



## Legislative Fiscal Bureau

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September 8, 2025

TO: Senator Van Wanggaard  
Room 122 South, State Capitol

FROM: Ryan Horton, Noga Ardon and Brianna Murphy

SUBJECT: City of Milwaukee Revenues and Expenditures

At your request, this memorandum provides information relating to: (a) how much additional revenue the City of Milwaukee has received as a result of 2023 Act 12 provisions related to shared revenue and the 2.0% municipal sales tax; and (b) the City of Milwaukee's annual unfunded actuarial accrued liability payments for calendar years 2024 and 2025.

### Shared Revenue

Act 12 included the establishment of the supplemental county and municipal aid ("supplemental aid") program, which provides an aid payment to each municipality and county in the state. This aid payment is provided in addition to the county and municipal aid payment that each local government had received prior to Act 12. However, unlike county and municipal aid, which is entirely unrestricted, supplemental aid may only be used for law enforcement, fire protection, emergency medical services, emergency response communications, public works, courts, and transportation. Additionally, supplemental aid may not be used for administrative services. Though supplemental aid is not entirely unrestricted, it could supplant other, unrestricted revenue sources that had previously been used for the purposes listed above.

Supplemental aid was first provided in 2024, in addition to the county and municipal aid payment that each local government had been receiving. Beginning in 2025, and in each year thereafter, both county and municipal aid and supplemental aid payments will increase by the percentage change in estimated state sales and use tax revenues, as outlined in the Legislative Fiscal Bureau summary of general fund taxes under each biennial budget act, for the previous fiscal year compared to the preceding fiscal year. As a result of this provision, payments in 2025 increased by 2.3% relative to the 2024 payments. In 2026, based on estimates of sales and use taxes under 2025 Act 15 (the 2025-27 biennial budget), these payments will increase by 3.4% over the 2025 payments.

In 2024, the City of Milwaukee received \$217,492,450 in county and municipal aid and

\$21,749,100 in supplemental aid, for a total of \$239,241,550. In 2025, the City will receive \$222,478,703 in county and municipal aid and \$22,249,329 in supplemental aid, for a total of \$244,728,032.

### **City of Milwaukee Sales and Use Tax**

2023 Act 12 authorizes the City of Milwaukee to adopt an ordinance imposing a municipal sales and use tax of 2.0%, subject to the following conditions: (a) the imposition of the sales and use tax receives approval by a two-thirds vote of the Milwaukee Common Council; (b) the City makes an election to join the Wisconsin Retirement System for all new employees, including employees of other entities that currently participate in the City retirement system; and (c) beginning in 2025, the City pays the annual amount required under the Act for the City's share of unfunded actuarial accrued liability under the City retirement system until the first year in which the system is determined by the system's actuary to be fully funded. Meeting these requirements, the City of Milwaukee's 2.0% sales and use tax became effective on January 1, 2024.

In Department of Revenue's (DOR) fiscal note to 2023 Assembly Bill 245 (Act 12), the City's 2.0% sales and use tax was estimated by the Department to generate \$193.6 million in 2024. This would equal a distribution amount to the City of Milwaukee of \$190.2 million, after DOR's 1.75% administrative fee.

According to DOR, the City of Milwaukee received \$169.3 million in 2024 from the 2.0% sales and use tax. One reason for this amount being considerably lower than DOR's original estimate is that DOR did not distribute any tax revenues to the City in January, 2024, and only made a partial distribution to the City in February, 2024. The City received no distributions in January and only a partial distribution in February because of the lag between when the sales and use taxes were first imposed (Jan. 1, 2024), and when those collections were subsequently required to be remitted to DOR by retailers. Despite only receiving \$169.3 million from DOR in 2024, the City likely "threw back" revenue received in the early months of 2025 into the 2024 budget year. Throwing back revenues into the prior budgetary year is a common accounting practice called accrual accounting. In this case, it may be reasonable to accrue revenues received in the early months of 2025 back into 2024 because of the delay of when the first tax revenue distributions were made to the City in the early months of 2024, and because tax revenues generated from sales that occurred in November and December of 2024, would not be distributed to the City until January and February of 2025. Because LFB does not have access to local government budgetary data or assumptions, the exact amount of revenue the City threw back to 2024 is a question that would be best answered by the City of Milwaukee budget office and the City of Milwaukee Comptroller. However, from what is obtainable in publicly available documents, the City of Milwaukee budget office reported \$182.5 million in actual expenditures tied to sales and use tax revenues in 2024, while the City of Milwaukee Comptroller reports \$200.6 million in sales and use tax revenues received in 2024. The actuarial valuation for the City retirement system as of January 1, 2025, cites the \$200.6 million figure as the starting point for calculating tax revenue-related provisions of Act 12. Both the City of Milwaukee Comptroller and budget office had budgeted 2024 revenues from the 2.0% municipal sales and use tax to be \$184.0 million.

