Five-Year Financial Forecast

2024 - 2028

Office of the Comptroller
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EXECUTIVE SUMMARY

The five-year forecast for Milwaukee County is a tool for helping policymakers and the public understand the future challenges and opportunities of the County budget. Mandated by § 59.255(2)(h) Wis. Stats., the Comptroller produces this annual report based on reasonable assumptions about general economic conditions and projected changes in County revenues and expenditures. The goal of this forecast is to determine the extent of actions necessary to close the gap between revenues and expenditures, ensuring long term fiscal sustainability. The forecast assists policymakers in the County's financial decision-making process to demonstrate the long-range impact of courses of actions being considered by the County and to gauge the effect of past decisions.

As iterated in almost every prior five-year fiscal forecast, the County's leading cause of the structural deficit over the next five years continues to be expenditure growth that outpaces revenue growth. The County continues to be hampered by heavily restrictive state-imposed levy limits, flat state shared revenue, and limited increases in state reimbursement for mandated services. Little ability to raise meaningful and sustainable revenue coupled with extraordinary expenditure increases projected in pension contributions and tax levy increases in transit operations in the next few years will surely result in service cuts to programs and services that our community relies on.

While the County was the recipient of hundreds of millions of federal dollars that helped combat the pandemic, meet essential worker needs, and reclaim lost revenue during the pandemic, those federal dollars were one-time funds. The County's ability to provide those same services after the dollars run out will be nearly impossible. Without additional revenue sources, decision-makers will be tasked with the difficult choices of cutting services and raising fees to sustain the same level of programming.

It should be noted that for possibly the first time in history, the County has amassed a Debt Service Reserve that is nearing $100 million. However, these reserves can only be utilized to 1) reduce taxpayer costs for debt service; 2) provide cash financing for one-time capital projects, or for one-time operating items that result in improved county service and/or reduced ongoing costs in future years; 3) provide cash financing for the refinancing of debt when financially advantageous; and 4) respond to emergencies as allowed by Wisconsin State Statute 59.60(5)(g). While these funds could be used for one-time operating items that would otherwise put further strain on the annual operating gap, the limitations on use of funds within the Debt Service Reserve provide little relief for the ongoing structural deficit.

Other findings of the report include:

- ***The projected structural deficit for the 2024 operating budget is approximately $18.3 million.*** The estimated 2024 structural deficit of $18.3 million is the highest it has been since the estimated 2018 structural deficit. The County continues to reap the benefits of a flat property tax for the Department of Health and Human Services (DHHS) – Behavioral Health Division (BHD) in this forecast. The DOT – Transit Division's $10.4 million 2024 cost-to-continue is nearly fully offset by federal revenue of $9.1 million. At roughly 40 percent of the budget, employee-related costs continue to drive the structural deficit, with projected increases in salaries, overtime, and healthcare. Overall, pension costs in 2024 are reduced due to a one-year reduction in the pension

obligation bond debt service of $7.4 million. This one-time reduction is offset by an anticipated increase of $5.9 million in the pension contribution amount due to 2022 pension investment and cash flow losses of roughly $325.0 million.

- ***By 2025, it is projected that the Department of Transportation (DOT) – Transit Division will have exhausted its federal stimulus funding and will require an unprecedented $31.4 million in tax levy to support current operations, an increase of $22.7 million in tax levy***. Currently, the DOT – Transit Division is projected to spend its remaining allocation of federal stimulus funding to support operations in 2024. Moreover, the situation is made worse by the lack of any significant projected growth in farebox revenue and the anticipated use of all federal Section 5307 funds for operating expenses to maintain a near flat tax levy in 2024 and to reduce the gap between expenditures and revenues in years 2025 – 2028.

- ***Substantial increases in the projected County's pension contribution will result in an additional $86.7 million in expenditures over the five-year period.*** The Employees' Retirement System assumed rate of return will be reduced from 7.5 percent to 7.0 percent over a 3-year period beginning with the 1/1/2024 actuarial valuation. Reducing the assumed rate of return leads to increases in total liabilities, which in turn increases the actuarially required employer contributions. Although other non-investment assumptions will lessen the fiscal impact of the reduced assumed rate of return in the first year, costs in years 2026 – 2028 increase by $4.5 million, $8.9 million, and $9.3 million, respectively. Further increasing the pension contribution is the amortization of the 2022 investment losses of approximately $325.0 million beginning with the 2024 contribution. It is projected that the County will pay an additional $63.5 million over the forecast period towards the amortization of the 2022 investment losses. Market gains or losses in the pension plan over the forecast period will impact the annual required contribution in future years, but cannot be estimated and are therefore, not included.

- ***The impact of inflation will increase the County's overall cost-to-continue but will also likely reduce the level of services provided as the County balances the rising costs of providers with stagnant revenue.*** The largest categories of expenditures within this forecast remain largely insulated from general inflationary growth because of how they are evaluated. The five largest categories of expenditures continue to be salary-related items ($253 million); mental health-related expenditures ($235 million); health, pension, and other benefit expenditures ($221 million); transit-related expenditures ($148 million); and debt service costs ($103 million). These categories alone comprise 79 percent of the County's overall expenditures. Although the DHHS – BHD and DOT – Transit Division will surely be impacted by inflation, it is assumed that the tax levy appropriated for these services remains flat and that these divisions absorb any inflationary costs (DOT – Transit Division is projected to fund its increases with federal stimulus funding through 2024). The County's health, pension, and other benefit expenditures have distinct patterns of inflationary growth that are used to forecast costs while salary-related items are forecasted based on assumptions that are developed from prior-year approved actions which generally have not shadowed annual inflation. Lastly, debt service costs are largely managed to keep payments level

