CRACKS IN THE FOUNDATION:

AN ANALYSIS OF BUILDING REPAIR AND REPLACEMENT NEEDS AT THE CITY AND COUNTY OF MILWAUKEE

PUBLIC POLICY FORUM

ABOUT THE PUBLIC POLICY FORUM

The Milwaukee-based Public Policy Forum, established in 1913 as a local government watchdog, is a nonpartisan, nonprofit organization dedicated to enhancing the effectiveness of government and the development of Southeastern Wisconsin through objective research of regional public policy issues.

PREFACE AND ACKNOWLEDGMENTS

This report was undertaken to provide citizens and policymakers in the Milwaukee region with an understanding of the condition of certain buildings owned by the City of Milwaukee and Milwaukee County and the financial capacity of each government to finance rehabilitation and replacement of those assets in the near-term future. We hope that policymakers and community leaders will use the report's findings to inform discussions during upcoming policy debates and budget deliberations.

Report authors would like to thank officials and staff from the City of Milwaukee and Milwaukee County for their assistance in providing information on building condition and financial matters, and for patiently answering our questions. Those include the directors and staff from the City of Milwaukee Department of Public Works and its Bridges and Buildings division, as well as the Budget and Management Division; and from the Milwaukee County Department of Administrative Services and its divisions of Facilities Management and Performance, Strategy, and Budget.

In addition, we wish to acknowledge and thank the several entities that are providing financial support for our series of reports on local infrastructure condition and need. They are the Herzfeld Foundation, Wisconsin Housing and Economic Development Authority, Milwaukee Metropolitan Sewerage District, City of Milwaukee, Fund for Lake Michigan, and Brico Fund. We also thank the Northwestern Mutual Foundation and the Rockwell Automation Charitable Corporation for their long-standing support of our local government finance research.

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INTRODUCTION

Earlier this year, the International City/County Management Association and Government Finance Officers Association released a co-authored white paper entitled "Infrastructure Financing: A Guide for Local Government Managers."[1] The paper was prompted by their joint recognition that "local governments across the United States are facing a serious infrastructure deficit and are exploring new ways to finance needed expansion, upgrades, and repairs."

While the focus of the white paper was financing, it also spoke to the dimension of the problem. For example, the analysis found that in 2012, local government spending on infrastructure was *lower* than the amount spent 20 years earlier. Furthermore, this failure to keep up with infrastructure spending contradicted infrastructure needs, as evidenced by a U.S. Conference of Mayors survey that showed "aging and unfunded infrastructure is the greatest challenge confronting mayors."

The Public Policy Forum has embarked on a comprehensive research project to determine how this challenge is playing out locally. Our intent is to assess whether the largest local governments in Greater Milwaukee are effectively addressing their infrastructure needs, and to determine whether they have the financial capacity to meet their infrastructure challenges going forward. The research is being conducted over a 30-month timeframe and will result in a multi-part series of reports on local government infrastructure in metro Milwaukee.

In our first report (*A Fork in the Road?* [2]), released in September 2016, we focused on transportation infrastructure owned by Milwaukee County and the City of Milwaukee. Our second report (*Beneath the Streets*[3]), released in May 2017, addressed water, sewer, and wastewater infrastructure owned by the Milwaukee Metropolitan Sewerage District, the Milwaukee Water Works, and the City of Milwaukee. We found formidable challenges associated with all of these forms of capital assets, resulting not only from their age and needed upgrades, but also from limited borrowing capacity and the competing capital needs of other governmental functions.

In this report – our third in the series – we explore buildings owned by the City of Milwaukee and Milwaukee County. Our analysis focuses on the following research questions:

- How do the City and County identify and assess their building needs, and what is the general condition of their buildings?
- How are the governments financing their building-related and other capital projects and what is the current status of their debt loads and overall finances?
- How much would it cost to fully fund identified building repairs, improvements, and replacements over the next five years, and what is the capacity of each government to cover future costs while complying with capital budgeting and debt management pressures and policies?

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[1] Report is available at https://icma.org/documents/infrastructure-financing-guide-local-government-managers.
[2] Report is available at http://publicpolicyforum.org/research/fork-road-outlook-transportation-infrastructure-city-and-county-milwaukee.
[3] Report is available at https://publicpolicyforum.org/research/beneath-streets-outlook-metro-milwaukees-largest-water-and-sewer-infrastructure-assets.

The buildings covered in this report range from well-known and historic structures to little-noticed garages. For example, we cover iconic buildings like Milwaukee City Hall and the Milwaukee County Courthouse; high-profile public safety and social service facilities like the Milwaukee Police Administration building, the County's Criminal Justice Facility, and the County's Mental Health Complex; and lesser-known but significant structures that house the vital equipment that maintains and plows our region's streets and highways.

These buildings are important not only for the public services they house, but also because their proper care and improvement impacts the ability of each government to spend capital dollars on quality-of-life assets like museums and parks, and on the transportation, water, and wastewater assets that are critical to our region's economy and public health. Consequently, in the pages that follow, we analyze both the condition of City of Milwaukee and Milwaukee County buildings ***and*** the challenges involved with securing the financial resources to appropriately address repair and replacement needs.

The full series of reports – which also will include installments on parks and cultural assets and a wrap-up piece – will be completed by the middle of next year. Our overall intent is to catalogue and describe the infrastructure challenges of the major local governments in our region and to assess the resulting financial implications. We hope this research will be used as a tool for policymakers and civic leaders as they consider local government spending priorities and the larger revenue structure that is used to support local governments in Wisconsin.

DATA AND METHODOLOGY

The data utilized for this report were provided by staff from the City of Milwaukee and Milwaukee County or were obtained from publicly-available documents. We conducted no original research or inspections related to the state of publicly-owned facilities or equipment. While this limited our analysis of current asset condition and future needs to those identified and communicated to us by the governmental entities, the fact that we are policy researchers – and not facilities professionals – restricted us in this regard.

For the purposes of this report, publicly-owned buildings are defined as buildings owned by the City of Milwaukee or Milwaukee County that provide for the administration and provision of public services, including social services, public safety, public works, and legislative and staff functions. Because we plan to address the broad range of parks and cultural assets owned by the City and County in a subsequent report – including buildings used for recreational and cultural purposes – we do not address the condition of those buildings in this report.

We also do not include airport facilities owned by Milwaukee County (i.e. General Mitchell International Airport and Timmerman Field), as financing for the repair and replacement of those assets is derived from airlines and other users and does not involve the use of taxpayer dollars; and we do not include buildings related to the Milwaukee Water Works or City of Milwaukee sewers, as those were addressed in a previous report.

It is important to note that our analysis represents a "snapshot in time." The conclusions we reach on the condition of City and County buildings will change as additional needs are identified and/or project work is completed.

Finally, in assessing the needs of the City of Milwaukee and Milwaukee County with regard to their public buildings and the assets that comprise them, we focus on "capital" needs, as opposed to minor repair and maintenance needs that would be addressed in operating budgets. Capital needs typically refer to major repairs, rehabilitation, reconstruction, or replacement of facilities or equipment, and projects associated with those needs typically have a useful life of several years (and often several decades). In contrast, minor repairs and maintenance projects are included in annual operating budgets and typically include relatively inexpensive and short-term projects, like air filter and light replacements, painting, etc.

CAPITAL ASSET MANAGEMENT

This report considers best practices cited by the Government Finance Officers Association (GFOA) on asset maintenance and replacement as a standard to understand and assess the manner in which the City and County are managing the capital needs of their buildings. We often use documented best practices prescribed by respected organizations like the GFOA to serve as a measuring stick when assessing the performance of local governments.

GFOA defines capital assets as "major facilities, infrastructure, equipment, and networks that enable delivery of public sector services."[4] Effectively managing capital assets involves rigorous and time-consuming effort to continuously assess their condition; plan for their maintenance, repair, and replacement; and develop sustainable financial mechanisms to assure that needed work is conducted on a timely basis.

The GFOA issued a "best practice" memo on asset maintenance and replacement in 2010. That memo describes a series of practices that local governments should establish for assessing and managing their capital assets, including the following:

- *Inventory* – it is important for local governments to keep useful inventories of capital assets that include a regular assessment of the condition of each asset. GFOA suggests that a formal policy be developed to spell out inventory requirements and how measurement of the physical condition of assets will take place. Condition ratings should be updated every one to three years.

- *Reporting* – regular and effective communications on the state of capital assets is an integral part of effective management. In order to allocate funding for necessary projects, decision-makers must be fully aware of infrastructure needs. An effective reporting structure and strategy ensures that policymakers and the public have up-to-date information and understanding of capital assets' states of repair.

- *Capital planning and budgeting practices* – GFOA suggests that local governments prepare multi-year capital plans and establish ongoing sources of funds for repair and renewal needs. Capital plans and annual budgets should include sufficient funds not only for new projects and major repairs and replacement, but also for condition assessment and preventative maintenance.

GFOA Best Practice	Description
Capital inventory	A catalog(s) of publicly-owned capital assets containing information describing the type of asset, value, costs, rating, usage, useful life, etc.
Reporting	Structure and plan to report current conditions to elected officials.
Capital planning/budgeting	A plan that budgets for capital projects in a span of several years in order to maintain infrastructure at useful and safe levels.
Financial policies	Dedicated fees or other revenues solely for capital projects.

[4] GFOA, "Best Practice: Asset Maintenance and Replacement," 2010. Accessed at: http://www.gfoa.org/asset-maintenance-and-replacement

CAPITAL ASSET MANAGEMENT OF PUBLIC BUILDINGS AT MILWAUKEE COUNTY AND THE CITY OF MILWAUKEE

Milwaukee County's Facilities Management Division catalogs all County buildings and maintains a portion of them.[5] Similarly, the City of Milwaukee's Department of Public Works (DPW) houses the Bridges and Buildings division, where engineers and/or building professionals catalog and maintain many of the City's public buildings. However, some City departments – including the Milwaukee Fire Department (MFD), Port of Milwaukee (POM), and Milwaukee Public Library (MPL) – conduct their own building assessments.

Both the County and the vast majority of the City's departments use a Facilities Condition Assessment Program (FCAP). The FCAP involves use of engineers and/or facilities professionals to conduct inspections and identify needed capital projects.[6] Outstanding capital needs for a given building are aggregated and divided by the building's **replacement value** to develop a Facility Condition Index (FCI), which is meant to convey the current condition of the building to managers and policymakers.[7]

Replacement value: A building's replacement value (RV) is the amount it would cost to demolish and rebuild it based on its current physical structure and use. The RV is considered by engineers when determining whether or how much to invest in building repairs.

Table 1 shows how FCI ratings are distributed across the categories of "good," "fair," and "poor." A building in good condition has very few capital needs; a building in fair condition has moderate or some major capital needs; and a building in poor condition has a large amount of capital needs, to the point where building replacement should be considered.

Table 1: FCI ratings per condition description category

Condition description	FCI
Good	0.0 – 0.049
Fair	0.05 – 0.1
Poor	> 0.1

FCI calculations help engineers and facilities professionals compare the general condition of the buildings they manage, which is essential for prioritizing needs and making recommendations for resource allocation. At times, the nature of needed building repairs may suggest the need for full replacement, but resources are not sufficient to allow for such action. In those cases, smaller capital projects may be identified that are deemed sufficient to keep the building in working condition. If that is the case, then the FCI can provide an incomplete picture of the building's true condition, as it

[5] Many of the County's departments opt to maintain their own buildings.
[6] It is possible that repair projects identified through development of the FCI may be deemed as major maintenance projects that would be addressed in operating budgets. However, for the purposes of this report, we refer to all such projects as "capital" projects and needs.
[7] http://www.assetinsights.net/Glossary/G_Facility_Condition_Index.html

only will reflect the cost of the smaller capital repair projects as a percentage of the full replacement cost, and not the need for larger projects or full replacement.

At Milwaukee County, the FCI is used more as a planning tool than as a tool for assessing building condition. [8] Often, the County's version of FCI does not include the full range of projects needed to maintain the building's functionality, but only includes those needed to keep the building habitable until such time as replacement can occur.

To supplement the FCI, County engineers also use a Replacement Index (RI), which is a more thorough calculation of upcoming costs due to aging systems, typically within a 10- to 20-year window. Again, the cost of identified projects is divided by the building's replacement value to calculate the RI. If the cost of identified future projects exceeds 50% of the building's replacement value in a 10- to 20-year window (i.e. it receives a score of 0.5 or above), then building replacement should be considered.

Milwaukee County and the City of Milwaukee both conduct extensive record-keeping with regard to the condition of their public buildings. In the case of the County, however, we observe some weaknesses with regard to capital asset management best practices, including the following:

- As noted above, the FCI does not serve as a reliable tool to assess the future capital repair and replacement needs of County buildings due to its main use as a project planning tool. Consequently, County staff should take care to point out that purpose in order to avoid confusion about building conditions if FCI scores are reported to policymakers.

- Because neither FCI nor RI scores are regularly shared with policymakers, budget and elected officials only learn about building-related capital needs through capital project requests, or when major issues emerge.

- The nature and cost of major building repair projects often are not identified and/or shared with policymakers if it appears that the building soon will need to be abandoned or replaced. This can skew decision-making regarding the need for/timeliness of building replacement. In addition, this gap in knowledge can preclude appropriate consideration during the five-year planning process of capital costs that may be required to keep the building operational in the near-term, particularly if decision-making over building replacement is delayed.

While the City's version of FCI is more thorough as an overall condition assessment irrespective of possible replacement plans, we find room for improvement in that all City departments do not use the same methodology or follow the same procedures with regard to building assessment. Though all departments have the option to contract with DPW for assessment purposes, some do not. DPW handles the FCAP for its own buildings, as well as for the Milwaukee Police Department (MPD), the Milwaukee Health Department (MHD), and the Parking Fund. MFD, POM, and MPL have opted not to use DPW, however, utilizing different practices to assess the condition of their buildings (though both are working with DPW to improve their assessment methodologies). We would note that neither POM nor MPL was able to provide us with complete and up-to-date assessments using FCI.

