REPORT BRIEF

THE JURY IS OUT

Options for financing a new Milwaukee County Justice Center

WISCONSIN

POLICY FORUM

Built in 1929, Milwaukee County's Safety Building originally housed a variety of City of Milwaukee and Milwaukee County courts and law enforcement functions. The building has been gradually re-purposed to serve primarily as office space for County justice system personnel (as well as nine courtrooms), but it does not adequately meet that need.

The County now hopes to replace the Safety Building with a new 374,000-square-foot justice center on the same site. Unfortunately, the price tag is prohibitive. With a total estimated project cost (including temporary transition space) of up to $345 million, the project would exhaust much of the County's borrowing capacity for years to come if financed under its regular capital program.

Milwaukee County is not the only financially-challenged county government that has faced the need for a new courthouse facility. In this report – commissioned by Milwaukee County's Department of Administrative Services – we explore how other county governments across the U.S. have financed new county courthouses, and we seek to apply lessons learned to Milwaukee County's predicament.

There is little question that Milwaukee County needs to replace its Safety Building and even less question that to do so it will require consideration of financing approaches that fall outside of its traditional capital finance model. We hope this analysis will be helpful in providing perspective on such financing solutions and in launching informed deliberations on the appropriate means of paying for a new Milwaukee County Justice Center.

NATIONAL SCAN

To initiate our analysis, we conducted a scan of county courthouse or public safety projects throughout the U.S. with a cost of more than $100 million that have been completed (or are in the process of being completed) since 2010. Our national scan identified 14 such projects. Notably, we found there is no "cookie cutter" approach to developing and financing large county courthouse projects. Indeed, these projects had a diverse array of financing strategies and funding sources and they employed several distinct types of partnerships.

Table 1 provides an overview of the 14 projects, including information about their size, cost, and financing. 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. In fact, even for the three counties that used their own bond financing, two did so in ways that were not typical of their traditional capital financing approach.

While local governments typically finance major capital projects by issuing debt, increasingly they also are considering Public Private Partnership (P3) models to finance extremely large projects. In a P3, a public entity partners with a team of private architectural, development, and management firms to finance and develop the capital project, and often to maintain the asset after construction. We found two examples of P3 approaches among the 14 projects (Los Angeles and Howard counties), and an additional example (Marion County) where local leaders originally pursued a P3 but ended up with a more traditional approach.

Table 1: County courthouse projects throughout the United States

State	County	SQ FT	Total Cost	Financing Source
CA	San Diego	704,000	$550,000,000	State-approved court fees pay off state-issued revenue bonds.
MA	Middlesex	265,000	$200,000,000	State general obligation (G.O.) bonds.
FL	Broward	741000	$262,000,000	Dedicated sales tax revenues received from the State of Florida to pay debt service on revenue bonds.
OR	Multnomah	444,693	$295,000,000	$125 million commitment from State legislature using bond proceeds; remaining $170 million through county G.O. bonds and general fund transfer.
OR	Clackamas	215,000	$154,000,000	Half to be paid by the State using G.O. bond proceeds. County will use "internal financing."
GA	Forsyth	335,000	$100,000,000	Voter-approved Special Purpose Local Option Sales Tax (SPLOST) program to pay off revenue bonds and cash finance.
FL	Duval	800,000	$350,000,000	Revenues from Better Jacksonville Plan (1 cent sales tax) paid debt on revenue bonds. Other funding included general capital funds and revenues from traffic fine surcharge.
OH	Franklin	325,000	$175,000,000	Quarter-cent sales tax initiated in 2013 (ground broke Nov. 2017).
CA	Madera	115,804	$100,000,000	State-approved court fees.
IN	Marion	665,534	$525,000,000	35-year county-issued lease appropriation bonds (debt service payments made w/operational savings).
AZ	Pima	290,000	$143,000,000	Voter-approved county G.O. bonding of $75 million; county general fund reserves.
IL	Will	365,000	$215,000,000	25-year county G.O. bonds; City of Joliet contributing $50 million over 20 years toward debt service; new courthouse fee.
MD	Howard	222,000	$105,000,000	County G.O. bonds; P3 hybrid - Design, Build, Operate.
CA	Los Angeles	531,000	$396,448,640	P3 - DBFOM; private bonds paid off largely through state-approved court fees over 35 years.

