

# CITY OF MILWAUKEE

## TAXATION AND LOCAL GOVERNMENT FINANCES

### IMPROVEMENT PLAN

#### 1. NEW REVENUE SOURCES

- A. City should further diversify its revenue stream and reduce reliance on the property tax and user fees (e.g., snow and ice control fee).
- B. Maximize the use of “alternative” local-government revenue sources, examples of which are provided below.
- C. Lobby the State Legislature and Governor for changes to State law to allow Wisconsin municipalities to collect various types of local-option taxes available to cities in other states but not currently permitted here (e.g., sales tax, payroll tax, income tax, tobacco tax or motor fuel tax). These local-option taxes could be authorized to fund general city operations or specific local government functions (e.g., public safety services). Some local taxes can even be benefit-based, i.e., they recover at least part of the cost of a public service from those who benefit from it (a motor fuel tax intended to fund street maintenance projects is an example).

According to *A Revenue Guide for Local Government* by Robert L. Bland, nearly 6,500 cities and more than 1,500 counties across the nation now collect a local sales tax. Also, cities in three states – Arkansas, Missouri and Oklahoma – derive more revenue from local excise taxes (utility, tobacco, motor fuels, alcoholic beverages) than from the property tax.

- D. Coupled with enabling local governments to collect local-option sales taxes, evaluate the benefits and drawbacks of other changes to sales tax policy, including: 1) an increase in the existing sales tax; 2) an expansion of the existing sales tax to a broader range of goods and services; 3) apply a lower-rate sales tax to certain goods and services not currently covered by the existing sales tax. All of these actions would require changes in state law, but they shift the tax burden from property owners to consumers and offer the potential to increase overall City revenues.
- E. Explore the feasibility of using “sales tax increment financing” (“STIF”) to fund local capital improvements within the STIF district. In Indiana, state law permits a municipality to recapture up to 50% of sales taxes remitted to the state by businesses in a STIF district; these funds may then be used to pay off the local government’s interest-free bonds used to fund capital improvement projects in the STIF district. This financing method has been used in four Indiana cities (Fort Wayne, Evansville, Hammond and South Bend).

# DRAFT

- F. Lobby the State Legislature and Governor for a change in the state sales tax law such that a county that levies its own sales tax would be required to distribute a portion of its sales tax revenues among all municipalities within the county. This would allow cities to avoid the “tax island” effect of implementing their own sales taxes.
- G. Seek revisions to state law to shrink the universe of property types that are eligible for tax-exempt status. About one-third of all property in the city of Milwaukee is currently tax-exempt; this property represents an enormous potential source of additional local-government revenue. For example, hospitals – many of which are expanding, constructing additions, adding employees, etc. – are profitable institutions and major landowners in Milwaukee, yet the City cannot collect property taxes from them.
- H. Increase the City’s vigilance in periodically reviewing and, where necessary, challenging the tax-exempt status of all tax-exempt properties in Milwaukee. Also, pursue changes in state law to replace the policy of granting 100% property tax exemptions in perpetuity based solely on the nature of property ownership with a policy of granting total or partial exemptions for specific periods of time based on both use and ownership.
- I. Lobby the State government for the necessary legislation to allow a portion of the net proceeds from the State lottery to be returned to the communities from which those proceeds are received.
- J. Pursue regional tax-base sharing in the Milwaukee area. Under tax-base sharing, all municipalities within a metropolitan area agree to share property-tax proceeds from new development. Each community contributes a set percentage of its tax base growth to the regional pool. Funds are redistributed based on a formula that takes into account each jurisdiction’s population and fiscal capacity. Two regions of the U.S. have adopted this approach: the Twin Cities metropolitan area in Minnesota and the Hackensack Meadowlands area of New Jersey. Again, state legislation would be required to allow – or mandate – tax-base sharing.
- K. Sell naming rights to City-owned facilities (e.g., playgrounds and recreation facilities, libraries, etc.). Businesses would make one-time or on-going payments to the City in exchange for being allowed to place their names on specific City facilities. One of the new revenues sources in the adopted 2008-2009 Dallas city budget is revenues from the sale of ad space on city vehicles.

