

COUNTY OF MILWAUKEE
Inter-Office Communication

Date: May 5, 2025

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

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

Subject: 2026 Operating Budget Planning

File Type: Informational Report

OVERVIEW

This informational report provides a preliminary overview of 2026 operating budget planning efforts. Included are an overview of the budget timeline, a projection of the 2026 operating budget gap and strategies that are being considered to close the budget gap and propose a balanced budget.

BUDGET PROCESS / TIMELINE

January to April – Budget Preparation Phase

- Comptroller and SBP forecast expenditure, revenue changes
- County Executive prepares budget strategy and levy targets in line with County strategic plan
- SBP prepares budget instructions and budget system for department users

April to July 15 – Requested Budget Phase

- Departments request expenditures, revenue, and positions for 2026
- Departments submit final requested budget which complies with the assigned levy target
- Departments may submit supplemental requests for items that exceed the assigned levy target

July 15 to October 1 – County Executive Phase

- SBP and County Executive analyze department requests to determine items included for funding in Recommended Budget
- County Executive hosts listening sessions, budget town halls to gather community feedback on the County budget
- SBP and County Executive provide narrative explanation of the budget and submit completed document to County Board by October 1.

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

- Finance Committee holds budget hearings to review recommended budget
- Finance Committee reviews and approves budget amendments
- Finance Committee and County Board holds listening sessions and public hearings
- County Board votes on amendments and vetoes and adopts the final 2026 Budget

Jan 1, 2026 – Start of Fiscal Year

- 2026 Budget goes into effect

2026 BUDGET PROJECTIONS

In March 2025, the Office of the Comptroller presented an updated five-year financial forecast for the years covering 2026-2030 (File 25-239). The forecast recognizes that federal stimulus funding is winding down, and that the 2024 and 2025 budgets have consumed the one-time savings realized from the 0.4% sales tax newly implemented in 2024. As a result of these and other factors, the forecast projects the return of large sized budget gaps including a structural deficit estimate of \$46.7 million in 2026 growing to \$171.5 million by 2030.

The structural deficit is caused by an ongoing imbalance between revenue and expenditure growth. Based on state laws, property tax, which is the county's largest revenue source, can only grow by the percentage of net new construction in the county, or approximately 1.3% per year on average. This is not enough to cover the cost of inflation. Moreover, the County receives state aid reimbursements for the provision of certain state mandated and other County services. However, many of our state aids payments continue to be flat, further adding to the structural deficit.

The 2026-2030 fiscal forecast is also influenced by large projected increases in salaries and overtime (\$26.6 million estimated growth), as well as Health and Other Benefits costs (\$15.8 million). These growth estimates are higher than projections included in previous year forecasts, based on recent spending trends in these areas, as well as overtime spending deficits that exist in 2025 and prior years.

The chart below includes details pertaining to an estimated \$46 million gap estimate in 2026, from the Comptroller's Five-Year Forecast in File 25-239.

| | Amount (millions) |
|---|------------------------------|
| Expenditure Type | |
| Pension | \$ (3.5) |
| Abatements | \$ 0.3 |
| Transit | \$ 2.3 |
| Cost to Continue | \$ 7.2 |
| Health & Other Benefits | \$ 15.8 |
| Debt Service | \$ 14.2 |
| Salaries, Overtime, FICA | \$ 26.6 |
| Expenditure Change | \$ 62.9 |
| Revenue Type | |
| One-time Revenue | \$ 7.4 |
| Odd Year Unclaimed Funds | \$ 3.5 |
| Sales Tax | \$ 1.1 |
| State Shared Taxes | \$ (1.1) |
| State & Federal Revenues | \$ (1.2) |
| Investment Earnings | \$ (1.4) |
| Employee Health & Pension Contributions | \$ (2.1) |
| Transit Revenue | \$ (2.3) |
| Miscellaneous Revenue | \$ (2.5) |
| Property Taxes | \$ (17.6) |
| Revenue Change | \$ (16.2) |
| Projected 2026 Operating Gap | \$ 46.7 |

Source: Comptroller's Five-Year Financial Forecast for 2026-2030

STRATEGIES TO CLOSE THE BUDGET GAP

The County will need to evaluate options to contain spending, while also continuing to explore opportunities to raise revenues. In the requested phase of the budget, the administration has taken several steps which are aimed to help close the gap and recommended a balanced budget as required by state statute. The following factors may have impacts on the 2026 budget.

Cost To Continue: This amount reflects inflationary growth in contracted commodities and services. However, within the requested budget process, departments are being asked to absorb these increases within their existing budgets instead of receiving additional tax levy to support (\$7.2 million).

Levy Targets: In addition to absorbing the cost to continue, departments have been issued additional levy reduction targets they are expected to meet in the requested phase of the budget. The levy reduction targets for 2026 amount to approximately \$10 million across county

departments. If departments (including departments lead by elected officials) choose to exceed the levy target within their requested budget, it is anticipated that the Recommended Budget will make changes to adjust department budgets to the levy target.

Salary and Overtime Costs: The fiscal forecast includes \$26.6 million of projected salary and overtime cost increases in 2026. This is based on a 3.9% growth rate assumption for salaries, as well as existing overtime deficits in departments including the Office of the Sheriff and the Community Reintegration Center (CRC).