TRADITIONAL PUBLIC FINANCING & DEVELOPMENT APPROACHES

After conducting our initial scan, we first took a deeper look at five of the projects from our list that used county-issued debt and a traditional development approach. Then, in a subsequent section, we examine the two P3 models.

Local governments most commonly borrow money for capital projects by issuing general obligation (G.O.) bonds. These bonds are backed with the government's general credit and taxing authority. Another form of local government debt is revenue bonds, which instead are secured with a specific revenue source. Among the projects cited in our scan, we observe the use of both types of bonds.

Pima County, AZ – Traditional County G.O. Bond Financing

The Pima County Downtown Court Complex is a $143 million 290,000 square-foot facility that opened in 2015. In 2004, Pima County voters approved $76 million in 30-year G.O. bonds to fund the complex. Later, the County was forced to come up with an extra $67 million, which it accommodated through its general revenue streams and reserves.

A major difference between Milwaukee County and Pima County is that Pima's G.O. bonding must be voter-approved per state law. Under this approach, the County periodically places proposals before voters for large debt issuances for projects covering several years. A "secondary property tax" is implemented to support the debt service on the bonds if the referendum is approved. This tax essentially constitutes an add-on to the property tax levied by the county for operational purposes.

The Pima County example offers food for thought for Milwaukee County in two ways. First, the use of 30-year G.O. debt allowed Pima County to spread debt service payments over a longer period, thus reducing annual payment amounts. The downside, however, is that considerably more interest is paid over the life of the bonds. Milwaukee County currently is limited by the Wisconsin Constitution to a maximum 20-year term for G.O. debt but that limitation does not apply to revenue bond debt.

Also, use of a special, dedicated property tax for justice center debt service could allow Milwaukee County to finance the project in a manner that would not reduce the amount of local tax revenue available for other uses. Per State law, G.O. debt payments are exempted from property tax levy limits if approved by a three-quarters vote of the County Board. Consequently, County policymakers would not be precluded by State law from levying a special property tax to pay off justice center debt, though the already high property tax rates in the county would be a barrier to such action.

Multnomah County, OR – State/County Partnership

Multnomah County's 444,693 square-foot, $300 million courthouse project is expected to be finished by 2020. The County was able to take advantage of a state policy that allows for up to a 50-50 state-local match for new courthouse projects. In 2013, the Oregon legislature authorized $125 million toward the construction of the Multnomah County courthouse. For the remaining amount, Multnomah County has provided $80 million from its General Fund and issued $90 million in 30-year G.O. bonds. An additional bond sale is anticipated this year or next to pay the remainder.

Multnomah County typically supports its G.O. debt with general revenues, but in this case it also is using special surcharges to support $25-$30 million of courthouse debt. State law allows the presiding judge in a judicial district to impose a $5 surcharge for traffic and parking violations if the county's commissioners request such a surcharge and if the county is receiving state financial assistance for a courthouse repair or replacement project.

In both Wisconsin and Oregon, counties are responsible for capital improvements for their courthouses. Nevertheless, recognizing the overwhelming financial challenge posed by large courthouse replacement projects for county governments, Oregon's legislature created a program to share the cost of such projects. Whether State leaders in Wisconsin would be willing to consider a similar approach certainly is debatable, particularly in light of the State's own pressing capital needs for both transportation infrastructure and buildings.

Multnomah's use of special surcharges on traffic and parking fines also may be instructive for Milwaukee County. Again, recognizing the challenge posed by courthouse construction, state lawmakers in Oregon authorized special user-based fees to help support county-issued courthouse debt. Similar special surcharges also would require state legislative approval in Wisconsin.

