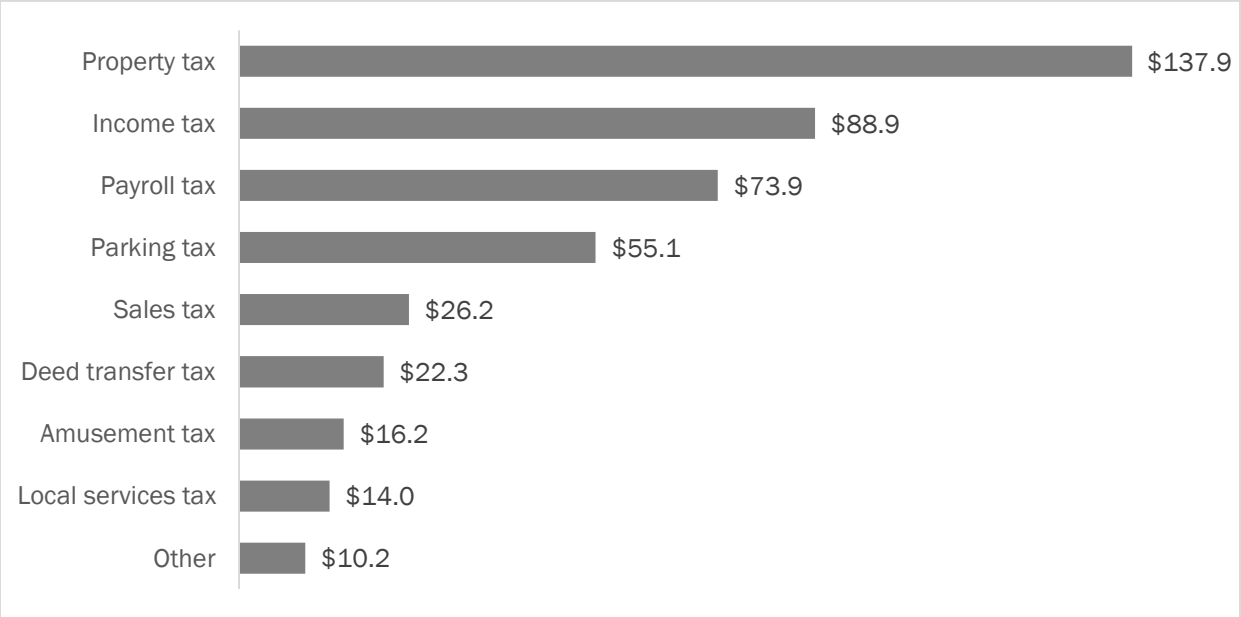
Chart 7: 2015 governmental fund revenues by category, Pittsburgh vs. Milwaukee



[25] Pittsburgh's CAFR does not cite a separate revenue line item for Licenses & Permits (as is the case for the other cities analyzed in this section, including Milwaukee), but instead combines license and permit revenue in the Charges for Services category.

Chart 8 shows the largest local taxes levied by the City of Pittsburgh and illustrates its balanced approach to local taxation. Eight different types of local taxes generated at least $14 million in revenue for governmental funds in 2015, led by the property tax at $138 million and followed by the earned income tax ($89 million) and payroll tax ($74 million).

Chart 8: City of Pittsburgh 2015 local taxes (in millions)



The following provides a brief summary of the different types of local taxes employed by the City of Pittsburgh.

- Property tax – Pittsburgh levies a property tax on buildings and land which is calculated by applying a millage rate to the assessed value of real property. Personal property is not taxed. In 2015, the millage rate of $8.06 per $1,000 of assessed value generated $137.9 million, making this the largest source of revenue in the City budget. By comparison, Milwaukee's 2015 millage rate was $10.71 per $1,000 of assessed value.

- Earned income tax – Pittsburgh levies a 1% tax on the wages or net profits earned by city residents (investment and other forms of non-wage income is not taxed by the City). The earned income tax generated $88.9 million in 2015, making it Pittsburgh's second largest source of local tax revenue.

- Payroll preparation tax – The City levies a 0.55% tax on the gross payroll of its for-profit employers, as well as on the distribution of net income from self-employed individuals. This tax was adopted after state enabling legislation was passed in 2004 and replaced a variety of other business-related taxes. The payroll tax generated $73.9 million in 2015.

- Parking tax – Pittsburgh levies a 37.5% tax on parking transactions at nonresidential parking places. The tax is applied to patrons when a fee is charged for parking their cars, regardless of whether the facility is open to the public. The parking tax generated $55.1 million in 2015.

- **Sales tax** – Pittsburgh receives a portion of a 1% sales tax levied by Allegheny County. One half of the proceeds support the region's cultural and entertainment assets, while one quarter is retained by the County and one quarter is distributed by formula to each of its municipalities. This redistribution was approved by the Pennsylvania Legislature, in part, as a means of replacing revenues that were lost when it eliminated the personal property tax and reduced the amusement tax. Pittsburgh received $26.2 million in sales tax revenue in 2015.

- **Deed transfer tax** – The City receives revenue from a 2% tax that is levied upon the transfer of an interest in real property that is located within city limits. The tax generated $22.3 million for Pittsburgh in 2015. In Wisconsin, a real estate transfer fee of 3% is collected by counties, with 80% of the revenue remitted to the State and the remaining 20% kept by the county.

- **Amusement tax** – Pittsburgh levies a 5% tax on the admission price paid by patrons of any entertainment event (non-profit performing arts groups are exempted). Entertainment events are defined as "all manner and forms of entertainment" and include concerts, movies, athletic events, recreational activities, and shows. The amusement tax generated $16.2 million in 2015.

- **Local services tax** – Pittsburgh levies a tax of $1 per week ($52 per year) on every employee – or any individual engaged in an occupation – working within the city (both residents and non-residents). The local services tax generated $14 million in 2015.

OBSERVATIONS

Our research and interviews yield the following additional observations about Pittsburgh's revenue structure:

- **The benefits of diversity are offset somewhat by state-imposed restrictions.** While Pittsburgh's variety of local taxation and limited reliance on state aids suggest a high degree of local control, it is important to note that the ability of City leaders to increase the rates of their various forms of local taxation are highly restricted by state government. For example, state law caps the amusement tax at 5%, the parking tax at 37.5%, and the payroll tax at 0.55%, and City leaders would need state legislative approval to increase those tax rates. Similarly, while fiscal officials likely would want the opportunity to consider a general City sales tax, state law limits their sales tax revenues to a redistributed share of Allegheny County's sales tax proceeds.

- **Political and public acceptance of the existing revenue structure was linked to elimination or reduction of other forms of taxation**. In particular, Pittsburgh's payroll tax was linked to elimination of a gross receipts tax and reduction in the parking tax. Pittsburgh's mayor touted this and other tax reforms as "essential to position Pittsburgh to compete, to thrive, and grow in an increasingly interdependent, global marketplace."[26] Also, the local services tax was linked to elimination of the personal property tax, reduction of the amusement tax (from 10% to 5%), and creation of a Real Estate Senior Relief program. The Act creating the Allegheny County 1% sales tax was linked to the same factors, as well as an effort to redistribute money from richer to poorer municipalities.

[26] Pennsylvania State & Local Tax Alert, Kirkpatrick & Lockhart LLP, December 2004.

- **State government helped design Pittsburgh's revenue structure after becoming better educated about its overall financial challenges**. A severe financial crisis in the early 2000s prompted creation of two state-appointed review boards to work with City leaders on corrective actions. Analysis by those entities helped state leaders reach the conclusion that Pittsburgh needed to do more to spread taxation to those who work in the city but live elsewhere, leading to a significant increase in the local services tax and establishment of the payroll tax in 2004.

Assessing Pittsburgh's revenue structure in the context of best practices

Pittsburgh's revenue structure has **strong balance**, which is reflected both by the variety of activities that are taxed and by the City's efforts to spread the local tax burden among residents, businesses, and visitors. Most cities rely heavily on two or three major forms of local taxation, making Pittsburgh highly unique in terms of its number of distinct taxes.

Pittsburgh's revenue framework also provides a **high level of reliability**. In times of recession, general and selective sales taxes (as well as income taxes) may be susceptible to sharp fluctuations; property values, on the other hand, tend to be more stable, and elected officials can maintain collections by raising rates. Conversely, when local economies emerge from recession, property values tend to recover more slowly than sales or income taxes. Having a balanced mix of these sources can help guard against sharp swings in revenue collections and slow recoveries coming in and out of periods of economic decline.

Pittsburgh's revenue structure also **rates highly in terms of equity**. Property and income taxes derive greater contributions from wealthier individuals given that the tax burden increases with the value of one's property or income. Pittsburgh's revenue approach also effectively distributes taxes and fees among the users of City services. In particular, the parking, payroll, and local services taxes reflect efforts to ensure that daily non-resident commuters pay for a share of the City services they use, while the amusement tax generates revenue from non-residents who attend sporting events, concerts, etc.

The area in which Pittsburgh's revenue structure may be **most challenged is with regard to its straightforwardness**. The existence of such a wide variety of taxes adds to the complexity of collecting and enforcing tax laws and puts an additional burden on employers, as well as on entertainment and parking venues. Also, Pittsburgh's wide variety of taxes may lead to a perception among citizens that they are heavily taxed, and Pittsburgh's eight different forms of major taxation means there may be eight different constituencies opposing various aspects of the City's revenue policies.

RELEVANCE TO MILWAUKEE

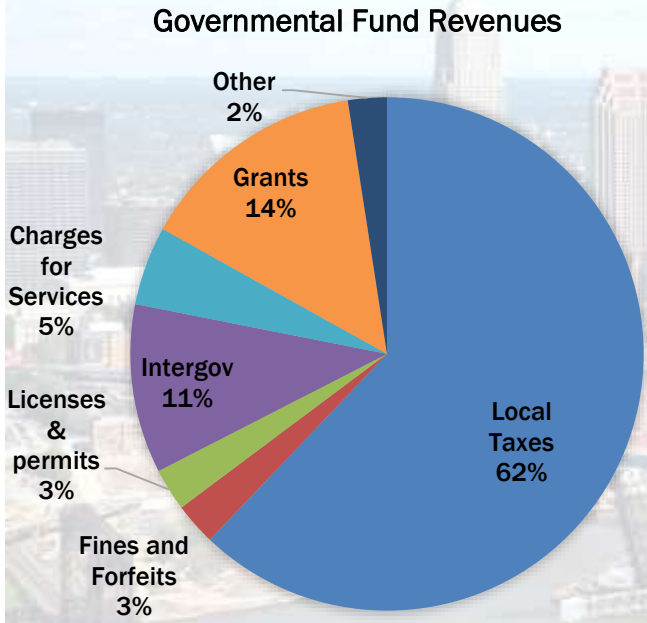
Pittsburgh's approach to generating revenues offers considerable food for thought for Milwaukee. State and City leaders in Pittsburgh recognized a need to spread an increased share of the local tax burden to non-residents – both to ensure equity and as a means of tapping into Pittsburgh's growing advantages as a place where businesses wish to locate and where citizens from across the region and state wish to visit. Milwaukee has similar advantages that are rapidly expanding, which could lead to a similar conclusion.

City and state leaders also saw reform of their tax structure as an opportunity to make Pittsburgh more attractive to new businesses and to better position existing businesses to compete in the global economy. Similarly, the opportunity to engage business leaders in discussion on the potential benefits of substituting different forms of sales or payroll taxes for property taxes and user fees might be warranted and might be welcomed by those leaders.

Of course, none of the local taxing mechanisms utilized in Pittsburgh could be adopted by Milwaukee without approval by the Wisconsin Legislature. This may lead to the conclusion that pursuing just one or two modifications – as opposed to a complete overhaul of the existing structure that would involve several new forms of taxation – may be a more logical approach for those interested in altering Milwaukee's revenue structure.

CLEVELAND

Population: 388,072
Governmental Fund Revenues: $706,891,000



Distinguishing Characteristics:

Heavy reliance on local taxes and heavy reliance on a single source of local taxation – the income tax – with smaller infusions of property tax and selective sales taxes

BACKGROUND

The City of Cleveland has a population of 388,000 and occupies 82.5 square miles. With $707 million in governmental fund revenues in 2015, its budget is about 85% the size of Milwaukee's.

Cleveland has struggled economically in recent years, losing much of its manufacturing base but attempting to offset that decline with a shift toward health care and financial services. The city's unemployment rate stood at 7.1% in April 2015, as compared to the statewide unemployment rate of 5.2%.

Cleveland's 2015 CAFR – published in June 2016 – noted that the city's economy "draws strength and stability from its evolving role as the focal point of a growing, changing, and substantial regional economy." The CAFR also cited the "re-emergence" of Cleveland's downtown to become a focal point for national and regional entertainment and cultural activities and asserted that this "signals a

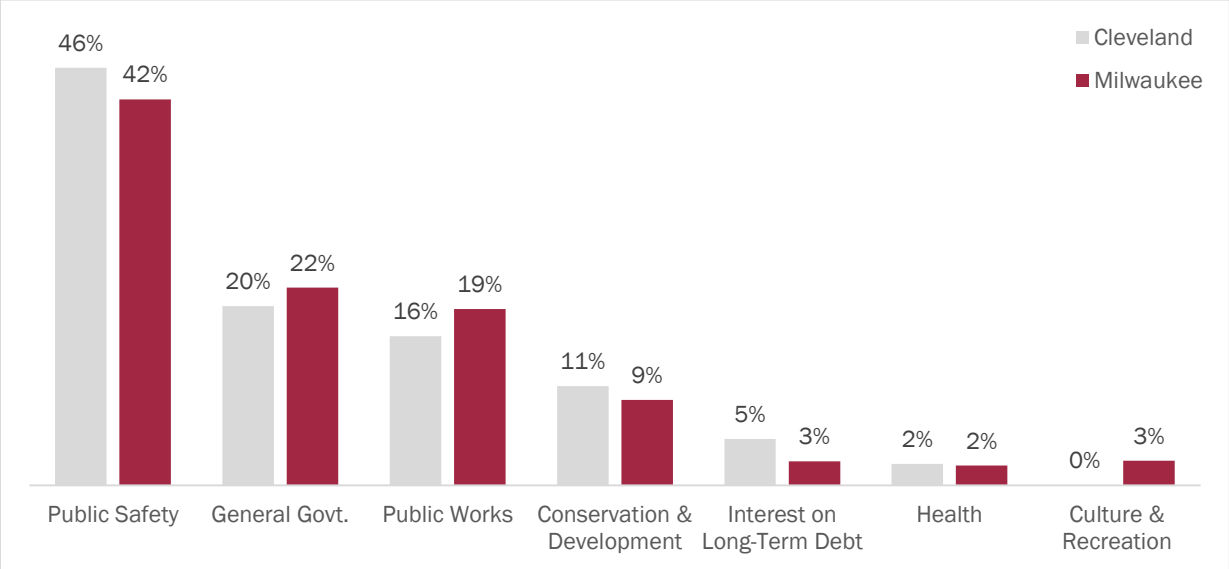
turning point in the city's overall fortunes and is paving the way for further economic expansion that will be significantly more entrepreneurial in scope."[27]

As shown in **Table 10**, public safety is the largest component of Cleveland's governmental fund expenditure budget, followed by general government and public works. It should be noted that Cleveland's Department of Public Works includes a parks and recreation function that spends more than $26 million annually to maintain 154 park sites and operate 21 recreation centers. In Milwaukee, parks primarily are a county function, while recreational services are spearheaded by the Milwaukee Public Schools. Otherwise, as shown in **Chart 9**, Cleveland's array of services and its distribution of resources among those services are somewhat similar to Milwaukee.[28]

Table 10: City of Cleveland 2015 governmental fund expenditures by function

Activities	Expenditures	Per Capita
Public Safety	$328,453,000	$846
General Govt.	$140,946,000	$363
Public Works	$117,040,000	$302
Conservation & Development	$77,933,000	$201
Interest on Debt	$36,489,000	$94
Public Health	$16,841,000	$43
Total	**$717,702,000**	**$1,849**

Chart 9: 2015 governmental fund expenditures by function, Cleveland vs. Milwaukee



[27] City of Cleveland CAFR for Year Ended December 31, 2015.

[28] Cleveland's CAFR cites Community Development, Building & Housing, and Economic Development as separate expenditure categories, while Milwaukee's folds those functions into Conservation & Development. For comparative purposes, the chart combines those functions for Cleveland, as well.

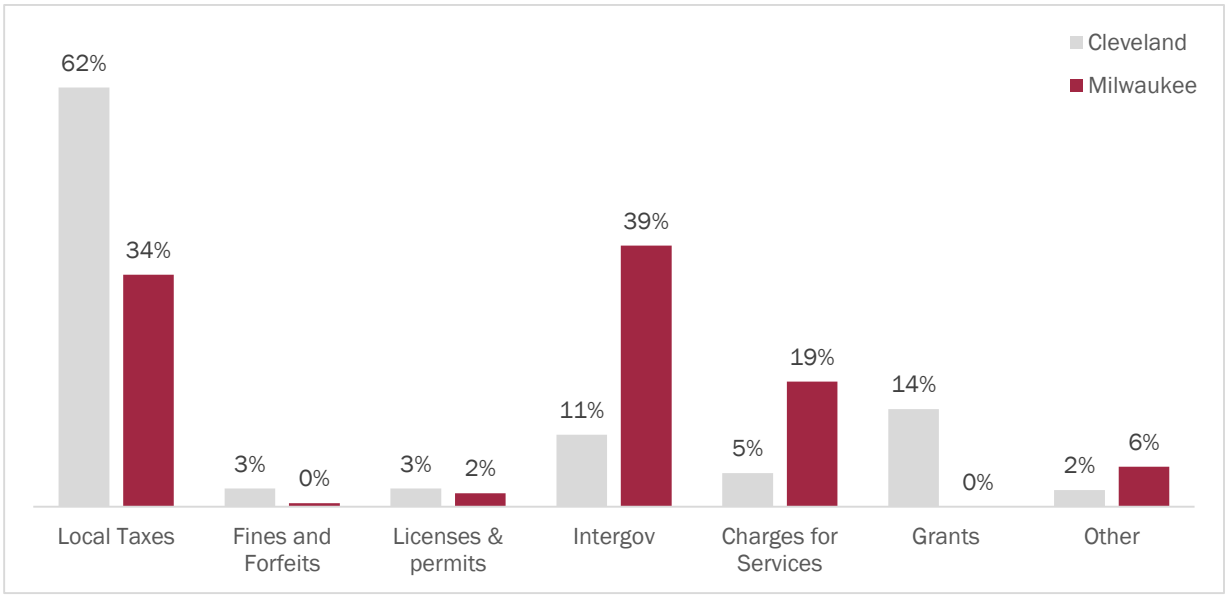
REVENUE STRUCTURE

Cleveland's revenue structure is characterized by a heavy reliance on local taxes (particularly a local income tax). As shown in **Table 11**, local taxes comprised $439 million (62%) of Cleveland's governmental fund revenues in 2015, with grants and intergovernmental revenues accounting for the next largest sources.[29] Major sources of intergovernmental revenue include a distribution from the State and Local Government Fund ($26.6 million in 2015) and casino revenue that is distributed to local jurisdictions by the state ($9 million). **Chart 10** shows Milwaukee's comparably higher reliance on intergovernmental revenue and charges for services, and its lower reliance on local taxes.

