COUNTY OF MILWAUKEE
Inter-Office Communication

Date:	July 13, 2023
To:	Marcelia Nicholson, Chair, Milwaukee County Board of Supervisors
From:	Joe Lamers, Director, Office of Strategy, Budget and Performance
Subject:	2023 Wisconsin Act 12 – Fiscal Impact Estimates – Follow Up Report
File Type:	Informational Report

BACKGROUND

On July 11, 2023, there was a meeting of the County Board Committee of the Whole. File 23-712 was included on the agenda, which provides information on the fiscal and policy provisions affecting Milwaukee County in 2023 Wisconsin Act 12. During the meeting there was a presentation on the impacts of Act 12 followed by questions and answers with County Board Supervisors. Follow up information was requested related to the following items:

- History of reforms and budget reductions that Milwaukee County has made to address its historical structural deficit
- Further details outlining where future budget reductions may be needed if the sales tax provision included in Act 12 is not approved
- Additional information regarding impact of sales tax on individuals and families, including individuals and families with limited or low-income
- A question was asked about whether the County could transition to the Wisconsin Retirement System (WRS) without the sales tax. The topic was discussed but additional information is provided in this report.

History of Reforms and Budget Reductions

Milwaukee County has operated with a structural deficit in its operating budget dating back to the early 2000's. State imposed caps on revenue collections do not provide Milwaukee County with the opportunity to bring in sufficient revenue to keep pace with inflationary operating cost growth. The most recent Comptroller's Five-Year Forecast estimated that on average, revenues will grow by just 0.9% while expenditures grow by 2.6%.

To address the structural deficit, the County has closed cumulative budget gaps of approximately $300 million over the past ten years and has been required to close budget gaps each year in the annual budget process for over two decades.

Following are major reforms and changes that the County has made to reduce expenditures over the years. These are only examples of initiatives and changes that have each resulted in multi-million annual savings. While the list is extensive, it does not include all savings initiatives that the County has undertaken to address its funding gaps.

Staffing reduction of more than 3,400 positions or 47% percent since 2000. Savings: Over $200 million annual. In 2000, the County budget included funding for 7,337 positions but this number has subsequently been reduced to 3,918 funded positions by the 2024 budget, a reduction of 3,416 positions or 47%. The Milwaukee County Parks Department alone has reduced staff by roughly 1,000 positions within the last two decades while at the same time remaining approximately the same amount of physical footprint to be maintained.

Reduced Footprint by 3 million square feet. Savings: $9 million annual estimated savings on energy costs, building maintenance, and the need to lease space (not including land sale revenues). Reduced footprint by 3 million sq. ft. to decrease capital expenditures, increase energy efficiency, and streamline operations. Executed through pursuing public private partnerships to execute numerous land sales, elimination of outdated facilities, transfer of assets, and secure long-term lease tenants and operators. Following are some examples of land sales as well as their financial benefits, in addition to ongoing space savings referenced above:

- Mental Health Complex (900k sq ft) and CATC (190k sq. ft.),: $7.7 million value ($2.3 million cash value)
- O'Donnell Park (732k sq. ft.): Avoided $28.8 million deferred maintenance
- Water System (200k sq. ft.),
- City Campus (186k sq. ft.),
- Technology Innovation Center (137k sq. ft.): $1 million sale value, avoided deferred maintenance, catalyst for one of the top business incubators in the region
- Park East: Resulted in Deer District investments upwards of $1 billion
- Downtown Transit Center (111k sq. ft.): $500k land sale plus requirements to build transit infrastructure in excess of $6.7M for the BRT and Street Car to satisfy FTA

Restructured Post Employee Benefits. Estimated Savings: Over $40 million annual. In the past, the County provided post-retirement health care benefits if the employee worked for the County for fifteen years. The County has ended these benefits and has implemented changes to retiree healthcare including Coordination of Benefits with Medicare, implementation of a voluntary Medicaid Advantage Plan, and elimination of reimbursement for Medicare Part B premiums for retirees eligible for post-retirement health care who retired after April 1, 2011.