Forsyth County, GA – Dedicated Local Option Sales Tax

Forsyth County's new $100 million, 335,000 square-foot courthouse facility was completed in 2015. In 2011, Forsyth County voters approved a 1% Special Purpose Local Option Sales Tax (SPLOST) to pay for a list of infrastructure projects, including its courthouse complex. The County issued $50 million in revenue bonds in 2012 to help finance the project. Sales tax revenues from the SPLOST supported the bonds.

In Georgia, the state allows counties and municipalities to enact a 1% SPLOST for the purpose of financing certain capital outlays. The tax only can be imposed via a referendum. The SPLOST is time-limited (typically five or six years) but can be renewed by voters for new sets of projects.

The SPLOST approach potentially could be attractive for Milwaukee County given that it would provide a dedicated and robust source of new revenue to support courthouse debt, thus not detracting from the County's regular capital program. Requiring that such a special tax be approved via referendum, that it be time-limited, and that the proceeds be restricted to specifically delineated capital projects could help temper concerns about permanent higher taxation. Of course, any such approach would require State authorization. State law allows counties to levy up to a 0.5% local option sales tax, but that authority already has been used by Milwaukee County.

Broward County, FL – Dedicated Portion of Existing Sales Tax

Broward County opened a new $345.6 million, 674,000 square-foot courthouse in January 2017. The project was financed with $108 million originally appropriated for a Family Court building and jail expansion project; and $218 million in proceeds from revenue bonds issued in 2010.

The use of revenue bonds – as opposed to G.O. bonds – was predicated on the County's decision to pledge revenues received from a distribution of a state sales tax to support the debt. Under the State of Florida's Local Government Half-Cent Sales Tax Program, Broward County receives a formula-driven distribution of a portion of the State's sales tax collections.

Broward County may hold lessons for Milwaukee County both in its staggering of the maturity of its debt over a 15- to 30-year period and its dedication of sales tax revenues to cover revenue bond debt. As noted with regard to Pima County, issuing debt over a longer term can enhance the affordability of annual debt service payments, though the downside is higher total interest payments.

Dedicating a portion of its existing half-cent sales tax to support debt service payments also may be an option for Milwaukee County. A clear negative, however, would be the impact on the remainder of the capital program and the operating budget. Existing sales tax monies already service the County's wide range of long-term capital debt, and amounts not needed for that purpose are a key source of operating budget revenue. Diverting those resources to courthouse debt undoubtedly would create severe financial pressure in other areas.

Duval County, FL – Mixed Approach

Duval County's (FL) 800,000 square-foot courthouse facility opened in June 2012 at a cost of $350 million. The courthouse was funded in large part by the Better Jacksonville Plan (BJP), a $2.25 billion infrastructure package that was placed before voters in 2000. The courthouse was one of several projects included in the BJP, which was funded in part by a half-cent county sales tax that will expire no later than 2030. The State of Florida authorizes counties to seek voter approval of sales taxes of up to 1% for infrastructure spending.

The courthouse project received $211 million as part of the total BJP infrastructure package. Other primary funding sources included $86.5 million in City of Jacksonville capital funds (appropriated as part of the city/county government's regular capital program); and $48.3 million collected from a $15 traffic fine surcharge. The $211 million from the BJP is paying debt service on 30-year revenue bonds issued in 2001.

Duval County provides an example of a mixed funding approach that combines the use of local option sales tax revenue, traffic fine surcharge revenue, and funds from the government's regular capital program. For Milwaukee County, an expanded local option sales tax and traffic fine surcharge would require approval by the Legislature and Governor. Despite that obstacle, a mixed approach might be seen as a compromise in which the County would need to fit part of the courthouse project into its regular capital program, but could turn to voters for sales tax approval and Madison for permission to implement a traffic fine surcharge for the remainder.

