

COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION

DATE: 3/16/2023

TO: Marcelia Nicholson, Chairperson, Milwaukee County Board of Supervisors

FROM: Joe Lamers, Director, Office of Performance, Strategy, & Budget

SUBJECT: Annual Capital Budget Funding Review/Capital Project Development & Inclusion in the Annual Budget Process (For Information Only)

Issue

With the interest of enhancing communication with the County Board and providing budget information at the earliest opportunity, this report provides a preliminary 2024 capital budget financing estimate as well as a general outline of the upcoming capital budget process.

County Funding of Capital Projects

The 2023 Capital Improvements Budget (Capital Budget) includes 70 separate sub-projects for a total expenditure appropriation of \$197,008,955. Anticipated reimbursement revenue (federal, state, local sources) and private contributions total \$63,748,895 resulting in a net financing requirement of \$133,260,060 (when including the Airport):¹

Milwaukee County Contribution					Fed/State/ Local	Private Contribution	Adopted 2023 Total Funding
Bonds GO/Notes	Sales Tax	Tax Levy	Veh Reg Fee/Misc	PFC/Airport Reserve			
108,718,761	8,103,873	0	10,000,000	1,456,772	4,980,654	0	133,260,060

What is a Bond Eligible project?

For non-Airport related capital projects, the County issues general obligation bonds. Proceeds of these bonds may be used to finance infrastructure related activities of the County. The United States Internal Revenue Service (IRS) and state statute maintain rules and regulation that dictate and limit the use of bond proceeds, and therefore, what County capital projects are bond eligible. Capital projects that are not bond eligible must then be financed through County cash (primarily sales tax and tax levy) and/or other financing sources (i.e. private contributions, federal- state-locals funds, etc.).

¹ Airport capital projects are typically funded with general airport revenue bonds, airport reserve revenue, passenger facility charge revenue, and federal and state revenue.

COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION

Annual Bond Limit

The County has an adopted policy (2003 County Board file number 03-263) limiting the amount of corporate purpose bonds issued to finance capital improvement projects. Under this policy, corporate purpose bond issuance is limited to an increase of no more than 3% over the preceding year's adopted bond amount.

2024 Estimated Annual Bond Limit

Based on the (adjusted) 2023 adopted bonding amount of \$45,819,201, the projected 2024 bonding limit is \$47,193,777.² This results in a projected funding shortfall between \$84 to \$113 million.

It should be recognized that total BOND ELIGIBLE projects at the DEPARTMENTAL REQUEST Phase is significantly higher than the County's available Bond financing (under the 3% bond increase policy). Increasing the County's bond financed projects is addressed under the "Projected County Funding of Anticipated Capital Projects" section of this report.

The capital gap analysis projection uses the 5-Year Capital Improvement Plan (CIP) forecast of projects (2024 5-YR CIP**) as the base assumption) However, the annual forecast has generally been higher than the total actual requested project costs received during the budget development process. As a result, a second estimate has been included (2024 3-YR AVG*) to reflect an alternative projection based on actual projects submitted by departments during the request phase. The second estimate adjusts for the 5-Year CIP forecast based on potential departmental changes from the 5-Year CIP base. Departmental changes may include (but are not exclusive towards) changes in cost due to completed estimates, moving projects out to another year as design may still be ongoing, and/or moving projects out one year (or more) due to changing county/department priorities. **Both estimates include the updated New Criminal Courthouse costs.**³

County Bond Funding Gap (Excluding Airport)					
BUDGET YR	BOND REQ	BOND ADOPTED***	BOND SURPLUS/(GAP)	% of REQ BOND PROJECTS:	
				FUNDED	NOT FUNDED
2021	\$82,304,205	\$46,275,475	(\$36,028,730)	56.2%	43.8%
2022	\$89,656,702	\$44,505,364	(\$45,151,338)	49.6%	50.4%
2023	\$104,820,197	\$108,718,761	\$3,898,564	103.7%	-3.7%
<i>Estimate 2</i> 2024 3-YR AVG*	\$131,445,368	\$47,193,777	(\$84,251,591)	35.9%	64.1%
<i>Estimate 1</i> 2024 5-YR CIP**	\$160,443,404	\$47,193,777	(\$113,249,627)	29.4%	70.6%

NOTE: 1.) As the Airport, in general, does not utilize County sales tax and/or tax levy to fund its capital or operating budgets, it is excluded from table above; 2.) The 2023 "funded" amount is higher than the "requested" amount primarily due to WC02090 requested at \$28.8 million of bond funding with a later revised (and funded) \$62.9 million bond requirement based on updated cost estimates.

