BUDGET BRIEF:

2011 PROPOSED
CITY OF MILWAUKEE BUDGET

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Study authors:

Doug Day, Researcher
Rob Henken, President

Public Policy Forum
moving the region forward

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INTRODUCTION

The 2011 City of Milwaukee proposed budget might best be characterized as a "new twist in an old plot." Permeating throughout the budget is the basic story line articulated in *Between a Rock and a Hard Place*, the Public Policy Forum's August 2009 report on the city's financial condition. That fiscal evaluation found that "despite outstanding bond ratings, a comparatively well-funded pension system and healthy reserves, Milwaukee has exhausted the capacity of its existing revenue streams to support its expenditure needs."

In 2010, the fiscal imbalance between revenues and expenditures – which city officials have attempted to manage for nearly a decade – reached distressing proportions, precipitated by a steep decline in the value of the city's pension fund. That decline necessitated a $49 million increase in the city's pension fund contribution, spawning significant expenditure reductions across all operations, as well as sizable increases in property taxes and fees.

In 2011, longstanding structural issues continue to impact the city's budget, though they are ameliorated considerably by a remarkable reversal of 2010's increased pension fund contribution. This fortuitous turn of events provides a reprieve for city leaders, but the continued impacts of stagnant state revenues, skyrocketing health care costs, limited elasticity in fee revenues, declining property values, and looming future pension payments indicate the reprieve is only short-term.

In the pages that follow, we highlight the major provisions of the budget document and critically evaluate their impact upon both city services and area residents. We also discuss some new program initiatives, and we consider how the 2011 budget impacts city finances in the long term. Our intent is to contribute to a more objective and informed debate on the City of Milwaukee's 2011 budget.

THE 2011 BUDGET ENVIRONMENT

The story of the city's 2011 proposed budget cannot be understood without first revisiting the events associated with 2010, particularly as they relate to Milwaukee's pension system. Long regarded as one of the most secure public pension funds in the nation, Milwaukee's fund was hit hard by the 2008 stock market plunge, which caused city pension assets to fall by nearly one third. Because of the City Charter requirement that the city budget include the full actuarially-determined contribution, a $49 million contribution was necessitated for 2010, consisting of about $47 million in property tax levy and $2 million in contributions from enterprise funds. The enormity of this increase is demonstrated by the fact that the growth in general purpose revenue from *all* funding sources between 2005 and 2010 was $33 million.

The $47 million tax levy blow – in combination with longstanding structural problems – rippled through city government and had major fiscal repercussions for all departments and operations. Police and fire departments, high-priority units that largely had been spared from previous budget cuts, saw noteworthy reductions. Also besieged were the public library and public health department, as well as many other departments.

The impacts were alleviated somewhat by a labor agreement in which the city's major union agreed to forego wage increases in exchange for a promise not to implement employee layoffs. Still, to generate salary savings, most city employees were required to take four furlough days.

To right the city's bottom line, revenues also were increased. The city raised the property tax by $10.1 million and charges for services (e.g. garbage, sewer, and storm water fees) by $8 million, causing many of those charges to approach their statutory limits. The city also drew $7 million from pension reserves to finance retirement payments.

For 2011, traditional structural problems continue to assert financial pressure. On the revenue side, state funding and shared revenue payments – which constitute about 40% of the city's general purpose revenues – remain flat as they have for many years, eroding purchasing power and making it difficult to meet inflationary cost increases. On the expenditure side, health care costs for city employees and retirees – which make up nearly one quarter of all general purpose expenditures – continue to climb. Total health care costs have increased by five times the rate of inflation since 2003 and are budgeted to rise substantially in 2011.

Unlike 2010, however, when the city's revenue/expenditure imbalance generated a large budget deficit and the need for major expenditure reductions, a new financial development has changed the city's fiscal fortunes, at least for this year. The city's pension fund is now fully funded as a result of the $49 million payment in 2010, as well as higher-than-anticipated rates of return in 2009. Consequently, the value of pension assets again exceeds liabilities, and the city does not need to make an employer's contribution to the pension fund (though it continues to fund the employee's share per current labor agreements). This means that the $47 million tax levy payment that was so painfully financed in 2010 is not required for 2011.

