

BUDGET BRIEF

MILWAUKEE COUNTY

2023 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 for their assistance in providing information on the budget and 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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Milwaukee County 2023 Executive Budget

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INTRODUCTION

A quick read-through of the Milwaukee County Executive's 2023 recommended budget may prompt some to ask why there has been such commotion over the years about a fiscal crisis at the county, or why county leaders have been insisting on the need for a larger sales tax and increased state aid.

That's because for the third consecutive year, the recommended budget not only avoids major cuts in services and staff, but also makes important new investments in areas like corrections reforms and parks operations, and it even initiates construction of a \$127 million state-of-the-art forensic science center to house the county's medical examiner and emergency management personnel. Moreover, pension and health care costs – which often have been a primary source of financial distress – are reduced by a combined \$4.3 million, freeing up resources for other needs.

The budget's positive vibes also stem from continued strong growth in sales tax revenues – up \$8.8 million in the recommended budget – as well as a healthy contribution from the county's debt service reserve, which heading into this year had a balance of nearly \$120 million, more than double the amount it held just five years ago. Perhaps most encouraging is the fact that outside of transit, the recommended budget would again avoid the use of one-time federal aid from the American Rescue Plan Act (ARPA) to prop up operations; instead, those funds are largely being used for one-time needs and investments.

Yet, as is typically the case with Milwaukee County finances, amid the good news there are also signs of ominous future challenges. The main hint that the county's long-term outlook is far from rosy comes from the Milwaukee County Transit System (MCTS) budget, which is one of the few to see any service reductions and which requires a \$21 million infusion from its special ARPA allocation to offset losses in passenger revenue and other budget shortfalls. When those funds are exhausted after 2024, MCTS may face a budget hole of \$20 million or more.

In addition, while the capital budget is the largest in recent memory and addresses several important needs, the county's infrastructure backlog is still immense and growing. Furthermore, as they are forced to engage in a level of borrowing that has been avoided for years, county leaders do so at a time when interest rates are rising, thus driving up the cost of debt payments and the pressure they will exert on other needs.

In the pages that follow, we analyze both the promising aspects of a relatively calm recommended budget and the elements that are harbingers of a more precarious future. Our objective is to provide county policymakers and the public with impartial analysis and context as deliberations on the 2023 county budget and its longer-term financial challenges continue in the weeks ahead.



2023 RECOMMENDED BUDGET SYNOPSIS

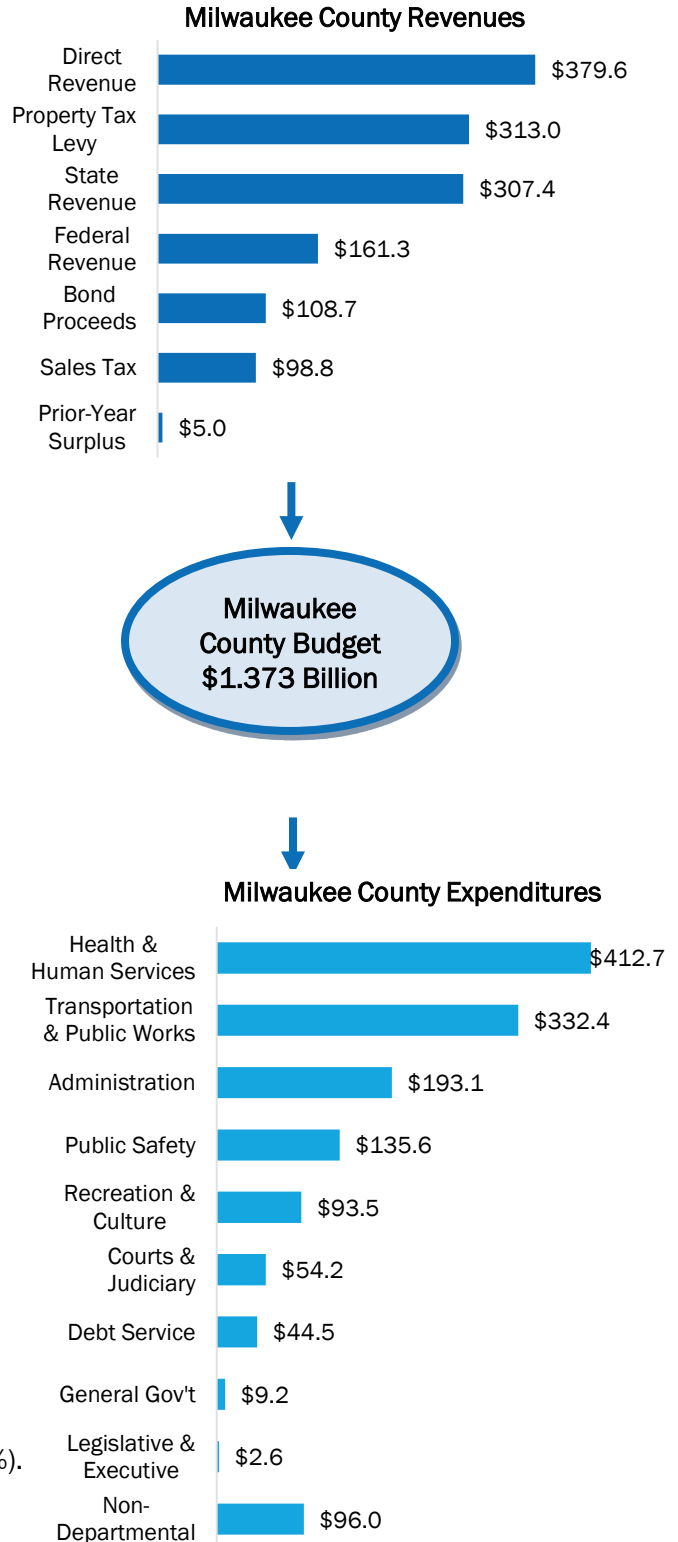
The 2023 recommended budget totals \$1.37 billion, a substantial increase of \$90.5 million (7.1%) from 2022. More than two-thirds of the increase (\$67.1 million) comes from the capital budget, which grows to \$197.0 million. The operating budget totals \$1.18 billion, which is \$23.4 million (2%) higher than 2022. The spending boost in the capital budget is almost entirely attributed to the new forensic science center.

Figure 1 breaks down the budget by major revenue and expenditure categories. As in previous years, the two largest areas of expenditure are health and human services at \$413 million (including \$235 million for behavioral health) and transportation & public works at \$332 million (including \$160 million for transit operations). Public safety is typically next but is surpassed by administration in 2023 because of the forensic science center.

The largest revenue source is “Direct Revenue” at \$380 million, which includes service-related fees and payments such as zoo admissions fees, transit fares, and Medicaid reimbursement. The property tax is next largest at \$313 million. The county also expects to receive \$307 million from the state and \$161 million from the federal government. State revenue would increase by \$54 million, in part because of restored state aids for transit. However, those monies are accompanied by a reduction in federal pandemic relief funding in the transit budget that helps lower budgeted federal revenue by \$40 million overall.