year-over-year. Although the County's cost to borrow may increase in the future, any moderate increase in costs would largely be mitigated by the payment level-setting that occurs, with the exception of the initial debt service costs for the new public museum and the Center for Forensic Science and Protective Medicine (CFSPM). Any increases in debt service costs are anticipated to be finance by increases in property taxes since debt service costs are exempt from state levy limits. Within those categories of expenditures that would be heavily impacted by inflation (services – both professional and others – and commodities), the County typically negotiates long-term contracts which would spread the impact of a single year's inflation over several years as the County renegotiates with its providers as contracts expire. It is worth noting that since many of the services provided to the community are state or federally funded, less of the community may be served as prices grow over time but state and federal revenues remain flat. Additionally, future costs of capital projects will likely be hardest hit by the rapid growth in inflation experience since 2021, but capital expenditures are excluded from this forecast.

- ***One-time funds for continuing operating expenditures negatively impact the structural deficit for future years.*** The 2023 one-time Debt Service Reserve contribution and the one-time federal stimulus funding contribution negatively impacts the 2024 structural deficit by $8.9 million. The 2023 budget included a contribution of $7.3 million from the Debt Service Reserve which has historically been considered a one-time revenue. Assuming no further contributions to the Debt Service Reserve, an annual withdrawal of $7.3 million from the Debt Service Reserve would reduce it by $36.5 million over the next five years which is roughly 40 percent of the current estimated balance. Furthermore, $1.5 million in federal stimulus funding was again budgeted in 2023 to fund correctional officer premium pay. As one-time revenue, this amount will need to be absorbed within the operating budget in future years and increases the overall structural deficit in 2024.

- ***On average, the annual structural deficit from 2024 to 2028 will consist of a cost-to-continue of $21.9 million due to a greater increase in expenditures than what is generated in additional revenue.*** This is the highest five-year average cost-to-continue reported since the Comptroller began reporting the five-year forecast in 2015. The shift is largely due to an increase in the average growth of expenditures to 2.6 percent each year while revenue growth remains at roughly 0.9 percent. ***The County can also expect an increase in the structural deficit each year in which one-time revenues or expenditure abatements were used in the prior year.*** In the 2023 budget, the County utilized such one-time revenues of approximately $8.9 million, which impacted the 2024 structural deficit roughly by the same amount. If the County were to resolve the 2024 structural deficit with long-term solutions, it could expect a 2025 structural deficit of roughly $34.5 million, barring any unforeseen issues or significant changes to the assumptions within this forecast. Any use of one-time revenues or expenditure abatements in the 2024 budget will worsen the structural deficit in future years.

THE FRAMEWORK OF THE STRUCTURAL DEFICIT

The annual structural deficit consists of two elements:

- Cost-to-continue increase
- One-time revenues and expenditure offsets (abatements) utilized in the previous year

On average, the forecast predicts an average cost-to-continue from 2024 – 2028 of $21.9 million annually due to a greater increase in expenditures than the amount generated in additional revenue. Since 2015, the forecasted, average cost-to-continue has fluctuated from year to year, averaging between $12.8 million and $21.9 million. For the 2024 – 2028 forecast, expenditures are forecasted to grow 2.6 percent while revenues grow 0.9 percent which drives the cost-to-continue amount. The amount is further adjusted by any changes to the assumptions used in previous forecasts as well as any unforeseen issues that arise during the fiscal year.

The structural deficit further increases each year by one-time revenues or expenditure abatements used in the prior year. Any one-time revenues, such as land sales or reserve contributions, and any expenditure abatements, such as one-time budgetary reductions, will increase the structural deficit by the same amount. In the 2023 budget, the County utilized such one-time revenues of approximately $8.9 million, which directly impacted the 2024 structural deficit by roughly the same amount. Had long-term, sustainable changes been used in 2023 rather than one-time revenues of $8.9 million, the County's structural deficit in 2024 would have been about half of what is currently projected.

THE 2024 PROJECTED STRUCTURAL DEFICIT

The use of one-time revenues coupled with the cost-to-continue results in a $18.3 million structural deficit for 2024. Expenditures and revenues are projected to be $1.208 billion and $1.190 billion, respectively. The projected structural deficit in 2024 is largely comprised of the following changes from the 2023 budget:

Expenditure Type	Amount (millions)
Transit	$ 10.4
Cost to Continue	$ 9.0
Health & Other Benefits	$ 9.0
Abatements	$ 7.4
Salaries & Overtime	$ 3.0
Pension	$ (2.4)
Debt Service	$ (3.2)
Expenditure Change	**$ 33.2**
Revenue Type	
One-time Revenue	$ 7.3
One-time Stimulus Revenue	$ 1.5
Odd Year Unclaimed Funds	$ 1.2
Miscellaneous Revenue	$ 0.5
Property Taxes	$ (3.4)
Investment Earnings	$ (6.2)
Sales Tax	$ (6.8)
Transit Revenue	$ (9.1)
Revenue Change	**$ (14.9)**
Projected 2024 Operating Gap	**$ 18.3**

Items of significance include:

- **Transit Expenditures and Transit Revenue.** For 2024, the forecast assumes that gross transit-related expenditures jump by 6.3 percent over 2023 budgeted expenditures, which is an estimated $10.2 million in costs-to-continue. To maintain a near flat tax levy in 2024, $20.8 million of federal stimulus funding and $26.5 million of federal Section 5307 funding will be required. Future year transit expenditures are forecasted to grow on average 2.6 percent. In 2025, total transit revenue is anticipated to drop by 12.1 percent due to the loss of federal stimulus funding and then grow on average 0.8 percent in 2026 and subsequent years.

