BUDGET BRIEF:

Milwaukee County 2020 Executive Budget

October 2019

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INTRODUCTION

After a summer marked by citizen outcry over the prospect of cutting suburban bus routes and selling assets in county parks, expectations for the 2020 Milwaukee County budget ranged from gloomy to panicked. Upon its release, however, the recommended budget turned out to be a pleasant surprise.

Instead of cutting 15 bus routes, including all suburban freeway flyers as originally proposed by transit leaders, the budget eliminates only six low-ridership and shuttle routes. It also contains only minor cuts to the parks outside of the closure of two lightly-used pools, and has no negative impacts for most other program areas and the county workforce. Indeed, much like the 2019 version, the 2020 recommended budget stands out for its absence of controversy, with the notable exception of a proposal to end the county's work release program for House of Correction inmates.

So what changed in the few weeks between the county executive's alarming late summer budget briefings and release of his budget? While many individual budget decisions and pieces of good fortune accounted for the improved outlook, two of the primary factors were the discovery and willingness to use $2.9 million of newly discovered property tax levy capacity; and the recognition that health care expenditures could be *reduced* by $2.2 million, rather than needing to be increased by $5.5 million as originally projected.

The recommended budget also withdraws $3.1 million from the county's Debt Service Reserve and avails itself of $2.2 million in one-time federal funds for transit and $2 million from anticipated vacant positions. While justifiable, these moves are emblematic of the maneuvers county leaders must identify year after year to stave off service cuts, and they were fortunate to have several such opportunities at their disposal for 2020.

Still, while the proposal should be viewed as a "good news" budget, the welcome news may be fleeting. As we will discuss in the pages that follow, the transit and capital improvement budgets remain highly problematic, with the prospect of route cuts and the sale of county assets likely to re-emerge in the near future. Meanwhile, the ability to raise property taxes by as much as 2.5% and reduce health care expenditures may not recur in future budgets, creating the need to again consider broad service cuts, workforce reductions, or even an increase in the vehicle registration fee (VRF).

In the pages that follow, we analyze the recommended budget's deficit reduction strategies and key features mentioned above, as well as other elements that are relevant to the county's immediate and long-term financial health. Our aim is to promote informed and thoughtful deliberations as policymakers consider the 2020 county budget in the weeks ahead.

2020 RECOMMENDED BUDGET SYNOPSIS

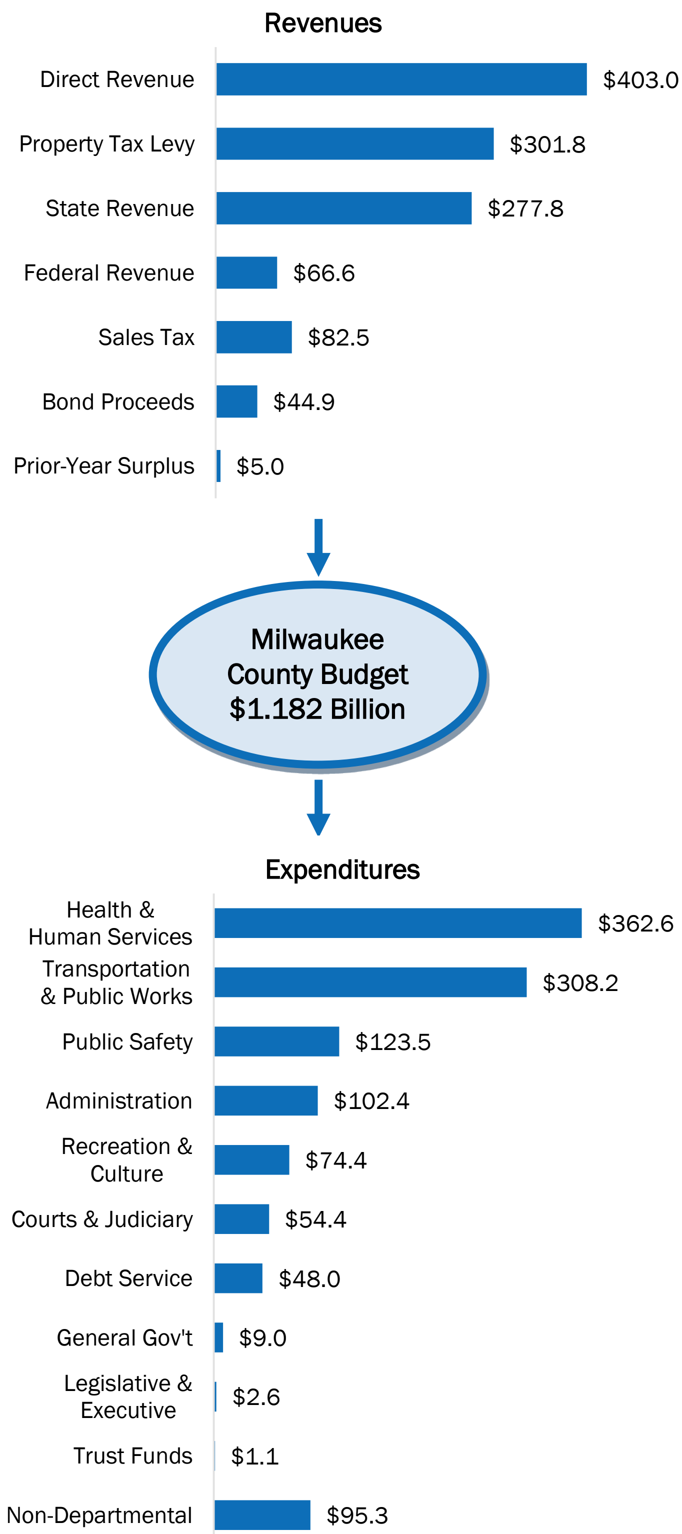
The 2020 Recommended Budget totals just under $1.2 billion, which is $6.9 million (0.6%) lower than the 2019 amount. The operating budget totals $1.09 billion (about $27 million higher than 2019), while the capital budget decreases by $34 million to $91 million. Decreased capital spending largely results from the absence of two large items (bus rapid transit and a new hippo exhibit at the zoo) that inflated the 2019 amount.

Figure 1 breaks down the budget by major revenue and expenditure categories. As in previous years, the three largest areas of expenditure are health and human services at $363 million (including $218 million for behavioral health); transportation & public works at $308 million (including $159 million for transit operations); and public safety at $124 million.

The largest revenue source is "Direct Revenue," at $403 million. This category consists of service-related fees and payments such as zoo admissions fees, transit fares, and Medicaid reimbursement. The property tax is the next largest revenue source at $302 million. The county also is budgeted to receive $278 million in direct grants and aids from the state and $67 million from the federal government.

The county's two primary sources of local revenue – the property tax and sales tax – are expected to grow by a combined $11.1 million (3%) from 2019, while state revenue would rise by $4.6 million (1.8%). The combined 2.5% increase in these major revenue sources is larger than in recent years, which reduces budget pressures for 2020, but which may not be easily replicated in the future.

Figure 1: 2019 Milwaukee County Finances (Millions)



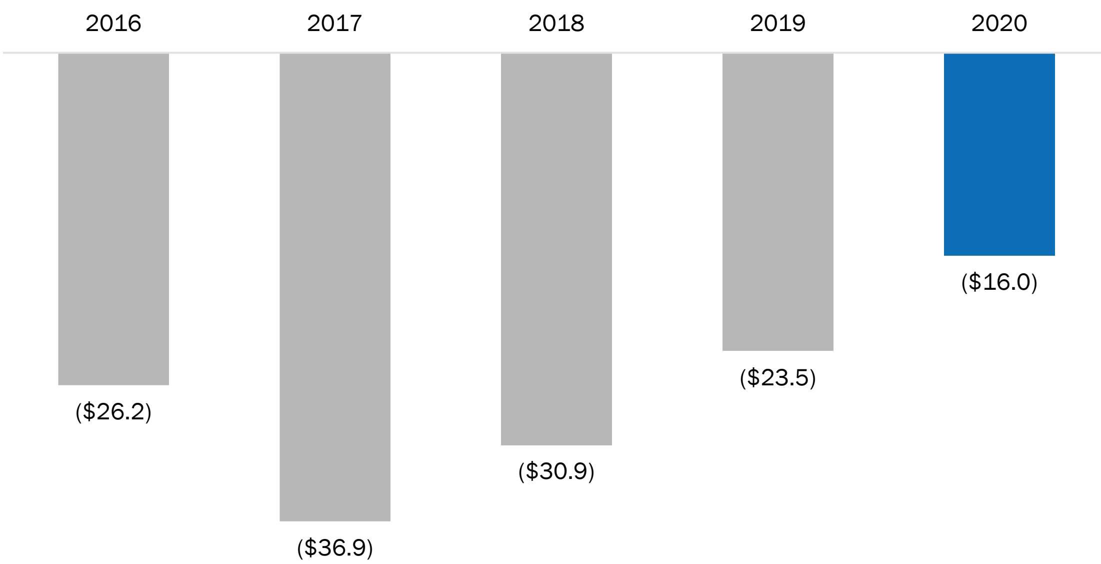
THE 2020 BUDGET GAP

In an ideal world, the onset of annual budget deliberations for governments and businesses should be highlighted by discussion about where to invest new resources to address growing needs or to enhance successful programs or strategies or where to lower the cost of government for the public. For Milwaukee County officials, however, the opposite is the case. Given the county's longstanding structural imbalance, the budget process begins with a calculation of the size of the annual budget gap and discussion of the spending cuts and revenue increases that will be required to bridge it.

