BUDGET BRIEF

MILWAUKEE COUNTY

2022 EXECUTIVE BUDGET

WISCONSIN POLICY FORUM

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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 2022 Executive Budget

October 2021

Report Authors:

Rob Henken, President
Ashley Fisher, Researcher

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INTRODUCTION

What a difference a year makes. Last year at this time, after noting the startling nature of a recommended county budget that avoided program and staffing cuts in the midst of a global pandemic, we also warned that “any celebration about the relatively tranquil nature of the 2021 budget should be somewhat muted.”

The rationale for our warning was our concern that several of the positive factors that relieved county leaders from difficult budget choices in 2021 were unlikely to be available in subsequent years. More specifically, we did not foresee that tens of millions of federal pandemic relief dollars would again come the county’s way, and we were skeptical that the county’s ability to keep a lid on health care and pension costs and withdraw healthy amounts from reserves would last much longer.

It turns out those doubts were misplaced – at least for the time being. For the second consecutive year, the 2022 recommended budget avoids significant service cuts, fee increases, and reductions to the county workforce. Instead, in even more startling fashion than the 2021 version, it finds room for new investments tied to racial equity, recommends the largest salary increase for county workers in recent memory, and even doubles the county’s contribution to municipal governments for emergency medical services.

Even more remarkable is that these feats are accomplished with only minimal use of the county’s $183.7 million allocation from the federal American Rescue Plan Act (ARPA) passed earlier this year. Instead, the budget benefits from a healthy rebound in sales tax collections, a decrease in projected health care and pension payments, and the ability to withdraw $7.2 million from the Debt Service Reserve (DSR) because of prudent use of last year’s pandemic relief allocation. An additional huge infusion of federal relief dollars for transit also provides critical help by allowing the budget to avoid cuts in bus routes without allocating more property tax levy or general ARPA monies.

The ability to save ARPA dollars for more lasting uses and to preserve at least a portion of the federal transit funds for the next one or two budgets should also alleviate the need for difficult decisions in the 2023 and 2024 budgets. Those dollars may also allow county policymakers to make a dent in the county’s overwhelming capital budget backlog and hold down debt levels.

While this outlook is undeniably far rosier than any the county has seen in decades, the caveat is that it, too, is likely to be short-lived. The federal infusions – while robust enough to bring benefits for multiple years – *will* be mostly exhausted by 2025. After that time, a stubborn annual structural deficit in the $20 million range almost certainly will resurface, and the county’s infrastructure backlog still will be immense. With few new revenue options at the county’s disposal and a series of fierce expenditure pressures, its annual budget challenges may return with a vengeance.

In the pages that follow, we size up the recommended budget both with an eye toward the good fortune that has befallen the county in the near term and the budget threats that remain for the future. Our aim is to provide impartial analysis and context for policymakers and the public as the 2022 county budget process moves forward in the weeks ahead.

2022 RECOMMENDED BUDGET SYNOPSIS

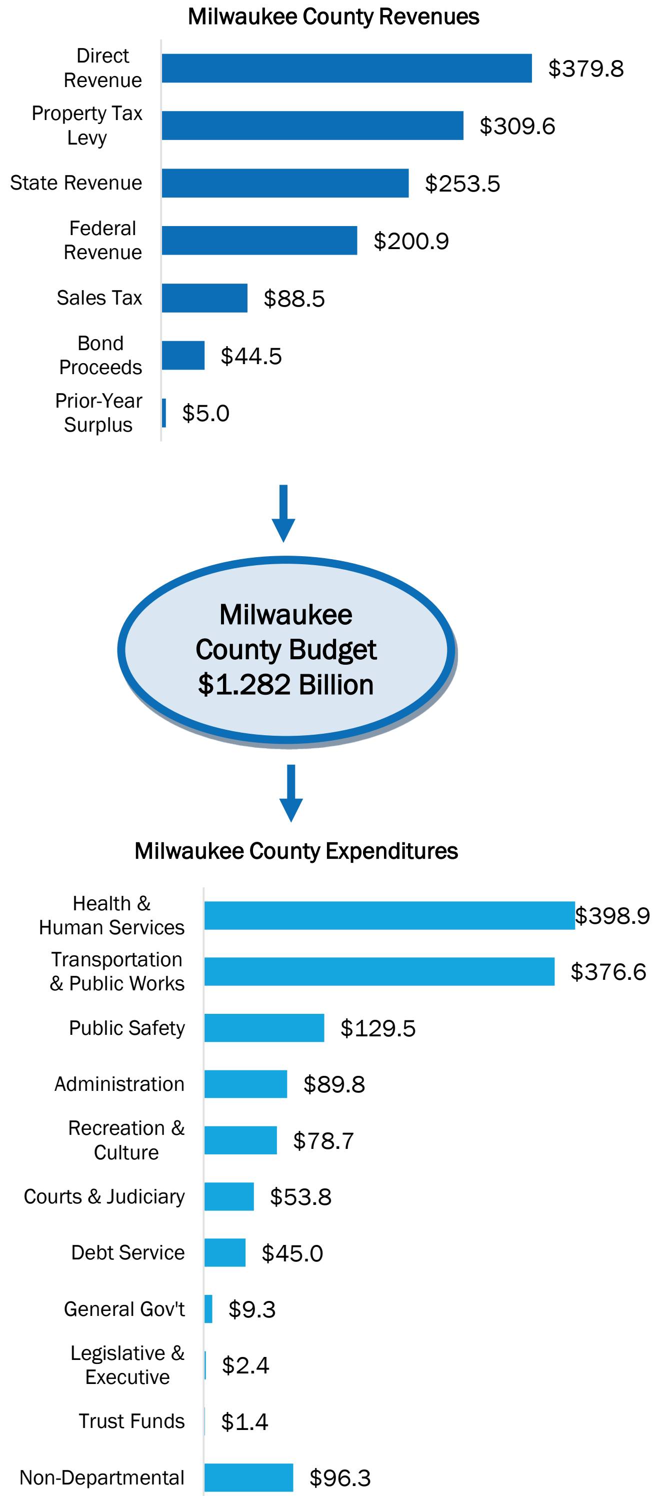
The 2022 Recommended Budget totals $1.28 billion, an increase of $101 million (8.6%) from the 2021 amount. The operating budget totals $1.15 billion ($50.7 million higher than 2021), while the capital budget increases by $50.5 million to $130.6 million. The spending boosts are almost entirely attributed to the county's receipt of various forms of federal pandemic relief and stimulus monies.

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 $399 million (including $248 million for behavioral health); transportation & public works at $377 million (including $164 million for transit operations); and public safety at $130 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 next largest at $310 million. The county also expects to receive $254 million in grants and aids from the state and $201 million from the federal government. State revenue is down $25 million from 2021 largely because of reduced transit aids while federal revenue is up $111 million in light of the temporary forms of federal aid noted above.

The county's two primary sources of local revenue are the property tax and sales tax. The healthy projected growth in both sources in 2022 ($5.6 million for the property tax and $11.4 million for the sales tax) is unusual and helps explain the equally rare lack of service cuts and opportunities for new investment in the recommended budget.