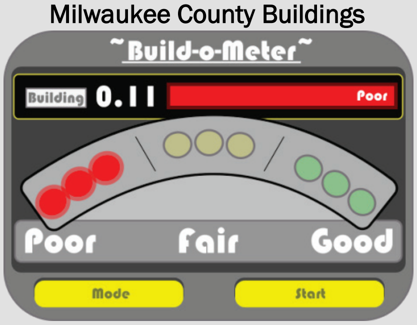
[8] The County uses an International Facility Management Association (IFMA) approved version of FCI for its own planning and maintenance purposes.

BUILDING CONDITIONS – MILWAUKEE COUNTY

Milwaukee County owns hundreds of buildings that are used for different purposes that reflect its wide variety of functions. As noted above, for this report, we focus on all County-owned buildings except those that are related to airports and those used for parks, recreational, and cultural purposes. County officials provided a list of 103 County-owned buildings that fall into that parameter.

Snapshot: Building Condition

Milwaukee County Buildings



Although FCI ratings give a positive snapshot of County building condition, RI ratings and deeper analysis of the 10 major buildings assessed by a county-hired consultant suggest otherwise. According to RI ratings, 12 of the County's 19 most significant buildings have identified capital projects that exceed half of the building's replacement value. Looking deeper, we also find that six of the 10 largest buildings are in poor condition, and that several fleet and transportation facilities have substantial deferred capital needs.

In attempting to provide an assessment of the overall condition of County buildings, our objective is to consider those that are most significant to the County's provision of its core services. Consequently, we sought to narrow our list of 103 to exclude smaller and/or less significant structures. Our initial filtering involved reducing our list to include only those buildings that have current (2013-2017) FCI and RI ratings. After that narrowing exercise, we then excluded those that do not exceed 1,000 square feet.

We ended up with a list of 19 buildings (we opted to treat the six buildings that comprise the Child and Adolescent Treatment Center at the Milwaukee County Mental Health Complex as one building). Those 19 buildings comprise more than 70% of the replacement value of all County buildings that were included on our original list of 103 buildings, and 53% of the total square footage of the 103 buildings.

Because the County tends to use FCIs for larger and more significant buildings, assessing the condition of the buildings on this list gives us some perspective on the overall condition of its portfolio of buildings. It is worth noting, however, that this is not a perfect methodology. In fact, as we will detail in the following section, the County is anticipating the need to undertake several expensive capital repair projects in the 2018-2022 timeframe on buildings that did not make our list of 19. Those projects pertain primarily to fleet and garage structures that did not receive FCIs and RIs.

Table 2 cites the 19 buildings on our list in order of their size, and shows their condition based on their respective FCI ratings. We see that 14 of the 19 buildings are in good condition, one is in fair condition, and four are in poor condition. The one building in fair condition and four buildings in poor condition represent $117 million (16%) of the $711 million replacement value for the 19 buildings combined. This provides a sense of the cost that would be associated with fully replacing the buildings if the nature of needed repairs dictated full replacement.

Table 2: Condition as determined by FCI ratings for 19 County buildings[9]

Building	SQFT	RV	Condition
Courthouse	703,347	$249,519,833	Good
Criminal Justice Facility	475,000	$176,749,757	Good
Safety Building	321,832	$65,896,805	Poor
Vel Phillips Juvenile Justice Center	219,539	$56,362,688	Good
House of Correction (HOC) Admin Bldg- Dormitory Bldg	254,400	$50,830,095	Good
CATC	190,170	$42,382,907	Poor
HOC Boiler House - Dormitory Building	116,707	$34,848,631	Good
Sheriff Training Academy	47,000	$8,017,590	Fair
Medical Examiner	46,500	$7,734,487	Good
HOC Franklin Lotter Dormitory Building	26,400	$6,711,688	Good
HOC Eli Surges Multi-Purpose Building	26,768	$6,708,468	Good
HOC Print and Welding Shop	9,625	$2,055,048	Good
HOC Garage	4,534	$600,179	Poor
HOC Maintenance and Storage Building	4,800	$569,805	Good
HOC Pump House	1,616	$472,634	Good
Courthouse Complex Guard Station - Annex Parking Lot	1,766	$434,657	Good
HOC Truck Storage Building	5,040	$381,671	Good
Sheriff's Hangar	4,200	$295,400	Good
HOC Salt Storage Building	1,024	$116,065	Poor

As noted above, FCIs as determined by County engineers only provide an assessment of a building's physical needs based on identified capital projects that are required to keep the building close to its original state. The FCI does not take into account any need for facility upgrades or improvements linked to modified use of space, regulatory compliance, or enhanced functional utility. It also is important to note that Milwaukee County does not include future capital costs in calculating the FCI if there is no intent to complete capital projects because of plans to sell or demolish a building.

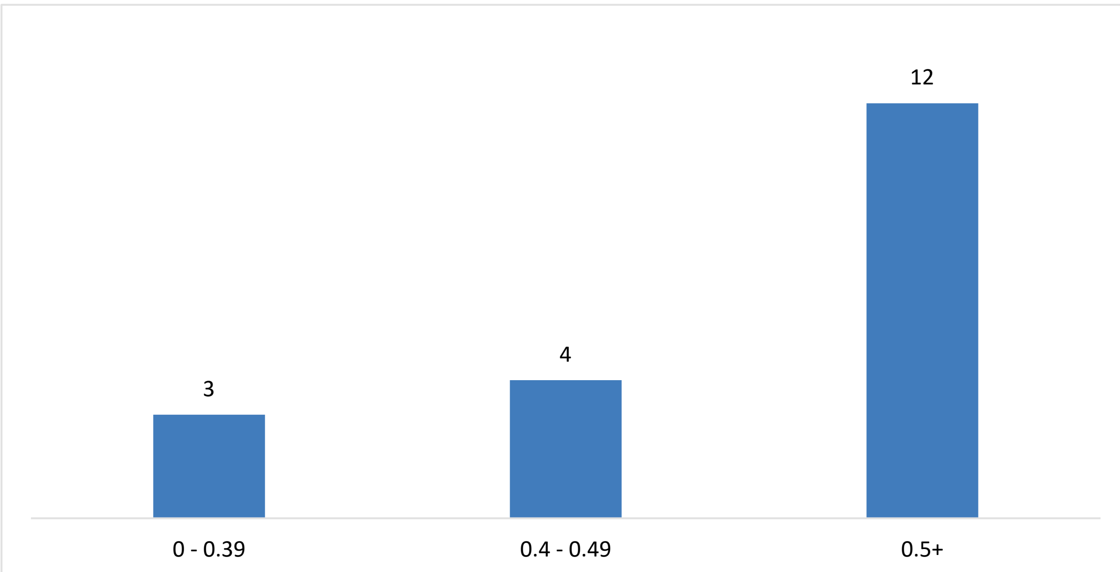
Given the limitations of the County's version of FCI as a tool for assessing the condition of buildings, the County uses RI as a supplement. By providing a more thorough indication of the need for repairs or replacement of a building's key systems, the RI gives decision-makers an additional means of determining whether capital dollars should be spent on building repairs; or whether, conversely, such expenditures would be imprudent given that the most sensible approach would be to pursue relatively near-term replacement.

RI ratings convey a picture that is distinct from that conveyed by the FCI. As shown in **Chart 1**, 12 of

[9] Buildings for the House of Correction and the Sheriff's Office are not maintained by the County's Facilities Management Division.

the 19 buildings (63%) have RI ratings of 0.5 or above, which indicates they have exceeded the threshold for when building replacement should be considered. Four buildings (21%) have scores between 0.4 and 0.5, which means they are nearing that threshold, while three have scores indicating that replacement does not need to be considered for some time. It is important to note that a building that is nearing or exceeding its replacement threshold does not necessarily need to be immediately replaced; however, such a rating does indicate that the capital costs anticipated over the next 10-20 years to keep the building operational are sufficiently high that replacement should be considered.

Chart 1: RI ratings for 19 County buildings



When we consider the replacement value of the County buildings that have RI scores of 0.4 or above (meaning they are at or nearing the threshold at which 10- to 20-year repair needs indicate the building should be replaced), we see that the potential replacement cost is substantial. **Table 3** identifies those 16 buildings, their RI ratings, and their replacement value. The good news is that the two County buildings with the highest replacement value (the Courthouse and Criminal Justice Facility) have not yet hit the 0.5 RI threshold. The buildings with an RI score of 0.5 and above do have a substantial collective replacement value of about $227 million, however.

Table 3: 16 County buildings with RI ratings of 0.4 or above

Building	SQFT	RV	RI
Courthouse	703,347	$249,519,833	0.40
Safety Building	321,832	$65,896,805	0.58
Vel Phillips Juvenile Justice Center	219,539	$56,362,688	0.48
HOC Admin Building - Dormitory Building	254,400	$50,830,095	0.68
CATC	190,170	$42,382,907	0.81
HOC Boiler House - Dormitory Building	116,707	$34,848,631	0.64
Sheriff Training Academy	47,000	$8,017,590	0.60
Medical Examiner	46,500	$7,734,487	0.53
HOC Franklin Lotter Dormitory Building	26,400	$6,711,688	0.63
HOC Eli Surges Multi-Purpose Building	26,768	$6,708,468	0.79
HOC Print and Welding Shop	9,625	$2,055,048	0.54
HOC Garage	4,534	$600,179	0.50
HOC Maintenance and Storage Building	4,800	$569,805	0.57
HOC Truck Storage Building	5,040	$381,671	0.55
Sheriff's Hangar	4,200	$295,400	0.43
HOC Salt Storage Building	1,024	$116,065	0.43

To strengthen our assessment of the condition of County buildings, we utilized a 2013 report that was commissioned by the County to assess its most mission-critical buildings.[10] The Comprehensive Facilities Plan Consulting Report was prepared by CBRE, a local real estate services firm, and typically is referred to as the "CBRE report." The report's authors conducted visual inspections of each building, focusing on six critical points:

- Overall Facility Condition
- Functionality/Utilization
- Operational Issues
- Major Capital Requirements
- Health and Safety Compliance
- Highest and Best Use

While the report considered 25 buildings, we focused on its findings related to 10 of the largest structures (we consider three buildings that comprise the Milwaukee County Mental Health Complex as one building).[11] Because the report is now nearly five years old, we also reviewed capital improvement projects associated with the buildings since the report's release, as well as 2018-2022 capital budget requests for each building.[12]

[10] https://milwaukeecounty.legistar.com/LegislationDetail.aspx?ID=1288169&GUID=D7ADC62D-ABD0-4589-BC53-F4EB224DCC31

[11] Of the 15 buildings we did not consider, six no longer are owned by the County (including City Campus and the Research Park Technology Innovation Center); most of the others are senior centers or recreation centers.

[12] Our review of 2018-2022 capital budget requests entailed requests submitted by departments to the Capital Improvements Committee prior to July 2017. The Committee helps determine which requests make it into the

Table 4 cites those buildings and their respective replacement values, and also shows that six of the 10 buildings were included in our list of 19 buildings that have received FCI or RI ratings.

Table 4: 10 mission-critical County buildings assessed in CBRE report

Building	Replacement Value	FCI/RI
Courthouse	$249,519,832	Yes
Criminal Justice Facility	$176,749,757	Yes
Mental Health Center	$77,087,574	No
Safety Building	$76,762,402	Yes
Marcia P. Coggs Human Services Center	$46,775,772	No
Vel Phillips Juvenile Justice Center	$42,390,530	Yes
Combined CATC	$41,379,459	Yes
Day Hospital	$23,206,949	No
Community Correctional Center	$21,687,927	No
Medical Examiner	$8,115,709	Yes

The replacement value of the 10 buildings comprises 76% of the $1 billion total replacement value of the 103 buildings on our original list, and 60% of the 4.6 million square feet of space found in the 103 buildings combined. Consequently, understanding the needs and condition of these 10 buildings again gives us a good sense of the state of County buildings as a whole.

Below, we provide brief summaries and individual assessments of the condition of these major County buildings. We assign a "Good," "Fair," or "Poor" assessment based on our consideration of the CBRE report and subsequent capital projects and project requests. Also, in the text box on the following page, we provide some perspective on the capital needs of buildings that did not make the CBRE list and that did not receive FCIs or RIs.

It is important to note that subsequent to the development of the CBRE report, the County created a Consolidated Facilities Planning Steering Committee that was charged with reviewing the totality of the County's building needs and developing strategies to help manage those needs by consolidating personnel and functions in a smaller footprint. Since that time, the County has made progress on building consolidation, most notably by selling or liquidating the City Campus, O'Donnell Park parking structure, Downtown Transit Center, and Research Park Technology Innovation Center properties.

Historic Courthouse – Condition: Fair

The Milwaukee County Courthouse houses the offices of most of the County's elected officials (including the County Executive and the County Board of Supervisors), a variety of administrative functions, and several courtrooms. It is over 85 years old and is listed on the National Register of Historic Places.[13] In 2013, the Courthouse experienced an electrical fire emergency that caused $19.1 million in damage, according to a 2014 audit report.[14]

County's five-year capital improvements plan, so it is possible that some of the requested projects we cite will not make it into the plan.

[13] Listing in the National Register of Historic Places protects the building from being demolished. Rehabilitation is the only option for ameliorating the building's condition.

[14] The vast majority was taken care of by insurance payments; however, the County had to appropriate funds for other costs not covered by insurance. The report can be found at:

According to County engineers, some of the Courthouse repairs necessitated by the fire helped enhance the building's condition (several code violations were found and fixed during restoration). Although the building's FCI shows that it is in good condition, the 2013 CBRE report—which was conducted before the fire—shows areas of concern that have yet to be addressed.

North Shop Exemplifies County's Deferred Building Needs

Milwaukee County began considering a potential capital project to renovate or replace its North Highway Shop (North Shop) in 1996. The facility – which houses fleet and equipment for the County's Department of Transportation – had outlived its functionality because of a growing fleet and employee base, which did not exist when the building was originally designed and constructed. The County commissioned schematic plans and design and formulated costs for a new facility in 1998-99, and it updated those planning documents in 2003 and 2004 as decision-making on a new facility slowed to a halt.

Despite the functional weaknesses of the building and its growing maintenance and repair needs, only one $300,000 capital project (to replace a deteriorating salt shed) was approved for the North Shop from 2005 to 2014. This reflected a common, troublesome cycle for the County. The cycle begins when repair or improvement needs are deferred year after year because there is a possibility of building replacement. Then, when replacement does not materialize because of financial constraints, maintenance and repair needs become so steep that they, too, are deemed unaffordable or imprudent because the building no longer is functional.