- **Cost-to-Continue.** This is a catchall for the smaller categories of expenditures that are distinctly forecasted in the model. It includes utilities, professional services, commodities, supplies, gasoline, insurance, workers compensation, contingency, and purchase of service particularly in health and human services. This is one of the largest categories impacted directly by inflation.

- **Health and Other Benefits.** The County continues to see favorable growth in its healthcare costs year-over-year, with medical claims only growing at roughly 4.0 percent. Pharmacy claims continue to grow at a higher rate of 9.0 percent. The most recent savings achieved in healthcare costs is likely due to a healthcare census that is roughly 240 employees less than average due to vacancies throughout the County. This forecast assumes that roughly half of those positions are filled in 2023, resulting in an overall increase of 8.3 percent from the 2023 budget or $9.0 million. If the County's census does not reach anticipated levels, then additional one-time savings of $2.0 million could be available to offset the 2024 structural deficit.

- **Pension and Abatements**. In early 2023, the Pension Board voted to drop the assumed rate of return from 7.5 percent to 7.0 percent over a period of three years beginning with the 1/1/2024 valuation. While the impact of that change is significant in later years, it will have no budgetary impact until the 2025 budget. The 2024 budget will, however, be impacted by the amortization of the projected $325.0 million of pension investment and cash flow losses in 2022. It is estimated that this will cause an increase of $5.9 million in the 2024 pension contribution, growing to an increase of more than $20 million for the 2028 pension contribution. Further complicating the pension forecast in 2024 is a one-time reduction in debt service for pension obligation bonds. While countywide, non-airport debt service remains relatively static, this one-time reduction to pension costs is offset by one-time reduction in abatements for no net impact to the County.

- **Salaries and Overtime**. For 2024, the forecast assumes salary and overtime expenditures increase by 1.2 percent from 2023 budgeted expenditures, which includes the annualization of all 2023 adopted wage increases and a 2.0 percent cost-of-living adjustment in the second quarter of 2024. Historically, the County has underspent the total adopted salary budget by an average of 6.4 percent, while spending nearly double the budget for overtime. This underspending was more pronounced during 2022, with salary dollars being underspent by 8.9 percent and overtime spending reaching double the budgeted amount. This structural imbalance is not new and has

existed for many years. This forecast assumes that after accounting for the structural deficit in overtime, the bulk of the structural surplus within salaries is used to offset the projected increase in salary costs resulting in an increase of $3.0 million in 2024. This salary estimate is based on 90.0 percent of our correctional officer positions being filled by 2024. If these correctional officer positions and other vacant positions remain unfilled, additional one-time salary surplus could be available to offset the 2024 structural deficit, although overtime would need to be adjusted as well. It should be noted that this would be a one-time savings, however, and would likely increase the structural deficit in future years as these positions are filled.

- **Debt Service.** As mentioned above, debt service for pension obligation bonds drops by $7.4 million in 2024, but debt service relating to non-pension general obligation bonding increases by $7.8 million resulting in an overall increase of $0.3 million that is offset by an increase in property tax levy. The $3.2 million reduction reflected in this report is due to a reduction in the airport debt service, which is offset by a reduction in airport revenue.

- **Mental Health Expenditures.** For the five years forecasted in this report, it is assumed the tax levy provided to the DHHS – BHD will remain flat at the state-mandated minimum of $53.0 million. In the past, forecasted costs to continue in the DHHS – BHD increased the County's overall structural deficit. Any increases to the tax levy at the DHHS – BHD will directly increase the County's structural deficit by the same amount.

- **Miscellaneous Revenue.** This is a catchall for smaller categories of revenues that are distinctly forecasted in the model. It includes the prior year surplus revenue, airport revenue, fees, permits, fines, forfeitures, court fees, rental revenues, admission revenue, recreational revenue, concession revenue, Potawatomi gaming revenue, and employee contributions to health and pension costs. When excluding the change in airport revenue, this revenue category grows by 1.4 percent in 2024. The reduction in airport revenue is largely due to the reduction in debt service for airport revenue bonds in 2024 discussed above.

- **Property Tax Levy**. The 2024 forecast assumes the County will assess a property tax levy up to the maximum allowable amount under a 1.3 percent net new construction percentage. This, coupled with estimated increases for the EMS tax levy, provides an additional $3.4 million in revenue. For 2025, property tax levy is expected to increase by $18.1 million over 2024 to accommodate the $14.9 million in additional debt service largely due to the issuance of debt for the public museum and the forensic science center.

- **Investment Earnings**. Investment earnings are expected to recover from the 2022 market losses that the County experienced, which will allow the County to book additional market gains for the next two to three years. In addition, the County is experiencing substantially higher average daily balances due to the federal stimulus funding and nearly $90.0 million in debt service reserve funds within the County's investment portfolio. It is estimated that by 2026 average daily balances

return to pre-pandemic averages and that market gains phase out, bringing investment earnings in line with historical averages.

- **Sales Tax Revenue.** Sales tax in 2022 continued to exceed projections and ended with a surplus of $7.9 million. Assuming a 4.0 percent year-over-year growth rate, sales tax will likely exceed the 2023 budget by $3.1 million. This 2023 anticipated surplus coupled with a 4.0 percent growth rate results in an additional $6.8 million in revenue to support 2024 operations.