Freeze and Elimination of Salary Steps. Estimated Savings: $55 million annual. Like many other government organizations, in the past, Milwaukee County's compensation system followed a "salary step" schedule which outlined annual raises for positions throughout the County. Within the schedule, raises varied by position, but employees on average could receive raises of approximately 3% per year. In 2010, due to budget constraints, the County put a freeze on salary step increases and substituted with annual increases that were lower than inflation. For example, the County has provided 1% raises in some recent years. This has resulted in issues with compensation as funding for positions have fallen below market rates, and the County's ability to recruit and retain employees has been impacted. Milwaukee County's vacancy rate has recently reached approximately 20% in recent years which impacts programs and services.

Require Health Care and Pension Contributions. Savings: $19 million annual. Required pension contribution of 6 percent of general employee salary to pay for pension benefits and unfunded liability, while also requiring employee contributions to health care costs.

Mental Health Emergency Center. Savings: $9 million annual. $5 million land sale (one-time). Historic public-private partnership between Milwaukee County, Ascension, Aurora, Children's, and Froedtert. Opened in 2022, this new psychiatric emergency department is the first of its kind in the country. It is managed by a Joint Venture board, operated by private partners, and all costs are shared equally between Milwaukee County and the private providers. Ongoing savings also includes a reduction of over 150 county FTE. The new facility was the final step to eliminate the massive county Mental Health Complex.

Child Support Services (CSS) Revenue. CSS budget is supported by approximately 90 percent revenue and 10 percent tax levy, which is 24 percent (or $5 million higher) than the standard 66% federal reimbursement rate for Child Support services. CSS has pursued reforms to become a national leader at meeting performance incentives, which include revenue incentives for the County, while simultaneously maintaining the highest caseload ratio in the country with nearly 900 cases per employee.

Parks Earned Revenue. The Parks Department has focused heavily on revenue generating activities including golf, facility rentals, beer gardens, and public private partnerships in parks. The Parks Department's budget includes over $22 million in earned revenue, representing more than half of their operating budget and far exceeding revenue generated from comparable parks systems nationwide. These revenue generating activities have been a necessity to sustain services throughout parks, as tax levy funding has been limited and reduced.

Transit Reforms. Implemented multi-year strategy (MCTS NEXT) to reconfigure transit system to create more efficient routes and substantially decrease the cost per passenger. Due to local levy pressures, MCTS has also been required to defer maintenance, delay capital purchases, reduce frequency on some routes, and eliminate multiple local routes and services to Brewer games, State Fair, Summerfest, Freeway Flyers, and Waukesha and Ozaukee County service

Vehicle Registration Fee. Implementation of a $30 Vehicle Registration Fee (VRF) generating revenue of $17 million annually. The VRF can only be used to provide funding for transportation related programs. The majority of VRF revenue collections are now used for transit operations, which has helped to sustain the bus system over the last several years.

Department Consolidations. In 2020 and 2021, the Departments of Aging Services, Veterans Services, and Disability Services were all integrated into the Department of Health and Human Services. It improved benefit coordination and provided administrative cost savings. In addition, multiple divisions were merged to create the Office of Strategy, Budget, and Performance (SBP), which has been successful in coordinating efficiencies and securing external funding opportunities.

Housing First. Savings: $3.4 annually. Implemented in 2015 with government, non-profit, law enforcement, and private sector partners. These collaborative efforts resulted in significant successes. Milwaukee had the lowest unsheltered homeless population in the country in 2022 and realized a 92% reduction in the unsheltered population. The program saves taxpayer dollars by decreasing emergency room visits, police and EMS interactions, and need for other social services.

Health Care Savings. Although nationwide trends include significant cost growth in health care and drug costs, Milwaukee County has maintained relatively flat and even seen reduced health care costs in recent years and recent budgets. Retiree healthcare savings mentioned in this report are an important factor. Additionally, in 2021 and 2022 the County negotiated prescription drug rebate savings that resulted in approximately $9 million of estimated annual savings. The reduction in County employees has also reduced healthcare expenditures, as well as high vacancy rates that currently exist across County positions. The County is in the process of implementing health care clinics for its employees which have the potential to provide savings on medical costs as clinic visits are projected to cost significantly less than visits to the ER, urgent care, or routine doctor visits.