The county expects an \$8.8 million (9.8%) increase in sales tax revenue in 2023. Its other primary source of local revenue – the property tax – would increase by \$3.6 million (1.2%).

Figure 1: Summary of Recommended Budget (millions)

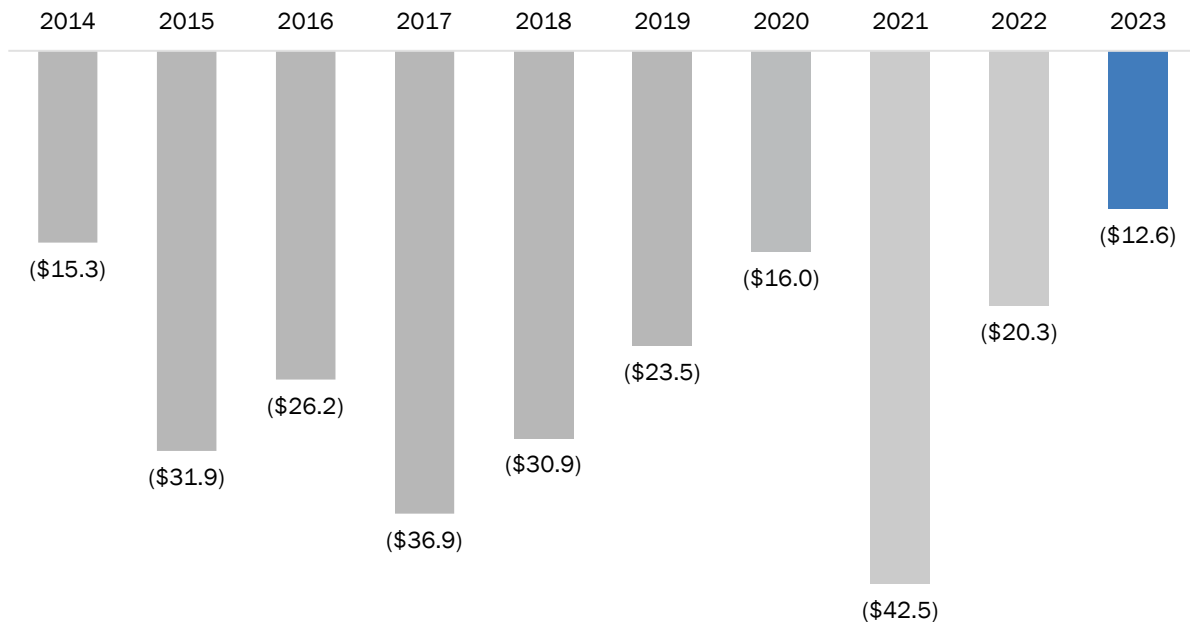


THE 2023 BUDGET GAP

While two years does not make a trend, the county’s structural gap remains manageable in 2023 just as it was in 2022, perhaps signaling an improved long-term outlook if revenue growth continues to exceed expectations and fringe benefit costs remain under control. However, such hope again must be tempered by the realization that federal pandemic relief funds will soon disappear from the transit budget and the possibility that high inflation will add to spending pressures. Another threat is that dismal stock market performance in 2022 and beyond will cause pension payments to escalate once again.

The need for county leaders to wrestle with a budget gap each year has been around for more than two decades. It results primarily from the inability of the county’s major revenue streams – particularly state aids and the property tax levy – to grow at a pace that can keep up with its expenditure pressures. In March, the county comptroller [projected](#) a \$12.6 million structural hole for 2023, which is the smallest gap projected by either the comptroller or budget officials at the initiation of the budget process in the past decade, as shown in **Chart 1**.¹

Chart 1: History of initial projected funding gaps, 2014 to 2023 (in millions)



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

That good news is tempered by the comptroller’s projection – in the same March report – that county expenditures are projected to grow by an average of 1.6% annually over the next several years while revenues are projected to increase by an annual average of only 0.2%. The report further warned that the impacts of high inflation had not yet been fully factored into the five-year modeling, and that

¹ The sizable increase shown in 2021 resulted largely from initial projections about pandemic-related revenue losses that did not fully materialize.



the structural gap would grow by as much as \$32.9 million in 2025 when MCTS' ARPA monies are exhausted (see **Key #4** for further discussion of this issue).

Still, a glimpse at the main components of the projected 2023 gap shows how far the county has come in managing its structural difficulties. Whereas sizable annual increases in health care and pension costs often were main contributors to the substantial deficits of previous years, the comptroller projected those costs to rise by only \$3.7 million and \$0.3 million respectively in 2023. Meanwhile, although the county's half-cent sales tax comprises only a minor portion of its overall revenue pie at about 7% of the total, a \$6.1 million projected increase in 2023 helped minimize the overall gap (see **Key #2** for further discussion on the sales tax).

Perhaps the biggest positive change in the county's overall financial condition over the past several years, however, is the **remarkable growth in its debt service reserve (DSR)**, which is its main source of general reserves. The county was able to deposit most of a whopping \$56.9 million budget surplus in 2021 into the DSR earlier this year, creating a \$118.6 million balance.² Just five years earlier, at the end of 2016, the DSR contained \$44.5 million, which itself was a sizable increase from a typical balance of under \$10 million in the previous decade. This gives the county greater flexibility than it has ever had to use withdrawals from the DSR to avert service cuts in difficult budget years.

How the gap was bridged

As the county executive and his budget team worked with departments over the summer to develop the 2023 recommended budget, several new developments impacted the original projected budget gap. On the negative side, inflation continued to affect staffing and services in numerous ways and led policymakers to adopt a mid-year 2% salary increase for employees that will carry over into the 2023 budget. In addition, the Department of Health and Human Services (DHHS) confronted growing costs from a sharp increase in the number of youth sentenced to state corrections facilities, which looks certain to continue in 2023; and space rental revenue was reduced by \$3.5 million due to the termination of a lease with the state for space at the Marcia P. Coggs Human Services Center.

On the positive side, however, the county was able to identify substantial new savings in fringe benefit costs (including an \$8.8 million increase in prescription drug rebates) and saw improvement in several revenue projections.

Chart 2 on the following page shows changes in key revenue and expenditure items in the 2023 recommended budget when compared to 2022 (the recommended budget figures also changed from the comptroller's earlier projections). Impressive growth in sales tax revenues is projected to continue – in part because of rising consumer prices – while the county's earnings on investments are projected to sharply increase in light of higher interest rates. Meanwhile, the annual payment it receives from the Potawatomi Hotel and Casino – which is based on a share of the casino's net win – will grow by \$1.1 million as patronage returns to pre-pandemic levels, and the huge balance in the DSR allowed for a recommended \$7.3 million withdrawal to support operations (the same as 2022).