2011 BUDGET THEMES

The 2011 budget turns, to considerable degree, on what to do with this $47 million cushion. Its presence eliminates the need for a property tax increase or increases in major fees. In fact, a 4% increase in the general purpose budget derives from a reallocation of $22 million in property tax funds that were directed to the employee retirement system in 2010.

Because of the pension fund actuary's forecast that the city soon will need to resume substantial contributions to its pension fund, the budget responsibly puts aside about half of the pension contribution savings to address future pension needs. The actuary projects annual tax levy payments of $60-$90 million from 2013 to 2016. To avoid the kind of abrupt jump in payments experienced in 2010, the 2011 budget does not withdraw funds from the city's Employer's Reserve fund as it has the previous two years, and instead deposits another $17.4 million into this reserve account. This reflects a plan to fund massive future pension increases by building annual allocations and reserves, thereby mitigating the burden of the annual budgetary increase that soon will again be required. This strategy is discussed in detail later in this report.

The good news in the proposed budget, as shown in **Table 1**, is that the increase in general purpose revenues is greater than recent past increases (with the exception of a pre-recessionary boost that occurred from 2006 to 2007). Between 2006 and 2010, the annual median increase in general purpose revenues was $11.9 million, and the average increase was $5.7 million. In contrast, the increase in general purpose revenues recommended for 2011 is $22.9 million. This is a direct result of the city's ability to significantly reduce its property tax levy contribution to the Employee Retirement System, allowing for the infusion of almost the same amount of tax levy in the general purpose budget.

Table 1: City of Milwaukee General Purpose Budget, 2006 to 2011

Year	2006*	2007*	2008*	2009*	Adopted 2010	Proposed 2011
Budgets	$524,545,887	$560,989,488	$578,290,417	$584,850,286	$567,601,832	$590,508,320

* Actual Expenditures
Source: City of Milwaukee: Annual Proposed Plan and Executive Budget Summary

This greater-than-average boost in general purpose capacity is not the entire story, however. The bad news is that growing health care payments will consume the total increase. In fact, excluding health care expenditures, proposed department operations will fall by $1.2 million in 2011.

A strong secondary theme in the proposed budget is the continuing influence of the national economic downturn. The fingerprints of the economic malaise can be found throughout the budget, whether it is in the fall of property values and the rise in the property tax rate, the decline in the city's license and fee revenue brought about by lower economic activity, or the loss in value of pension assets.

Not all recession-related financial changes have been negative, however, as the city has seen a large influx of funds from the American Recovery and Reinvestment Act (ARRA), otherwise known as the federal economic stimulus program. A $10 million federal grant to fund the salaries of 50 police officers for three years and additional grant support for neighborhood services programs have a positive tax levy impact on the operating budget. An even bigger beneficiary is the capital budget, as stimulus monies help fund capital projects for energy and environmental quality, crime and public safety, public health, and transportation. These funds, as explained below, also have had a substantial impact on the city's program for street and bridge repair/replacement and sewer improvement.

ANALYSIS OF SIGNIFICANT 2011 BUDGET CHANGES

Of course, many changes that occur in a $590 million annual budget cannot be explained via budgetary themes. The following pages present a more detailed summary of changes in major revenues and expenditures and describe a few select program and financial initiatives.

Major Revenues

Table 2: City of Milwaukee major revenues, 2010 adopted and 2011 proposed budget

Revenue Category	2010 Adopted Budget	2011 Proposed Budget	Difference	% change
Intergovernmental	$270,871,600	$271,595,500	$723,900	0.3%
Shared Revenue	$228,250,000	$228,345,000	$95,000	0.0%
Other Revenue	$42,621,600	$43,250,500	$628,900	1.5%
Property Tax*	$246,754,533	$246,752,411	($2,122)	0.0%
Charges for Services	$96,061,752	$99,110,825	$3,049,073	3.2%
Miscellaneous	$41,331,700	$35,291,900	($6,039,800)	-14.6%
Licenses, Fees & Fines	$18,009,420	$17,312,200	($697,220)	-3.9%
Taxes and Payments in Lieu of Taxes	$15,248,500	$16,534,500	$1,286,000	8.4%

* Includes all property tax revenues; other revenues are for the general purpose operating budget
Source: City of Milwaukee: 2011 Proposed Plan and Executive Budget Summary

As shown in **Table 2**, there is little change in major revenues proposed for 2011. While $22 million in property tax levy funds have been redirected from the retirement system to the general purpose budget as described above, overall revenue from major sources in the total budget are mostly flat. Other changes include a new fee structure for solid waste and adjustments in charges for services and miscellaneous revenues. Total non-property tax revenue is down somewhat from the previous year.

