

# TAX STABILIZATION FUND

RESEARCH AND ANALYSIS SECTION

LEGISLATIVE REFERENCE BUREAU

2011 City of Milwaukee Proposed Budget

Hearing Date: October 6, 2010

## Overview

Tax Stabilization Fund 2002-2011		
Year	Balance Available*	Withdrawal
2002	21,529,440	11,000,000
2003	29,122,000	9,300,000
2004	33,745,000	16,870,000
2005	34,342,000	16,621,000
2006	33,900,000	16,328,000
2007	46,822,000	23,175,000
2008	58,951,000	29,475,500
2009	44,757,000	22,378,500
2010	25,500,000	13,000,000
<b>2011</b>	<b>29,096,000</b>	<b>14,600,000</b>
<b>Average</b>	<b>35,531,844</b>	<b>17,281,000</b>

1. The Tax Stabilization Fund (TSF) balance available for 2010 purposes and subsequent years' budgets is **\$29,096,000**. The 2011 proposed budget TSF annual withdrawal of **\$14,600,000** would leave a remaining available balance of approximately **\$14,500,000** prior to 2010 regeneration
2. A balance of \$14.5 million will remain prior to 2010 regeneration.
3. At this time, the Budget Office's estimated 2010 TSF regeneration is approximately \$11.0 million.
4. At the end of 2010, the Budget Office estimates the TSF balance will be approximately \$25.5 million.
5. It is important for the TSF maintain a stable or growing balance. In 2009, two debt rating agencies, Moody's and Fitch, noted the decline in the TSF balance in recent debt rating reports. Moody's includes, "Deterioration of reserve levels with no demonstrated commitment to restoring structural financial balance", as an event that that could move the rating down in its March 20, 2009 report. Fitch noted that "continued financial weakening resulting from economic erosion and/or state funding losses could trigger a bond rating downgrade. By continued "financial weakening", Fitch was referring to further draw downs of the TSF balance.
6. Since the Common Council has not acted on the proposed ordinance increasing fees, the City Comptroller has not recognized the additional revenue. However, the administration did include the additional revenue in the 2011 Proposed Budget as an additional \$560,000 in anticipation of revenue withdrawal from the Tax Stabilization Fund.

## Description and Legal Basis

1. The Tax Stabilization Fund (TSF) is the portion of the unrestricted general fund balance not designated for a specific purpose.

2. Withdrawal from the TSF serves as a revenue item in the budget, and offsets the amount of property tax levy that would otherwise be required.

3. State law permits cities of the first class to establish a TSF. The City of Milwaukee, in establishing a TSF, set forth the following purposes and objectives for the fund in section 304-29 of the Milwaukee Code:

- To assist in stabilizing the city's tax rate "within reasonable limits" from year to year.
- To protect the City and its citizens from fluctuations in the City property tax rate "which can result from erratic variations in non-property tax revenues".
- To improve the City's financial planning ability.
- To better enable the City to comply with state levy limits.

4. The primary **funding sources** for the TSF established by section 304-29 of the Milwaukee Code are:

- Revenue surpluses, i.e., the difference between estimated revenues and the actual receipts.
- Unexpected appropriations not carried over, except from internal service funds.

- Any internal service fund retained earnings that exceed 5% of that fund's budget.

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