In 2015, the North Shop's parking lot and fence were replaced at a cost of $177,250. Plans for complete building replacement recently were revived, with an update to the original plan and schematic designs more than 20 years after the original decision was made to plan for replacement. The County Executive's 2017 recommended capital budget included a $1.3 million appropriation to initiate North Shop replacement design work, but the project was removed by the County Board.

Requests for appropriations of $8.3 million in 2019 and $1.7 million in 2021 for North Shop replacement remain under consideration. Whether those funds make it into the capital budget in those years remains to be seen.

While the North Shop presents a unique case in terms of the length of its potential replacement timeline (21 years and counting), other structures that house County vehicles and/or equipment face similar challenges. An important dynamic is the competition for funding among various Department of Transportation capital needs. Because needs like bus replacement and county trunk highway repairs are necessarily ranked as higher priorities than building needs by the Department, repair projects at garages and similar facilities do not make it into capital budgets. This dynamic played out again recently when the Capital Improvements Committee did not include funding for roof replacement at the Milwaukee County Transit System's fleet maintenance building and its Kinnickinnic garage in the list of projects recommended for funding in the 2018 capital budget.

The County's capital budget projections indicate that the Courthouse is in need of several repairs and upgrades in the coming years. HVAC replacement has yet to occur, but current plans call for it to

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https://milwaukeecounty.legistar.com/LegislationDetail.aspx?ID=2121097&GUID=30F5DEE8-76DD-4CB4-BAC6-32772AF8C6FE&Options=&Search=

be included in the 2019 and 2020 budgets, along with several other projects. Additionally, some of the building's light courts need rehabilitation, the roof drain needs replacement, water and steam pipes need replacing, and electrical infrastructure upgrades need to be made, along with a handful of other major projects. The budgeted and projected costs for these major projects total more than $38.2 million.

Criminal Justice Facility – Condition: Fair

The Criminal Justice Facility – which houses the Milwaukee County Jail – was built in 1992 adjacent to the Courthouse primarily to serve individuals awaiting trial. The facility has a capacity of 1,000 inmates and also houses a 24-bed health care unit, combined City/County booking facility, and jail administration staff support space. In addition, the charging unit of the district attorney, four judicial courts, and a central intake unit run by an outside agency are located in the complex. The facility has seen some recent deterioration and code compliance concerns. In addition, the CBRE report identifies an aging HVAC system and underutilization of some space. However, a major roof replacement project that had been in the pipeline for several years was initiated in the County's 2017 capital budget at a cost of $2.5 million. Once this major project is finished, the building's rating should move back into good condition.

Milwaukee County Mental Health Complex – Condition: Poor

The Mental Health Complex consists of three facilities located on the County Grounds in Wauwatosa: the Mental Health Center, the Day Hospital, and the Children and Adolescent Treatment Center (CATC).[15] Subsequent to a 2010 Public Policy Forum report, *Transforming the Adult Mental Health Care Delivery System in Milwaukee County (HSRI),*[16] the County initiated a transition from an inpatient-oriented service delivery model to one focused more on community-based services, with a greater volume of inpatient care outsourced to the private sector. As a result of this transition, the County eliminated two 70-bed long-term care facilities and substantially reduced its number of inpatient beds at the Complex. Those actions have left the County with an outdated facility that no longer meets program requirements, far exceeds needed space requirements, and is overly expensive to operate.

The County currently is seeking to outsource all remaining inpatient and emergency services, which may allow it to close the Mental Health Complex and sell the property. However, in the meantime, the buildings are expensive to operate, and the need to keep emergency room and inpatient services operational exposes the County to continued regulatory compliance costs. Projects requested for the 2018-2022 timeframe would entail $19 million in capital expenditures for these buildings, demonstrating the substantial investment that may be needed to allow the Complex to remain in service.

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[15] The Food Service building, also in the CBRE report, is a part of the complex and is no longer in use.
[16] http://www.publicpolicyforum.org/research/transforming-adult-mental-health-care-delivery-system-milwaukee-county

The following are condition summaries for each of the three buildings:

Mental Health Center: The Mental Health Center currently houses a 24/7 psychiatric emergency room, a 24/7 psychiatric crisis line, an Access Clinic that provides outpatient services, three adult inpatient units, and a child and adolescent inpatient unit. As the Behavioral Health Division (BHD) has sought to consolidate its operations in smaller portions of the overall Mental Health Complex property in recent years, functions originally housed in the Day Hospital were moved to the Mental Health Center. Those functions include Wraparound Milwaukee (serving children and adolescents with severe emotional, behavioral or mental health issues), and Community Access to Recovery (community-based services for persons with a serious mental health issue, a substance abuse issue, or both).

Although in fair physical condition, the Mental Health Center no longer meets BHD's functional and spatial needs. In fact, in 2013 – even before the full extent of downsizing had occurred – the CBRE report recommended that options for replacement should be explored. Yet, despite this recommendation and widespread agreement that the Mental Health Center has outlived its usefulness, several capital projects have been identified that will need to be pursued if BHD continues to be an emergency and inpatient service provider at that location. For example, 2018-2022 capital requests includes replacement of the Center's air handling system at a projected cost of $13.4 million over three years.

Day Hospital: Built in 1968, the Day Hospital was abandoned in 2015. Current plans are to sell the building for its land value. There are no capital projects expected.

CATC: The CBRE report treats the five buildings in the Child & Adolescent Treatment Center (CATC) as one building. As the name suggests, these buildings once housed a variety of behavioral health services for children and adolescents. However, those services were transferred from the CATC portion of the property almost two decades ago. The buildings currently house staff from the University of Wisconsin-Extension, Clinicare/Milwaukee Academy, and the County's Emergency Medical Services program, but the County plans to completely vacate them by the end of the year in anticipation of the property's potential sale. Consequently, no capital projects are expected.

Safety Building – Condition: Poor

Built in 1929, the Safety Building (located in the same complex as the Courthouse and Criminal Justice Facility) originally was designed as a mixed-use building housing the central police station, City courts, the City jail, the County Sheriff, some County courts, and the County jail. The building has gradually been re-purposed to serve primarily as office space for justice system personnel (including district attorney and Sheriff's staff), but it does not adequately meet that need. According to the CBRE report, several portions of the building are unoccupied, including former jail areas. Also, concerns have been cited regarding the need to transport prisoners in open, public areas within the building.

The County has announced plans to replace the Safety Building by demolishing it and developing a 10-story criminal courthouse that also would house certain functions now located in the Historic Courthouse. Departmental requests for the 2018-2022 capital plan include $20 million in 2021 and $200 million in 2022 to accommodate this project, though final project planning has not been completed and a financing plan has not yet been identified. In the meantime, capital projects identified for the existing building over the next five years include a $2.2 million window replacement project and a $648,000 bathroom reconstruction.

Marcia Coggs Human Services Center – Condition: Fair

Built in 1910 as a Schuster's Department Store at 12th and Vliet Streets in Milwaukee, the building was purchased by the County for its Welfare Department in 1963. In 2004, it underwent a $12 million renovation that allowed for consolidation of 450 human services employees from three separate locations into the facility. At the present time, the first two floors of the building are leased to the State of Wisconsin for State-run income maintenance programs (formerly administered by the County), while the third floor houses the County's Disabilities Services Division and administrative offices for its Department of Health and Human Services.

Given that the facility was renovated only 13 years ago, its current capital repair needs are not extensive. Requests for the 2018-2022 timeframe include a variable air volume boxes replacement project and a carpet replacement project that are projected to total $3.9 million.

Based upon the ability of the County to absorb current Coggs Center functions at other locations, the CBRE report recommended that consideration be given to selling the building. Both the 2013 report and our assessment indicate the building is in fair condition.

Vel Phillips Juvenile Justice Center – Condition: Good

The Vel Phillips Juvenile Justice Center on the County Grounds in Wauwatosa houses the Milwaukee County Children's Court and Juvenile Detention Center. The original building was built in 1962 and an addition was constructed in 1994. The district attorney's office, the state public defender, and outside attorneys have office space in the building, as do Milwaukee Public Schools and Sojourner Family Peace Center.

According to the CBRE report, the Center is in good condition and is adequate for the functions housed in the facility. Capital budgets from 2013-2017 included very few projects for the Center and only one project (at a cost of $75,000) has been requested thus far for 2018-2022. The CBRE report suggested that consideration be given to returning the juvenile justice function to the Historic Courthouse complex if room is available when (and if) the Safety Building is replaced; however, Phase I of the Courthouse Complex Planning project recommends that this function remain housed at the Vel Phillips Juvenile Justice Center.

Community Correctional Center – Condition: Poor

The Community Correctional Center is located across State Street from the Courthouse and once housed the County's work-release program. The building was abandoned in 2010 and has since been on the market for alternative use and/or sale. The CBRE report recommended demolition, but the building since has been the subject of negotiations between the County and a developer, Heartland Housing, Inc. In 2016, the County and the developer reached an agreement for the building to be remodeled by the developer in order to construct low-income housing. Pending the acquisition of resources, the developer will acquire the property from the County for $10,000. Additionally, the County has agreed to dedicate $1.8 million to the development.

Medical Examiner Building – Condition: Poor

An alarming issue raised in the CBRE report was the poor condition of the Medical Examiner's building, located across State Street from the Courthouse and attached to the Community Correctional Center building. The current facility does not meet upcoming Centers for Disease Control requirements for autopsy facilities. Several HVAC, electrical, and plumbing issues were recognized, as well as roof leaks, which led report authors to suggest that the building be demolished. For the 2018-2022 timeframe, a $1 million project for building restoration has been requested, though this is likely a placeholder given that the County is considering plans to relocate the Medical Examiner to a new site.

SUMMARY

Our analysis of County buildings focused on 19 of the County's most significant buildings that have been rated by the County using FCI and RI methodologies, and involved a deeper dive into the 10 largest buildings addressed by CBRE in its 2013 analysis for the County (six of those 10 overlap with our list of FCI- and RI-rated buildings). We find the following:

- While FCI ratings indicate that 14 of the 19 buildings are in good condition, those ratings consider only those projects that are required to keep the building operational in the near term, and they often do not take into account major projects that would be required if the building is not going to be replaced. This has to do with the fact that the County uses FCI mainly for project planning purposes.

- RI ratings provide a clearer picture of building condition by taking into account major capital repair needs that would be required over a 10- to 20-year timeframe. Those ratings show that 12 of the 19 buildings have identified capital projects that exceed half of the building's replacement value, which is an indication that full replacement should be considered.

- Based on the CBRE report – and adding information gleaned from recent and projected capital improvement budgets and requests – we also find that six of the 10 largest buildings (including three buildings that comprise the Milwaukee County Mental Health Complex) are in poor condition.

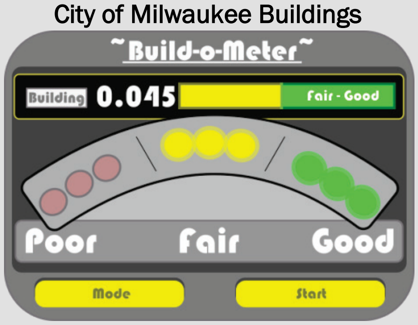
Overall, despite recent efforts to sell or liquidate unneeded properties, this is a disconcerting situation for County officials and leads us to rate the overall condition of County buildings as "poor." The need to replace the Safety Building, the Mental Health Complex, and the Medical Examiner's headquarters has been known for some time, but there still is no resolution to these needs. In the meantime, the Historic Courthouse and Criminal Justice Facility have significant needs, as do several buildings associated with the House of Correction and several fleet and garage facilities. The financial implications of this array of capital repair and replacement needs will be discussed later in this report.

BUILDING CONDITIONS – CITY OF MILWAUKEE

The City of Milwaukee also owns a variety of buildings that reflect the diverse set of services for which it is responsible. For this report, we focus on all City-owned buildings except those used by the Milwaukee Water Works and the Sewer Maintenance Fund, which we addressed in our May 2017 report on water and sewer infrastructure; and those used by the Port of Milwaukee and Milwaukee Public Library, as we were unable to obtain current and reliable information from those departments on the current condition of their buildings.[17] That left us with a list of 110 buildings.

Snapshot: Building Condition

City of Milwaukee Buildings



FCI ratings indicate that 65% of 66 buildings assessed by DPW are in good condition, while 11% are in fair condition and 24% in poor condition. Of the 20 largest buildings, 14 are in good condition, while two are in fair condition and four in poor condition. Notably, two of the City's most mission-critical buildings – City Hall and the Police Administration Building –are in the poor and fair categories, but both are in the midst of major repair/renovation projects. Once those projects are completed, the condition of the two buildings will be upgraded, but they have caused other citywide building repair needs to be temporarily deferred. Additionally, we find that Milwaukee Fire Department buildings are in reasonably good shape.

As noted above, DPW conducts condition assessments for its own buildings (including those that fall under the Parking Fund) and those used by multiple departments, like City Hall, the Zeidler Building, and the 809 N. Broadway building. In addition, DPW assesses the condition of buildings used by the Milwaukee Police Department and Milwaukee Health Department. The Milwaukee Fire Department, Milwaukee Public Library, and Port of Milwaukee assess their own buildings.

The primary assessment tool used by DPW is the FCI. In contrast with the County, FCI ratings at the City take into account all identified repair and replacement projects for which cost estimates have been developed, as opposed only to those needed to keep the building habitable pending replacement. Also, it is worth noting that the City's FCI ratings take into account projects identified in previous years that have been deferred, while the County's typically do not.

DPW provided FCIs for a list of 76 buildings that it assesses, which was filtered to exclude buildings that are smaller than 1,000 square feet. This yielded 66 buildings that we analyzed using both FCIs and replacement values.[18] Consideration of this list of buildings provides an understanding of the

[17] It should be noted that the Milwaukee Public Library is working with DPW to upgrade its building assessment methodology to be consistent with that used by DPW and that the Port of Milwaukee also has sought assistance from DPW in improving its building assessment practices.
[18] The 10 buildings we excluded are all used by DPW.

largest and most mission-critical buildings used by those departments assessed by DPW. Together, they comprise three million square feet and have a replacement value of $597.1 million.