*Estimate is based on 3-YR Average of cash/bond funded projects as submitted by the requesting departments.

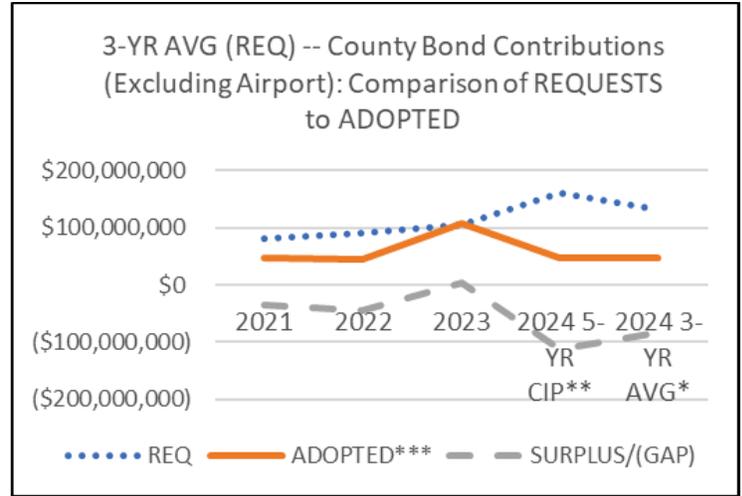
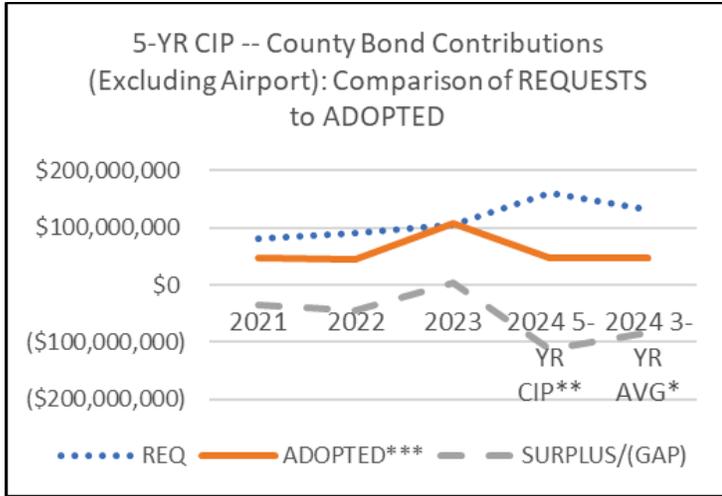
**Estimate is based on (forecast) Year 2024 of the current 5-YR CIP and prorated by the 3-YR cash/bond funding of requested projects.

***Bond Adopted column for Estimates 1 and 2 assume the calculated Bond Cap.

² The adopted 2023 bonding base of \$108 million includes \$62.9 million for the Forensic Science Center. To adjust for this large, one-time project, the \$62.9 million is removed for an updated 2023 bonding base of \$45.8 million. This results in a 2024 bonding cap of \$47.2 million.

³ Revised cost estimates for the New Criminal Courthouse project are reflected in phased project years 2024 (\$39.2 million), 2027 (\$150.2 million), and 2028 (\$150.2 million). The final construction phase is 2029 (year six) is estimated at \$150.2 million.

COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION



Cash Financing

Beginning with the 1995 capital budget, the County established a cash-financing goal of 20 percent to be implemented over a ten-year period. County cash financing primarily consists of sales tax and tax levy for non- airport capital projects.