Table 11: City of Cleveland 2015 governmental fund revenues by revenue category

Revenue	Amount	Per Capita
Local Taxes	$439,125,000	$1,132
Grants	$102,257,000	$264
Intergovernmental	$75,297,000	$194
Charges for Services	$35,169,000	$91
Licenses & permits	$18,884,000	$49
Fines and Forfeits	$18,864,000	$49
Other	$17,295,000	$45
Total	**$706,891,000**	**$1,822**

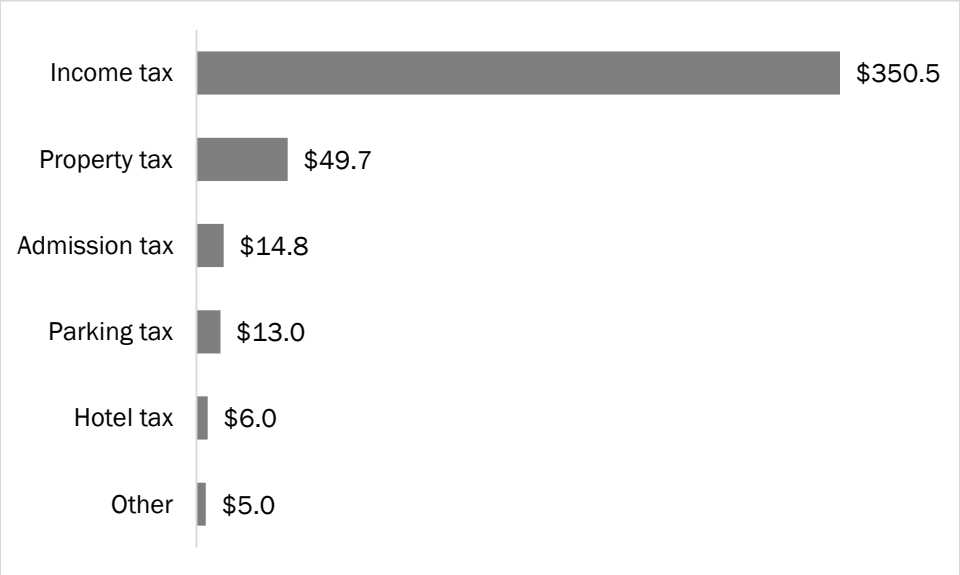
Chart 10: 2015 governmental fund revenues by category, Cleveland vs. Milwaukee



[29] The table likely understates Cleveland's intergovernmental revenue when compared to peers, as Cleveland's CAFR categorizes certain federal and state grants in a separate "grants" category. The other cities examined in this section categorize such grants as intergovernmental revenue.

Chart 11 shows that $351 million (80%) of Cleveland's local tax revenue is derived from an income tax, while the property tax comprises only $50 million (11%). Like Pittsburgh, Cleveland also levies selective sales taxes on entertainment and parking, as well as a hotel tax.

Chart 11: City of Cleveland 2015 local taxes (in millions)



The following provides a brief summary of the different types of local taxes employed by the City of Cleveland.

- Income tax – Cleveland imposes a 2.5% tax on corporate income and wages earned in the city, whether by residents or non-residents. Residents who work outside the city may deduct the income taxes paid to the municipality in which they work. Per state law, municipalities may levy income taxes at a rate of up to 1% on their own and at a rate above 1% with voter approval. In November 2016, voters in Cleveland approved a 0.5% rate increase to 2.5%. The 2% income tax generated $350.5 million in 2015. According to the 2015 CAFR, approximately 90% of income tax revenues paid to the City were derived from non-residents and business profits. Per a 1981 referendum, one ninth of the proceeds must be used for debt service or capital improvements.

- Property tax – Cleveland levies its property taxes by applying a mill rate to the assessed value of property, though that value is fixed only at 35% of full value. State law prohibits the collective taxation of property from all levying entities in excess of 10 mills without voter approval. The City's share of that "unvoted millage" is 4.4 mills, of which 4.35 mills is dedicated to debt service and the remaining .05 to pensions for fire personnel. Cleveland also receives the proceeds from an additional 8.3 mills approved by voters. Of that amount, the revenues generated from 7.75 mills are dedicated to general operations while the remainder goes to fire/police pensions. The property tax generated $49.7 million for governmental funds in 2015. Milwaukee's 2015 millage rate was $10.71, but 100% of assessed value is taxed.

- Admission tax – Cleveland imposes an 8% tax on ticket sales for events held within the city. Religious and charitable organizations are exempted, as well as entertainment venues with

capacity of fewer than 150 people. Cleveland collected $14.8 million in admissions taxes in 2015.

- **Parking tax** – Cleveland imposes an 8% tax on commercial, non-residential parking facilities offering three or more parking spaces. The parking tax generated $13 million in 2015.

- **Hotel tax** – Cleveland levies a 3% tax on hotels, motels, and other establishments that sell lodging to transient guests. The hotel tax generated $6 million for the City in 2015. The City of Milwaukee has a 7% hotel/motel tax, but the proceeds go to the Wisconsin Center District.

Assessing Cleveland's revenue structure in the context of best practices

Cleveland's revenue structure is only **modestly balanced** in that the income tax comprises 80% of its local tax revenue portfolio. The use of selective sales and property taxes provides some revenue diversity, but Cleveland's fiscal fortunes in a given year are tied closely to a single source of revenue. On the positive side, application of the income tax to residents, businesses, and non-residents spreads the local tax burden among both residents and commuters.

Cleveland's structure also has only **modest reliability**, as its dependence on the income tax makes it susceptible to substantial fluctuations from changes in economic conditions. While its local tax portfolio is more diverse than Milwaukee's, reliance on a single tax could be viewed as a bigger problem for Cleveland given that income tax revenues tend to be impacted more sharply and immediately by economic downturns than property tax revenues. Also, income tax rates cannot be as easily adjusted to respond to such conditions. Cleveland lost $28 million in income tax collections in the two years after the 2007-2008 recession.

Cleveland's revenue structure **rates highly in terms of equity**. Both the income and property tax require those with higher incomes or higher-value homes to contribute more money toward the cost of City services. Cleveland also equitably distributes taxes among the users of City services given that its income tax is applied to businesses, residents, and non-residents, and that its parking, hotel, and admission taxes draw revenues from commuters and visitors.

Finally, Cleveland's revenue structure is **challenged in terms of its straightforwardness** in that it requires residents, businesses, and commuters to prepare and submit municipal income tax forms in addition to their state and federal returns. It is worth noting, however, that Cleveland's municipal income tax form is only one page. Cleveland's other forms of local taxes are relatively simple to collect and relatively easy for individuals and businesses to understand.

OBSERVATIONS

Our research and interviews yield the following additional observations about Cleveland's revenue structure:

- **The Mayor's case for raising the local income tax was linked largely to a decline in state aids.** Cleveland's mayor cited the City's annual loss of state revenues as a primary justification for his proposal to increase the City's income tax from 2 to 2.5% (which was approved by voters last November by three percentage points). The State of Ohio created a Local Government Fund in 1935 when it promised that 40% of collections from a new state sales tax would be redistributed to local governments and school districts. However, distributions were cut sharply in the face of a severe budget shortfall in 2011. Cleveland's allocation from the Fund declined from $56 million in 2006 to $26.5 million in 2015. Cleveland also has lost more than $10 million annually from state modifications to tangible personal property, estate, and commercial activity taxes.

- **Cleveland faces expenditure challenges that are similar to those facing Milwaukee**. In pushing for the income tax increase, City officials also cited costs associated with a Consent Decree with the U.S. Department of Justice, which required enhanced police staffing and technology; newly negotiated union contracts that required both future and retroactive pay increases; and a desire to implement a comprehensive youth violence prevention strategy. Similarly, Milwaukee faces fierce expenditure pressures from growing police staffing and technology needs; its 2017 budget included sharp spending increases associated with retroactive pay increases for police and fire personnel; and the Mayor has launched a Youth Development and Violence Prevention Initiative, which so far has had to rely largely on funding from outside grants.

- **Suburbanites pay the bulk of Cleveland's income taxes**. Officials estimate that 87% of the income taxes collected by the City come from people who work in the city but live outside of it. Cleveland's population grows from about 390,000 to 593,000 on workdays, and commuters hold about 77% of the jobs in the city, including 78% of downtown jobs.[30] While suburban municipalities also have the ability to levy local income taxes, they do so at lower rates. The impact of the City's income tax on commuters was contentious during the recent debate on the proposed increase, with some arguing it was unfair for suburban commuters to have no say in the citywide referendum.

RELEVANCE TO MILWAUKEE

While Cleveland's revenue structure is similar to that of Milwaukee in its strong reliance on a single source of local taxation, the similarities end there. Cleveland's income tax reflects a far different philosophy for generating revenue in that it leans on non-residents who inhabit the city during the workday to contribute heavily to City government. The same is true – with visitors added to the mix – with regard to Cleveland's use of admission, parking, and hotel taxes. In stark contrast, Milwaukee's approach relies heavily on residents through property taxes and fees (though businesses pay these

[30] Cleveland.Com, http://www.cleveland.com/metro/index.ssf/2016/02/suburbanite_pay_income_tax.html, February 2016.

as well), and Milwaukee reaps no direct financial benefit from the entertainment, parking, food/beverage, retail, and hotel/motel purchases made by commuters and visitors.

Similar to Milwaukee, Cleveland has suffered financially from reductions in state aids and modifications to state taxation policies. In response, Cleveland's leaders were able to ask voters to choose between raising the local income tax or reducing municipal services. It is worth noting that, when faced with that choice, Cleveland's business leadership largely supported the former. This decision also implies that Cleveland's leaders feel the city has sufficient positive attributes to endure higher income tax rates without losing substantial numbers of businesses or residents.

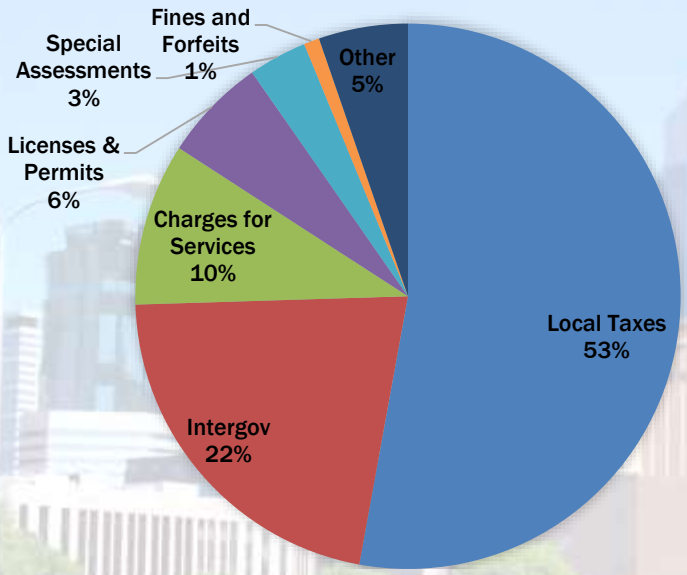
Milwaukee's leaders have a similar option with regard to the property tax, which is restricted by State levy limits, but which allows for those caps to be exceeded if approved by referendum. The referendum option has been used sparingly by cities, however, which is not surprising given their already high property tax rates. In fact, according to the League of Wisconsin Municipalities, only 34 municipalities have availed themselves of that option since levy limits went into effect in 2006, including 13 cities and villages and 21 towns.

Using a city income tax similar to Cleveland's – even if allowed under State law – likely would be a difficult pill for Milwaukee to swallow given the State's already high income tax rates. Also, unless suburban communities also were authorized and elected to impose an income tax (as they do in metro Cleveland), a Milwaukee income tax could have negative impacts on business retention and recruitment. Nevertheless, Cleveland's use of a revenue structure that spreads the burden of paying for City services across the wide range of users – and that allows residents to determine when that burden can be increased without unduly impacting the city's attractiveness and competitiveness – would appear to offer food for thought for those contemplating a different revenue structure for Milwaukee.

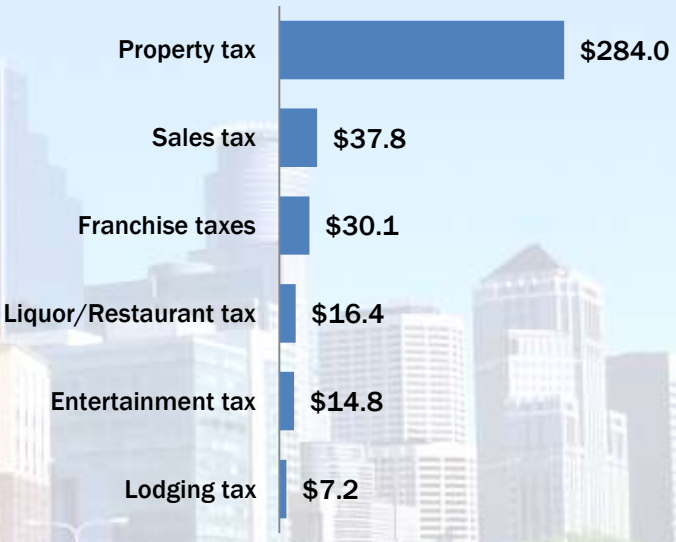
MINNEAPOLIS

Population: 410,939
Governmental Fund Revenues: $743,458,000

Governmental Fund Revenues



Largest Local Taxes



Distinguishing Characteristics:

Moderate reliance on local taxes and heavy reliance on a single source of local taxation – the property tax – with smaller infusions of general and selective sales taxes

BACKGROUND

The City of Minneapolis has a population of 411,000 and occupies 59 square miles. With $743 million in governmental fund revenues in 2015, its budget is about 90% of the size of Milwaukee's.

Minneapolis has enjoyed strong economic conditions and population growth in recent years. Its 3.9% unemployment rate in 2015 was 1.7 percentage points lower than 2012 and 0.8 percentage points lower than the state rate. Minneapolis' 2015 CAFR – published in June 2016 – noted that the city "enjoys a strong and highly diverse business foundation of companies involved in manufacturing supercomputers, electronics, medical instruments, milling, machine manufacturing, food processing

and graphic arts."[31] Its 2016 budget adds that "the city's highly educated workforce continues to be a driving force of a strong economy."[32] Minneapolis' population grew 7.5% from 2010 to 2015.

As shown in **Table 12**, public safety is the largest component of Minneapolis' expenditure budget, followed by community planning/economic development and public works. A distinctive feature of Minneapolis' governmental fund budget is the inclusion of a Community Planning and Economic Development Special Revenue Fund that operates a series of activities "designed to enhance housing options and economic development within the city."[33] Its major source of revenue is property tax increment. This fund helps explain why Minneapolis shows vastly increased spending for community/economic development than other cities analyzed in this section.

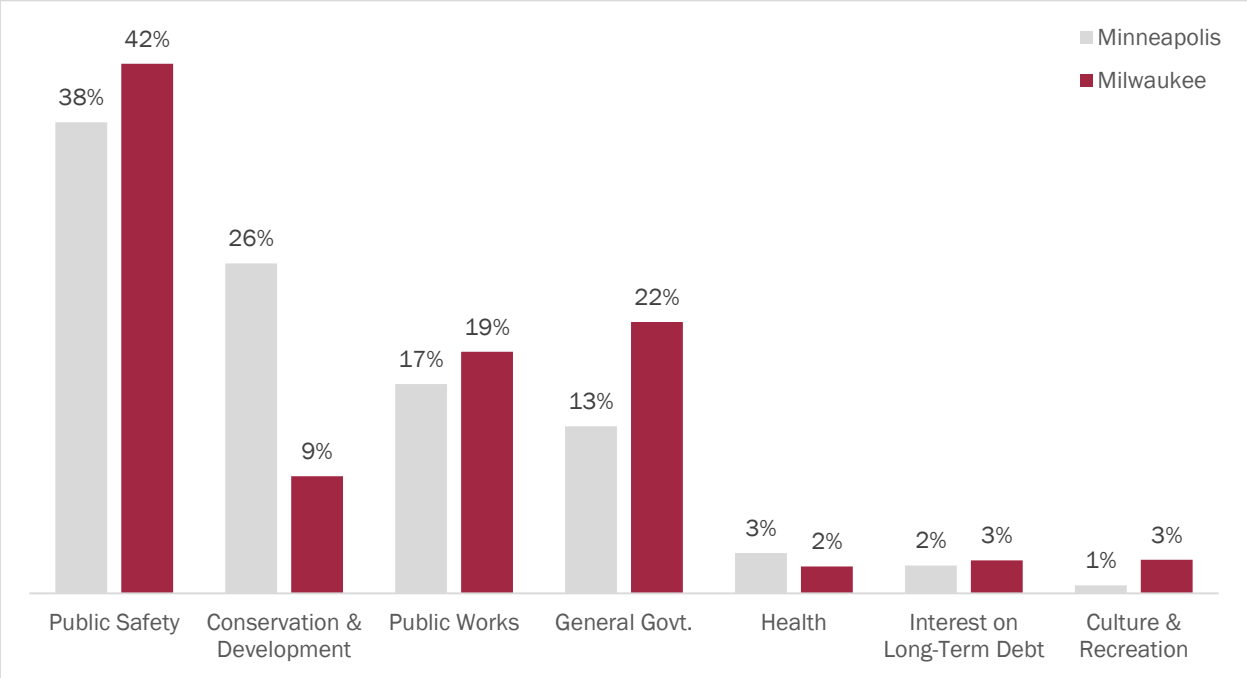
As shown in **Chart 12**, Minneapolis also spends comparably less on general government than Milwaukee (this may be explained by the fact that general government expenditures in Milwaukee per its CAFR include employee fringe benefits, while in Minneapolis they do not).