As shown in **Chart 2**, FCIs indicate that 43 of the 66 buildings (65%) are in good condition, while seven (11%) are in fair condition and 16 (24%) are in poor condition. All but one of the 16 buildings in poor condition is used by DPW.

Chart 2: FCI rating categories for 66 City buildings

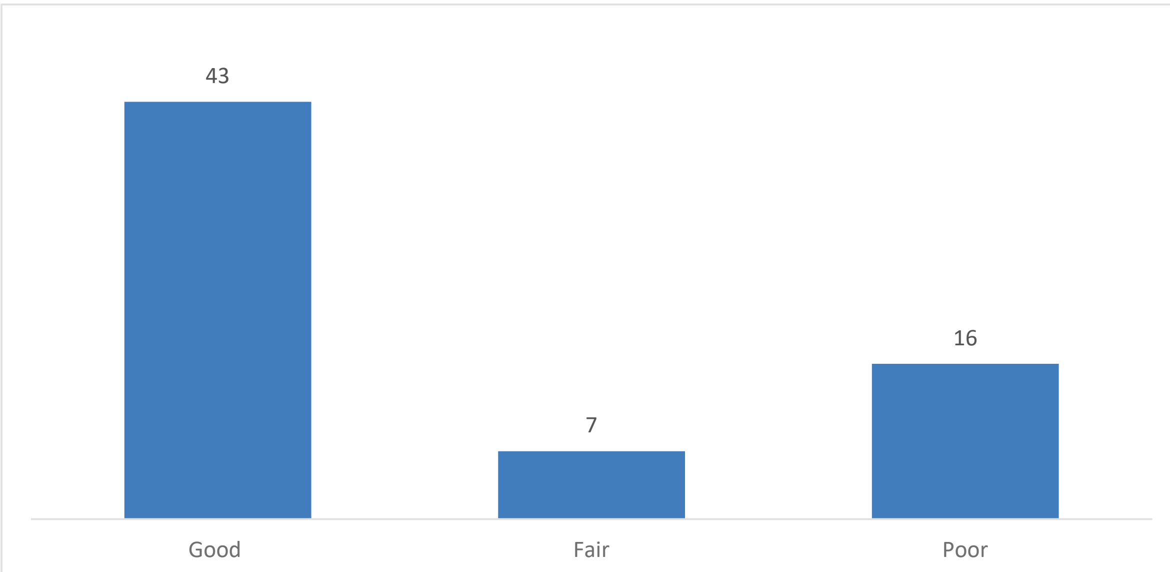


Table 5 shows the 20 largest buildings in terms of square footage, as well as their replacement value and condition based on their FCIs. We see that 14 of the 20 buildings are in good condition, containing over half (54%) of the $549.7 million in replacement value among the 20 buildings.

Table 5: Condition as determined by FCI ratings for 20 City buildings

Facilities	SqFt	CRV	FCI
MacArthur Square Parking Structure	643,351	$41,888,660	Good
1000 North Water Parking Structure	337,594	$34,338,966	Good
Police Administration Building	261,886	$67,494,059	Fair
2nd and Plankinton Parking Structure	204,404	$12,710,357	Good
3rd District Police Station/Data Comm	201,370	$71,092,632	Good
Milwaukee and Michigan Parking Structure	177,630	$9,949,781	Fair
Central Repair Garage	149,995	$16,555,495	Good
Municipal Services Building	111,782	$12,336,912	Poor
City Hall	256,360	$146,487,820	Poor
Zeidler Municipal Building	316,648	$65,659,096	Good
Lincoln Garage	85,124	$7,452,262	Poor
Northwest Garage	71,456	$7,014,627	Poor
Police Warehouse	48,278	$4,585,852	Good
Lincoln Garage Transfer Station	31,238	$2,943,220	Good
6th District Police Station	30,810	$6,946,318	Good
North West Health Building	30,479	$6,984,423	Good
Southside Health Building	29,879	$6,561,388	Good
RA Anderson Municipal Building/Lake Tower	28,820	$9,417,347	Good
Neighborhood Task Force Building	27,255	$7,620,312	Good
5th District Police Station	26,389	$7,694,070	Good

It is important to note that two of the most significant buildings on this list – as defined both by their replacement value and mission-critical nature – are not in good condition:

- The 121-year-old **City Hall** is rated in poor condition per its FCI. The building has undergone extensive work over the past 11 years, beginning with a major renovation project in 2006 that included substantial rehabilitation of its façade, and continuing more recently with an ongoing project to repair its foundation. Major foundation work was initiated in 2016 and will be continued for the next three years. According to the 2017 six-year capital plan, $42 million will be needed to complete the project between 2017 and 2020 (the total price tag is expected to be between $53 and $60 million). The building's condition will be upgraded after the foundation work is completed, but this is a stand-alone project that has not addressed City Hall's wide variety of needs. For example, mechanical systems on several floors will need to be improved, and a potential remodeling project for the eighth floor may be pursued.

- The **Police Administration Building**, located at 749 W. State Street, is rated in fair condition per its FCI. The building was constructed in 1970 and underwent a major renovation in 2001. A subsequent remodeling project was initiated in 2013 to address major deficiencies in several of the building's systems. The cost estimate for remaining projects is approximately $29.4 million between 2017 and 2022. Because the PAB project involves a comprehensive remodeling, that building should be in good condition when the current set of projects is completed.

The good news with regard to the major projects involving these buildings is that they already are underway, and once completed they will leave two of the City's most important and expensive buildings in better condition. However, while City officials have now planned for their incorporation into future capital budgets, the need to finance these major building projects has resulted (and will continue to result) in deferral or delays to other building projects, including the type of proactive building repair work that would have been pursued if resources had been available.

For example, as we will discuss later in this report, capital appropriations for general building exterior and systems needs have been reduced in recent years as expenditure needs for the City Hall and PAB projects have grown. It is difficult for us to assess the impact of deferred building repair projects, as it is hoped that they are short-term in nature and that the situation will be rectified once the City Hall and PAB projects are completed. Still, this is an issue that merits close monitoring.

Another building on our list of 20 that is rated in poor condition per its FCI is the 112,000-square-foot **Municipal Services Building**, located at 1540 W. Canal Street. This building, which primarily houses DPW field staff (about 250 people report to the building daily) and equipment related to traffic signals and street lighting, was constructed in 1925 and is in need of major upgrades.

Because of possible plans to sell the building and relocate its functions as part of continued redevelopment in the Menomonee Valley, extensive repairs and upgrades have been deferred. Small emergency repairs to masonry and replacement of furnaces and part of the building's roof did occur over the past couple of years, however. DPW officials say that for the foreseeable future, as a potential sale is considered, minor repairs will continue to be made as necessary but no major upgrades will occur.

The remaining two buildings that are rated in "poor" condition are a pair of garages that house DPW vehicles and equipment – the **Northwest garage** and the **Lincoln garage**. Both garages have significant mechanical needs and the Lincoln garage also is in need of roof replacement. The needed upgrades for both structures have been identified but largely have been deferred, though DPW officials have scheduled the Lincoln garage's roof to be replaced in 2018.

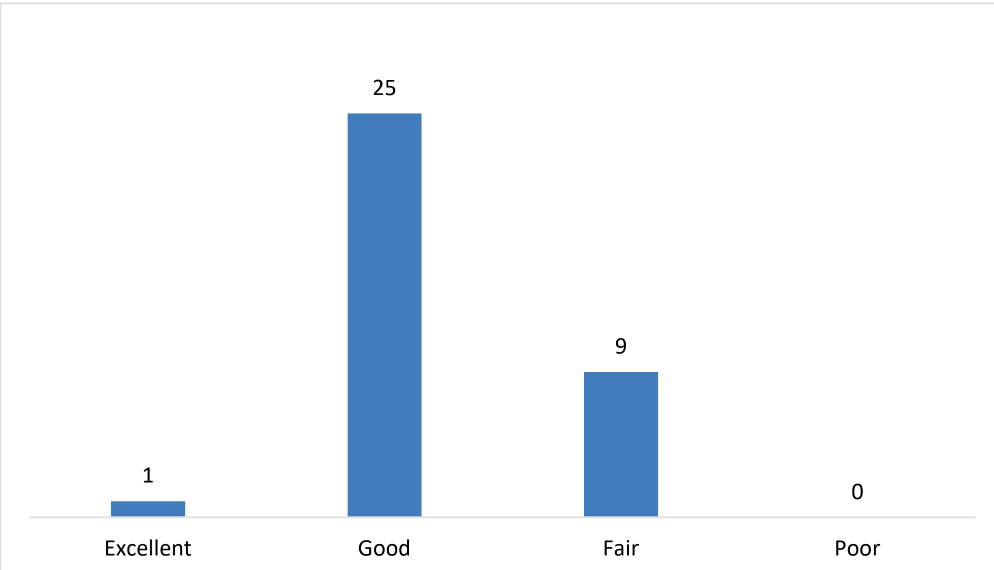
Finally, it is worth noting that four of the 20 buildings on our list are parking structures. Capital projects associated with those structures would be financed through parking revenues flowing into the City's Parking Fund and would not be impacted by restrictions on the City's ability to issue property tax levy-supported debt.

Fire Department Assessment

The Milwaukee Fire Department (MFD) is one of the departments that has yet to contract with DPW for condition assessment of its buildings (though MFD does have plans to begin negotiating such a contract). Instead, MFD has developed its own form of assessment for its 35 fire houses that involves assigning qualitative condition categories (poor to excellent) to each building's major assets. The department also uses replacement value to help gauge the cost of repairs relative to the building's value. Although not as robust as what DPW can provide, this assessment system provides an accurate snapshot of MFD building conditions.

Based on visual inspections, MFD facilities professionals assign condition assessments of Poor, Fair, Good, and Excellent to each building's most important assets, while also noting the assets' useful life. To provide a sense of the overall condition of each MFD building, we averaged the individual ratings for each category to come up with a total "score" for each building. These scores allow us to categorize each building under the same categories of Poor, Fair, Good, and Excellent. As shown in **Chart 3**, when we do so we find that 26 of the 35 engine houses are in good condition or better, while none are in poor condition.

Chart 3: Condition of 35 Milwaukee Fire Department fire houses



It is worth noting, however, that the foundations of five fire houses (6, 9, 21, 28, and 30) are in poor condition while the foundations of three fire houses (3, 31, and 35) are in fair condition. Foundation repairs tend to be very costly, but our averaging methodology does not take that factor into account.

Nevertheless, it appears that, overall, MFD's fire houses are in reasonably good condition. Also, a factor that may reduce the need for future capital repairs is the potential closure of certain fire houses should the City be required to consider reductions in firefighters because of budget constraints. Whether decisions on which stations to close (should any closures occur) would take into account the condition of buildings cannot be determined at this time.

SUMMARY

Our analysis of City buildings focused on 66 buildings assessed by DPW (including general administration and Milwaukee Police Department buildings) and 35 Milwaukee Fire Department engine houses. It is encouraging that two thirds of these buildings are rated in good condition and that major improvement/repair projects already are proceeding at City Hall and the Police Administration Building. However, the need to make room for those major projects in tight capital budgets may have caused other building repair needs to slip, including mechanical and other needs in the interior of City Hall. Consequently, our overall assessment is that the City buildings addressed in this report are in fair to good condition.

CAPITAL FINANCE: A BRIEF OVERVIEW

Most local governments that own large inventories of physical assets maintain separate capital budgets and rely on financing strategies to support those assets that are distinct from those used to support general operations. The key distinction is the use of borrowing – typically in the form of issuing General Obligation bonds[19] – to ensure that investment in asset creation, repair, or replacement can be paid off over multiple years.

What is a capital project?

There is often confusion about when an infrastructure repair project is deemed a "capital" project and when it is deemed a "maintenance" project. This is an important distinction, because capital projects appear in capital improvements budgets and often are financed through borrowing, while maintenance projects typically appear in operating budgets and are funded with annual departmental appropriations. Generally speaking, capital projects are those that involve construction, expansion, renovation, or replacement of a new or existing facility; purchase of a major piece of equipment that has a useful life of several years; or a major maintenance or rehabilitation project that has an economic life of several years. In each of these cases, there often is a dollar threshold (i.e. the project or equipment purchase has to exceed $10,000 or $50,000). Conversely, "maintenance" projects typically involve relatively minor repairs such as fixture replacement or painting.

There are several reasons why many governments maintain separate processes for planning, budgeting, and financing capital projects – and why they engage in borrowing to support those projects. One is that the costs of capital projects can be prohibitive if addressed in a single payment in an annual operating budget. In addition, because capital assets have useful lives that can extend for decades, the use of multi-year forms of financing can ensure that those benefiting from the assets in the years following their creation or replacement share in their costs.

In determining how often to issue debt and how much debt is affordable to issue, local governments take into account a variety of considerations, including the size of their tax base and the ability of annual operating budgets to accommodate principal and interest payments. Often, the ability to issue new debt in a given year is predicated by the amount of old debt that is retired in that year. Also, in many jurisdictions – including municipalities and counties in the State of Wisconsin – State law prescribes debt limits for local governments.

Capacity for future borrowing often is gauged with multi-year capital plans and budgetary forecasts, which catalog future capital needs and project how they will need to be financed. Borrowing projections can be compared to projections of future debt service payments and the amount of debt that is scheduled to come off the government's books. Borrowing capacity also can be impacted by

[19] General Obligation (G.O.) bonds are municipal bonds commonly used by local governments that are secured by the government's pledge to use its taxing power to repay bond holders. These differ from "revenue bonds" in that they are not secured with a specific form or revenue (such as fees from users of the capital project), but instead are backed with the government's general credit and taxing authority.

the interest rates associated with G.O. bonds and other forms of debt, as those determine the affordability of annual debt service payments.