One-time revenue:

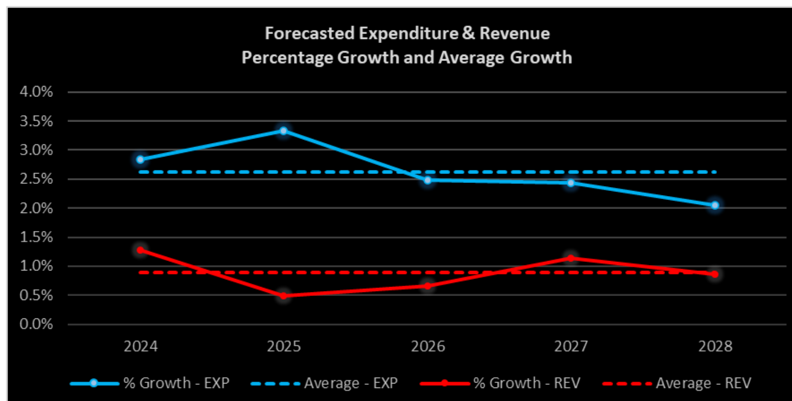
- **One-time Revenues**. The 2023 budget includes a contribution from the Debt Service Reserve of $7.3 million. The forecast assumes no Debt Service Reserve contributions in 2024. This decrease in one-time revenue contributes to the 2024 structural deficit.

- **One-time Federal Stimulus Revenues.** The 2023 budget includes $1.5 million in federal stimulus funding to pay for the cost of correctional officer premium pay. The forecast assumes no federal stimulus funding in 2024. This decrease in one-time revenue contributes to the 2024 structural deficit.

THE FUTURE OF THE STRUCTURAL DEFICIT

When the model was first utilized after passage of the 2009 budget, expenditures were forecasted to grow by 6.1 percent annually while revenues were to grow by 3.7 percent annually. Expenditures are now forecasted to grow by an average of 2.6 percent annually, while revenues are forecasted to grow by an average of 0.9 percent annually.

Even with the fundamental changes the County has made to lessen the structural deficit, it continues to persist albeit at a much lower level than originally forecasted. Since expenditure growth is forecasted to outpace revenue growth on annual basis, the County will continue to have a structural deficit each year in the forecast period absent any major policy changes that increase revenue growth or decrease expenditure growth. It is important to note that this is not unique to Milwaukee County. Municipalities across the nation struggle to provide the same level of services under ever increasing costs and slow growing revenues.



Previous models predicted that the County's structural deficit would grow to $79.6 million over the forecast period if each year's structural deficit was resolved with temporary solutions. The current model exceeds this prediction in the new forecast period, with a structural deficit of $109.7 million projected over the forecast period when assuming one-time budgetary fixes. Aggressively managing the current year's structural deficit with sustainable and permanent solutions reduces the future year's annual structural deficit to just the cost-to-continue. Cost-to-continue in the current model jumped from prior models, with prior models projecting an average annual cost-to-continue of $14.8 million and the current model projecting an average annual cost-to-continue of $21.9 million. The jump in cost-to-continue is largely due to the loss of federal revenue currently supporting transit operations and the estimated increase in pension contributions over the forecast period.

Structural Deficit and Cost-to-Continue
2024 - 2028

Year	Expenditure	Revenue	Structural Deficit	Cost-to-Continue*
2023	$ 1,174,581,028	$ 1,174,581,028	$ -	
2024	$ 1,207,819,683	$ 1,189,523,297	$ (18,296,386)	$ (18,296,386)
2025	$ 1,248,134,180	$ 1,195,358,982	$ (52,775,198)	$ (34,478,812)
2026	$ 1,279,134,429	$ 1,203,319,096	$ (75,815,333)	$ (23,040,135)
2027	$ 1,310,269,297	$ 1,216,958,496	$ (93,310,801)	$ (17,495,468)
2028	$ 1,337,066,830	$ 1,227,410,712	$ (109,656,118)	$ (16,345,317)
			Average Gap:	$ (21,931,224)

IMPACT OF THE COUNTY'S COST-TO-CONTINUE

Personnel Costs: Because personnel related costs average roughly 40 percent of all budgeted expenditures, the cost-to-continue is materially impacted by changes to personnel-related costs. In 2022, it is possible that the County hit its highest vacancy rate in history. To maintain competitiveness in the marketplace, the County must invest financially in its employees through competitive wages and attractive benefit packages.

- For 2024, the total structural deficit is reduced by the recognition of the ongoing surplus within salaries. From 2018 to 2022, the County spent on average 93.5 percent of the total appropriated salary budget while spending nearly double the total appropriated overtime budget.

Actual Salary and Overtime Dollars
2018 - 2023

Fiscal Year	Actual Salaries	Salaries Budget	Percent of Salary Budget	Actual Overtime	Overtime Budget	Percent of Overtime Budget
2018	$ 172,732,000	$ 182,237,000	94.8%	$ 16,210,000	$ 9,205,000	176.1%
2019	$ 178,163,000	$ 187,445,000	95.0%	$ 17,709,000	$ 9,896,000	179.0%
2020	$ 179,958,000	$ 195,532,000	92.0%	$ 13,898,000	$ 9,213,000	150.8%
2021	$ 185,585,000	$ 195,920,000	94.7%	$ 14,695,000	$ 9,494,000	154.8%
2022	$ 194,682,939	$ 213,746,756	91.1%	$ 19,218,865	$ 9,514,632	202.0%
2023*	$ 209,096,815	$ 222,803,919	93.8%	$ 15,937,288	$ 9,870,000	161.5%

***2023 salaries and overtime are estimated. DHHS - BHD salary and overtime are excluded from calculations.**

For purposes of the forecast, the amount included for overtime is based on the average of the five prior year's actual overtime paid, which roughly $5.8 million more than the budgeted overtime amount in 2023. The amount included for salary dollars is also based on the prior year's actual salaries paid adjusted for forecasted wage increases and vacancy reductions, with an added

2.0 percent to account for fluctuation in vacancy rates. Modeling salaries in this manner projects a future cost that minimizes salary surplus and spends closer to 98.0 percent of the total appropriated salary budget.