Tax Levy Reduction Targets. Estimated $9 million annual savings or greater, depending on the reduction target in any given year. As part of the annual budget process, due to County budget constraints, departments are provided tax levy reduction targets each year. The levy target means that departments are generally expected to identify savings options to absorb inflationary cost increases within their own budget and in most years have been required to identify further reductions. This can become increasingly challenging for departments each year as they run out of options after multiple years of budget reductions. In 2024, the estimated "cost to continue" at current service levels is $9 million, based on anticipated inflationary cost growth. Through the 2024 tax levy target, departments are expected to identify savings in their budget to cover this amount, as has been common practice year-over-year. This practice is necessary to balance the budget, but it not sustainable.

Pension Changes and Reforms. Although pension costs have been and are a major driver of the County's structural deficit, many changes and reforms have been made to reduce costs. The enhanced benefits which were approved in 2000 (i.e. backdrop, buy back) were subsequently eliminated for new employees, and are only available to employees where legally obligated. And those who are eligible for the backdrop benefit are limited to the salary they were earning in 2013. The County reduced its pension multiplier from 2.0% to 1.6%, a 20% reduction in pension benefits. Mandatory pension contributions were instituted for employees, contributing and Milwaukee County is the only pension system in the State where employees contribute to the unfunded liability. The retirement age for general employees was increased from 60 to 64. Due to benefit changes that were made, pension benefits for new employees may be considered less than the pension benefits for State employees due to all the changes the County has made in the last twenty years.

Future Budget Reductions if Sales Tax is Not Passed

After budget reductions have been made for decades to address the County's structural deficit, options are limited to reduce spending without making cuts to services. The structural deficit is already resulting in significant day-to-day impacts on programs and services that have a lack of funding today. For example, the Courts system is experiencing a backlog of cases that it is working to address. The Parks system has nearly $500 million in deferred maintenance needs, while at the same time full-time positions in the Parks department have been reduced by nearly 1,000 FTE in past decades. This presents an exceptional challenge in keeping up with park maintenance needs. Several of the County's programs are operating with extremely high vacancy rates, including the Jail as there is a struggle to recruit and retain Correctional Officers. Tax levy funding for Mental Health Services has been reduced to $53 million, the minimum amount allowed under current state law. Numerous bus routes have been eliminated or seen reductions in frequency in recent years, as the Transit system is facing a fiscal cliff of over $25 million by 2025.

Given the County's long history of reductions and given the already under-funded status of existing programs, it is anticipated that future budget reductions will result in direct impacts to programs and services.

The most recent five-year fiscal forecast prepared by the Comptroller projected a structural deficit of $109 million by 2028. Primarily because of a shared revenue increase included in Act 12, the 2028 structural deficit estimate is now revised to $95 million in 2028.

If the sales tax is not approved and the County needs to identify $95 million in reductions, it is expected that the County would no longer be able to provide tax levy funding for non-mandated services by 2028. Further, it is estimated that on average, a 20% tax levy reduction would need to be applied to mandated and administrative services. This analysis assumes that the proportion of reductions applied to non-mandated services is higher because County government serves as an arm of State government, and the County has legal requirements to provide services in mandated service areas. If the reduction were to be applied across-the-board completely, a reduction of approximately 30% would be needed for all departments.

Below is a description of potential impacts on non-mandated, mandated, and administrative service departments which is followed by a chart showing budget potential 2028 reduction amounts by department.

Note that for the purposes of this report, if most of a department's services are mandated, the department is considered a mandated department. However, there are some departments that have a mix of mandated and non-mandated services, such as the Department of Health and Human Services. In this instance, mandated requirements were factored into the reduction scenario that is shown. In addition, there are some departments which are considered discretionary, yet they provide a service that fulfills statutory obligations in some way. For example, Pre-trial Services is not specifically mandated in state law, yet the service reduces jail bed days which provides an offset to State mandated costs. Therefore, for purpose of this analysis, Pre-trial Services is reflected as a mandated department.