The structural imbalance reflects the divergence between the typical annual growth in the county's major revenue streams and the expenditure growth required to maintain current service levels from year to year (the "cost to continue"). The gap between the two reflects both the flat nature of those revenue streams, which are dominated by state aids and the property tax; and the intensity of the county's expenditure pressures, which include pension obligations, health care costs, a huge backlog of infrastructure needs, and the desire to provide cost-of-living pay increases for employees.

The county has made recent progress in shrinking the gap, as shown in **Chart 1.**[1] In fact, the comptroller's estimated 2020 gap of $16 million is the smallest since 2014. This is due, in part, to the county's success in controlling health care expenditures and reducing the size of its workforce, as well as healthier growth in sales tax revenues and adoption of a $30 VRF in 2017. Unfortunately, the need to respond to sizable deficits year after year exhausts less "painful" options, which can make each year's challenge more difficult even if the size of the gap has diminished.

Chart 1: History of initial projected funding gaps, 2016 to 2020 (in millions)



Sources: Milwaukee County Comptroller's Office and Office of Performance, Strategy, and Budget

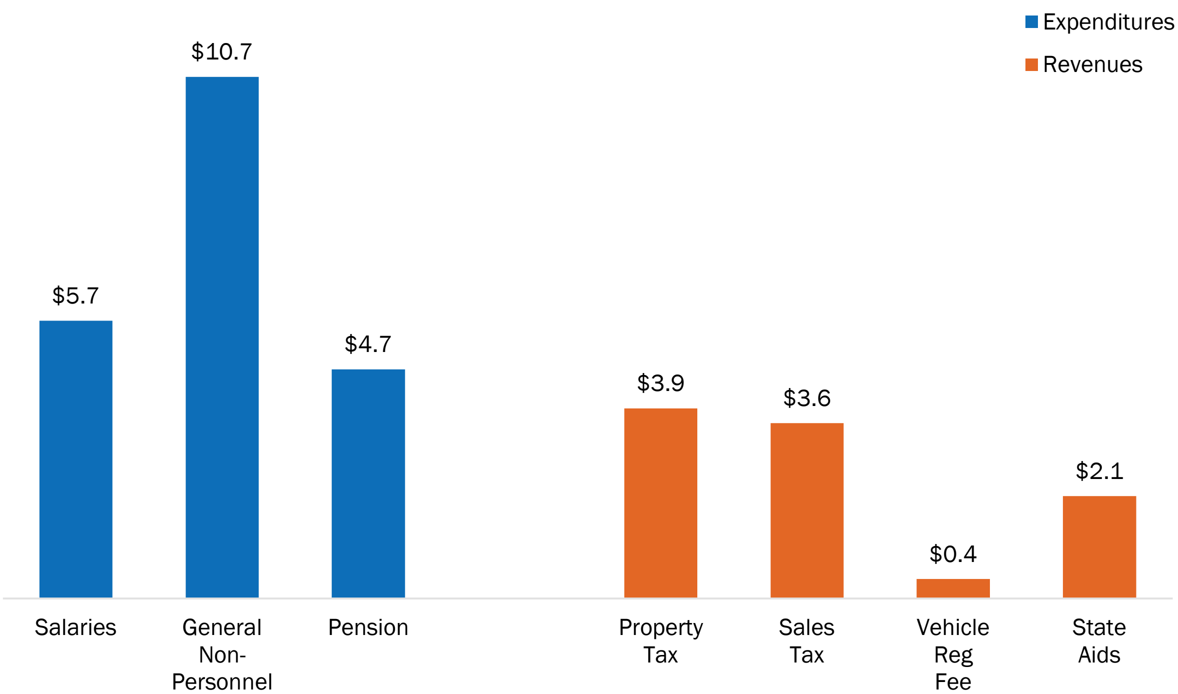
[1] The annual "gap" projections are done by the comptroller's office and reflect a variety of assumptions on major revenues and expenditures. An exception is the 2019 gap amount, which was estimated by the budget director and provided a more consistent comparison to previous comptroller calculations. The 2020 estimate includes an anticipated $4.5 million increase for inmate medical costs.

As noted above, in most years, the major expenditure pressures that have contributed to the structural deficit include increases in health care, pension, and salaries, as well as inflationary increases in general non-personnel operating costs (e.g. fuel, other commodities, contracted services). Per estimates prepared by the county's budget office, three of those four pressures helped to create the original projected gap in 2020, as shown in **Chart 2.**[2]

Noticeably absent from the chart is an increase in health care expenditures. Based on favorable year-to-date experience in 2019, fiscal officials are now expecting health care costs to *decrease* by $2.2 million in 2020 from the 2019 budgeted amount. This contrasts with a $5.5 million increase projected by the budget office in March and a break-even projection in July. However, offsetting that good fortune is the need to spend about $5 million more for inmate health care in the jail and House of Correction (HOC).

The need to spend an additional $21.1 million on the typical areas of cost pressure shown in **Chart 2** was projected to be only partially offset by the $7.9 million combined increase in the county's largest sources of locally generated revenue – property and sales taxes and the VRF. An additional $2.1 million in anticipated state aids trimmed the gap but still left a sizable difference between these cost-to-continue expenditure needs and initially anticipated growth in major revenue sources.

Chart 2: Projected growth in major cost areas vs. major revenue sources (in millions)



Source: Milwaukee County Office of Performance, Strategy, and Budget

[2] The increase in the pension contribution is attributed primarily to a decision to lower the assumed investment return rate for pension fund investments. Per a recommendation from the Employee Retirement System board, that rate is being lowered from 7.75% to 7.5% in 2020. Also, the chart only shows components of the gap that relate to major cost areas and does not include smaller components that impacted it either positively or negatively; consequently, the gap shown in the chart is not equivalent to that projected by the comptroller.

HOW THE GAP WAS BRIDGED

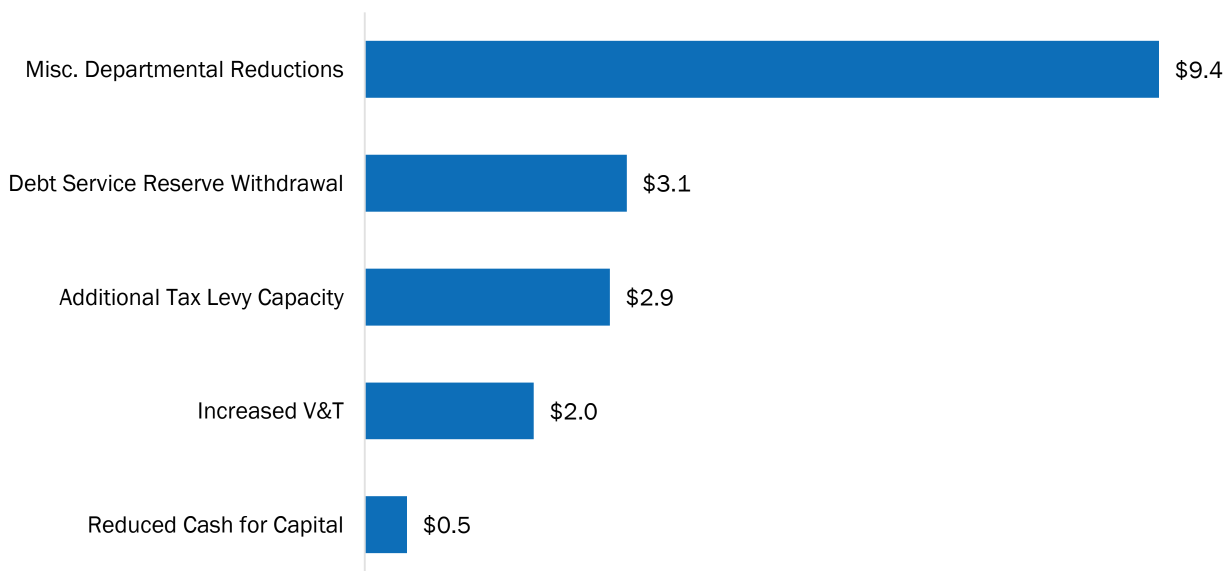
Decisions to boost property taxes and make a modest reserve withdrawal, combined with additional funds or spending cuts found by county departments, allowed the county executive to eliminate the 2020 gap without the types of painful program cuts, privatization initiatives, or new revenue sources that have generated controversy in recent years. The budget also avoids workforce reductions and health care premium increases and includes a 1% mid-year pay increase for most workers.