Table 12: City of Minneapolis 2015 governmental fund expenditures by function

Activities	Expenditures	Per Capita
Public Safety	$275,495,000	$670
Community Planning & E.D.	$192,957,000	$470
Public Works	$122,472,000	$298
General Govt.	$97,652,000	$238
Health & Welfare	$23,462,000	$57
Interest on Long-Term Debt	$16,329,000	$40
Culture & Recreation	$4,570,000	$11
Total	**$732,937,000**	**$1,784**

[31] City of Minneapolis CAFR for Year Ended December 31, 2015.
[32] City of Minneapolis 2016 Budget.
[33] City of Minneapolis CAFR for Year Ended December 31, 2015.

Chart 12: 2015 governmental fund expenditures by function, Minneapolis vs. Milwaukee



It also is important to note that City government owns the convention center in Minneapolis and maintains a special revenue fund to support it. That special fund receives a transfer from the General Fund to ensure that it breaks even. In addition, the City owns the Target Center, which houses the city's NBA franchise, and maintains a special revenue fund that supports most of the maintenance and operation of that facility. In contrast, City government in Milwaukee provides no direct support for the Wisconsin Center or Bradley Center.

REVENUE STRUCTURE

Minneapolis' revenue structure is characterized by a moderate reliance on local taxes (53% of its revenue total) and by a local tax portfolio that is highly dependent on one single source: the property tax. As shown in **Table 13**, intergovernmental revenue is the second largest source of revenue for the City (comprising 22% of the total), which represents lesser dependence on that source than Milwaukee, but much greater dependence than the other peer cities analyzed in this section. Minneapolis's proportional use of charges for services and licenses & permits revenue also exceeds that of the other peer cities (though Milwaukee's usage of charges for services revenue is greater). **Chart 13** further compares Minneapolis' revenue structure with that of Milwaukee.

Table 13: City of Minneapolis 2015 governmental fund revenues by revenue category

Revenue	Amount	Per Capita
Local Taxes	$393,015,000	$956
Intergovernmental	$160,953,000	$392
Charges for Services	$71,609,000	$174
Licenses & Permits	$45,878,000	$112
Special Assessments	$25,780,000	$63
Fines and Forfeits	$6,853,000	$17
Other	$39,370,000	$96
TOTAL	**$743,458,000**	**$1,809**

Chart 13: 2015 governmental fund revenues by category, Minneapolis vs. Milwaukee

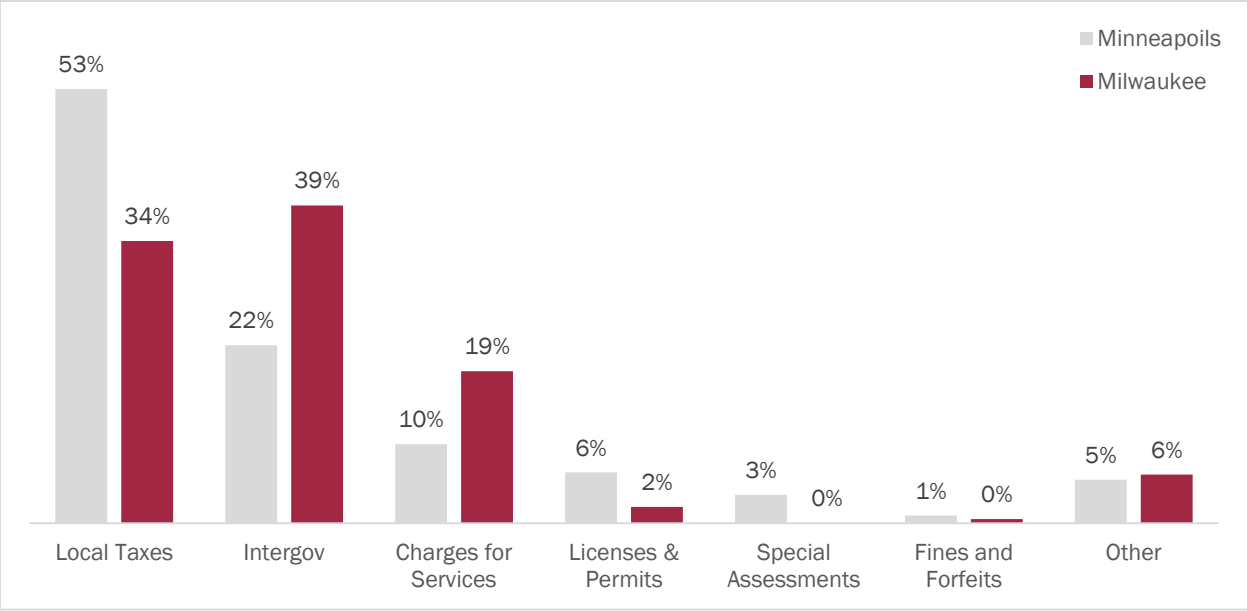
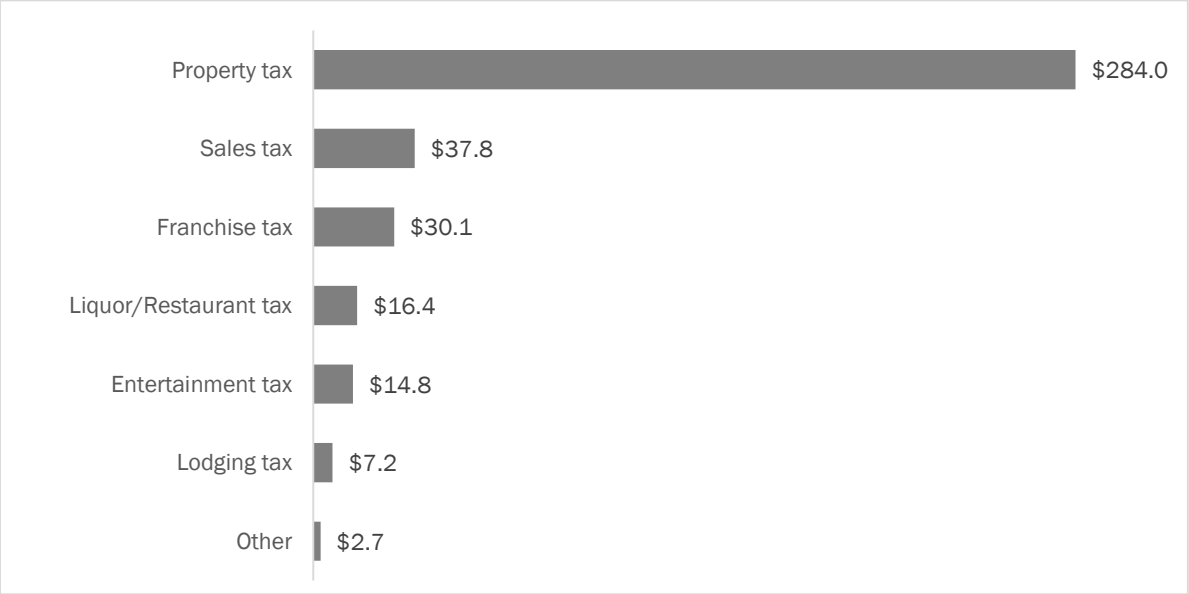


Chart 14 shows the largest local taxes levied by the City of Minneapolis and illustrates its substantial reliance on the property tax. Minneapolis supplements the property tax with a variety of general and selected sales taxes, and it also levies a franchise fee on local businesses.

Chart 14: City of Minneapolis 2015 local taxes (in millions)



The following provides a brief summary of the different types of local taxes employed by the City of Minneapolis.

- **Property tax** – Minneapolis levies a tax on personal and commercial properties by applying a mill rate to the property's value, but the methodology for determining that value varies. State law requires all properties within cities to be classified as one of more than 50 types, with each type receiving a classification rate that determines what portion of the property's value will be taxable. Property taxes in Minneapolis also are impacted by City and State policies, including levy limits. The City's General Fund receives the largest allocation of the City's property tax levy, though other City entities – including the Park Board and Municipal Building Commission – also receive allotments. The property tax generated $284 million in 2015 with a mill rate of $8.29 of assessed value.

- **Sales tax** – Since 1986, Minneapolis has levied a 0.5% sales and use tax. In order to impose a local sales tax, a political subdivision must obtain approval from the State through a special law. The use of sales tax proceeds is carefully prescribed by that law. In Minneapolis, the first uses of general and selective sales taxes are for payment of debt service and operational support for the city's convention center. Other eligible uses include capital projects at the convention center and Target Center, replenishment of the City's tax stabilization account, and certain infrastructure needs. The funds flow into the General Fund and then are transferred for other uses. Minneapolis collected $37.8 million in general sales and use taxes in 2015.

- **Franchise tax** – Minneapolis imposes franchise taxes on electric and natural gas utilities and cable television companies that serve the city. State law allows cities to impose such taxes, which are intended to reimburse the City for the use of public right of way. Utility franchise fees typically are paid by the company's consumers as a fee on monthly bills. Franchise taxes generated $30.1 million in 2015. The City of Milwaukee does not have statutory authority to levy such taxes for energy utilities (authority for such taxes is vested with the State), but does have

such authority for cable television companies. Milwaukee's cable franchise fee generated $4.9 million in 2015 and is included in its revenue total for charges for services.

- **Liquor/Restaurant tax** – Minneapolis imposes a 3% tax on liquor, food, and beverages sold at bars, hotels, restaurants, and clubs in a downtown taxing district. Combined, they generated $16.4 million for Minneapolis in 2015. Milwaukee does not have statutory authority to levy such taxes, though a 0.5% food and beverage tax in Milwaukee County (which also applies to sales of alcoholic beverages at bars and restaurants) is levied by the Wisconsin Center District.

- **Entertainment tax** – Minneapolis levies a 3% city-wide entertainment tax on admission fees; use of amusement devices and games (e.g. video games, pool tables); food, drink, and merchandise sold in public places during live performances (this is an add-on to the food/beverage tax); and short-term lodging. Certain artistic performances sponsored by nonprofit arts organizations are exempted from the tax. Minneapolis collected $14.8 million in entertainment taxes in 2015.

- **Lodging tax** – Minneapolis levies a 2.625% tax on lodging at hotels and motels with more than 50 rooms. The lodging tax generated $7.2 million for the city in 2015.

Assessing Minneapolis' revenue structure in the context of best practices

Minneapolis' revenue structure is only **modestly balanced**, as the City relies heavily on the property tax, which comprises 72% of its local tax revenues. The use of general and selective sales taxes, franchise taxes, and lodging taxes do provide some revenue diversity. In addition, the various selective sales taxes spread a portion of the local tax responsibility among visitors and commuters.

Minneapolis' structure enjoys a **relatively high degree of reliability**, as there is some balance between property taxes and sales taxes. The franchise tax also represents a stable source of revenue. On the negative side, the reliability of Minneapolis' property tax collections is somewhat restricted by local levy limits.

Minneapolis' revenue structure **rates relatively highly in terms of equity**, as its largest revenue source – the property tax – draws greater amounts of revenue from those with higher home values. On the negative side, franchise taxes are passed on to users by utilities without regard for income level. Minneapolis' heavy reliance on the property tax makes its structure less equitable in terms of distributing taxes and fees among the full range of users of City services, though its sales and lodging taxes do bring in some revenue from commuters and visitors.

Finally, Minneapolis' revenue structure is somewhat **challenged in terms of its straightforwardness** given the complex nature of its property tax calculation and the variety of different selective sales taxes it uses, some of which only are applied in the downtown area. The general sales tax is relatively simple to collect and relatively easy for individuals and businesses to understand.

OBSERVATIONS

Our research and interviews yield the following additional observations about Minneapolis' revenue structure:

- **Minneapolis has been able to use natural growth in local sales taxes to help offset large cuts in state aids.** Per its 2016 budget, the City's Local Government Aid (LGA) allocation from the State – which at $77 million comprised nearly half of its intergovernmental revenues in 2015 – was reduced by $70 million from 2008-2011. Fortunately, local tax revenues have grown substantially, from $350 million in 2010 to $393 million in 2015 (12%). The 2016 budget notes that "the City's financial position has benefited from growth in local sales and entertainment taxes…due to the continued growth in the local economy." The Fitch ratings agency echoes that point, stating that while property taxes "registered only modest growth between 2011 and 2015…local sales, entertainment, and hotel taxes have risen at a level approaching 4% per annum since 2000."[34]

- **Minneapolis also has turned to license, permit, and service charges to offset state aid reductions.** Between 2011 and 2015, charges for services revenue grew from $58.7 million to $71.6 million (22%), while licenses/permits grew from $32.9 million to $45.9 million (40%). Similar to Milwaukee – which saw its charges for services revenue grow by 16.8% and its licenses/permits revenue grow by 25.1% over the same period – Minneapolis has turned to these sources as a means of using non-property tax options to offset reduced State revenues.

- **Use of Minneapolis' local sales taxes traditionally has been restricted but now contributes to the financing of general City services.** The City's array of general and selective sales taxes were enacted in 1986 as a means of paying for the construction of a new downtown convention center. Over time, their usage has expanded, and a policy change adopted in 2014 allowed the funds to flow into the General Fund. While the first uses of the funds still are for convention center debt and operations and for the Target Center, they have freed up property tax dollars that can be used for other needs and have helped the City maintain service levels and limit property tax increases in the face of state aid reductions.

RELEVANCE TO MILWAUKEE

Of all of the cities analyzed in this report, Minneapolis has the revenue structure that is most similar to Milwaukee's. Minneapolis' heavy reliance on state aids and the property tax – while not quite as pronounced as Milwaukee's – gives its budget a similar flavor, particularly given that both cities have suffered from state aid reductions. Common characteristics include an increasing need to lean on user-based fees, and high property tax rates that are unpopular with constituents and that make policymakers wary of increasing them.

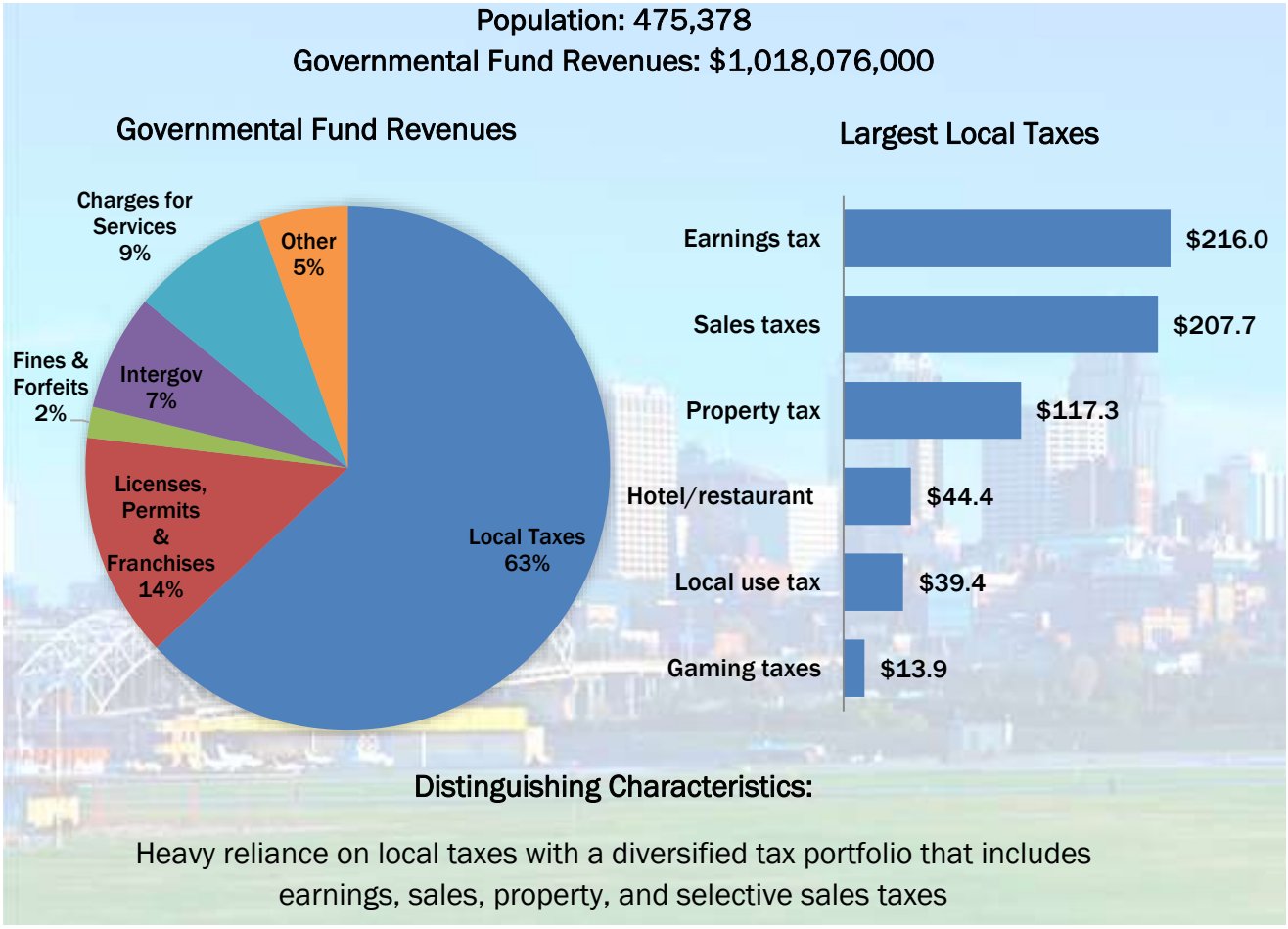
Where the two cities diverge is in Minneapolis' collection of general and selective sales tax revenues, which give it greater revenue diversity and elasticity than Milwaukee. Yet, even here there are similarities. While Milwaukee does not have authority to issue such taxes, the Wisconsin Center

[34] Fitch Ratings report on Minneapolis 2016 G.O. bond issue, October 2016.