- *Property Tax* – The property tax levy remains at its 2011 level of $247 million, although the proposed tax rate would increase from $8.89 to $9.12. Since the assessed value of the average city home has decreased, the higher rate will generate nearly an equivalent amount of tax revenues. A resident with an average home value of $123,000 will see his or her property tax decline by $6. The property tax allocated for debt service is budgeted to decline slightly from $74 million to $73 million.

- *Intergovernmental Revenue* – This is the city's largest source of revenue in the general purpose budget (which includes all operating funds except debt service and retirement). State shared revenue provides the overwhelming share of all intergovernmental funds and, once again, no increase is expected from this source in 2011. In the past decade, shared revenue has fallen from 50% ($235 million) to 39% ($228 million) of city general purpose funds.

- *Charges for Services* – A variety of programs contribute to a $3 million increase in charge for service revenues, with the largest jump in neighborhood service fees. No increase in charges is proposed for the city's major fee-funded services: solid waste, snow and ice removal, and street sweeping, leaf collection, and tree planting/pruning (the latter are funded via the local storm water charge). The city is introducing incentives in its solid waste fee structure in order to reduce garbage volume and control its rising "tipping fee" payments at waste disposal sites (now about $10 million annually). The new "pay as you throw" system, planned for expansion in 2012, lowers the fee charge for a single garbage cart by about $3.50 to $166 a year, but the city will now charge $5 per quarter for a second garbage cart (while providing a second recycling cart free of charge). About 20% of dwelling units to which the solid waste charge applies have more than one garbage cart. The city also will introduce legislation that will require a $1 permit sticker in order to place garbage outside of carts. Residents will continue to have the option of taking these larger disposal items to self-help centers or disposing of them during announced "clean and green" weeks.

- *Other Revenue* – The budget includes a decrease of $6 million in miscellaneous revenues, primarily resulting from elimination of a controversial $3 million "surplus fund transfer" from the Water Works enacted in 2010, and a $1.5 million decrease in the annual transfer payment from the parking fund. City officials report that the water works' financial condition has worsened in the past year due to a continued decline in resident water usage and associated fee revenue, as well as increased costs related to inspection, materials, and equipment, thus erasing any potential surplus available for transfer. The smaller parking fund transfer reflects a decline in parking meter revenue and occurs notwithstanding a $4.6 million withdrawal from parking fund reserves to the parking operating budget. Finally, the city intends to increase the draw from its "tax stabilization fund" by $2.1 million, from $13.1 million to $15.2 million. Consistent with recent practice, the 2011 withdrawal does not allocate more than half of the fund's total resources.

Major Expenditures

Fringe benefits constitute the most noteworthy expenditure item in the 2011 budget, with growth in health care costs dampening the benefits of the unexpected $49 million decrease in the pension contribution. Other less dramatic changes proposed for departmental budgets are funded by the rise and fall of dedicated revenue streams, as well as priority decisions.

Fringe Benefits

The 2011 budget prudently does not spend the full $49 million available from the temporary reprieve in pension fund contributions, but instead allocates about half to begin to prepare for the future. The budget makes a $17.4 million payment to the Employer's Reserve fund and eliminates the $7 million draw from the reserve in the 2010 budget. The reserve is projected to have a balance of about $29 million at the end of 2011.

Unfortunately, while that action still leaves about $24.6 million of the $49 million for other budgetary needs, that amount is more than offset by a $25.2 million increase in health care costs, which grow to $145 million. The growth is driven by a 17% increase in health maintenance organization (HMO) rates. The budget notes that "in prior years, the health care budget has been able to buffer annual increases with the carryover of remaining funds from year to year. However, 2010 expenditures are expected to meet or exceed budgeted funds leaving little or no carryover amount for 2011."