Elimination of Tax Levy for Non-Mandated Services: $38 million. $38 million represents the entire tax levy budget for Parks, Transit, Cultural partnerships, and Senior Centers combined. While these are all high priority local services, they are not mandated or required by State law. If the County is forced to make drastic budget reductions to close a $95 million structural deficit, it is anticipated that non-mandated services would see a larger proportion of reductions, due to a need to follow State requirements for mandated service areas. If tax levy funding is removed from these non-mandated departments, they would only maintain funding from external sources and earned revenue. It is unlikely or not possible for the departments to generate enough revenue to make up for an elimination of tax levy.

- For the Parks department, earned revenue represents approximately 50% of their operating budget and elimination of tax levy would result in a 50% reduction to the overall budget. Further, Parks would need to retain staffing and resource levels in revenue generating areas like golf and beer gardens to continue to bring in revenue needed to support these programs. This would result in far greater reductions in operations and maintenance areas that do not produce revenue. After considering past reductions already implemented in the Parks department (i.e. reduction of nearly 1,000 positions), it would be insurmountable to continue to maintain and manage the amount of parkland that is owned by the County if the Parks department cannot maintain tax levy funding in the future.

- Transit has limited ability to raise revenue beyond current farebox collection levels, and if tax levy is eliminated from their budget this would result in further service reductions. Transit has already estimated that the $26 million structural deficit within their system would result in a 20 percent service cut which would impact nearly one half of all routes in their system. However, the $26 million structural deficit includes an assumption that tax levy will remain flat in future years at approximately $8 million. If tax levy is eliminated completely, this would increase the transit gap by an additional $8 million and require even further service cuts than what are already projected to be needed if a revenue solution is not identified for Transit.

- The County provides approximately $7 million of tax levy support to various cultural partners such as the Milwaukee Public Museum, the War Memorial, Art Museum, Marcus Center, and the Charles Allis/Villa Terrace Museums. The County does have agreements in place with cultural institutions which are scheduled to reduce reliance on tax levy in the future. However, reductions are phased over multiple years and agreements maintain some level County tax levy support for operations into the future, which is not expected to be fully eliminated for all cultural organizations. Elimination of tax levy funding for cultural organizations could impact the financial viability for cultural institutions supported by the County. The feasibility of this reduction could also be challenging given the agreements that are in place and given that the County has building, and property ownership related to some cultural agreements.

- Elimination of tax levy from Senior Centers would likely result in closure of county-owned senior centers. These centers provide recreation for seniors and people with disabilities, and opportunities to engage in social and recreational activities. Unlike most programs in Aging Services, Senior Centers do not receive Federal funding, and rely on approximately $1.5 million of annual tax levy.

20% Reduction to Mandated and Administrative Services: $57 million. Mandated service areas cannot afford to maintain services while reducing their budgets by 20%, but this is what is estimated to be needed if a $57 million reduction is needed to balance the structural deficit. Following are potential impacts to mandated and administrative departments if a 20% budget cut is required.

- Department of Health and Human Services (DHHS): A 20% reduction for DHHS would have devastating impacts on human service delivery. It should be noted that DHHS has certain fixed costs that cannot be reduced, such as the cost of state placements into youth detention centers. Therefore, it is likely that a reduction of this magnitude would ultimately impact high priority programs and services which do not have the same type of cost requirements, and programs which have fewer or no mandated cost requirements, including housing and homeless services, community-based programming, and the birth-to-3 program. Tax levy for the following service areas would be at risk of being reduced by more than half or eliminated under a 20% reduction scenario:

- Elimination of Housing First and other homeless prevention efforts designed to support an individual's medical, behavioral health, employment, and other needs
- Loss of youth justice community-based programming, and funding that is intended to prevent youth from coming into the justice system, including mentorship programming such as Credible Messengers as well as youth employment and targeted monitoring
- Loss of Birth to 3 Provider Partners – Since 2018, the County has lost nearly two-thirds of its providers and only three remain currently. Loss of tax levy for this program would further destabilize the network and put the program at risk.
- Reduction and/or elimination to community-based and AODA programs – this includes BHS's detox program, a substantial reduction of Crisis Mobile Team staff, elimination of non-court ordered community service placements, closure of County Mental Health Clinic, and elimination of clinic partnerships with area community partners
- Note that under State law, reducing the tax levy for mental health services below $53 million would require an approval of both the County Board and the Mental Health Board.
- Given that the majority of the DHHS budget is funded by outside revenue, it is expected that tax levy cuts described above would result in a loss of State and Federal matching revenues, which would compound and increase the impact of human service reductions

