COUNTY OF MILWAUKEE

INTEROFFICE COMMUNICATION

DATE: 2/7/2022

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

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

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

Issue

With the interest of enhancing communication with the County Board and providing budget information at the earliest opportunity, this report provides a preliminary 2023 capital budget financing estimate as well as a general outline of the upcoming capital budget process.

County Funding of Capital Projects

The 2022 Capital Improvements Budget (Capital Budget) includes 73 separate sub-projects for a total expenditure appropriation of $129,979,241. Anticipated reimbursement revenue (federal, state, local sources) and private contributions total $ 71,625,659 resulting in a net financing requirement of $ 58,353,582 (when including the Airport):[1]

Milwaukee County Contribution							
Bonds GO/Notes	Sales Tax	Tax Levy	Veh Reg Fee/Misc	PFC/Airport Reserve	Fed/State/ Local	Private Contribution	Adopted 2022 Total Funding
44,505,364	7,914,736	0	0	5,933,482	71,625,659	0	129,979,241

What is a Bond Eligible project?

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

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

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Annual Bond Limit

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

2023 Estimated Annual Bond Limit

Based on the 2022 adopted bonding amount of $44,505,364, the projected 2023 bonding limit is $45,840,525. This results in a projected funding shortfall between $38 to $86 million.

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

The capital gap analysis projection uses the 5-Year Capital Improvement Plan forecast of projects (2023 5-YR CIP**) as its base assumption). However, the annual forecast has generally been higher than the total actual requested project costs received during the budget development process. As a result, a second estimate has been included (2023 3-YR AVG*) to reflect an alternative projection based on actual projects submitted by departments during the request phase. The second estimate adjusts for the 5-Year CIP forecast based on potential departmental changes from the 5-Year CIP base. Departmental changes may include (but are not exclusive towards) changes in cost due to completed estimates, moving projects out to another year as design may still be ongoing, and/or movingprojects out one year (or more) due to changing county/department priorities.

County Bond Funding Gap (Excluding Airport)

	BUDGET YR	BOND REQ	BOND ADOPTED	BOND SURPLUS/(GAP)	% of REQ BOND PROJECTS: FUNDED	NOT FUNDED
	2020	$78,147,924	$44,927,646	($33,220,278)	57.5%	42.5%
	2021	$82,304,205	$46,275,475	($36,028,730)	56.2%	43.8%
	2022	$89,656,702	$44,505,364	($45,151,338)	49.6%	50.4%
Estimate 1	*2023 3-YR AVG**	*$83,369,610*	*$45,840,525*	*($37,529,085)*	*55.0%*	*45.0%*
Estimate 2	*2023 5-YR CIP***	*$131,623,678*	*$45,840,525*	*($85,783,154)*	*34.8%*	*65.2%*

NOTE: As the Airport, in general, does not utilize County sales tax and/or tax levy to fund its capital or operating budgets, it is excluded from table above.

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

***Estimate is based on Year 2023 of the current 5-YR CIP and prorated by the 3-YR cash/bond funding of requested projects.*

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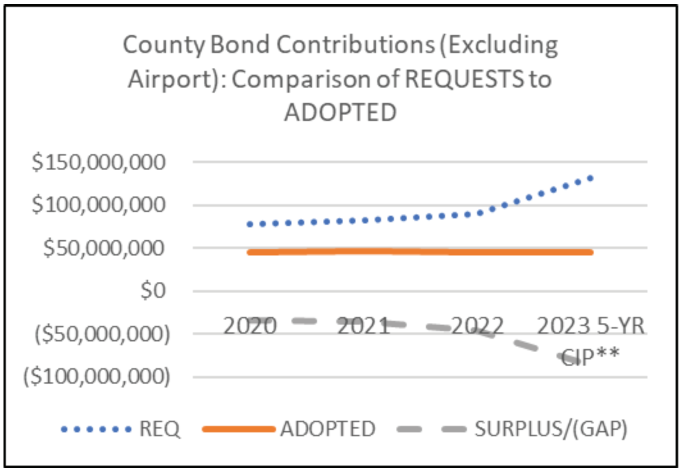

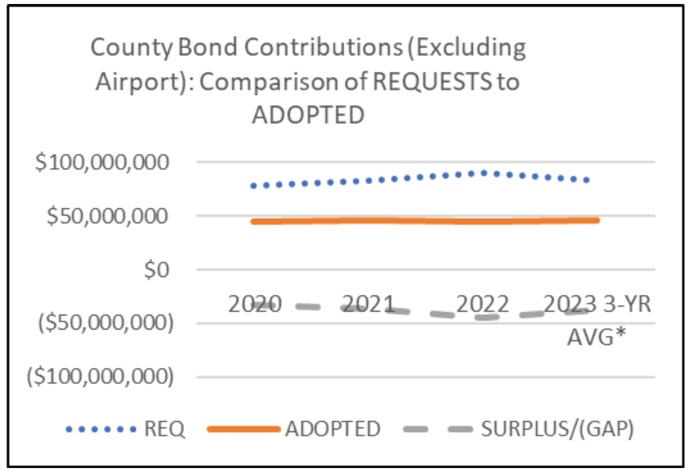

Cash Financing

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

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

2022 Cash Financing

The 2022 Adopted Capital Improvement Budget reflects net County financing (excluding private contributions) of $13,848,218 when including the Airport and $7,914,736 when the Airport is excluded. The table below details the cash financing sources.