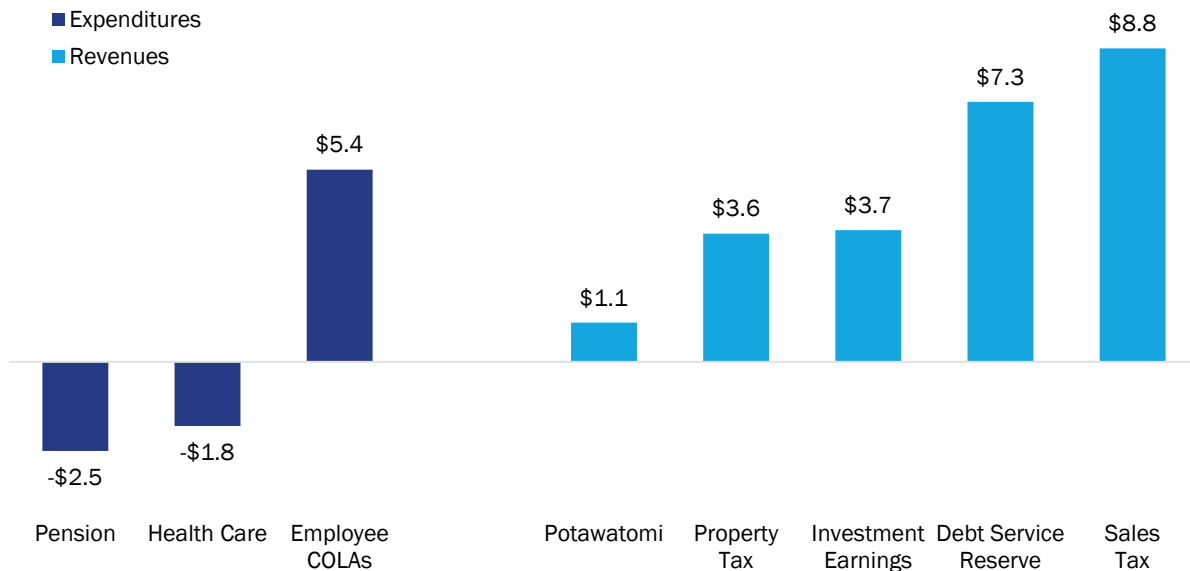
Notably, when combined with a modest 1.1% increase in the property tax levy that brings in an additional \$3.6 million (this is essentially the maximum allowed under the state levy limit), these revenue increases significantly outstrip the combined increase in health care, pension, and salary costs, which are typically the largest drivers of the structural deficit. For 2023, these show only a

² After a 2022 budgeted withdrawal of \$7.3 million and other actions this year, the DSR is now projected to stand at \$110.5 million at the end of 2022, according to the comptroller's office.



minimal combined increase in light of the prescription drug rebates and strong pension fund investment returns in 2021.³

Chart 2: Projected growth/decline in major cost areas vs. major enhanced revenue sources in 2023 recommended budget



Source: 2023 Recommended Budget (this or previous budget documents is the source for all other charts in the report unless otherwise noted)

These positive developments not only erased the projected \$12.6 million gap, but also freed up considerable resources that the recommended budget uses to shore up some challenges that emerged in departmental budgets. Those include increases for key areas impacted by inflation – like provider rates for DHHS youth service providers (\$550,000), information technology licenses (\$500,000), and commodities and services in county parks (\$456,000). The budget also devotes an additional \$5.2 million in tax levy to support increased youth corrections costs and an extra \$3.2 million in levy for adult corrections.

Overall, while the county still faces daunting structural challenges that may resurface in dramatic fashion when temporary federal transit relief is exhausted at the end of 2024, **the ease with which the small structural gap was eliminated in the 2023 recommended budget is notable.** In fact, for the second consecutive year, the ability to budget increased sales tax revenues, lower health care and pension costs, and a healthy withdrawal from the DSR not only bridged the gap, but also allowed the budget to address next year’s most glaring departmental challenges and make several new investments in line with the county’s strategic emphasis on racial equity and inclusion.

³ Increased salary costs include \$2 million to cover the full-year cost of a 2% employee pay increase that took effect in August 2022 and an additional \$3.4 million for a proposed 2% increase that would take effect in April 2023. The budget also includes \$3.7 million for employee salary adjustments in anticipation of a new compensation study that will be completed in 2023, but \$1 million is subtracted from that total to account for an expectation that the unusually high number of vacancies throughout county government will continue to some extent in 2023.



OPERATING BUDGET OVERVIEW

The 2023 recommended operating budget totals \$1.18 billion, an increase of \$23.4 million (2.0%) over the 2022 amount. Four functional areas account for nearly all of the increase: Health and Human Services (\$9.1 million or 2.3%); Transportation and Public Works (\$6.7 million or 2.4%); Public Safety (\$6.6 million or 5.2%); and Parks, Recreation and Culture (\$3.5 million, or 5.1%).

The Parks, Recreation and Culture increase is particularly notable given that this is a discretionary function that often must absorb budget reductions so that mandated services can be sustained. Also notable is the increase in Public Safety, which reflects new investments in a rebranded House of Correction, which now will be called the Community Reintegration Center (CRC); and the increase in Health and Human Services, which in part reflects a substantial expansion of Children’s Long-Term Care programs with Medicaid dollars to eliminate waitlists for children with disabilities.

While departments were asked to absorb salary increases in their original budget requests, many of those budgets were then shored up when the fiscal outlook improved over the summer months. The following are areas of the operating budget that benefited the most:

- **Community Reintegration Center** – the former House of Correction not only would receive a new name, but it also would see its tax levy allocation grow by \$3.8 million. The additional funds pay for nine new positions – including in areas like psychiatric social work and community outreach in keeping with the enhanced focus on reintegration – as well as increases in the contract with a private vendor for medical and mental health care (\$1.6 million) and for improvements in the quality of food served to residents (\$320,000). The budget also reduces the use of one-time ARPA monies to cover correction officer pay increases prompted by recruitment challenges, replacing \$500,000 of the current budget’s \$1.5 million ARPA allocation with tax levy as the beginning of a full transition to the levy.
- **Sheriff** – the Office of the Sheriff would receive a \$2.0 million levy increase that essentially allows it to absorb employee pay increases without cutting elsewhere, while also transitioning to the tax levy about half of its current \$1.5 million in ARPA funds for corrections officer pay. Both the sheriff and CRC budgets also contain a \$125,000 reduction in phone charge revenue as the county seeks to make those charges more affordable for those housed in the CRC and jail.
- **Parks** – for the first time in recent memory, the Parks Department is one of the clear budget “winners,” receiving a tax levy boost of \$412,000 that – combined with \$1.1 million in budgeted revenue increases from higher fees, greater golf course usage, and other sources – allow it to add 17 new full-time positions and increase overall expenditures by \$1.5 million (3.8%). The full-time positions will replace some seasonal labor positions, enhancing the department’s ability to counter recent difficulties in recruiting seasonal workers.
- **Behavioral Health** – Behavioral Health Services (BHS – formerly the Behavioral Health Division) retains the same levy amount of \$53 million, which is the minimum required by state statute. However, it is able to redirect more than \$9 million in savings from the outsourcing of inpatient and mental health crisis services to boost its community-based mental health and substance abuse programming. Those savings also help to pay for rate increases for many community-based service providers to help offset inflation and higher labor costs, and they help eliminate a \$2 million “abatement” in BHS’ budget – an accounting mechanism that essentially required a drawdown of the same amount from reserves.