Salary-related Expenditures 2024 - 2028						
	2023B	2024	2025	2026	2027	2028
Salaries & Wages	222,006,636	218,360,645	221,636,055	224,960,595	228,335,004	231,760,029
Overtime	10,633,696	16,400,000	16,400,000	16,400,000	16,400,000	16,400,000
FICA	17,062,414	17,959,189	18,209,758	18,464,086	18,722,228	18,984,242
Total	249,702,746	252,719,834	256,245,813	259,824,681	263,457,232	267,144,272

The model assumes only a 2.0 percent wage increase at the beginning of the second quarter in each year of the forecast. While inflation hit 7.5 and 6.5 percent in 2021 and 2022, respectively, the County provided a cost-of-living increase in 2021 of 1.0 percent for most employees (employees in pay grades with median salaries above $100,000 received 0.5 percent). For 2022, the County's original budget included only a 2.0 percent increase in the second quarter; subsequent legislation provided another 2.0 percent increase during the third quarter. Excepting any other possible wage increases, employees' salaries either grew by 4.5 or 5.0 percent while inflation grew by 15.0 percent over the prior two-year period effectively reducing the buying power of employees' salaries. With inflation forecasted to hit 3.5 – 4.0 percent in 2023, the 2.0 percent cost-of-living increase included in the 2023 budget will set employees even further back. The inability of the County to provide increases that mirror inflation is likely a reason that vacancy continues to remain high throughout the County.

As mentioned above, a cost-of-living adjustment of 2.0 percent is provided to all employees in the second quarter, with additional funding of $2.2 million provided for salary adjustments based on the results of a compensation study the Department of Human Resources convened in 2022. If countywide vacancy rates do not slowly reverse, it may be necessary to increase salaries even higher than what is forecasted to recruit and retain employees in the future. In the interim, salary savings achieved can be used to help fund one-time issues in the future.

- Fringe benefits includes healthcare, pension, other compensation and benefits, life insurance, and OPEB liability costs. These costs are forecasted to grow from $220.8 million in 2024 to $284.1 million in 2028.

The County's pension contribution is expected to grow significantly over the forecast period, largely due changes in the assumed rate of return and the amortization of the 2022 pension investment and cash flow losses. In 2022, the Employees' Retirement System experienced a loss of 9.4 percent, resulting in an increase to the unfunded actuarial accrued liability of roughly $325.0 million. The loss of $325.0 million is based on market losses of $184.0 million and additional cash flow losses of $141.0 million due to the plan not earning the anticipated 7.5 percent rate of return. These losses will be smoothed in over a ten-year period, with each year of smoothing amortized over a 20-year period. Further increasing the County's pension contribution is the recent action by the Pension Board to reduce the assumed rate of return from

7.5 percent to 7.0 percent over a three-year period. The reduction to the assumed rate of return increases the County's total liability which results in a higher unfunded actuarial accrued liability that is then amortized per the plan assumptions. Lastly, in 2024, debt service related to the pension obligation bond issuance will drop from $34.1 million to $26.7 million but will return to slightly higher levels in 2025 with an anticipated payment of $37.3 million. This results in a one-time expenditure decrease for the pension category in 2024 but not for the County's overall costs as total debt service remains relatively static in 2024. While the percentages change slightly year-over-year, it is worth noting that of the 2022 net pension costs, 79.0 percent were attributed to retiree costs versus 21.0 percent attributed to active employees.

Pension Contributions and Pension Obligation Bond Debt Service 2024- 2028

Budget Year	Previous Contribution (ERS+OBRA)	Change Due to Rate of Return & Other Assumption Changes	Change Due to 2022 Return		New Contribution (ERS+OBRA)		Pension Debt Service		TOTAL PENSION EXPENDITURE
2024	71,450,000		5,865,000	=	77,315,000	+	26,682,069	=	103,997,069
2025	71,120,000	462,000	9,104,000	=	80,686,000	+	37,304,478	=	117,990,478
2026	70,530,000	4,530,000	12,469,000	=	87,529,000	+	37,006,014	=	124,535,014
2027	69,700,000	8,912,000	16,014,000	=	94,626,000	+	36,706,154	=	131,332,154
2028	69,020,000	9,254,000	20,080,000	=	98,354,000	+	36,394,426	=	134,748,426

Recent trends in medical claims costs have kept the County's overall growth in healthcare down, with medical claims averaging 4.0 percent growth over the past several years. Prescription drug claims continue to grow at roughly 9.0 percent, offsetting positive gains in medical claims. It is important to note that the County's current census is around 240 employees less than average. This reduction could be a significant factor in the beneficial medical trends the County is experiencing. If it is, then the County can expect to experience much higher cost increases in the future as the vacancy rate declines. For purposes of this report, it was assumed that roughly half of those positions would be filled over the forecast period. It is again worth noting that of the 2022 net healthcare costs, 47.0 percent were attributed to County retirees and 53.0 percent were attributed to active County employees.