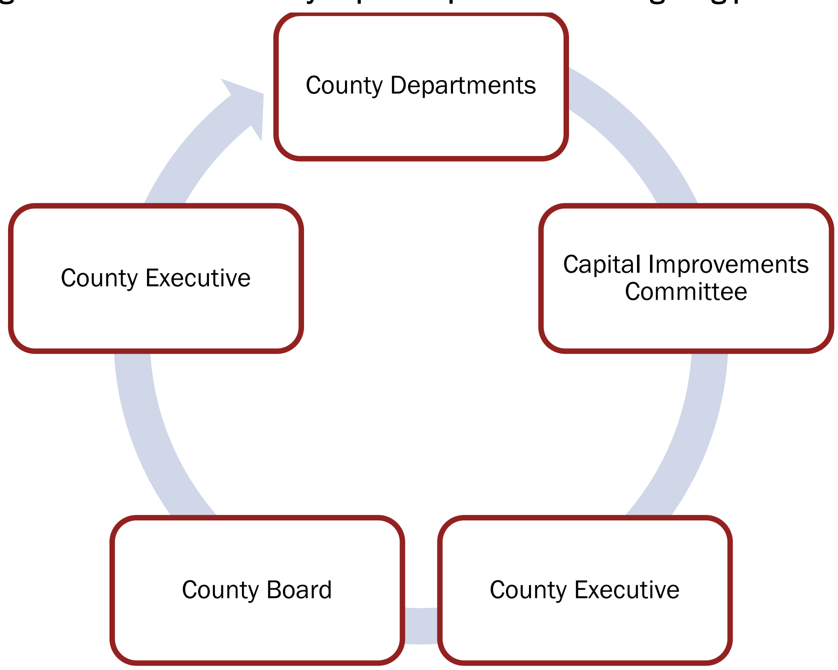
CAPITAL FINANCE – MILWAUKEE COUNTY

Capital Budget Process & Policies

Every year, the Milwaukee County Executive recommends a Capital Improvements Budget (CIB) for County Board consideration and approval. The County's CIB is a distinct document from its operating budget. It includes not only the recommended budget for the upcoming year, but also an updated five-year capital improvements plan.

The process begins with submission of requested capital projects by County departments. Those requests are considered first by the County's Capital Improvements Committee (CIC), which consists of three members of the County Board, two department heads, the County Comptroller, and two municipal officials appointed by the Intergovernmental Cooperation Council. The CIC recommends projects for inclusion in the County Executive's recommended budget, but he is not required to adhere to those recommendations. The County's capital budgeting process is depicted in **Figure 1**.

Figure 1: Milwaukee County capital improvements budgeting process



Departmental capital requests are judged by the CIC based on specific criteria and a scoring system that prioritizes immediate need and public safety. Other criteria include annual impact on operating costs; impact on deferred maintenance; whether the project is necessary to address Americans with Disabilities Act (ADA) requirements and/or building code violations; the availability of non-County funding to initiate and complete the project; and whether the requested project is a continuation of a project initiated in a prior year.

Milwaukee County must adhere to debt limits stipulated by the Wisconsin Statutes. The statutes prescribe both a limit on overall G.O. debt, which cannot exceed 5% of the County's property value; and on the annual amount of property tax levy that can be used to support G.O. debt. At the end of 2016, the County's $609 million of net outstanding G.O. debt amounted to only 20% of its $3 billion debt limit.[20]

More important that statutory limitations on the County's capacity to engage in capital financing is a policy established by County Board resolution that establishes an annual bonding cap. That cap dictates that the bonding amount in a given year not exceed a 3% increase over the previous year's amount. If that policy is followed, then Milwaukee County will be able to issue about $42 million of G.O. debt in 2018, with that number rising to about $48 million by 2022.

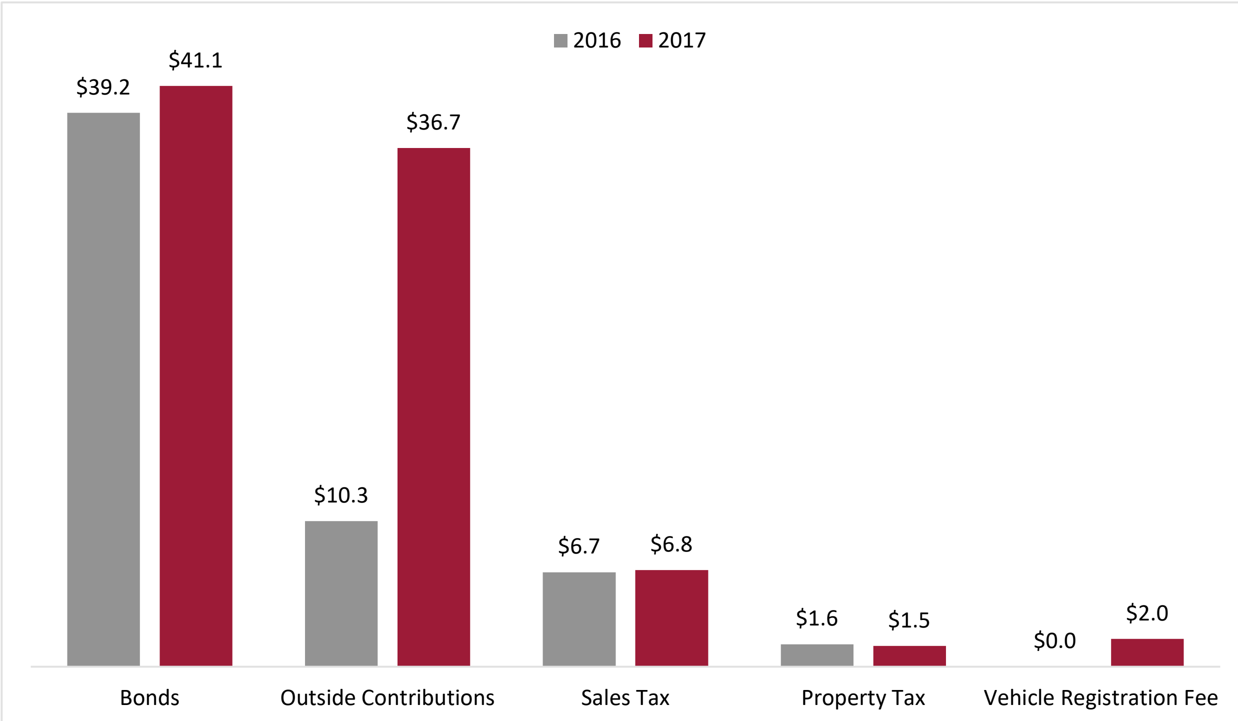
2017 Milwaukee County Capital Budget

Milwaukee County's capital budget totals $103 million in 2017 (as compared to $266 million for the City). Of that amount, $15.3 million is for General Mitchell International Airport, which functions as an enterprise fund. While the County pays for capital projects and issues debt on behalf of the Airport, debt service is paid by the airlines that use GMIA as part of their lease agreements, and cash-financed projects are fully reimbursed through federal and State sources and passenger fees.

The remaining $88.2 million for non-Airport capital projects is financed with a mix of G.O. bonds, grants or contributions from other governmental or private entities, a small portion of the revenues collected from the County's $30 vehicle registration fee, and sales and property tax revenue. Chart 4 shows the budgeted sources of funds for the County's 2016 and 2017 CIBs. G.O. bonds comprise the biggest portion of the County's capital revenue mix, totaling $41.1 million in 2017 (47% of the total budget).

[20] Milwaukee County 2016 Comprehensive Annual Financial Report, p. 214.

Chart 4: Sources of funds in 2016 and 2017 Milwaukee County capital improvements budgets



Source: Milwaukee County 2017 Capital Budget

The County breaks down its capital budget by functional category, with certain projects that extend across functions cited in an "Other Agencies" category (examples are information technology and fleet). Building projects linked to specific departments generally are included within the functional categories for which the building is used, though the Courthouse Complex itself is cited as a functional category. The 2017 CIB appropriates $6.7 million for Courthouse Complex projects. There are no other major building-related capital projects in the 2017 budget for the functions we consider in this report (though there are several building-related projects for cultural institutions).

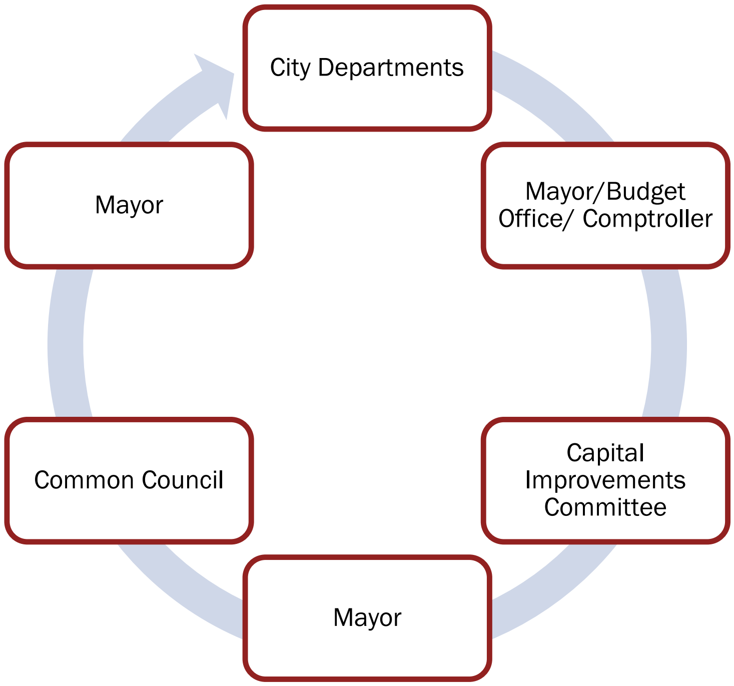
CAPITAL FINANCE – CITY OF MILWAUKEE

Capital Budget Process and Policies

The City of Milwaukee's annual budget includes funding allocations for capital projects. While some local governments publish distinct operating and capital budgets, the City's capital and operating appropriations are contained in a single budget document.

The capital budget is adopted after submission by the Mayor and review and approval by the Finance and Personnel Committee and the full Common Council. At the start of the process, the Mayor, Comptroller's office, and budget office receive capital funding requests from the City's various departments. Those requests are reviewed by a Capital Improvements Committee – comprised of three aldermen, two administration officials, the Comptroller, and a private citizen – which can offer and vote on modifications to the requests. **Figure 2** depicts the process.

Figure 2: City of Milwaukee capital improvements budgeting process



City of Milwaukee departments each have their own processes for prioritizing capital funding requests. The Department of Public Works (DPW) considers three questions:

1. The ratings of various capital assets and how they compare to other assets in need of rehabilitation and/or replacement.
2. The extent to which individual capital assets are eligible for funding from an entity that is not the City.
3. After considering outside funding sources, will the City be able to afford all projects for which funding was requested, or can only a subset be selected based on budgetary constraints?

The amount of capital funding available each year is constrained by a formal debt service limit and by an informal policy goal regarding property tax levy-supported debt. Like the County, the City must abide by a debt service limit established by the Wisconsin Statutes. That limit prohibits the City from holding an amount of debt for City purposes that exceeds 5% of the value of its taxable property. As of May 2017, Milwaukee's G.O. debt holdings of $930 million were $422 million below the legal limit.[21]

More relevant to the City's annual capital budget is the informal goal cited in the City budget, which states that the amount of property tax levy-supported debt issued in a given year should not exceed the amount of such debt retired in that year. That goal is intended to protect against sharp annual swings in levy-supported debt, which can have a negative impact on the operating budget. According to its 2017 budget, the City retires an average of $70 million of levy-supported debt annually.[22]

[21] Official Public Statement for issuance of City of Milwaukee notes and bonds, May 17, 2017.
[22] City of Milwaukee 2017 Plan and Budget Summary, p. 204.

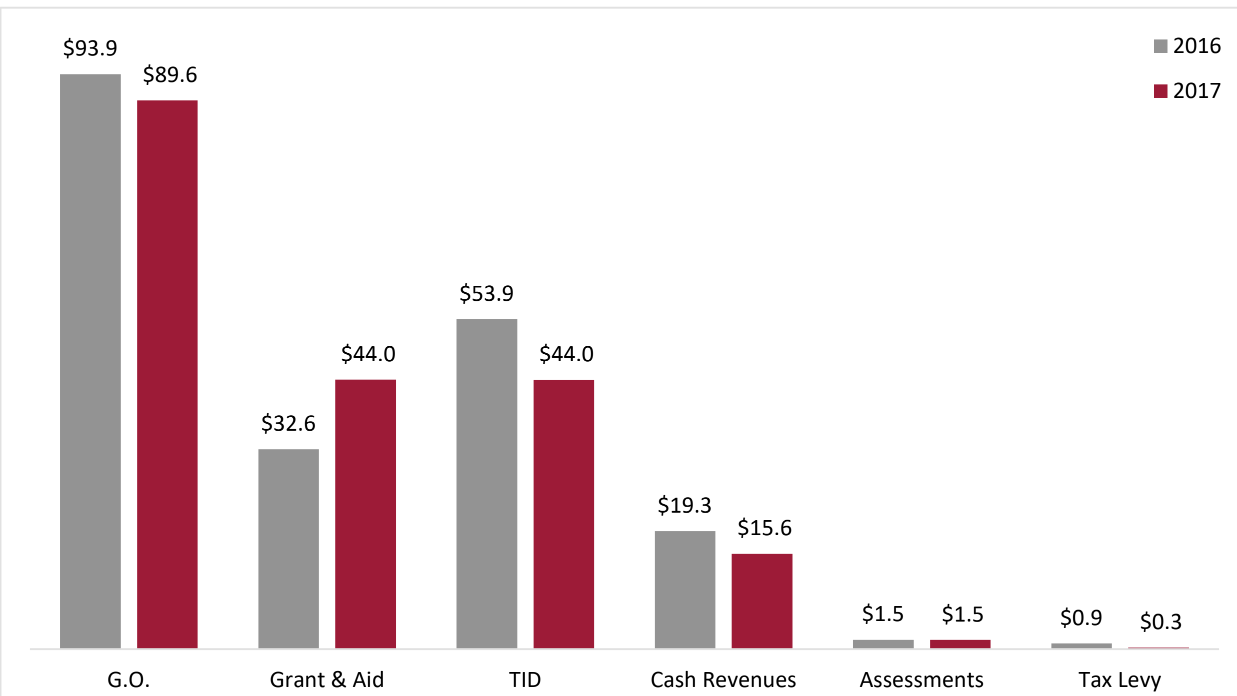
2017 City of Milwaukee Capital Budget

A brief overview of the City of Milwaukee's 2017 capital improvements budget illustrates the resources that are used to finance capital repairs, purchases, and improvements. The City's overall capital improvements budget in 2017 totals $266.3 million. Of that amount, $71.2 million is for the City's "enterprise funds." Those funds – including the City's water works, sewer maintenance fund, and parking fund – technically are part of the City budget, but they function as independent business enterprises with their own dedicated sources of funding. Consequently, debt service on bonds issued to pay for capital projects associated with those funds is paid with revenues derived from their independent activities.