District levies both liquor/restaurant and lodging taxes to help pay for convention center debt service and operations. Those are the first use of those taxes in Minneapolis, as well. [Minneapolis' ability to levy a franchise tax also provides greater revenue diversity, but because that tax is passed along to consumers, it also could be seen as a user fee.]

Because Minneapolis' general and selective sales taxes are linked (in part) to ownership of the convention center and Target Center, it cannot be precisely argued that those revenue sources provide Minneapolis with greater revenue diversity and flexibility than Milwaukee. As described above, however, that is at least partially the case, as growth in those revenue sources *has* indirectly helped the City withstand reductions in state aids. In addition, Minneapolis' use of an entertainment tax and downtown liquor and restaurant taxes show how selective sales taxes can target the unique attributes of a first class city to ensure that its throngs of entertainment-seeking visitors chip in for the cost of the basic city services they use.

KANSAS CITY (MISSOURI)



BACKGROUND

Kansas City has a population of 475,000 and occupies 319 square miles. According to its 2017 budget,[35] Kansas City's square mileage makes it the 11th largest city by land area in the U.S. among cities not consolidated with counties. With a little over $1 billion in governmental fund revenues in 2015, its budget is about 20% larger than Milwaukee's.

Kansas City enjoyed modest (2.8%) population growth from 2010 to 2015 and has a growing reputation as an up and coming city. According to the City's 2015 CAFR (published in October 2015), Kansas City recently was named the "coolest city to visit right now" by the *Huffington Post* and its downtown recently was named one of "America's best downtowns" by *Forbes*. It also has been

[35] Kansas City's fiscal year begins on May 1. Consequently, we were able to use the City's 2017 budget (which took effect on May 1, 2016) for this report. For the other peer cities in this section, we used 2016 budgets, as 2017 budgets had not been adopted and/or printed when we initiated our research in late 2016.

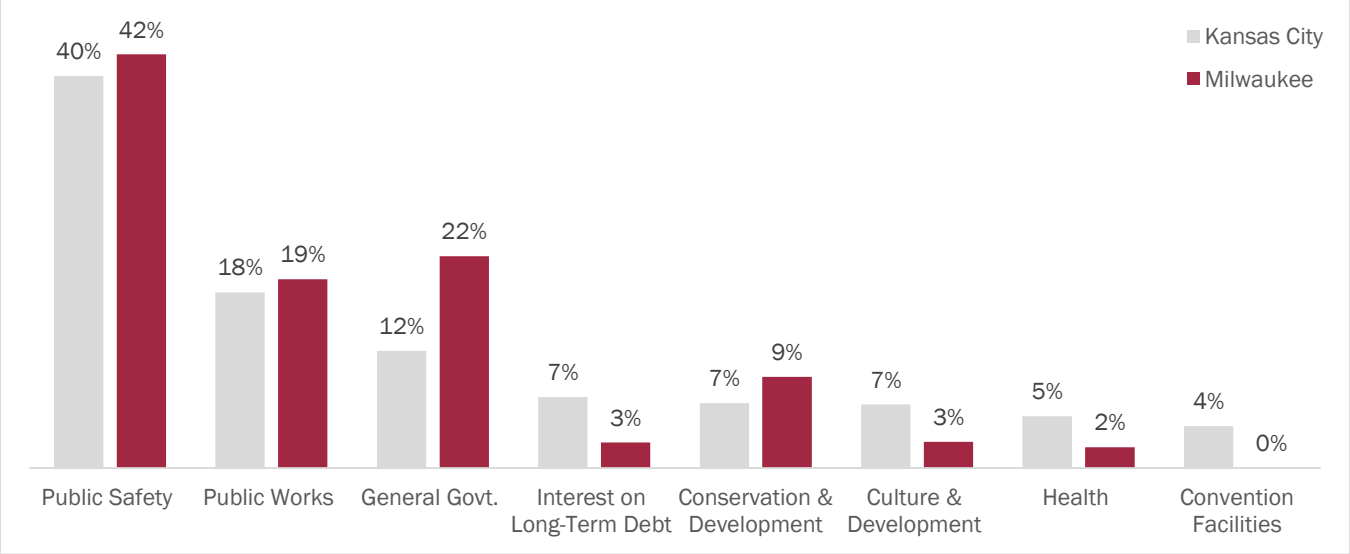
labeled as a "hot place" for start-ups by the *Wall Street Journal*. Kansas City's unemployment rate in October 2015 was 4.2%, which was 0.7 percentage points less than a year earlier and 0.5 points below the state average.[36] Its diversified economy includes transportation, telecommunications, manufacturing, health care, legal services, trade, financial services, and governmental services.[37]

As shown in **Table 14**, public safety is the largest component of Kansas City's expenditure budget, followed by public works and general government. **Chart 15** shows that Kansas City's expenditure budget differs from Milwaukee's in terms of its larger expenditure on culture & development (its Parks and Recreation Department oversees an extensive parks system) and interest on long-term debt. It also differs in its inclusion of nearly $44 million in expenditures for convention and entertainment facilities owned by the City and by the inclusion of nearly $70 million within the public works function for transportation authorities that operate buses and streetcars.

Table 14: Kansas City 2015 governmental fund expenditures by function

Activities	Expenditures	Per Capita
Public Safety	$407,290,000	$857
Public Works	$182,674,000	$384
General Govt.	$121,623,000	$256
Interest on Long-Term Debt	$73,741,000	$155
Culture & Development	$66,107,000	$139
Neighborhood Development	$55,880,000	$118
Health	$54,054,000	$114
Convention Facilities	$43,678,000	$92
Economic Development	$11,684,000	$25
Total	**$1,016,731,000**	**$2,139**

Chart 15: 2015 governmental fund expenditures by function, Kansas City vs. Milwaukee



[36] Kansas City 2017 Budget.
[37] Kansas City 2015 CAFR.

REVENUE STRUCTURE

Like the other three peer cities considered in this section, Kansas City's revenue structure is characterized by a heavy reliance on local taxes. Where Kansas City is distinct, however, is in its heavy usage of *each* of the three major forms of local taxation analyzed earlier in this report (income, sales, and property taxes).

As shown in **Table 15**, local taxes comprised $647 million (63%) of Kansas City's $1 billion in revenues in 2015, with licenses/permits/franchises next at $142 million and charges for services third highest at $88 million. It is important to note that Kansas City's CAFR categorizes utility taxes under the licenses/permits/franchises category; if those taxes – which generated about $102 million in 2015 – were categorized as local taxes, then Kansas City's local taxes would comprise about 73% of its total. **Chart 16** shows how Kansas City's revenue structure sharply contrasts with that of Milwaukee.

Table 15: Kansas City 2015 governmental fund revenues by revenue category

Revenue	Amount	Per Capita
Local Taxes	$647,423,000	$1,362
Licenses, Permits & Franchises	$142,381,000	$300
Fines & Forfeits	$19,586,000	$41
Intergovernmental	$73,965,000	$156
Charges for Services	$88,231,000	$186
Other	$56,139,000	$118
Total	**$1,027,725,000**	**$2,162**

Chart 16: 2015 governmental fund revenues by category, Kansas City vs. Milwaukee

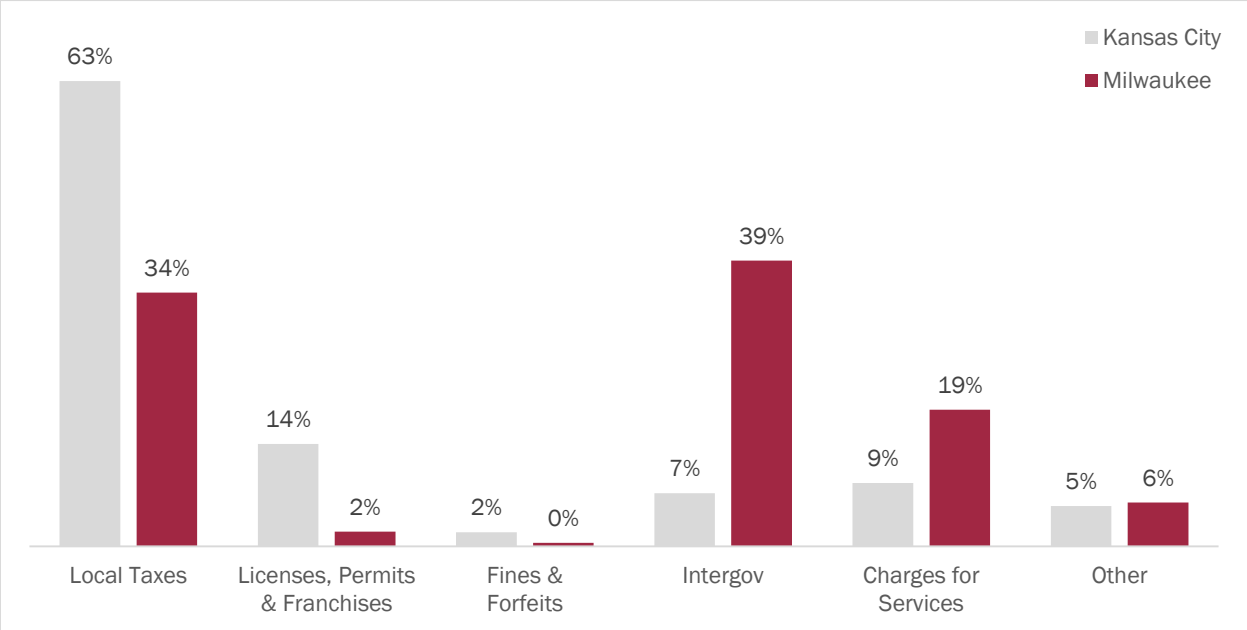
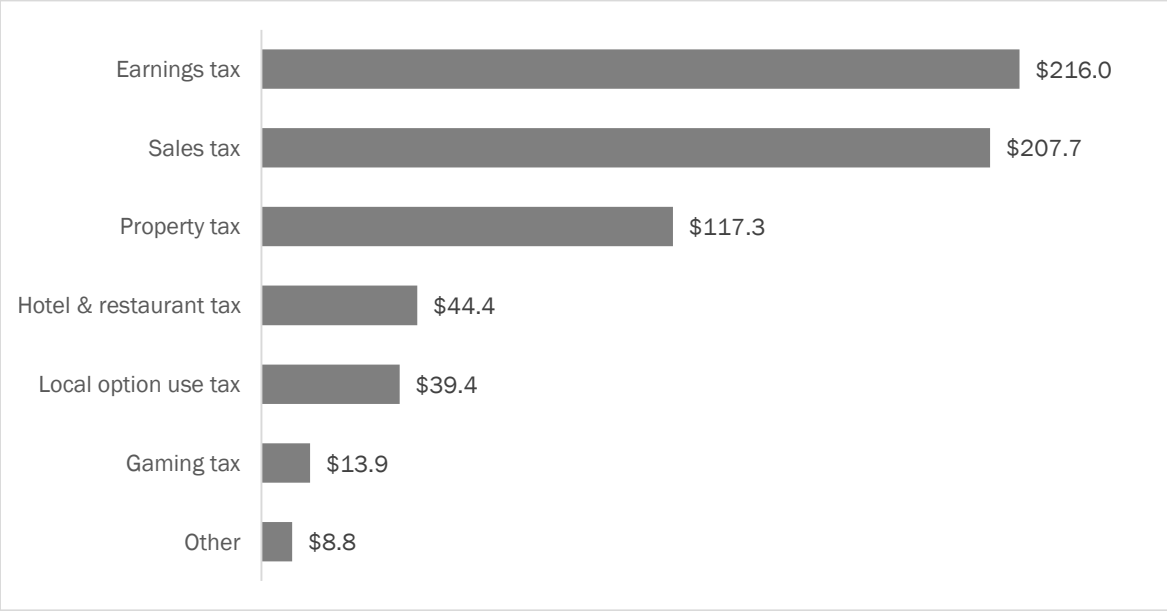


Chart 17 shows the largest local taxes levied by Kansas City and its co-dependence on three primary sources of revenue. No single tax makes up more than a third of Kansas City's local tax portfolio.

Chart 17: Kansas City 2015 local taxes (in millions)



The following provides a brief summary of the different types of local taxes employed by Kansas City.

- **Earnings tax** – Since 1970, Kansas City has imposed a 1% tax on the city earnings of all residents and non-residents, as well as business net profits. Both the earnings and profits taxes must be renewed by Kansas City voters every five years; the most recent renewal occurred in April 2016, with 77% of the vote. The earnings tax generated $216 million in 2015, making it Kansas City's largest single revenue source. According to the 2017 budget, individuals generate 81% of earnings tax revenues, while businesses contribute the remaining 19%. The budget also estimates that non-residents pay about 50% of the total. Kansas City and St. Louis are the only Missouri cities authorized to employ the earnings tax.

- **Sales tax** – Kansas City levies a 3% general sales tax, with the revenues specifically earmarked for distinct city functions (the tax had been 2.875% until April 2017, when voters approved an additional 0.125% earmarked for inner city economic development).[38] The Missouri Legislature authorizes cities to levy sales taxes (upon voter approval) for a variety of prescribed purposes, and typically also requires voter re-approval on a periodic basis. Kansas City's sales tax is earmarked for capital improvements (1%), parks/recreation (0.5%), mass transit (0.5%), fire (0.25%), public safety (0.25%), the Kansas City Area Transportation Authority (0.375%), and inner city economic development (0.125%). Kansas City collected $207.7 million in general sales taxes from the 2.875% tax in 2015.

[38] Kansas City also makes use of additional general sales taxes in special transportation development or community improvement districts, with the proceeds dedicated to improvements in those districts.

- **Property tax** – Kansas City levies a tax on properties by applying a mill rate to the property's value, but the methodology for determining that value varies. State law requires that different types of property be assessed at distinct percentages of their full value. For example, personal property is assessed at 33.3%, while residential real property is assessed at 19%. A 1980 amendment to the Missouri Constitution essentially limits annual increases in property tax rates to the lower of the Consumer Price Index or assessed value growth without voter approval. Kansas City generated $117.3 million from property tax collections in 2015 with a total mill rate of $1.59. Distinct rates are established for different city purposes, with $0.71 dedicated to the General Fund in 2015, $0.15 to debt service, $0.71 to public health, and $0.2 to the museum.

- **Hotel/Restaurant tax** – Kansas City imposes a 2% tax on the sale of food, beverages, and liquor at restaurants and a 7.5% tax on lodging at hotels and motels. The two taxes are segregated in a convention and tourism tax fund and only can be used to support convention and tourism activities. The two taxes generated a combined $44.4 million in 2015.

- **Local option use tax** – While many jurisdictions combine sales and use taxes as one revenue line item, Missouri provides municipalities with separate discretionary sales and use tax authority. The use tax in Kansas City is levied at the same rates as the City's sales tax, but it is allocated differently in that it is not restricted to specific uses, and it primarily flows into the general fund. The tax is imposed on the out-of-state purchase of tangible personal property that is stored, used, or consumed in the city. The local option use tax generated $39.4 million in 2015.

- **Gaming tax** – The State of Missouri levies a 21% tax on casino gaming, with 90% of the revenues retained by the State and the remaining 10% re-distributed to the city in which the casino is located. There are two casinos in Kansas City; casino gaming revenues allocated to City government totaled $13.9 million in 2015. By comparison, the City of Milwaukee receives 1.5% of the net win from the Potawatomi Hotel & Casino, which amounted to $5.4 million in 2015.

- **Utility tax** – As noted above, utility taxes in Kansas City (per its CAFR) are categorized under the licenses & permits category, but we describe them here given that other cities categorize them as local taxes, and given the amount of revenue they generate. Kansas City levies a 6% tax on sales of electricity and natural gas and telecommunications usage (plus an additional 4% on commercial usage), 5% on cable television bills, and 2.4% on use of steam (plus an additional 1.6% for commercial). These taxes are collected by the utilities and remitted to the City. Utility taxes generated $98 million in 2015.

Assessing Kansas City's revenue structure in the context of best practices

Kansas City's revenue structure is **well-balanced**, as the City relies on a mix of three major local revenue sources (four if utility taxes are included), which ensures that no single local tax comprises more than a third of its portfolio. The use of incomes, sales, and selective sales taxes also ensures that a portion of the local tax burden is spread among visitors and commuters.

Kansas City's structure provides only **modest reliability**, as sales and income taxes can fluctuate sharply depending on local economic conditions, and property taxes – which fluctuate less sharply from year to year – comprise only 18% of the local portfolio. Also troublesome is the fact that the City's single largest source of revenue – the earnings tax – must be renewed by voters every five years, and several dedicated components of its general sales tax have sunset provisions. Utility taxes do represent a stable source of revenue.

Kansas City's revenue structure **does not rate highly in terms of equity**. Income, sales, and utility tax rates apply equally to citizens at all income levels. On the positive side, Kansas City's application of the earnings tax to non-residents and its heavy use of general and selective sales taxes distribute taxes and fees among the full range of users of City services.

Finally, Kansas City's revenue structure suffers from a **lack of straightforwardness**. The earnings tax creates another level of income tax reporting for residents, businesses, and non-residents, and the numerous dedicated uses of general sales and property tax revenues create a confusing patchwork for citizens seeking to understand where their tax dollars are being spent.