PUBLIC-PRIVATE PARTNERSHIPS

While a less traditional and less common form of public infrastructure financing, P3s have gained increased attention from local governments recently in light of their vast infrastructure needs and limited borrowing capacity.

Customarily, when a government wants to construct a road or a new facility, it engages in a process known as design-bid-build. Under this approach, government or contracted engineers and architects design a project, and then construction firms bid for the right to build parts of it. In recent years, however, a number of state and local governments have departed from standard practice and begun employing private firms in new ways to develop their infrastructure.

Potential benefits associated with P3s are faster project completion, greater assurance that high-quality maintenance will be conducted once the project is completed, and access to private expertise for technically challenging projects. From a financial perspective, because annual payments to private entities are budgeted as an operational cost and not as public debt, they do not threaten bond ratings. Also, P3 contracts typically exceed the payback period for municipal bonds, which can make the project more affordable.

Potential disadvantages include the higher cost of private capital, the complexity and cost associated with developing P3 contracts, and potential unforeseen risks, such as the bankruptcy of a private partner. Also, for Milwaukee County, a disadvantage would be an inability to exempt P3 payments from State property tax limits, as only G.O. debt payments are exempted under State law.

Case Study #1 – Long Beach (Los Angeles County) Courthouse

Los Angeles County's 545,000 square-foot courthouse in Long Beach opened in 2013. This project is the first P3 courthouse built in the U.S. under a performance-based infrastructure (PBI) approach. It relied upon private firms for all phases of infrastructure procurement: design, construction, finance, operations and maintenance.

The main public partner is the Judicial Council of California, which is the policymaking body of the California courts. Long Beach Judicial Partners is the private partner. This is a company established specifically for the courthouse project that includes private equity, design/construction, architecture, and real estate firms.

The project was financed through a $518.5 million, 34-year bond issued by the private partner. Under terms of the agreement, the Judicial Council provides $53 million annually in availability payments over 35 years. The payment is not considered debt, but instead is treated as compensation for performance-based facility services, such as operations and maintenance, which constitute 40% of the payment value.

Several financial, engineering, and architectural journals and professional associations have lauded the Long Beach project. Conversely, the Alliance of California Judges, a 500-member group of California judges formed in 2009, has criticized the expense of the project and questioned whether it required P3 financing.

Case Study #2 – Howard County (MD) Courthouse

Howard County, a suburb located between Baltimore and DC, is in the midst of a process that will select a private partner for the building and operation of a new county courthouse. The facility will occupy 227,000 square feet at an estimated construction cost of $138.7 million.

Howard County characterizes its new project as a "hybrid P3," meaning that private firms take on all procurement responsibilities from design through maintenance but the County provides most of the financing through G.O. bonds. An advantage is that these municipal bonds have a lower interest rate than private capital.

The County will issue about $90 million in G.O. bonds, which will fund partial construction, procurement, and preparatory costs. Private capital will finance the remaining construction costs as a means of ensuring that the private participants have "something at stake" in the long-term success of the project. After occupancy, Howard County will make estimated annual availability payments of $14.4 to $17 million under a 30-year contract.

POSSIBLE FINANCING STRATEGIES FOR MILWAUKEE COUNTY

Milwaukee County has never had to finance a $300 million facility. Not only is this a daunting price tag, but it also must be considered in the context of the County's other financial difficulties, which include a mounting backlog of unfunded capital projects and a longstanding structural deficit. Below, we discuss four potential strategies to finance a new justice center in Milwaukee County that emanate from our earlier analysis of recent courthouse projects from across the country.

Strategy #1: Issue General Obligation Bonds Per Current Practice

Bonding for the full cost of a large facility, such as a courthouse, is a fiscal reach for most governments. Indeed, one concern about full bond financing by Milwaukee County 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 costs.