Figure 1: Summary of Recommended Budget (millions)



THE 2022 BUDGET GAP

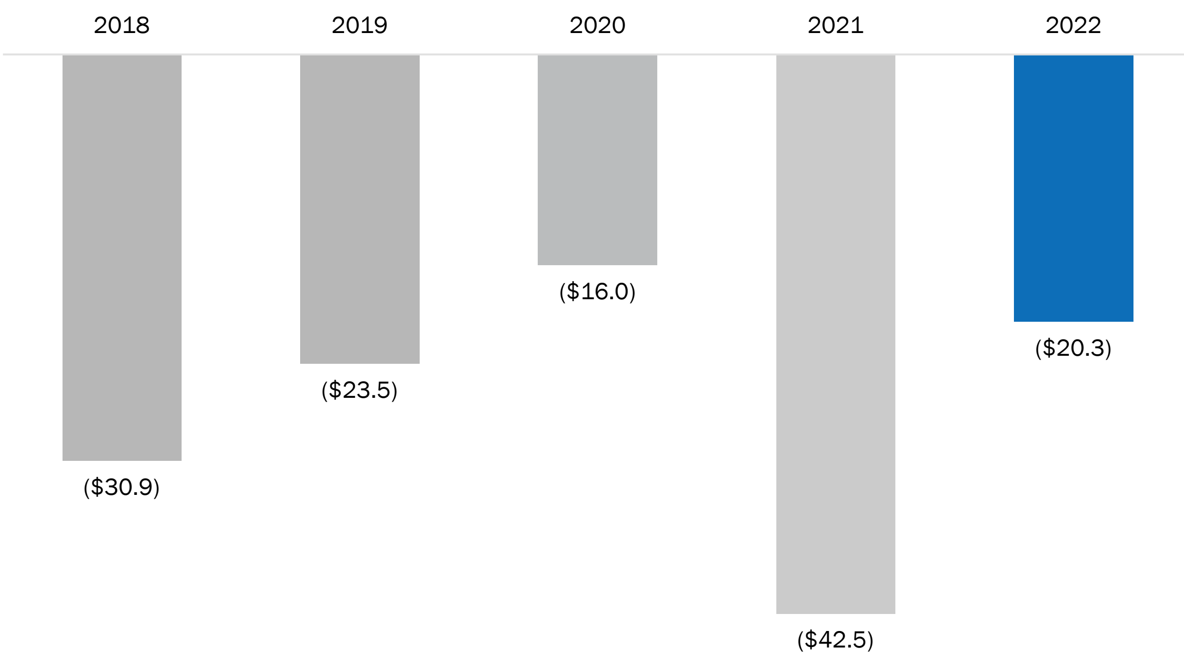
While this is one of the least stressful county budgets in at least two decades, the county's structural budget gap is real and continues to pose substantial challenges. The gap – which first became a major concern in the early 2000s – stems from the failure of the county's major revenue streams to grow by the amounts needed to match its expenditure needs. The county comptroller recently reported that county expenditures are projected to grow by an average of 2.4% annually over the next several years while its revenues are projected to increase by an annual average of only 1.0%.

The lack of revenue growth is most pronounced with regard to the county's two largest revenue sources: state aids and property taxes. For example, the county's budgeted state shared revenue allocation of $30.9 million in 2021 was virtually identical to the amount it budgeted a decade earlier. Meanwhile, the county's budgeted property tax levy of $275.4 million in 2012 grew by only 10.4% to $304 million in 2021 (about 1% per year on average), in part because of state-imposed levy limits.

On the expenditure side, the amounts needed to pay for growing pension obligations and cost-of-living adjustments (COLAs) to employee salaries – combined with other inflationary "costs to continue" – typically exceed the total amount of new revenue available each year. This requires county departments to find ways to absorb those inflationary cost increases, which often has led to staffing and program cuts or proposals for new or increased fees.

In recent years, the county has made considerable progress in shrinking the annual structural gap, in large part because of its success in controlling the growth of pension and health care costs and its cuts to the county workforce. As shown in **Chart 1**, the impressive trajectory was interrupted in 2021 as a result of pandemic-induced revenue losses, but in 2022 the projected gap heading into budget deliberations dropped to a more typical $20.3 million.

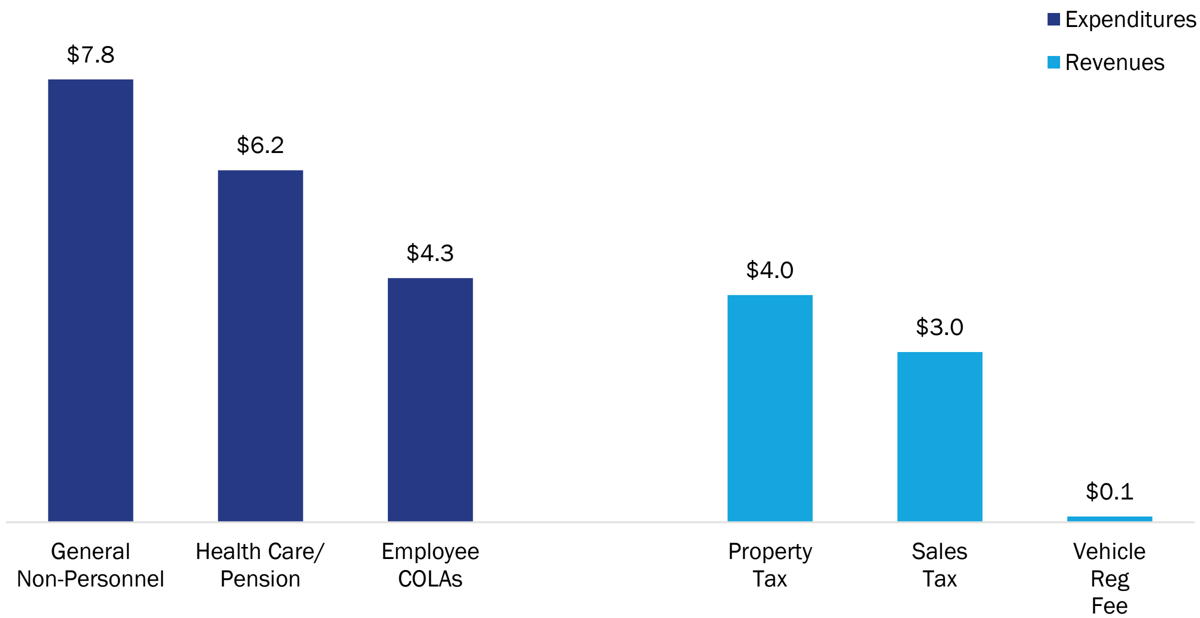
Chart 1: History of initial projected funding gaps, 2018 to 2022 (in millions)



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

The major components of the initial $20.3 million projected gap included $4.3 million for employee COLAs, combined growth of $6.2 million in health care and pension costs, and $7.8 million in added expenditures for inflationary cost-to-continue operating increases in departments. It is notable that even these projected increases – which were relatively modest when compared to some previous years – far eclipsed the original projected growth in the county's major local revenue streams (see **Chart 2**). An added challenge was the loss of $4.0 million in revenue from Froedtert hospital due to the expiration of an agreement linked to the closure of Doyne Hospital in the 1990s.

