

Research Brief

User Fees Quietly Emerge As Major Added Expense For Milwaukee Residents

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Highlights of the 2003 City Budget

- The tax levy is \$197.7 million, an increase of 5.3% from 2002 and an increase of 32% from 1997, the year before user fees were first imposed.
- The tax rate is \$10.18, \$0.69 lower than in 2002 and \$0.06 lower than in 1997. The tax rate can be lower while the tax levy is higher because the tax base in the City of Milwaukee has increased in the past few years.
- The city proposes to bring in \$44.5 million of user fee revenue in 2003, a 2.9% increase from \$43.2 million in 2002 and a 423% increase from 1998 when the first user fee was implemented.
- These are the fees:

The **sewer maintenance fee** is budgeted to bring in \$28.2 million in revenue, an increase from \$26.4 million in 2002 and \$8.5 million in 1998, when the fee was first introduced. The sewer maintenance fee is set at \$85.20 per single-family residence in the 2003 budget, an increase from \$76.63 in 2002 and \$24.78 in 1998.

The **solid waste fee** is budgeted to bring in \$13.9 million in revenue in 2003, the same as in 2002 and an increase from \$8.3 million in 2001, when the fee was first introduced. Although the mayor proposed to increase the fee to \$78 in 2003, the Common Council voted to keep the fee at its 2002 level, \$75.

The **snow and ice control fee** is budgeted to bring in \$2.4 million in 2003, down from \$3 million in 2002. However, based on weather, that amount may change. An average home with a 30-foot frontage has an estimated snow and ice control fee of \$8.21 in both 2002 and 2003.

Over the past six years, as Milwaukee has struggled with relative declines in state aid, user fees have quietly emerged as a significant burden on taxpayers. Even though property taxes still dominate budget discussions (The *levy* will increase modestly, but the *tax rate* will decline somewhat), three user fees that didn't exist six years ago have dramatically diversified the city's revenue. These fees are expected to generate \$44.5 million for the city next year. That is more than the entire tax levy for general city purposes as recently as 1998. For the owner of a \$100,000 house, user fees now account for 15% of the cost of city government.

A key factor that explains the rising fee burden is that the city continued to allow spending to grow after state aid payments began to flatten out in the mid-1990s. City officials have emphasized that they have kept spending increases at the inflation rate in recent years. However, the city's long-term decline in state aid — and population — raise the question of whether Milwaukee can afford to use inflation as its benchmark. In order to give residents tax and fee relief, the city may need to link spending with anticipated state aid rather than imposing added fees on citizens and businesses.

Since 1998, the city has increasingly relied on taxpayers and residents to provide the revenue to match spending increases. As Table 1 shows below, the typical Milwaukee homeowner's payment for city services has increased 60% since 1997 and 47% over the past three years.

Payment by owner of \$96,079 home for services

	1997	1998	1999	2000	2001	2002	2003 Budget
Home Value*	\$70,000	\$70,000	\$75,250	\$75,250	\$84,280	\$84,280	\$96,079
Tax Rate	\$10.24	\$9.99	\$9.71	\$9.69	\$10.49	\$10.87	\$10.18
Taxes	\$717	\$699	\$731	\$729	\$884	\$916	\$978
Sewer Fee	\$0.00	\$24.78	\$29.76	\$48.44	\$54.89	\$76.63	\$85.20
Solid Waste Fee	\$0.00	\$0.00	\$0.00	\$0.00	\$44.00	\$75.00	\$75.00
Snow/Ice Fee	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$8.21	\$8.21
Payment	\$716.80	\$724	\$760	\$778	\$983	\$1,076	\$1,146

*The change in home value accounts for assessment increases.



Why User Fees?

Since 1997, the City of Milwaukee's largest revenue source for general city purposes, state shared revenue, has increased 2.8%. This increase, when adjusted for inflation, actually translates to an 11% decrease in real dollars received. As a result of the slowdown in state aid, city officials in the late 1990s were confronted with the option of either decreasing spending or increasing revenue from other sources. Not wanting to drastically increase the property tax levy, which is the city's second largest source of revenue for general city purposes, in 1998, the city created the sewer maintenance fee, the first of three user fees that would be implemented over the next few years in an attempt to diversify the city's revenue sources. This Research Brief takes a look at what has happened with these user fees and how the city's revenue picture has changed as a result of them.