# DRAFT

- L. Establish marketing partnerships with corporations that would pay the City for exclusive rights to sell or market their products or services on City property. For example, the City could negotiate an agreement with a soft-drink corporation under which the corporation would be designated the sole provider of soft-drink vending machines on City property (and/or be designated “the official soft drink/cola/soda, etc. of the City of Milwaukee”) in exchange for making fixed or commission-type annual payments to the City. Dallas, Houston, Long Beach and San Diego all receive revenues from marketing partnerships with soft drink companies.
- M. Redouble efforts to secure federal and state grants to local governments. Such grants should become more readily available (or available in larger amounts) as Democrats take control of both Congress and the State Legislature.
- N. Lobby the State Legislature for increases in State Shared Revenue payments to municipalities. These payments have not kept pace with inflation and are a primary cause of the City’s structural fiscal problems. With Democratic control of both the State Senate and State Assembly, now is the time to press the Legislature for long-overdue adjustments to the State Shared Revenue formula.
- O. Hold Milwaukee’s representatives in the State Legislature accountable for their support for, opposition to or inaction on proposed State legislation, grants, State budget provisions, etc., that would provide additional funds to Milwaukee and other local governments. Inform Milwaukee voters of the positions of these legislators on issues of fiscal importance to Milwaukee and its taxpayers.
- P. Explore the feasibility, benefits and drawbacks of selling or leasing income-producing City assets. Perhaps the best example is the Milwaukee Water Works; the Common Council recently authorized City departments to prepare and issue and a Request For Proposals to select an “advisor” to assist the Council in determining if privatization of the Water Works would be beneficial.

Another asset the City could consider selling is one or more of the 4 City-owned parking structures. In the late 1990s, the City issued an RFP for the purchase of 3 of the 4 structures. Two proposals were received (the higher one being \$25.2 million), but the Common Council decided not to move forward with the sale based on a Comptroller’s analysis that showed that, based on how revenue from the structures figured into the formula used to calculate Milwaukee’s annual State Shared Revenue payment, the structures were worth more to the City than to a private developer.

In 2006, the City of Chicago entered into a \$563 million, 99-year agreement with Morgan Stanley Investment Management to lease 4 downtown parking structures containing over 9,000 spaces. In return for paying all of the rent up front, Morgan Stanley was given the exclusive right to collect parking, advertising and retail concession revenue during the term of the agreement. Chicago has also issued a Request for Qualifications for a long-term (50+ years) single-concession lease of its metered parking system.

# DRAFT

- Q. Identify and market any additional City-owned real estate parcels or other assets (e.g., motor vehicles) that are surplus to City needs and have not yet been so identified.
- R. Annually review all City service charges and regulatory fees, and adjust to reflect changes in the cost of service delivery. This would entail requiring each City department to compile a list of all the charges and fees it collects, the actual charge/fee levels, the amount of revenue generated by each charge/fee and estimates of the total cost of providing the service or administering the regulation. The Budget Office would then analyze this information, calculate cost-recovery ratios and, during the budget adoption process, recommend charge/fee adjustments where appropriate. To a certain extent, the City does this already; this recommendation simply envisions a more exhaustive and methodical review.

## **2. COST-CUTTING MEASURES**

- A. Adopt a 4-day, 10-hours-per-day work week for City departments and offices. Some cost savings may be realized in terms of lower utility costs (heating, air conditioning and lighting) and reduced janitorial expenses. However, some jurisdictions that have adopted partial or across-the-board 4-day work weeks report that these cost savings are negligible. More significant savings result from increased worker productivity: lower absenteeism and sick-leave usage (because employees gain an additional “personal day”) and well as having to “set up” and “clean up” or “shut down” their workspaces only 4 times per week, rather than 5.

A 4-day work week would not apply to the Fire and Police Departments, and probably would not apply to Milwaukee Public Library. The Common Council would have to determine which additional departments (or divisions of departments) would operate more than 4 days per week. For example, the Council may decide that it wants the Health Department offices and labs in the Municipal Building to be open only 4 days per week, but the community health centers to be open 5 days per week.