- Courts and District Attorney: Staffing costs comprise the largest portion of expenditures to operate the Courts system, given that it is the staff in these departments doing the work that is needed to process court cases. The Court system is currently working to reduce a backlog that was brought on largely by COVID-19 and continues to be challenged by staffing shortages at both the State level and the County level. However, if a 20% reduction is required in the Courts system, this would ultimately result in personnel reductions, which would only add to the courts backlog. A 20% reduction across personnel in the Courts and District Attorney would be equivalent to 94 full-time positions which would inhibit the court system from clearing the backlog and processing cases in a timely manner.

- Office of the Sheriff: A 20% tax levy reduction to the Sheriff's Office budget would result in cuts of $7.6 million. The largest tax levy areas in the sheriff's department are the jail ($21.3 million tax levy or 55% of the sheriff's tax levy budget) and court security ($8.6 million tax levy, 22% of budget). In recent years the jail has experienced significant staffing shortages. Deputy Sheriffs are mandated to be in the Courts to staff courtrooms at prescribed staffing levels, and if they are not available this will cause delays in jury trials and court proceedings. A 20% reduction to the Sheriff's Office would be approximately equal to the tax levy funding for all other Sheriff service areas combined (excluding jail, courts, admin). These other tax levy centers in the Sheriff's budget include Highway Patrol, Investigations, Civil Process and Warrants, and Specialized Units, and these areas have a combined tax levy budget of $7.4 million in 2023. Most of the functions under these areas are mandated by the State and cannot be eliminated. It is most likely that a 20% reduction to the Sheriff budget would need to be applied proportionately across the board because there is no single area that can absorb a cut of this magnitude. Given that these programs are already experiencing funding and staffing shortages, a reduction of this magnitude would present a risk of compliance issues, add to the courts backlog, and reduce the level of public safety services provided.

- Community Reintegration Center (CRC): The largest components of the CRC budget include day-to-day operations costs such as pay for Correctional Officers and the cost of correctional medical care (CRC holds the contract for medical care that serves both the CRC and the jail). The CRC needs to maintain Correctional Officer staffing levels to meet necessary ratios of residents to staff. The medical contract remains under a consent decree which requires specific staffing levels, which determine most of the costs for medical. If the CRC is required to reduce its budget by 20%, this would require a reduction and elimination to the programs and services that support the mission of the CRC, which seeks to assist residents with their integration back into the community. These programs and services include education and training, work experience programs, the Day Reporting Center, and re-entry services. In recent budgets, the County has prioritized investments into the CRC to provide increased reentry services and other supports to residents. For example, the 2023 budget included funding for a Certified Peer Specialist, Social Work supports, and community outreach. Housing Navigator services have been added to assist residents with securing housing upon reentry into the community. Under a 20% reduction scenario, these priority investments could not be maintained. Further, reductions of these programs and services would not be enough to meet a 20% or $9.6 million reduction target. Further consideration of operational and medical cost reductions would be required even as it is known that there are Correctional Officer staffing shortfalls and reduction options related to medical spending are limited by the requirements of a consent decree.

- A 20% tax levy reduction to administrative departments would require a tax levy cut of approximately $14 million. Personnel costs represent a majority of the funding for most administrative departments, making it likely that a reduction of this magnitude could lead to a reduction of more than 100 positions within administrative departments. Reducing 100 positions would not be enough to save $14 million and additional reductions would be needed to reduce larger operational costs such as IT support systems and contracted services which provide cleaning and building and facilities maintenance support. Administrative reductions of this size would present a multitude of challenges and risks: Inability for Corporation Counsel to timely respond to legal issues; Reduction in Human Resources recruitment and retention efforts, delays in hiring and processing of new hires, increasing vacancy rates; Increase in infrastructure maintenance needs which are already significant and an increase in response times related to building maintenance needs; Further delays to capital project delivery; IT Security Risks; Reduction in IT support and innovation; Reductions to risk management which may only add to long-term expenses; Reduction in efforts to secure State and Federal revenues; Delays in vendor payments.