Health, Pension, and Other Benefits Expenditures 2024 - 2028

	2024	2025	2026	2027	2028	Percent Change (2024 - 2028)
Healthcare	$ 110,332,873	$ 117,630,034	$ 125,412,592	$ 133,716,442	$ 142,580,338	29.2%
Pension	$ 103,997,069	$ 117,990,478	$ 124,535,014	$ 131,332,154	$ 134,748,426	29.6%
Other Benefits	$ 6,430,495	$ 6,512,495	$ 6,596,545	$ 6,682,696	$ 6,771,001	5.3%
Total Benefits Cost	$ 214,210,323	$ 220,760,437	$ 242,133,007	$ 256,544,151	$ 271,731,293	26.9%
Total Retiree Cost	$ 131,006,000	$ 131,136,000	$ 146,968,000	$ 155,415,000	$ 164,829,000	25.8%
Total Active Cost	$ 83,204,000	$ 89,624,000	$ 95,165,000	$ 101,129,000	$ 106,902,000	28.5%

Transit Operations: The DOT – Transit Division is facing an unprecedented fiscal cliff in 2025, driven largely by increasing costs, farebox revenue that remains below pre-pandemic levels, and tax levy funding that is less than half what it was pre-2017. By 2019, Transit farebox revenue had declined from 2015 levels by 16.6 percent. The pandemic brought further reductions to farebox revenues, which have slowly been reversing and are forecasted to grow at 1.0 percent over the forecast period but remain well below

pre-pandemic levels. Further impacting the budget is the anticipated depletion of federal stimulus dollars during 2024, which bolstered the system with more than $20.0 million of funding annually through the pandemic years. To offset the anticipated loss of federal stimulus funding, it is expected that nearly all Section 5307 funding will be necessary to support operations. Even with the additional Section 5307 funding, transit operations will require an *additional* tax levy of $25.1 million by 2025 to support operations.

Transit Expenditures and Revenues 2024 - 2028					
	2024	2025	2026	2027	2028
Estimated Inflation	6.3%	2.5%	2.7%	2.4%	2.5%
Total Gross Expenditures	$ 170,597,794	$ 174,917,101	$ 179,717,946	$ 184,106,187	$ 188,656,332
Tax Levy	$ 8,681,886	$ 8,681,886	$ 8,681,886	$ 8,681,886	$ 8,681,886
5307 Funds	$ 26,517,750	$ 27,206,313	$ 27,261,470	$ 27,318,007	$ 27,375,957
Federal Stimulus Funds	$ 20,780,174	$ -	$ -	$ -	$ -
Passenger Fares	$ 27,599,422	$ 28,154,715	$ 28,771,914	$ 29,336,069	$ 29,921,038
Other Revenues	$ 85,706,269	$ 85,776,373	$ 86,142,105	$ 86,713,597	$ 87,062,893
Total Revenues	$ 169,285,501	$ 149,819,287	$ 150,857,375	$ 152,049,559	$ 153,041,774
Estimated Gap	$ (1,312,293)	$ (25,097,814)	$ (28,860,571)	$ (32,056,628)	$ (35,614,558)

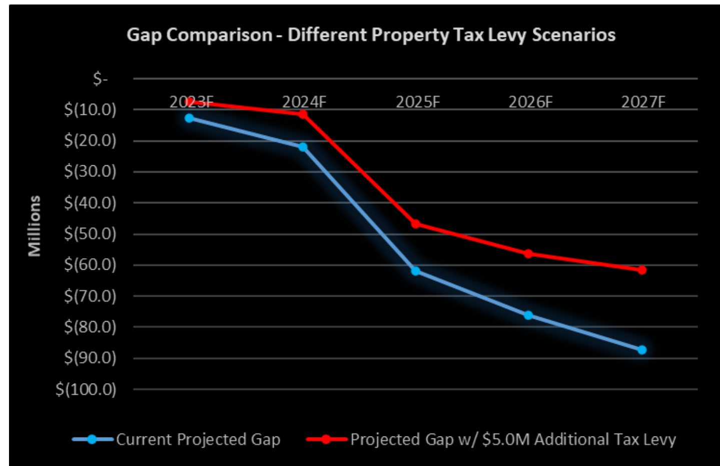
Mental Health Services: Different from earlier forecasts, this forecast now isolates all expenditures and revenues relating to mental health services from other categories within the forecast. This allows for the forecast to only include changes directly related to the tax levy provided to the DHHS – BHD. Since tax levy provided to the DHHS – BHD for the past few years has been at the minimum statutorily required amount, this forecast assumes that this will be the amount provided over the forecast period. Any additional amounts provided (up to the statutory maximum of $65.0 million) will directly impact the structural deficit in future years.

Low Revenue Growth: The County has been severely limited in its ability to raise meaningful revenues due mostly to State-imposed restrictions. The County successfully expanded its operational revenue base $12.2 million in 2017 and further in 2018 due to implementation of the vehicle registration fee. The overall low growth rates are attributable to flat revenue projections for State and Federal resources, as well as discretionary resources that are mostly forecasted to grow at inflation over the forecast period.

For 2024, revenue increases are about $27.5 million ($14.9 million when adjusted for other revenue losses). What is most revealing about these revenue increases is that only four categories of revenue make up 93.1 percent of this increase. Sales tax contributes 24.7 percent of this increase yet makes up only 8.2 percent of total County revenue. Anticipated increases in investment earnings contribute 22.6 percent of this increase yet make up only 1.0 percent of total County revenue. These earnings, which are based on average daily balances and market fluctuations, can be volatile and are generally not sustainable in the long run and will therefore plateau over time. Property taxes contribute 12.4 percent to this increase yet make up 26.8 percent of total County revenue. Lastly, transit revenue contributes 33.2 percent of this amount yet makes up only 11.4 percent of total County revenue. Although transit revenues contribute to the bulk of the revenue increases in 2024, there are very little revenue increases beyond 2024. This implies that the County's only real sources of long-term revenue growth are within sales tax and property taxes. Given the limits on property tax increases and the connection of sales tax to economic

conditions, even those sources cannot provide the level of additional revenue necessary to sustain County operations.