OBSERVATIONS

Our research and interviews yield the following observations about Kansas City's revenue structure:

- **Kansas City's fiscal future is precarious given the need to periodically renew the earnings tax.** The fact that voters could pull the plug on the City's single biggest revenue source – and that State legislators have been threatening to do so on their own – makes budget planning extremely difficult and casts constant doubt on the stability of core services. The 2017 budget warned that "elimination of the earnings tax, without equivalent replacement of revenue, would necessitate an equivalent reduction of over 2,200 employees over 10 years – mostly in police and fire operations."[39] The possibility of repealing the earnings tax in Kansas City and St. Louis received considerable debate in the Missouri Legislature last year. In addition, possible court challenges have been discussed.

- **Restricted use of Kansas City's sales tax proceeds creates a challenge for budget officials.** Kansas City's 3% general sales tax actually is a set of seven smaller general sales taxes, with each dedicated to a distinct government function and with several set to expire on different dates pending voter re-approval. This hodgepodge results from a mixture of authorizations per voter referendum, City ordinance, and State statute. Kansas City's budget director praises the City's revenue diversity, but says these restrictions on the expenditure of sales tax revenues create a significant challenge given that the prescribed uses are not necessarily consistent with the City's greatest needs and highest priorities.

- **Kansas City leaders established a special revenue commission to consider improvements to the City's revenue structure.** The Citizens' Commission on Municipal Revenue (CCMR) was established by the Mayor in July 2011 to "analyze the City's current revenue structure, consider the fairness and level of each major source, explore additional opportunities for improvements, and provide…innovative recommendations to improve the City's long-term financial condition."[40] The CCMR consisted of representatives from business, civic, neighborhood, and nonprofit entities. Its report – released in June 2012 – found the City's revenue structure to be generally sound, though it outlined a series of recommendations to promote greater reliability and equity.

RELEVANCE TO MILWAUKEE

Kansas City's balanced and diverse revenue structure and its very low reliance on intergovernmental support contrast sharply with Milwaukee's revenue picture. Milwaukee leaders likely would envy Kansas City's mix of four distinct primary local revenue sources, which combine not only to provide a high likelihood of inflationary growth, but which also effectively spread local taxation among residents, commuters, businesses, and visitors. The advantage of that structure was voiced by a Fitch ratings agency report in February 2017, which projected that the City can continue to expect revenues to grow at a "solid pace, which is consistent with growth trends over the past decade."[41]

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[39] 2017 Kansas City budget, p. iii.

[40] Citizens' Commission on Municipal Revenue, 2012 Report to the City of Kansas City, p. 3.

[41] Fitch Ratings, "Fitch Downgrades Kansas City, MO GO to AA- on Criteria Change," February 2017.

At the same time, the strings attached to Kansas City's major revenue sources detract from the reliability of its revenue structure. In the same analysis, Fitch noted that the City "has essentially no independent legal ability to increase revenues, with voter approval required for all new and increased taxes," and that Missouri's Constitution sharply limits increases in property taxes. Consequently, its capacity for revenue growth is dependent on "economic development trends."

The need for voter approval of new or increased local taxes can be a positive attribute of a revenue structure, and it is certainly a mechanism that State and local leaders could consider as a condition for altering Milwaukee's local tax structure. Dedicating specific local taxes to specific governmental functions or purposes also is a strategy that may have merit (particularly with a sunset), as it provides taxpayers with assurance that any extra tax burden they accept will be linked to addressing a specific high-priority need (e.g. public safety) or resolving a specific high-priority problem (e.g. infrastructure repair backlogs). That being said, it is easy to see how a structure with so many time-limited revenue streams and so many restrictions on uses of particular revenues can be confusing for taxpayers and disconcerting for fiscal officials.

SUMMARY

As noted in the introduction to this section, we have not performed the type of in-depth analysis of the budget challenges and local economic performance of the four peer cities that would be required to assess whether their revenue structures are "better" or "worse" than those of other cities. Furthermore, our analysis finds both strengths and weaknesses for each structure, and our discussions with budget officials in each city reveal that none see their structures as perfect.

Nevertheless, in viewing the revenue structures of these four cities collectively, we see several important characteristics that distinguish them from Milwaukee:

1. **Their state governments have granted them greater authority than other municipalities within their states to establish different forms of local taxation.**
2. **Each has developed several specific local tax sources outside of the property tax, general sales tax, and income tax.**
3. **At least a portion of their local revenues are linked to economic growth and not subject to annual limits.**

Furthermore, in two of the cities, state and/or civic officials have worked with city leaders to identify flaws in their financial structure, shape their revenue sources, and improve their fiscal condition.

Consequently, while not necessarily providing an ideal model for Milwaukee, each of the four cities reviewed in this section offers important insights that could be used to address the flaws in Milwaukee's financial structure and secure hope for reasonable revenue growth going forward.

MODELING ALTERNATIVE REVENUE STRUCTURES FOR MILWAUKEE

Previous sections of this report have established that Milwaukee's revenue structure is highly unique with respect to its substantial reliance on revenue from the State and its exclusive use of only one major source of local taxation. We also have shown that, from a *theoretical* perspective, "unique" does not necessarily mean better or worse, as there are both pros and cons associated with municipal use of each of the three major forms of local taxation.

Yet, hearkening back to our previous research on the City's finances, we would also attest that from a *practical* perspective, Milwaukee's current revenue structure is not working. State shared revenue – the City's largest single revenue source – is budgeted at $219 million in 2017, which is $15 million lower than Milwaukee's actual shared revenue payment in 1997. Had that revenue source simply kept up with inflation, then the City's shared revenue allocation would be $138 million higher than it is today.

With no other major revenue-generating options at their disposal, City leaders have leaned increasingly on property taxes and property-based fees, which have increased by $115 million and $127 million (in nominal terms) respectively over the past 20 years. Still, the resources generated from those strategies have been barely sufficient to meet the cost-to-continue needs of public safety and public works, leaving most other City functions with no additional spending capacity to meet inflationary pressures.

Consequently, in this section, we consider what the City's revenue picture might look like if revenue models from peer cities were applied to Milwaukee. Using insights gleaned both from our broad review of 38 peers and from our deeper analysis of four Midwestern cities, we develop four models:

- Modified Property Tax Model – this model, based on Minneapolis, simply tweaks Milwaukee's existing revenue structure to add a small general sales tax and a couple of selective sales taxes (one of which is applied only in the downtown area). The property tax would remain the primary revenue source and reliance on state aids would be slightly reduced.

- Property and General Sales Tax Model – this model, based loosely on Kansas City, would establish a sizable Milwaukee sales tax that would equate with the property tax as the two primary sources of revenue that support City government. A couple of small selective sales taxes also would be added to the revenue mix and reliance on state aids would be reduced but remain high.

- Income Tax Model – this model, based on Cleveland, would establish a Milwaukee income tax that would become the primary source of revenue supporting City government. The income tax would be applied to residents, non-residents working in the city, and corporate income generated in the city. A couple of small selective sales taxes also would be added to the revenue mix and reliance on state aids would be reduced but remain high.

- **Diversified Tax Model** – this model, based on Pittsburgh, would establish several new selective sales taxes in Milwaukee as well as a payroll tax and local services tax. The property tax would remain the largest source of local taxation but would be reduced substantially. Reliance on state aids would be reduced but would remain high.

Our methodology is based on applying Milwaukee demographics and financial data to the various revenue mechanisms used in each model. Obtaining precise data to conduct our modeling was no easy task; however, we believe that reasonable assumptions were made to provide viable proxies. A full discussion of our methodology is included in **Appendix B.**

A critical methodological decision was to **keep the total amount of revenue generated under each model identical to the amount of governmental fund revenue generated by the City of Milwaukee in 2015** ($834 million). Consequently, the additional revenues generated by new forms of taxation in each model are used exclusively to reduce the property tax and state aids, as opposed to increasing the total amount of revenue available to the City.

This decision does not reflect a position that consideration should not be given to *adding* revenue to the City budget or to redistributing the new resources in other ways. However, our intent in this exercise simply is to demonstrate how new revenue sources would alter the City's *existing* revenue portfolio and to discuss those in the context of the strengths and weaknesses of each form of taxation.

It also is important to note that there was no policy intent behind the manner in which we allocated new tax revenues. We choose to divide these revenues between property tax relief and a reduction in state aids because our research suggests that the current overreliance on those two revenue sources is a highly problematic element of Milwaukee's revenue structure. We acknowledge that the notion of "refunding" any of Milwaukee's state aids would be vociferously opposed by many City officials, who argue the City already is being shortchanged by the State. In light of that argument, we could have devoted all of the new local tax revenue in our models to property tax relief. Alternatively, as noted above, we simply could have shown all or a portion as increased revenue in the budget.

We believe that showing some reduction in state aids is appropriate for the purpose of our modeling, however, given that our objective is to demonstrate what Milwaukee's revenue structure would look like if the approaches of the Midwestern peer cities were utilized here. With that as our premise, incorporating some reduction in state aids was a *necessity*, as no other Midwestern peer city employs a structure that has such a sizable state aid allocation.

We decided, therefore, to include a reduction of $50 million in state aids for the three models that involve substantial new local tax revenues, and a smaller reduction of $25 million for the one model that shows a smaller influx of new local taxes. There was no science behind these numbers – they simply represent round numbers that made sense in the context of our modeling. Again, **our models are purely hypothetical and they do not reflect a position that the City *should* relinquish a portion of its state aids if provided the opportunity to use new forms of local taxation.**

Finally, it should be noted that adoption of any of these models would require approval by the Wisconsin Legislature and Governor.

MODEL I: MODIFIED PROPERTY TAX MODEL

We start with a model that most closely parallels Milwaukee's current tax structure. This model is loosely based on Minneapolis' current tax structure. Among the cities in the 39-city peer group, Minneapolis is second only to Milwaukee in the proportion of local tax revenue obtained from the property tax.

This model continues Milwaukee's heavy reliance on the property tax, but lessens it somewhat by adding a 0.5% general city sales tax; and selective sales taxes on entertainment (8%) and food/beverages (2.5%, including liquor served at bars and restaurants). We apply the entertainment tax to the entire city to ensure that Miller Park is included. In contrast, the food/beverage tax is limited to the City's downtown per the example set by Minneapolis. This limitation also reflects the substantial public investment in downtown facilities and amenities that not only should bring considerable numbers of additional patrons to Downtown Milwaukee in the coming years, but that also should allow Milwaukee's downtown to successfully compete for restaurant and bar business despite a higher sales tax.

There are several reasons why the property tax remains the most common form of taxation for municipal governments across the U.S. One is that it is very defensible as a means of financing municipal services. Property owners require a variety of municipal services, such as garbage collection, sewers, snow and ice removal, street sweeping, police, fire, etc.; it appears fair and reasonable to ask the major users of city services to pay for them.

Another advantage is that the property tax meets the financial management needs of local governments, especially in times of economic recession. Because most local governments are empowered to adjust property tax rates to keep tax collections steady when

PROS

- Adds diversity to the City tax base, modestly reducing reliance on property taxes
- General sales tax spreads cost of City services across a wider base of users (including commuters and visitors)
- Takes advantage of growth of Downtown restaurant, bar, and entertainment venues
- Provides greater potential for revenue growth that corresponds with growth in the local economy
- Relatively easy to administer, as all of these taxes already are collected
- For payers of new sales taxes, involves only a small added cost per transaction

CONS

- General sales tax could shift consumer purchases outside of city
- Sales taxes take a larger share of income from low-income residents (exemptions on groceries and prescription drugs help alleviate this problem)
- Increase in the cost of food/beverages and entertainment could discourage consumption or drive business outside of Downtown
- Potential for revenue would decrease during times of economic decline

property values diminish, the property tax often is deemed a more stable form of taxation than the sales or income tax. Property values also tend to decline more slowly during economic downturns than sales or income, though they also tend to rebound more slowly when the economy recovers.

Comparing levels of property taxation from city to city is complicated by the fact that many cities in the U.S. only tax a portion of assessed value. The Washington, D.C. government produces an annual report that compares property taxes across cities by equalizing the treatment of property assessments. The most recent D.C. report finds that Milwaukee has the second highest "effective" property tax rate among the cities it surveyed.[42]

The addition of relatively small general and selective sales taxes in this model would not replace the property tax as the City's major revenue source, but those taxes would add diversity to Milwaukee's current revenue structure. A primary argument in favor of a general Milwaukee sales tax is that as the largest city in the state, Milwaukee is Wisconsin's business and cultural center. Every day, the city is host to people from outside its borders: commuters, business owners, convention attendees, tourists, and others. These non-residents use city services, and a sales tax would be a way for non-residents and residents alike to help pay for them. From another perspective, a sales tax would leverage the city's economic and cultural vitality to take some pressure off property owners.

A similar argument would apply to selective sales taxes, which are a key fiscal resource for Milwaukee's peers. In 2012, 24 cities in our 39-member peer group raised more than 10% of their total tax revenues via selective taxation, and about half raised more than $50 million in 2012 from such taxes. The average city raised $63 million.

Chart 18 outlines the City of Milwaukee's revenue structure under the Modified Property Tax Model. The model generates $56 million from the new general and selective sales taxes. We apply $31 million of the new revenue to property tax relief and $25 million to a reduction in state aids. The City's reliance on property tax levy would decrease from 30.4% to 26.7% of total revenues, while dependence on state aids would be reduced from 31.6% to 28.6%.[43]

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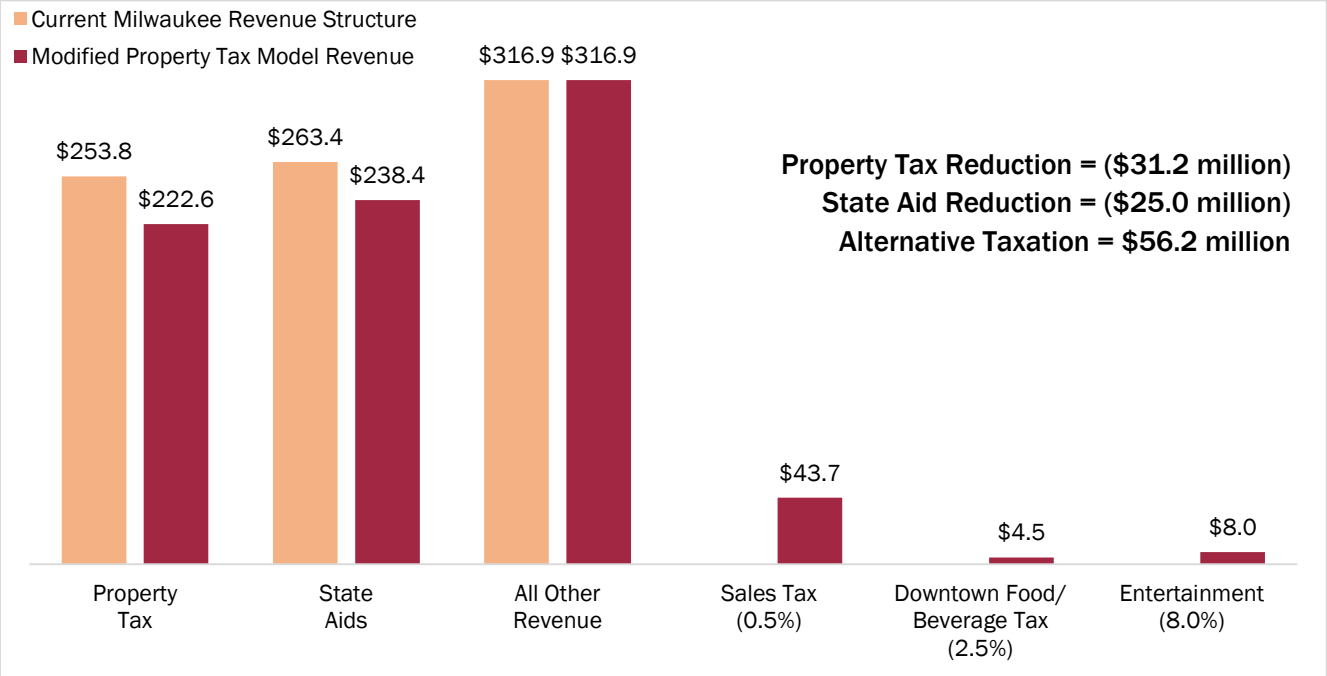
[42] The D.C. comparison group consists of the largest city in each state, *Government of the District of Columbia, Tax Rates and Tax Burdens in the District of Columbia*, *A Nationwide Comparison, 2014*. https://cfo.dc.gov/sites/default/files/dc/sites/ocfo/publication/attachments/2014 51City Study.pdf. Another 2016 study by the Lincoln Institute of Land Policy ranks Milwaukee fifth among this same set of peers: https://www.lincolninst.edu/sites/default/files/pubfiles/50-state-property-tax-study-2016-full.pdf

[43] For all models, the "All Other Revenue" category is comprised of Other Taxes (which mostly consists of TID revenue), Charges for Services, Licenses & Permits, Fines & Forfeits, and all other miscellaneous revenues categorized as "Other" by the City's CAFR. We acknowledge that changes to the City's property tax rate may have an impact on TID incremental revenue, but we are unable to calculate that impact in our modeling.

Chart 18: Modified Property Tax Model (in millions)



We estimate that if this model had been in place in 2015, then a Milwaukee property owner's total combined property tax rate would have been reduced from $29.97 per $1,000 of assessed value to $28.55, and City government's portion of that rate would have been reduced from $10.71 to $9.29.[44] This would have reduced the property tax bill for the owner of a median-valued home ($114,000 assessed value) by $162, as shown in **Table 16**. Of course, property tax savings for residents would be offset to some extent by increased sales taxes on most consumer purchases within the city, as well as for downtown restaurant/bar purchases and ticket purchases for certain entertainment venues. Because the amount of the offset would be predicated on consumer behavior, we cannot provide an estimate of its added cost for individual residents.