Chart 2: Projected growth in major cost areas vs. major local revenue sources at start of 2022 budget process (in millions)



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

How the gap was bridged

The good news is that this initial gap was completely eliminated by a handful of fortuitous developments over the summer, thus allowing the 2022 recommended budget to forego the types of service cuts and fee increases that have been required in most previous years and even setting the stage for some new investments.

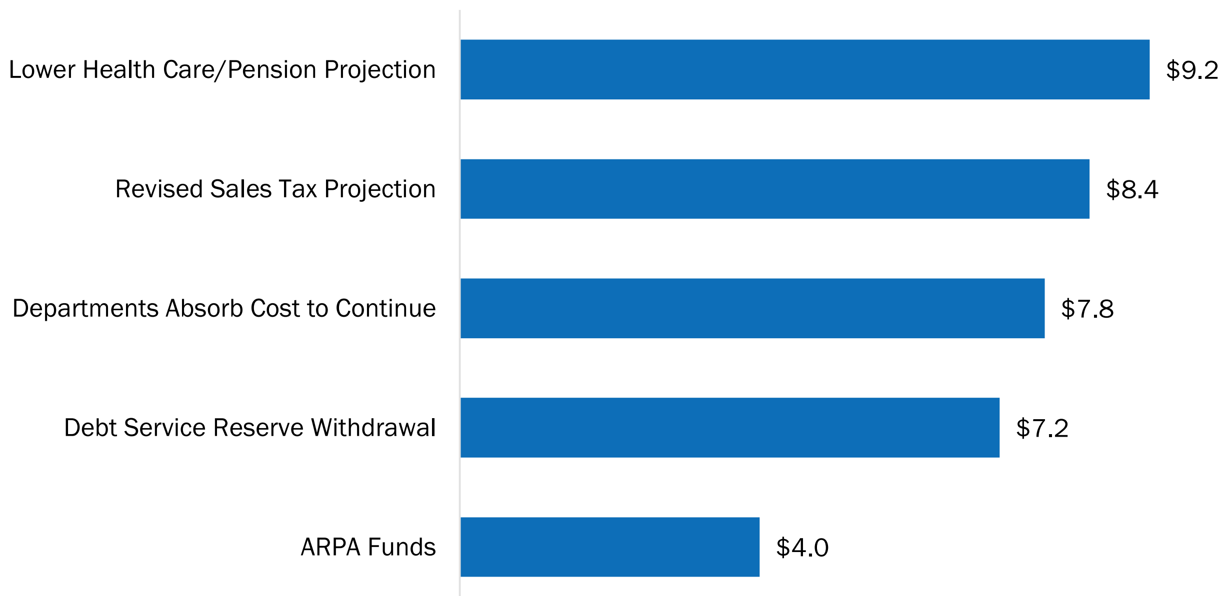
The first piece of good news was a surge in sales tax revenues in the first several months of 2021 as local economic conditions improved. In adopting the 2021 budget, county leaders had conservatively assumed sales tax revenues would rebound somewhat but still remain about $8 million below pre-pandemic projections. Based on collections so far in 2021, however, budget officials now expect 2021 totals to exceed the budgeted amount by that same $8 million. That, in turn, leads to a new 2021 baseline that allows for a projected $11.4 million increase in 2022 over the original conservative 2021 budgeted amount (from $77.1 million to $88.5 million), which is $8.4 million more than the increase shown above in the original 2022 projection.

A second fortuitous circumstance was the $35.5 million surplus the county realized in 2020, which resulted largely from its ability to use pandemic relief revenues from the federal CARES Act to supplement departmental budgets. County leaders prudently decided to allocate $30.5 million of the surplus to the Debt Service Reserve (DSR), which now has a projected year-end balance of nearly $67 million. This healthy balance vastly exceeds a $50 million goal set by budget officials and allows for a recommended $7.2 million DSR withdrawal in 2022 to support operating budget needs.

Finally, an important driver of the structural budget gap in most years is the need to increase property tax levy support for the pension fund and employee/retiree health care. However, instead of the combined $6.2 million increase that was projected at the onset of the budget process, those costs are now projected to decline by a combined $3.0 million. A nearly $1.5 million decrease in the pension contribution results largely from strong investment returns in 2020, while a nearly $1.6 million decrease in health care costs is attributed to lower-than-expected claims activity and elimination of the county's $2 million payment for stop-loss insurance coverage.

Chart 3 summarizes the developments that not only eliminated the 2022 budget gap, but also freed up considerable resources for new investment. In addition to the items described above, the county executive and his budget team asked most departments to absorb the $7.8 million in projected costs to continue. Also, $4 million in federal ARPA dollars are recommended to offset a proposal to increase pay for corrections officers at the jail and House of Correction (HOC).

Chart 3: Major items that eliminated the structural gap and provide capacity for new investments in 2022 (in millions)



Source: 2022 Recommended Budget (this is the source for all other charts in the report unless otherwise noted)

Overall, the ability to budget increased sales tax revenues and lower health care and pension costs – as well as make a larger-than-usual withdrawal from reserves – placed the county executive in the enviable and unique position of having additional dollars to spend. At the same time, pressure to use the county's general ARPA allotment to fill revenue holes all but disappeared (although a large allotment of federal transit relief dollars is used to support the transit budget). In the following pages, we provide additional insight on where new investments occurred and how long the county's recent good fortune may continue.

OPERATING BUDGET OVERVIEW

The 2022 recommended operating budget totals $1.15 billion, an increase of $50.7 million (4.6%) over the 2021 amount. About four-fifths of the increase would be spread among the three largest county functions: Health and Human Services ($22.4 million or 6.0%); Transportation & Public Works ($11.4 million or 4.3%); and Public Safety ($8.2 million or 6.9%).

These increases are understandable given that these functions have large workforces, and portions of the increases are attributed to extra salary dollars from a recommended 2% pay increase for all employees. Yet, there are also other factors at play, including a large additional allotment of state and federal dollars to the Behavioral Health Division (BHD) for community-based service expansion and extra funds for the Sheriff and HOC for the corrections officer pay increases.

As noted above, a remarkable feature of the recommended operating budget is the opportunity for new investment. The county executive embraces that opportunity by focusing on several top priorities laid out in the county's strategic plan. The following are some of the notable operating budget "winners:"

- **County employees**: The budget recommends a 2.0% across-the-board pay increase as of April 1. While that certainly could not be considered overly generous, it may seem that way to county workers, who have grown accustomed to annual increases in the 0-1% range while also often seeing their health care and pension co-pays increase. The recommended budget leaves health care alone (though there are small increases in some dental coverage costs) and the pension payment drops slightly for non-public safety employees, from 6.2% to 6.1% of salary. In addition, the budget includes $2.5 million for additional pay increases for some employees pending the completion of a new compensation study.

- **Equity initiatives**: The recommended budget includes several new investments to further the county's strategic emphasis on advancing racial equity and eliminating racial health disparities. Those include three new human resources positions to enhance diversity recruitment and equity training efforts countywide. Also, the compensation study and $2.5 million in new funds referenced above are designed, in part, to identify and correct pay disparities in the county workforce by race and gender. We provide further analysis of equity initiatives in Key #2.

