

COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION

DATE : 3/14/22

TO : Marcelia Nicholson, Chairwoman, County Board of Supervisors

FROM : Joe Lamers, Director, Office of Strategy, Budget and Performance (SBP)

SUBJECT : Informational Report on 2023 Budget Process

OVERVIEW

This is an informational report which provides updates on the upcoming 2023 budget process. The report provides updates on the budget process calendar, financial projections and the 2023 budget gap, and other matters pertaining to the budget.

BUDGET PROCESS OVERVIEW

The County's annual budget process will follow the schedule stated below:

- January–April – SBP prepares forecasts for the upcoming fiscal year and develops budget strategies with the County Executive, Departments, and the County Board
- February – Departments received capital budget instructions
- April – Departments to receive operating budget instructions
- April - July – Departments develop their budget requests
- May – Departments to submit capital budget requests
- July – Departments submit their operating budget requests
- August-September – County Executive works with SBP and departments to finalize the Recommended Budget
- October 1 – County Executive submits the Recommended Budget
- October-November – Finance and Audit Committee reviews and requests information on the Recommended Budget
- November – The County Board adopts the budget

FISCAL OUTLOOK: BACKGROUND

Milwaukee County has been operating with a structural deficit dating back to the early 2000's. County officials and policy makers have repeatedly been required to focus budget planning efforts on where to reduce expenditures while opportunities to raise revenue and make new investments are limited. The ongoing imbalance is caused by stagnant revenue growth which is limited by State statutes and is not sufficient to keep pace with inflationary operating cost growth, or with increases in legacy healthcare and pension cost expenses.

Between 2012 and 2022, policy makers have been required to close cumulative budget gaps of approximately \$300 million or an average of nearly \$30 million per year. While the budget has

been balanced as required on an annual basis, the structural deficit persists and is projected to continue. The recently updated five-year financial forecast prepared by the Comptroller’s Office projects an operating budget gap of \$87 million by 2027.

2023 BUDGET GAP ESTIMATE

The Milwaukee County Comptroller has recently prepared an update of the County’s Five-Year Financial forecast, which will be presented to the County Board in March 2022. The forecast projects a \$12.6 million budget gap in 2023, growing to \$87.2 million by 2027. SBP will utilize the updated Five-Year forecast as a base for 2023 and future year budget planning purposes, while also monitoring numerous other items that have the potential to impact the budget. In addition, there are numerous issues to be further monitored that have the potential of adding to the budget gap. Several of these items are described below.

As shown below, the 2023 forecast projects expenditures to grow by \$10.4 million due to an increased cost to continue (inflationary growth), increased benefits costs, increased compensation, and other factors. Also in 2023, revenues are projected to decline by \$2.2 million, which is a net effect of one-time revenues in the 2022 budget, combined with growth of ongoing revenues including property tax, sales tax, and fee revenues. The revenue estimate also assumes a loss of \$3.5 million of rental revenue at the Marcia Coggs Human Services Center.

Expenditure Type	Amount (millions)
Cost to Continue	\$ 4.3
Health & Other Benefits	\$ 3.7
Debt Service	\$ 0.4
Pension	\$ 0.3
Transit	\$ -
DHHS - BHD	\$ -
Salaries & Overtime	\$ 1.7
Expenditure Change	\$ 10.4
Revenue Type	
One-time Revenue	\$ 7.3
One-time Stimulus Revenue	\$ 5.9
Miscellaneous Revenue	\$ 2.4
Odd Year Unclaimed Funds	\$ (1.3)
Record & Filing Fees	\$ (2.0)
Property Taxes	\$ (4.1)
Sales Tax	\$ (6.1)
Revenue Change	\$ 2.2
Projected 2023 Operating Gap	\$ 12.6

Source: Milwaukee County Comptroller: Five-Year Financial Forecast 2023-2027

ADDITIONAL BUDGET IMPACTS

There are numerous items which are not included in the 2023 budget gap estimate, which have the potential to increase the gap to an amount substantially higher than \$12.6 million. Items which have the potential to significantly impact the budget gap include but are not limited to the following:

Increased Youth Census: The Department of Human Services (DHHS) has reported an increase in the number of youths that are being ordered to state youth correction facilities. Based on the current census at Lincoln Hills, Cooper Lake Schools, and Mendota Lake Treatment center, combined with an increase in the daily rate, DHHS has reported a potential deficit of \$4.6 million in 2022. DHHS has initiated numerous efforts to alleviate the increased detention center census, which will be reported to the County Board in March 2022. The census will need to be closely monitored during the 2023 budget development process. If the daily population is not reduced, this will result in an increase to the budget gap.

Courts Backlog: The courts system is experiencing a significant caseload backlog due to impacts of the pandemic, an increase in crime rates, historically high vacancy rates, and other factors. The backlog has impacts across county departments including Courts and Judiciary function, the District Attorney's Office, the Criminal Justice Facility, and the House of Correction. Various strategies and efforts are underway to increase the processing of cases and clear the backlog. Reducing the backlog is expected to be a multi-year effort and has the potential to further impact the tax levy in 2023 and future years.

Compensation: The 2023 budget gap estimate includes a \$1.7 million increase for compensation. This reflects a net effect of anticipated compensation increases, combined with the impact of expected vacancy savings. Increased wages, as well as changes in staffing levels and vacancy rates, may result in larger than projected increases in compensation expenses.