Due to the County's budget gap outlook, a 3.9% salary increase amount cannot be included in the 2026 budget, and it is anticipated that the salary budget must be substantially lowered compared to this estimate. The following items will further limit the amount of salary increases in the 2026 budget:

- Recent year budgets have included a 2% general salary increase. For 2026, the base budget as of the Requested Phase of the 2026 does not include a general salary increase. If funds are available later in the process, this assumption may be revised prior to the Recommended Budget being released on October 1.
- Prior year budgets included funding for compensation study adjustments. The 2025 budget included funding for what was planned to be the final round of compensation study adjustments, and there is no additional comp study funding planned for 2026 (apart from annualized costs of 2025 increases).
- Some salary increases initiated by departments (such as equity increases and filling positions at a higher salary than budgeted) must be absorbed by departments within their requested budgets.

Overtime costs, particularly in the Office of the Sheriff and the Community Reintegration Center (CRC), will be evaluated during the budget process. Due to factors including an increased population census at the CRC, as well as Correctional Officer vacancy rates at the CRC and the CJF, overtime budget increases in these areas be considered.

Overall, it is anticipated that salary and overtime 2026 budget increases will be substantially lower than the \$26.6 million projected in the fiscal forecast. Amounts will be determined in the Recommended Budget.

Health Care: The five-year forecast projects \$15.8 million growth in health care spending in 2026. Recent trends are reflecting large increases in medical and prescription drug spending. In previous years, prescription drug cost increases have been largely offset by increases in prescription drug rebates, and this has lowered the net total growth in health care spending, but growth in rebates is not expected to keep pace with recent expenditure growth. These trends will continue to be evaluated with the HR Benefits Division, the County's health care actuary, and the Comptroller's Office.

The 2025 Recommended Budget included some plan design changes for health care with an associated cost savings, including minor increases in copays and a surcharge to continue coverage for spouses that have access to their own medical plan. While these items were not included in the 2025 Adopted Budget, these or other plan design changes may be considered again for the 2026 budget process.

State Budget: The State of Wisconsin is currently developing its 2025-2027 Biennial Budget which is scheduled to be finalized in July. The Governor's Proposed Budget included several provisions which would increase Milwaukee County's revenues and reduce the 2026 budget

gap and structural deficit. The budget is now under review by the State Legislature. The Governor's Proposed Budget includes but is not limited to the following:

- Increased funding for expressway policing aids to the Milwaukee County Sheriff's Office (\$16.2M over the biennium)
- Statewide increases to counties operating circuit courts (statewide funding of \$24.5M in 2026, \$70M in 2027)
- Mass transit operating aids increase of 4% in 2026 and 2027
- General Transportation Aids increase of 3% in 2026 and 2027
- Youth Aids increase of 5% in 2026 and 2% in 2027
- Juvenile Correctional Facility Daily rate remains at \$1,268 per day (*previously proposed to be increased to \$2,305 per day or by 82%*)

The Office of Government Affairs provided an update on the State of Wisconsin Biennial Budget on March 3, 2025, to the Committee on Intergovernmental Relations. Additional information regarding the 2025-27 Biennial Budget is included in File 25-9.

Revenues

- Property Tax: Allowable growth in the property tax for operating purposes is subject to the state levy limit. The levy limit allows operating property tax to increase by the percentage increase in net new construction, which averages about 1.3% per year.
- Sales Tax: Recent sales tax disbursements to Milwaukee County have shown a positive trend. After taking March and April 2025 revenues into account, 0.5% sales tax disbursements from May 2024 to April 2025 are \$4.7 million or 4.75% higher than the previous year covering May 2023 to April 2024. If these trends continue, the additional revenue will decrease the amount of the 2026 budget gap.
- 0.4% Sales Tax Detail: The 0.4% sales tax may only be used for pension related purposes. The 2025 budget includes \$83.5 million of 0.4% sales tax of which \$57.8 million is allocated to the required ERS unfunded liability payment, \$6.8 million is allocated to the ERS normal cost, and \$18.9 million is allocated to payment to Pension Obligation Bond debt service. Increasing the amount allocated to the ERS normal cost would result in a reduction in the 2026 operating gap. However, this would also have an impact on the property tax which is already projected to be increased by \$17.6 million in 2026, largely due to the beginning of debt payments for the Forensic Science Center and Milwaukee Public Museum.
- Vehicle Registration Fee: Milwaukee County currently collects a \$30 Vehicle Registration Fee (VRF) which generates approximately \$17 million per year. The VRF can only be used for transportation related purposes (operating or capital). The 2025 Milwaukee County Department of Transportation operating budget includes \$25.6 million of tax levy, primarily for Transit operations. An increase in the VRF is allowed under state statutes, but this would result in an increased fee assessed to automobile owners. The five-year forecast is projecting a structural deficit in Transit of \$17.8 million in 2028 growing to \$23.7 million by 2030.
- Department Revenues: Departments will seek opportunities to increase revenues within their 2026 Requested Budgets. For example, revenues within the Parks Department budget have increased from \$22.3 million in 2023 to \$26.8 million in 2025, or by \$4.5 million.

These items described above will support efforts to eliminate the 2026 budget gap. SBP will work with the County Executive and departments throughout the Request Phase and the County Executive Phase of the budget to produce a balanced Recommended Budget on

October 1st.

ALIGNMENT TO STRATEGIC PLAN

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

FISCAL EFFECT

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

VIRTUAL MEETING INVITES

Joseph.lamers@milwaukeecountywi.gov

Daniel.laurila@milwaukeecountywi.gov

PREPARED BY:

Daniel Laurila, Operating Budget Director, SBP

APPROVED BY:

Joe Lamers, Director, SBP