- **Municipalities**: The budget includes a "surprise" allocation of an additional $1.5 million for municipal emergency medical service (EMS) providers. The county's Office of Emergency Management (OEM) oversees countywide EMS by credentialing responders, administering medical direction and standards of care, and collecting and analyzing countywide data. The county also has provided a formula-based payment to municipal fire departments to ensure they meet the county's EMS standards. That annual payment was reduced from $3 million to $1.5 million about a decade ago and was almost eliminated in subsequent budgets. The recommended budget restores the payment to $3 million and uses an exemption for EMS in state-imposed levy limits to raise property taxes to do so.

- **Strategic and administrative services**: The recommended budget includes several departmental restructuring and reorganization initiatives, including changes to the Office of African American Affairs (which is re-named the Office of Equity) and continued restructuring in the Department of Health and Human Services (DHHS), including creation of a new Children, Youth and Family Services Division. In addition, the budget recommends creation of a new cabinet-level Strategy, Budget & Performance department that will house both budget and strategic planning functions and would benefit from creation of one new position (as well as one created mid-year in 2021) and the transfer of four positions from other departments.

Also notable in the recommended operating budget is increased levy support for the following departments that often have been targeted for painful reductions:

- The **Office of the Sheriff** would see a levy increase of $2.8 million. While a sizable portion pays for the 2% pay increases for the office's large workforce, the new monies also support a $3 per hour premium pay increase for corrections officers to aid in recruitment and retention (which also applies to the HOC); new body cameras for staff in the jail; and eight positions that were formerly supported by the Milwaukee Regional Medical Center for County Grounds security and that now will be supported by tax levy and transferred to fill gaps in other areas. An important yet unanswered question is whether the $3 pay premium will be enough to overcome corrections officer recruitment challenges, particularly if dozens of positions become vacant because of enforcement of the county's COVID-19 vaccine mandate.

- The **Parks Department** would receive an additional $556,000 in tax levy, which helps to fund four new parks maintenance workers and a $100,000 initiative to accelerate tree replacements. The department also fared well in the capital budget, as we will discuss below.

- The **Milwaukee County Transit System** (MCTS) would receive just a $144,000 increase in levy, but that's notable given the sizable annual levy reductions that were the norm several years ago. Meanwhile, the infusion of $39.8 million in federal pandemic relief funds allows MCTS to avoid route reductions and fare increases while also investing in 60 new buses. See Key #3 for more detailed discussion about the transit budget and its long-term outlook.

In addition to these recommended operating budget changes, we provided analysis below on other significant areas of new investment as well as other impacts related to the pandemic and federal relief funds.

CAPITAL BUDGET OVERVIEW

The recommended capital improvements budget totals $130.6 million, which is a $50.6 million (72%) increase over the 2021 adopted amount. Of the total, $12.9 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 $117.7 million, which is an increase of $52.5 million compared to 2021.

The major source of financing for the county's capital program typically is general obligation (G.O.) bond proceeds, but for 2022 reimbursement revenue – largely from the federal government – exceeds that source of funding. Non-airport projects would receive $59.7 million in federal funds while the county would bond for $44.5 million and use $8.5 million in sales tax revenue for cash financing. About $5 million in state revenue comprises the remainder of the non-airport total.

The $44.5 million recommended bond issue is consistent with the county's self-imposed bonding limit for non-airport projects, which generally allows for a 3% increase each year. The budgeted cash amount for non-airport projects represents 16.1% of the total and falls somewhat short of the county's 20% cash financing goal.

The sizable increase in the recommended budget is largely attributed to two significant investments in mass transit: a $31.8 million allocation for 60 new buses and a $20 million outlay for north-south transit enhancements in the 27th Street transit corridor. Both projects would exclusively use federal funds, including $6.4 million in ARPA funds awarded to MCTS by the state, which will serve as the 20% local match for bus replacements. Without those two projects, the 2022 recommended capital budget for non-airport projects would have been similar in size to the 2021 budget.

The two projects that would require the largest use of bond proceeds are replacement of the North Shop, a facility used to house highway maintenance vehicles and equipment, at $15.4 million (nearly a third of the recommended total bonding amount); and reconstruction of parking lots at McKinley Marina for $5.6 million. The North Shop project has been requested by public works officials for more than a decade and inclusion of the full funding amount in the 2022 capital budget is shocking at first glance. However, the budget document cites the lack of Americans for Disabilities Act compliance and the absence of locker room and restroom facilities for women as equity issues that finally need to be addressed.

The McKinley Marina project is one of nine projects recommended for the parks department at a total local cost of $13.2 million, or about a quarter of the local capital funding in the budget. This prioritization of parks projects is a notable change from previous years, though a huge backlog of parks capital needs would remain, as outlined in the Forum's recent series of reports on the county's infrastructure challenges.

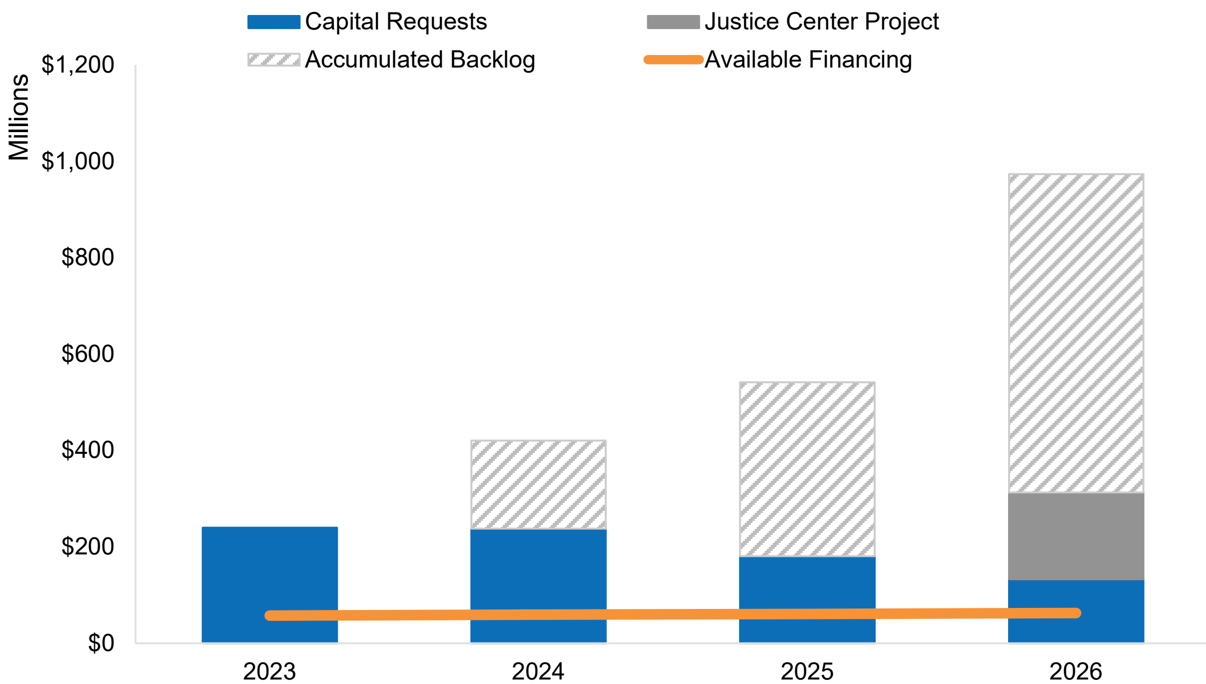
The recommended capital budget as a whole conveys a similar story. Inclusion of the North Shop project and the investments in new buses and parks – as well the budget's ability to address nearly 50 additional smaller projects in backlogged areas like highways and buildings – would produce needed improvements to the county's aging infrastructure and vehicle fleet. Yet, a sizable list of requested projects for 2022 that cannot be accommodated within the bonding cap and an even lengthier list of projects identified for the next four years leave the county running in place.