Table 16: Effects on property tax payments

	Gross Tax Rate	Median Home Value	Property Tax
Current Milwaukee Structure	$29.97	$114,000	$3,417
Modified Property Tax Model	$28.55	$114,000	$3,255

[44] For a City of Milwaukee property taxpayer, the gross property tax rate reflects the aggregate of rates charged by each taxing body, including City government, Milwaukee County, Milwaukee Public Schools, the Milwaukee Metropolitan Sewerage District, and Milwaukee Area Technical College, as well as a State property tax credit. Per the City's 2015 budget, the portion of the $29.97 that was attributed to City government in that year was $10.71. In our tables that show hypothetical property tax reductions for each model, we use the gross rate because that is the rate that is applied to the value of one's property to determine the total property tax bill.

MODEL II: PROPERTY AND GENERAL SALES TAX MODEL

The cities in our 39-city peer group collectively garnered 44% of all local taxes via the property tax and 41% via sales taxes in 2012. Our Property and General Sales Tax Model reflects that breakdown by constructing a framework in which Milwaukee would be almost equally dependent on property and sales tax revenues to fund its general government activities.

This model is loosely based on Kansas City's revenue structure in its co-dependence on a general sales tax and the property tax. Kansas City also has substantial reliance on the income tax, but we do not include income tax revenue in this model, as we felt it appropriate to include an income tax in only one of our four models (Model III). We do include a food and beverage tax in this model, as is the case in Kansas City.

PROS

- Significantly diversifies the City tax base, reducing the reliance on property taxes
- Provides substantial property tax relief, lessening the burden on property owners
- General sales tax spreads cost of City services across a wider base of users (including commuters and visitors)
- Takes advantage of growth of restaurant and bars in city venues
- Provides strong potential for revenue growth that corresponds with growth in the local economy
- Relatively easy to administer, as all of these taxes already are collected
- For payers of new sales taxes, involves a relatively small added cost per transaction
- Transparent and easy to understand

CONS

- Given its size, general sales tax may shift some consumer purchases outside of city
- Sales taxes they take a larger share of income from low-income residents (exemptions on groceries and prescription drugs help alleviate this problem)
- Increase in the cost of food/beverages could drive some business outside of city
- Potential for revenue would decrease during times of economic decline

Specifically, this model reduces Milwaukee's heavy reliance on the property tax by adding a 1.5% general city sales tax and a 1.25% selective sales tax on food/beverages (including liquor served at bars and restaurants). The food and beverage tax mirrors Kansas City's in that it applies to the entire city, and not just the downtown area. The model sets the sales tax rate at a level that would enable it to generate revenues that would be roughly equivalent to the property tax, while also allowing for a $50 million annual reduction in aids from the State of Wisconsin.

It is not hard to understand why large cities employ sales taxes and regard them as a key financial resource. The 30 peer cities with a general sales tax took in an average of $115 million in 2012. Sales tax revenue ranged from $13.8 million in Tampa to $442.3 million in Oklahoma City.

The general sales tax favors cities with vibrant shopping districts and is most productive during times of rising economic activity, when retail sales are brisk. In such periods, revenue flows into city coffers without limitation or state control. In an economic downturn, however, retail sales can dry up and with them city revenues. Unlike the property tax, for which the mill rate can be adjusted annually to compensate for declining property assessments, changes to the sales tax rate typically only occur in response to long-term fiscal trends and often require voter or state approval.

Perhaps the most common argument against the general sales tax is its regressivity, as there is no mechanism that compensates for differences in wealth or income. Moreover, because the portion of income devoted to consumption decreases with a rise in income, the tax carries an inherent bias against low-income individuals. The exemption of groceries and pharmaceuticals from taxation in Wisconsin and many other states offsets some of the regressive effects.[45]

We acknowledge that a 1.5% City of Milwaukee sales tax would be sufficiently large as to generate legitimate concerns that Milwaukee would become a "tax island," i.e. consumers would opt to make purchases elsewhere to avoid the tax. That potential negative impact would be alleviated, of course, if sales tax authority also was granted to and used by other municipal governments in the region. Similarly, tax island concerns would be reduced – but not eliminated – if a sales tax was implemented countywide, with a portion of the proceeds distributed back to municipalities (as occurs in Pittsburgh).

While tax island concerns are real, it is worth noting that under this model, Milwaukee still would maintain a lower general sales tax rate than many of its peers. The U.S. Census does not collect information on local sales tax rates. However, the Tax Foundation annually produces such a list for the 50 largest U.S. cities. The average total sales tax rate in the 28 cities that were in both the Tax Foundation list and our Milwaukee peer group was 7.7% in 2015 (this represents the sum of state, city, and county sales taxes). That compares to Milwaukee's current general sales tax rate of 5.6% (5% levied by the State of Wisconsin, 0.5% by Milwaukee County, and 0.1% by the Stadium District).

Chart 19 outlines the City of Milwaukee's revenue structure under the Property and General Sales Tax Model. The model generates $131 million from the new general sales tax and $10 million from the new selective food and beverage sales taxes. We apply $91 million of the new revenue to property tax relief and $50 million to a reduction in state aids. The City's reliance on property tax levy would decrease from 30.4% to 20.8% of total revenues, while dependence on state aids would be reduced from 31.6% to 25.6%. The general sales tax would comprise 15.7% of the City's revenue pie.

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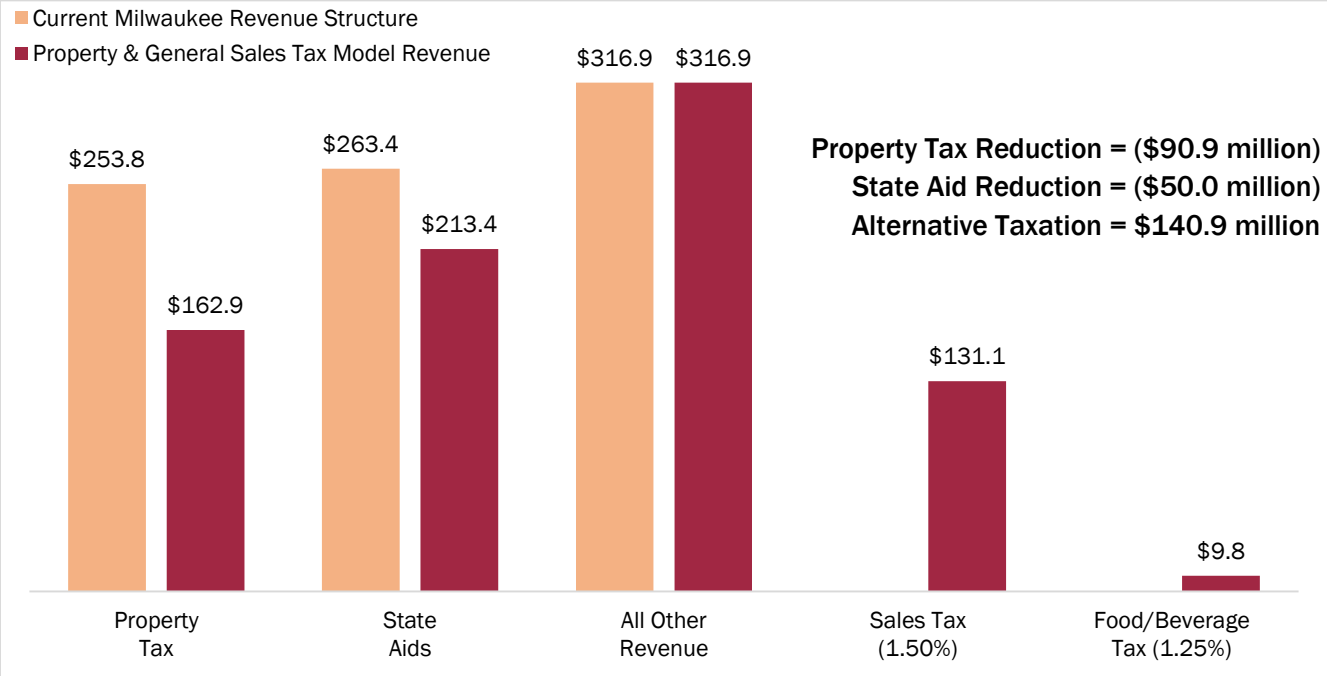
[45] For a general discussion of the regressivity of the sales tax see Wisconsin Legislative Fiscal Bureau, *Sales and Use Tax,* Informational Paper #7, 2015: https://docs.legis.wisconsin.gov/misc/lfb/informational_papers/january_2015/0007_sales_and_use_tax_informational_paper_7.pdf

Chart 19: Property and General Sales Tax Model (in millions)



We estimate that if this model had been in place in 2015, then a Milwaukee property owner's total combined property tax rate would have been reduced from $29.97 per $1,000 of assessed value to $26.06, and City government's portion of that rate would have been reduced from $10.71 to $6.80. This would have reduced the property tax bill for the owner of a median-valued home ($114,000 assessed value) by $446, as shown in **Table 17**. Of course, those savings would be offset to some extent by significantly higher sales taxes on most consumer purchases within the city, as well as for restaurant/bar purchases. Because the amount of the offset would be predicated on consumer behavior, we cannot provide an estimate of its added cost for individual residents.

Table 17: Effects on property tax payments

	Gross Tax Rate	Median Home Value	Property Tax
Current Milwaukee Structure	$29.97	$114,000	$3,417
Modified Property Tax Model	$26.06	$114,000	$2,971

MODEL III: INCOME TAX MODEL

Our third model is based on the revenue structure found in Cleveland, which relies heavily on a 2.5% income tax that is levied on residents, non-residents who work in the city, and corporate income earned in the city. While only six of the cities in our 39-member peer group use the income tax, they include three of the four Midwestern cities we reviewed in the previous section.[46]

PROS

- Raises greater amounts from higher-income taxpayers
- A portion of local taxes would be levied on non-residents to reflect their use of city services
- A portion of local taxes would be levied on corporate income to reflect the "privilege" of being located in a first-class city
- A relatively small income tax (percentage-wise) raises considerable revenue, thus allowing for minimal use of the property tax

CONS

- Could reduce disposable income resulting in a decrease in consumer spending
- Local income tax produces administrative responsibility for taxpayers
- Income tax could make Milwaukee less attractive to businesses and residents
- Wisconsin already has a relatively high income tax
- Increase in the cost of entertainment and parking could discourage consumption or drive business outside of city

Mirroring Cleveland, our Income Tax Model applies a 2.5% tax to individual and corporate income earned within the city as the primary source of local government taxation, as well as 8% selective sales taxes on entertainment and parking. The model retains a relatively small reliance on the property tax and reduces state aids by $50 million.

While only six cities in our peer group have a local income tax, all 39 cities have a property tax, 30 have a general sales tax, and 38 have one or more selective sales taxes. A city income tax typically is assessed on wages and other forms of general compensation, as well as net business profits. Many of the six cities exclude income from pensions and social security, as well as investment income.

All cities with an income tax generate considerable revenue from it, often in excess of revenue from the property tax and sales tax. Other advantages of the income tax are the ability to establish separate rates for residents and nonresidents and the opportunity to use the proceeds to significantly reduce property taxes. As with the sales tax, the income tax generates revenue from others besides property owners; unlike the sales tax, however, it does not capture revenue from those passing through the city on business trips, tourism, recreation, and other short-term purposes.

The small number of peer cities with a local income tax is perhaps the best indication that the property and sales tax are preferred forms of local taxation. The income tax requires individuals to understand and comply with tax rules and regulations and to submit tax forms, a process that many see as burdensome. An income tax applied to non-residents also could impact business location,

[46] The six cities are Columbus, Cleveland, Pittsburgh, Detroit, St. Louis and Kansas City.

which is important given that many cities already are at a disadvantage in competing with neighboring suburbs to attract new businesses.

We recognize that any proposal to impose an income tax in Milwaukee would be controversial. Milwaukee residents already pay a substantial amount in State income tax, to which any local income tax would be added. The Washington-based Institute on Taxation & Economic Policy produced a report in 2015 comparing the tax systems of the 50 states. Using that report, we determined that Wisconsin's income tax rate for a couple in the middle income quintile is 6.27%, which is 12th highest in the nation and 1.77 percentage points higher than the national average of 4.5%.[47]

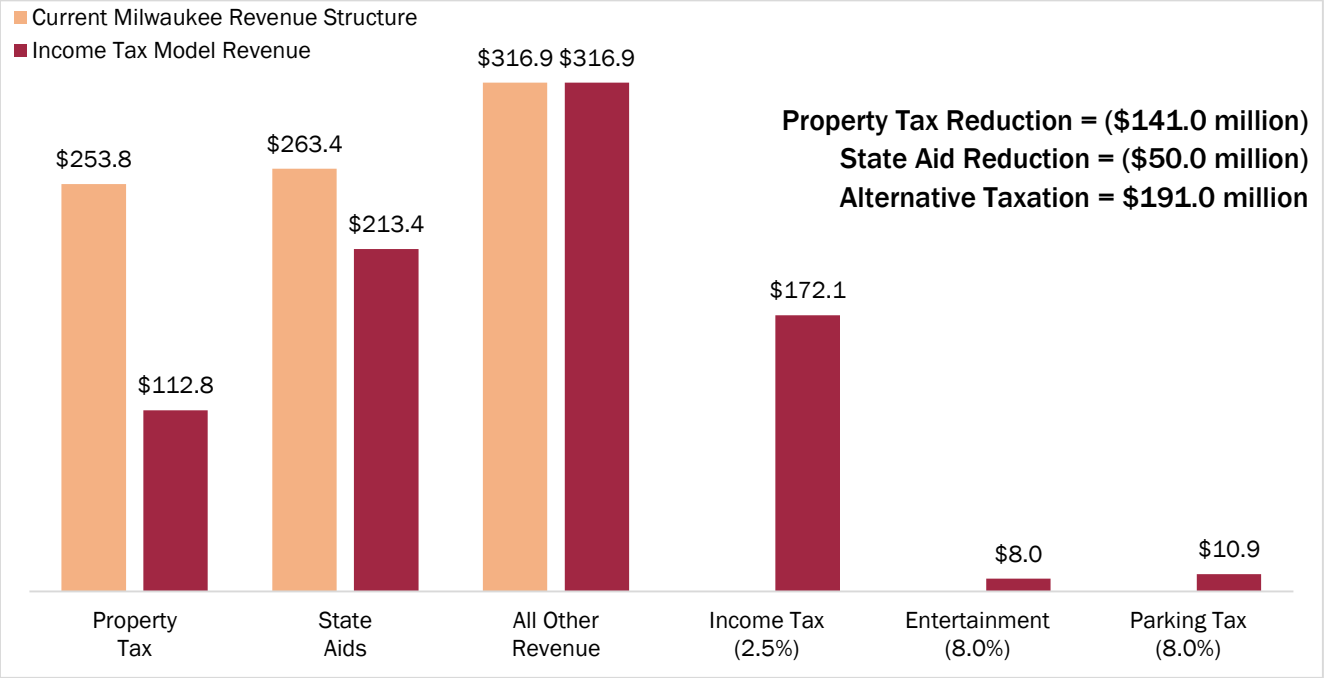
Another likely argument against a Milwaukee income tax is that it would drive residents and businesses out of the city. While we cannot prove or disprove that assertion, Milwaukee would appear to have more to lose than some other large cities given the number of people that reside and work downtown, and given that metro Milwaukee's suburban communities do not impose income taxes (as they do in metro Cleveland, for example).

Nevertheless, an income tax also holds several advantages, not the least of which is its ability to spread the cost of city services among both residents and daily commuters, as well as among businesses. Another virtue of an income tax is its ability to generate considerable amounts of revenue at a relatively low rate. In fact, for the six cities in our 39-city peer group that use the tax, average income tax revenue amounted to $282 million in 2012. In contrast, the property tax raised an average of $174 million and the general sales tax raised an average of $115 million for peer cities levying those taxes.

Chart 20 outlines the City of Milwaukee's revenue structure under the Income Tax Model. The model generates $172 million from the 2.5% income tax and $19 million from the new selective sales taxes. We apply $141 million of the new revenue to property tax relief and $50 million to a reduction in state aids. The City's reliance on property tax levy would decrease from 30.4% to 13.5% of total revenues, while dependence on state aids would be reduced from 31.6% to 25.6%. The income tax would comprise 20.6% of the City's revenue pie.

[47] https://taxfoundation.org/state-individual-income-tax-rates-brackets-2017/

Chart 20: Income Tax Model (in millions)



We estimate that if this model had been in place in 2015, then a Milwaukee property owner's gross property tax rate would have been reduced from $29.97 per $1,000 of assessed value to $23.97, and City government's portion of that rate would have been reduced from $10.71 to $4.71. This would have reduced the property tax bill for the owner of a median-valued home ($114,000 assessed value) by $685 as shown in **Table 18**. Of course, those savings would be offset to some extent by the new income tax, as well as higher sales taxes on entertainment and parking. The 2.5% income tax would cost a household with taxable earnings of $36,000 per year (the median household income in Milwaukee is $35,958) an extra $900. We cannot provide an estimate of the impact of entertainment and parking taxes for individual residents because they would be predicated on consumer behavior.

Table 18: Effects on property tax payments

	Gross Tax Rate	Median Home Value	Property Tax
Current Milwaukee Structure	$29.97	$114,000	$3,417
Modified Property Tax Model	$23.97	$114,000	$2,732

MODEL IV: DIVERSIFIED TAX MODEL

Our final model, based on Pittsburgh's revenue structure, institutes a broad array of local taxes that establish a highly diverse revenue portfolio. A key advantage to such a portfolio would be its ability to provide stability and reliability in the face of fluctuations in the local economy.

Specifically, our Diversified Tax Model mirrors Pittsburgh's by using a 0.55% payroll tax, 37.5% parking tax, 5% entertainment tax, and $1 per week local services tax (which would be charged to all individuals who are employed in the city and who make over $12,000 per year). It retains significant (but reduced) reliance on the property tax and state aids. Unlike Pittsburgh, we do not utilize sales or income taxes in this model, as the virtues and detriments of those taxes are illustrated in our other models.

