BUDGET BRIEF

MILWAUKEE COUNTY

2021 EXECUTIVE BUDGET

WISCONSIN POLICY FORUM

ABOUT THE WISCONSIN POLICY FORUM

The Wisconsin Policy Forum was created on January 1, 2018, by the merger of the Milwaukee-based Public Policy Forum and the Madison-based Wisconsin Taxpayers Alliance. Throughout their lengthy histories, both organizations engaged in nonpartisan, independent research and civic education on fiscal and policy issues affecting state and local governments and school districts in Wisconsin. WPF is committed to those same activities and that spirit of nonpartisanship.

PREFACE AND ACKNOWLEDGMENTS

This report is intended to provide citizens and policymakers with an independent, comprehensive, and objective analysis of the Milwaukee County Executive's budget. We hope that policymakers and community leaders will use the report's findings to inform discussions during upcoming budget deliberations.

Report authors would like to thank Milwaukee County fiscal officials and staff – including staff from the Department of Administrative Services and Comptroller's Office – for their assistance in providing information on the County's finances.

Finally, we wish to thank the Northwestern Mutual Foundation for generously supporting our local government finance research.

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BUDGET BRIEF:

Milwaukee County 2021 Executive Budget

October 2020

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INTRODUCTION

As the new county executive and his budget team launched the 2021 Milwaukee County budget process in late spring, the outlook was alarming. Preliminary estimates showed the county's typical $15 to $20 million annual budget hole – which itself would be expected to pose a considerable challenge – had escalated to more than $40 million. A primary cause was the projected lingering effects of pandemic-produced hits to sales taxes, bus fares, parks and zoo fees, and other program revenues. Meanwhile, extra COVID-19 costs in areas ranging from emergency management to corrections to the courts continued to escalate with unknown ramifications for the 2021 budget.

As revenue projections, expenditure needs, and federal aid expectations were refined over the summer, however, better news emerged. Projected impacts to sales tax revenues – while still serious – were reduced based on better-than-expected collections as the economy re-opened. Meanwhile, federal coronavirus relief dollars were sufficient to provide a continuing lifeline for transit in 2021, and health care expenditure projections were revised downward as favorable claims activity emerged for the current year.

The result is a 2021 recommended budget that surprisingly avoids severe program and staffing cuts, major fee increases, and unreasonable use of reserves. Transit routes and fares are maintained at current levels, the Sheriff's office loses only a handful of positions, and a wheel tax increase is averted – thus also lessening the prospects for conflict in areas that have triggered considerable controversy over the past decade. Even the capital budget – perhaps the county's most serious long-term fiscal challenge – does not appear as stressed as in previous years.

Still, while the 2021 budget may be relatively conflict-free, it would be a mistake to consider this an "easy" budget or to assume the recent good news signals a permanent easing of the county's longstanding structural imbalance. As we will discuss in this report, huge challenges remain for transit, parks, and infrastructure, and several of the positive factors that combined to relieve county leaders from agonizing choices for 2021 are unlikely to be available to similarly mitigate their stress in the years ahead.

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 2021 county budget in the weeks ahead.

2021 RECOMMENDED BUDGET SYNOPSIS

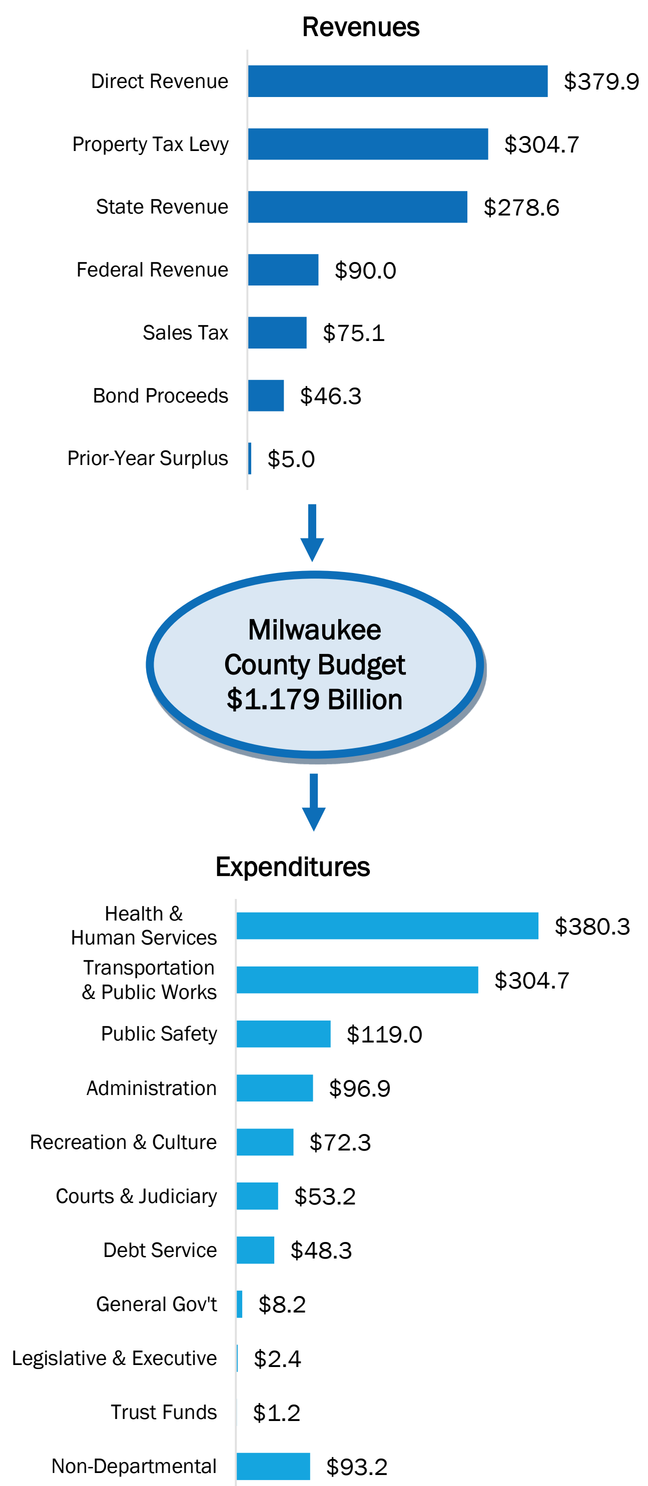
The 2021 Recommended Budget totals just under $1.2 billion and decreases by $4.2 million (0.4%) from the 2020 amount. The operating budget totals $1.1 billion ($7.2 million higher than 2020), while the capital budget decreases by $11.4 million to $80.3 million.

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 $380 million (including $233 million for behavioral health); transportation & public works at $305 million (including $163 million for transit operations); and public safety at $119 million.

The largest revenue source is "Direct Revenue," at $380 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 $305 million. The county also is budgeted to receive $279 million in direct grants and aids from the state and $90 million from the federal government. Federal revenue is up $23 million from 2020, largely due to coronavirus relief dollars and new Federal Aviation Administration funds for a taxiway project at General Miitchell Arport.

The county's two primary sources of local revenue are the property tax and sales tax. While the property tax levy would grow by $3.6 million (1.2%), sales tax collections are projected to decline by $7.4 million (9%). Meanwhile, state revenue would rise by only $631,000 (0.2%). The combined $3.2 million reduction in these major revenue sources is one of the foremost challenges in the 2021 budget.