The remaining $195.1 million in the 2017 capital budget is earmarked for projects that affect City departments. Of that amount, $44 million comes from grants and aids from State and federal sources, while $151 million is financed with locally-generated resources. Of that portion, $89.6 million is supported by new tax levy-supported G.O. borrowing.

Tax-levy supported G.O. borrowing is the most closely-watched element of the capital budget by City officials, as the need to service debt with property tax resources precludes the use of such resources to support City operations. **Chart 5** breaks down the budgeted sources of funding for capital improvements in 2017 and also provides 2016 budgeted amounts for comparative purposes.[23]

Chart 5: Sources of funds in 2016 and 2017 City of Milwaukee general purpose capital budgets



Source: City of Milwaukee 2017 Adopted Budget

[23] The reference to TID in the chart reflects revenues derived from tax increment districts. For more information on TIDs, go to the City's website: http://city.milwaukee.gov/ImageLibrary/Groups/cityDCD/business/TIF/pdfs/TIFExplanation.pdf

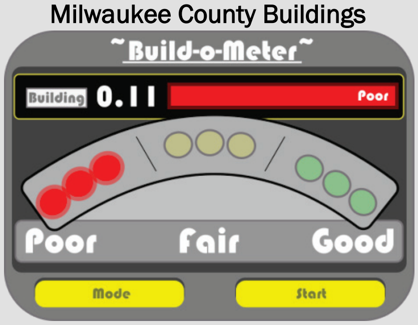
The City's capital improvements budget largely is broken down by department. Consequently, building-related projects for the Milwaukee Police Department are cited under that department, library building projects are cited under Library, etc. The budget does list Building Projects as a separate category, which consists of various classifications of smaller projects that flow across departments (e.g. ADA improvements and facility systems work), as well as larger building projects that are not linked to a specific department (e.g. the City Hall foundation repair project). The two largest individual projects in the 2017 capital budget happen to be building projects – the City Hall project ($13 million in G.O. bond funding) and the Police Administration Building remodeling ($5.5 million in G.O. bond funding).

FINANCIAL CAPACITY TO ADDRESS BUILDING NEEDS: MILWAUKEE COUNTY

In this section and the one that follows, we analyze recent spending by Milwaukee County and the City of Milwaukee on capital repairs and improvements to the buildings covered in this report; and we use that context – as well as a review of the current capital budgeting climate for each government and their multi-year capital plans – to assess their capacity to address their future building needs. The box below summarizes our findings for Milwaukee County.[24]

Snapshot: Fiscal Outlook for Building Needs

Milwaukee County Buildings



Milwaukee County's building needs far exceed its current financial capacity to address them. The overriding problem is the need to replace the Safety Building, which could necessitate construction of a new criminal courthouse at a cost of $220 million. But even if that need did not exist or could be financed in a manner that did not involve levy-supported debt, a serious financial problem would exist. The County should more than double its spending on building-related projects outside of the Safety Building in 2018 based on existing requests (from $12 million to $24 million) and almost quadruple it to $45 million in 2019.

CAPITAL FINANCE ENVIRONMENT

The County's ability to finance its building needs is threatened by an extremely harsh capital finance environment. The primary contributing factors are its self-imposed bonding cap and the fierce competition that exists among its various departmental capital needs.

As discussed above, the County's bonding cap dictates that non-Airport G.O. bonding will not increase by more than 3% annually from the previous year. The cap was established in an effort to ensure that G.O. debt service obligations would not threaten the County's ability to sufficiently finance its operational needs. Based on the 2017 G.O. bonding amount of $41.1 million, the County's non-Airport G.O. bonding cap in 2018 is $42.4 million.[25]

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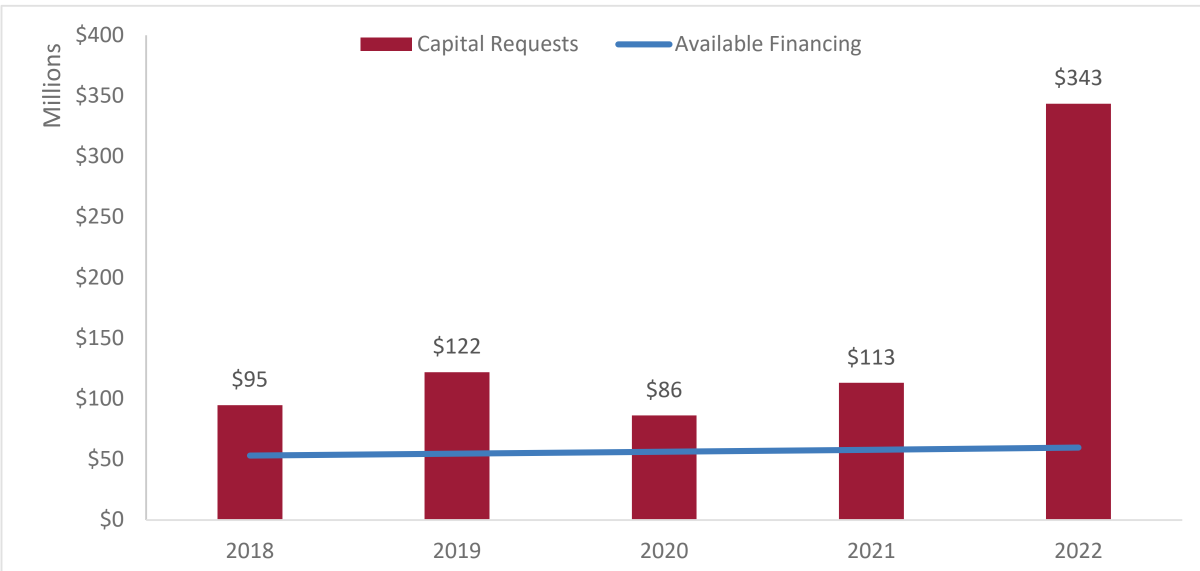
[24] It is important to note that our assessment of financial capacity is limited to our analysis of fiscal issues, and does not reflect the human resource capacity of each government to perform needed infrastructure work. An analysis of staffing/human resource capacity was beyond the scope of this report.

[25] Earlier this year, after the Adventure Africa exhibit at the Zoo progressed more quickly than originally anticipated, the County moved up about $3 million in bonding authority from 2018 to 2017 to keep the project moving forward. Consequently, the bonding cap for 2018 was reduced by a corresponding amount to $39.4 million.

The County has a related policy goal to provide a 20% cash match to G.O. bonding amounts. If the County meets that goal in 2018, then it would cash finance an additional $10.6 million on non-Airport capital projects, for a total of $53 million in locally-generated capital financing capacity.

The insufficient nature of that capacity – both in 2018 and in future years – comes into focus when viewed in the context of the County's capital needs. **Chart 6** shows anticipated annual non-Airport County funding amounts based on projects requested for the 2018-2022 Capital Improvements Plan, and compares those amounts to the County's capital financing capacity (as defined by the bonding limit each year plus a 20% cash match). As indicated in the chart, the County's projected local financing needs greatly exceed its available capacity in each year of the five-year period. Also, this chart may understate the severity of the challenge, as it is possible that new capital projects identified in the intervening years will widen the gap between now and 2022.

Chart 6: Projected Milwaukee County Non-Airport Capital Spending, 2018-2022



Source: Milwaukee County 2017 Capital Budget

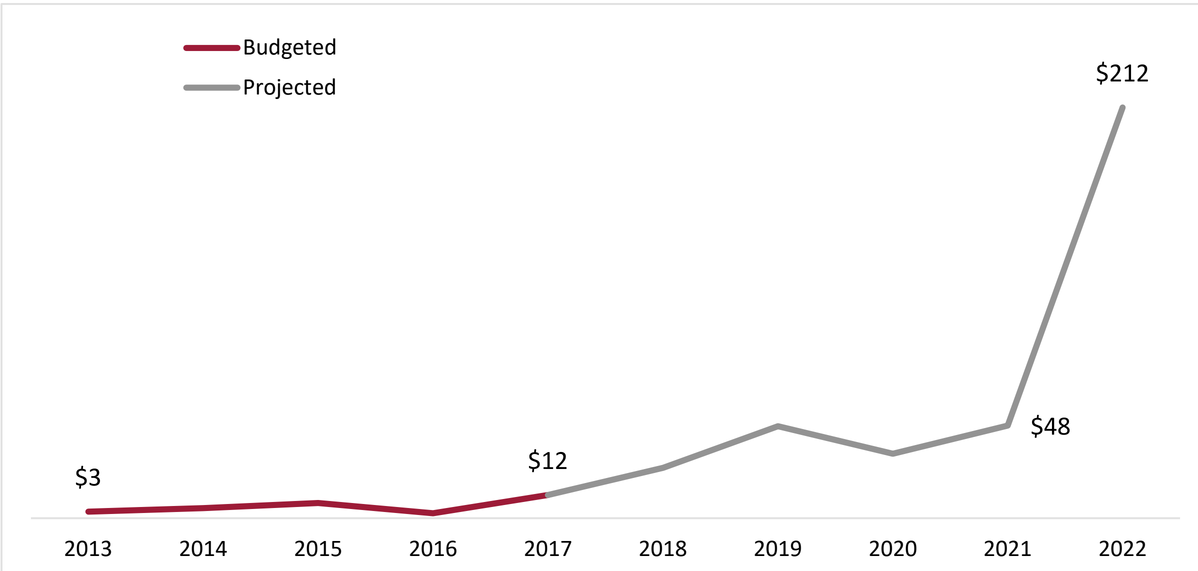
The huge increase in spending for requested projects in 2022 (as well as about $20 million in spending in 2021) emanates from a single project: a plan to demolish the decaying Safety Building and replace it with a new $220 million, 10-story criminal courthouse facility (this project is discussed in detail below). But even before that project enters the demolition and construction phase in 2021, the chart shows that the County's capital budget climate will be fiercely competitive in the next three years because the totality of its infrastructure needs will far exceed its available local borrowing and cash financing capacity. In particular, as has been documented in previous Forum research, the need to address the vast infrastructure needs of the County's parks and cultural facilities, as well as to spend up to $14 million annually for bus replacement, will pose stiff competition for County buildings.[26]

[26] These reports can be found at http://publicpolicyforum.org/research/pulling-back-curtain-assessing-needs-major-arts-cultural-recreational-and-entertainment and https://publicpolicyforum.org/research/fork-road-outlook-transportation-infrastructure-city-and-county-milwaukee.

FUTURE BUILDING NEEDS VS. AVAILABLE CAPACITY

Chart 7 tracks County capital spending on the buildings that are the subject of this report for the past five years, and then shows amounts requested for the next five years. We see that from 2013 through 2016, the County only spent an average of $4.7 million on those buildings per year, with a high of $7.7 million in 2015 and a low of $2.6 million in 2016. In 2017, that amount jumped to $12 million, and over the next five years it would need to rise sharply based on existing capital requests.

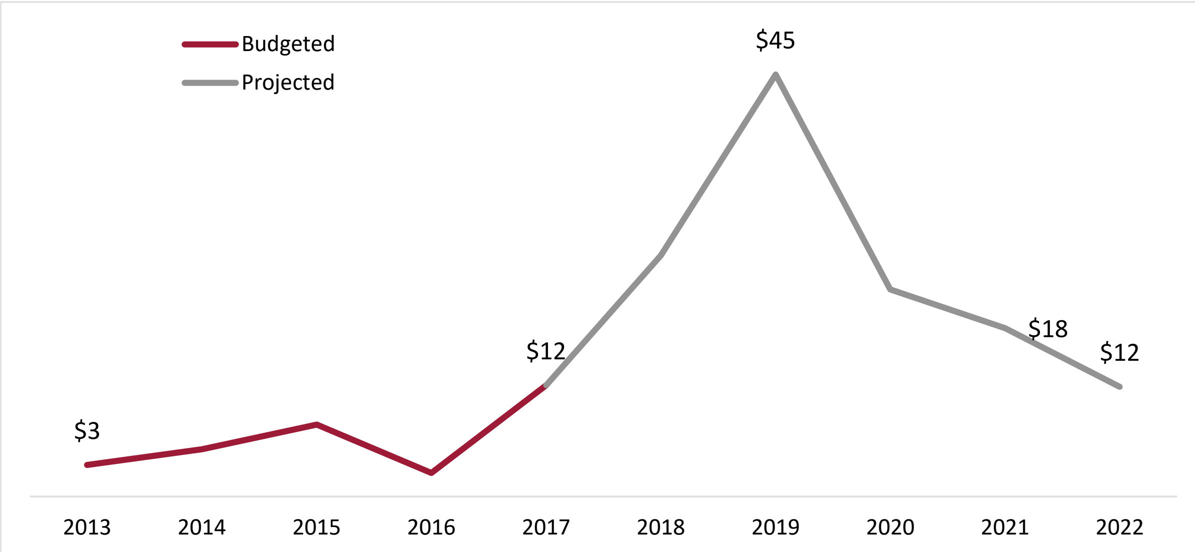
Chart7: Budgeted and requested capital spending for County buildings, 2013-2022



Again, the sizable increase in 2021 and the huge increase in 2022 are linked largely to the criminal courthouse project. Still, even when we put aside that project, the shape of an ominous problem emerges. **Chart 8** shows that excluding the criminal courthouse project – for which demolition/construction funding would not be initiated until 2021 – the County's capital spending on buildings would need to more than double to $26 million in 2018, and then jump to $45 million in 2019 if all requests were accommodated.[27] While those amounts are projected to fall in 2021 and 2022, it is likely that all necessary projects for those years have yet to be identified. Also, even with the projected decrease in 2021 and 2022, the total amounts in those years still exceed average spending for 2013-17 by a wide margin.

[27] The 2019 total excludes $2 million requested that year for criminal courthouse planning.

Chart 8: Budgeted and requested capital spending for County buildings (excluding the criminal courthouse project), 2013-2022



A key question is the extent to which capital requests associated with County buildings ultimately will be approved by the Capital Improvements Committee and/or included by the County Executive and County Board in actual capital budgets. Some of those projects may be deemed unnecessary because of decisions to sell or mothball the buildings in question, and/or some may be deferred because they simply do not make the cut in light of the County's bonding and cash financing limitations.