PROS

- Diversified portfolio provides some protection from sharp fluctuations caused by local economic distress
- Spreads revenue responsibilities across many users of city services
- Provides modest levels of taxation for several distinct uses and users, as opposed to large levels for one or two
- Provides substantial property tax relief, lessening the burden on property owners

CONS

- Several different local taxes would be more difficult for City to administer and add complexity for taxpayers
- Increase in the cost of entertainment could discourage patronage
- Payroll tax and substantial parking tax could discourage employers from locating/staying in city

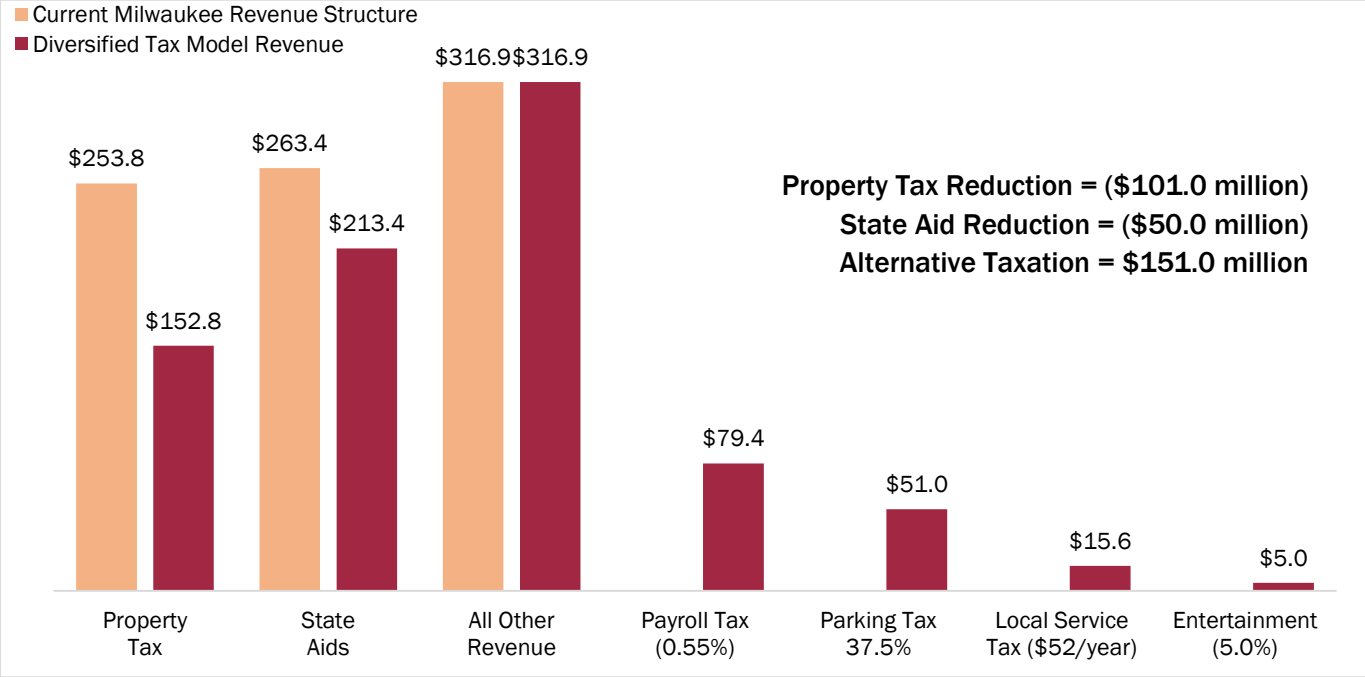
We would anticipate that a 37.5% parking tax would generate significant opposition, as some will argue that a tax of that magnitude could discourage businesses from locating or staying in the city. Obviously, while we chose to model a 37.5% tax to be consistent with Pittsburgh, a smaller parking tax also could be considered. The primary benefit of such a tax is that it would generate revenue from non-resident commuters (many resident commuters also would be subject to the tax, but much larger numbers of those residents take transit, bike, or walk to work). The local service tax could generate similar concern.

We also would anticipate that similar to a corporate income tax, a payroll tax would generate concern that Milwaukee's competitiveness in attracting and retaining employers would suffer, particularly given that businesses in suburban locations would not be subject to such a tax. According to budget officials in Pittsburgh, that city's business leadership supported the payroll tax, but it is important to note that its implementation was coupled with elimination of other business-related "nuisance" taxes at the same time.

On the positive side, in addition to providing greater stability, the Diversified Tax Model would be highly effective in spreading the cost of City services among the various users of those services. In addition, it would do so in relatively small dosages (i.e. no single tax would take a substantial bite out of corporate or personal pocketbooks), which could enhance its palatability among citizens and business owners.

Chart 21 lays out the City of Milwaukee's revenue structure under the Diversified Tax Model. The model generates $79 million from the payroll tax, $16 million from the local services tax, and $56 million from the selective sales taxes on parking and entertainment. We apply $101 million of the new revenue to property tax relief and $50 million to a reduction in state aids. The City's reliance on property tax levy would decrease from 30.4% to 18.3% of total revenues, while dependence on state aids would be reduced from 31.6% to 25.6%. No single local tax would comprise more than 20% of the City's total revenue pie.

Chart 21: Diversified Tax Model (in millions)



We estimate that if this model had been in place in 2015, then a Milwaukee property owner's gross property tax rate would have been reduced from $29.97 per $1,000 of assessed value to $25.63, and City government's portion of that rate would have been reduced from $10.71 to $6.37. This would have reduced the property tax bill for the owner of a median-valued home (114,000 assessed value) by $495, as shown in **Table 20**. Of course, those savings would be offset by $52 for those residents who work in the city from the new local service tax and by an unknown amount from the higher sales taxes on entertainment and parking.

Table 20: Effects of property tax payments

	Gross Tax Rate	Median Home Value	Property Tax
Current Milwaukee Structure	$29.97	$114,000	$3,417
Modified Property Tax Model	$26.12	$114,000	$2,922

SUMMARY

Our modeling exercise shows that the application of local taxes used by the Midwestern peer cities at their respective approximate levels of taxation would ameliorate several of the weaknesses inherent in Milwaukee's current revenue structure. In particular, each of the models would help Milwaukee address the two most visible defects in that structure: its over-reliance on the property tax and state aids.

Many would argue that given the City's pressing financial needs, the revenue generated by new local taxes should *not* be redistributed to property taxpayers and/or refunded to the State. The notion of having the City relinquish any of its state aids also could be refuted by the statewide interest in supporting its flagship city and by the huge reduction in the value of the City's shared revenue payments that already has occurred (when adjusted for inflation).

As noted at the beginning of this section, our modeling is not intended to convey a position on those questions. In developing our models, we simply seek to show how different revenue structures may better reflect the different users of City services and the strengths of the local economy. Also, each model seeks to create a revenue "pie" that looks similar to the city the model is emulating, which necessarily requires us to reduce Milwaukee's state aids allocation and property tax levy.

In addition, notwithstanding the legitimate question of whether the City needs *more* revenue, we would contend that each model provides better potential for revenue *growth* than Milwaukee's existing structure. It is important to recognize that the magnitude of such growth would be unlikely to fully address the City's structural budget issues, which have been building for years. Nevertheless, the promise even of limited revenue growth would provide City leaders with a stronger position from which to conduct long-term budget planning.

Our modeling also suggests that when considered in the context of ideal revenue characteristics, each of the models would produce greater reliability, balance, and equity than Milwaukee's current structure. While each would add complexity (and perhaps additional administrative costs) by imposing new taxes, most of the new taxes we model already are being collected by a different governmental entity in Milwaukee and would be relatively easy to implement.

Finally, while we model four potential new revenue scenarios for Milwaukee, we acknowledge that dozens of additional modeling alternatives exist. In determining the composition of the models and rates of taxation, we adhered closely to the examples of the four Midwestern peers. Because others may wish to consider different combinations of local taxes or different levels of taxation, **Table 19** shows our rough estimates of what each tax would generate at a basic rate. Those reading this report can use the figures in this table to develop their own model. In fact, that is an exercise we hope to facilitate with creation of an interactive website later this year.

Table 19: Funds generated by local tax options using basic rates of taxation

Type of Tax	Rate	New Tax Revenue
Income	1%	$68,858,963
Parking	5%	$6,534,120
Entertainment	5%	$5,000,000
Downtown Food/Beverage	1%	$4,473,490
Full City Food /Beverage	1%	$14,430,614
General Sales	1%	$87,377,918
Payroll	.5%	$72,211,642
Local Service	$1 per week	$15,623,816

OBSERVATIONS AND CONCLUSION

This report is intended to shed new light on the characteristics of the revenue structure that is supporting the City of Milwaukee. A critical question raised by our previous research is whether this structure is appropriately and equitably supporting the City's ability to provide core municipal services and to invest in areas that are deemed essential for its economy and quality of life. We hope this analysis will precipitate further discussion among City and State leaders – as well as among residents and business owners – about the adequacy of the existing revenue framework and the types of changes that might be pursued.

We began by analyzing the historical and statutory underpinnings of Milwaukee's revenue structure and how it compares to similar-sized cities across the United States. That analysis produced the following key observations:

- **No other state in the Midwest has a local tax structure like Wisconsin's**. Property, general sales, and income taxes are the three major forms of local taxation used by cities nationwide. We find that while the property tax is the only permissible form of local taxation (among those three) in 14 states, Wisconsin is the only such state located in the Midwest. Wisconsin also differs from many other Midwestern states in that Milwaukee, the state's largest city, has the same tax structure as other municipalities throughout the state. That is not the case in Illinois, Michigan, Ohio, Minnesota, and Missouri, as well as numerous other states throughout the country whose major cities can draw on additional forms of taxation.

- **Milwaukee is particularly unique among its peers in its absence of general and selective sales taxes**. Our broad review of 38 peer cities finds that every other city has multiple taxes and most have either general or selective sales taxes. In fact, 30 have a general sales tax and each of the remaining eight generates substantial revenue from selective sales taxes and/or other forms of taxation besides the property tax. Overall, the percentage of local taxes generated by sales taxes for the peer cities nearly equals the percentage generated by property taxes.

- **As a general rule, cities with larger populations tend to draw more heavily on the sales tax and less upon the property tax**. Our analysis shows that sales taxes comprise more than 40% of the local tax revenues collected by cities with populations over 300,000, but just 28% for those with populations between 150,000 and 300,000. That may reflect the fact that as cities increase in size, they host greater numbers of non-residents who are engaged in business, employment, tourism, entertainment, etc. The sales tax enables local governments to recoup the costs of services provided to all users irrespective of their purpose for being in the city.

- **State aid is a relatively minor source of revenue for most peer cities**. We find that among our 38 peer, state aids typically are a form of supplemental financial assistance, but they do not serve as a principal source of support compared with property or sales taxes. Indeed, our analysis finds that state funding represented 14% or less of total intergovernmental and local tax revenue for half of the peers. In contrast, state funding equaled 48% of Milwaukee's total intergovernmental and local tax revenues in 2015 and, historically, has been its largest revenue source.

While our broad research on peer cities provides insights, our deeper analysis of four Midwestern peers shows how distinct approaches to local taxation work in practice. We find that there is no single or ideal model for Milwaukee to follow in local taxation. Each revenue source has its own weaknesses and strengths, and various restrictions on authorized forms of local taxation imposed by states – such as sunsets or periodic referenda – can offset some of the benefits of having that authorization in the first place.

Nevertheless, we see that in their ability to draw on multiple sources of local taxation – and to have greater latitude to establish a structure that reflects their unique economic strengths – some peer cities appear to have substantial advantages. Furthermore, in viewing these four cities in the context of revenue structure best practices, we see more clearly where Milwaukee's current structure falls short:

- **It is poorly balanced with low reliability**. Lacking diverse revenue streams, Milwaukee lacks the ability to offset the effects of economic swings with revenue sources that vary in response to economic factors.

- **It is inequitable in its reliance only on property-based taxes and fees**. Milwaukee's property owners and residents bear the bulk of the financial burden for Wisconsin's flagship city. Their property-related taxes and fees are the sole source of locally-generated support for municipal infrastructure and services that are critical to employment and entertainment for nonresidents, who pay no local taxes to the City.

- **It is far too reliant on state aid.** State aid has clear benefit to cities in that it redistributes statewide wealth to jurisdictions with high levels of poverty. In the case of Milwaukee, the substantial state aid allocation also reflects the City's statewide significance. Yet, because Milwaukee's state aids have not grown over time, the City has been severely challenged in securing total annual revenue growth that matches inflation and meets its expenditure needs. Furthermore, its lack of local taxation options – which exacerbates its reliance on the State – has precluded it from addressing its revenue gaps on its own and from taking advantage of Milwaukee's unique economic attributes.

To shed additional light on possible solutions to address the weaknesses in Milwaukee's revenue structure, we modeled four alternative structures that draw upon our peer city analysis. We find that each model would address the weaknesses inherent in Milwaukee's current revenue structure, though each has its own challenges, as well.

The **Modified Property Tax Model** continues Milwaukee's use of the property tax as its primary source of local taxation, but adds a 0.5% sales tax, 8% entertainment tax, and 2.5% downtown food and beverage tax to provide greater diversification and to spread some of the tax burden to non-residents. This model would represent only a modest change from the existing revenue framework, but still would move the City toward greater fiscal independence and less reliance on the property tax. Also, because the levels of new taxation are relatively small, they would pose the least risk of tax island consequences; and because general sales and food/beverage taxes already are levied in Milwaukee County, these taxes would be relatively simple to administer. Yet, on the negative side,

this model would be least effective in weaning the City from state aids and provides only a small dosage of property tax relief.

The **Property and General Sales Tax Model** establishes the sales tax as a second primary local revenue source by adding a 1.5% general sales tax and a 1.25% city-wide food and beverage tax to Milwaukee's revenue mix. This model would provide higher levels of reliability and balance by placing the bulk of the City's local revenue eggs in two baskets, instead of one. It also would create increased equity by having one of the primary local taxes tied to consumption within the city by both residents and non-residents. The ability to generate substantial sales tax revenues also could allow the City to become less reliant on state aids and provide property tax relief. A challenge with this model, however, is that the considerably higher sales tax within the city could drive some consumer purchases and restaurant/bar patronage to other locations.

The **Income Tax Model** levies a 2.5% income tax to make that the City's primary source of local taxation, replacing the property tax (8% parking and entertainment taxes also are included in this model). This model would provide substantial property tax relief and ease reliance on state aids, while also establishing equity between residents, non-resident commuters, and businesses. This model also would enhance reliability and balance by diversifying the City's revenue portfolio. On the negative side, this radical change to the City's tax structure could pose a threat to the attraction and retention of residents and businesses, and it also would create an extreme level of income taxation for City residents, commuters, and businesses in light of the State's high income tax rates.

The **Diversified Tax Model** uses several different forms of local taxation, including a 0.55% payroll tax on employers, a $1 per week local services tax on city workers, a 37.5% parking tax, and a 5% entertainment tax. This approach provides significant property tax relief, reduces reliance on state aids, and spreads responsibility among commuters, visitors, and businesses, thus providing greater reliability, balance, and equity. However, this model would add complexity (both for those administering the various taxes and those paying), and the payroll, local services, and parking taxes might deter business attraction and retention.

Overall, our analysis of peer cities and our modeling exercise reinforces the need for an objective and informed discussion among policymakers, civic leaders, and citizens about the efficacy of Milwaukee's current revenue structure. Initially, this discussion should put aside the question of whether the City requires *more* revenue. Instead, it should focus on whether a structure that was imposed on the City by State government more than a century ago still is effective and relevant, and on what types of changes might be pursued to ensure that principles of tax equity, revenue reliability, and administrative simplicity can be achieved.

We fully acknowledge that discussion of any new forms of taxation will be contentious and controversial, and that each of the potential new municipal taxes contained in our models has drawbacks. In fact, we are certain that should policymakers engage in objective deliberation about possible modifications to Milwaukee's current structure, they will come up with their own combinations of local and State revenues that are distinct from those we have postulated. We are also confident that questions about whether to make potential new local revenue sources contingent on voter approval, whether to earmark them for specific purposes, whether to sunset

them, and whether to cap them at specified rates will be prominent subjects of debate, as they should be.

Yet, while lengthy and detailed analysis of major structural changes would be appropriate, there also are some relatively basic steps that policymakers might consider immediately to *begin* to address the weaknesses in Milwaukee's current revenue structure. For example, a minor change in State law could make Milwaukee eligible to levy a 0.5% sales tax under the State's Premier Resort Area Tax statute, as was proposed in the 2007-09 State budget by Governor Jim Doyle. While the revenues generated may be limited given that the tax likely would apply only to a limited geographic area (the Doyle proposal covered a four-square-mile section in and around downtown), this approach could begin to move Milwaukee toward revenue diversification, and it could begin to tap into Downtown Milwaukee's impressive renaissance.

Similarly, authorization for the City to include even a small citywide general sales tax in its revenue portfolio could accomplish the same objectives. This could be accomplished by extending the half-cent sales tax authorization for counties to cities of the first class, or even by allowing counties of the first class (i.e. Milwaukee County) to tack on an additional amount with a requirement that they share some of the proceeds with municipalities for property tax relief (as occurs in Pittsburgh).

While we are in no position to recommend to City and State leaders whether they should pursue a comprehensive overhaul of Milwaukee's revenue structure or a more measured approach, our research does allow us to conclude that *some* change is needed. We also would assert that given the impressive economic growth in Milwaukee's greater downtown and the city's enhanced attractiveness to businesses and residents, Milwaukee is better positioned than it has been for decades to take greater control of its own financial destiny.

We hope this report provides a compelling rationale to launch the type of thoughtful deliberation on Milwaukee's financial structure that its current fiscal challenges both demand and require. In the end, Milwaukee's ability to prosper economically will be linked to its ability not only to provide, but also to equitably pay for core municipal services. Unfortunately, without modification to the existing structure, that ability will continue to come under increasing duress.

