COUNTY OF MILWAUKEE
Inter-Office Communication

Date: June 24, 2026

To: Marcelia Nicholson, Chair, Milwaukee County Board of Supervisors

From: Nick Sinram, Acting Director, Office of Strategy, Budget and Performance

Subject: 2027 Operating Budget Planning

File Type: Informational Report

OVERVIEW

This report provides a preliminary overview of the 2027 operating budget. Included are an overview of the budget timeline for those new to the process, a projection of the 2027 operating budget gap and strategies that are being considered to close the budget gap and propose a balanced budget.

BUDGET PROCESS / TIMELINE

January to April – Budget Preparation Phase
- Comptroller and SBP forecast expenditure, revenue changes
- County Executive prepares budget strategy and levy targets in line with County strategic plan
- SBP prepares technical budget instructions and budget system for department users

April to July 15 – Requested Budget Phase
- Departments request expenditures, revenue, and positions that they find appropriate
- Departments submit final requested budget which complies with the assigned levy target
- Departments submit supplemental requests for items that exceed their assigned levy target

July 15 to October 1 – County Executive Phase
- SBP and County Executive analyze department requests
- County Executive hosts listening sessions, budget town halls
- County Executive determines what items are included or not included in Recommended Budget
- SBP and County Executive provide narrative explanation of the budget and

submit completed document to County Board by October 1.

<u>October 1 to Mid-November – Finance Committee / County Board Phase</u>

- Finance Committee holds budget hearings to review recommended budget
- Finance Committee approves budget amendments
- Finance Committee and County Board holds listening sessions and public hearings
- County Board votes on amendments and vetoes (if necessary) and adopts the final budget

<u>Jan 1, 2027 – Start of Fiscal Year</u>

- 2027 Budget goes into effect

<u>2027 BUDGET PROJECTIONS</u>

The Office of the Comptroller presented an updated five-year financial forecast for the years covering 2027-2031 (File 26-374). The forecast recognizes that recent budgets benefited from limited-term revenue increases and expenditure decreases that are unlikely to be available in future years. As a result of these and other factors, the forecast projects continuing large budget gaps including a structural deficit estimate of $50.8 million in 2026 growing to $168.7 million by 2031.

The structural deficit is caused by an ongoing imbalance between revenue and expenditure growth. Based on state law, property tax, which is the county's largest revenue source, can only grow by the percentage of net new construction in the county, or approximately 1.3% per year on average. This is not enough to cover the cost of inflation. Moreover, the County also receives state aid reimbursements for the provision of certain state mandated and other County services. However, many of the County's state aid payments continue to be flat, further adding to the structural deficit. If state shared revenue, property tax, and transit aid were indexed to inflation from the levels included in the 2000 budget, these revenues would total $578.4 million in the 2026 budget. The County's actual 2026 budget for these three items totaled $432.5 million, a difference of $146 million from the inflation adjusted total.

The 2027-2031 fiscal forecast is also influenced by large projected increases in salaries and overtime ($26.6 million estimated growth), as well as Health and Other Benefits costs ($15.8 million). These growth estimates are higher than projections included in previous year forecasts, based on recent spending trends in these areas, as well as overtime spending deficits that exist in 2025 and prior years.

OPTIONS TO CLOSE THE BUDGET GAP

The County will again need to evaluate options to contain spending, while also continuing to explore opportunities to raise revenues. In the requested phase of the budget, the administration has taken several steps to help close the gap and move toward a balanced budget as required by state statutes. These strategies are similar to what the County has used in previous years.

Cost To Continue: Departments are asked to absorb inflationary increases in commodities instead of receiving additional tax levy to support these services.

Levy Targets: In addition to absorbing the cost to continue, departments have been issued additional levy reduction targets that they are expected to meet in the requested phase of the budget. If departments (including departments lead by elected officials) choose to exceed their levy target, the County Executive plans to reduce the department to the levy target in the Recommended Budget.

Salary Costs: Some salary increases (such as equity increases and filling positions at a higher salary than budgeted) must be absorbed by departments. Other salary increases due to the Compensation Study are budgeted and managed centrally – departments do not need to absorb these costs.

General Salary Increase: The base budget for 2027 does not include a general salary increase. This represents tax levy savings of approximately $2.5 million compared to a 1% start of year increase. If funds are available later in the process, this assumption may be revised prior to the Recommended Budget being released on October 1.

Sales Tax: The June 2026 report from the Office of the Comptroller projects a 3.8% year-over-year growth rate in sales tax receipts. If this trend continues, the additional revenue will decrease the amount of the 2027 budget gap and be available to reduce the debt service property tax levy.

Fringe Benefits: The 2026 Adopted Budget included some minor plan design changes for prescription drugs. Other minor plan design changes were included in the recommended budget, but not the adopted budget. As health care and prescription drug costs are a significant driver of expenditures, strategies to contain costs will be reviewed and potentially included in the Recommended Budget.

Transit: With the expiration of federal funding, there is a sizable gap between available funding and the level of service provided by the Milwaukee County Transit System. Options to address this gap include reducing service, using short-term funding to temporarily bridge the gap, or shifting funding from other County Services to transit services. Each option includes costs and benefits that the County needs to consider in the 2027 Budget.

Cash Capital: The County has a goal to cash finance 20% of net county funding contribution to help constrain interest and debt service costs. However, tax-levy funded capital projects compete for the same limited operating tax levy as departmental budgets. The County has the option to decrease cash capital financing to help close the gap.

SBP and the Comptroller's Office will monitor these items and other key factors in the budget such as health care, sales tax, and other revenues.

ALIGNMENT TO STRATEGIC PLAN

3B: Enhance the County's fiscal health and sustainability

FISCAL EFFECT

The report is informational only and there is no fiscal impact.

VIRTUAL MEETING INVITES

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