Chart 3 shows the primary strategies used to eliminate the 2020 budget gap (smaller strategies are not included) and reveals that $9.4 million of various departmental reductions were the largest budget-balancing tool. While the impacts of those reductions are not necessarily insignificant and differ by department, the vast majority are attributed to new revenue sources and can be accommodated without noticeable service reductions.

For example, the Behavioral Health Division (BHD) is counting on an extra $3.1 million in inpatient revenue derived from increased enrollment of its clients in Medicaid-funded HMO's; zoo revenues are budgeted to increase by $658,000, in part because of a 50-cent admission fee increase; and the District Attorney's office is anticipated to receive $233,000 in additional state grants. The most controversial change with program impacts is a plan to save $1.7 million by ending the House of Correction's work release program and converting all such inmates to electronic monitoring. We discuss that plan in greater detail later in this report.

The budget also includes a $7.4 million (2.5%) property tax increase that would be made possible by a "carry forward" provision in state law. In mid-September, the comptroller's office discovered the county could use that provision to increase property taxes by $2.9 million more than originally projected without violating its state-imposed levy limit (we also discuss this provision later in this report). In addition, the Debt Service Reserve (DSR) would be tapped for a $3.1 million withdrawal.

Chart 3: Major strategies to reduce the shortfall in 2020 recommended budget (in millions)



Source: 2020 Recommended Budget (this is the source for all other charts in the report unless otherwise noted)

The chart shows other adjustments in the recommended budget that not only help fill the remaining gap, but also allow for investment in a limited number of new initiatives. Those adjustments include a $2 million reduction in salaries generated by an assumed increase in the number of vacant positions that will arise throughout the year; and a $500,000 reduction in cash allocated to the capital budget.

Overall, the existence of a considerably smaller gap than previous years – combined with good news on health care, a willingness to increase property taxes by the highest percentage in recent memory, and the use of modest increases in revenue from the sales tax and the state – allow the county executive to propose a budget that lacks much of the drama of recent years and that maintains the vast majority of county services at existing levels. However, as we will discuss in the pages that follow, a lack of drama does not necessarily mean the end of fiscal challenges for county operations and does not alleviate ongoing concerns about the county's infrastructure and long-term fiscal health.

2020 RECOMMENDED BUDGET: OPERATIONS

As noted above, the 2020 recommended operating budget totals $1.09 billion, a spending increase of $26.5 million (2.4%) over the 2019 amount. It is not surprising that the three largest county functions account for most of the increase:

- About $11 million is attributed to Health and Human Services, of which $6 million is linked to a significant enrollment expansion in the Behavioral Health Division's Medicaid-funded Comprehensive Community Services (CCS) program.
- Another nearly $11 million is in Transportation and Public Works, including a $3 million increase for the transit system and cost-to-continue increases for the airport, highway maintenance, and fleet management.
- The Public Safety function grows by $6 million, with the House of Correction accounting for $3.8 million of the increase and the Office of the Sheriff accounting for $1.4 million.

Overall, most departments are spared from workforce and program reductions because of the revenue growth and deficit reduction strategies cited above, although several are asked to absorb the cost of modest salary and fringe benefit increases by identifying new or enhanced revenues or making minor cuts. Also, while the budget does not make major new investments, some smaller program expansions or new initiatives are included.

The following are some notable departmental changes:

- The **Courts** receive a property tax levy increase of $1.2 million, which the budget attributes mainly to the need to absorb a state-imposed increase in fees paid to court-appointed attorneys. Also, the **Pre-Trial Services** function receives an additional $261,000 in property tax levy to pay for increased contractual costs and an additional coordinator.
- The **District Attorney** benefits from $233,000 in new state grants, which help pay for an increase of 7.9 full-time equivalent (FTE) positions.
- The **Behavioral Health Division** not only would implement the major expansion of its CCS program noted above, but also would spend an additional $1 million for community placements for individuals with complex needs; $1.2 million to reimburse the state for individuals who require care at state mental health institutes; $700,000 for a third crisis resource center; and $200,000 for a new housing recovery model. Despite these added expenditures, the division's property tax levy decreases by $1.1 million, thanks to $3.9 million in additional Medicaid reimbursement revenue for inpatient care and $2 million in additional state grants for substance abuse services.
- The **Parks Department** would see expenditures cut by $754,000, in large part because of a sharp reduction in projected revenues. The decreased revenue reflects an effort to more accurately reflect recent experience and requires the department to keep two outdoor pools closed and reduce spending by nearly $400,000 on various supplies and services. However, the recommended budget does restore funding for seasonal employees and major maintenance that the department had originally cut in its budget request to meet its deficit reduction target.

- The **Milwaukee County Zoo** receives a $459,000 expenditure increase, which is made possible, in part, by a 50-cent increase in admissions fees that would be implemented in June in conjunction with the opening of a new hippo exhibit. The fee increase would generate an additional $308,000, while a special dinosaur exhibit is budgeted to generate an additional $172,000.

- The **Office of African American Affairs** would receive a tax levy boost of $211,000 for a new position and expanded racial equity training for county employees. This reflects a theme of "looking at the 2020 budget through a racial equity lens," which also is exemplified in transit route-cutting and playground replacement decisions (both sets of decisions specifically took into account the needs of citizens in low-income and racially diverse neighborhoods).

- The **Information and Management Services Division** would benefit from creation of seven new positions at a cost of about $415,000 as the county continues efforts to bolster its information technology (IT) staffing and reduce reliance on contractors. A dozen new positions were authorized in 2018 and 2019 to assist in the deployment of new IT systems.

While these proposed operating budget changes are worth noting, those with the most far-reaching impacts involve the **transit system**, **HOC**, and **sheriff**, which we will discuss in detail below. We also analyze the key fiscal strategies used to maintain county services, several of which may not be available to bridge similar-sized operating budget gaps projected for future years.

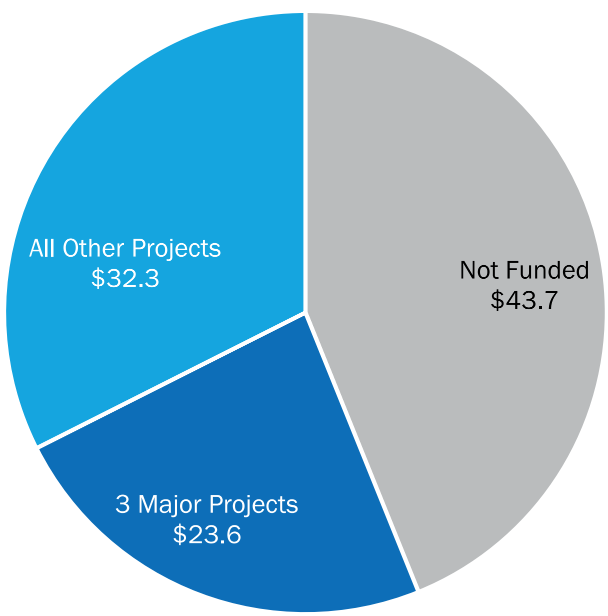
2020 RECOMMENDED BUDGET: CAPITAL IMPROVEMENTS

The recommended capital improvement budget totals $91 million and comprises 7.7% of the overall county budget for 2020. Of that amount, $32.9 million is for projects at the two county-owned airports, which are fully reimbursed by airlines or outside revenue sources and do not directly impact county finances or fall within the county's borrowing limit. Non-airport projects total $58 million, which is a decrease of $35.2 million compared to 2019.