Figure 1: Summary of Recommended Budget (millions)



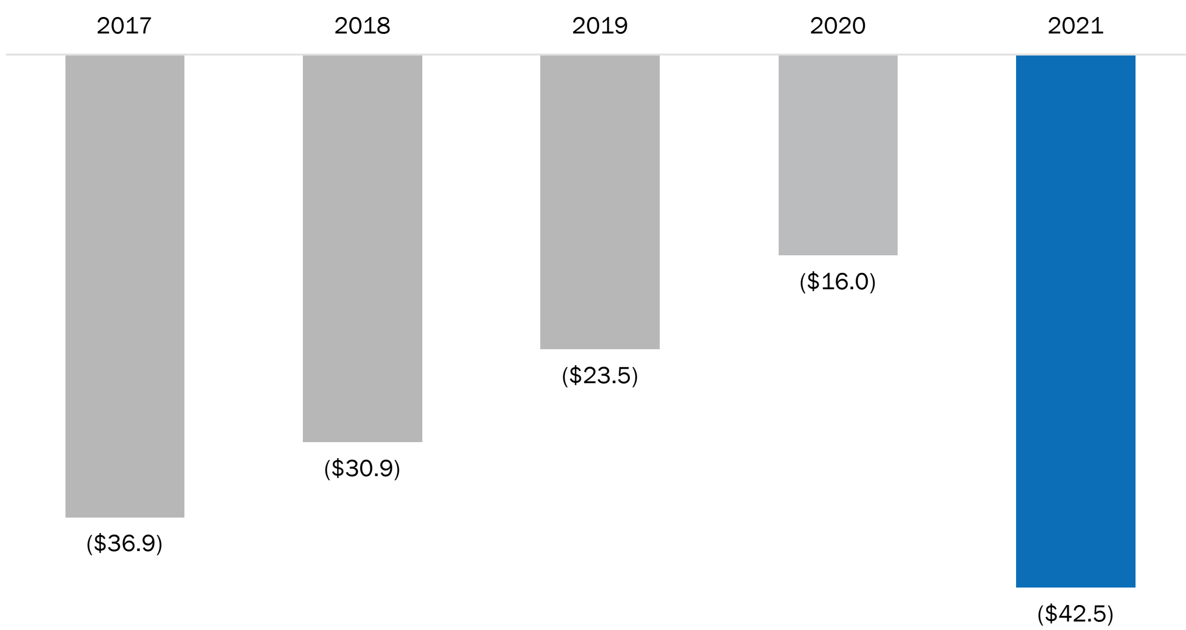
THE 2021 BUDGET GAP

For the past two decades it has been a rite of passage for new Milwaukee County executives to enter office not with the exciting opportunity to create new programming and spending priorities, but instead with the thankless duty to determine where to cut as the county confronts its annual budget gap. That was certainly the case for County Executive David Crowley when he was sworn in this past May, although he had the added misfortune to be immediately confronted with the fiscal consequences of a global pandemic and severe economic downturn.

The county's budget gap materializes each year because annual growth in its major revenue streams lags the amounts needed to continue services at current levels. This paradigm reflects both the flat nature of the county's major revenue sources, such as state aids and property taxes; and the intensity of its expenditure pressures, which include growing retiree health care and pension obligations and a huge backlog of infrastructure needs.

Prior to this year the gap was shrinking, mainly due to successful efforts to control health care costs, stabilize the pension fund's unfunded liability, and introduce a new $30 vehicle registration fee. In fact, as shown in **Chart 1**, the 2020 gap of $16 million was the smallest in recent memory, and the comptroller's pre-pandemic projections indicated the structural imbalance would remain in the $15-$20 million range going forward.

Chart 1: History of initial projected funding gaps, 2017 to 2021 (in millions)



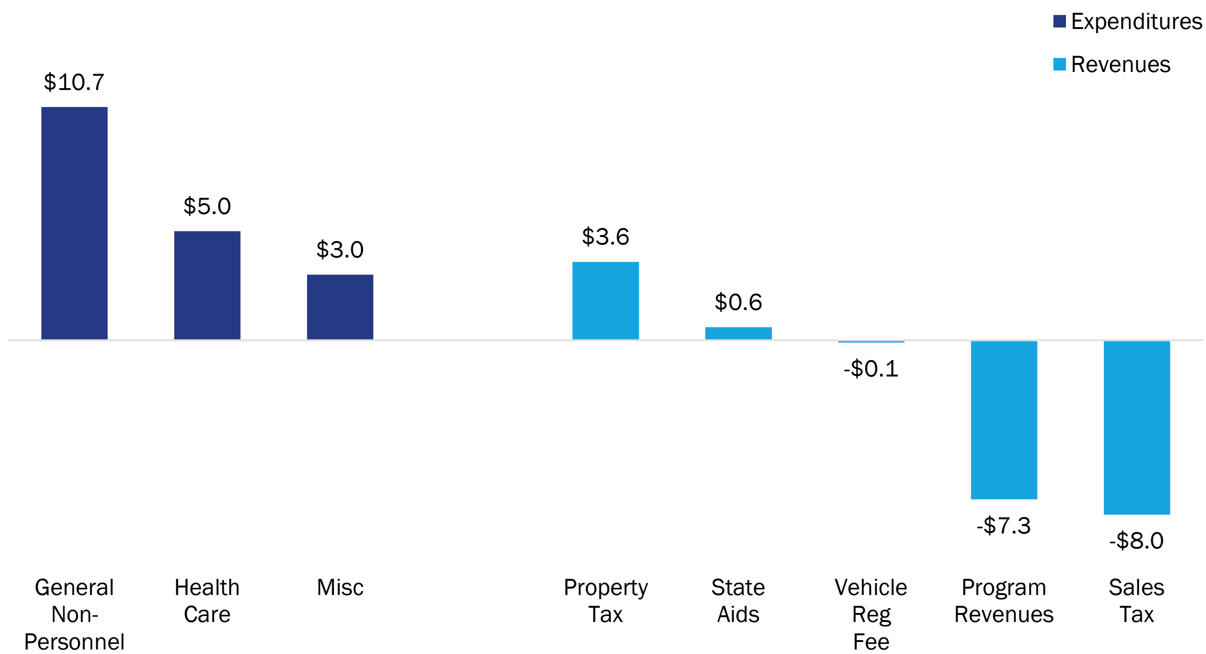
Sources: Milwaukee County Comptroller's Office and Office of Performance, Strategy, and Budget

The onset of the pandemic changed that calculus, however, at least for the upcoming year. On top of the typical forecast of inflationary growth in health care costs and general non-personnel operating costs (e.g. fuel, other commodities, contracted services), the budget office initially estimated combined pandemic-related revenue losses in sales tax and program revenues of $15.6 million plus a $3 million reduction in investment earnings.

Meanwhile, as in previous years, the county was expecting only minimal increases in property taxes and VRF collections, its two other major sources of locally generated revenue besides the sales tax. Also making matters worse for 2021 was the partial expiration of a long-time annual payment from Froedtert Hospital related to the closure of the county-run Doyne hospital in the mid-1990s, which lowered that revenue source by a projected $4.5 million.

The net result of these and other smaller factors was a $42.5 million projected gap for 2021, the largest in the past five years. **Chart 2** illustrates a key feature of the problem – the major revenue sources the county relies upon, which ideally would grow to meet its expenditure needs, were projected to see a substantial collective decrease in 2021. The size of the initial gap projection is also striking given that no increase in the county's pension contribution or pay increases for employees – two traditional sources of expenditure stress – were assumed at the time.