Table 6 shows the largest building projects (in terms of dollar amount) that have been requested in the 2018-2022 timeframe, again excluding the criminal courthouse. We see that the Mental Health Complex, Coggs Center, and Courthouse Complex all require major investment, which is in line with our condition assessment in the previous section. In addition, major capital projects have been requested for transit and fleet buildings and for the North Shop. These are buildings that did not make our list of "major" buildings considered in the previous section because they were not subject to FCIs.

Project	2018	2019	2020	2021	2022
Coggs Center HVAC Replacement	$3,638,005	$0	$0	$0	
Fleet Central Garage Roof Replace	$2,838,064	$3,311,414	$0	$0	
North Shop Improvements	$0	$8,300,000	$0	$1,730,250	
KK Garage HVAC System (MCTS)	$0	$2,500,000	$0	$0	
KK Garage Roof Replacement (MCTS)	$449,317	$2,239,056	$0	$0	
Replace MCTS Fleet Maintenance Roof	$614,302	$3,063,975	$0	$0	
BHD Air Handling System	$1,382,568	$3,000,000	$3,000,000	$3,000,000	$3,000,000
Courthouse Complex Water-Steam Piping		$6,000,000	$6,000,000	$6,000,000	$6,000,000
Safety Building Window Replacement		$2,221,164			
Totals	$8,924,274	$30,637,628	$9,002,020	$10,732,271	$9,002,022

A deeper analysis of these individual projects reveals that at least a few may not make it out of the request phase. A prime example is the Mental Health Complex air handling project, which may be deferred because the County and the Milwaukee County Mental Health Board have been pursuing plans to identify an outside entity to take over inpatient and emergency services. Should that occur, then it is likely that the building would be closed and/or sold, which means that the County is likely to defer the air handling project for the time being and may never need to initiate it. Similarly, the two projects related to the Courthouse Complex and Safety Building likely would be eliminated if plans proceed to construct the new criminal courthouse. As a result, the outlook for 2020-2022 appears much better than initially conveyed in **Chart 8**.

The Capital Improvements Committee recently concluded its deliberations on projects to recommend for inclusion in the 2018 capital budget. Of the 63 requested projects that would require G.O. bond financing (totaling $67.8 million), only 21 projects totaling $39.7 million were recommended for inclusion to stay within the bonding cap.[28] Not making the list were three of the five building-related projects requested for 2018 and shown in the table above – the two roof replacement projects for MCTS garages and the HVAC replacement project at the Coggs Center. Surprisingly, the BHD air handling system project did make the list, but it is possible that the project still will be deferred in the County Executive's recommended budget because of the likelihood that Mental Health Complex services will be relocated.

Interviews with County officials suggest that the three projects requested for this year that did not make the cut *are* likely to require initiation within the five-year period. The two roofs in need of replacement, for example, each are over 30 years old, have been patched several times, and currently have leaks. Similarly, the KK Garage HVAC and North Shop projects – which have been requested for 2019 – appear to be necessary projects, though the precise timing could change. This would indicate that the increases in building-related capital financing for non-courthouse projects still may be steep for the five-year period in question.

Criminal Courthouse

Of course, when it comes to assessing the County's financial capacity to address its building needs (as well as its capital needs in general), the potential construction of a new criminal courthouse to replace the Safety Building is paramount. At this point in time, there appears to be little question as to *whether* the Safety Building must be replaced. Instead, questions surround the timing of the replacement, the nature of a new building, and how it will be financed.

The findings of the CBRE report prompted the County to hire a team of consultants in 2015 to prepare a report on how to address the space needs for all court and justice system-related functions housed at the County. Their specific charge was to consider the "highest and best use" of the Historic Courthouse, as well as functions located in the Safety Building and the Vel Phillips Juvenile Justice Center. The project was guided by a Project Advisory Group comprised of justice system, administrative, and County Board leaders.

[28] Technically speaking, these were not "recommendations," as a report was submitted by the CIC to the County Executive and County Board without recommendation. One point of contention that precluded a recommendation was the failure to include funding for bus or fleet replacement.

The consultants' report – delivered in February 2016 – recommended development of a new 360,000-square-foot criminal courthouse on the existing Safety Building site. While the new facility would replace the Safety Building and add courtroom space, both the Historic Courthouse and the Criminal Justice Facility would be retained as part of a judicial complex. Also, as noted above, the report recommended that Children's Court functions at the Vel Phillips center remain at that location. The estimated cost of the new facility at that time was $184 million.

The Project Advisory Group has continued to meet to oversee planning and implementation of the new courthouse facility. The current phase involves development of a master space plan that will guide where current justice system functions will be located and re-located when the new facility is built, as well as the temporary re-location of Safety Building functions during construction. The master space plan is expected to be completed in the fourth quarter of 2017, after which implementation plans will be developed and finalized, including financing options. A final implementation plan is scheduled to be brought before the County Board for approval in the spring of 2018.

Pending the development of financing options, the County's Facilities Management Division has inserted placeholders into the five-year capital plan that anticipate expenditures of $2 million in 2019 and $10 million in 2020 for planning, and $20 million in 2021 and $200 million in 2022 for demolition of the Safety Building and construction of the new facility. While those figures will be refined, they constitute the most current estimate of the project's total cost.

Financing for the project could take several different forms. The most traditional, of course, would be G.O. bonding. Use of that approach would require the County to substantially exceed its annual bonding cap, however, even if it were to issue the bonds over a multi-year period. Also, if the County used its traditional 15-year payback schedule for the bonds, then annual debt service payments could exceed $15 million per year for a one-time $220 million bond issuance. Such payments would be exceedingly difficult for the County to accommodate given its severe operating budget challenges.

Other options may exist to lower the budgetary burden, including solicitation of State construction grants or State approval to use court-related fee increases to help pay off the debt. Given that the Circuit Courts are a State function that is shared with the County, there may be merit in pursuing such approaches, though counties traditionally have been charged with paying for courthouse expenses. The County also undoubtedly will explore creative financing approaches that would involve longer-term debt repayments to ease the annual impact during the payback period.

Yet, while specific financing plans have yet to be determined, **there is no question that the County will need to incur a significant cost on its own to replace the Safety Building, and that this looms as the single biggest capital budget challenge facing the County.**

Even before the criminal courthouse project is initiated, the County only has the capacity to finance about half of its identified capital needs over the next four years while staying within its self-imposed bonding limits. That means that necessary projects likely will continue to be deferred, which will cause the County's backlog of infrastructure repair and replacement needs to continue to grow until the time comes when it *must* invest in a Safety Building replacement. Once that point arrives, it is difficult to see how the County will be able to afford any substantial portion of the projected cost under its current financial structure and given its other capital needs.

Yet, at the same time, the County has little choice but to pursue this highly expensive project. Unlike mental health inpatient and emergency services, the functions that are housed within the Safety Building cannot be outsourced. Meanwhile, the list and cost of repair and replacement projects for the existing facility is steep, meaning that one way or the other, the County will need to make a substantial capital investment that it seemingly cannot afford.

It is important to note – as discussed in a previous section – that the County has formed a special committee and has been working diligently to reduce its building-related capital needs by consolidating facilities and shrinking its "footprint." County officials say they have eliminated nearly two million square feet of building space in recent years by selling or liquidating properties, including the City Campus facility, the O'Donnell Park parking structure, and the Downtown Transit Center. If plans pan out to sell the Mental Health Complex and Community Corrections Center properties, then that list will grow, and a host of additional building-related capital projects will disappear. Yet, while this is an important and laudable strategy, in the end it only will ameliorate – but not come close to solving – the County's overwhelming challenge related to buildings it *must* keep or replace.

SUMMARY

Milwaukee County lacks the capacity to finance the capital needs of its buildings if it wishes to stay within its self-imposed bonding and cash financing limits. That is definitively the case if the County is required to finance a significant share of the cost of a new $220 million criminal courthouse facility, but it is important to note that it is also likely the case if it were to somehow secure outside sources of funding or alternative funding to pay for large portions of the debt service associated with the project.

Indeed, we find that even if the criminal courthouse project did not exist, the County would need to more than double its spending on building-related projects in 2018 based on existing requests (from $12 million to $24 million) and almost quadruple it to $45 million in 2019. Doing so would cause it to substantially exceed its bonding limits, and/or to exclusively finance building needs while deferring its myriad other capital needs in areas ranging from buses to parks to information technology.

Efforts to shrink the County's footprint by selling unneeded properties could lower those numbers. Still, in the end, it is evident that if the County wishes to seriously address its outstanding building repair and replacement needs, then it will have to issue debt in an amount that greatly exceeds its bonding limits.

It may be worth considering whether the County *needs* to remain within those limits, which stem from a self-imposed policy adopted by the County Board and are not a state-mandated legal requirement. It is important to understand, however, that if policymakers were to substantially exceed the limits over a prolonged period of time, then annual debt service costs likely would grow to the point that they would threaten other County services. The dilemma for County officials is whether to accept and address that threat on the operating side, or continue to preside over an escalation of pressing capital needs.

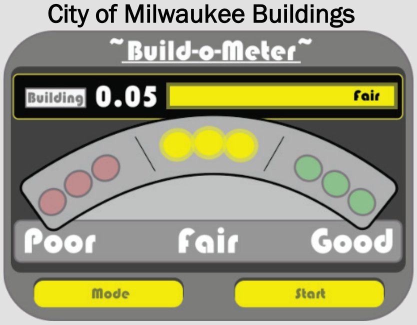
FINANCIAL CAPACITY TO ADDRESS BUILDING NEEDS: CITY OF MILWAUKEE

CAPITAL FINANCE ENVIRONMENT

As noted above, the City of Milwaukee's ability to finance its building needs is impacted by a debt service limit prescribed by State law and by a need to control the amount of property tax levy that is dedicated annually to debt service payments. The debt service limit does not pose a significant obstacle to future borrowing for building needs given that the City's current outstanding debt is well below that limit (though coming too close to that limit could have an influence on the City's bond ratings). The need to control levy-supported debt to preserve sufficient tax levy resources for City operations is a much more significant issue, however.

Snapshot: Fiscal Outlook for Building Needs

City of Milwaukee Buildings

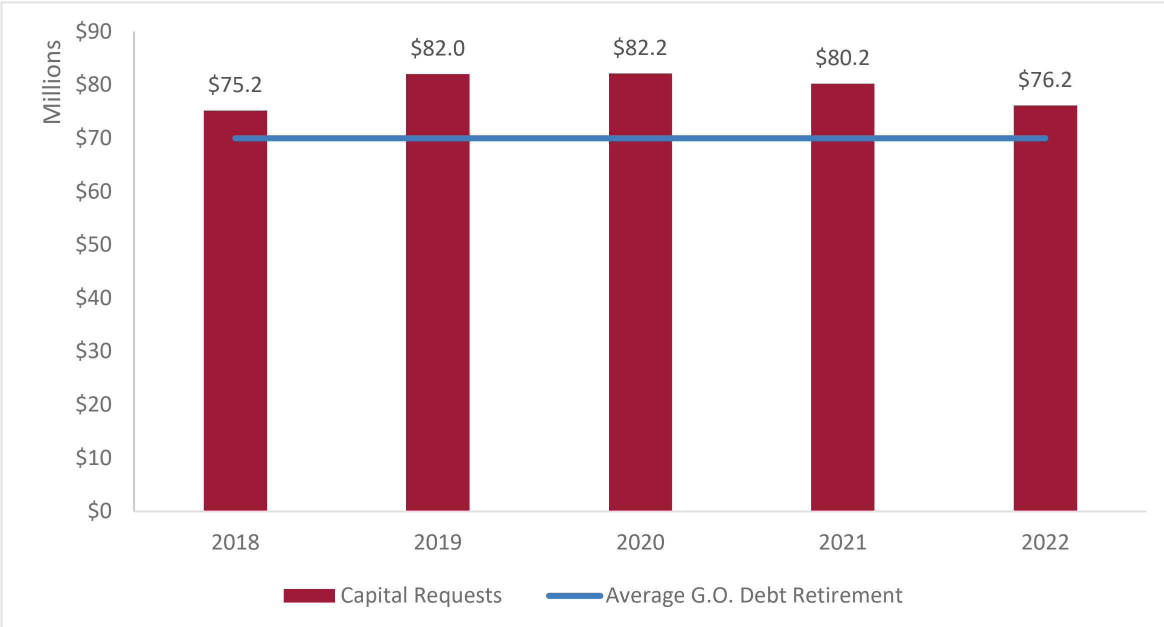


The City of Milwaukee has been able to successfully accommodate two major and expensive repair projects at City Hall and the Police Administration Building in recent capital budgets and will need to continue to do so for the next several years. While the City appears capable of finding the financial capacity to meet that challenge, a likely consequence is continued deferral of projects to address basic building needs, as well as deferral of desired projects in other parts of the capital budget. Hence, the City's capital budget climate may grow even more competitive in the years to come given its strict constraints on annual G.O. borrowing.

Per its 2017 budget, the City will use $65.3 million (25%) of its $263.8 million property tax levy for debt service payments. To prevent debt service from eating up an even bigger share of the overall levy, the City has established a goal of limiting the issuance of new levy-supported debt in a given year to the amount of levy-supported debt retired in that year.

Chart 9 illustrates the challenge the City will face in meeting that goal. The City's 2018-2022 capital plan indicates that projected levy-supported G.O. borrowing will exceed $75 million in each of those years and average about $79 million per year, which exceeds the $70 million per year that the 2017 City budget cites as the average amount of annual debt retired. Also, the 2018-2022 plan only reflects capital projects anticipated at this time, and it does not include projects that may materialize as the five years elapse. Consequently, while only estimates, these figures indicate that the City could not accommodate projected tax-levy supported borrowing for its overall capital program in those years while meeting its policy goal.