This past summer, the State of Utah mandated that 17,000 of its employees (about 80% of the total) switch to a 4-day work week. The change was made to reduce the state government’s “carbon footprint,” increase energy efficiency, improve customer services (i.e., enabling the public to visit government offices before or after their work hours) and provide workers more flexibility in their personal lives. The availability of a 4-day work week is seen as a quality-of-life issue which will help the state attract qualified, younger workers. Other jurisdictions that offer 4-day work weeks (at least for employees in certain departments) include Gainesville, Florida, Hidalgo County (El Paso), Texas, Clackamas County (Portland), Oregon, Walworth County, Wisconsin, Will County, Illinois, and Birmingham and Montgomery, Alabama. Birmingham reported saving \$73,695 in fuel costs alone during the first month of the 4/10 schedule. The states of Georgia, Hawaii and Washington are also experimenting with 4-day work weeks in selected agencies. Several Massachusetts towns, seeking to reduce heating costs, operate

# DRAFT

with a 4-day schedule during the winter months only. In Oakland County (suburban Detroit), Michigan, participation in the 4-day program is voluntary.

- B. Combine City departments or divisions or sections within individual departments. This could enable the City to cut management positions or, where duplication of services/functions is eliminated, front-line positions. For example, the Administrative Services Division of DPW could be split up and folded into other DPW division or other departments (DOA-ITMD, DOA-Business Operations and the Department of Employee Relations come to mind). Or perhaps the administration of elections could be folded into the City Clerk's Office, as is common practice in many other cities in Wisconsin and nationally. Another possibility is the merger of the Department of Neighborhood Services with the Health Department or the Department of City Development (or certain sections of these departments). Even the Police and Fire departments have functions and positions (e.g., budget and finance administration) that could potentially be merged or transferred to other departments. The City of Phoenix is currently studying a number of organizational consolidation ideas to determine whether additional cost savings can be achieved. Work units have been merged to access a wider variety of skills and to offset peak work cycles.
- C. Merge certain City departments with Milwaukee County or Milwaukee Public Schools departments that perform similar functions, using intergovernmental cooperation agreements when necessary. The City already provides legal and human resources services for MPS. Perhaps the public works departments or human resources departments of the City and County could be merged. Alternatively, one jurisdiction could contract with the other for the provision of services (e.g., information technology management services).
- D. Adopt, for a limited period of time, a "hard" hiring freeze, with few, if any, exceptions (e.g., police officers and firefighters). Another way to describe this approach would be to say that vacancies will be held open for longer periods of time. The Louisville-Jefferson County Metro Government recently instituted a hiring freeze to save \$2 million. Also, in December, New Orleans Mayor Ray Nagin ordered a hiring freeze for all departments, including public safety, as part of his efforts to close an \$18 million gap in the 2009 budget.
- E. Offer, again for a limited period of time, a voluntary severance program. Long-time employees would be eligible for one-time severance payments as an incentive to retire. This would allow the City to replace employees who are at or near the top of their pay scales with new employees at the bottom of their pay scales, effectively saving the City considerable money. In 2008, the City of Chicago offered all non-union employees a one-time payment of between \$12,000 and \$18,000 if they agreed to retire within a one-month window. For 2009, Chicago is offering cash buyout payments of at least \$5,000 to union workers with at least 10 years of service.