Since the creation of the first major new fee in 1998, the city has endeavored to achieve two goals with the implementation of user charges. First, equitably distribute the cost for services. User fees are perceived as more equitable than taxes since they ensure that everyone who benefits from a service pays for it, even tax-exempt entities. Thus, user fees remove from taxpayers' shoulders the burden of paying more than their fair share for services that others receive free of charge. However, although user fees may slightly lower residents' service bills since the cost is distributed among a larger number of entities, user fees mean that taxpayers must pay the fees in addition to what they already pay in property taxes.

The second goal of user charges is that the anticipated revenue raised from user fees would allow much of the cost of specific services to be taken off the property tax levy, thus lowering the tax rate and increasing the city's competitive standing in the eyes of residents and business owners who may want to live or work in Milwaukee. An important factor about user fees is that they are intended to take the place of the tax levy for the particular services that they are used to finance. The Kettl Commission, which was appointed by Governor Thompson in April 2000 to find ways to reform the relationship between state and local governments, makes this clear in its 2001 report: "Greater reliance on fees should not be used to increase local spending. Increases in fees should be matched, on a dollar-for-dollar basis, with decreases in local property tax levies." Unless the tax levy is reduced at a rate commensurate with the new user charge, taxpayers are paying more. As demonstrated in this Research Brief, the Kettl Commission recommended course of action has not happened in the City of Milwaukee, a fact that should be addressed as both the tax levy and fees revenue continue to increase in 2003.



User Fee Revenues Are Not Offsetting the Tax Levy

Table 2 shows how much revenue the city received (or budgeted to receive in 2002 and 2003) from each of the three user fees that have been established since 1998, as well as the amount the city levied for property taxes in each of those years. Additionally, since each of the services for which user fees have been enacted is funded through the General City Purposes budget, Table 2 shows how much of the tax levy has been allocated for general city purposes.

The table reveals that the city has not utilized user fees to offset the tax levy. On the contrary, revenue from user fees has been treated as extra revenue additional to the tax levy, as revenue from both have increased dramatically over the past seven years.

Specifically, in 2003, the city hopes to receive \$44.5 million in user fee revenue, a sum that is higher than the entire tax levy for general city purposes in 1998. Since the city no longer finances much of the expenses for these services through the tax levy, it stands to reason that the general city purposes levy should be significantly lower than before the fees were enacted. However, although the city initially decreased

the levy in 1998 with implementation of the sewer maintenance fee, in 2003, the tax levy for general city purposes is proposed to be \$85.4 million, a 71% increase from \$49.9 million in 1997 before the user fees were enacted. Therefore, in 2003, the city is receiving 161% more revenue for general city purposes from its taxpayers and service users than it received in 1997 — \$130 million in 2003 compared to \$50 million in 1997.

The city justifies its need to raise more money through the tax levy and user fees by making the valid points that state shared revenue has slowed while health care costs for city workers have skyrocketed. City officials also point out that they have kept spending increases at the inflation rate. However, the manner in which the city has used fees as additional revenue to finance increased spending rather than an offset to the tax levy means that the city's stated goals in implementing the fees have not been accomplished. Revenue diversification has not happened; rather, taxpayers are asked to shoulder a bigger burden as their user fees and their taxes increase.

City of Milwaukee Revenue from Fees and Property Taxes

Revenue Source	1997 Actual	1998 Actual	1999 Actual	2000 Actual	2001 Actual	2002 Budget	2003 Budget
Sewer Maintenance Fee Revenue	\$0	\$8,502,769	\$8,910,829	\$14,764,766	\$17,374,681	\$26,358,611	\$28,200,000
Solid Waste Fee Revenue	\$0	\$0	\$0	\$0	\$8,265,947	\$13,875,000	\$13,875,000
Snow and Ice Control Fee Revenue	\$0	\$0	\$0	\$0	\$0	\$3,000,000	\$2,400,000
Total Fee Revenue	\$0	\$8,502,769	\$8,910,829	\$14,764,766	\$25,640,628	\$43,233,611	\$44,475,000
General City Purposes Tax Levy	\$49,861,354	\$43,115,936	\$53,963,328	\$55,385,058	\$76,260,767	\$74,364,432	\$85,419,237
Total Tax Levy	\$149,316,606	\$147,089,358	\$153,585,037	\$150,066,769	\$180,579,413	\$187,806,681	\$197,706,605

Table 2



The Sewer Maintenance Fee

Not only has revenue from fees and taxes increased substantially over the past several years, but a closer look at the administration of each of the fees raises some additional concerns.