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



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

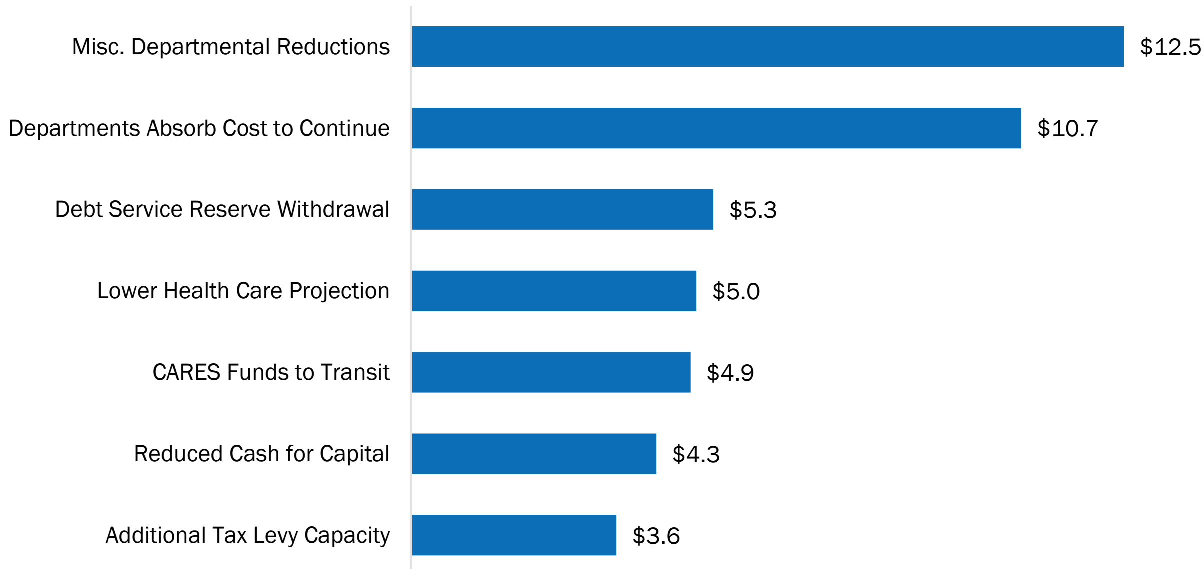
How the gap was bridged

A series of improved projections and newly found federal revenues during the summer, combined with decisions to modestly tap the Debt Service Reserve (DSR) and eliminate the use of property tax levy in the capital budget, helped the county executive eliminate the 2021 gap without noticeable program cuts or boosts in taxes and fees. The budget also avoids workforce reductions and health care benefit changes and includes a 1% mid-year pay increase for most workers.

Chart 3 shows further detail on the primary strategies used to eliminate the 2021 budget gap. In addition to the decisions referenced above, the county executive and his budget team asked departments to reduce their property tax levies by 1.6% to 2.4% on a largely across-the-board basis and to absorb their costs to continue. Two of the largest departments – the Department of Health and Human Services (DHHS) and Behavioral Health Division (BHD) – were able to do so through enhanced revenues. Several others eliminated vacant positions, with both types of action averting major service reductions.

Another key factor was the ability to budget a small reduction in employee and retiree health care costs instead of the $5 million increase originally projected – a byproduct of lower-than-projected claims volumes so far in 2020. Finally, a $3.6 million (1.2%) increase in property taxes (the full amount allowed under state levy limits) and a $4.9 million reduction in the levy allocated to transit (made possible by the use of federal coronavirus relief funds) also helped fill the gap.

Chart 3: Major strategies to reduce the shortfall in 2021 recommended budget (in millions)



Source: 2021 Recommended Budget (this is the source for all other charts in the report unless otherwise noted)

Overall, while the budget's ability to bridge the gap in a relatively painless fashion is both surprising and somewhat remarkable, it also raises red flags for the future. **Asking departments to absorb millions of dollars of cuts year after year without sharp staffing and service reductions is an unsustainable course, as is relying on health care spending reductions and unexpected boosts in federal funding.** The county executive and his budget team readily acknowledge that reality but are justifiably willing to cash in on this year's good fortune to preserve service levels and avoid large tax and fee increases during a recession.

OPERATING BUDGET OVERVIEW

The 2021 recommended operating budget totals $1.1 billion, an increase of $7.2 million (0.7%) over the 2020 amount. The largest increase (by far) would go to Health and Human Services, which would receive an additional $13.7 million (3.6%). The increase is mostly attributed to a large boost in BHD's Medicaid-funded Comprehensive Community Services (CCS) program, which offers an array of recovery-oriented services to citizens with mental health and/or substance use disorders.

Meanwhile, the Public Safety function would see $3.2 million (2.7%) cut, including a $1.7 million reduction to the Office of the Sheriff and a $1.3 million cut to the House of Correction (HOC). A reduction of six deputy sheriffs in the sheriff's budget and reduced overtime spending at the HOC – made possible in part by reduced inmate populations – are primary contributors to those decreases.

As noted above, most departments are able to avoid significant service reductions because of their ability to identify sources of new or enhanced non-property tax revenues or find cost efficiencies through reorganization or elimination of vacant positions. The budget largely lacks major new investments, though some smaller program expansions are included and some departments receive extra funds to offset revenue losses. The following are some notable departmental changes:

- The **District Attorney's** office receives a $525,000 property tax levy increase that helps absorb the loss of $874,000 in state grants for Victim of Crimes Act and Victim/Witness programs. The DA is one of the few departments that was provided additional levy to offset the loss of grant funds or otherwise respond to cost-to-continue needs.

- The **Behavioral Health Division** not only would continue the expansion of its CCS program, but also would spend an additional $1 million for a new specialized treatment team, $500,000 for a new crisis stabilization house, and $700,000 to expand substance abuse services. Those increases are funded largely through new Medicaid-related revenues, which combined with various staffing efficiencies allow for a $2.9 million decrease in BHD's property tax allocation.

- The **Parks Department** would see its property tax levy reduced by $700,000. Four outdoor pools that were closed in 2020 will remain closed in 2021 while $225,000 of levy reduction results from modest increases in golf, marina, and other assorted fees. Perhaps most notable, however, is that $494,000 of expenditures for seasonal labor are segregated in the budget and will not occur if revenue-generating functions continue to suffer from COVID-19. An inability to spend those funds could result in additional facility closures.

- The **Milwaukee County Zoo** would see a levy cut of $562,000 but no service reductions would occur initially, as the levy is replaced with $730,000 in new revenue largely from a new Holiday Night Lights event. Like the parks, however, the zoo is segregating $908,000 of expenditures that may need to be cut depending on the pandemic's impact on admissions and other revenue.

- A new **Grants Procurement Division** is created in the Department of Administrative Services with a $300,000 appropriation to fund a three-person staff. The new division will work to identify and apply for new state, federal, and private sector grants, as well as track existing grants.

In addition to these notable recommended operating budget changes, we provided detailed discussion below of more significant issues involving the **transit system**, **sheriff**, and **DHHS**. Also, while not covered specifically in this report, it should be noted that a focus on racial equity permeates throughout much of the budget document and budget decision-making for 2021.

CAPITAL BUDGET OVERVIEW

The recommended capital improvements budget totals $80.3 million and comprises 6.8% of the overall county budget for 2021. Of that amount, $14.8 million is for projects at General Mitchell International Airport, 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 $65.5 million, which is an increase of $6.8 million compared to 2020.

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 2021, non-airport projects would receive $8.2 million from intergovernmental sources and private contributions, while the remaining $57.3 million of county financing would consist of $46.3 million in G.O. bonds and $11 million in cash. Cash financing consists of $7.3 million of sales tax revenue and $3.7 million from BHD reserves for a staff relocation project tied to the upcoming closure of the Mental Health Complex.

The $46.3 million recommended bond issue meets the 3% annual increase allowed under a self-imposed bonding limit for non-airport projects established by the county in 2003. The budgeted cash amount for non-airport projects represents 19.2% of the total and falls just short of the county's 20% cash financing goal for those projects.