The annual cash goal reflects 20% of the Net County Funding Contribution (which excludes Federal/State/Local revenue sources). County cash financing primarily consists of sales tax and property tax levy for non-Airport capital projects. The Vehicle Registration Fee (VRF) was introduced as part of the 2017 Adopted Budget and is recognized as a County cash contribution. Typically, private contributions are onetime (non-County) allocations to specific capital projects pursuant to specific agreement(s). In order to more accurately account for the true County cash (i.e. sales tax, property tax, and VRF) capital contribution requirement for non-Airport projects, private contributions are excluded. In general, policymakers have focused on the 20% cash goal exclusive of Airport projects as the Airport funds a large amount of projects through cash contributions (i.e. PFC, other Airport reserves) that do no impact the County's overall tax levy.

2023 Cash Financing

The 2023 Adopted Capital Improvement Budget reflects net County financing (excluding private contributions) of \$19,560,645 when including the Airport and \$18,103,873 when the Airport is excluded. The table below details the cash financing sources.

Milwaukee County Contribution						
	Sales Tax	Tax Levy	Veh Reg Fee/Misc*	PFC/Airport Reserve	Total Cash Financed	% Cash Financed
Include Airport:	8,103,873	0	10,000,000	1,456,772	19,560,645	14.7%
Exclude Airport:	8,103,873	0	10,000,000	0	18,103,873	14.3%

*The Misc Revenue is comprised of a \$10.0 million contribution from the debt service reserve that provides partial funding to capital project WC020901 - Forensic Science Center - Phase 2.

COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION

2024 Estimated Cash Financing

Based on the 2024 projected capital bonding amount of \$47,193,777, the estimated cash contribution of 20% of Net County Contributions calculates to a 2024 cash goal of \$11,798,444.⁴ This results in a projected funding shortfall between \$31 million and \$32 million.

Similar to bond financing issues noted previously, NON-BOND ELIGIBLE projects at the DEPARTMENTAL REQUEST Phase consistently, and significantly outpace the County's ability to finance projects using sales tax, tax levy, and/or VRF revenue (i.e. "cash"). Given the fiscal challenges facing the operating budget and assuming relatively flat revenue growth as well as assumed annual cost to continue increases, it is unlikely that additional cash resources will be available to shift from operations towards the financing of cash capital projects.