The following chart shows the estimated tax levy reduction by department if tax levy is reduced by $95 million through reductions of 100% tax levy in non-mandated or discretionary departments, and by 20% in mandated and administrative departments.

2028 Potentail Tax Levy Reduction Targets to Address $95.2 million Structural Deficit

Agency	2023 Tax Levy*	2028 Reduction Target	2028 Levy Reduction %	Service Provision	Reduction Risks & Notes
TRANSIT	$ 8,681,886	$ 8,681,886	100%	Discretionary	reduced or eliminated services
DHHS- SENIOR CENTERS	$ 1,500,000	$ 1,500,000	100%	Discretionary	reduced or eliminated services
CULTURAL INSTITUTIONS	$ 6,929,688	$ 6,929,688	100%	Discretionary	reduced or eliminated services
PARKS DEPARTMENT	$ 20,806,587	$ 20,806,587	100%	Discretionary	reduced or eliminated services
UNIVERSITY EXTENSION SERVICE	$ 329,697	$ 329,697	100%	Discretionary	reduced or eliminated services
Subtotal Non Mandated Services	$ 38,247,858	$ 38,247,858			
COMBINED COURT RELATED OPER	$ 17,439,285	$ 3,452,978	20%	Mandated	Courts backlog, compliance
DISTRICT ATTORNEY	$ 7,360,432	$ 1,457,366	20%	Mandated	Courts backlog, compliance
CHILD SUPPORT SERVICES	$ 2,029,516	$ 401,844	20%	Mandated	Loss of federal 66% reimbursment revenue, compliance
DEPT OF PRE-TRIAL SERVICES	$ 4,884,719	$ 967,174	20%	Discretionary*	Discretinary program but reduces jail days and expenditures
SHERIFF	$ 38,404,336	$ 7,604,059	20%	Mandated	Jail staffing, courts backlog, compliance
COMMUNITY REINTEGRATION CENTER	$ 48,563,198	$ 9,615,513	20%	Discretionary*	Discretionary program but residents must be sentanced, compliance
EMERGENCY MANAGEMENT	$ 8,907,616	$ 1,763,708	20%	Mandated	Loss of tax levy related to EMS exemption
MEDICAL EXAMINER	$ 1,473,078	$ 291,669	20%	Mandated	compliance
ELECTION COMMISSION	$ 555,203	$ 109,930	20%	Mandated	election compliance
COUNTY CLERK	$ 532,183	$ 105,372	20%	Mandated	compliance
DOT - TRANSPORTATION SERVICES	$ 284,150	$ 56,262	20%	Mandated	compliance
BEHAVIORAL HEALTH SERVICES	$ 53,000,000	$ 10,494,000	20%	Mandated	Statutory limit $53M requires County Board & Mental Health Board to reduce below, compiance issues
Civil Service Commission	$ 16,045	$ 3,177	20%	Mandated	compliance
DEPT HEALTH AND HUMAN SVCS	$ 33,947,935	$ 6,721,691	20%	Mandated	Loss of corresponding State/Federal revenue, compliance issues
MANDATED	$ 217,397,696	$ 43,044,744			
CORPORATION COUNSEL	$ 1,318,659	$ 261,094	20%	Admin	compliance, legal risks
HUMAN RESOURCES	$ 5,949,244	$ 1,177,950	20%	Admin	compliance, countywide recruitment & retention
ADMINISTRATIVE SERVICES	$ 26,681,351	$ 5,282,907	20%	Admin	compliance, capital project delivery
DAS - IMSD	$ 14,420,018	$ 2,855,164	20%	Admin	IT security, compliance
DAS - RISK MANAGEMENT	$ 11,213,918	$ 2,220,356	20%	Admin	compliance, risk costs may be outside of control
GOVERNMENT AFFAIRS	$ 400,490	$ 79,297	20%	Discretionary/Admin	Loss of State/Federal revenue
OFFICE OF EQUITY	$ 905,454	$ 179,280	20%	Discretionary/Admin	Strategic plan impacts
Personnel Review Board, Ethics Board	$ 250,740	$ 49,647	20%	Discretionary/Admin	compliance, ethics
STRATEGY, BUDGET, PERFORMANCE	$ 2,133,667	$ 422,466	20%	Admin	compliance, risk for budget errors, loss of State/Federal revenue
OFFICE OF COMPTROLLER	$ 5,106,843	$ 1,011,155	20%	Mandated	vendor payments, audit risks, bonding risk, credit rating
COUNTY BOARD	$ 1,251,689	$ 247,834	20%	Mandated	constituent services, legislative impact
COUNTY EXECUTIVE	$ 957,708	$ 189,626	20%	Mandated	constituent services, legislative impact
ADMIN	$ 70,589,781	$ 13,976,777			
TOTAL REDUCTIONS	$ 326,235,335	$ 95,269,378			