For 2022, departments submitted non-airport capital project requests that would have required $135 million in local funding but the recommended budget is only able to include about $53 million

(39%) of the total. That moves more than $80 million to the 2023 list of identified projects, which already totaled nearly $160 million. This cascading effect has been the norm for several years and has contributed to a huge backlog of needed projects with a price tag that far exceeds the county's available capital financing capacity as it is currently defined.

Chart 4 illustrates the dilemma by comparing the project requests for each of the remaining four years in the county's five-year capital improvements plan to available financing each year as set by the bonding cap and an assumed 20% cash match.[1] The backlog will continue to escalate until 2026, when it will worsen even more considerably in light of a $180 million placeholder for a new criminal justice facility to replace the outdated Safety Building – a project that has been on the books for years but for which no financial solution exists.

Chart 4: Available county financing vs. capital requests, 2023-2026



Source: 2022 Recommended Capital Improvements Budget

Fortunately, there is a ray of hope this year in light of the $183.7 million in ARPA dollars that the 2022 budget barely taps into for operating purposes. While using even the entire remaining amount to address the capital backlog would only address part of the problem, the ARPA funds do provide a critical opportunity to at least make some headway.

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[1] The 2023 requested project total includes nearly $80 million of unfunded requests from 2022 that move into the following year.

FOUR KEYS TO THE 2022 RECOMMENDED BUDGET

Key #1: ARPA funds preserved

When viewing the 2022 recommended budget through a multi-year lens, perhaps more important than understanding what is *in* the budget is recognizing what is not. The budget remarkably forsakes the use of all but an additional $4 million of the county's original $183.7 million ARPA allocation to address operating needs in 2022,[2] electing instead to wait for recommendations from a special task force comprised of county board supervisors, administration officials, and the comptroller before decisions are made on the ARPA distribution.

It is still possible that significant chunks will be spent in 2022, but because the recommended budget does not allocate those funds they would not be needed to make ends meet next year. Instead, they would be preserved for potential one-time capital expenditures, direct pandemic-related needs, or filling revenue holes in 2023 or 2024. This a notable contrast to the approach taken in the proposed budget for the city of Milwaukee, which allocates $34.6 million of the city's $394 million allocation to fill revenue gaps next year and indicates that more than $50 million will be similarly used in both 2023 and 2024.

A cardinal rule of responsible budgeting is to avoid the use of one-time revenue sources to meet operating budget needs so as not to create holes in future operating budgets. The ARPA legislation allows for such usage, however, as a means of plugging gaps filled by pandemic-related revenue losses.[3] The rationale is that such usage may be critical to avert cuts in vital services and buy time until local tax collections rebound from the impacts of the pandemic.

Even more important is the liberal definition of revenue "loss" employed by ARPA. It allows local governments to establish a base year (defined as the latest full fiscal year prior to the pandemic), and then calculate what their gross revenue totals would have been had those revenues increased by 4.1% annually through 2024. The "loss" is then defined as the difference between actual collections and that annual 4.1% growth rate, as opposed to actual year-to-year losses.

Chart 5 illustrates this dynamic by summarizing a comptroller's analysis comparing key revenue stream projections from 2020-2023 to the amounts that have and would be collected if 2019 totals grow by 4.1% each year. Per this calculation, the county would be eligible to use at least $198 million of ARPA funds in the 2022-2024 budgets to offset revenue losses, even though key revenue streams like sales taxes, property taxes, and state aids are expected to largely recover or even grow slightly.[4]

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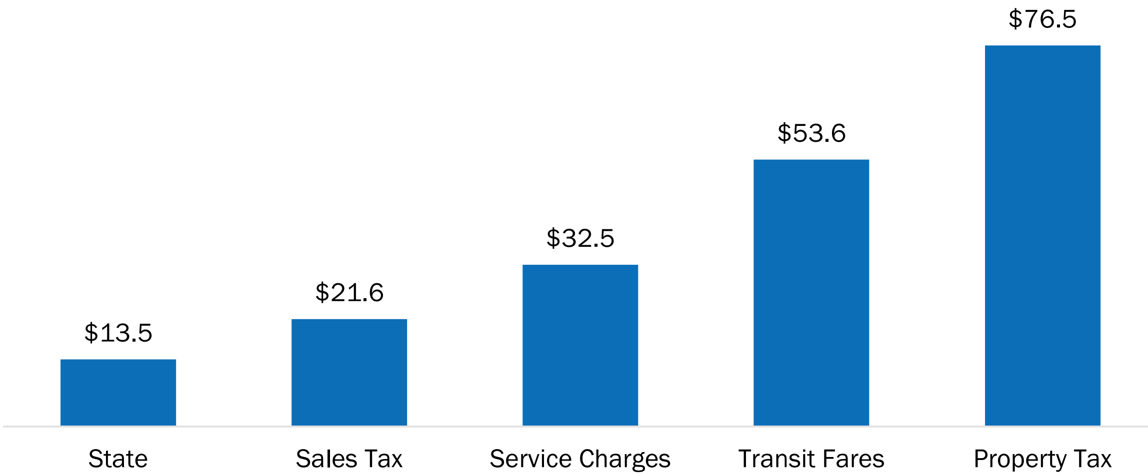
[2] The recommended budget also includes 2022 funding for two uses of ARPA funds already approved by county leaders -- $1.8 million for a pilot "Right to Counsel" program for individuals facing eviction and $4.5 million for a flexible housing subsidy pool. If adopted, about $11 million of the $183.7 million ARPA allocation will have been designated for those two programs in 2021 and 2022 as well as the $4 million recommended for correction officer pay premiums.
[3] Other eligible uses include expenditures related to the pandemic or its negative impacts, premium pay for essential workers, and investments in water, sewer, and broadband infrastructure. The funds may not be used toward pension funds, pension reserves, or debt service payments.
[4] The $198 million understates the eligible amount as we only show a sample of the key revenue streams.