In addition, borrowing for the full amount of the justice center project clearly would have negative implications for the County's capital program. Total G.O. debt would rise by about 50% (assuming $300 million in new debt) and would reach an unprecedented level. If the County adhered to its current practice of issuing 15-year G.O. debt, then its annual debt service would be about $25.6 million per year (assuming an interest rate of 3.25% and level debt service payments). Such an increase would have a detrimental impact on County operations and sharply constrain its ability to issue other debt for mounting capital needs.

Given the difficulties the County has encountered each year in bridging its structural deficit and the expectation that budget balancing strategies will grow even more difficult in the future, it is doubtful that issuing 15-year G.O. bonds for the full cost of this project and paying the associated debt service payments would be a viable option to pursue. Other funding strategies, however, could reduce the amount of needed G.O. borrowing and/or the level of debt service payments, as discussed below.

Strategy #2: Reduce Financing Costs and Debt Through New Sources of Capital

We present here two strategies involving outside financing that would reduce or eliminate the County's need to issue G.O. bonds to finance a new justice center.

Strategy #2A—State G.O. Bonds

One way to reduce the amount of County debt needed for the justice center would be to draw on state G.O. bonds for at least partial assistance. In Wisconsin, the State and counties share in financing county circuit court operations, but counties have had full responsibility for capital funding. While the State (to our knowledge) has not issued bonds in whole or part for county courthouse and justice facilities, there appears to be no hard and fast agreement on this practice.

State bonding assistance could have a meaningful impact on the Milwaukee County project. If the Oregon model of equal capital financing were followed, Milwaukee County's total G.O. debt would increase $150 million (to about $760 million) and debt service payments by about $12.8 million annually. Of course, even with the State paying for half of the cost, Milwaukee County might find it difficult to fund its share. From the State's perspective, there would be concern that borrowing for county justice facilities might establish a costly precedent and add to its total G.O. debt.

Strategy #2B—Private Capital

The County also could pursue a P3 to finance a new justice center. One advantage is that financing would be "off the books" and private borrowing costs would not be counted as debt nor availability payments as debt service. Nevertheless, 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. Also, because P3 payments would count against the property tax levy limits on the County's operating budget, using increased property taxes to find such room largely would be precluded.

P3s work best for complex construction projects where the expertise and skill of private partners can reduce risk and lower life-cycle expenditures despite higher financing costs. Milwaukee County facilities officials and engineers would need to determine whether that potential advantage would offset the added costs of private financing. An approach modeled after Howard County's P3 hybrid, financed in large part with public G.O. bonds, would eliminate much of that added cost, but the hybrid's draw on G.O. bonding would take away one of the advantages of a P3.

Strategy #3: Create New Revenue Sources for Annual Debt Service Payments

We explore three potential new revenue sources for offsetting the debt costs of the proposed justice center. Each of the three involves local revenues that would require State authorization.

Strategy #3A—Sales Tax

There are two ways to use the sales tax for capital funding. First, sale tax revenues receipts can be directly applied toward construction costs. Conversely, sales tax receipts can be applied toward annual debt service payments. Milwaukee County would require State authorization to implement either approach.

Currently, Milwaukee County raises about $75 million a year through its 0.5% sales tax. This tax rate would need to double for at least four years to fund the entire cost of the proposed justice center. Conversely, an increase in the sales tax of .17% for a period of 15 years would fund required debt service payments using our previous assumptions (i.e. $300 million in 15-year G.O. debt at an interest rate of 3.25%). Extending the life of the bonds for a longer period of time (such as 20 or 30 years, as discussed below) would lower these sales tax requirements.

There are a variety of arguments that can be made for and against choosing the sales tax to finance capital projects. On the positive side, the amount of tax assessed on most sales transactions would be small and the administrative framework for tax collection already is in place. On the negative side, budgeting a given amount of sales tax for a specific purpose can be tricky since incoming revenues can fall during an economic downturn.