# DRAFT

- F. Reduce the number of temporary or seasonal employees and the funding for these positions. Be more creative in the use of permanent employees to perform the duties now performed by temporary or seasonal employees.
- G. Reduce or eliminate City funding for private organizations, such as business improvement districts and local arts organizations. Wages paid to interns working in the Summer Youth Internship Program are another example of direct City funding of private parties that should be evaluated for potential cost savings.
- H. Close City government for a limited number of days and place all non-essential employees on unpaid furloughs. The Louisville-Jefferson County Metro Government recently ordered closure of its offices for 4 days to save \$2.9 million. It chose days -- all Fridays -- on which city workers historically have had a light workload: December 26, January 2, April 3 (the last day of spring break for public school students) and May 1 (Kentucky Oaks Day). In October, Oakland, California, approved a comprehensive package of mid-year budget revisions intended to eliminate a \$42 million deficit. This package includes a citywide facility closure and business shutdown (except for public safety and emergency services) for 13 days between November 2008 and June 2009, including a weeklong shutdown from Christmas through New Year's Day, for a total savings of \$3.8 million. Similarly, Berkeley, California, operates with 5 "reduced service days" as a budget-balancing measure. On these days, city hall, the finance customer center and the permit service center are closed, but the police and fire departments, main and branch libraries and animal shelter remain in operation. Chicago required all non-union city workers to take 2 unpaid days off from work in 2002 and 2005, up to 2 days off in 2007 and up to 3 days off in 2008 (the number of furlough days in 2007 and 2008 depended on pay level).

The consent of the City of Milwaukee's various labor unions may be required to implement this cost-cutting measure. However, an Oakland labor union that filed an arbitration grievance over that city's 2003 mandatory work furlough lost its case when the arbitrator ruled that the mandatory days without pay were legal.

It should be noted that the City Attorney has recently opined that the City of Milwaukee can mandate that City employees take a number of unpaid days off. However, such a mandate should prescribe a limited number of days off and should clearly state that the furlough is required because of City financial problems.

- I. Freeze salaries of management and other non-represented employees. Oakland's recently-approved budget revision package eliminated cost-of-living pay increases for city employees, except for arbitrator-imposed increases for sworn police officers. Also, in 2008, Chicago Mayor Richard Daley rescinded recent pay raises for non-union employees as a means of closing a looming budget deficit.
- J. Reduce personal transportation allowance for Common Council members, currently \$337 per month. A reduction to \$175 per month would save the City nearly \$30,000 annually.

# DRAFT

- K. Cut funding for “internal” expenses that do not directly relate to serving the public or persons visiting City offices. For example, the Louisville-Jefferson County Metro Government recently eliminated \$1.9 million in travel, office and employee-training expenses from its budget.
- L. Investigate the feasibility and potential costs and benefits of implementing “reverse privatization”. Under the reverse privatization concept, a municipality takes some of the work for which it uses private contractors (but at one time used city employees) and restores it to city staff. Chicago is now taking some of its water department work away from private contractors and giving it back to city employees. This can save a city money (i.e., contracts are terminated) while at the same time preserving jobs that might otherwise need to be eliminated (because of a lighter workload or city budget problems). However, before terminating contracts, a municipality should be sure that it has adequate staff (in terms of both time available and work skills) to perform the work now being done by contractors.
- M. Close one or more branch libraries or reduce library hours. Unpopular as this option is, it is being considered in other major cities, such as Philadelphia and San Diego, as a budget-balancing technique that avoids property-tax increases and cuts to even more essential services, such as public safety. (San Diego is also closing recreation centers and customer service centers, but Milwaukee doesn’t really have either of these types of facilities.)
- N. Direct all City departments to define their key service delivery areas and identify services which should be streamlined, eliminated or transferred to another department. Phoenix City Manager Frank Fairbanks asked every city department to undertake this process in 2006. The Phoenix initiative, known as “Renewing Phoenix,” helped city managers and employees to question and reinvent service delivery processes and to identify opportunities for partnerships across department lines and within the community. It helped the city prioritize services, identify services that should be scrutinized in the budget-review process and build lower-cost service delivery mechanisms.