The major source of financing for the county's capital program is general obligation (G.O.) bond proceeds, while other sources include locally-generated tax and fee revenues and contributions from the state and federal governments and private sources. For 2020, of the $58 million recommended for non-airport projects, $2.1 million would be derived from other governments and private contributions. The remaining $55.9 million of county financing would consist of $44.9 million in G.O. bonds and $11 million in cash (comprised of $7.4 million of sales tax revenue and $3.6 million of property tax levy). The $44.9 million bond issue complies with the 3% annual increase allowed under a self-imposed bonding limit established by the county in 2003.

Nearly a fifth of the recommended non-airport capital budget ($11.2 million) and a quarter of the G.O. bonding amount is consumed by one major project: the first year of construction of a forensic science center to house the medical examiner and emergency management office. It is assumed that an additional $17 million of capital funds will be required to complete the project in 2021. A major roadway reconstruction project in Brown Deer Park ($4.3 million) and countywide fleet replacement ($8.1 million) chew up another fifth of the non-airport total and more than an additional quarter of the proposed bond issue. As shown in **Chart 4**, these three projects account for $23.6 million (24%) of the $99.6 million of requested projects cited in the budget.

Chart 4: Breakdown of disposition of 2020 requested capital projects in recommended budget



Source: 2020 Recommended Capital Improvements Budget

This is a familiar and disturbing scenario for the county's capital budget. Of the nearly $100 million in capital expenditures requested by departments for 2020, nearly half had to be delayed or forsaken to abide by the county's $56 million spending limit prescribed by its bonding cap and 20% cash financing goal. Three major projects then consume 42% of the available capital dollars, leaving a dearth of resources to address the county's broad range of capital needs.

The recommended budget notes that 12 bond-eligible projects requested by departments (totaling $22.7 million) were not included in the capital budget, while projects requiring $20.8 million of cash financing were not included to meet the available cash amount of $11 million. That cash financing amount itself was lowered by $500,000 from 2019 because of operating needs. All told, **$43.7 million of requested projects are unfunded, with some of those now needing to be added to the list of 2021 requests, which already was expected to exceed $130 million**.

As if that picture is not worrisome enough, it is worth noting that one of the county's largest recurring capital needs – bus replacement – was neither requested nor funded in the 2020 budget, providing a one-time reprieve that is unlikely to be repeated in future years. That item required $9 million of bond financing in 2019 and is likely to require even greater amounts in future years as buses purchased with one-time grants in the early part of the decade reach the end of their useful lives. That will particularly be the case if county board policy dictating the purchase of electric buses is adhered to, given the increased cost of those buses compared to diesel buses (approximately $850,000 versus $500,000).

The $34.4 million in total non-airport capital spending not devoted to the three major items described above is spread among 74 smaller projects. The function receiving the highest amount of remaining funding is Transportation and Public Works at $6.6 million for 17 projects (including a $3.8 million roof replacement for the transit system's fleet maintenance building). Cultural institutions receive a combined $5.9 million for 12 projects.

The Parks and Recreation function fares better than previous years with 15 projects totaling $3.3 million plus the $4.3 million Brown Deer Parkway project. That compares to only four projects totaling $1.3 million in 2019. However, as we recently reported in the conclusion of our five-part series of reports on local government infrastructure challenges (*Picking Up the Pieces*), parks and recreation is the functional area possessing the greatest need for capital investment in Milwaukee County with a backlog of projects that exceeds $200 million. In fact, that report cited nearly $40 million of requested parks and recreation projects for 2020 based on the 2019 five-year capital improvements plan.

Overall, the 2020 recommended budget manages to fund a considerable number of projects but still falls well short of meeting the county's growing infrastructure needs. We provide additional analysis of the county's daunting capital challenges in a later section of this report.

FIVE KEYS TO UNDERSTANDING MILWAUKEE COUNTY'S 2020 RECOMMENDED BUDGET

KEY #1: NEED FOR SERVICE REDUCTIONS AVERTED BY WILLINGNESS TO RAISE PROPERTY TAXES TO THE MAX

One of the primary contributors to the county's longstanding structural deficit is the lack of growth in its major revenue streams. The county is greatly dependent on two forms of revenue: the property tax and aid from the state. For years, the Forum has tracked four major sources of state aid – shared revenue, Basic Community Aids, mass transit operating assistance, and General Transportation Aid – and has found that those sources have been largely flat since 2012.

Meanwhile, property tax growth has been restricted by state-imposed levy limits. Since 2011, those limits have been linked the rate of growth of new construction in the county, although the calculation is quite complex and contains special provisions for debt service and emergency medical services (EMS), as well as provisions that allow for a "carry forward" of unused levy capacity from previous years. For budget forecasting purposes, however, county fiscal officials generally have assumed that levy growth will need to closely approximate the growth in new construction, which for Milwaukee County has averaged only 1.3% over the past five years.

Heading into 2020 budget deliberations, both the comptroller and the budget office projected the county could increase property taxes by about $3.9 million based on 2019 net new construction of 1.36%. While relatively modest, this amount was about $2.3 million more than the similar amount allowed for the 2019 budget.

However, in mid-September, the comptroller's office produced a new levy limit calculation that found the county actually could increase its property tax levy by $7.4 million, or 2.5%. The change was largely attributed to the discovery that the carry forward provision provided $2.9 million of additional "cap space," although utilizing that $2.9 million would require a two-thirds vote of the County Board. The new estimate also accounted for allowable increases based on debt service and EMS allowances.

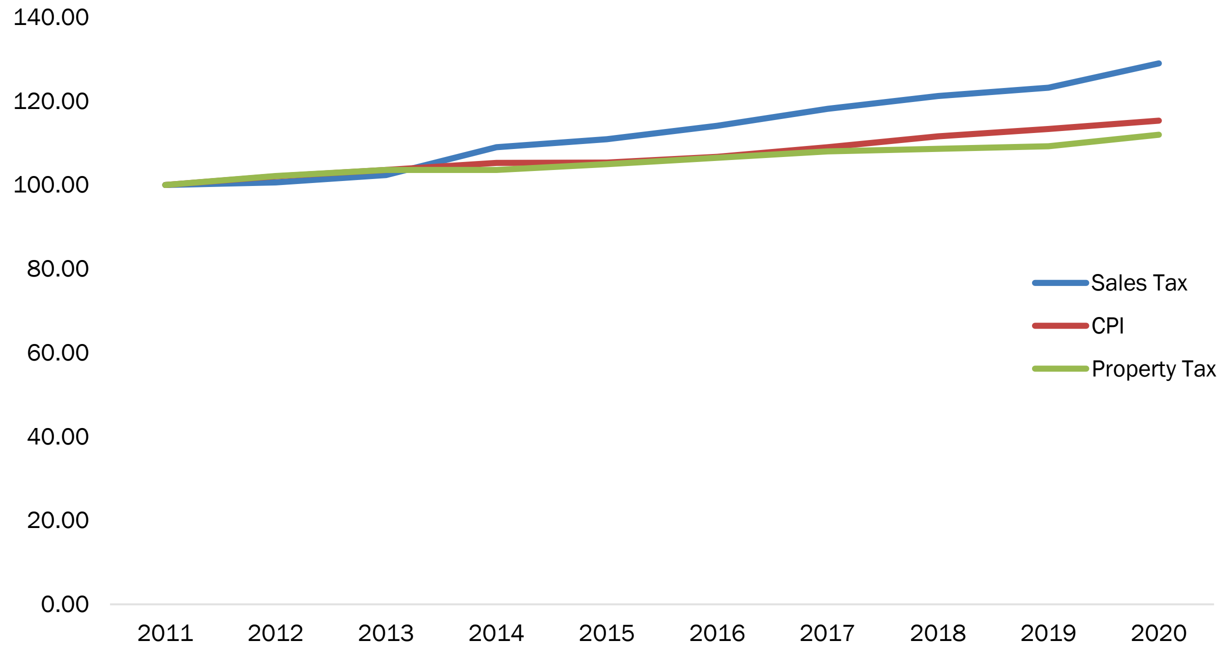
While smaller amounts of carry forward monies have been available to the county in recent years, it had never used that option prior to last year, when the county board amended the recommended budget to increase the levy by $655,000 in accordance with that year's carry forward amount. In this year's recommended budget, the county executive proposes to levy property taxes up to the full amount available, assuming the county board provides the required two thirds vote to do so.