Chart 5: Revenue loss projection for key revenue streams per ARPA definition (in millions)



Source: Milwaukee County Comptroller

The ability to resist this temptation in the 2022 recommended budget (except for the use of $4 million for $3 per hour premium pay increases for corrections officers) allows the county to be strategic in its use of the funds. The special task force has already laid out a framework for ARPA expenditures that call for 63% of the monies to be used for revenue loss recovery; 20% for community support; 13% for COVID-19 mitigation; and the remaining 4% for administrative purposes. It is assumed that the ultimate distribution plan will follow those guidelines.

It is important to note that in its reference to “revenue loss recovery,” the task force is not setting the stage for simply plugging the funds into future operating budgets; instead, according to a county board media release, uses in this category might include “addressing the county’s backlog of capital projects and deferred maintenance; investing in technology, service delivery or facilities to realize cost-savings or efficiencies; and investing in new revenue generating strategies.” Nevertheless, as noted above, substantial ARPA dollars could be available if the county finds itself in a difficult budget situation for 2023 or 2024.

Whether or not that is the case will depend on several factors. The ability to largely avoid using ARPA funds to meet operating needs in 2022 stems mostly from the narrow group of fortuitous factors discussed earlier, which may not be replicated in future years. Specifically, whether sales tax revenues continue to grow and the DSR continues to be sufficiently replenished to support sizable withdrawals in future years will depend on the state of the local economy and the size of the county’s 2021 surplus. Similarly, the ability to keep a lid on future pension and health care costs will depend on several factors – like health care claims volumes and pension fund investment returns – that are beyond the county’s control.

Nevertheless, the county’s ability to preserve the bulk of the ARPA funds so far – combined with already favorable year-to-date indicators in 2021, like an $11 million projected surplus and strong stock market returns that bode well for the pension fund – **create a brighter short-term fiscal outlook for the county than it has seen in decades**.

Key #2: New dollars to advance equity goals

During his first 18 months in office, County Executive David Crowley has made no secret that "advancing racial equity" is the foremost objective of his first term in office. In doing so, he is not alone. Even before his election, in 2019, the county board passed a resolution declaring racism as a public health crisis. That sentiment now is reflected in the county's new strategic plan – the formulation of which was initiated under the previous administration – which establishes a vision for achieving racial equity and, by doing so, making Milwaukee "the healthiest county in Wisconsin."

While the county executive's first recommended budget for 2021 laid the groundwork for several racial equity initiatives, **his 2022 budget proposal advances that push in a more tangible way.** It identifies new resources for several departments that will be spent in areas ranging from new positions specifically dedicated to recruiting and hiring workers of color to targeted investments in areas like housing and corrections. **Table 1** highlights several of those initiatives to which specific dollar amounts are attached:

Table 1: Equity initiatives in 2022 Recommended Budget

Equity Initiative	Summary	2022 Recommended Funding
Right to Counsel Milwaukee	Continue new program to provide free legal representation to households facing eviction	$2.7 million from ARPA
Credible Messenger Program	Support young people transitioning from state corrections facilities	$1.3 million
Reduced corrections phone costs	Reduce phone call charges at the HOC and jail by 25% to make it easier for detainees to communicate with family members	$700,000
Attracting, supporting, and retaining a diverse workforce	3 new positions in human resources to coordinate racial equity training, analyze workforce data through a racial equity lens, and enhance recruitment of diverse candidates	Approximately $180,000
Health data tracking and analysis	2 new positions to track and analyze health data with a racial equity lens	Approx. $120,000
Re-entry housing navigation	1 new position to provide housing assistance to residents transitioning from HOC	$60,000
Workforce opportunities in green infrastructure	Continue efforts to seek underrepresented individuals for positions in parks	$40,000
Encouraging diversity, equity, inclusion & accessibility (DEIA) at Zoo	1 new part-time position to coordinate DEIA at Zoo with regard to programming and workforce	$32,000

In addition to these specific investments, the budget document cites several broader initiatives that have been developed with racial equity in mind, including its "No Wrong Door" transition in DHHS that aims to provide easier access to services for underrepresented citizens; the move of BHD's emergency mental health center from Wauwatosa to Milwaukee's near north side, which will improve accessibility for central city residents; a new effort to expand and improve mass transit services in Milwaukee's 27th Street corridor; and the aforementioned $2.5 million to potentially adjust pay for certain positions based on a compensation study that will consider racial and gender equity factors.

Both federal relief dollars and the fortuitous fiscal developments described earlier were essential in allowing the recommended budget to back the county's overriding commitment to racial equity and inclusion. Whether and how these efforts will continue in future budgets – once the ARPA dollars are exhausted and the county's structural challenges re-emerge – will merit careful monitoring.

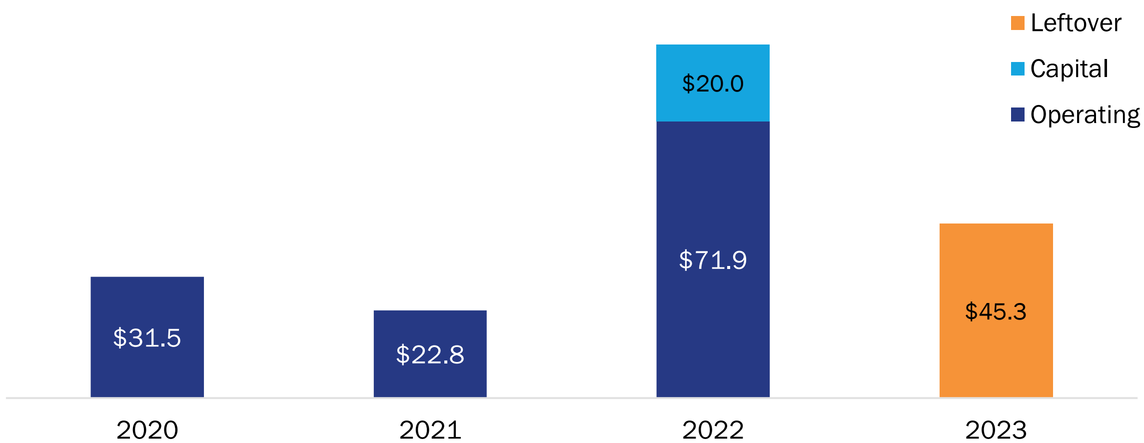
Key #3: Another temporary reprieve for MCTS

Outside of its huge backlog of capital needs, the transit budget has emerged as the biggest budgetary trouble spot for the county. We first reported on an MCTS fiscal “crisis” in 2008. The basic components remain to this day and include heavy reliance on state revenues, which have not grown much over time; and dwindling passenger revenues, which must be replaced by county funds to avert service cuts. While MCTS has gradually reduced service levels, it has avoided devastating cuts since that time, but only because of unforeseen injections of unused federal money from abandoned light rail and commuter rail projects plus a $30 vehicle registration fee (VRF) imposed in 2017.

The transit challenge again appeared to reach crisis proportions with the onset of the pandemic, which created both huge immediate drops in ridership and lingering depressed transit usage because of changing commuting habits and continued public health concerns. However, recognizing that local transit systems would face huge revenue holes but should not be cutting service as the economy struggled to recover, the federal government stepped in to provide sizable infusions of funding for large transit systems in each of its three relief packages.