Strategy #3B—Miller Park Sales Tax

This option is a variation of the one presented above. Rather than increase Milwaukee County's current 0.5% sales tax, it would apply the 0.1% Miller Park sales tax in Milwaukee County to debt service on a new justice center after the ballpark's bonds are retired in late 2019 or early 2020.

In 1995, the Wisconsin Legislature created a special district to help finance Miller Park. Most funds for construction came from the issuance of revenue bonds. Annual debt service costs on the bonds are paid by a 0.1% sales tax on residents living in the five-county Milwaukee metro area.

Retention of this tax only in Milwaukee County to pay justice center debt would require legislative authorization. This approach would raise about $15 million per year, or more than half of estimated debt service costs associated with a 15-year, $300 million G.O. bond issue. The sales tax proceeds could be combined with other funding sources to fully pay for annual debt service (e.g. court fees or general County revenues). Alternatively, the length of the bonds could be extended to 30 or 35 years, in which case the 0.1% sales tax may be sufficient to fully cover annual debt service payments.

Strategy #3C—Court Fees or Surcharges

In Wisconsin, the State and counties share in funding circuit court operations. The State assumes the salaries and fringe benefits of circuit court judges, court reporters, and other specified costs, which are funded mainly by an annual lump-sum appropriation. Counties pay for court clerks, courtroom security, clerical staff, law libraries, juries, and other costs. In the 2015-16 fiscal year, State-funded circuit court expenditures totaled $108.8 million, while county-funded circuit court expenditures were estimated at $207.2 million.

The circuit courts assess fees, fines and forfeitures, and surcharges. This revenue helps offset general court costs while also funding specific law enforcement and justice programs. State statutes set each specific charge and specify the portion of revenues allocated to the State and/or county. The revenue generated by Milwaukee County circuit court operations in 2015-16 totaled $15.6 million. Of that amount, the County retained $3.2 million and remitted $12.4 million to the State.

An increase in county circuit court revenues would require State authorization. Additional funding could be obtained either by raising the dollar value of specific charges or by increasing the counties' share of the pot. A basic argument for drawing upon court fees to fund courthouse capital projects is that the users of court services would bear greater responsibility than the general citizenry for paying for those projects. On the other hand, a substantial increase in individual court fees would be required to generate enough money to support debt service payments, and some of those paying the increased amount likely would be economically disadvantaged.

Strategy #4: Reconfigure Bond Repayment to Reduce Annual Debt Service Costs

We present two strategies to reduce the amount of annual Milwaukee County revenue needed for a justice center bond issue, neither of which would require new revenues.

Strategy #4a—Extend Repayment from 15 to 20 years or More

The Wisconsin statutes and the Wisconsin Constitution limit the aggregate value of a local government's total debt to less than 5% of the value of its taxable property; and the repayment period of G.O. bonds to 20 years from date of issue. Milwaukee County fits comfortably within these standards; its debt is at 20% of the debt ceiling and County policy restricts the life of its G.O. bonds to 15 years.

Table 2 shows the impact on annual debt service of extending the repayment period for justice center bonds from 15 to 20 years. For illustrative purposes, we also include a column showing a 30-year G.O. bond repayment, though that would require a Constitutional change. Two scenarios are presented, one for a $300 million G.O. bond issue and the second for a $150 million issue. The smaller amount could be accommodated if, for example, the State agreed to finance half the cost; or if it authorized Milwaukee County to use new taxes or fees to directly finance half the cost.

Table 2: Estimated annual debt service and total debt service cost for G.O. bond financing scenarios

	15 years (3.25%)	20 years (3.5%)	30 years (4.0%)
$150 million G.O. Bond *Annual Debt Service*	$12,793,287	$10,554,162	$8,674,515
$150 million G.O. Bond *Total Debt Service*	*$191,899,305*	*$211,083,240*	*$260,235,450*
$300 million G.O. Bond *Annual Debt Service*	$25,586,574	$21,108,323	$17,349,030
$300 million G.O. Bond *Total Debt Service*	*$383,798,610*	*$422,166,460*	*$520,470,900*

This approach would produce a modest drop in annual debt service cost if the bonds were issued over a 20-year period, as opposed to the County's current policy of 15 years. A weakness is that it would produce substantially higher total debt service payments over the life of the bonds. Also, even if the debt service payments were stretched out over 30 years, the annual cost under either the $150 million or $300 million scenarios still could produce unacceptable impacts on County operations and/or cause other capital needs to be deferred.