A major fiscal challenge faced by the city is not only the size and rate of fringe benefit expenditure increases, but their yearly swings. **Table 3** shows the volatility in health care and pension expenditures during the past several years, while also showing use of the city's two major revenue sources in its operating budget. The property tax revenues used for this comparison include all non-capital funds. The property tax and intergovernmental revenue are flexible in their use, meaning they are not restricted to specific programs and can be applied to any budgeted cost increase. Because state revenue sources are stagnant, this places considerable pressure on the property tax to respond to the large spikes in fringe benefit costs.

Table 3: Change in fringe benefit expenditures compared with change in intergovernmental and property tax revenues, 2007 to 2011 (in thousands)

	Change 2007		Change 2008		Change 2009		Change Adopted 2010		Change Proposed 2011	
	$	%	$	%	$	%	$	%	$	%
Major Fringe Benefit Expenditures										
Health	$10,690	12%	$7,540	7%	$3,122	3%	$6,303	6%	$25,157	21%
Pension*	$731	2%	($931)	-2%	($4,300)	-11%	$45,956	128%	($21,814)	-27%
Intergovernmental and Property Tax Revenues										
Intergovernmental	$123	0%	($1,441)	-1%	$1,239	0%	($1,465)	-1%	$724	0%
Property Tax	($2,095)	-2%	$7,161	5%	$15,366	11%	$12,214	8%	($310)	0%

* Pension payments from property tax funds

Source: City of Milwaukee: 2010 and 2011 Proposed Plan and Executive Budget Summary

Salaries and Wages

The proposed budget is able to achieve a $2.5 million decrease in salaries and wages – from $337 million in 2010 to $334.5 million in 2011 – because of a wage freeze in the two-year labor agreement signed last year and a small reduction in the city's workforce due to attrition. Full-time equivalent (FTE) positions funded with general purpose revenues are budgeted to fall from 5,804 to 5,766. The agreement with AFSCME District Council 48, the city's largest labor union, provides no pay increases or step increases for union members in 2010 and 2011 in exchange for a city commitment not to implement layoffs. AFSCME members and other city workers – with the exception of most police officers and firefighters – will be required to take four furlough days in 2011, the same number agreed to in 2010.

Department Highlights

With most revenue sources remaining flat, there are fewer major departmental initiatives in this budget than in previous years. In general, public safety functions (i.e. police and fire), which consume 57% of the operating budget's property tax levy, continue to receive priority attention, though neighborhood services and the library system also fare well.

- *Police* – The Police Department receives a funding increase of $12.1 million, though a substantial portion of the increase covers additional fringe benefit expenditures. Leftover funds allow for removal of the 2010 requirement that sworn police officers take two furlough days, though all sworn management and civilian employees will take four furlough days. Position adjustments for the department show a net increase of 6.06 FTEs and a rise in sworn officers of 23 FTEs. This increase is largely attributed to the first full year of grant funding from the COPS stimulus grant, which will support three years of salaries and benefits for 50 police officers for three years, but which will expire in 2013. The department plans to continue to control costs through measures such as use of civilians in administrative positions and differentiated patrol call responses.

- *Fire* – The Fire Department receives an increase of $3.1 million, much of which is consumed by fringe benefit increases. Still, the amount is deemed sufficient to provide service and staffing at 2010 levels. As in 2010, most members of the department are exempted from furlough days. The fire department is expected to limit the removal of rigs from service to two rigs per day and will select those withdrawals based on efforts to limit response impacts. Staffing is reduced by one FTE.

- *Library* – The budget restores some reductions in service hours imposed in 2010. Last year, eight branch libraries and the central library's arts and humanities room had their hours shortened by 22%, and three other branches had hours shortened by 38%. Under the proposed budget, four branches – Bay View, East, Washington Park, and Zablocki – will be open 10 hours more per week, including one additional full day of service. Also, an additional $57,900 is budgeted for library materials.

- *Neighborhood Services* – With the increase in foreclosures (discussed below), the Department of Neighborhood Services sees an expansion in its activities funded by federal grant monies and charge-for-service programs. The proposed budget includes 6.5 additional operations-funded FTEs and 10 additional grant-funded FTEs, most of which will assume duties for code inspection, enforcement, property clean-up, and other housing-related activities. Charges for services revenues will increase by $1.2 million, and federal grant dollars also will rise.