The largest single capital project in the recommended budget is bus replacement for the Milwaukee County Transit System (MCTS) at $7 million. Other large projects include $4.7 million for the project referenced above to relocate BHD youth services staff; and $4.7 million to reconstruct Layton Avenue. Overall, the 60 non-airport projects consist almost entirely of vehicle replacement and repair projects involving existing infrastructure – there are no consequential new projects.

It is notable that there is no property tax levy included in the capital budget for cash-financed projects, as the removal of levy was one of the strategies used to reduce the operating budget gap. This is significant because a sizable number of projects requested by county departments are not eligible for bonding (typically because they involve minor repairs or have a relatively short useful life), and the county has had difficulty financing those projects in recent years. In fact, according to the budget document, **the county was only able to fund an average of 30% of requested cash financed projects from 2018-2020, and that percentage would fall to 23% in the 2021 recommended budget**.

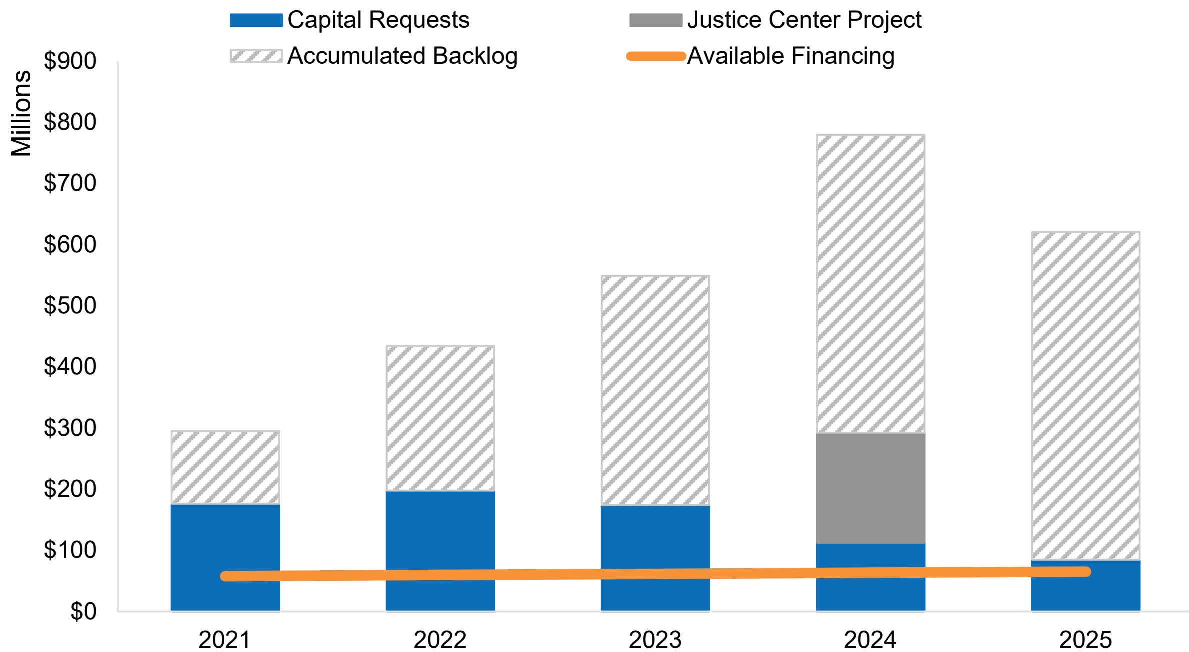
This has created a sizable backlog of cash financed projects that should be of concern to policymakers. An even larger problem, which we highlighted in our series of reports on local infrastructure needs, is the huge chasm between the cost of bond financed project requests and the amount of borrowing the county can afford per its bonding limit. A 2019 analysis by county officials 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, while the current G.O. bond limit policy only would allow for an average of $60.3 million per year of capital bonding. The report suggested, among other strategies, that county leaders consider steps to reduce the county's capital "footprint" by further consolidating its workforce and otherwise seeking to eliminate non-critical assets.

It is surprising, therefore, that all of the bond-financed projects recommended by the county's Capital Improvements Committee for 2021 are accommodated within the capital budget. In fact, because the $35.3 million in recommended projects was $10.9 million below the bonding cap, the recommended budget adds the $7 million in bus purchases and assorted funding for other projects to hit the cap and relieve a bit of the pressure for future years.

There is an important catch, however. Under a new "Design First Approach" implemented this year, the county is now requiring most projects to first receive an appropriation for project design and planning before being eligible for construction appropriations in the following year(s). This approach commendably seeks to reduce risk for the county by ensuring that project costs are more carefully developed and refined during the planning phase, which will increase the reliability of appropriations made for construction.

Because the new approach is being phased in this year, the eligible pool of requested projects for 2021 was diminished. However, as shown in **Chart 4**, this is a temporary occurrence; from 2022 to 2025, seemingly insurmountable gaps between non-airport project requests and available county financing are projected to resurface.[1]

Chart 4: Available county financing vs. capital requests submitted by departments, 2022-2025



Source: 2021 Recommended Capital Improvements Budget

The huge escalation in projected local capital financing in 2024 stems from a $180 million appropriation for a single project – replacement of the Safety Building with a new criminal justice center. Other major projects include the completion of a forensic science center from 2022-2024 ($33 million); the resumption of $25.5 million per year for MCTS bus replacement in 2022; replacement of the Mitchell Park Domes in 2024 ($13 million in county funds are anticipated and $53 million in non-county funds); and replacement of the highway division's North Shop building for $11.5 million in 2022.

Addressing the dozens of smaller infrastructure needs that emerge each year already appears well beyond the county's capacity. However, **it is these major projects that make this an untenable situation with no apparent solution going forward.**

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[1] Available county financing is defined by each year's bonding limit plus a 20% cash match.

FIVE KEYS TO UNDERSTANDING THE 2021 RECOMMENDED BUDGET

Key #1: Pandemic's impacts hurt but could have been worse

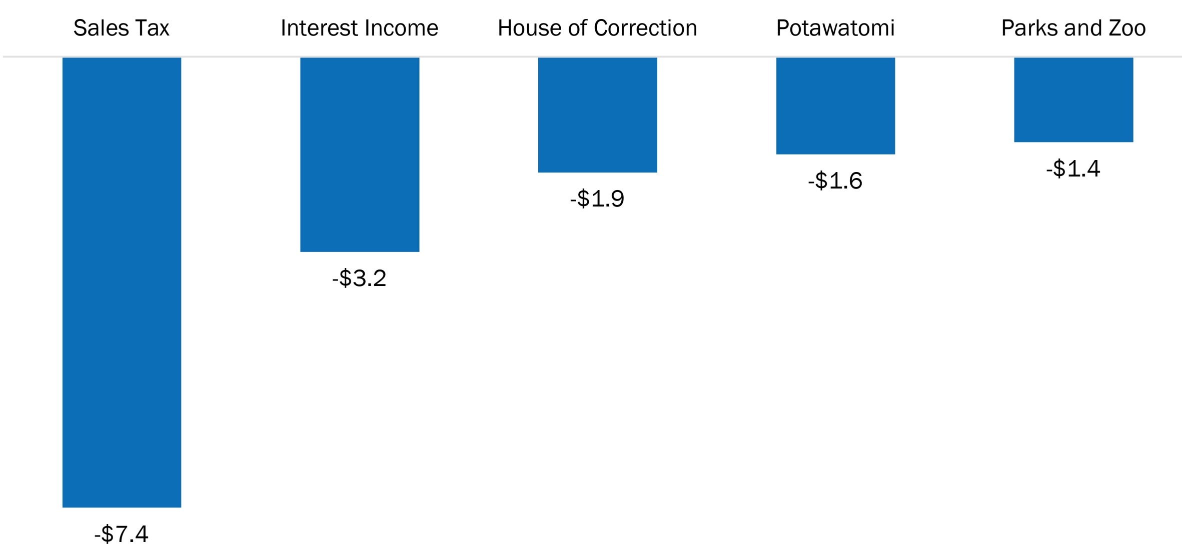
As 2021 budget preparations were initiated last spring, the prognosis for the remainder of the current fiscal year was bleak. In mid-May, the budget director informed the county board that "more than $100 million of revenue loss is currently expected in comparison to the Adopted 2020 Budget" and warned "there is risk that revenue losses could be significantly higher if current conditions remain in place for a prolonged timeframe."