While most other departments largely would be able to maintain existing levels of staffing and services, two stand out for the *difficult* nature of their 2023 challenges:

- The **Children, Youth, and Family Services Division** is confronting a double whammy of increased numbers of youth being sentenced to state corrections institutions (at a state charge of \$1,178 per day) and an increased population at its own juvenile detention center. The recommended budget assumes an average of 35 youth per day at the state institutions, up from 18 in the 2022 budget. This requires \$7.7 million of extra spending, though the levy impact is reduced by a \$4.6 million realignment of state Youth Aids funds that formerly were transferred to BHS. Meanwhile, the rising number of youth who are temporarily housed at the county's own youth detention center will require an additional \$257,000 for food and medical care and \$1.5 million in additional service supports. While additional property tax levy is included in the recommended budget to address most of these added costs, the division also is required to reduce contracts for community-based services by about \$2 million to help afford them.
- While the **Milwaukee County Transit System (MCTS)** would receive a \$515,000 increase in levy and still benefit greatly from \$21.4 million of ARPA funds in the recommended budget, its operational pressures still produce a need to cut fixed route expenses by 3.1%. That would be achieved, in part, by the permanent elimination of freeway flyer routes and service reductions on a few routes. See **Key #4** for more detailed discussion about the transit budget and its long-term outlook.

Overall, the 2023 recommended operating budget provides mostly good news for residents, as most services and service levels would remain intact and some would see important expansions. In our discussion of budget keys, we provide insight into whether this promising scenario can extend beyond the coming year.



CAPITAL BUDGET OVERVIEW

Discussion of the county's capital budget typically has been rather bland in recent years as the county's self-imposed bonding cap has precluded its ability to finance all but a few large and exciting projects. Indeed, our budget briefs over the years have focused primarily on the number and types of requested projects the county was *deferring* year after year as a huge backlog of needed repairs and replacements grew and the county's financial capacity to finance them diminished.

The 2023 recommended capital improvements budget alters that picture somewhat. The overall budget totals \$197.0 million, which is a \$67.1 million (52%) increase over the 2022 adopted amount. Of the total, \$11.3 million is for projects at General Mitchell International Airport, which are fully reimbursed by airlines or outside revenue sources. Non-airport projects total \$185.7 million, which is an increase of \$68.7 million (59%) compared to 2022.

The major source of capital financing is general obligation (G.O.) bond proceeds, which would total \$108.7 million for non-airport projects in 2023. The county also would use \$8.1 million of sales tax revenue and \$10.0 million from the DSR (for the forensic science center). Federal funds would finance \$56.7 million of the non-airport total, including \$20 million of county ARPA funds and \$20 million from the state's own ARPA allocation (also for the new forensic science center).

For the first time in recent memory, **the county's recommended bond issue would exceed its self-imposed bonding limit for non-airport projects** – and in a pronounced way. The bonding limit – adopted in the early 2000s to prevent an escalation of future debt payments – generally allows for a 3% increase each year. Abiding by that limit in 2023 would have necessitated a cap of \$45.8 million in G.O. debt.

The decision to exceed the cap stems from the need to finally address two major capital demands and the opportunity to do so in a way that will yield both long-term fiscal and programmatic benefits. The first is the new forensic science center, while the second is a new home for the Milwaukee Public Museum (MPM). The forensic science center would receive \$62.9 million in bond proceeds, which is identical to the amount by which the recommended budget exceeds the \$45.8 million bonding cap. The county's \$45 million bonding commitment for the MPM project is not included in the 2023 budget pending the museum's ability to meet specific requirements, but the budget indicates this commitment also will fall outside of the bonding cap when it materializes. We discuss the ramifications of the decision to exceed the bonding cap in **Key #3**.

While much of the attention likely will center on these big projects, the remaining capital budget includes other notable investments and continues a recent upswing for county parks. Other large expenditures include \$4.6 million for another massive project – construction of a new human services center – to buttress \$32.2 million in ARPA funds and previous county allocations of \$5.2 million; and \$3.6 million for 30 new clean diesel buses as the local match to \$14.4 million of federal funds. Meanwhile, parks projects total \$14.4 million and include a \$5.5 million investment to refurbish the North Point parking lot and \$5.6 million to repair the flushing channel in McKinley Park.

Unfortunately, despite its array of both big and small projects, the recommended capital budget again does not come close to financing the long list of departmental requests, thus adding to a capital repair and replacement backlog that the county executive recently said may exceed \$1 billion. Our discussion in **Key #3** also covers that challenge.



FOUR KEYS TO THE 2023 RECOMMENDED BUDGET

Key #1: ARPA funds play only a minor role

In perhaps the most remarkable reflection of the county's improved financial condition, the recommended budget resists the temptation to use substantial sums from its general ARPA allocation to support regular county operations. The county is receiving \$183.7 million under the 2021 ARPA law to make up for revenue losses and help with extraordinary expenditure needs created by the pandemic, as well as to invest in ways that would produce long-term benefits. As we will discuss in **Key #4**, MCTS also received its own infusions of relief aid totaling more than \$190 million as part of a federal effort to keep transit systems running in the wake of huge ridership losses created by COVID-19.

Despite growth in sales tax revenues and an overall solid revenue picture in 2022 and 2023, a liberal definition of revenue "loss" in the ARPA law could have allowed the county to direct a sizable portion of its allocation to agency operating budgets. The downside of doing so is that the ARPA funds are one-time in nature, and their use to prop up county operations would create holes that would need to be backfilled by property tax levy when the funds are exhausted by the end of 2024.

Nevertheless, one might have expected that a government like Milwaukee County, which has struggled with decades-old budget challenges and now faces increased demands from its many programs that serve vulnerable populations, would have felt compelled to violate the cardinal rule against using one-time revenues for general operating purposes – at least to some extent – in order to keep service levels intact.

That is precisely the situation for the city of Milwaukee, where the proposed budget uses \$80 million of the city's \$394 million ARPA allocation to support general operations next year.⁴ It is also the approach the county is taking with regard to MCTS, although in that case the special allocations of federal transit relief are specifically intended to shore up operating budgets in light of the unique impacts the pandemic has had on transit ridership.

Milwaukee County, however, has been able to refrain from using all but a small fraction of its general ARPA allocation for operating purposes. As shown in **Chart 3** on the following page, the county has designated ARPA funds for use in three main categories: revenue loss, community support, and COVID-19 mitigation (a fourth smaller category is for ARPA administration). So far, \$143.1 million of ARPA funds have been approved for various uses, with another \$2.7 million approved by the county's ARPA Task Force and awaiting approval by the county board. An additional \$22 million of ARPA monies are included in the recommended budget – \$20 million for the forensic science center and \$2 million for corrections officer pay.