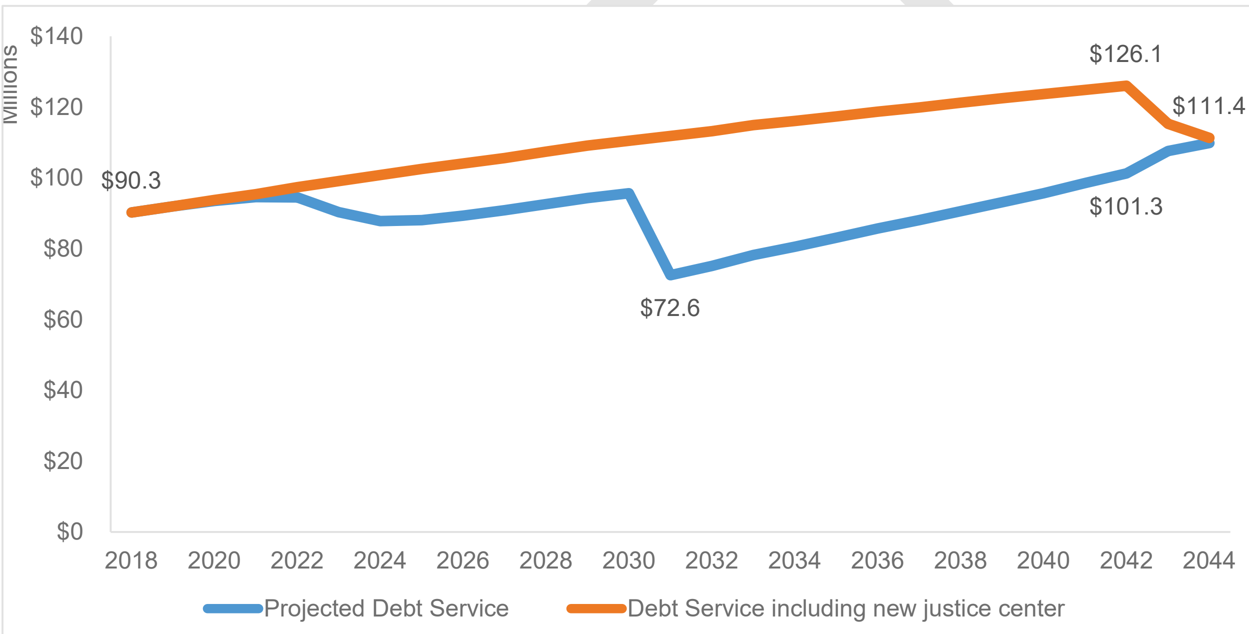
It also may be possible for the County to issue revenue bonds to finance a new justice center, in which case the life of the bonds could be stretched to 30-35 years without a legal change. Under such a scenario, the County hypothetically could pledge a portion of its existing sales tax revenues as the revenue source for the bonds, similar to Broward County. While an advantage would be lower annual debt service payments, disadvantages would include the need to pay a higher interest rate and establish a reserve fund because of the increased investor risk associated with revenue bonds.

Strategy #4B—Structure G.O. Debt Service to Avoid Spike in County Payments

The County also could seek to structure justice center G.O. bonds in a way that would time the initiation of principal payments to coincide with the retirement of its pension obligation bond (POB) debt in 2031. Doing so would allow the County to maintain relatively level debt service payments throughout the term of the bond issue, thus potentially allowing it to avoid an unaffordable spike in debt service payments that would cause severe disruption in other parts of the budget.