KEY 2011 INITIATIVES

Foreclosure Activities

The City of Milwaukee has seen a dramatic increase in foreclosures arising from the economic recession, as have other U.S. cities. There were an estimated 6,075 open foreclosure filings in July 2010, an increase of more than one third from April 2009. Foreclosures present serious housing, social and public safety concerns, especially if the foreclosed buildings remain vacant and uncared for.

To accelerate foreclosure actions, the city has developed an expedited legal, or *In Rem*, process. The proposed budget includes $229,000 to expand and expedite foreclosure actions – with $114,000 funded with general purpose revenues and $115,000 funded through a neighborhood services grant. According to the budget document, these funds will "include the capacity for 100 to 200 filings against properties that the Council and city departments identify as the most critical to blight prevention." Expedited foreclosure actions are seen as a means of limiting the amount of time that foreclosed properties remain abandoned and in poor condition.

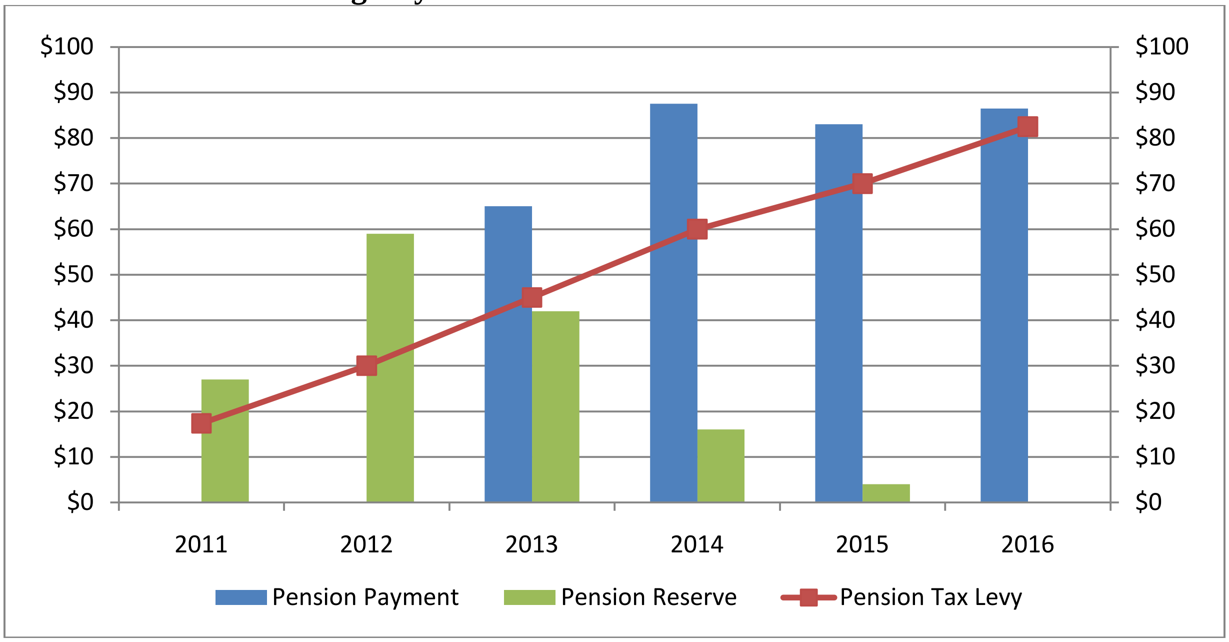
The budget also funds program initiatives to manage the increase in the inventory of city-owned properties arising from foreclosure actions. Budget increases include $150,000 for the Department of City Development's land management program, grant funding for housing demolition, and $50,000 for vacant lot management. The budget also includes $200,000 for a new program that will make minor repairs needed to prepare city-owned properties for sale. The capital budget adds $300,000 in capital spending authorization for the Housing Infrastructure Preservation Fund that "will be used to stabilize the condition of neighborhood properties that are priority candidates for significant restoration or rehabilitation."