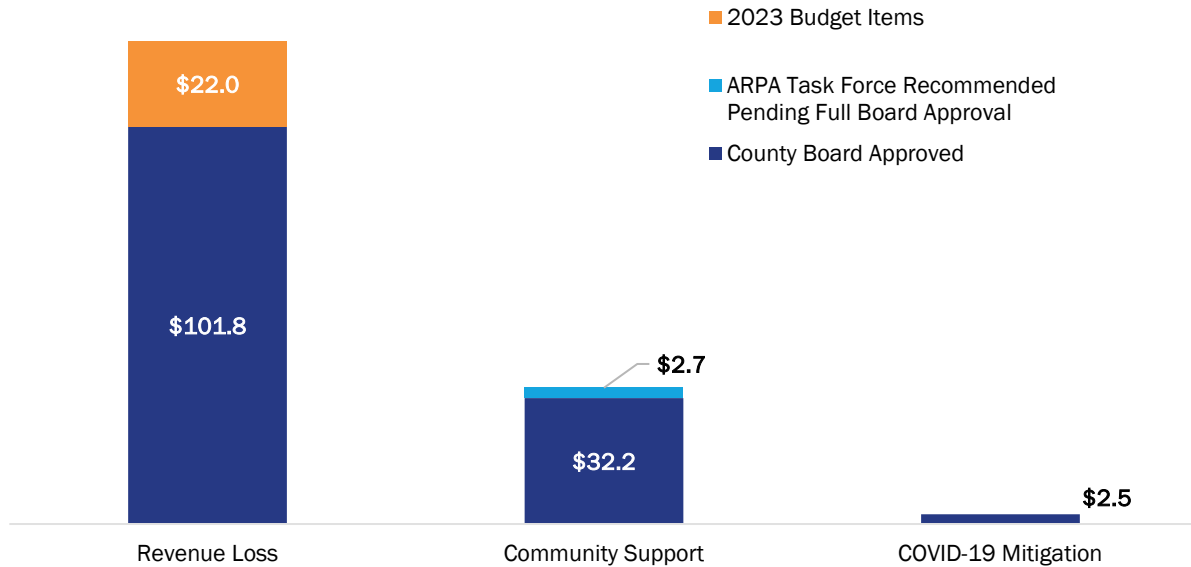
The revenue loss category received by far the highest allocation at \$123.8 million, or 74% of the total approved so far, and it is from this category that county policymakers could have elected to use considerable resources to temporarily support general operations. Even worse, from a fiscal perspective, would have been decisions to use the funds to initiate new programs and services that

⁴ For additional information, see our 2023 Proposed City of Milwaukee Budget Brief.



would need to be sustained after the ARPA dollars were spent and would create further pressure in future budgets.

Chart 3: Use of ARPA funds by category (in millions)



Source: 2023 Recommended Budget overview prepared by Office of Performance, Strategy, and Budget

But instead, the Revenue Loss funds will be used for one-time needs. The largest of those is a \$32.3 million allocation to build a new human services center, while other major uses – in addition to the forensic science center – include \$10.5 million for information technology improvements, \$6.4 million for backlogged golf course improvements, \$6.3 million for improved food service equipment at the county’s three detention facilities, \$3.6 million for new public safety radio equipment, and \$3.2 million for upgraded courthouse security. More than three dozen other approved projects consist mostly of capital repairs and improvements that have been needed for years or investments in technology to generate cost efficiencies or greater revenue potential.

The 2022 budget does use \$4 million in ARPA funds to offset the cost of pay increases for corrections officers, but the 2023 recommended budget replaces about half of that amount with property tax levy. That leaves only about \$2 million in the budget for corrections officer pay, which presumably will be completely replaced with property tax levy when the ARPA funds are exhausted.⁵

Unquestionably, there are several new programs created with other ARPA funds (particularly in the Community Support category) that policymakers may wish to continue post-ARPA. Examples might include new programs pertaining to affordable housing, eviction prevention, and trauma response. However, for the most part, the county’s diligence in preserving its ARPA funds for one-time uses will avoid making its structural imbalance worse in future years and improve its long-term financial condition by addressing some formidable capital needs without funding from property taxes or borrowing.

⁵ The operating budget also includes about \$200,000 for ARPA-related administrative expenses.



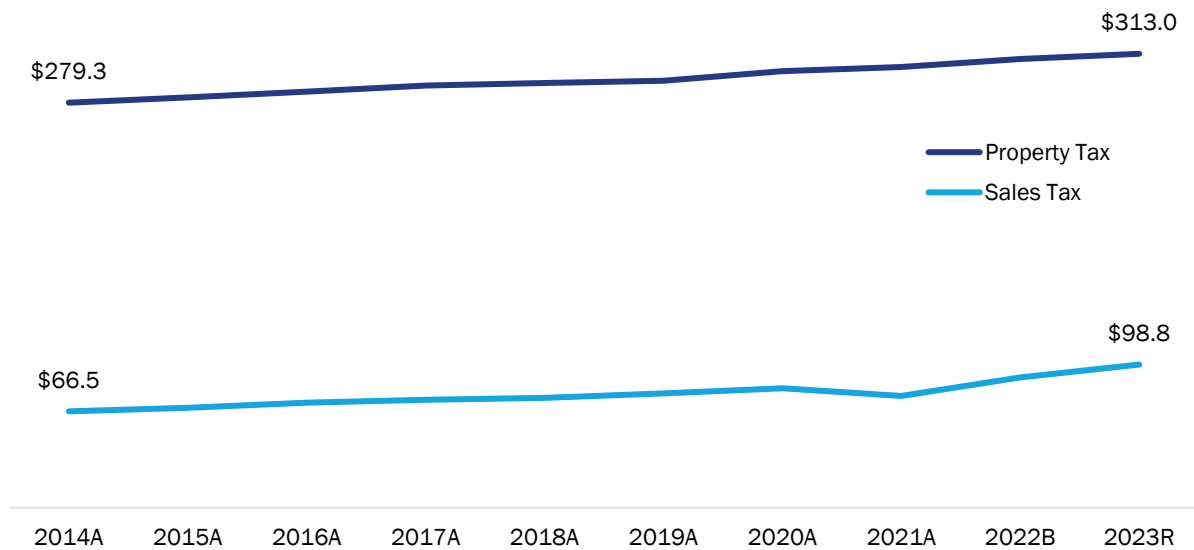
Key #2: It's nice to have a sales tax

While far from the only explanation, one reason that Milwaukee County has not faced the same desperate need as the city of Milwaukee to plug ARPA funds into general operations is its 0.5% county sales tax. Under state law, counties are authorized to levy a sales tax of up to 0.5% (68 of the state's 72 counties have done so) on top of the 5% sales tax imposed by the state. Municipalities are prohibited from doing so with the exception of a small number designated as special tourism districts.

This advantage for Milwaukee County, particularly during a time of high inflation, has been critical. As prices have risen rapidly during the past year and pent-up consumer demand escalated after the early months of the pandemic, the county's sales tax collections have skyrocketed. In fact, as shown in **Chart 4**, the county's budgeted sales tax collections have increased by 48.5% over the past 10 budgets, providing policymakers an extra \$32.3 million over the period to spend on various priorities.