The use of all available cap space – combined with healthy projected growth in sales tax revenues based on 2019 year-to-date experience – gives the county far more growth in its two local taxes than it has enjoyed in previous years. In fact, the recommended 2.5% increase in the property tax would be the highest increase in the past decade, while the 4.7% increase in sales tax collections would be the highest since 2014.

Chart 5 provides further perspective by showing the growth of property and sales tax revenues since 2011 and comparing that growth to the Consumer Price Index. As shown in the chart, Milwaukee

County's sales tax growth has outpaced this measure of inflation while property tax growth has slightly lagged it.

Chart 5: Sales vs Property vs CPI indexed to 100



Source: Milwaukee County budgets and WPF calculations

The comparably high increase in property taxes for 2020 can be justified by the desire to avert significant service cuts, but it also reflects the huge financial burden associated with the county's retirement obligations. Per the recommended budget, **the county will need to spend a combined $133.2 million of property tax levy on retiree health care and pensions (including debt service on pension obligation bonds issued to help address unfunded liabilities), which is a remarkable 44% of its total levy.**

Finally, it should be noted that this much combined growth in property and sales taxes is unlikely to be available to county leaders in future years. For example, our discussions with the comptroller's office suggest that a carry forward opportunity in the $3 million range is highly unlikely to be replicated, meaning the county's capacity to increase property taxes will be closer to the new construction rate, which has shown little promise of increasing above 2%. Meanwhile, sales tax growth is closely tied to the state of the local economy, which has been strong for the past several years but at some point is likely to suffer a downturn.

For context, if the growth in property taxes returned to its 10-year average of 1.1% in 2021, and the growth in sales taxes returned to its 10-year average of 2.9%, then the combined growth would decrease $5.4 million, from $11.1 million to $5.7 million. While not overly significant in the context of a $1.2 billion budget, the absence of that $5.4 million next year would make efforts to bridge the 2021 gap considerably more difficult.

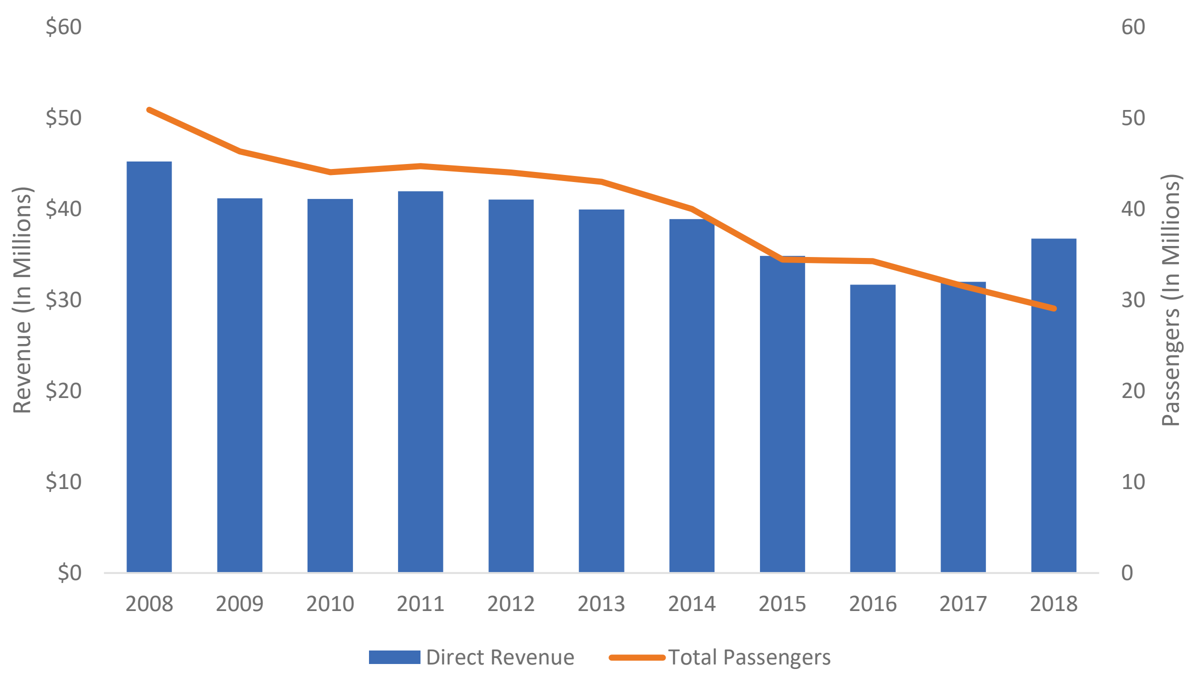
KEY #2: MCTS FINANCIAL CHALLENGES WORSEN

For years, the Milwaukee County Transit System's (MCTS) financial challenges have been a microcosm of those faced by the county as a whole. Increases in MCTS' annual fixed costs – including salaries, benefits, and fuel – seldom are supported by equivalent growth in its revenue streams. That creates pressure either to cut service, raise fares, or both.

Like the county, MCTS is highly dependent on aid from other levels of government. Per the recommended budget, in 2020 about 58% of MCTS' revenue is projected to come from the state and federal governments. Meanwhile, 24% would come from farebox revenue and other smaller sources of direct revenue (such as advertising). The county's financial role is to fill the gap between those revenue sources and projected expenditures; for 2020, about 17% of the system's costs would be borne by county property tax levy and VRF revenue.

While MCTS has been challenged by flat state aids in the past, the more recent cause of its worsening financial challenges is diminishing direct revenue, the bulk of which comes from fares paid by riders. As shown in **Chart 6**, MCTS fixed route ridership plunged from 51 million in 2008 to 29 million last year while direct revenues dropped from $45 million to $37 million.[3]

Chart 6: MCTS fixed route passengers and direct revenue, 2008-2018



Source: Milwaukee County Transit System

With passenger revenues down and state aid $3 million lower than in 2011, it has been up to the cash-strapped county to find additional resources to maintain fixed route service levels amid rising costs. Creative use of federal funds has been part of the fix in the past, but even while maximizing

[3] The sharp drop in 2016-17 and rebound in 2018 were attributed largely to a new GoPass initiative that was implemented in 2016 and then modified substantially two years later.

those funds, the county has been forced to increase its local commitment from $14 million in 2014 to $23 million this year, a feat that was only achieved by instituting a new $30 wheel tax in 2017.

Heading into 2020, MCTS originally faced a nearly $9 million shortfall, which was caused by a combination of rising costs, anticipated elimination of $1.6 million of limited-term savings that helped plug the 2019 hole, and a projected $1.2 million farebox revenue decrease. To meet its requested budget target, MCTS leaders originally proposed eliminating 15 bus routes (including all freeway flyer service) as well as special services to Miller Park, State Fair Park, and ethnic festivals.

The recommended budget is able to trim the list of route eliminations to six, with all freeway flyer service restored and the cuts limited mostly to shuttle services, special routes serving local colleges, and the special summer and seasonal services. Its ability to restore nine routes – and even to add a new one to serve the new Amazon facility in Oak Creek – resulted from the following:

- A decision to increase MCTS' fixed route property tax levy allocation by $2.1 million, which the budget attributes to the availability of resources from unanticipated health care savings.
- A revised projection of VRF revenue that provided an additional $370,000 for transit.
- A decision to use an additional $2.2 million of surplus federal dollars for transit operations.
- The addition of $1.2 million in state aid resulting from a 2% increase in statewide transit funding.

The manner in which service restoration was accomplished shows the severity of the challenge moving forward. The $2.2 million in federal funding likely will not be available next year, thus adding to the structural gap for 2021. Also, state aid is projected to remain at the 2020 level, and growth in VRF revenue cannot be anticipated given flat vehicle registrations. Meanwhile, on the expenditure side, costs may rise pending the outcome of labor negotiations with the local transit union.

But **perhaps the greatest uncertainty lies with the county's ability to continue to devote more local resources to transit as the backstop to prevent sharp cuts in service.** The imposition of the $30 VRF allowed the county to significantly reduce its levy contribution to MCTS, thus freeing up those resources for other needs. In fact, levy budgeted for the fixed route system plunged from $21 million in 2016 (the year before the VRF was implemented) to $7 million last year even as combined local funding increased by $2 million. Placing MCTS' levy allocation on another upward trajectory will be difficult given the many competing needs and the likelihood that health care savings will not be available to dedicate to transit in future years.