The Milwaukee County Comptroller prepared estimates showing such a structure for $299 million in 20-year G.O. bonds. In **Chart 1**, we show the County's current projected annual debt service payments for the next 25 years *without* the justice center project (the blue line), and compare those to projections that incorporate justice center debt per the hypothetical debt structure. While the orange line shows that the County's annual debt service payments would increase by $35.8 million (40%) over the period, the annual increase would be relatively steady at $1.1 million to $2 million per year because of the "backloaded" structuring of principal payments for justice center debt.

Chart 1: Potential County debt service with and without new justice center



Source: Milwaukee County Comptroller's office

The clear benefit of this approach is that it would allow the County to absorb justice center debt without having to accommodate a sharp increase in debt service over a short period of years, and without needing to seek a change in State law. Indeed, at first glance, the annual increases of $1.1 million to $2 million would not appear to be an exceedingly daunting obstacle.

However, while this approach certainly would appear to be more affordable and realistic for Milwaukee County than any of the G.O. bonding approaches discussed above, it still would pose considerable challenges. The foremost is that for years, the County has been able to achieve only limited annual revenue growth, and any growth it does achieve is required for basic operational needs (e.g. fringe benefit and salary increases). Thus, absorbing $1.1 to $2 million in annual debt service increases over a prolonged period would constitute a substantial challenge for the County.

CONCLUSION

This report has explored a number of different financing, funding, and technical strategies that would help Milwaukee County pay for a new justice center. Our analysis yields the following conclusions:

- The traditional approach of issuing 15-year G.O. bonds will not work given the costs of the proposed building and the impact that paying for it would have on the County's capital and operating budgets. This approach would constrain the County's ability to finance other needed capital projects and exacerbate the current infrastructure backlog. It also would worsen the County's structural deficit and intensify the County's fierce operating budget challenges.

- Most other large counties that recently have built new courthouses received state assistance. This has come either in the form of direct state financing or state legislation that empowered local governments to raise local funds for capital projects, often via referendum.

- Many counties have drawn on multiple sources of funds to finance their project or pay debt service costs, and many have used lengthy debt repayment schedules of 30 years or more. If the State of Wisconsin is unwilling to share in the construction cost of a new justice center, then a strategy that combines new funding sources with a non-traditional debt financing approach would appear to be most viable in Milwaukee County, as well.

While we do not advocate a specific solution, it is illustrative to consider how two potential combined approaches might work:

1) Under a scenario in which the State did accept a shared responsibility for justice center construction and bonded for $150 million of the construction cost itself, the County could consider a backloaded debt financing approach for the remaining $150 million. That would ostensibly allow it to absorb interest costs within its regular capital program between 2020 and 2031 without experiencing a spike in debt service. After that time, when the POB debt is retired, the need to pay off $150 million of principal (as opposed to $300 million) still would leave several million dollars of POB debt savings to apply to other needs.

2) If the State instead was willing to authorize new sources of Milwaukee County revenue (or authorize a referendum on the matter), then a 0.1% sales tax combined with a traffic fine surcharge and other increased court fees could be sufficient to meet the annual debt service cost of a 20-year, $300 million G.O. bond issue, which we estimate to be about $21.1 million annually. A positive element of this approach is that it would allow the County to service its justice center debt without impacting its other budgetary needs.

A negative element of both approaches would be higher total interest payments from the lengthier bond structures, which would increase the project's overall cost to taxpayers. Also, even an approach in which the State is willing to pay half the cost may not be affordable for the County without new sources of revenue given its other financial challenges and needs.

The overriding conclusion is that Milwaukee County does not have the financial wherewithal under current conditions to finance a new $300 million justice center, which is a conclusion reached by most other large county governments as they have pursued similar facilities. Creative options for financing and funding such a facility do exist, but implementing them is likely to require some form of assistance from State government.