Fortunately, the 2020 situation has improved dramatically and the prognosis for 2021 is not nearly as bad as originally feared. For the current year, the key has been the use of more than $40 million of federal dollars provided under the Coronavirus Aid, Relief, and Economic Security (CARES) Act to plug gaping revenue holes in the transit and airport budgets. A series of administrative actions to cut costs (including temporary furloughs) also made a big difference, as did improved sales tax collections and a projected $8 million surplus in health care spending attributed to low claims volume. As of mid-September, the comptroller was projecting a small ($0.8 million) year-end surplus even before all CARES funds were allocated to departments to reimburse them for eligible expenses.

The remarkably good news for 2020 will extend in some ways into 2021. As we discuss in **Key #2**, the county is able to preserve a sufficient portion of its $54.9 million in CARES transit dollars not only to offset reduced passenger revenue projected for 2021, but also to supplant $4.9 million in property tax levy that is made available for other purposes. Meanwhile, substantial revenue losses at the airport are assumed to be covered by CARES funds and airlines, and sales tax projections have improved as losses in 2020 have not been as severe as originally anticipated.

Nevertheless, the recommended budget does include significant pandemic-related impacts, as shown in **Chart 5** and summarized below:

Chart 5: Projected or potential pandemic-related revenue losses in 2021 (in millions)



- **Sales taxes** – despite a more optimistic outlook driven by higher-than-expected sales tax collections over the summer months, the recommended budget projects a $7.4 million (9%) drop in sales tax revenue, from $82.5 million in 2020 to $75.1 million in 2021. Of course, this remains a very precarious projection that could swing either way depending on the nation's progress in fighting the pandemic and economic factors beyond the county's control.

- **Interest income** – the recommended budget lowers the amount of income projected from interest on county investments by $3.2 million, from $5.9 million in 2020 to $2.7 million in 2021. The reduced amount reflects the Federal Reserve's decision to reduce interest rates to historically low levels in response to the pandemic-induced recession.

- **Potawatomi revenue** – the county receives an annual payment from the Potawatomi Hotel & Casino based on a percentage of the casino's net win. The payment is reduced by $1.6 million in the 2021 recommended budget (from $4.6 million to $3.0 million) in light of an expected continued decrease in casino patronage.

- **House of Correction revenue** – the HOC houses certain inmates at the request of the state and is reimbursed based on a daily rate. With corrections populations down sharply in 2020 and expected to remain at low levels in 2021 because of population reduction initiatives tied to COVID-19, the HOC is projecting a substantial loss of state inmates and revenue. A revenue loss also is projected from reduced participants in electronic monitoring for COVID-related reasons, resulting in a total projected revenue reduction of $1.9 million in the HOC budget.

- **Parks and zoo revenue** – as discussed above, both the parks department and the zoo are highly dependent on program revenue from admissions, user fees, and concessions. Because it is unknown whether pandemic-related restrictions will continue into next spring and summer when prime revenue generating activities occur, the recommended budget projects minimal revenue impacts for both departments. However, the parks department is setting aside $494,000 and the zoo is setting aside $908,00 in special accounts that will not be spent if severe revenue shortfalls are projected. Failure to spend these funds could result in facility closures, delays in maintenance, and other service reductions. Also, both the parks and zoo typically have had difficulty meeting their revenue projections in "normal" years, so budgeting for close to a full rebound in 2021 (notwithstanding the set-asides) appears highly optimistic.

Again, pandemic-related impacts could have been far worse if not for the continued availability of CARES funds and improved sales tax outlook. It is possible the overall picture could get even brighter if a new relief package is passed in Washington and includes additional funds for counties, or if a vaccine becomes widely available earlier than expected and produces a sharp economic rebound.

On the other hand, the situation could grow worse depending on the length and depth of the recession and the course of the pandemic. The recommended budget does contain a $5 million contingency fund and the county has a healthy Debt Service Reserve with nearly $50 million and a general fund balance of $63.5 million[2] to provide some cushion. Still, as budget deliberations continue, **policymakers may wish to be even more careful than most years to avoid the temptation to tinker with key revenue or health care spending projections or take bigger draws from reserves.**

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[2] This is per the county's 2019 Comprehensive Annual Financial Report and was as of December 31, 2019.

Key #2: MCTS gets a temporary reprieve

The Milwaukee County Transit System's budget is always one of the most heavily scrutinized given the severe financial challenges it has faced over the past 15 years. Similar to the fiscal paradigm facing all of county government, MCTS must grapple with growth in annual fixed costs – like salaries, benefits for both retirees and current workers, and the cost of bus parts – that seldom are supported by equivalent growth in its revenue streams. That creates pressure either to cut service, raise fares, or both.

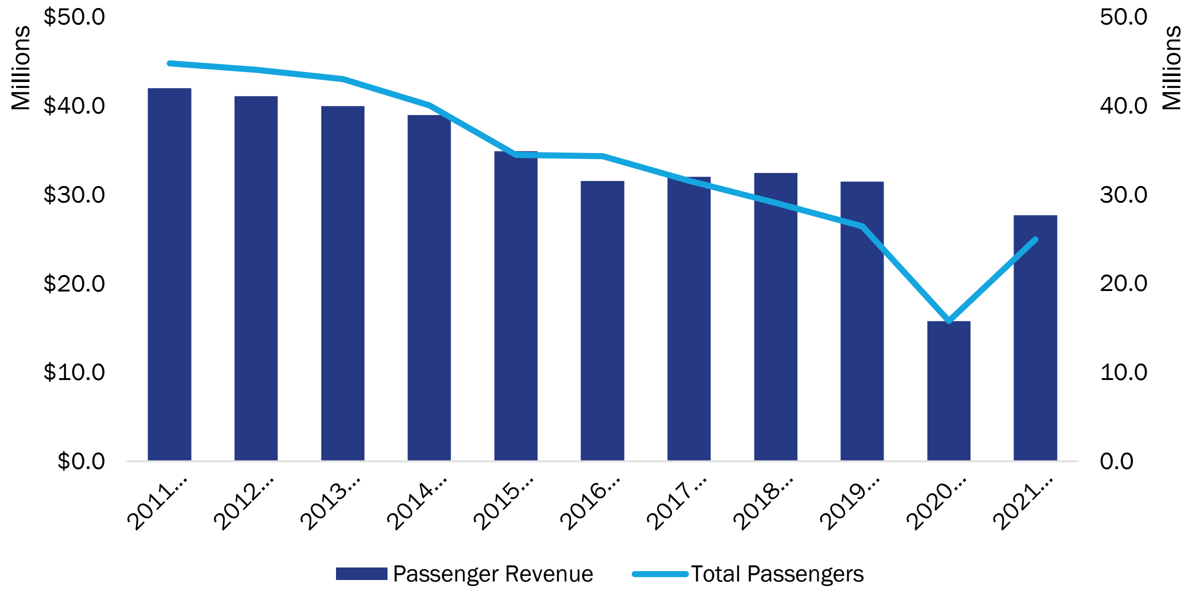
MCTS' revenue budget consists of a mix of revenues from the state and federal governments, which typically comprise about three fifths of total revenue; direct revenues, which consist mostly of income from passenger fares and typically comprise about one fifth of the total; and the county. In recent years, as state and federal aids have remained largely flat and passenger revenue has plummeted, the county's portion of MCTS' revenue pie has had to grow to maintain service levels and avoid major fare increases.