In the meantime, cost pressures continue to grow on the capital side. MCTS should be replacing about 30 buses per year at a cost of $500,000 to $850,000 apiece. Nevertheless, as discussed above, the capital budget contains no funds for bus replacements in 2020, largely because dozens of buses purchased with stimulus monies and other federal sources earlier this decade are not yet in need of replacement. Also, transit leaders hope to purchase some new buses with new federal funds anticipated for BRT and the fleet is being reduced in light of service reductions. However, the five-year capital budget projects costs of $25.5 million per year for the foreseeable future after this year.

It is clear that maintaining existing levels of transit service will continue to be one of Milwaukee County's foremost financial challenges in the years to come. Barring any new revenue from the state (or from a local sales tax) or significant changes to employee pay and benefits, it would appear that meeting this challenge may require a willingness to increase the VRF, despite a 2017 advisory referendum that showed little support among county residents for doing so.

KEY #3: PUBLIC SAFETY CHALLENGES NOT GOING AWAY

Public safety has been one of the most contentious budget items in recent years, with the county executive proposing millions of dollars of cuts to the Office of the Sheriff and elimination or near-elimination of entire service areas like the tactical enforcement and investigations units. The 2020 recommended budget for the sheriff pales by comparison, even providing a small tax levy increase and 14 additional FTEs, although it does cut back sharply on the new sheriff's budget request. Meanwhile, a proposal to end the work release program in the House of Correction has drawn concerns from justice system leaders and should be the subject of considerable debate.

Office of the Sheriff

The 2020 budget is the first for Sheriff Earnell Lucas, who was elected last November and took office in January. He inherits a budget that has been quite chaotic over much of the past decade. In 2012, the county executive recommended a $14.4 million reduction to the sheriff's tax levy, and each of his five subsequent budgets would have required the sheriff to make millions of dollars of specific cuts or manage huge lump sum reductions. The county board typically would restore some of the funding, but the sheriff also ran large year-end deficits ranging from $1.5 million to $5.9 million in the 2014-2017 time frame.

In those tumultuous years, the county executive and his budget team argued that the county's intense financial challenges demanded that the sheriff's office – as one of the county's largest departments – play a primary role in deficit reduction efforts, and that the office would best do so by focusing on its core mandated responsibilities. The former sheriff contested the assertion that any of his office's activities were "discretionary" and argued that regardless, the deep proposed cuts could not be accommodated without crippling those services that indisputably were central to his mission, such as administering the jail and providing bailiff and security services to the courts.

The 2018 and 2019 budgets were much calmer, as long-time sheriff David Clarke departed and his replacement, Richard Schmidt, implemented new strategies to live within budgeted appropriations. Nevertheless, despite efforts in those budgets to restore small amounts to meet cost-to-continue needs, questions remained about whether the office – after several successive years of large cuts – possessed the resources to appropriately carry out its mandated duties.

In his 2020 requested budget, the new sheriff asked for $4.4 million in additional spending to plug several perceived holes. The primary items accounting for the increase included:

- A 7.5% increase in the wages of corrections officers and corrections officer lieutenants, which he argued was needed to make those positions competitive in the current job market. A 6.5% increase was approved in 2019 but the budget request asserted that corrections officer wages still are not competitive with those offered by surrounding counties, leading to large numbers of vacancies, frequent turnover, and high levels of overtime.

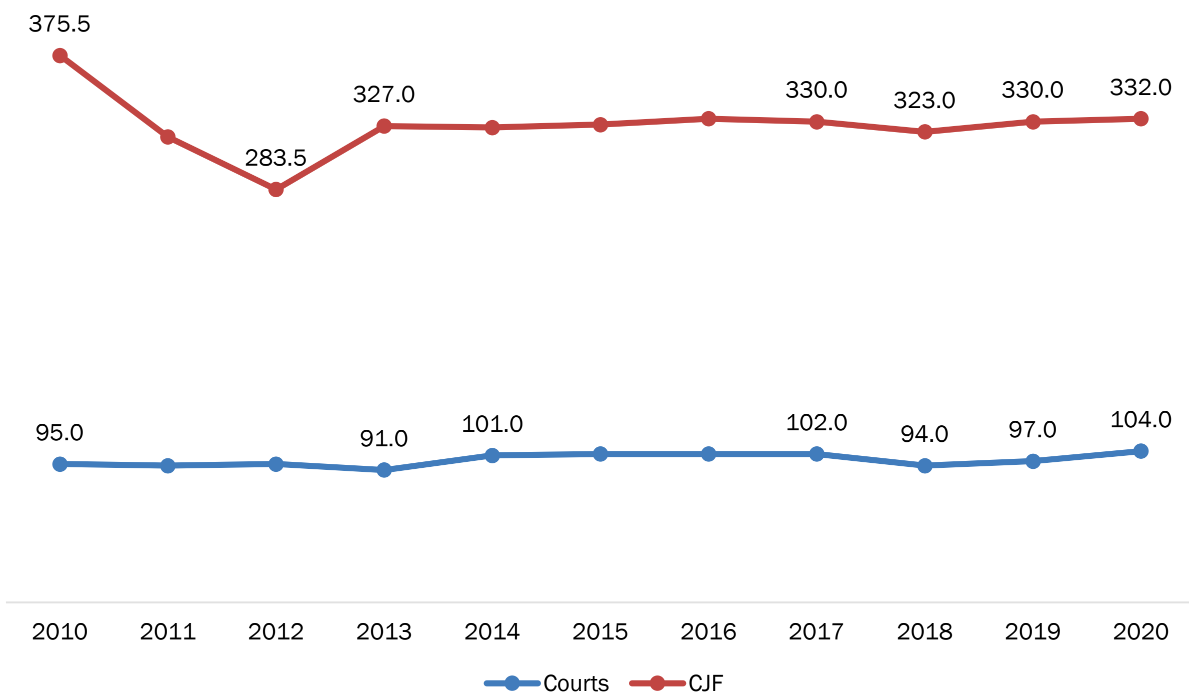
- 15 additional deputy sheriff positions, of which 10 would be assigned to the "understaffed" courts.

- Six additional corrections lieutenants, two additional corrections captains, and three deputy sheriff sergeants to shore up the office's front-line supervisory capacity, which had been substantially reduced in previous budgets.

The recommended budget delivers on approximately $1.1 million of those requested items. The corrections officer pay increase is not included; budget officials cite the 6.5% increase this year and say the provision of $600,000 for targeted increases for skilled trades positions across the entire county workforce became a higher priority for 2020. However, the budget includes funding for seven of the 15 requested deputy sheriff positions (and seven of the 10 requested for the courts), five of the six corrections lieutenants, one of the two corrections captains, and two of the three deputy sheriff sergeants.

Chart 7 tracks the status of full-time FTEs in both the Criminal Justice Facility (i.e. jail) and courts over the past 10 years, including the recommended FTEs for 2020. The chart shows that overall, the jail would have two more FTEs than in 2019 and the most since 2010, though the total still would be 12% lower than that year. Meanwhile, the sheriff's court services function would have seven additional FTEs and the highest total during the 10-year window.

Chart 7: Full-time FTEs for sheriff's Criminal Justice Facility and court-related services, 2010-2020



Source: Office of the Sheriff

The chart indicates that based on historical numbers of positions, the recommended budget addresses the sheriff's top priorities of boosting staffing for court services and bolstering command staffing for the jail. Whether its failure to further increase corrections officer compensation will hamper recruitment and retention and thereby nullify the benefits of added positions is still to be determined, **but it does appear progress is being made.**

Work Release in the House of Correction

Perhaps the most contentious change proposed for 2020 is the plan by the HOC superintendent to end the Huber work release program and transition all inmates eligible for the program to electronic monitoring (EM) instead. Doing so would allow the HOC to close three dormitories currently serving the Huber population, which would save $1.7 million and enable it to re-deploy resources to other dorms and reduce overtime.

Huber participation is limited to those who have been convicted of low-level offenses. Participants are allowed to leave the HOC for work or other prescribed purposes during the day and then must return at night, where they are housed in special dormitories. EM participants also typically are low-level offenders but they are allowed to remain in the community full-time while wearing bracelets that allow their movements to be tracked by a county-contracted service provider.