Notably, the county's property tax levy collections have grown by only 12.1% during the same period, producing just \$1.5 million more in revenue growth than the sales tax despite being the single largest revenue source in the county budget. That limited growth is due largely to state restrictions that generally limit the rate of growth in the operating levy to the net rate of new construction in the county, which has generally fallen below 2% annually and is 1.1% in the most recent year. It should also be noted, however, that there have been some years in which county leaders did not levy up to the allowable cap.

Chart 4: Sales and property tax collections, 2014 Adopted Budget to 2023 Recommended Budget (not adjusted for inflation – in millions)



While the average of \$3.4 million annual growth in sales tax revenues has been only a minor contributor to the county's ability to maintain most major service levels over the past decade, it has certainly helped. As context, a 1% pay increase for county employees currently costs about \$2 million annually.

Also, in recent years, the growth in sales tax revenues has been much more significant – county policymakers have \$21 million more in sales tax revenue to spend in the 2023 budget than they



budgeted in 2021. That increase is skewed somewhat by a budgeted reduction in sales tax revenues in 2021 that was estimated during the height of the pandemic. It turned out, instead, that actual sales tax collections in 2021 exceeded the budgeted amount by \$15 million that year. Those collections are projected to exceed the \$90 million budgeted in 2022 by \$3 million, according to a recent report by the comptroller.

These substantial additional sales tax dollars have come at precisely the right time to provide some cushion as the county has faced growing costs in several areas – first from public health and safety-related demands caused by the pandemic, and more recently by high levels of inflation. And, it could be argued, that is the way things are supposed to work. A local government’s revenue structure is healthiest when it has a diversified mix of revenues that include some, like the sales tax, that will increase with inflation assuming the economy otherwise remains strong; and others, like the property tax, that can be sustained more easily during economic downturns as long as rates are not capped.

County leaders, of course, have argued for years for an expansion of their sales tax authority. A proposal advocated by county and city of Milwaukee officials, as well as area business and civic leaders, would raise the current county rate from 0.5% to 1.5%, with the proceeds split roughly evenly between the county, its municipal governments, and property tax relief. While the Forum takes no position on this proposal, we have pointed out the benefits of revenue diversity in previous reports. The county’s recent good fortune with its sales tax collections certainly appears to buttress that case.

Key #3: Bonding limit falls by the wayside

The Forum has sounded alarm bells about the county’s growing infrastructure repair and replacement backlog since at least 2012, when we warned in our annual [budget brief](#) that “the disconnect between the county’s capital funding needs and its capacity to address those needs under its self-imposed bonding cap has become apparent.” In the 2023 recommended budget, for the first time since we issued that warning and with a backlog that has now grown to \$1 billion,⁶ this disconnect is addressed, though at some risk to property taxpayers and the operating budget.

The bonding limit was adopted in 2003 after the county refinanced and pushed back payments on hundreds of millions of dollars of its G.O. bond debt. The refinancing was seen as a necessary means of reducing debt service payments in the short term so that resources could be freed up to address a huge operating budget gap that had materialized in the wake of the 2000 pension scandal.

The rub was that by delaying payments on such a large amount of debt, the county risked an explosion of payments within a few years if it continued to issue new debt at a pace that met the needs of its capital program. Consequently, county leaders adopted a policy that called for increases of no more than \$1 million from the previous year’s bonding amount for the 2005-2007 period, then set the bonding amount at a maximum of \$30 million in 2008 and allowed future increases of no more than 3% per year subsequently.

With a few exceptions (including one to take advantage of special borrowing allowed by the 2009 federal stimulus law), the county has adhered to this self-imposed policy goal. As it did so, its backlog of repair and replacement needs grew, as the amount allowed under the cap – combined with the

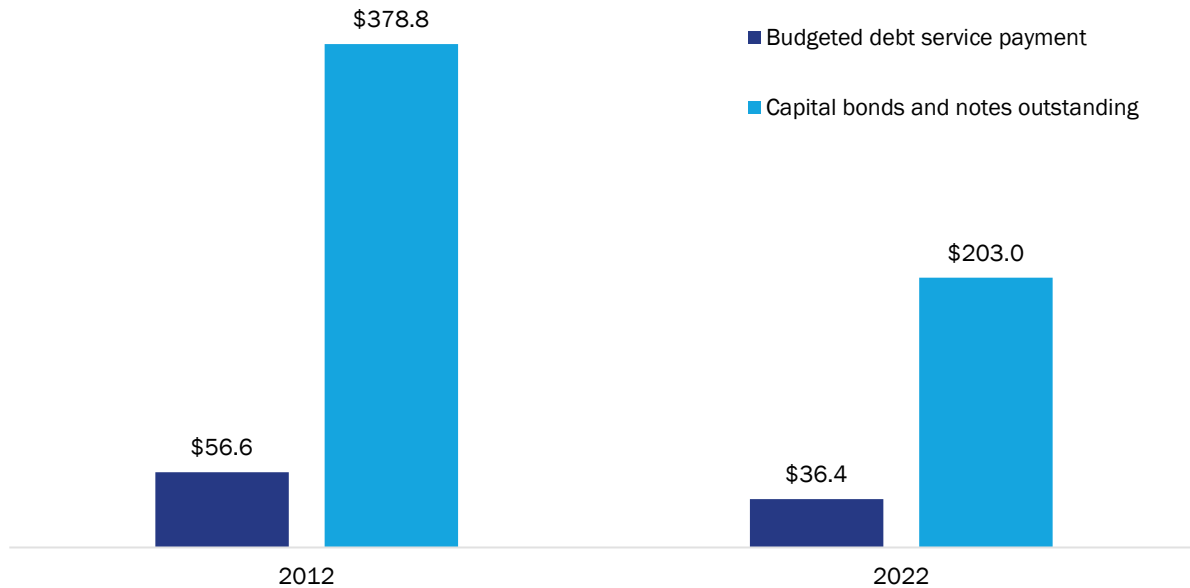
⁶ This estimate comes from the county executive as reported by WTMJ-4 in this September 15, 2022 [report](#).



amount the county could afford to cash finance – was far exceeded by the cost of projects requested by departments each year.

The county’s efforts to hold down its debt and debt service costs have been remarkably successful. In fact, as shown in **Chart 5**, it was able to lower its annual levy-supported debt payments by more than a third and its total outstanding bonds and notes by almost half between 2012 and 2022, without even adjusting for inflation.

Chart 5: Total outstanding bonds and notes and net debt service payments, 2012 budget vs. 2022 budget (in millions)



There have been significant delays in infrastructure investment associated with this success, of course. The backlog has accumulated not only because of failure to take care of dozens of relatively minor capital repair needs that emerge at parks and cultural amenities and county buildings and roadways each year, but also by inaction on a handful of very expensive projects, including possible full replacement of the Safety Building, the Medical Examiner’s headquarters, and the Mitchell Park Domes. Also, by strictly adhering to the cap and watching its backlog grow, the county failed to take advantage of historically low interest rates for much of the 2012 to 2020 period.