Assuming the County was able to levy additional property taxes, the chart below shows how the structural deficit would change if the County had the ability to raise additional levy of $5.0 million over the prior year. The long-term structural deficit becomes more favorable under this assumption, but still exists. As opposed to a $109.7 million structural deficit in 2028 (assuming no long-term solutions are implemented over the five-year forecast period), the structural deficit is $84.0 million, a $25.7 million difference in the County's fiscal outlook.



The ability to increase the sales tax percentage is also limited by State Statutes, and the County has no control over the amount of sales tax generated since sales tax growth typically follows economic patterns. Together, property tax and sales tax provide on average $8.6 million a year which is roughly 77.0 percent of forecasted annual revenue increases, yet roughly only 34.0 percent of the total forecasted expenditure increases.

Total Revenue Growth from Property Tax and Sales Tax
2024 - 2028

	2024	2025	2026	2027	2028
Property Tax (Operating Only	$ 227,653,436	$ 230,776,751	$ 233,944,099	$ 237,156,143	$ 240,413,557
Sales Tax	$ 97,460,895	$ 102,211,310	$ 107,175,493	$ 112,363,065	$ 117,784,077
Total	$ 325,114,331	$ 332,988,061	$ 341,119,592	$ 349,519,208	$ 358,197,634
Year-over-Year Change	$ 9,884,549	$ 7,873,730	$ 8,131,531	$ 8,399,616	$ 8,678,426

*This schedule does not include changes to property lax levy due to debt service changes.

IMPACT OF ONE-TIME REVENUES AND EXPENDITURE ABATEMENTS ON THE STRUCTURAL DEFICIT

Another element of the structural deficit is the use of one-time revenues and expenditure abatements in the prior year. In any given year where the County adopts a budget using one-time revenues or expenditure abatements to resolve the structural deficit, the following year's structural deficit will increase by the amount of one-time revenues and expenditure abatements. This deficit is then compounded over the forecast period, until it is resolved by means of a long-term solution.

The 2023 budget utilized approximately $8.9 million in one-time revenues to resolve the 2023 structural deficit. This $8.9 million in one-time revenues as well as new fiscal impacts are then added to the 2024

cost-to-continue component to arrive at the County's true structural deficit of $18.3 million. Had the County implemented $8.9 million in funding solutions that were sustainable in 2023, the forecasted structural deficit of $18.3 million for 2024 would have been reduced by half.

Therefore, while the forecast projects an average of $21.9 million in costs-to-continue annually for the County, any unsolved portion of the 2024 structural deficit will increase the 2025 structural deficit by the same amount.

OTHER ISSUES AFFECTING THE COUNTY'S FISCAL OUTLOOK

Other issues exist which may have an impact on the structural deficit and County finances in the future. The fiscal outlook presented in this report does not include any assumptions relating to these issues, but policymakers should closely monitor the potential for large fiscal impacts from these issues.

- **Frozen Tax Levy:** Generally, the forecast carries forward current policies in its assumptions. With respect to the property tax levy, the County has both frozen and increased tax levy in past years. This model assumes that property taxes will grow by roughly 1.3 percent in each of the forecasted years; the amount is limited mainly due to limits within Wisconsin State Statutes. Holding the property tax operating levy flat over the forecast period would increase the deficit over the next five years and would result in the County having to collect an additional $44.7 million in revenues from other sources or find non-service impacting expenditure reductions to continue to provide the same level of service over the forecast period. Similarly, not increasing the levy to the allowable amount under State law could result in worsened fiscal impacts in the future years as revenue growth is a factor in the County's annual cost-to-continue.

- **Future Biennial State Budgets:** Wisconsin Governor Tony Evers introduced the 2023-2025 State Budget on February 15, 2023. Since the Wisconsin State Legislature has signaled that they will rewrite most of the Governor's proposed budget, it is too early to estimate what the potential impacts of the State Budget might be. The largest single impact in recent history was the one-time 50 percent reduction in State transit aid in 2022. However, the growing imbalance between inflation and stagnant state shared revenue and other state aids continues to directly impact the County's bottom line year-over-year as the County must make up the difference. For purposes of this report, it is assumed that most state revenues and aids will remain flat, including youth aids.

- **Vehicle Registration Fee:** One of the very few revenue sources available to the County is the vehicle registration fee (VRF). In 2017, the County imposed a VRF of $30 per vehicle. The revenue may be used only for transportation-related operations and capital projects but remains a potential source of additional revenue in the future if the fee is raised.

- **Debt and Infrastructure Needs:** The County's outstanding debt declined from a high of $886 million in 2010, which was due to the issuance of pension obligation bonds and the Build America Bond program, to $436 million in 2022. During 2022, the County Board Resolution File 22-454 committed the County to providing $45 million of future general obligation borrowing to finance the construction

of a new building for the Milwaukee Public Museum. In addition, the 2023 Adopted Capital Improvements Budget included a total general obligation borrowing amount of $108.7 million; a majority of the financing of $62.9 million will be used to construct the Center for Forensic Science and Protective Medicine. The combined bonding amount between the new museum building and the 2023 Adopted Budget exceeded the 2023 self-imposed bonding cap of $45.8 million by $107.9 million. It is assumed that in future years that the County will again adhere to its self-imposed bonding cap.