Under the recommended budget proposal, inmates who are currently participating in work release (there are currently about 114) would be transferred to electronic monitoring immediately assuming they meet certain eligibility guidelines. In addition, about 137 who are currently eligible for the program (and residing in Huber dorms) but who are not actively using it because of a lack of employment or other circumstances would be transitioned to EM when they are deemed eligible.[4]

The HOC superintendent argued in a September memo to the county board that the proposal allows for better supervision of low-level offenders given the ability to monitor them 24 hours per day with GPS-based monitoring devices (which in some cases also can detect alcohol usage). He contends that at the same time, the EM approach is better for the offenders because it provides greater opportunity for community-based and family support and eliminates transportation challenges posed by the Huber program, which requires participants to get to and from the HOC in Franklin each day.

The proposal has generated concerns from other justice system officials, however, including the chief judge. Those include a fear that allowing some Huber-eligible individuals back into the community full-time will backfire because they do not possess the family or community supports that will allow them to stay safe and out of trouble; questions about who will be responsible for responding to violations involving the much larger population of EM participants and how such responses will be paid for; and a concern that without the Huber option, judges will sentence more low-level offenders to “straight time” sentences, which could nullify the proposal’s fiscal benefits.

It is beyond the scope of this report to thoroughly analyze and weigh in on the merits of the HOC proposal. **We would argue that in an ideal world, however, the proposal would have been thoroughly vetted in a data-driven fashion by the Milwaukee Community Justice Council**, which consists of the key justice system leaders whose buy-in is essential to effective implementation.

The administration’s inability to do so likely was driven by the time-sensitive nature of budget preparation and the justifiable desire to find savings in the HOC budget that would avert the need to pursue objectionable alternatives, like closing down the Day Reporting Center and terminating the HOC’s female offender program. **The county board should now take the time needed to more thoroughly weigh the proposal’s programmatic and fiscal impacts and to seek consensus among justice system leaders on the appropriate path forward**.

[4] The estimated numbers of Huber inmates come from the comptroller’s annual overview of the recommended budget, released on October 7, 2019.

KEY #4: LONG-TERM CAPITAL OUTLOOK IS DEEPLY TROUBLING

In *Picking Up the Pieces*, the June 2019 final installment of our five-part series of reports assessing the condition of local government infrastructure, we wrote that "the most alarming overall message of our series is that Milwaukee County does not come close to having the financial capacity to address the totality of its capital needs." Concerning information that has surfaced since the report's publication indicates we may have understated the severity of the problem.

A report issued by the comptroller and budget director in July went beyond the traditional five-year capital budget to examine the capital finance outlook through 2039. While noting that such a long-term outlook can be somewhat speculative, the report estimated that fully financing the county's capital needs over the next 20 years would require an average county investment of $120 million per year, compared to the current G.O. bond limit policy that would allow for an average of $60.3 million per year of capital bonding. Even under a scenario in which the county addressed "major" capital items outside of its bonding limits, the average amount available would be $83 million.

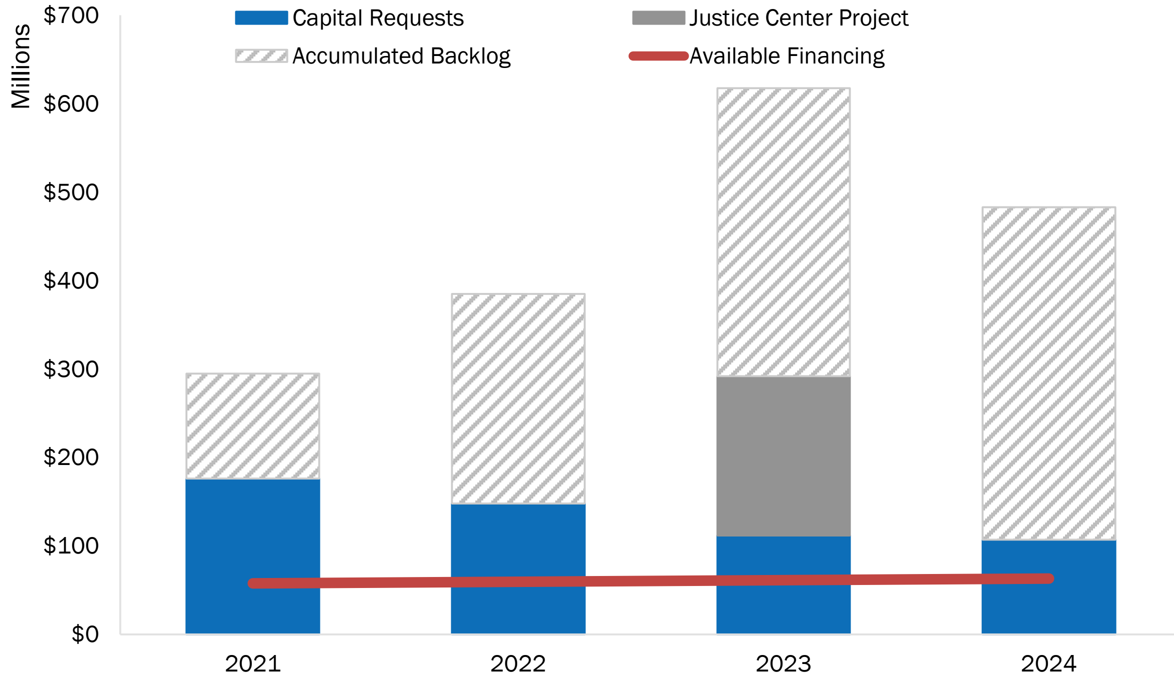
That means the county's existing borrowing capacity for the next two decades falls $40 to $60 million per year short of its annual need. Consequently, if the county adheres to either its current policy or the modified policy noted above, its existing backlog – which we estimated at the time to be well in excess of $200 million by 2023 – would grow by another $40 to $60 million per year through 2038.

As if that report was not unsettling enough, the capital budget's latest five-year outlook delivers more bad news. **Chart 8** (on the following page) shows the latest comparison for 2021 through 2024 between the local cost of non-airport projects requested by departments each year and the county's annual capital financing capacity (as defined by each year's bonding limit plus a 20% cash match).[5] In each year, the total amount of local funding requested exceeds the amount available by tens of millions of dollars. Meanwhile, projects not funded each year cause the backlog to grow, as shown in the chart.

It should be noted that the huge escalation in projected local capital financing in 2023 stems from a $180 million appropriation for a single project – replacement of the Safety Building with a new criminal courthouse. Other major projects include the completion of the forensic science center in 2021 ($16.9 million); the resumption of $25.5 million per year for MCTS bus replacement (this assumes the purchase of electric buses as opposed to less expensive diesel buses); and replacement of the highway division's North Shop building for $11.5 million in 2024 (this was a project that originally was on the docket for 2020).

[5] The 2021 total includes projects requested in 2020 that were not included in the recommended budget.

Chart 8: Available county financing vs. capital requests submitted by departments, 2021-2024



Source: 2020 Recommended Capital Improvements Budget

Remarkably, the five-year capital plan contains 170 distinct projects in county parks, which is reflective of the huge backolog that has built up in that functional area. The increased number of parks projects recommended for 2020 (15 versus four in 2019), while a sign of progress, needs to be viewed in the context of that total.

Similarly, while the 2020 capital budget as a whole covers considerable ground with its 77 non-airport projects, its adherence to the county's self-imposed bonding limit and inability to provide more than a 20% cash match precludes it from keeping up with the county's capital needs as defined by departmental requests. If this was a one- or two-year phenomenon it might not be problematic, but the fact that this has been a norm for the county since the bond limit policy was adopted in 2003 has created a seemingly insurmountable backlog.