# DRAFT

## 3. UNION CONCESSIONS

A. Request that the City's labor unions reopen their contracts and give each union a specific dollar amount in concessions that it needs to come up with for the next budget or before some date certain. Each union could then decide if it wishes to reach the concession amount through wage freezes, higher health-plan contributions, unpaid worker furloughs, fewer paid holidays or pay deferments, or some combination of these cost-saving measures. Unions would be told that if the concession targets are not met, layoffs will be necessary. The following are examples of how the union-concession approach has been used or proposed in other communities around the country:

- The mayor of Bridgeport, Connecticut, is using this approach to reduce city expenditures. For example, a deal was struck with Bridgeport's police union that allowed 10 layoffs to be canceled after officers agreed to no pay increases for 2 years.
- Chicago's 2009 budget provides for laying off about 770 employees, considerably fewer than the 929 layoffs originally proposed by Mayor Daley, because of negotiations between the city's labor unions and city leaders. At least 145 union positions were saved in a deal that included union employees taking an unpaid furlough day during 2009.
- California Gov. Arnold Schwarzenegger recently announced that he wants mandatory monthly one-day unpaid furloughs for all state employees for a period of 19 months. He has also proposed eliminating 2 of the state's 14 paid holidays.
- New York Gov. David Paterson has requested that contracts with labor unions be reopened and renegotiated as part of his effort to close a \$2 billion deficit in the state budget.
- The leader of the labor union which represents the majority of Orange County, California's employees proposed that all county employees – union or non-union – take one to 5 days off without pay between this past December 22 through January 4. This was viewed as being preferable to layoffs. If all employees took 5 days off without pay, the County could save \$20 million.
- In December, the president of the San Francisco Board of Supervisors announced a proposal under which the city's unionized workers, including police officers, firefighters and nurses, would be given the choice of either forgoing \$35 million in cost-of-living wage increases or being faced with massive layoffs that would save the same amount of money.
- The mayor of Toledo recently announced that 45 workers throughout city government (except uniformed police and firefighters) will get layoff notices for 2009 unless city unions agree to concessions. The local AFSCME president subsequently stated that concessions might be made if sacrifices were accepted by all city employees, including the elected ones. However, a week after the mayor's

# DRAFT

announcement, members of the local AFSCME overwhelmingly rejected the city's "last and best" offer for a new 3-year contract, one that would have frozen pay for 2 years, followed by a 2-percent increase in the third year.

- Following a 16-day strike in 2006, Detroit's public school teachers agreed to a settlement that included \$88 million in concessions, including fewer bonuses, less sick time and higher health care co-payments.
- B. Private-sector labor unions have been making contract concessions to preserve employment and help their employers remain competitive. These concessions could serve as a model for public-sector labor union concessions. For example, last October, members of the local United Auto Workers union at the Mitsubishi Motors plant in Normal, Illinois, ratified a contract that includes pay cuts, health-care cost increases and a 2-tier wage system under which new employees would be hired at a rate lower than current levels in return for Mitsubishi's promise to not lay off workers or close the plant for 4 years.
- C. In the legal opinion cited earlier, the City Attorney's Office indicates that, based on its review of the current labor agreement between the City and District Council 48, AFSCME (the largest of 19 unions representing City employees), a Common Council decision to reduce the work week of City employees for a limited period of time because of City financial problems would not constitute a violation of labor contract provisions. The opinion also states that, when a governmental employer's decision to shorten the work week has been challenged, arbitrators have generally ruled that there has been no contract violation if the reduction in hours is for a limited period. The City Attorney cautions that it would be prudent for any Common Council resolution mandating days off without pay to include "language indicating that the action shall be undertaken consistent with applicable collective bargaining agreement provisions and Wisconsin labor law."
- D. Another potential cost-saving labor concession would be an agreement by the Milwaukee Police Association to allow the City to pay police officer recruits who are in training at the Safety Academy or on probation at reduced rates. In other words, new police officers would not be paid at the full rate for their position until they have graduated from recruit classes and completed their probationary periods. A similar, tiered pay structure might also be employed for other positions that have probationary periods.

For example, if new police officers are paid at the rate of \$25,000 per year during their 23-week training course and \$30,000 per year during the 16-month probationary period, rather than the current salary of \$42,652 annually, the City could realize savings of nearly \$1.5 million in salary costs for a single 60-officer police recruit class (about \$464,000 during the training phase and just over \$1 million during the probationary period). Of course, this savings would be realized over a period of nearly 2 years. But if the City starts 2 police classes per year, the total savings from using this hypothetical tiered pay structure would easily exceed \$1 million.