In 2015, the $20 million county contribution accounted for 12% of MCTS' total budget revenues; five years later, in 2020, the $28.3 million county appropriation comprised 18% of the total. A key factor in the county's ability to assume this greater share was its adoption of a $30 vehicle registration fee in 2017, which allowed it to earmark greater support for MCTS while lowering it property tax levy contribution. About $16 million of VRF revenue has been allocated to MCTS annually since the fee's creation, including in the 2021 recommended budget.

A significant change in the recommended budget, however, is a $4.9 million reduction of property tax levy directed to MCTS (from $12.2 million to $7.3 million). As discussed previously, this does not threaten service levels because the dollars are replaced with leftover CARES funds. In fact, about $12.8 million of the $54.9 million in CARES transit funds are included in the 2021 budget after the anticipated use of $20 million to fill a huge gap in passenger revenue in 2020. This allows MCTS both to offset an expected continued decline in passenger revenue and relinquish some of its levy for other county needs.

While the CARES money is a critical life preserver for MCTS in 2021, it also will ramp up the pressure on county policymakers in future budgets, when they will likely need to replace the $4.9 million in tax levy and at least some portion of the remaining $7.3 million in CARES dollars used in 2021 to offset continued passenger revenue losses and fill other holes. While it is hoped that ridership eventually will rebound to pre-pandemic levels, that depends both on the pace of economic recovery and whether changes in commuting habits will continue to depress ridership after the pandemic eases. As shown in Chart 6, ridership and farebox revenue were declining sharply even prior to the pandemic, suggesting it would be unwise to count on a full rebound.

Chart 6: MCTS fixed route passengers and passenger revenue, 2011-2021



Source: Milwaukee County Transit System

Adding to the fragile nature of this situation is uncertainty regarding the amount of CARES money that ultimately will be required to prevent a revenue deficit in 2021. The budget assumes total fixed route ridership will fall only 10% from the original 2020 budget amount and passenger revenue will decline by $3.1 million. If those estimates are too optimistic, then additional CARES dollars will be used to fill the gap; in fact, transit officials anticipate that up to $20 million may be necessary, as opposed to the $12.8 million currently budgeted. That would still leave $14.9 million in 2022 (the CARES funds can be used for up to five years), but even that may not be enough to prevent service reductions without additional county support. Of course, whenever the CARES dollars are exhausted, there likely will be a large gap to fill.

The prospect of gaping future budget holes is not new for MCTS, but **the unpredictability of a return to pre-pandemic ridership totals makes MCTS' long-term outlook even more precarious than ever**. As we have warned in the past, without either new revenue or new local revenue authority from the state, and given the pressures on the county's property tax levy, an increase to the VRF may be the only option to avert deep service reductions in the future.

Key #3: Sheriff's budget to receive renewed scrutiny

The annual budget for the Office of the Sheriff has been a source of controversy for much of the past decade, as the previous county executive regularly proposed millions of dollars of cuts and elimination or near-elimination of entire service areas. The proposed cuts typically were rationalized by an assertion that the sheriff had taken on certain law enforcement responsibilities that were neither mandated nor essential, and that those activities needed to be targeted in tight budgets so other mandated or higher-priority services could be preserved.

The budget recommended by the new county executive takes a different tack. While the sheriff is asked to absorb a $1.1 million (3.2%) levy decrease and the loss of six deputy sheriff positions (from 279 to 273), these are not out of line with reductions being absorbed by most other county departments. Moreover, it is possible the daily jail population – which typically hovered at close to

900 inmates in the months preceding the pandemic – will remain closer to the roughly 650 that is currently being experienced, which could ease budget pressure by reducing overtime and other costs.[3]

Nevertheless, a new push to reduce the sheriff's budget is now coming from some members of the county board and the community. Some have called for a cut of as much as 25% and have argued the sheriff's budget needs to be reviewed through the lens of the national and local protests that have insisted on law enforcement reforms and "de-funding."

While this is a subjective matter, reasonable arguments exist on both sides. On the one hand, the sheriff's office is the fifth-largest property tax levy-funded department in county government and its recommended $34.8 million levy in 2021 accounts for about 11% of the county's total. Meanwhile, its 718 FTEs make it the largest county department in terms of staffing and account for 18% of the county total. By virtue of those numbers alone, it is difficult to spare the sheriff from budget cuts in light of the sizable budget gap each year, and it could be reasonably asked whether greater sacrifice than the 3.2% levy reduction is warranted in 2021.

Yet, on the other hand, it is important to understand how and where the sheriff's resources are allocated and to consider the extent to which calls for "police reform" truly apply to the Office of the Sheriff. The office's three largest functions are its operation of the Milwaukee County Criminal Justice Facility (i.e. the jail); security and police services for the Milwaukee County Circuit Court; and expressway patrol for 158 miles of state highways within the county plus county parks and parkways. **Table 1** breaks down these three functions by tax levy and staffing and reveals that combined, they comprise 84% of the sheriff office's total levy and 73% of its FTEs.

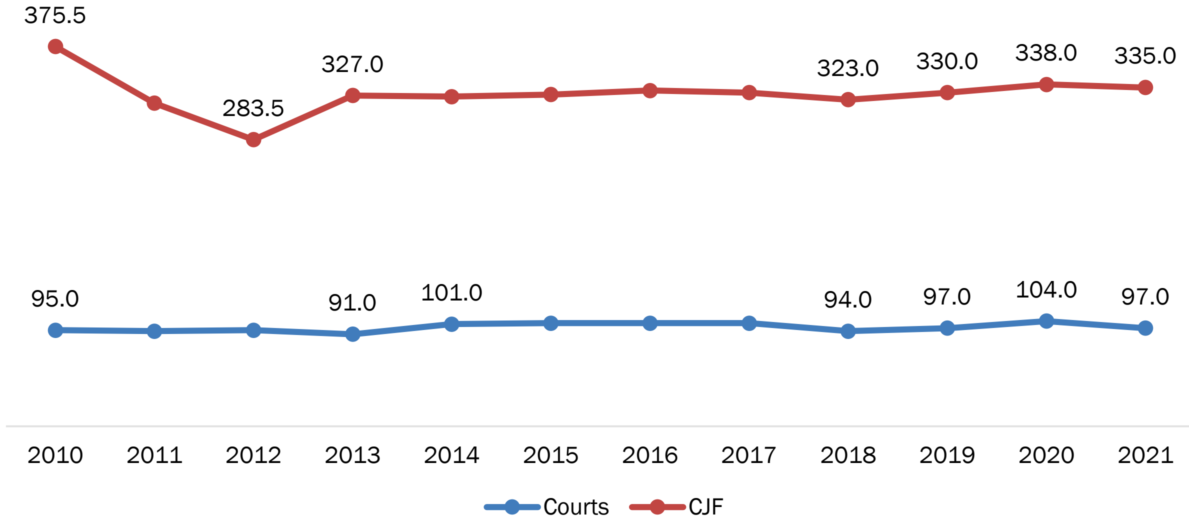
Table 1: Sheriff's recommended 2021 tax levy and FTEs by major function

	2021 Tax Levy	% of Total	2021 FTEs	% of Total
Jail	$19,142,014	56.8%	335	46.7%
Courts	$7,485,658	22.2%	97	13.5%
Expressway Patrol	$1,814,589	5.4%	92	12.8%
Total	**$28,442,261**	**84.4%**	**524**	**73.0%**

While there certainly can and should be scrutiny regarding the staffing levels and expenditures of these functions and whether they are consistent with amounts necessary to meet public safety expectations, it is important to note that each is mandated by state government. Also, in the case of expressway patrol, the sheriff's office receives partial reimbursement from the state. For the two that are funded mostly with levy – the jail and courts – we looked at FTE trends and found that staffing levels have remained relatively consistent during the past decade (see **Chart 7).**

[3] While a lower detention population has potential to reduce staffing costs, it also should be noted that because of public safety precautions associated with the pandemic, both the jail and the HOC are taking greater steps to isolate inmates and are experiencing higher corrections officer staffing ratios and higher average costs per inmate. While CARES funds are available to offset those increased costs in 2020, budget officials say it is uncertain whether such funds will be available for that purpose in 2021 assuming that the pandemic creates similar needs next year.