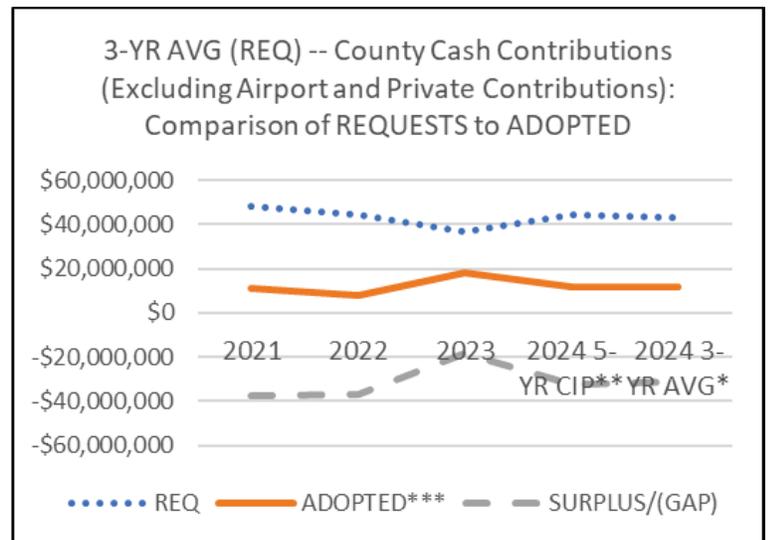
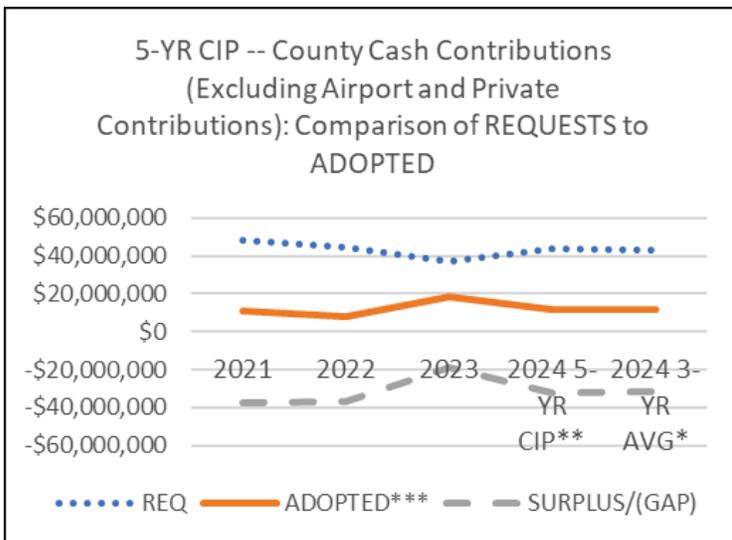
County Cash Funding Gap (Excluding Airport and Private Contributions)					
BUDGET YR	CASH REQ	CASH ADOPTED***	CASH SURPLUS/(GAP)	% of REQ CASH PROJECTS:	
				FUNDED	NOT FUNDED
2021	\$48,452,372	\$11,020,400	(\$37,431,972)	22.7%	77.3%
2022	\$44,540,834	\$7,914,736	(\$36,626,098)	17.8%	82.2%
2023	\$36,782,814	\$18,103,873	(\$18,678,941)	49.2%	50.8%
<i>Estimate 2</i> 2024 3-YR AVG*	\$43,258,673	\$11,798,444	(\$31,460,229)	27.3%	72.7%
<i>Estimate 1</i> 2024 5-YR CIP**	\$44,120,078	\$11,798,444	(\$32,321,633)	26.7%	73.3%

NOTE: 1.) As the Airport, in general, does not utilize County sales tax and/or tax levy to fund its capital or operating budgets, it is excluded from table above; 2.) 2023 is significantly higher than 2021/22 due to the \$10.0 million contribution from the Reserve for County Bonds applied to capital project WC020901 - Forensic Science Center - Phase 2.

*Estimate is based on 3-YR Average of cash/bond funded projects as submitted by the requesting departments.

**Estimate is based on Year 2024 of the current 5-YR CIP and prorated by the 3-YR cash/bond funding of requested projects.

***Cash Adopted column for Estimates 1 and 2 assume the calculated Cash Goal.



⁴ The total projected Net County Contribution for 2024 is \$47,193,777 bond funding (80%); \$11,798,444 cash funding (20%).

COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION

Use of Sales Tax to Fund Capital Projects

Sales Tax is used to fund the County's general obligation bonding debt service. After funding debt service, surplus sales tax revenues are allocated to cash finance capital projects. Previous Adopted Capital Improvement Budgets included sales tax funding of \$7.4 million (2020), \$7.3 million (2021), \$7.3 million (2022), and \$8.1 million (2023). Remaining sales tax revenue is available for operating purposes stated in Milwaukee County Ordinance 22.04.

Projected County Funding of Anticipated Capital Projects: 2024 Budget Year

The table below reflects the estimated County funding gap for 2024 as reflected in the adopted 5-Year CIP (2023 - 2027) AND updated New Criminal Courthouse costs. Airport projects are excluded as they are not funded by bond and cash sources noted previously in the report.