*Reflects tax levy funding for County departments in the 2023 budget. Does not include levy for bonding or non-departmental expenses. Revenue generating departments which do not have tax levy are excluded. Local funding within departmental budgets is described as tax levy although the funding source may include a combination of property tax, sales tax, or other non departmental revenues (such as Potawatomi, shared revenue, reserves, other sources).

0.4% SALES TAX: ESTIMATED IMPACT ON INDIVIDUALS AND FAMILIES

The charts below show the estimated impact of a 0.4% sales tax on households that fall into the categories of lowest 20% of household income, median income, and the highest 20% of household income. For comparison purposes, the charts also show what the impact on these household categories would be if the County were able to instead raise $82.2 million by increasing the property tax levy or adding a flat fee to each household. The latter two options are not currently available to the County under state law.

Estimated Household Cost Impact			
	0.4% Sales Tax	$82.2M Prop Tax	$82.2M Fees
Bottom 20% Income	$46	$123	$206
Median Income	$148	$162	$206
Top 20% Income	$409	$354	$206

Estimated Household Income % Impact			
	0.4% Sales Tax	$82.2M Prop Tax	$82.2M Fees
Bottom 20% Income	0.3%	0.8%	1.3%
Median Income	0.2%	0.3%	0.3%
Top 20% Income	0.2%	0.2%	0.1%

The impact of sales tax is less than the impact of property taxes or flat fees for the lowest 20% of income and median household income groups. A main factor in this difference is that non-residents from other counties or states pay sales tax when they travel to Milwaukee County. This lessens the burden on County residents. In addition, it is estimated that businesses pay approximately 33% of sales taxes (2004 Wisconsin Tax Incidence Study).

The estimated percent of income impacted by a 0.4% County sales tax ranges from 0.2% for median income and the highest 20% of household income to 0.3% for the lowest 20% of household income. A factor in the percentage difference is that household consumption of taxable goods generally increases as income increases.

On July 11, the City of Milwaukee voted to implement a 2.0% sales tax as of January 1, 2024. The chart below shows the estimate impact of a potential 0.4% County sales tax, a 2.0% City of Milwaukee sales tax, and the combined 2.4% impact. Overall, if the County sales tax increase is approved residents in the City of Milwaukee will pay 7.9% in total and residents in other Milwaukee County municipalities (suburbs) would pay 5.9%.

Estimated Household Impact - City of Milwaukee			
	County 0.4% Sales Tax	City 2.0% Sales Tax	Total New Sales Tax
Bottom 20% Income	$46	$230	$276
Median Income	$148	$740	$888
Top 20% Income	$409	$2,045	$2,454

The source for sales tax consumption data is the 2004 Wisconsin Tax Incidence Study from the Wisconsin Department of Revenue, with data adjusted to 2023 dollars to account for inflation. Property Tax estimates are based on home values of $130,000 for the bottom 20% income group, $172,000 for the median income group, and $375,000 for the top 20% income group. Fee estimates are based on distributing $82.2M equally to each household in Milwaukee County. This is the estimated amount of additional sales tax collections in 2024 if the 0.4% rate increase is implemented.