The sewer maintenance fee was established in 1998 to pay for sewer maintenance costs. Financing for this service was taken out of the city's general fund and placed into a newly created enterprise fund called the sewer maintenance fund. The creation of such a fund is good fiscal policy because it ensures accountability; taxpayers can see that the money being collected for sewer maintenance is actually spent on sewer maintenance.

As Chart 1 reveals, the fee has increased substantially since its creation. Much of the reason for the continuous increases is that the fee has been used to fund much more than it originally paid for. In 2000, the fee increased from \$29.76 to \$48.44 largely because the city decided to fund a major capital project, the Relief and Relay Sewer Program, with the fee. In 2001, the city decided that this program should be cash-financed. City officials regard financing capital expenses with a maintenance fee as appropriate because it ensures that "costs for sewer services will be borne primarily by those who most heavily use the service." Cash financing is viewed as appropriate because the program is an "ongoing maintenance and preservation program."

In 2002, the city decided to use the sewer maintenance fee to pay for street sweeping and leaf collection, which is the biggest reason that the fee increased 40% from 2001. The city argued that these services contribute to the maintenance of sewers. However, they are to some degree entirely separate from sewer maintenance functions. Presumably, regular street sweeping and leaf collection reduce unsightly litter and illegal dumping or burning of leaves. More importantly, although the costs

are recovered through the sewer maintenance fee, the revenue is transferred to the general fund. This is a break from the fiscally sound policy of establishing a separate enterprise fund; the fee is treated as more of a tax than a revenue source for a specific purpose.

An additional concern regarding the fund is raised in Table 3. The city consistently budgets more in the sewer maintenance fund than it actually spends. Yet the following year, more money is budgeted than the previous year's actual expenditures. There is no adjustment for the previous year's variance between actual and budgeted expenditures. For example, in 2001, actual expenditures were 27% less than budgeted. Yet 2002 expenditures were budgeted to be 77% more than 2001 actuals. Although some of this discrepancy is related to borrowing totals, the fee also continues to increase.

Based on dramatic increases over the past six years, absorption of other non-sewer functions, and major variances between actual and budgeted expenditures, taxpayers have reason to be concerned that the sewer maintenance fee has become a catch-all for the city to add more activities to the fund when more revenue is needed.

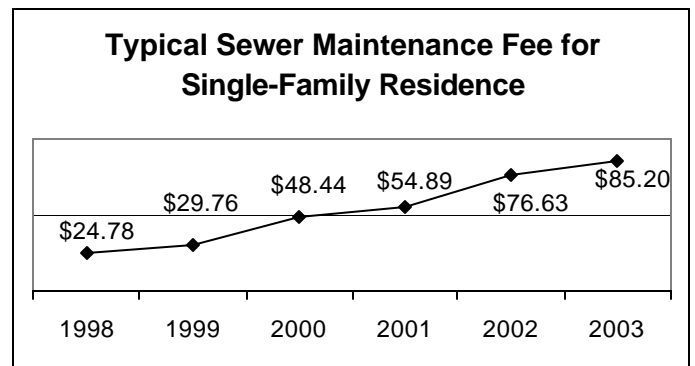


Chart 1

Sewer Maintenance Fund Budgeted and Actual Spending and Revenue

	1998 Budget	1998 Actual	1999 Budget	1999 Actual	2000 Budget	2000 Actual	2001 Budget	2001 Actual	2002 Budget
Total Spending	\$8,964,891	\$8,219,927	\$9,695,024	\$8,895,942	\$30,475,620	\$19,232,743	\$33,385,434	\$24,476,914	\$43,213,146
Revenue from Fee	\$8,675,221	\$8,502,769	\$9,522,524	\$8,910,829	\$15,539,870	\$14,764,766	\$18,020,434	\$17,374,681	\$26,358,611
Revenue from Borrowing	\$0	\$0	\$0	\$0	\$14,560,000	\$3,650,885	\$14,535,000	\$29,095,000	\$16,138,500

Table 3



Solid Waste Fee

In 2001, the city created the Solid Waste Fund, an enterprise fund into which the entire Department of Public Works-Sanitation function was placed. The solid waste fee was established to cover 25% of the costs related to solid waste collection. However, after only one year of existence, the city abolished the enterprise fund and increased the fee from \$44 to \$75 so that 45.6% of all solid waste costs were recovered.