Preparing for a Future Spike in Pension Payments

As noted above, a key feature in the proposed budget is the decision to allocate significant resources to the city's Employer's Reserve Fund. This decision is predicated on an analysis by the pension fund actuary that anticipates the resumption of significant tax levy contributions beginning in 2013. The amount is expected to be about $65 million in 2013, increase to nearly $90 million in 2014, and then remain in excess of $80 million in both 2015 and 2016. These costs are attributed to the fund's "smoothing formula," which spreads the huge investment losses that occurred in 2008, and the strong gains in the market in the years immediately preceding that crash, over five years.

By placing $17.4 million in property tax dollars into the pension reserve in 2011 – and eliminating a $7 million reserve withdrawal that occurred in 2010 – the city is initiating a strategy intended to even out the anticipated tax levy increases that will be required beginning in 2013. An additional contribution of nearly $30 million is planned for 2012. **Chart 1** below demonstrates the basic outlines of the city's funding plan for the next five years.

Chart 1: Projected Employer's Reserve balance & 2013-2016 employer pension contributions & remaining levy



Source: City of Milwaukee Budget Office

A few points on the city's pension fund and funding plan merit emphasis. First and most important, while directing tax levy funds to a pension reserve account in 2011 and 2012 will ensure that tax levy increases are spread more evenly over a number of years, the increases required still will be very large. Under the plan, tax levy-funded pension payments will rise by $10 million or more in five consecutive years from 2012 to 2016. By 2016, the pension tax levy will be about $80 million, or $60 million more than in 2011.

In addition, predicting future pension fund liabilities and assets is difficult since key factors are inherently unknown, such as rates of return on investment. For the immediate future, unexpected swings in annual tax levy pension payments are quite possible. Each time the funded ratio of the Employee's Retirement System falls below 102%, it generates a substantial tax levy requirement for that year's budget under the requirements of the City Charter. Conversely, when the funded ratio is above 102%, no such payment is needed. The actuary predicts the pension fund will be below full funding each year from 2013 to 2016. However, positive developments, such as rising investment returns, could push the pension fund above that threshold, thereby negating the need for additional payments in one or more years.

Without question, the city's strategy of building pension reserve funds in 2011 and 2012 – when no annual contribution is required – is an appropriate and responsible way to lessen the impact of anticipated wide swings in future pension payments. The difficulty with the approach is not in principle, but in its application given the inherently problematic nature of dedicating revenues to maintain long-term solvency at a time when there are many other pressing and immediate budget needs. It will be critical for the city to ensure that any reserves set aside are used for their intended purpose, a step the Common Council has recently initiated. The city has been a good steward of its pension funds – the retirement system has long been one of the best-funded in the nation – but past performance offers no assurance of future fiscal prudence.

Capital Projects

The 2010 and 2011 budgets have shown a substantial increase in funding for capital projects due to a large influx of federal stimulus grant awards. In fact, despite the overall increase, authorization for levy-supported general obligation debt, normally a key resource for capital funding, declines from $74 million in 2010 to $73 million under the proposed budget. The city continues to apply for ARRA awards and is awaiting word on a $10 million grant for the Putting Prevention to Work program. It has created a task force that oversees ARRA applications and monitors the use of these funds.

The proposed budget lists 22 ARRA grant awards received by the city or other municipal authorities. Large grant awards include $33.6 million from the Clean Water Revolving Loan Fund, $31 million for Street Transportation Project Funding, $25 million in the Neighborhood Stabilization Program, and $17.8 million in Energy Efficient Block Grants. Other stimulus awards include a $7.9 million grant for Lapham Park Public Housing Development and a $6.9 million grant for Homelessness Prevention and Rapid Re-Housing Program allocated to the city's housing authority.

The largest increase in grant and aid funding is for infrastructure improvements for streets and bridges. Over the past five years, the city reports that an average of $32 million has been expended annually on so-called major streets, i.e. roads that are part of the federal aid transportation system and eligible for county, state, and federal funding. The 2011 proposed budget includes $51.5 million in grant aid for 21 major street reconstruction projects. In addition, $8.3 million in city funds are budgeted for this purpose, including an additional $3.6 million to meet the required match for the federal grant increase. The budget also includes $23 million in capital funds for the major bridge program.