APPENDIX A: MILWAUKEE PEER GROUP

State, Federal, and Local Revenues as a Percentage of Combined Intergovernmental and Local Tax Revenues, 2012

Peer Cities	State	Federal	Property	General Sales	Select Sales	Income	Other
Albuquerque	35%	8%	21%	27%	6%	0%	3%
Anaheim	6%	24%	30%	13%	24%	0%	2%
Atlanta	4%	7%	53%	0%	25%	0%	10%
Aurora	10%	5%	14%	59%	8%	0%	5%
Austin	4%	8%	51%	22%	13%	0%	3%
Bakersfield	25%	11%	34%	21%	8%	0%	1%
Charlotte	13%	14%	45%	17%	7%	0%	6%
Cleveland	21%	15%	9%	0%	5%	48%	3%
Colorado Springs	8%	14%	8%	55%	14%	0%	0%
Columbus	12%	12%	4%	0%	2%	66%	4%
Corpus Christi	6%	7%	40%	32%	13%	0%	2%
Detroit	32%	14%	19%	0%	16%	17%	2%
El Paso	5%	14%	41%	24%	13%	0%	3%
Fort Worth	6%	5%	53%	22%	10%	0%	4%
Fresno	14%	18%	31%	28%	3%	0%	5%
Kansas City	2%	10%	15%	22%	18%	25%	8%
Las Vegas	52%	8%	22%	0%	12%	0%	6%
Long Beach	14%	18%	42%	9%	13%	0%	4%
Memphis	57%	6%	26%	7%	3%	0%	1%
Mesa	39%	11%	5%	41%	1%	0%	4%
Milwaukee	**48%**	**5%**	**45%**	**0%**	**0%**	**0%**	**2%**
Minneapolis	13%	11%	56%	5%	11%	0%	5%
Oakland	14%	12%	42%	4%	10%	0%	17%
Oklahoma City	7%	6%	12%	64%	8%	0%	3%
Omaha	10%	5%	30%	27%	1%	0%	27%
Pittsburgh	27%	4%	26%	0%	22%	14%	6%
Portland	15%	6%	55%	0%	10%	0%	14%
Raleigh	14%	6%	53%	19%	0%	0%	8%
Riverside	15%	9%	39%	18%	14%	0%	5%
Sacramento	17%	9%	40%	13%	17%	0%	4%
Santa Ana	9%	27%	34%	13%	12%	0%	5%
Seattle	12%	5%	36%	14%	27%	0%	6%
St Paul	25%	12%	43%	6%	10%	0%	4%
St. Louis	24%	0%	10%	23%	13%	26%	3%
Stockton	30%	8%	25%	14%	18%	0%	6%
Tampa	14%	13%	33%	4%	25%	0%	11%
Tulsa	2%	11%	16%	61%	7%	0%	2%
Tucson	26%	23%	7%	33%	6%	0%	4%
Wichita	10%	12%	55%	0%	20%	0%	3%

Note: All cities > 300,000 and < 1 million population except cities whose financial and/or operational responsibilities encompass activities normally a part of other local governments, such as a county government or local school district, excludes city/county consolidated governments

Source: U.S. Census of Governments, 2012, accessed through Lincoln Institute of Land Policy
http://datatoolkits.lincolninst.edu/subcenters/fiscally-standardized-cities/search-database

State, Federal, and Local Revenues, Per Capita, 2012

Peers	State	Federal	Property	General Sales	Select Sales	Income	Other	Local	Total
Albuquerque	$412	$94	$245	$322	$69	$0	$29	$667	$1,173
Anaheim	$74	$277	$343	$148	$268	$0	$26	$785	$1,136
Atlanta	$52	$100	$724	$0	$340	$0	$143	$1,207	$1,360
Aurora	$74	$37	$104	$451	$61	$0	$35	$651	$762
Austin	$30	$71	$424	$180	$106	$0	$22	$732	$833
Bakersfield	$166	$72	$226	$137	$52	$0	$8	$423	$661
Charlotte	$145	$152	$501	$186	$73	$0	$63	$823	$1,120
Cleveland	$347	$243	$143	$0	$81	$790	$54	$1,068	$1,659
Colorado Springs	$49	$91	$53	$355	$92	$0	$2	$502	$642
Columbus	$153	$155	$54	$0	$21	$848	$49	$972	$1,281
Corpus Christi	$41	$51	$284	$231	$91	$0	$16	$623	$715
Detroit	$616	$263	$377	$0	$315	$331	$44	$1,068	$1,947
El Paso	$34	$101	$292	$174	$94	$0	$22	$582	$717
Fort Worth	$57	$49	$476	$201	$91	$0	$32	$800	$907
Fresno	$109	$145	$242	$223	$27	$0	$41	$534	$788
Kansas City	$40	$183	$268	$410	$324	$459	$148	$1,608	$1,832
Las Vegas	$439	$69	$189	$0	$100	$0	$52	$341	$850
Long Beach	$185	$235	$548	$117	$166	$0	$54	$884	$1,304
Memphis	$1,250	$139	$559	$152	$57	$0	$31	$799	$2,188
Mesa	$273	$78	$32	$285	$5	$0	$30	$352	$703
Milwaukee	**$524**	**$53**	**$484**	**$0**	**$0**	**$0**	**$22**	**$507**	**$1,085**
Minneapolis	$196	$164	$869	$77	$163	$0	$76	$1,185	$1,545
Oakland	$281	$234	$821	$82	$204	$0	$333	$1,440	$1,956
Oklahoma City	$78	$71	$141	$750	$93	$0	$37	$1,021	$1,170
Omaha	$115	$51	$326	$295	$13	$0	$294	$929	$1,095
Pittsburgh	$466	$69	$444	$0	$372	$244	$108	$1,167	$1,702
Portland	$198	$73	$719	$0	$124	$0	$188	$1,031	$1,303
Raleigh	$120	$49	$458	$164	$2	$0	$71	$694	$863
Riverside	$124	$79	$331	$151	$114	$0	$43	$638	$840
Sacramento	$181	$93	$421	$132	$177	$0	$47	$778	$1,052
Saint Paul	$245	$122	$416	$54	$97	$0	$40	$608	$975
Santa Ana	$93	$267	$337	$125	$118	$0	$46	$627	$987
Seattle	$213	$86	$639	$253	$474	$0	$103	$1,469	$1,768
St. Louis	$545	$3	$233	$514	$301	$581	$76	$1,706	$2,255
Stockton	$267	$68	$216	$126	$155	$0	$50	$548	$882
Tampa	$149	$144	$352	$40	$266	$0	$122	$779	$1,071
Tulsa	$22	$115	$161	$614	$73	$0	$17	$866	$1,003
Tucson	$281	$249	$76	$348	$66	$0	$45	$535	$1,065
Wichita	$55	$70	$308	$0	$112	$0	$18	$437	$562

Note: All U.S. cities > 300,000 and < 1 million population except those whose financial and/or operational responsibilities encompass activities normally a part of other local governments, such as a county government or local school district, excludes city/county consolidated governments.

Source: U.S. Census of Governments, 2012, accessed through Lincoln Institute of Land Policy
http://datatoolkits.lincolninst.edu/subcenters/fiscally-standardized-cities/search-database

APPENDIX B: METHODOLOGY AND ASSUMPTIONS FOR REVENUE MODEL FORECASTS

Modeling requires the use of assumptions that drive each model's content. Each of the revenue models required the use of data estimates and assumptions that relate to each form of local taxation that was modeled. This Appendix shares the methodology used to generate those estimates. The data elements are discussed in the order in which they first appear in the document.

It is important to note that those estimates that involve forms of taxation that currently are used in the City of Milwaukee by Milwaukee County, the Wisconsin Center District, or the State of Wisconsin undoubtedly are more reliable than those that involve entirely new forms of local taxation. In those instances, we had larger data sets from which to initiate our revenue calculations, or to use to test our assumptions. Even in those cases, however, it is critical to view our revenue calculations only as estimates. These can provide a broad sense of the revenue potential of certain forms of local taxation if implemented in the City of Milwaukee, but they should not be interpreted as precise projections.

GENERAL SALES TAX REVENUES

In 2015, the 0.5% Milwaukee County sales tax generated $72,213,155 in revenue.[48] A UW-Madison study from 2005 estimated that 60.5% of Milwaukee County's sales tax revenues were generated within the City of Milwaukee.[49] We first calculated the value of annual sales in Milwaukee County that are subject to the sales tax by dividing the County's 2015 sales tax revenue amount of $72,213,155 by the County's current sales tax rate of 0.5%. That calculation yielded a total of $14,442,631,000 in annual sales revenue. We then applied the City of Milwaukee estimated portion of 60.5% to the total sales tax revenue of $14,442,631,000 to generate an estimate of $8,737,791,755 in annual sales in the City of Milwaukee.

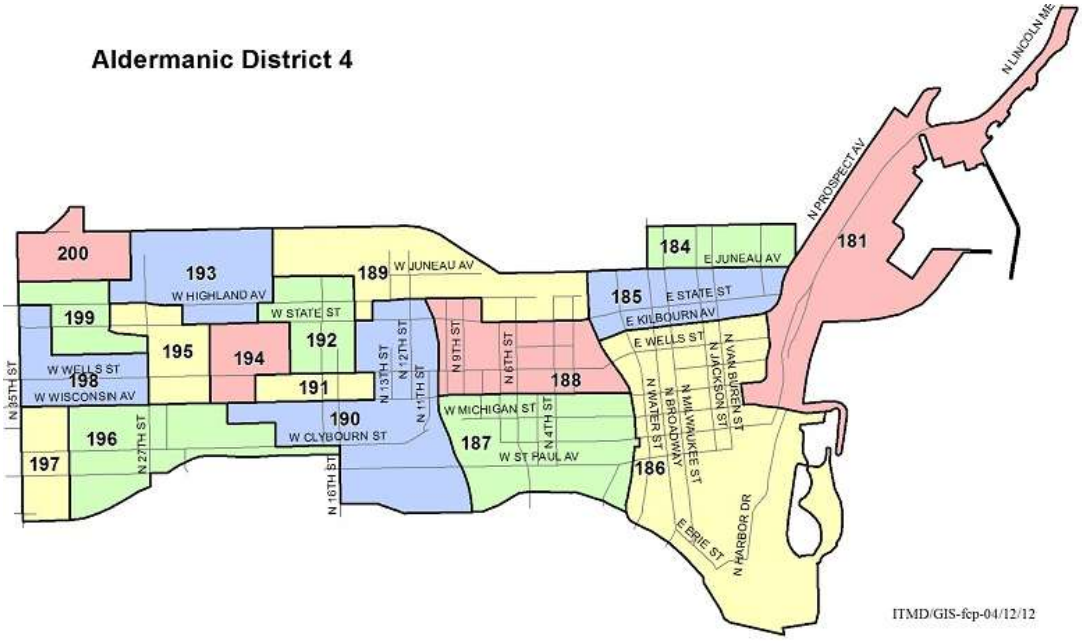
Formula: Proposed Sales Tax Rate * $8,737,791,755

[48] Milwaukee County 2017Milwaukee County Non-Departmental Revenues Budget http://county.milwaukee.gov/ImageLibrary/Groups/cntyDAS/PSB/Budgets/2017-Budget-/2017-Adopted-Budget/1800Non-DepartmentalRevenues.pdf

[49] https://www.lafollette.wisc.edu/research/publications/analysis-of-a-local-sales-tax-in-the-city-of-milwaukee, page 40

DOWNTOWN FOOD AND BEVERAGE TAX

Our proposed downtown food and beverage tax required defining a downtown area. For this purpose we used the boundaries for Milwaukee Aldermanic District 4. [50]



We then calculated the percentage of licensed food and beverage establishments in the City of Milwaukee that are located in this downtown district.[51] This established a rough proxy indicating that 23% percent of Milwaukee food and beverage restaurant sales take place in our established downtown district.

This percentage was applied to the food and beverage sales for Milwaukee found in the 2012 US Census ($743,005,000 American Fact Finder,[52] adjusted for inflation to 2015 = $785,601,753), giving us annual downtown food and beverage sales of $180,688,403.

Formula: Proposed tax rate* $180,688,403

[50] http://city.milwaukee.gov/Directory/How-to-Run-for-Public-Office/Nomination-Packet-Forms/District-Maps/Map-City-of-Milwaukee-Alderman.htm#.WSXFrlQrKUk

[51] http://city.milwaukee.gov/cityclerk/license/LicenseSearch#.WSXKfVQrKUk

[52] U.S. Census American FactFinder code EC1272A1, 2012 NAICS codes 7224 and 7225

ENTERTAINMENT TAX

We elected not to include nonprofit organizations in our entertainment tax calculation. Therefore, Milwaukee theater sales for nonprofit organizations filing an IRS Form 990 were not considered. Our sales figure for calculating the entertainment tax is conservative, as it is specific only to five venues for which we were able to obtain reliable ticket sales data. However, we feel this number captures a substantial percentage of the entertainment ticket sales that would be subject to the new tax.

Annual ticket sales estimates totaling $100 M were obtained as follows:

Milwaukee Bucks	$25 M[53]
Milwaukee Brewers	$58 M[54]
Milwaukee Wave	$5.3 M[55]
Milwaukee Admirals	$8.1 M[56]
BMO Harris Bradley Center Concert Revenues	$3.7 M[57]

Formula: Proposed tax rate* $100,000,000

PARKING TAX

To calculate projected revenue associated with a commercial parking tax, we used the number of parking spaces and the occupancy rate from a 2014 Downtown Parking Study (77,808 parking spaces with a 56% occupancy rate).[58] A 2009 Colliers Parking Study estimated the average daily parking rate per space per day in Milwaukee at $12.[59] These three figures were used to calculate annual parking sales, assuming 206 work days per year (77,808*.56*12*260 = $135,946,138). We acknowledge that this estimate is conservative in that it only captures Downtown commercial parking and it only captures weekdays, but we also believe it is a reasonable proxy given that the vast majority of commercial parking spaces in the city are located in Downtown Milwaukee.

Formula: Proposed tax rate * $135,946,138

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[53] https://www.forbes.com/forbes/welcome/?toURL=https://www.forbes.com/teams/milwaukee-bucks/&refURL=https://www.google.com/&referrer=https://www.google.com/
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[56] http://companies.bizjournals.com/profile/milwaukee-admirals/678787/?mkt=milwaukee
[57] http://www.jsonline.com/story/entertainment/music/2016/11/21/bucks-bullish-more-concerts-new-arena/92796128/
[58] 2014 Downtown Milwaukee Central Business District Parking Study
[59] 2009 Colliers Parking Study, http://www.cleanairinstitute.org/cops/bd/file/gdt/103-parking%20globalcolliersparkingratesurvey2009.pdf

FOOD AND BEVERAGE TAX

Food and Beverage sales for Milwaukee from the 2012 US Census American Fact Finder, adjusted for inflation to 2015 (see Downtown Food and Beverage Tax)

Formula: Proposed tax rate * $785,601,753

INCOME TAX

The Income Tax used in our modeling mirrors Cleveland's approach in that it includes corporate income (profits from business conducted in the city), wages for Milwaukee residents earned in Milwaukee, and wages for non-city residents earned in Milwaukee.

Corporate Income Tax

Corporate tax revenue data for 2015 was obtained from the Wisconsin Department of Revenue. We divided corporate taxes generated in Milwaukee ($85,005,447) by the State tax rate (7.9%) to calculate total corporate taxable earnings ($1,076,018,316). Our assumption is that a local income tax in Milwaukee would be applied to the same corporate taxable income established by State revenue codes and that application of the tax rate established by our models would reflect this taxable income.

Aggregate Earnings for Residents of Milwaukee Earned in Milwaukee

Aggregate earnings[60] for residents of Milwaukee was $9,207,935,100 in 2015.[61] The U.S. Census also indicates that of the city's 600,000 residents, 469,920 (78.3%) are over age 15[62] and that 161,906 residents of Milwaukee work in the city.[63]

From this data, we determined that 34% of Milwaukee residents are over age 15 and work in Milwaukee (161,906/469,920 = 34%). Applying this percentage to the aggregate earnings for all residents of Milwaukee over age 15 provides an aggregate income for Milwaukee residents over age 15 that was earned in Milwaukee.

34% * $9,207,935,100 = $3,130,697,934

Per Capita Income = $3,130,697,934/161,906 = $19,337

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[60] Earnings is defined as the algebraic sum of wage or salary income and net income from self-employment. Earnings represent the amount of income received regularly before deductions for personal income taxes, Social Security, bond purchases, union dues, Medicare deductions, etc. https://factfinder.census.gov/help/en/index.htm#glossary.htm

[61] U.S. Census American Community Survey code B19061, 5-year estimate

[62] U.S. Census American Community Survey code S0101

[63] U.S. Census American Community Survey code B08008

Aggregate Earnings for Non Residents of Milwaukee Working in Milwaukee

From the Census we also find that Milwaukee employs a total of 300,458 workers.[64] Subtracting the number of workers in the city who live in the city (see above) indicates that 138,552 of the individuals who work in Milwaukee do not live in the city. For the purposes of the modeling we assume that workers in the city who do not reside in the city earn the same average per capita income as those who do not live in the city. Therefore, we multiplied the number of city workers who reside outside of the city by the amount of per capita income we calculated for the residents of the city who work in the city.

$19,337 * 138,552 = $2,679,180,024

Total Income Tax

$1,076,018,316 (corporate taxable earnings)
$3,130,697,934 (aggregate earnings for city residents working in Milwaukee)
$2,679,180,024 (aggregate earnings for non-city residents working in Milwaukee)
$6,885,896,274

Formula: Proposed tax rate * $6,885,896,274

PAYROLL TAX

The payroll tax used in the modeling reflects tax revenue obtained from gross payroll of for-profit employers and net income from self-employed individuals. We started with a Census figure of $13,659,239,000 for the annual payroll for all sectors from the City of Milwaukee,[65] and then indexed that amount to 2015 to arrive at a gross payroll of $14,442,328,253.

Formula: Proposed tax rate * $14,442,328,253.

LOCAL SERVICE TAX

The local service tax used in the modeling was $1 per week per employee for employees making over $12,000 per year. We previously calculated that workers in Milwaukee living both in the city and outside of the city = 300,458.[66]

Formula: Proposed tax rate * 300,458

[64] U.S. Census American Community Survey code B08604
[65] U.S. Census American Community Survey code SB1200CSA01
[66] U.S. Census American Community Survey codes B08604 and B08008