Requesting Department	County \$s	Total as %
Dept of Parks, Recreation, & Culture	\$63,310,035	30.9%
Dept of Administrative Services - Facilities Mngmnt - Facilities Maint	\$57,226,051	28.0%
Dept of Transportation - Transit / Paratransit System	\$32,065,393	15.7%
Dept of Transportation - Fleet Mngmnt	\$10,496,065	5.1%
Zoological Department	\$6,904,880	3.4%
Dept of Health & Human Services	\$6,478,160	3.2%
Office of the Sheriff	\$5,789,688	2.8%
Dept of Administrative Services - Information Mngmnt Service Division	\$4,611,533	2.3%
Dept of Transportation - Transportation Services	\$4,205,436	2.1%
Office of Emergency Management	\$3,943,259	1.9%
Dept of Transportation - Highway Maint	\$2,000,000	1.0%
Community Reintegration Center (formerly House of Correction)	\$1,990,853	1.0%
Charles Allis / Villa Terrace	\$1,957,316	1.0%
Dept of Administrative Services - Facilities Mngmnt - Envrmtl Services	\$1,228,133	0.6%
Medical Examiner	\$1,062,075	0.5%
Marcus Center for the Performing Art	\$780,000	0.4%
War Memorial Center-Art Museum	\$313,000	0.2%
Milw County Historical Society	\$201,605	0.1%
TOTAL:	\$204,563,482	100%

COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION

Parks, Transit, and DAS-Facilities Management comprise about \$152.6 million (or 74.6%) of the total anticipated funding requirements for 2024.

The adopted 5-Year CIP includes the following projects over \$5 million (for year 2024) AND updated New Criminal Courthouse costs.

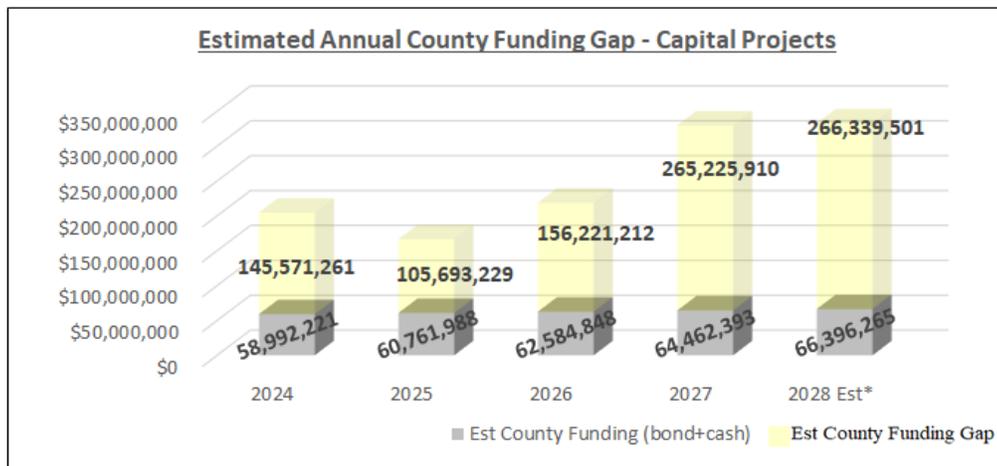
Requesting Department	Project #	Project Title	County \$\$
Dept of Administrative Services - Facilities Mngmnt - Facilities Maint	TBD	New Criminal Courthouse*	39,185,000
Dept of Transportation - Transit / Paratransit System	TBD	BUS REPLACEMENT PROGRAM	25,000,000
Dept of Parks, Recreation, & Culture	WP070601	SOUTH SHORE BREAKWATER	20,188,921
Dept of Transportation - Fleet Mngmnt	TBD	COUNTYWIDE VEHICLE AND EQUIPMENT REPLACEMENT	8,870,700
Dept of Administrative Services - Facilities Mngmnt - Facilities Maint	TBD	SR CENTER AESTHETIC PROGRAM	8,000,000
Zoological Department	WZ014101	ADVENTURE AFRICA - RHINOS	5,000,000
TOTAL:			106,244,621

**Based on revised cost estimate*

Projected County Funding of Anticipated Capital Projects (Adopted 5-YEAR CIP as Base)

The following figures and tables are based on project scopes and cost estimates relative to planned capital projects within the 2023 - 2027 CIP AND the revised New Criminal Courthouse figures. The availability and allocation of County resources are subject to change relative to the status of adopted projects that are in-progress, project refinement of scope/cost/scheduling, and updated departmental capital requests relative to the current CIP. As in previous years, modifications to these items are anticipated to occur during the departmental request (and cost estimate request/ review) phase of the capital process, which typically falls between March through mid-July.