In recent years, a key budget initiative has been the repair and maintenance of the nearly 1,000 miles of local streets that are not eligible for state or federal grants, and that are funded by the city's Resurfacing Reconstruction program. The 2011 proposed budget includes $14.3 million for local streets, which is $2.3 million more than the 2010 budget. These funds will finance 14.8 miles of resurfacing and reconstruction.

Meanwhile, the city's aging sewer system has become a more important public and financial issue, and the budget includes $8.8 million for capital improvements "in the sewer sheds with the highest infiltration and inflow and the greatest risk of basement backup." The city will fund a demonstration project for one area, yet to be selected, designed to improve sewage infrastructure, as well as determine and remedy the contribution of private sewer laterals to overflow problems. Increasingly, the city is working with the Metropolitan Milwaukee Sewerage District on the planning and financial challenges associated with inspecting, repairing and replacing its aging sewers. Federal stimulus awards for sewer projects total $15 million in the budget.

CONCLUSION

In *Between a Rock and a Hard Place* and our 2010 city budget brief, the Forum warned that city budgets need to be evaluated not only in terms of their response to immediate fiscal pressures, but also on whether they address the city's long-term structural conundrum by taking steps to bring ongoing revenues and expenditures into balance. Key revenue sources, such as shared revenue, have not risen in many years, while expenditure drivers, such as health care benefits, have greatly exceeded the annual rise in inflation. While several solutions are possible, a primary challenge has been – and will continue to be – identifying those that have the smallest impacts on city services or property taxes.

In the 2011 proposed budget, that challenge temporarily dissipates. The budget responsibly directs about half of the available revenue resulting from the reprieve in the pension contribution to the retirement system to lessen the impact of future retirement payments, and about half to fund increases in health care costs. Other major initiatives, such as the growth in major and local street repair and replacement, are financed in large part through capital and ARRA funds. Meanwhile, the remainder of the budget is largely status quo.

A case could be made to increase the property tax for the coming year to more fully restore cuts made in 2010 and address other program needs. On the other hand, proposed 2011 funding for general purpose operations already increases 4%, and some of last year's funding cuts are fully or partially restored, such as library service hours and elimination of furlough days for sworn police officers.

Notwithstanding the one-year reprieve from major program cuts and tax/fee increases in the 2011 budget, the city's long-term prognosis remains challenging. If actuarial projections hold, the city soon will face pension contribution requirements of unprecedented proportions. Under the city's funding plan, pension fund reserves will be exhausted by 2016, and annual tax levy-funded pension payments will exceed $80 million.

Even if the pension fund investments rise more than projected and annual increases are less than anticipated, the city faces exceptional fiscal difficulties. There is little reason to expect the city's revenues to approach the growth rates of the past decade, a period when its current fiscal problems began. State finances are deeply troubled, as is well known, and shared revenue has not fared well in the competition with school aids, Medicaid, and prisons. Also, the city now has little flexibility to increase major fees, a strategy that has financed a considerable amount of its recent budget growth. Raising property taxes should remain a challenge given the state of the present real estate market and predictions for only a slow restoration in home values. Finally, under current economic conditions, the Tax Stabilization Fund and the city's enterprise funds lack the capacity to substantially increase their support for the city's operating budget.

The city's expenditure dynamic presents its own set of issues. Irrespective of pension costs, health care costs are likely to continue to spike as they have in the past decade due to the nature of the city's existing health care plan and the characteristics of the regional health care marketplace. Meanwhile, the city's agreement with District Council 48 and other unions helped reduce salary and wage costs in 2010 and 2011, but it may be unreasonable to plan for wage and salary freezes in the next labor contracts. If cuts in the size of the city workforce are required to help balance future budgets, then city leaders will face the stark reality that two-thirds of the city's salary and wage costs are generated by the police and fire departments.

Consequently, this analysis ends with a reiteration of the inherent instability in the city's long-term finances. The 2011 proposed budget – while not aggravating this situation and, in fact, undertaking some prudent actions to help address it – may present only an interlude to a more troubling long-term story. Ultimately, a comprehensive set of actions that deal with the city's broken revenue structure and difficult-to-control expenditure drivers will be required.