To its credit, the county has taken some steps to reduce its capital needs and footprint by abandoning facilities deemed no longer necessary in light of staff reductions or other developments. For example, it recently eliminated the need for millions of dollars of upgrades to the Mental Health Complex with the decision to outsource inpatient and crisis care. Still, until now, county leaders have shown little inclination to consider adjustments to capital and debt policies to respond to the escalating infrastructure backlog, or to make other difficult decisions to liquidate capital assets.

The recommended budget now acknowledges that certain major projects that cannot be deferred any longer must be financed outside of the bonding cap. That acknowledgement – as well as the use of a sizable share of the \$183 million ARPA allocation for capital needs (see **Key #1**) – allows the county to chip away at some major deferred infrastructure needs for the first time in recent memory.

As discussed earlier, the new home for the Medical Examiner will now move forward with \$62.9 million of borrowing – well over the \$45.8 million countywide borrowing limit for all capital needs



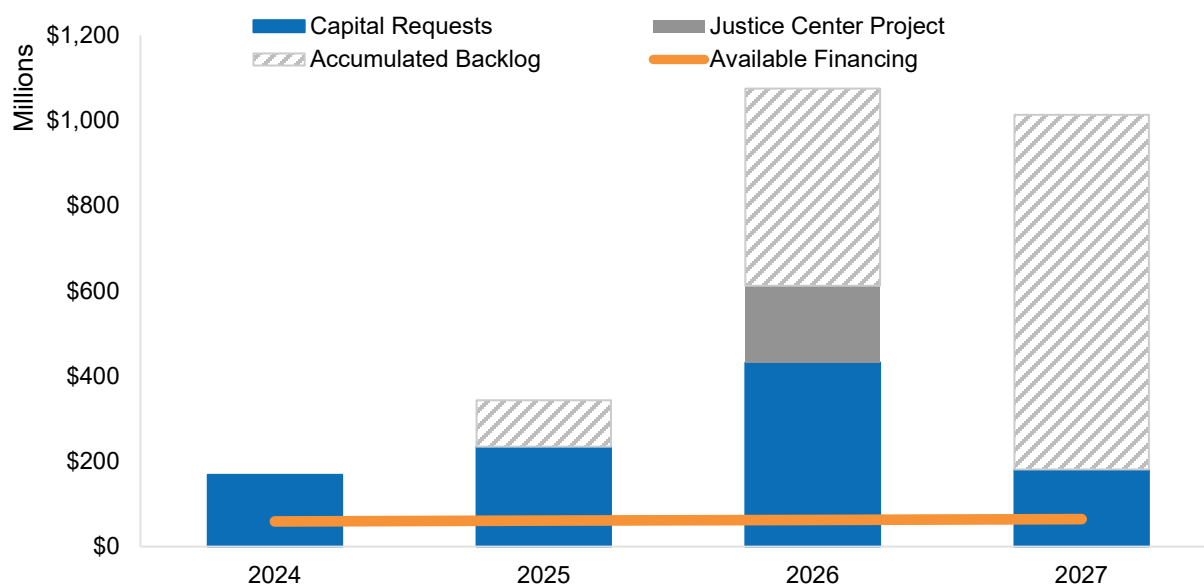
next year. The budget also signals a plan to exclude from the cap the \$45 million in borrowing required to support a new Milwaukee Public Museum building. While expensive, both of these projects will produce long-term savings by eliminating the need for tens of millions of dollars of repairs to existing facilities; and by generating an estimated \$7 million of annual rental income in the case of the forensic science center (which initially will be used to help pay off the debt), and reduced operating contributions of \$2.5 million annually in the case of the public museum.

Unfortunately, while these steps are important signs of progress, the backlog continues to grow. Despite the inclusion of borrowing for non-airport projects outside of the forensic science center that hit the \$45.8 million cap, about \$42 million of projects requested by departments would be deferred in the recommended budget, according to budget officials.⁷

The outlook for the next four years does not get any better. In fact, as shown in **Chart 6**, the county's five-year capital outlook shows a growing gap between non-airport project requests and available financing each year if the county resumes compliance with the bonding cap and is able to provide a 20% cash match. The backlog grows most substantially in 2026, when an estimated \$180 million would be required to replace the Safety Building.

Finally, while the increase in capital borrowing is necessary in light of the county's capital needs, the potential impact on other needs cannot be overlooked. Annual statutory limits on property tax increases apply only to the operating budget and not to debt service payments, but there are practical limits. Should debt service payments escalate by several million dollars each year as a consequence of increased borrowing, then county leaders may not be as willing to raise the operating levy for service and staffing needs to the amount allowed under the state limit. Also, with interest rates now at their [highest levels](#) since before the Great Recession, the cost of borrowing will grow, placing even more pressure on the property tax.

Chart 6: Available county financing vs. non-airport capital requests, 2024-2027



Source: 2023 Recommended Capital Improvements Budget

⁷ The total would have been about \$57 million, but about \$16 million in requested projects that were not included in the recommended budget will instead receive ARPA funding following a September 2022 county board action.



Key #4: Ominous transit hole still lurking

Last year's budget brief declared that "outside of its huge backlog of capital needs, the transit budget has emerged as the biggest budgetary trouble spot for the county." That prognosis has not changed in the 2023 recommended budget.

MCTS – like county government itself – has faced deep structural budget problems for decades. On the revenue side, the problems stem from heavy reliance on state revenues, which have barely increased in nominal dollars over the past decade; and dwindling passenger revenues that preceded the pandemic and accelerated as ridership plummeted in its aftermath (dropping from \$41.2 million in 2009 to \$31.5 million in 2019 to \$19.7 million in 2021). With regard to expenditures, MCTS often faces pressures that exceed inflation from salaries and fringe benefits for its drivers and the cost of bus repairs and fuel. When there is a gap between annual revenue growth and expenditure needs, county leaders must make up the difference with increased local revenues or service reductions.

MCTS has seen its service levels gradually reduced but has avoided major cuts over the years, mostly because of fortuitous infusions of unused federal money from abandoned light rail and commuter rail projects, a \$30 vehicle registration fee (VRF) imposed by the county in 2017, and – beginning in 2020 – the receipt of huge sums of federal pandemic relief aid.

The federal transit dollars are a specific response to huge drops in ridership stemming from the pandemic and the changes it has brought to commuting habits. Recognizing that local transit systems would face sizable revenue holes but hoping they would maintain service as the economy struggled to recover, the federal government stepped in to provide vast infusions of funding for large transit systems in each of its three major pieces of relief legislation.

MCTS has directly received \$191.4 million from the three federal relief measures. So far, county leaders have allocated about \$140 million – in part to offset passenger revenue losses, but also to address some capital needs (\$21 million), allow other federal monies to be used for bus purchases, and even to back out some property tax levy from the transit budget for other uses. In 2022, those funds also helped MCTS offset the loss of state support after the Legislature reduced MCTS' state aid in response to its receipt of the federal relief dollars.⁸

There is now a little over \$52 million remaining from MCTS' relief aid that must be obligated by the end of 2024. The recommended budget allocates \$21.4 million in 2023, and MCTS officials indicate plans to allocate another \$21.1 million in the 2024 operating budget.