MCTS has received $191.4 million from the three federal relief measures. As shown in **Chart 6**, it anticipates using a combined $54.3 million to plug revenue holes in 2020 and 2021. The 2022 recommended budget would spend down an additional $91.9 million – $71.9 million for operating needs plus $20 million in the capital budget for 27th Street corridor improvements. That would leave $45.3 million for future years, though it is hoped that the $20 million in the capital budget might be replaced by other sources of federal funding, thus boosting the available amount to $65.3 million.

Chart 6: MCTS’ use of federal relief funds (in millions)[5]



Source: Milwaukee County Transit System

The need for such extensive usage of the federal funds next year for operations stems largely from continued depressed passenger revenues, as MCTS officials project some continued rebound in ridership in 2022 but not to pre-pandemic levels; and a decision by state legislators to cut MCTS’ state transit aids – which are its largest source of revenue – by $32.7 million in response to the massive influx of federal funds. Governor Tony Evers subsequently granted $19.7 million to MCTS to

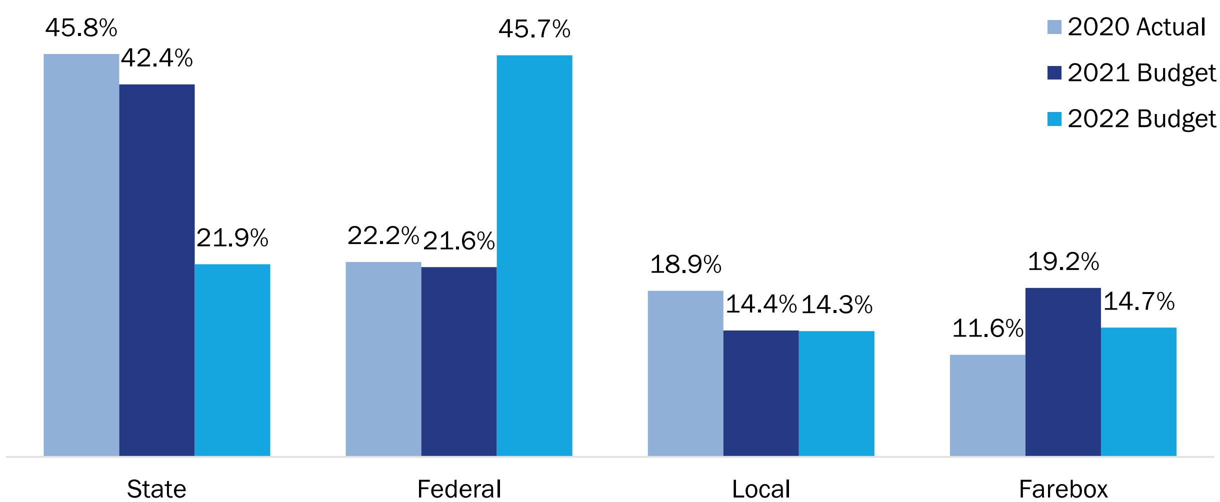
[5] The $22.8 million cited for 2021 is an updated figure that is an improvement over an earlier estimate of $26.5 million.

offset some of that reduction. The budget recommends using $6.4 million of that amount as the 20% local match for 60 new buses and the remaining $13.3 million for operations.

Another factor is the removal of MCTS' approximately $20 million annual allocation of federal formula funds from the 2022 operating budget to preserve their use for future bus purchases or operating needs. That requires the use instead of $20 million from the federal relief allocation.

The bottom line is that while MCTS has certainly dodged a devastating bullet for 2020-22 – and while the remaining $45 to $65 million in federal relief funds likely will allow it to do the same in 2023 and possibly 2024 – huge financial hurdles will emerge when the federal funds are exhausted. **Chart 7** shows how dramatically the transit system's funding mix for fixed route operations has changed over the past three budgets as federal funds supplanted plummeting passenger revenues. Notably, the infusion also helped the county's overall budget as $4.9 million in property tax levy was backed out of MCTS' budget in 2021 and remains supplanted in 2022.

Chart 7: MCTS major budgeted revenues as a share of total operating revenues, 2020-2022[6]



Source: Milwaukee County Transit System

Even if passenger revenues fully recover and state funding returns to previous levels, **MCTS leaders anticipate a $15-$25 million hole in the fixed route operating budget by 2025** (although a new federal infrastructure bill may provide some relief). Meanwhile, the county's options – outside of huge service cuts – would be limited. In light of its overall structural challenges and state levy limits, making up the $4.9 million removed in 2021 would be difficult enough. Filling the full gap with tax levy would be next-to-impossible, particularly once the county's general ARPA funds are exhausted.

Another option would be to increase the $30 VRF – which contributes about $16 million annually to transit operations – but county policymakers (and voters through a recent advisory referendum) have perennially frowned on that option. Nevertheless, without either new state or federal aid or new local revenue authority from the state, and given the pressures on the county's property tax levy, a hike in the VRF to $60 or more may be the only option to avert deep service reductions in the future.

[6] We use 2020 budgeted amounts in the chart (as opposed to actual amounts) to show what the funding mix looked like pre-pandemic; the 2020 budget was adopted before the pandemic hit early that year.

Key #4: Dawn of a new day at BHD

The 2022 budget marks an historic milestone for the county, its Behavioral Health Division, and the Milwaukee County Mental Health Board as it is the first to reflect a longstanding goal of downsizing and outsourcing inpatient operations while changing BHD's focus to coordinating, expanding, and improving a community-based system of care. That goal has been discussed for decades and gained considerable traction following the release of a landmark "mental health redesign" report co-authored by the Forum and the Massachusetts-based Human Services Resource Institute in 2010.

While urging stakeholders in Milwaukee County to pursue a gradual expansion of community-based services alongside a phasing down of inpatient services, the 2010 report acknowledged that "a system of mental health services with as many gaps as Milwaukee County's cannot be changed in a few months or even a few years." Now, 12 years later, the transformation is nearly complete.

The first steps occurred when BHD closed its two 72-bed long-term care facilities within a few years of the 2010 report and transferred care into community-based group homes and other settings. Other important steps included a substantial expansion of community-based mental health and crisis services, which were funded in part with savings from the institutional bed closures and more significantly with the help of the state of Wisconsin through a Medicaid-based program called Comprehensive Community Services (CCS).