Chart 7: Budgeted full-time FTEs for jail and court-related services, 2010-2021 (recommended)



Source: Office of the Sheriff

Additional sheriff's office functions include training academy operations (14 FTEs in the recommended budget), airport security/K-9 services (55 FTEs), criminal investigations (28 FTEs), issuance of civil papers and warrants (19 FTEs), and security for county buildings and the Milwaukee County Grounds (43 FTEs). **Legitimate discussion has occurred in the past regarding the size of the criminal investigations unit given the sheriff's limited role in policing, but each of the other functions fulfills a specific mandated or county need and bears little relationship to policing activities that have been the subject of recent national debate.**

Whether or not arguments for police "de-funding" *should* apply to the activities of the Milwaukee County sheriff, the size of the sheriff's budget and staff suggests his budget will continue to be a target of budget cutting to some extent in the future. To ease the pain, the sheriff will need to continue to pursue efficiency initiatives, as he has commendably done in the 2021 budget with a proposal to dissolve the Tactical Enforcement Unit. Options to consider in the future include greater service sharing with the Milwaukee Police Department and suburban police departments, as we suggested in our review of the city's 2021 budget; and pursuit of enhanced collaboration with the HOC, as we suggested in *Who's in Charge?* earlier this year.

Key #4: DHHS re-organizes and gives back

While it does not have significant fiscal implications, one of the most contentious initiatives in the recommended budget is the county executive's proposal to merge the departments on Aging and Veterans Services into the Department of Health and Human Services. The move is part of DHHS' "No Wrong Door" initiative that seeks to provide easier access for county residents to available services regardless of their entry point into the human services system. It also is emblematic of changes the county's largest department has pursued over time to maintain or enhance service levels while doing its part to reduce annual budget gaps.

The administration argues the new initiative will produce better customer service by improving citizens' ability to connect with the full range of human services offered by the county regardless of factors like age or specific need. For example, older adults frequenting a senior center could be more easily directed to BHD's mental health services if the need for such services is detected; or veterans seeking financial assistance from the veterans service office could be more easily directed to Housing Division eviction prevention services if those are needed. The proposal reflects a new strategic plan that strives to eliminate racial inequities in the county and to make Milwaukee the healthiest county in Wisconsin.

The proposal also includes the merging of the Disabilities Services Division's Adult Protective Services with Aging's Elder Abuse unit. This combined unit began as a pilot in June 2020 and the full implementation is included in the 2021 recommended budget. The move is cited by county officials as an example of the benefits of "No Wrong Door," as it aims to reduce turn-around times for service and allow consumers to avoid the transition to a new case manager when they reach age 60.

There are also some potential staffing and financial efficiencies expected from the merger, including approximately $100,000 in savings from eliminating a fiscal position in Aging that will be reinvested in senior center operations. Overall, according to an analysis by the comptroller's office, the merger yields about $270,000 in savings from various position actions.

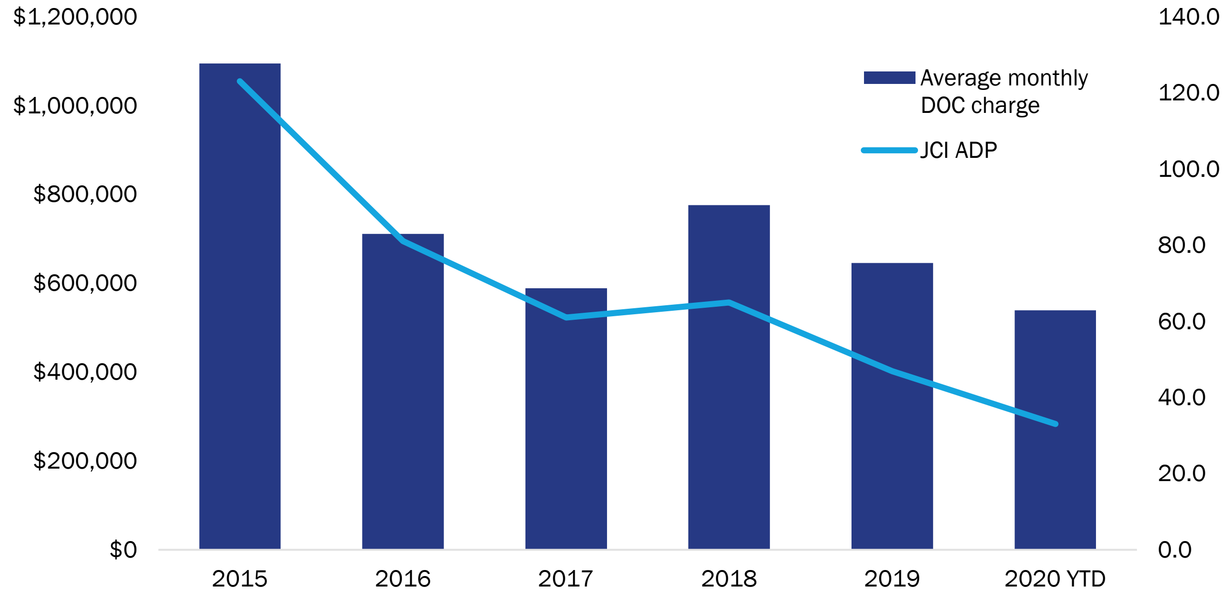
Senior advocates have long feared and opposed such a move, arguing that the unique service needs of seniors will be subsumed by DHHS' other responsibilities and will not be as effectively met. They have also expressed concern that the lack of a cabinet-level position for the aging function could result in the de-prioritization of senior services by the county executive and county board.

As with the debate over Office of the Sheriff funding, this one is somewhat subjective and has reasonable points on both sides. While again not wishing to take sides, we would point out (as we have in the past) that the severity of the county's fiscal challenges requires policymakers to be open to new ways of doing business. To the extent that departmental or programmatic mergers can produce savings that can be reinvested to maintain current service levels, they at least need to be seriously considered.

A far less contentious but highly significant item in DHHS' budget involves the Division of Youth and Family Services (DYFS). The division is responsible for serving youth who come into contact with the justice system, including a broad array of programs designed to divert them from detention in state facilities. DYFS receives a nearly $35 million annual Youth Aids allocation from the state, a portion of which reverts back to the Wisconsin Department of Correction (DOC) as reimbursement for Milwaukee County youth who are sentenced to serve time in the state's Lincoln Hills and Copper Lake juvenile corrections institutions (JCIs).

The county has benefited from a remarkable trend of diminishing JCI placements that accelerated after serious issues regarding the treatment of youth were uncovered at Lincoln Hills in 2014. As shown in Chart 8, the county's average monthly charges from DOC have declined by almost half since 2015, from about $1.1 million per month that year to about $540,000 so far in 2020. The average daily population (ADP) of Milwaukee County youth at the state institutions has declined even more remarkably, from 123 in 2015 to 33 in 2020. The decline in population has been more precipitous than the decline in cost because the daily rate charged by the state has increased substantially as the population has dropped.