Chart 9: Projected City of Milwaukee G.O. borrowing, 2018-2022



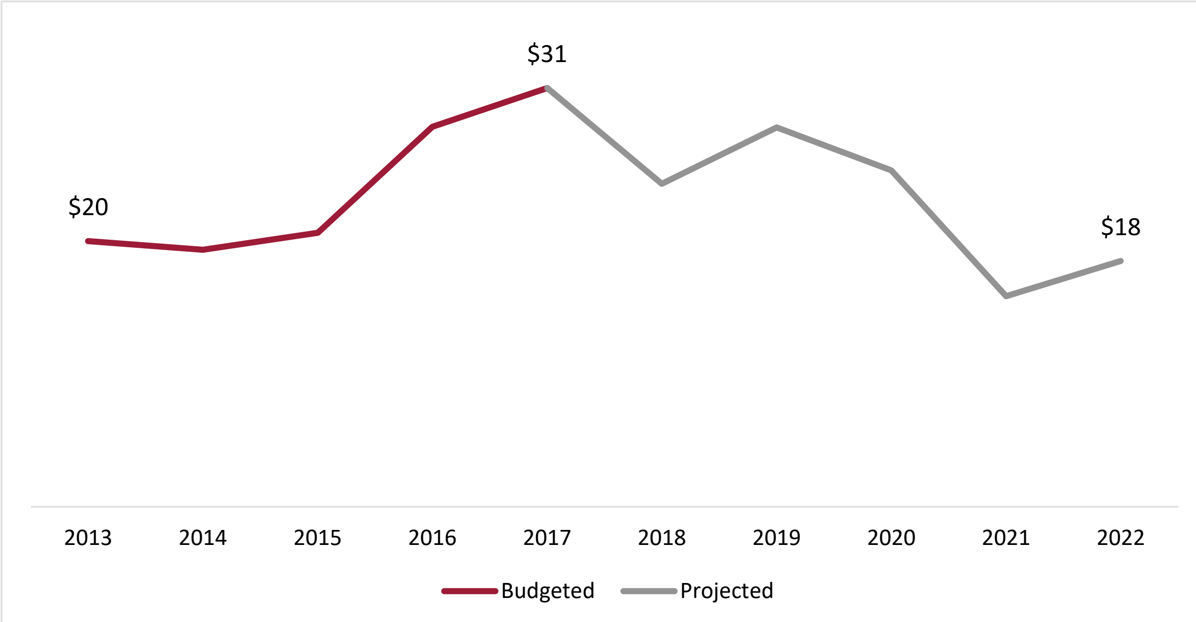
Source: City of Milwaukee 2017 Adopted Budget

The need to limit levy-supported borrowing heightens the competition that buildings will face from other forms of infrastructure owned by City government. A glance at the 2018-2022 capital plan shows that costs for locally-funded bridge and street repair and replacement will grow from about $41 million in 2018 to $48 million in 2022. The City also plans to begin devoting G.O. bond financing to Milwaukee Water Works lead service line replacement with a $1 million appropriation in 2018, which will grow to $4 million by 2022. Other major competing needs include DPW and Fire Department equipment replacement (about $8 million per year during the 2018-2022 timeframe), and various information technology and communications upgrades.

FUTURE BUILDING NEEDS VS. AVAILABLE CAPACITY

Chart 10 tracks the City's capital spending on the buildings that are the subject of this report for the past five years, and then shows amounts contained in the City's 2017 six-year capital plan. We see that in 2016 and 2017, the City's building-related capital expenditures increased sharply, in large part to accommodate the City Hall foundation project. Expenditures are expected to decrease but remain on the high side (when compared to 2013-15) while the City Hall project continues from 2018-2020, before reverting to slightly below 2013-15 norms in 2021 and 2022.

Chart 10: Budgeted and anticipated capital spending for City buildings, 2013-2022

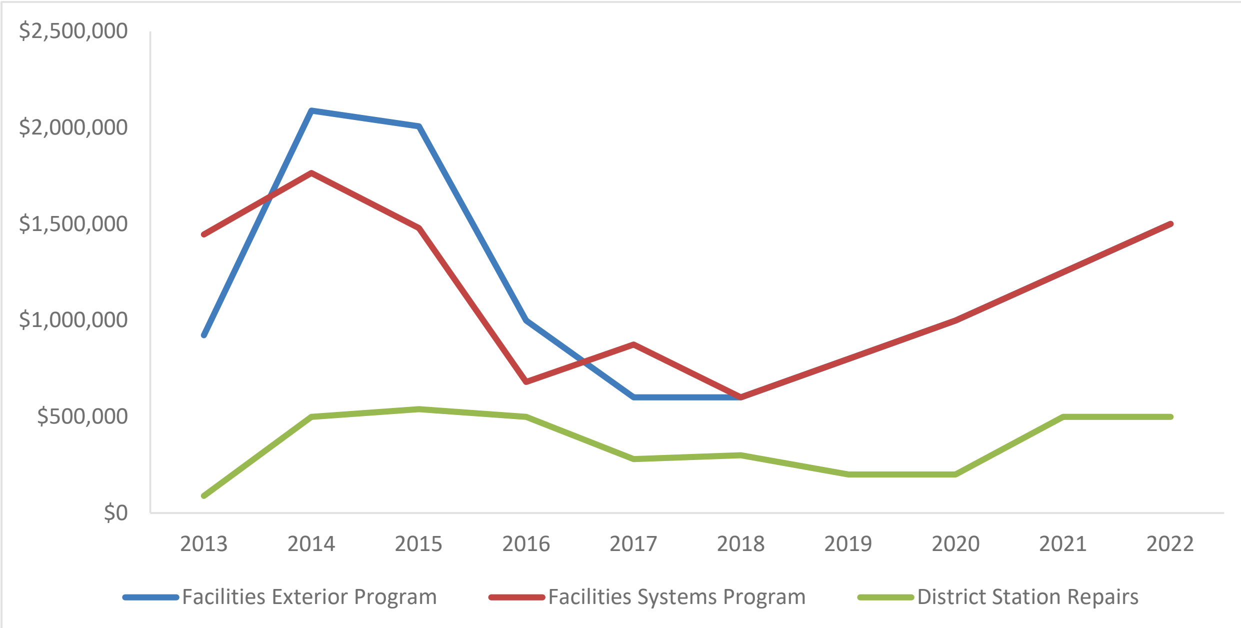


At first glance, the projected spending scenarios do not appear ominous. The City was able to accommodate $30.8 million in building-related capital expenditures when those expenditures peaked in 2017, and there soon will be relief as they are anticipated to diminish over the next five years.

However, as shown previously in **Chart 9**, meeting building-related capital needs even after they return to pre-City Hall project levels while adhering to the City's debt financing goal will be a challenge. Indeed, the City faces substantial needs in other areas, some of which have been (and will continue to be) deferred to make room for the City Hall project in annual capital budgets. Consequently, while the capital dollars needed to meet building-related needs will decrease toward the end of the six-year period, the competition for that reduced level of funding is likely to increase.

Also, it is important to recognize that building-related needs may be understated in the later years of the 2017 six-year capital plan, as the need to accommodate spending on the City Hall and Police Administration projects likely crowded out those needs even before impacting other City functions. For example, the City allocates funds in each capital budget to general repair programs for building exteriors and systems, as well as general repairs for MPD district stations. As shown in **Chart 11**, funding for those programs declined in 2016, the year in which the City Hall project was initiated, and is also below 2014-15 peaks in 2017.

Chart 11: Budgeted and anticipated capital spending for three general City building repair programs, 2013-2022



The chart shows that funding for these general repair programs is anticipated to increase sharply in the later years of the 2018-2022 capital plan in recognition of the fact that other building needs have been temporarily under-funded to accommodate the City Hall and PAB projects and will need to be ramped up. Whether those increased appropriations *will* materialize is an unanswered question that could have serious consequences for the overall condition of City buildings going forward.

Another factor that will impact the outlook for City buildings is the need to comply with mandated ADA improvements across the full range of City buildings. The 2017 budget appropriates $1.8 million for ADA compliance, and the six-year plan anticipates another $2 million in 2018 before decreasing to $1.1 million in 2019 and only $75,000 in 2020 and 2021. It is uncertain whether the City will be able to diminish its capital spending on ADA compliance so significantly in the out years; if that is not possible, then appropriations for other building needs may have to be reduced.

As with our condition assessment of City buildings, it is difficult for us to determine the nature of the City's financial capacity challenge without knowing how the slippage in non-City Hall and PAB building repair projects might manifest itself and how it will be resolved. The vast majority of the City's buildings are old; optimally, it would be engaging in an aggressive schedule of proactive repairs and improvements to reduce the need for costly, emergency repairs. We conclude from our review of capital budgets and our discussions with City officials that such an approach has not been possible.

Nevertheless, it appears that if the City can muster the resources to catch up on deferred building repair needs once the two major projects are completed – and if major unanticipated building needs do not surface while that catch-up is occurring – then its overall financial capacity challenge when it comes to buildings will be manageable.

SUMMARY

Despite its significant capital finance constraints, the City of Milwaukee has been able to find room in recent capital budgets for major repair and renovation projects that will address glaring needs at two of its most mission-critical and visible structures. It will need to continue to do so for the next three years with regard to the City Hall project, and for the next five years with regard to the Police Administration Building, but the necessary dollars have been identified for 2018-2022 and capital planning is taking place accordingly.

Yet, while the City's efforts to address this challenging set of circumstances are encouraging, the long-term consequences still are uncertain. In order to address City Hall foundation repair needs and the remodeling needs of the PAB, the City has been required to spend less than might have been desired on basic building repair needs. Officials hope to ramp up spending on those needs as appropriations for the two major projects wind down, but whether that will be possible depends on the level of competition from other areas of the capital budget, as well as the hope that other major building repair or replacement projects do not materialize in the interim.

CONCLUSION

Our analysis of buildings owned by the City of Milwaukee and Milwaukee County finds that substantial and expensive building-related capital needs exist for both governments. Yet, while there is hope that the City's will be manageable going forward, the County is facing a far more dire set of circumstances that currently appear unmanageable.

Faced with a need to spend up to $60 million on foundation repairs for City Hall, the City had little choice but to accommodate the project within its tight capital budget. The consequences have included deferral of work on other capital needs and higher-than-desired G.O. bonding. On the positive side, the project is nearing 40% completion and the 2017 six-year capital plan has identified how remaining appropriations will be incorporated into future capital budgets. Meanwhile, another high-profile and mission-critical building project involving the Police Administration Building also has been initiated and included in capital financing plans.

The County, on the other hand, has fallen further behind on major building needs in recent years, despite its successful efforts to avoid spending capital dollars on some decaying buildings by liquidating them. We find that even if the County continues that approach and successfully sheds the Community Correctional Center building, Medical Examiner's building, and Mental Health Complex, substantial needs at remaining buildings – like North Shop and other fleet facilities, the Coggs Center, various House of Correction structures, and the Historic Courthouse – will remain. As we have already seen in the 2018 Capital Improvements Committee process, accommodating all of those needs in annual capital budgets will not be possible going forward, thus compounding the backlog year after year.

As if that problem were not daunting enough, the County must factor in the replacement of its Safety Building at an anticipated cost ($220 million) that could exhaust virtually all of its borrowing capacity for several consecutive years. While County officials hope to identify alternative means of financing the project, it is difficult to see how that can happen in a manner that will not require the County either to borrow more than it can reasonably afford, or to exacerbate its decades-long practice of deferring other capital improvement needs.

Specific key findings emanating from our review of buildings owned by Milwaukee County and the City of Milwaukee include the following:

- **Both governments would benefit from improvements to their building-related asset management practices.** Both the County and City conduct extensive record-keeping with regard to the condition of their public buildings. The County, however, should continue to refine and improve the manner in which it uses building ratings to convey capital spending needs to budget officials and policymakers, and the City should continue efforts to standardize building assessment methodologies among all of its departments.

- **Three of the County's most mission-critical buildings – the Safety Building, Mental Health Complex, and Medical Examiner's Office – should be fully replaced as soon as possible.** The three buildings are similar in that the need for full replacement has been known for some time, but has been delayed because of financial constraints and uncertainty as to whether and how replacement should occur. In the meantime, necessary repair work on these buildings has been deferred pending decisions on replacement, thus creating an even more urgent need to act. Plans have begun to emerge for replacement of each of the three buildings, but the financial impacts and specific timelines have yet to be determined while substandard building conditions worsen.

- **City buildings are in acceptable condition overall, though only because major renovation projects are underway.** Two buildings that arguably are the City's most visible and mission-critical – City Hall and the Police Administration Building – are in "poor" and "fair" condition respectively, but that picture will improve once existing projects are completed. On the whole – with the exception of the Municipal Services Building and two DPW garages – other major City buildings appear to be in reasonable condition. A key question is whether, as the City Hall and PAB projects continue to be squeezed into capital budgets, the deferral of capital needs in other City buildings will alter that overall assessment in future years.

- **Milwaukee County lacks the capacity to finance the capital needs of its buildings if it wishes to stay within its self-imposed bonding and cash financing limits.** Even if the need to replace the Safety Building did not exist, we find that the County should more than double its spending on building-related projects in 2018 based on existing requests (from $12 million to $24 million) and almost quadruple it to $45 million in 2019. Doing so likely would cause it to substantially exceed its bonding limits, and/or to focus mainly on financing building needs while deferring its myriad other capital needs in areas ranging from buses to parks to information technology. Furthermore, as discussed above, the need to replace the Safety Building *does exist*.

- **The City of Milwaukee's capital finance environment is growing more difficult as major building projects are completed.** Unlike the County, which faces a dire long-term outlook with regard to the financing of major building needs, the City already has faced a monumental challenge as it has struggled to secure the capital resources to complete the City Hall and PAB projects. As noted above, a concern is whether the City can appropriately keep on top of its other building needs – and its capital needs in general – while those projects are running their course. For now, the prospects look reasonable, but the emergence of expensive new projects in the next five years and continued deferral of basic repair needs could modify that assessment.

It is important to note that the capital financing challenges facing both governments are inextricably linked to their operating budget woes, which have been documented in previous Forum reports and budget briefs. Simply put, both governments face a pressing need to keep tight control over G.O. debt for operating budget purposes, yet maintaining such controls precludes them from appropriately investing in their capital assets.

In this report – the third in our series on local government infrastructure – we demonstrate how those competing pressures impact the improvement and replacement of mission-critical buildings. After concluding our general assessment of capital assets with a fourth installment on recreational and cultural assets, the final report in our series will turn to the question of what new policies or strategies might be considered to address the problems we have uncovered.