With the dissolution of the enterprise fund, the revenue received from the fee now goes directly into the general fund, which is questionable since such an action makes it difficult to ensure that money collected from the fee is being used for solid waste collection purposes rather than for other general city purposes. The city's justification for abolishing the enterprise fund is that in 2002, a new operations division in the Department of Public Works was created by merging the Forestry, Sanitation, and Buildings and Fleet departments. The reasoning behind the creation of this division is that the consolidation of these departments would achieve greater efficiencies.

In 2003, the mayor made two seemingly contradictory proposals. The fee was proposed to increase to \$78 to cover 56.8% of solid waste collection costs. However, the rate increase was accompanied by a proposed service reduction. Specifically, "households that currently receive curbside garbage collection from April 1 until the end of November will be required to set out their garbage year round...." Although service cuts are necessary in a government that needs to keep spending down, it is difficult to justify charging more for diminished services. The Common Council recognized this and kept the fee at \$75 and maintained garbage collection services.

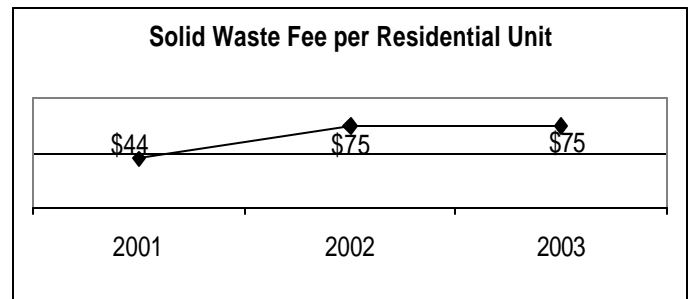


Chart 2

Snow and Ice Control Fee

In 2002, the city adopted another user fee, this one intended to recover the cost of snow and ice control services. This fee works slightly differently from the other fees because it is difficult to budget for the amount of money that will be spent on snow and ice control simply because weather conditions cannot be accurately predicted. Because state law mandates that the city cannot receive more revenue from any fee than is required to cover the costs of the service, in 2002, the city set the snow and ice control fee to recover \$3 million, the lowest amount the city has spent on this service in the past twelve years. The city expects to collect \$2.4 million in 2003.

However, city residents should be aware of the fact that legislation allows the city to modify this fee once per year based upon the actual cost of snow and ice removal. Since the city estimates that actual costs are likely to be \$8.5 million in 2002, it is possible that residents' bills will be higher than the current estimate of \$8.21 for a resident with a 30-foot property frontage.

In the mayor's recommended 2003 budget, he proposed that snow and ice removal services be reduced. Specifically, "DPW will continue to work to ensure bare pavement on arterial driving lanes during snow events, but will reduce excess salting and plowing on non-arterial streets to ensure safe driving conditions, not bare pavement." The Common Council restored salting services but adopted the cut in snow plowing. Although this service reduction may not be desirable to Milwaukee residents, if it does indeed reduce the cost of snow and ice removal, this action is not as questionable as decisions that have been made regarding the city's other two fees. Since this fee is meant to recover only the costs of snow and ice removal, if the cost of this service goes down, it should follow that rates will go down too. As long as this happens, a service reduction is relatively acceptable. However, based on the experience of other user fees, the snow and ice control fee administration should be closely monitored by taxpayers.



Milwaukee's Rising User Fees

The mayor's 2003 proposed City of Milwaukee budget continued a trend of increasing user fees imposed on residents and businesses. Although the Common Council made cuts in the fee increases, user fees continue to be a significant burden, especially in light of an increasing tax levy. The fees in question are the:

- **Sewer maintenance fee**, established in 1998 that charges city residents for sewer maintenance costs. The fee has increased 244% over the past six years, as a major capital program has been added to the covered costs, as have costs related to street sweeping and leaf pickup.
- **Solid waste fee.** It has increased 70% from the rate at which it was established in 2001 in order to recover costs related to solid waste collection in the city. Although the fee was originally created as part of a separate fund, that fund was abolished in 2002, causing the revenue from the fee to go into the general fund.
- **Snow and ice control fee**, established in 2002 in order to recover the cost of snow and ice removal. The fee has not increased, but it may increase as the city determines the actual cost of this service.

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