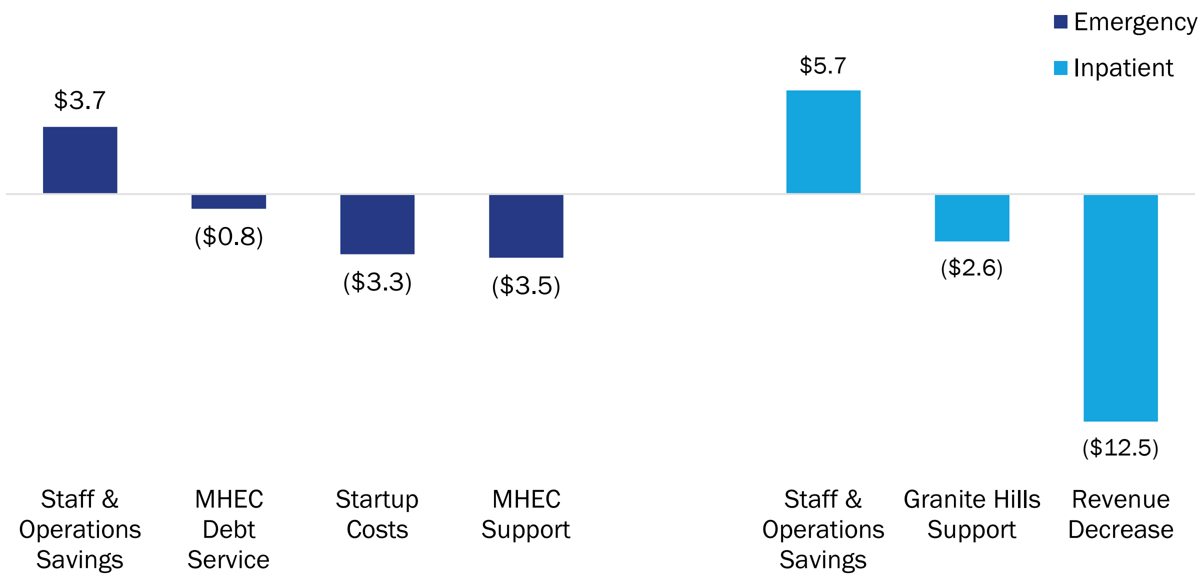
The final steps are scheduled to occur in 2022, when the psychiatric inpatient hospital and crisis service at the Mental Health Complex on the Milwaukee County Grounds will both be closed and replaced with a privately-run inpatient hospital in West Allis (Granite Hills) and a new Mental Health Emergency Center (MHEC) in Milwaukee. The latter is a joint venture between the county and the four major private health systems and will be operated by Advocate Aurora. BHD will continue to play critical roles in coordinating care for individuals served by both facilities and will subsidize costs for uninsured patients, but by being relieved of direct patient care responsibilities the division also will be able to devote greater effort to care management and quality.

These moves hold great promise to improve behavioral health services for county residents. While it is beyond the scope of this report to analyze those benefits (as well as risks), two primary advantages are an overall expansion of mental health inpatient capacity in a new and modern facility; and the vastly enhanced partnership with private health systems that offer greater financial, technological, and programmatic capacity to effectively serve patients.

These moves also have significant financial implications for the county for both 2022 and beyond. The 2022 recommended budget reflects that this is a year of transition, as it must finance both partial-year costs associated with operating inpatient beds and emergency services at the Mental Health Complex until the new facilities are fully operational, plus required payments and start-up costs to support the new facilities as they ramp up their services.

Consequently, as shown in **Chart 8**, there is a net "cost" for BHD with regard to inpatient and psychiatric emergency services in 2022. However, largely because BHD has built up a sizable reserve fund – which stood at about $24 million at the end of 2020 but may need to be used for about $3.4 million of pandemic-related costs in 2021 – there is no impact on the division's property tax levy in the recommended budget, which remains at $53 million. The budget recommends using $9.1 million from BHD's reserves to support the transition next year.

Chart 8: Net "Cost" for BHD Inpatient and Psychiatric Emergency Services in 2022



On the inpatient side, the increased net cost results in part from a projected $12.5 million decrease in hospital insurance reimbursement as the patient census declines. While the phase-out and gradual elimination of inpatient staffing is projected to save $5.7 million, BHD also budgets a $2.6 million payment for uninsured patients at Granite Hills as that facility ramps up its census.

On the psychiatric emergency side, BHD saves on crisis service staffing and operating costs ($3.7 million) once the Complex is closed but also needs to contribute its share to the operation of the MHEC ($3.5 million) as well as $3.3 million in one-time start-up costs and a projected $800,000 debt service payment for bonds issued to support the county's $5.4 million share of facility construction. Meanwhile, a combined inpatient and emergency savings not shown in the chart is a $5.3 million reduction in management and support staff once the Mental Health Complex closes.

It is still too early to assess the annual fiscal impacts once the transition is complete, but BHD officials believe, at minimum, that the annual cost of BHD's financial commitments toward Granite Hills and the MHEC will be no more than those previously incurred to operate those services itself. A bonus, however, is the county's ability to shed the financial risk involved with operating inpatient services, which are impacted by factors like payer mix and Medicaid reimbursement policies; and to rid itself of the need to spend capital dollars to maintain an aging and obsolete facility.

More good news is that despite the increase in net inpatient and emergency service costs in 2022, the budget includes an additional $6.8 million for community-based adult mental health and crisis services while saving $8.1 million in tax levy. This is accomplished largely through a $4.2 million expansion of CCS for adults funded through Medicaid plus a $5.6 million increase in another form of Medicaid revenue related to cost reporting. Staffing for BHD's crisis mobile team and other community-based crisis intervention services also is increased by 15 positions.

Overall, **2022 is likely to be remembered as the year that BHD completed its transition to a new and improved framework for administering behavioral health services to some of Milwaukee County's most vulnerable residents.** That it is able to do so while absorbing transition costs and continuing its expansion of community services is a victory for both property taxpayers and consumers.

CONCLUSION

When the COVID-19 pandemic emerged early last year, it initially was viewed not only as a public health and economic emergency that would require Milwaukee County government to "up its game" in several critical service areas, but also as a budding fiscal emergency that would drain county coffers as key revenue streams – like sales tax collections and bus fares – were drastically reduced.

Obviously, the pandemic has and will continue to pose huge challenges for the county, but it is becoming clear that the near-term fiscal impacts have been minimized by the sizable infusions of federal relief dollars. In fact, those dollars have allowed county leaders to continue to churn out surpluses and build reserves, and they now hold promise to provide new capacity to chip away at the county's alarming capital repairs backlog and to launch both short-term and long-term efforts to advance its racial equity goals.

As we have pointed out in this report, the surprising fiscal relief and new investment opportunities are likely to be relatively short-lived. State aids continue to be flat and the sizable increase in sales tax collections budgeted for 2022 is unlikely to be replicated in future years. Similarly, the prospect of annual health care and pension reductions is uncertain, and even 2-3% annual increases in both areas could add millions of dollars of yearly pressure to the operating budget.

Meanwhile, the county's backlog of infrastructure challenges entailing hundreds of identified repair and replacement needs for highways, parks, and buildings grows progressively more daunting and cannot be fully addressed by the ARPA dollars. The need for a new Safety Building also is looming, and how to finance that project and other potential big-ticket items like Mitchell Park Domes replacement and support for a new Milwaukee Public Museum remains a mystery.

These challenges intensify the pressure on county leaders to strategically use the ARPA funds to address at least some of their longer-term structural and capital challenges. The recommended budget's successful effort to preserve the bulk of the ARPA funds for future decision-making tees up this opportunity, and it will be critical for future budgets that it not be squandered.

For now, the county executive and board should be thankful that the unanticipated influx of federal funds and their prudent use of those monies thus far allows for a recommended budget that lacks service cuts and creates limited opportunities for new investments. Yet, as they look to the future, they should keep in mind that the good times are unlikely to last forever and that their decision-making on ARPA over the next several months will be critical to determining just how fleeting those times will be.