The chart below illustrates the estimated County funding gap for years 2024 through 2028 based on the projects in the current CIP, revised New Criminal Courthouse figures, and existing County funding policies. This includes both BOND and CASH funded projects.⁵



The forecast capital project requirements from 2024 through 2028 is \$1.25 billion with \$313.2 million in available County funding (based on existing bond and cash policies). This results in an estimated County funding shortfall of \$939 million over this period.

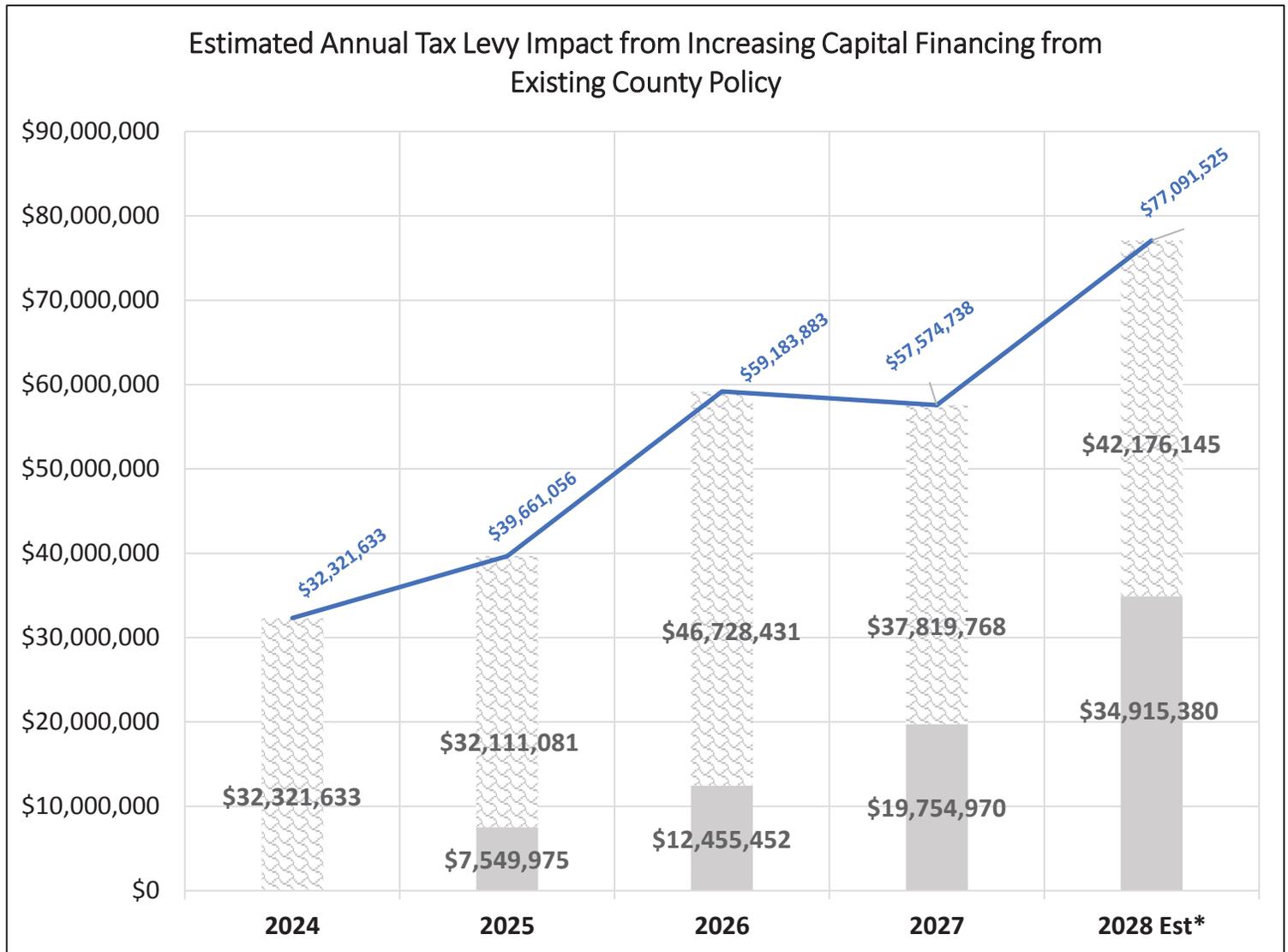
⁵ County funding shown in this table reflects the existing County policy of increasing the amount of general obligation bond funding by three percent over the previous year's adopted bonding amount and the current policy of including a 20% cash financing goal. The 2028 estimated project figures are adjusted to remove the large, New Criminal Courthouse costs (2024 – 2027) as to not overly inflate the forecasted need. However, the funding gap remains elevated due to the projected \$150.2 million (phased) construction for 2028 (based on the revised project costs).

COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION

County Funding Level Scenarios of Anticipated Capital Projects

Over the next five years, under the existing County capital financing policy, identified 5-YR CIP projects, and revised New Criminal Courthouse project costs, approximately 25 to 27% (on average) of the TOTAL projected annual capital funding can be met. It is important to note these are high-level conceptual planning figures and will likely change upon refined cost estimates.

To illustrate the impact of increased County funding beyond the existing financing policy, the table below assumes full funding of the DEPARTMENTAL REQUESTS (from 2024 through 2028) and reflects an estimated cumulative tax levy increase when compared to the existing financing policy. The large annual cash increase (\$14.6 million) shown in 2026 is due to a rise in forecasted non bond-eligible projects. The \$15.2 million spike in 2028 debt service is primarily due to the to the New Criminal Courthouse bonding amount in 2027 (\$150.2 million).



 Increase in Annual Cash (non-bond eligible projects)

 Increase in Annual Debt Service (bond eligible projects)

 Total Annual Levy Impact

COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION

The previous table does NOT include pre-existing debt and only reflects a specific (estimated) five year snapshot in time to illustrate the effect of increasing County financing over the existing policy. In general, the County's amortization of debt related to general obligation bonds occurs over a 15-year period (but may issue shorter term notes based on the useful life of the asset).

Additionally, you will notice that 2024 only reflects the estimated increase in County cash (sales tax, tax levy, and potentially VRF) required to fund the anticipated non-bond eligible projects. This is because annualized debt service payments (related to bond financed projects) are typically realized in the subsequent year(s) as opposed to the bond adoption year. For instance, the amortized debt service repayment schedule for 2024 general obligation bonds will begin in 2025; the amortized debt service repayment schedule for 2025 general obligation bonds will begin in 2026; the amortized debt service repayment schedule for 2026 general obligation bonds will begin in 2027; the amortized debt service repayment schedule for 2027 general obligation bonds will begin in 2028.

Overall, 2024 through 2028 reflect the cumulative annualized debt service payment increases (over existing policy).

Capital Projects Development via Annual Budget Process

General Capital Improvement Plan Overview

The County utilizes a 5-Year Capital Improvement Plan (CIP) to help organize and estimate future capital project needs. The first year of the CIP (which for this year's budget development process is 2024) is the year in which capital projects scheduled for that particular year are submitted as REQUESTS by departments and (may) receive budget appropriation(s) through the normal capital improvement budget process. Years two through five (2025 –2028) are planning years for future projects and/or continuing phases of existing projects.

Departmental Request Phase

As part of the annual County budget development process, each department is responsible for updating its 5-Year CIP. This process typically begins in late winter/early spring with as departments develop/update cost estimates for each capital project. Departments submit their requested CIPs to the Office of Strategy, Budget, and Performance (SBP) towards mid-July.⁶ Departmental requested budgets (Capital and Operating) are posted by the SBP on the County's website no later than August 15th of each year.⁷

⁶ Per Wisconsin State Statute 59.60(2) (b), the Requested Budget Deadline is set annually by DAS Director (deadline can be no later than July 15).