For 2025, the City of Milwaukee budgeted for \$192.9 million in revenue from the sales and use taxes. For 2026, the City has initially budgeted for \$200.6 million in revenues from the sales and use taxes.

## **Act 12 Allowable Uses of Revenue and Reporting Requirement**

Act 12 specifies that, in each year, the City must utilize the revenue generated by municipal sales and use taxes as follows: (a) no more than 90% of the amount of revenue generated from the taxes in the first full calendar year in which the taxes are imposed is used to offset the actual costs of the City's annual required employer contribution for its unfunded actuarial accrued liability and to offset the increase in participating City agency employer contribution costs from 2022 to the then-current year for the City retirement system; and (b) 10% of the amount of revenue generated from the taxes in the first full calendar year in which the taxes are imposed is used to maintain a level of law enforcement and fire protective and emergency medical service that is at least equivalent to that provided in the City on April 1, 2023. The dollar amounts determined to be used for these two purposes would be fixed and would remain the same in subsequent years.

In any year in which the amount of revenue generated by municipal sales and use taxes exceeds the amount collected in the first full calendar year, and exceeds the amounts necessary to make the two fixed payments, the City must use the excess revenue to increase or maintain increases in the number of law enforcement officers or daily staffing level of the fire department until the City employs 1,725 law enforcement officers and a daily staffing level of 218 members of the paid fire department. Because the City of Milwaukee's 2.0% sales and use tax became effective on January 1, 2024, the year 2024 would be the first full calendar year in which the city tax is imposed. Therefore, 2025 would be the first year in which the City must use any available moneys (revenues received from the tax that exceed the amounts necessary to make the two fixed payments) to increase or maintain increases in these protective service staffing levels.

Beginning in 2026, the City must submit to the Legislature's Joint Committee on Finance an annual report containing detailed information on the City's expenditures in the previous year from the sales and use tax revenues collected. Additionally, the annual report is required to include information on staffing levels related to law enforcement, fire protection, and other public safety measures.

## **Unfunded Liability**

At your request, the following information relates to the City of Milwaukee's annual unfunded actuarial accrued liability (UAAL) payment for calendar years 2024 and 2025. As a point of comparison, information for calendar year 2023 is also provided, as determined by the Employees' Retirement System (ERS) of the City of Milwaukee 2022 actuarial valuation report, which was published prior to the passage of 2023 Act 12. According to the City of Milwaukee ERS actuarial valuation reports, the City of Milwaukee retirement system UAAL payment was \$139,904,400 in calendar year 2024 and \$143,007,900 in 2025. The payment for 2023 was \$89,518,000. Thus, the UAAL payment increased by 56.3% from 2023 to 2024 and by 2.2% from 2024 to 2025. The primary reason for the increase in 2024 was the Act 12 requirement that the investment return assumption be

reduced to 6.8% (from 7.5%). Note that the reported 2023 payment amount does not distinguish between the City of Milwaukee and other participating employers (such as the Water Department or the School Board), while the reports for 2024 and 2025 provide additional detail distinguishing between payments made by the City of Milwaukee and other participating employers. To give a sense of the proportion of the City's payment compared to other participating agencies, in 2024 and 2025, payments specifically for the City accounted for approximately 81% of the total amount for the City and other participating employers in both years. The portion of the UAAL payments made by the City for its employees (versus other employers) totaled \$113,066,700 in 2024 and \$115,768,900 in 2025.

As additional points of reference regarding the UAAL, according to the City ERS actuarial valuation report, as of January 1, 2023 (prior to the passage of Act 12), the City ERS calendar year 2022 investment return assumption was 7.5% and the UAAL totaled \$1,306.3 million. Effective with the January 1, 2019, actuarial valuation, the Board adopted a 25-year closed period to amortize the existing UAAL. Effective with the January 1, 2023, actuarial valuation, future changes to the UAAL arising from actual experience different than assumed were amortized over a closed 20-year period.

According to the City ERS January 1, 2024, actuarial valuation (after the passage of Act 12), the City ERS calendar year 2023 investment return assumption was 6.8% (reduced mid-year to comply with Act 12) and the return on the market value of assets was 9.98% as a result of favorable investment experience. However, because the City implements an asset smoothing method, the return on the actuarial value of assets was 7.64%. The UAAL totaled \$1,820.9 million, increasing by \$514.6 million due primarily to the reduction in the investment return assumption from 7.5% to 6.8%. Other factors affecting the change in the UAAL included higher cost-of-living adjustments and salary increases than anticipated, employee pension contribution offset lawsuits, and other experience. In accordance with Act 12, the projected UAAL was re-amortized over a closed 30-year period. The 2025 pension offset lawsuits (for policemen and firemen) were amortized over 10 years.

We hope this is of assistance.

RH/NA/BM/bh