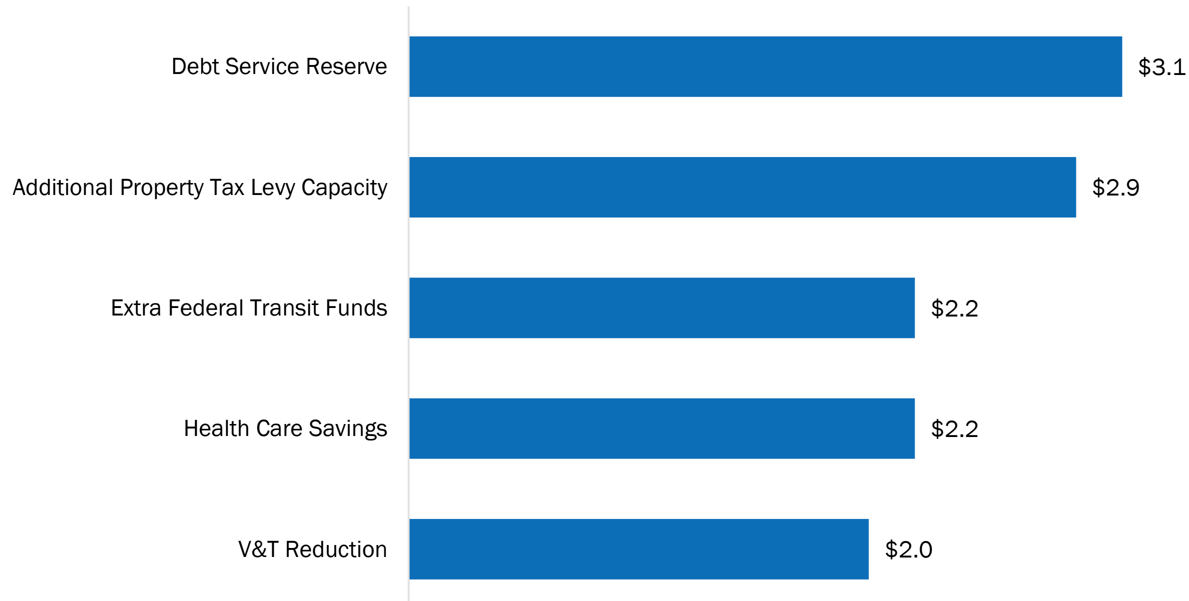
As we pointed out in last year's budget brief, a potential response would be to ignore or modify the borrowing limits, which result from county policy, as opposed to state law. Doing so, however, would cause annual debt service costs to grow. Those costs could be covered with increased property tax levies that would fall outside of state levy limits, but raising property taxes for debt service may reduce the willingness of policymakers to levy as much for operations, thus threatening other county services.

Nevertheless, **a policy of abiding by the borrowing limits and allowing the backlog to grow has become increasingly untenable.** County leaders are hoping for relief from a new proposal for a 1% sales tax in addition to the current 0.5%, but the chances for adoption in the near future appear quite dubious. Consequently, it would appear necessary for county leaders to act soon on this problem using the tools they do possess – the property tax and the VRF; and prepare a capital plan that identifies the projects that *must* get done and develops strategies for doing without those that are lowest on the priority list.

KEY #5: IMPORTANT 2020 BUDGET-BALANCING TOOLS LIKELY TO BE SHORT-LIVED

In the world of local government budgeting, it is often better to be lucky than good. That is the case for Milwaukee County's 2020 recommended budget, which benefits from several pieces of good fortune and a handful of one-time strategies that may not be available to bridge budget gaps in future years. **Chart 9** shows the largest of those items, which total $12.4 million in the recommended budget.

Chart 9: Major limited-term budget-balancing tools used in the recommended budget



Source: 2020 Recommended Budget

A couple of these items have been discussed in previous "Keys," including the unusual opportunity to levy $2.9 million in additional property taxes and to plug $2.2 million of extra federal funding into MCTS' operating budget. We also have cited the unusually robust growth of sales tax and BHD inpatient revenues for 2020, both of which may not be replicated in future years. The following additional one-time or short-lived deficit reduction strategies also merit discussion:

- **Health care savings.** A primary contributor to the county's ability to stave off severe service reductions in recent years has been its success in reducing health care expenditures via plan design changes and increased employee contributions. We have been warning for years, however, that health care costs inevitably will begin to rise again, at least at the general rate of health care inflation in the region. It looked like that time had come in 2018, when the county budgeted a $13.8 million (14%) increase in gross health and dental costs. However, lower-than-budgeted expenditures that year allowed it to budget a $1 million decrease in 2019. A similar scenario of lower-than-anticipated 2019 health care expenditures allows for a budgeted $2.2 million reduction in 2020. Nevertheless, a return to inflationary increases still is likely as factors used to reduce health care costs (such as reduced Medicare Advantage premiums for county retirees and higher pharmacy rebates) are exhausted. If health care costs need to grow by even a modest 3% in 2021, then that would add $3.3 million of expenditure pressure to the budget.

- **Debt Service Reserve.** The comptroller recently reported that unanticipated health care savings – combined with other unexpected departmental surpluses – allowed the county to end 2018 with a $23.3 million surplus. This allows county leaders both to re-stock the Debt Service Reserve (DSR) and use $5 million of the surplus in the 2020 budget. The DSR is projected to have a balance of $35.3 million at the end of 2019.[6] The recommended budget calls for a withdrawal of $3.1 million in 2020, which is $200,000 less than the amount withdrawn in 2019. While justifiable in light of the DSR's ample balance, it is important to recognize that DSR withdrawals may not be possible every year, particularly if the county hopes to reach a $50 million goal established by the budget director. The comptroller is projecting a 2019 surplus of $10.5 million, however, which again may allow for re-stocking and further progress toward that goal next year.

- **Vacancy & Turnover (V&T) reduction.** The recommended budget includes a general $2 million decrease in wages and benefits that is attributed to a higher level of vacancies than is budgeted in departmental accounts. There is justification for this lump sum decrease given the salary surpluses that have been generated by several departments in recent years, and it is not fiscally irresponsible to budget for those savings. It must be recognized, however, that with those potential savings already plugged into the budget, the likelihood of running a budget surplus in 2020 diminishes. A healthy surplus, in turn, has become critical for the county given its need to annually re-stock the DSR and achieve at least $5 million in additional surplus to plug into the following year's operating budget.

Use of these mechanisms is by no means unreasonable, but it should be recognized that they emerged in a fortuitous way and their existence was the difference between an extremely painful 2020 budget and the current proposal. With new challenges already looming for 2021 – including the loss of $4.5 million from an expiring agreement with Froedtert Hospital, an even more imposing set of capital budget challenges, and continued public safety and transit-related fiscal concerns – it is important for policymakers to keep this in mind as they consider budget amendments that might create new long-term financial obligations.

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[6] The DSR is the county's only real general reserve that can be carried over from year to year. Unlike the city of Milwaukee, the county does not have a Tax Stabilization Fund or reserves for pensions and transportation, although the Behavioral Health Division does maintain an independent reserve that is controlled by the Mental Health Board.

CONCLUSION

For the second consecutive year, Milwaukee County's recommended budget avoids significant cuts in service, but the budget document warns that in doing so it provides only "a temporary fix." Such is the state of budgeting at the county, where fiscal and elected officials seek and often find creative means to get by for another year, but do so at the peril of conveying the inaccurate message that their deep-seated challenges have diminished.

Our analysis confirms that those difficulties remain daunting. The lack of major service reductions is attributed to unusual amounts of property tax levy cap space, health care savings, and increased intergovernmental revenues, as well as the opportunity to employ a handful of other legitimate but one-time maneuvers. Those positive factors coalesced toward the end of the budget preparation process, but the same degree of good fortune and opportunity is unlikely to occur in future years.

Meanwhile, the capital budget finds room for a single large project but the backlog of smaller needs grows; and lingering challenges facing the transit system and public safety are not fully addressed and may re-emerge in an even more challenging form next year.

The county's precarious long-term outlook should not obscure recognition of its real progress in reducing the size of its structural deficit, as well as its successful pursuit of responsible fiscal reforms. Those include the reduced investment return assumption for the pension fund, the build-up of the DSR, "right-sized" revenue estimates at the parks and zoo, and lower levels of capital debt. Yet, as progress has been made in these important areas, other problems have intensified and the need to commit scarce local revenue sources to retirement obligations has grown.

Indeed, the county's lack of capacity to resolve several longstanding but difficult-to-detect problems – exemplified by its inability in the 2020 budget to attack its infrastructure backlog, provide more competitive pay for corrections officers, and invest in transit service improvements that might *halt* the ridership decline – often gets glossed over in annual budget deliberations. That is understandable given the more pressing problems that emerge in every budget, but it doesn't mean they will go away.

As we note at the beginning of this report, it can only be good news when a government facing such fierce financial pressures develops a budget that averts service and workforce reductions, avoids irresponsible gimmicks, and increases property taxes by a higher-than-usual but justifiable amount. Milwaukee County leaders should enjoy such good news but should not lose sight of the daunting challenges that remain.