For more information:

Rob Henken
President, Wisconsin Policy Forum
414-276-8240 or 414-708-4392 (c)
rhenken@wispolicyforum.org

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Report Lays Out Funding Options for New Milwaukee County Justice Center

Possibilities Include Local, State, and Public/Private Partnership

MILWAUKEE—Milwaukee County officials have options ranging from full public funding to public-private partnerships to pay for a proposed $300 million-plus justice center, according to a report from the independent, nonpartisan Wisconsin Policy Forum released today. The new center would replace the County's aging Safety Building, which was constructed in 1929 and is no longer suitable for the County's justice-related space needs.

The report examines courthouse projects across the country of roughly the same scope and size as Milwaukee's and finds there is no "cookie cutter" approach to developing and financing such projects.

"We find a diverse set of financing sources and approaches, though one common characteristic emerges: most counties are using specialized forms of financing that lie outside of their regular capital improvements program, and/or are receiving direct help from their state government or state-authorized special sources of funding."

Based on observations of other courthouse financing approaches and consideration of Milwaukee County's unique financial challenges, the report cites four major strategies that could be considered for the new justice center, and weighs the advantages and disadvantages of each approach. The strategies include:

- **Using conventional general obligation (G.O.) bonds and repaying the principal and interest with existing revenue streams.** Bonding for large courthouse projects "is a fiscal reach for most governments," the report notes. Most counties that used bonding for their facilities drew on special revenue sources, such as enhanced court fees or temporary sales taxes, to pay for the debt. Only one – Pima County, Arizona – financed its courthouse exclusively through G.O. bonds and traditional revenue streams, and that project "had a much lower price tag" than the proposed justice center.

For Milwaukee County, a concern "would be the potential impact that a large increase in debt might have on the county's bond rating and, as a result, on future borrowing." Using traditional forms of borrowing to fully fund the justice center project also would likely crowd out funding for other needed capital projects, while the substantial annual debt service payments would have severe consequences on the County's operating budget.

- **Reducing financing costs and debt through new sources of capital.** The County's debt load could be reduced if the State of Wisconsin partnered with it to finance the project. Other states, such as Oregon and California, have established programs to share responsibility for major courthouse projects with counties.

  The County also could pursue a public-private partnership (P3) to provide the additional capital. While such a strategy would reduce the county's indebtedness, "Milwaukee County would need to find the resources in its operating budget to make room for the substantial annual payments required for a P3 contract," the report states.

- **Creating new revenue sources for annual debt payments.** The report identifies three new revenue sources to offset the debt costs, all of which would require state approval: a dedicated sales tax; reallocation of the current 0.1% Miller Park sales tax; or additional court fees or surcharges.

  Several of the counties examined used sales taxes to help pay for their new courthouses, including Forsyth County, Georgia, where voters approved a temporary 1% sales tax for a new courthouse and other major capital needs; and Duval County, Florida, where voters approved a special half-cent sales tax to cover a portion of courthouse construction costs and pay for other capital projects.

  In addition to considering a new sales tax, policymakers could consider extending Milwaukee County's portion of the five-county, 0.1% Miller Park sales tax to help pay off the courthouse debt once the Miller Park debt is retired in late 2019 or early 2020. That approach would raise about $15 million annually, "or more than half of the estimated debt service costs associated with a 15-year, $300 million G.O. bond issue."

  Another possible source of new revenues would be from court fees or surcharges, an approach used by Duval County, Florida; Multnomah County, Oregon; and Los Angeles County. The report notes that the state retains roughly two-thirds of court fees and surcharges in Wisconsin, while counties get the rest. The state would have to approve any new court fees or surcharges, as well as any add-ons to existing charges or changes to the amounts retained by counties.

- **Reconfiguring bond repayment to reduce annual debt service costs.** The report identifies two alternatives within this option. The first is to extend debt repayment from the usual 15 years to 20 or more. This would reduce annual debt service payments and could provide greater flexibility in budgeting. But, the report notes, "the disadvantage of this approach is that it increases the bonds' total interest costs" because the County would pay a higher interest rate over a longer term.

  The second alternative would be to structure the justice center debt so that principal payments would be delayed until the County pays off its pension obligation bonds in 2031.

  "The clear benefit of this approach is that it would allow the County to absorb the debt related to a new justice center without having to accommodate a sharp increase in debt service in any particular year or short period of years, and without needing to seek a change in state law," the report notes. Yet, the magnitude of the debt still would pose "considerable challenges" in light of the County's other capital and operating needs.

Although the report does not recommend a specific solution, it concludes that the typical 15-year G.O. bond approach "will not work" given the cost of the project and other budget pressures.

"There is little question that Milwaukee County needs to replace its Safety Building with a major new justice system facility," the report states. "And there is even less question that to do so it will require assistance from other levels of government and openness to financing approaches that fall outside of its traditional capital finance model."

The full report can be downloaded at www.publicpolicyforum.org.