⁷ Per Wisconsin State Statute 59.60(5), DAS Director submits a summary of the budget requests to the County Executive and County Board no later than August 15th. County website address: <https://county.milwaukee.gov/EN/Administrative-Services/Performance-Strategy-and-Budget/Budget-Archive>

COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION

Capital Improvement Committee (CIC)

The CIC is an advisory committee that reviews and scores the requested departmental capital requests and provides an annual recommended 5-Year CIP to the County Executive and County Board typically in late August/early September. The CIC is included in the Milwaukee County ordinances under chapter 36. Committee members include the following:

- (a) Director of the Department of Transportation or alternate;
- (b) Fiscal & Budget Administrator or alternate;
- (c) Comptroller (committee chair as appointed by the Chair of the County Board), or alternate;
- (d) Chair of the committee on community, environment and economic development, or alternate;
- (e) Chair and vice-chair of the committee on finance, or alternates;
- (f) Two (2) appointments of the County Executive who shall be mayors or village board

The CIC is staffed jointly by Office of the Comptroller and Department of Strategy, Budget, & Performance.

County Executive Recommended Phase

Upon receipt of the departmental CIP requests, the SBP reviews the requested capital projects and assists the County Executive with the formulation of the Recommended Capital Improvement Budget. Requesting departments are consulted and site visits are performed relative to the departments' capital requests. This budget development phase usually extends from July through September. The Recommended Budget is submitted to the County Board no later than October 1st of each year.⁸

County Board Phase

Finance and Audit Committee

After the County Executive submits the Recommended Budget, the Finance Committee (FC) holds budget hearings. The review typically lasts through the month of October. Departmental staff is present at FC hearings to answer questions related to their capital projects.⁹

During this phase, members of the FC may introduce amendments to the Recommended Budget. Upon close of the budget hearings, the FC submits the amended budgets to the County Board for review/adoption.

⁸ Per Wisconsin State Statute 59.60(6) (b) & 59.17(6), CEX submits recommended budget to the Board no later than October 1st.

⁹ The County Board establishes the budget hearing calendar for this committee annually.

COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION

Full County Board Meeting / County Executive Veto

No later than the 1st Monday of November, the County Board holds a public hearing on the amended capital budget submitted by the FC. The County Board then meets to act on the amendments and recommendations submitted by the FC as well as amendments submitted by individual County Board members.

The County Executive may then provide vetoes of the Adopted County Board Budget resolution to the County Board. The County Board then meets a final time (for the budget adoption process) to consider any possible vetoes by the County Executive and whether to sustain or override each veto.

Preliminary 2023 Timeline (for the 2024 for the Capital Budget)

- **February through May – Preliminary planning with departments;**
- **April or May – Presentation of 2024 Capital Financing/Process to County Board;**
- **March through Early July – Departments develop their budget requests;**
- **Mid July – Departments submit their (capital) budget requests to the Office of Strategy, Budget, & Performance (SBP);**
- **August through September – County Executive works with SBP and departments to finalize the County Executive Recommended Budget;**
- **October through November – The Finance Committee reviews and requests information regarding the Recommended Budget;**
- **November – The County Board adopts the 2024 budget;**
- **December – SBP and the Comptroller’s Office work to implement the 2024 budget**

COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION

RECOMMENDATION

This report is for information purposes only. No action is required.

JOSEPH LAMERS

Joe Lamers
Director, Office of Performance, Strategy, & Budget

pc: David Crowley, County Executive
Marcelia Nicholson, Chairperson, Milwaukee County Board of Supervisors
Liz Sumner, Chairperson, Finance Committee
Kelly Bablitch, Chief of Staff, County Board of Supervisors
Scott Manske, Comptroller, Office of the Comptroller
Mary Jo Meyers, Chief of Staff, County Executive
Aaron Hertzberg, Director, Department of Administrative Services
Janelle Jensen, Sr. Committee Coordinator, Office of the County Clerk
Steve Cady, Research & Policy Director, Office of the Comptroller
Pamela Bryant, Capital Finance Manager, Office of the Comptroller