The remaining \$10 million has been set aside, according to an official from the county's transportation department, for transit infrastructure, maintenance, and planning items that cannot be funded with G.O. bonds. Such items could include bus-only lanes, elevated and accessible platforms at bus stops, improved shelters and signage, and other measures to improve the transit rider experience. These funds are not specifically mentioned in the recommended budget, but county leaders also could opt to use them for general MCTS operating or capital needs in 2023 or 2024.

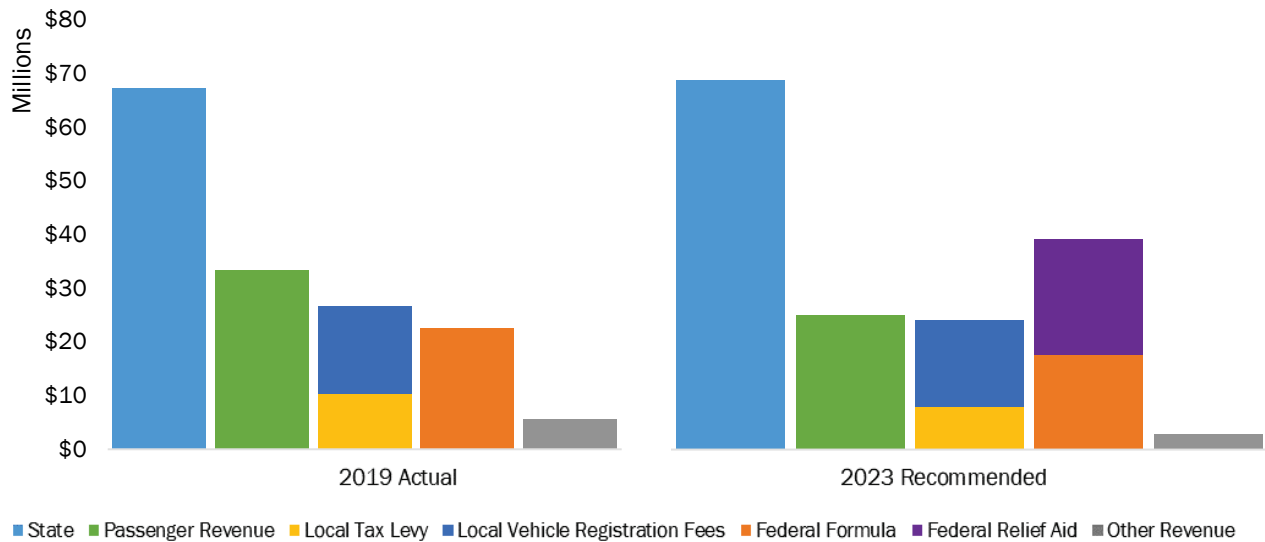
Unless ridership rebounds beyond expectations or additional infusions of state aid arrive in the next state budget, MCTS faces a frightening scenario when the federal funds are exhausted. **Chart 7**

⁸ The 2021-23 state budget reduced MCTS' state transit aids by \$32.8 million, but Gov. Tony Evers partially offset the cut with a \$19.7 million grant to MCTS from the state's ARPA allocation (\$13.4 million was used for operations and \$6.3 million for capital). The state's transit aid allocation to MCTS will be restored to \$68.6 million in 2023 (the same as 2021).



compares MCTS' pre-pandemic revenue picture with its revenue profile in the 2023 recommended budget. While passenger revenue is projected to rebound somewhat next year to \$25.1 million, that would still be about \$8.3 million below the 2019 actual amount. The \$21.4 million in federal relief dollars in the recommended budget would fill that gap and also help offset a reduced tax levy contribution (\$2.5 million lower than in 2019) and inflationary increases in operating costs. When the federal dollars disappear in 2025, however, MCTS would be facing a possible \$21 million gap.

Chart 7: MCTS major revenues, 2019 actual versus 2023 recommended



Source: Milwaukee County Transit System

The good news is that MCTS' fiscal outlook has improved since earlier in the year, when the comptroller projected a \$32.5 million budget gap for 2025. MCTS has been able to identify savings in retiree pension and health care costs that will carry into future years, and the recommended budget contains both modest cuts in service⁹ and an additional \$515,000 in property tax levy support above the 2022 budgeted amount to begin preparations for the upcoming fiscal cliff.

However, a continued danger is MCTS' use of much of its formula-based federal aid – which is intended for bus purchases and other capital needs – in its operating budget. This practice is allowable under federal rules to offset maintenance costs, but it could create another hole if a greater share is required for bus purchases in future budgets. The 2023 recommended budget would use \$17 million of MCTS' \$25 million federal formula aid allocation in the operating budget.

MCTS leaders laid out possible options to address the cliff in a May report to the county board. They include increasing fares, boosting the county's \$30 vehicle registration fee (which provides \$16 million annually to support MCTS and has not been increased since its adoption in 2017), increasing MCTS' property tax support, or cutting service. None would be popular options, but a combination of each likely will be needed if the fiscal cliff remains in the \$20 million range two years from now.

⁹ The service cuts include elimination of freeway flyer and festival service after those services were suspended earlier this year; and reduced frequency on four additional routes. The budget also anticipates initiation of new east-west bus rapid transit service in the summer of 2023, with operating costs largely offset by modifications to underlying routes.



CONCLUSION

For the past three years (including this one), much of the turmoil that once enveloped annual Milwaukee County budget deliberations has disappeared in light of limited cuts and even opportunities for new investment. Yet, county leaders have walked a delicate tightrope. On the one hand, it is tempting to tout the improvement in their fiscal circumstances; but if they do so, they risk having state policymakers ignore their continued long-term challenges and sizable structural imbalance.

The 2023 recommended budget not only provides ample evidence of the county's improved fiscal health, but also continues to make a case that its leaders are doing what they can to prepare for a far more difficult future. As we have discussed, the impressive build-up of the debt service reserve; the use of ARPA dollars largely for one-time needs that will reduce costs in future budgets; and even small steps in the recommended budget to reduce reliance on federal dollars for corrections and transit will position the county to better address structural gaps going forward.

Still, it should be recognized that were it not for the existence of short-lived federal relief dollars, there would be a sizable gap in the transit budget that likely would have necessitated a variety of cuts across several departments (or an increase in the vehicle registration fee). Perhaps more disconcerting is the knowledge that a recommendation to issue more than twice as much debt in 2023 than typically has been deemed affordable barely moves the needle on the county's enormous infrastructure backlog.

The capital budget problem is particularly onerous given that a seemingly inevitable increase in borrowing over the next several years is likely to both drive up obligations for property taxpayers and intensify pressure to reduce operations spending. That is particularly the case now that interest rates are rising and high inflation has driven up the cost of construction materials and labor. As we have stated in the past, it is difficult to imagine how the county's capital needs can be addressed without either substantial help from Madison, unpleasant decisions to liquidate assets, or (most likely) a combination of the two.

Yet, for now, the county executive and county board should be thankful both for the transit assistance from Washington and for their well-earned ability to use most of their general ARPA dollars to prepare for the far more difficult fiscal challenges that lay ahead.