The projected outstanding debt is anticipated to increase to $540 million in 2024 then decrease to $449.3 million by 2027. This includes the amounts for the new building for the Museum and CFSPM in 2024 but does not include a new criminal courthouse to replace the current Safety Building. The County also faces significant infrastructure needs that outpace the County's current level of cash and debt financing for its capital assets. The County's Capital Improvements Committee received five-year capital improvement plan requests from departments for 2023 – 2027 that total approximately $1.1 billion of County non-airport funding, which includes $216.9 million for a new criminal courthouse. The most recent estimate for the new criminal courthouse is $480 million. Without increases of funding for capital projects along with greater diligence by the County in the timely completion of capital projects or decreases in the size of the County's asset portfolio, the County will encounter growing future liabilities.

- **Salary Compression and Limited Wage Growth:** Since 2017, the County averaged an annual wage growth of 1.9 percent, suggesting the County has not provided significant salary increases for employees beyond cost-of-living adjustments over that period, nor matched the recent rate of inflation in the past two years. As mentioned earlier, inflation in 2021 and 2022 were 7.5 and 6.5 percent, respectively, while employees' salaries only increased 4.5 – 5.0 percent over the same period. Early reports suggest that inflation in 2023 could reach 3.5 - 4.0 percent, yet the 2023 Adopted Budget only includes a 2.0 percent cost-of-living adjustment in the second quarter. With employees' earnings falling well behind inflationary increases by as much as 10.0 percent, the vacancy crisis will likely continue to impact the crucial services provided by County employees, even after hard-to-fill positions such as correctional officers and lifeguards received substantial pay increases. While additional funding is available to address the future recommendations of the compensation study currently underway, only $2.2 million is available in 2023, which is only 0.9 percent of the total salary budget. Furthermore, departments continue to report struggles with salary compression as new employees are brought on at comparable salary levels to tenured employees that have been employed for several years. Policymakers and administrators continue to address these issues through one off pay equity and merit award increases, but it is likely that additional resources will be necessary to fully address these issues.

- **Federal Stimulus Funding and Economic Supports:** The County, like other municipalities throughout the nation, received both Coronavirus Aid, Relief, and Economic Security (CARES) Act and American Rescue Plan Act (ARPA) allocations. The County's ARPA taskforce is thoughtfully addressing how to spend the County's ARPA allocation of $183 million so funds are not utilized for ongoing expenditures which could potentially increase the structural deficit in future years. The County's direct CARES

allocation was fully utilized in 2020. Other allocations outside of these two direct allocations come directly to the County for funding housing and homelessness initiatives, as well as other health and human service type needs. When these allocations are completely spent, the service levels may drop dramatically and have a ripple effect through the community. The County may wish to further examine the types of additional supports being provided and the impact of disrupting those service levels when funding is depleted.

ABOUT THE MODEL

The five-year financial forecast for Milwaukee County provides a projection of the financial results for future budget years using the current budget year as a base, adjusted for known factors specific to Milwaukee County. The forecast uses the 2023 budget as the basis for the 2024 – 2028 projection. The 2023 budget expenditure base is then adjusted for inflation in most cases. For certain expenditures or revenues including wages, benefits and certain programs, inflationary increases are based on recent increases specific to Milwaukee County. The 2023 base is further adjusted for one-time events particular to 2023, or programs/revenues/expenditures which end in a future year.

This exercise provides a first look at the 2024 budget challenge for Milwaukee County, before any adjustments are proposed by the County Executive to prepare the recommended budget. The forecast provides a projection of the 2024 financial "gap" that the County would face if it were to budget a cost-to-continue budget.

CONCLUSION

A general conclusion reached this year, as in past years, is annual average inflationary cost increases associated with Milwaukee County, will not be offset by projected revenue increases. In other words, annual revenue increases for Milwaukee County cannot pay for projected cost increases specific to Milwaukee County. The County must then cut expenditures, increase revenues, or a combination of both.

With the prospect of future years cost-to-continue averaging $21.9 million, the projected 2024 structural deficit of $18.3 million could be solved over multiple years by incrementally reducing its reliance on one-time budget fixes if needed. This is only possible because the County has accumulated a sizable Debt Service Reserve and federal stimulus funding that it could use to phase out the one-time funding over time. While not likely, new revenue sources could also be implemented in 2024 and beyond that reduce the reliance on one-time budget fixes. Depending on the source and magnitude of any new revenues, the County could mitigate multiple years of structural deficits by phasing in new revenues within the budget. The result of phasing out one-time budgetary fixes or phasing in new revenue sources is additional time for the County to make larger structural changes that can reduce expenditures, such as reducing infrastructure or phasing out specific programming. Following either or both phased approaches would require ongoing financial planning and discussion amongst the County's policymakers so that the plan is executed as designed in future budgets.

Ultimately, the County will experience the cost-to-continue issue for the foreseeable future until the County has the means to increase its revenue growth rate. The County has made great strides at reducing its expenditure growth rate over time since it has had little ability to generate revenue. With little ability to increase revenues year-over-year, the continued disparity between the expenditure growth rate and revenue growth rate will cause annual budgetary issues until that specific issue is resolved. Without a resolution, the only way forward for the County is the perpetual cycle of annual expenditure reductions, continued reliance on one-time revenues, and deferring maintenance, all which will undoubtedly adversely affect the essential services provided to the community.