**Fiscal Facts: Act 12 Reshapes Milwaukee’s City Budget Outlook in 2024**

The city of Milwaukee’s 2024 budget proposal features a paradigm shift: after years of warnings about its finances nearing the brink, a revenue infusion from a new sales tax and state aid increase enables the city to generally maintain existing service levels and even invest in key areas.

Triggering the shift was the landmark 2023 Wisconsin Act 12, which gave the city a long-sought increase in state shared revenue while authorizing an even more consequential 2% local option sales tax.

These developments prevented the dire outcomes warned about in three in-depth reports issued by the Wisconsin Policy Forum since 2009, each of which warned the city faced structural challenges that would eventually threaten its ability to provide core services.

Instead, city leaders now are seeing an influx of $184 million in sales tax revenues and nearly $22 million in additional state shared revenue in 2024, plus the promise that both will grow in the future. With these new revenues at their disposal, city leaders are able to consider how to invest – instead of where to cut -- for the first time in a generation.

Mayor Cavalier Johnson’s proposal would use some of the new fiscal space to pay cash – instead of borrowing – to address part of the city’s capital projects backlog and accelerate major IT and public safety radio upgrades. It also would boost the city’s employee compensation structure to aid in recruitment and retention.

However, it appears the city’s newfound fiscal stability may be short-lived. Immediately after Act 12’s passage in June, it appeared the new revenues would enable the city to avert a substantial structural gap at least for a few years. It now appears that may have been overly optimistic.

A budget gap likely will re-emerge in 2025, when federal American Rescue Plan (ARPA) monies will disappear. But still remaining will be the city’s employer pension contribution, set to increase in 2024 to nearly $207 million, or nearly triple the amount paid in 2022.

While the city’s likely budget gap for 2025 will not be equal to the $110.3 million in ARPA funds that will disappear after 2024, a gap of $35 million to $45 million is not inconceivable.

City officials hope that the ability to once again draw from reserves will address a sizable portion of the anticipated 2025 budget gap. While this is a reasonable plan, the city has learned from recent experience that reliance on reserves is only a temporary stopgap. Consequently, city leaders would be wise to use the next year to redouble efforts to seek budget efficiencies and explore service sharing options with Milwaukee County and other municipal governments.

*This information is a service of the Wisconsin Policy Forum, the state’s leading resource for nonpartisan state and local government research and civic education. Learn more at* [*wispolicyforum.org*](https://wispolicyforum.org/research/state-tax-burden-up-but-overall-burden-still-falling/)*.*