Chart 8: Average daily population and monthly DOC charges fir Milwaukee County JCI placements



Source: Department of Health and Human Services

The 2021 recommended budget expects this trend to continue, assuming an average daily JCI population of 29 (compared with 50 in the 2020 budget). This produces a savings of $2.9 million, of which $1 million is re-invested in community-based services for youth to further reduce the need for detention. The remaining $1.8 million is used to help DHHS meet its required contribution to the county's deficit reduction efforts; the department would see its levy reduced by $2.1 million overall.

DHHS has successfully used JCI savings and successful efforts to draw down new and enhanced sources of Medicaid revenue to remain relatively unscathed in terms of service reductions during the past several years, **which is a true bright spot for the county despite its huge overall fiscal challenges.** Unfortunately, with the JCI population now so low, there will not be much room for future huge reductions to produce similar savings in future budgets.

Key #5: Long-term outlook remains worrisome

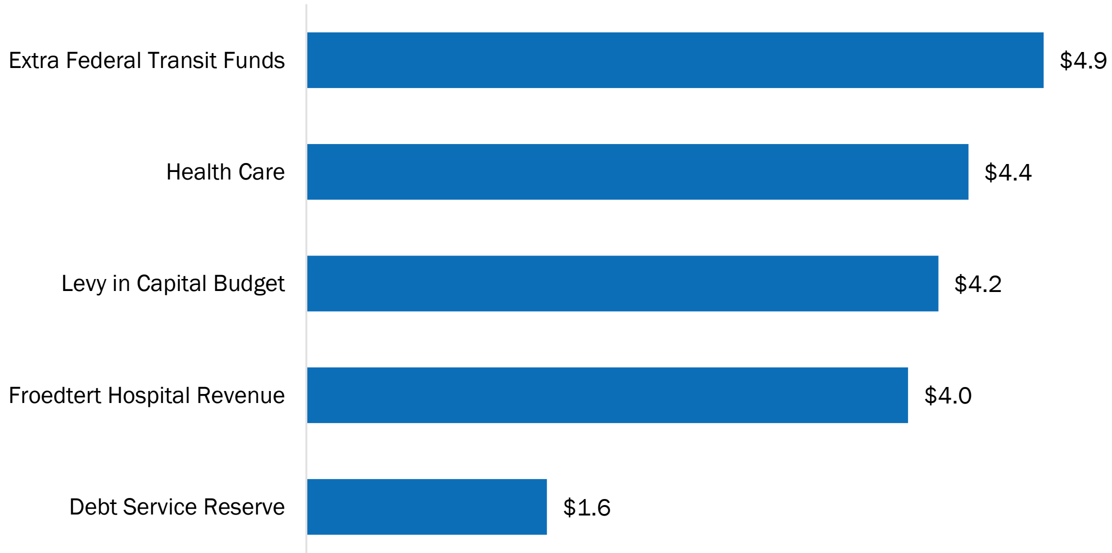
In reflecting on the relative lack of painful service cuts and revenue increases in the 2020 recommended budget, we commented in last year's brief that "in the world of local government budgeting, it is often better to be lucky than good." While that comment does not quite apply to the 2021 budget given the much higher degree of difficulty caused by the pandemic, it is not entirely out of place, either.

Indeed, a handful of pieces of good fortune coalesced late in the budget process to ease the pain of deficit reduction in 2021. Those include the CARES Act funding that allows the budget to back out $4.9 million of property tax levy from MCTS; the ability to budget a small decrease in employee and retiree health care, which ordinarily could be expected to grow by 3-5% per year; and the decision to eliminate property tax levy from the capital budget, which saved $4.2 million compared to 2020. Unfortunately, as we have discussed in the preceding pages, it is likely that none of those fortuitous opportunities will be available in future budgets.

Another question mark involves the Debt Service Reserve, from which a withdrawal of $5.3 million is recommended, an increase of $1.6 million above the 2020 withdrawal. County leaders have commendably built the reserve in recent years, with the comptroller recently reporting a projected balance of $47.9 million at the end of 2020. There is nothing irresponsible about the proposed withdrawal given the DSR's ample balance and the crisis now unfolding, but withdrawals of that magnitude may not be possible every year, particularly if the county hopes to reach a $50 million reserve balance goal established by the budget director.

Chart 9 shows the possible 2022 fiscal impact if previous levels of property tax levy are restored to transit and the capital budget, gross health care costs increase 4% ($4.4 million), and the DSR withdrawal reverts back to the 2020 amount. We also show the elimination of Froedtert Hospital revenue because of the expiring agreement in 2022. Combined, these would produce an added cost of $19.1 million that county officials would need to accommodate in the 2022 budget.

Chart 9: Impacts of potential loss of deficit reduction tools used in recommended budget (in millions)



Not included in the chart are possible impacts if a prolonged stock market downturn causes the pension fund contribution to rise, or if state aids are reduced as the governor and state lawmakers wrestle with their own sizable fiscal challenges in the next state budget.

Yet, there also may be some cause for optimism. If the economy recovers and sales tax revenues return to the 2020 budgeted amount, then $7.4 million of the potential extra costs cited above would be offset. Similarly, other program revenues in the parks, zoo, and HOC could recover, and some departmental budgets that anticipated extra pandemic-related costs for 2021 may be able to eliminate those expenditures the following year.

Budgetary uncertainty has become the norm for county officials during the previous two decades, and while it is certainly heightened in the midst of a pandemic, the county at least now has a well-stocked DSR to provide some cushion. Still, **county budgeting over the next several years will not be an exercise for the faint of heart, and county leaders may need to accelerate their search for operating and capital efficiencies through re-organization, consolidation, and service sharing as the fiscal noose tightens in the years ahead.**

CONCLUSION

Heading into a year marked by the expected continued devastating impacts of a global pandemic and the prospect of sizable reductions in key revenue streams, a recommended budget that avoids major service and staffing reductions should elicit a huge sigh of relief from Milwaukee County policy makers and residents. The budget's ability to sidestep substantial increases in taxes and fees and dip only modestly into reserves similarly should be welcomed.

The recommended budget – the first for new county executive David Crowley – also is notable for its important statements about racial equity and public health that are backed by a reorganization initiative in DHHS and the preservation of transit routes and central city parks offerings. And, while a lack of resources precludes major new initiatives or capital projects, the budget staves off employee benefit cuts and even includes a modest 1% mid-year pay increase for most workers.

Yet, as we have pointed out in this report, any celebration about the relatively tranquil nature of the 2021 budget should be somewhat muted. The fortuitous availability of federal CARES funds to bail out transit and free up property tax levy for other needs seems unlikely to be replicated past 2022. County leaders also would be unwise to count on repeated annual health care savings to preserve tax levy and replenish reserves. Meanwhile, a sizable backlog of infrastructure repairs and expensive array of needed new capital projects continue to be deferred with no viable financial solution in sight.

The budget recognizes and is sanguine about these challenges, noting that each year, departments are asked to help close annual gaps "by creating efficiencies, streamlining services, and making the county leaner" but that "these cuts — year, after year, after year — are unsustainable." Indeed, it is easy to overlook that departments are asked to absorb more than $20 million in costs-to-continue and levy reductions in the recommended budget, but it should be widely recognized that their ability to find new revenue sources and cut vacant positions to do so with few impacts on services may soon be exhausted.

For a new county executive and five new members of the county board, the good fortune to consider a budget that avoids severe service cuts and unreasonable sacrifice from taxpayers should not be taken for granted. Instead, it should be seen as a temporary reprieve for a government that continues to suffer from a sizable structural imbalance and that is bound to face much more difficult budgetary decision-making in the future.