- Wages: The 2022 budget included a \$5.0 million annualized allocation for salary equity adjustments to be allocated at mid-year 2022, and a 2.0% across-the-board salary increase for general County employees scheduled to become effective in April 2022. The wage increases planned for 2022 represent a higher level of compensation increases than what had been awarded in any recent year. Addressing compensation remains a top priority, and there will be an effort to provide funding for significant compensation increases again in the 2023 budget.
- Vacancy levels: Several County departments are experiencing high vacancy rates at present, including numerous departments with vacancy levels in the range of approximately 20% and higher. High vacancy levels are factored into the 2023 compensation estimate within the five-year forecast. Improvements in hiring and retention rates would result in salary growth that is greater than currently projected. Adjustments to vacancy and turnover (V&T) assumptions will be needed in the budget.

Inflation and Energy Cost Increases: The United States inflation rate has recently reached 7.5%

which is the highest reported since 1982. This level of inflation was not factored into the Comptroller's forecast because the impacts on County expenditures have not yet been clearly visible on County expenditures. However, in more recent months, County departments, including the Department of Administrative Services have reported high energy cost increases, particularly for the cost of steam. Increases in the cost of heat, gas and electric are also expected. There is a potential need to further increase the budget in 2023 for energy costs and other inflationary cost impacts.

Correctional Phone Call Revenue: The County has adopted a resolution which provides a commitment to lowering each year the cost of video and voice calls to residents in the Criminal Justice Facility and the House of Correction to free or no more than is needed to cover reasonable costs to provide and maintain the communication equipment. The estimated impact of this policy on the annual structural deficit could be \$4.0 million or more.

Transit Gap: The five-year forecast projects funding availability to support transit costs into 2023 and 2024. However, this is due to one-time pandemic relief funds that were dedicated to transit. At current spending and revenue levels, federal transit relief funds are projected to be exhausted by 2025. In 2025, a \$32.9 million deficit is projected in the Milwaukee County Transit System (MCTS). The out-year gap is caused by increased costs in transit, combined with reduced farebox revenues from reduced ridership, which continues to be an issue due that has been exacerbated by the Covid-19 pandemic. MCTS is working on long-term strategies to address the gap before reaching a crisis point in 2025.

Each of these items will be closely monitored as the 2023 budget process develops.

CLOSING THE BUDGET GAP

SBP will work with the County Executive and departments to identify options for closing the budget gap throughout the 2023 budget process. In past years, the annual budget gap has been closed through limiting cost-to-continue growth across departments, withdrawing funds from the debt service reserve, adjustments to fringe benefits costs, reductions to staffing levels, reductions to the County facility footprint, and increases in revenues, where allowed under state statutes. While American Rescue Plan Act (ARPA) State and Local Fiscal Recovery Funds are available until 2024, the County has been focused on using these funds primarily for one-time purposes only, which is a recommended best practice for one-time or limited term grants. When options for closing the gap remain limited, tax levy reduction targets have also been applied to departments as a method to generate savings initiatives across departments as needed to close the gap. These and other options will be considered during the 2023 budget process to close the funding gap.

RACIAL EQUITY BUDGET TOOL

Consistent with Milwaukee County's vision to achieve racial equity, the Racial Equity Budget Tool (REBT) was developed as part of the 2021 budget process and will continue to be utilized. The REBT is designed to make intentional connections between the strategic plan and the budget; to use racial equity as the key guiding principal for decisions regarding investments; to

initiative conversation on topics related to the County strategic objectives, and to provide baseline data on departmental efforts to inform enterprise-wide decisions. Over the past two years, the REBT has provided baseline data on strategic planning efforts, and it has impacted funding decisions both at the departmental level and Countywide. Continued use of the REBT for the third consecutive year provides the County with an opportunity to track and monitor progress towards strategic plan objectives across departments.

BUDGET PUBLICATION

The Office of Strategy, Budget and Performance (SBP) plans to explore the possibility of transitioning the budget process to paperless, as part of the 2023 budget cycle. This would require a change in Milwaukee County Ordinance prior to the release of the Recommended Budget in October 2022. Chapter 32.81 of Milwaukee County Ordinance states that printed copies of the budget are to be distributed to each County supervisor, the Clerk's Office, and the Comptroller's Research Division. Each year, in order to meet the terms of the ordinance, the budget office prints approximately 30 copies of both the Recommended Budget and Adopted Budget for both operating and capital. This amounts to over 40,000 pages of printed budget materials each year. The budget document is available online, and the online version has several advantages. The online document is accessible from anywhere. The document includes links and hyperlinks which make it easy to find information that a reader may be looking for. The online version does not require printing of paper which has environmental impacts. If desired, the online version can be printed by any reader from their home or office. Regarding printing of the budget, options for revising the ordinance may include:

- Maintain printing requirements in Milwaukee County ordinance chapter 32.81
- Remove printing requirements from Milwaukee County ordinance chapter 32.81
- Modify the ordinance to make printing of the budget an available option to County Supervisors and the Clerk's Office upon request

CONCLUSION

This is an informational report. No action is required. SBP will continue to provide updates to the County Board during the 2023 budget process.

JOSEPH LAMERS

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