It should be noted that the sales tax data in the above tables are calculated based on annual earnings by income level rather than lifetime earnings. Researchers have concluded that sales taxes are less regressive when viewed over a consumer's lifetime purchases because individuals tend to earn less at different stages of their lifetime. However, data has not been identified to quantify the impact of lifetime earnings.

In addition, in Wisconsin there are exemptions to the sales tax for food, drugs, and many other items. A full listing of Wisconsin sales tax exemptions can be found starting on page 25 of the Legislative Fiscal Bureau Sales and Use Tax Informational Paper which is attached to File 23-712.

Local Government Taxes

According to research from Pew Trusts, for each tax dollar that cities and counties collect overall, 61% comes from property tax, 16% from general sales tax, 7% from local income tax, and the remaining 16% from other taxes such as those on entertainment and alcoholic beverage licenses.

In Wisconsin, local governments are heavily reliant on the property tax as a primary funding source, yet state law places limitations on the amount of property taxes local governments can collect. Local sales tax allowances are limited to 0.5% for most counties. Act 12 provided the City of Milwaukee with the option to issue a sales tax of 2.0% and for the County to increase its sales tax rate by 0.4%, from 0.5% to 0.9%. A local income tax is allowed in 17 states. Wisconsin law does not allow a local income tax. Wisconsin state law also generally does not allow local governments to issue other forms of taxes.

Comparison of sales taxes in major cities: A listing and ranking of sales tax rates for cities with a population of over 120,000 as of 2021 is available at taxfoundation.org. The listing shows that at present, the current 5.5% sales tax rate for the City of Milwaukee is amongst the lowest in the country, at 120 out of 123 large cities. If the 0.4% County sales tax increase is approved and the rate were increased to 5.9%, Milwaukee would rate 119 out of 120 (surpassing Madison, WI). However, the City of Milwaukee has approved a sales tax of 2.0% increase option that made available in Act 12. That 2.0% sales tax will be effective in the City of Milwaukee limits in 2024. Therefore, if the County approves the 0.4% increase the overall sales tax rate within the City of Milwaukee will be 7.9%, while other municipalities (suburbs) in Milwaukee County would pay 5.9% sales tax. The 7.9% rate in the City would result in the City of Milwaukee having the 69th highest sales tax rate out of 123 large cities.

Property tax rate comparison: According to a 2019 report from the Wisconsin Policy Forum, Dollars and Cents, Wisconsin municipalities rank seventh nationally among states for being the most reliant on the property tax for their revenues. Further, no other Midwestern state relies so heavily on the property tax for their revenues.

Local Income Tax: There are 17 states in the U.S. that allow local governments to collect a local income tax. The income tax is generally considered to be a progressive tax system, particularly when tax brackets are part of the framework. Wisconsin state statutes do not allow local governments to collect income taxes so this would currently not be a viable option for Wisconsin municipalities.

WISCONSIN RETIREMENT SYSTEM (WRS) COSTS

At the Committee meeting on July 11, a question was asked about whether the County could transition to the State retirement system without approval of the 0.4% sales tax. Yes, the County has the option to transition to WRS, and without the increased sales tax rate.

However, in the short-term, it is expected that a transition to WRS will result in added costs, which will add to the County's structural deficit. Based on an analysis that was provided by the State Legislative Fiscal Bureau, a transition to WRS is estimated to cost approximately $700,000 each year. $700,000 per year reflects net impacts to normal costs across the State and County pension plan. It is expected that normal costs in the Milwaukee County Employees Retirement System will be reduced as the system is "soft closed" and active participation is reduced. The County will also be required to make an annual payment to the WRS for normal costs in the State system. The net effect is expected to result in a cost increase, at least in the short term. Over a five-year period, the net increase is estimated at $3.5 million. This would add to the County's structural deficit. The $700,000 estimate is based on State actuarial analysis and is subject to change based on actual participation and experiences across pension plans.

In the long-term, it is anticipated that a transition to WRS can lead to future cost savings. This is because the WRS does not have an unfunded liability and the Milwaukee County ERS has an unfunded liability of $760 million, and further, the unfunded liability has existed for decades. Payment to the unfunded liability represents the largest portion of County pension costs.

CONCLUSION

This report is provided for informational purposes and to respond to questions from Supervisors.

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