	Milwaukee County Contribution					
	Sales Tax	Tax Levy	Veh Reg Fee/Misc*	PFC/Airport Reserve	Total Cash Financed	% Cash Financed
Include Airport:	7,914,736	0	0	5,933,482	13,848,218	23.7%
Exclude Airport:	7,914,736	0	0	0	7,914,736	15.1%

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2023 Estimated Cash Financing

Based on the 2023 projected capital bonding amount of $45,840,525, the estimated cash contribution of 20% of Net County Contributions calculates to a cash goal of $11,460,131.[2] This results in a projected funding shortfall between $30 to $55 million.

Similar to bond financing issues noted previously, NON-BOND ELIGIBLE projects at the DEPARTMENTAL REQUEST Phase consistently, and significantly outpace the County's ability to finance projects using sales tax, tax levy, and/or VRF revenue (i.e. "cash"). Given the fiscal challenges facing the operating budget and assuming relatively flat revenue growth as well as assumed annual cost to continue increases, it is unlikely that additional cash resources will be available to shift from operations towards the financing of cash capital projects. Exacerbating the problem is the loss of the (approximately) $4.0 million Doyne Hospital Sales Revenue after 2021 (based on the 1996 sale agreement between Milwaukee County and Froedtert Memorial Lutheran Hospital).

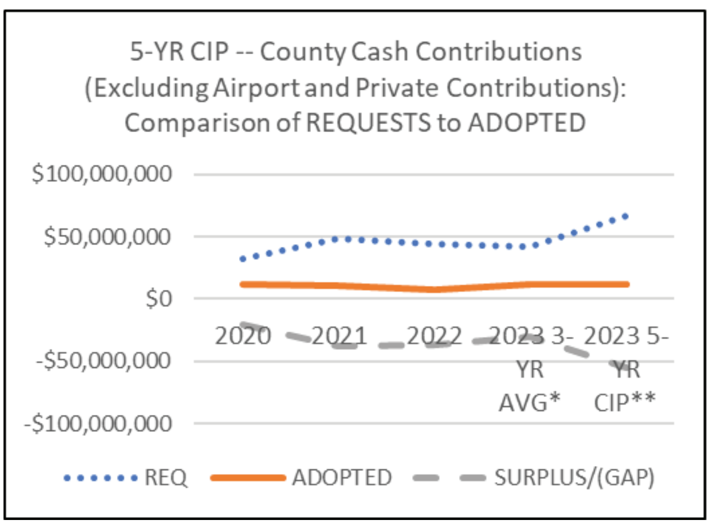
County Cash Funding Gap (Excluding Airport and Private Contributions)

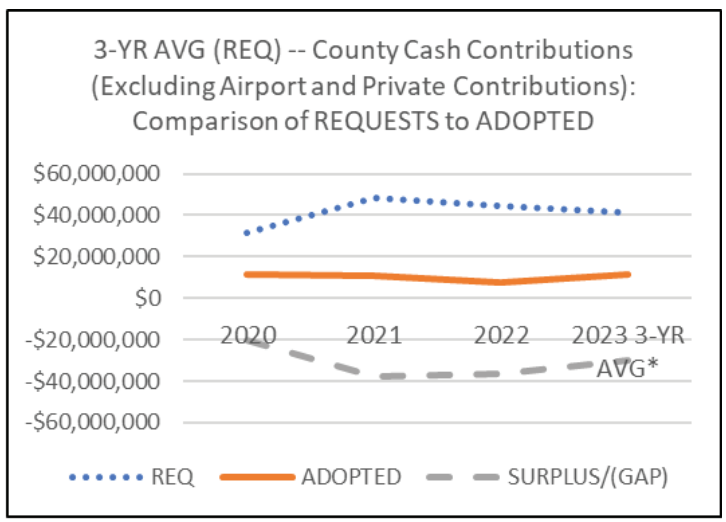
	BUDGET YR	CASH REQ	CASH ADOPTED	CASH SURPLUS/(GAP)	% of REQ CASH PROJECTS: FUNDED	NOT FUNDED
	2020	$31,783,042	$11,600,094	($20,182,948)	36.5%	63.5%
	2021	$48,452,372	$11,020,400	($37,431,972)	22.7%	77.3%
	2022	$44,540,834	$7,914,736	($36,626,098)	17.8%	82.2%
Estimate 1	*2023 3-YR AVG**	*$41,592,083*	*$11,460,131*	*($30,131,951)*	*27.6%*	*72.4%*
Estimate 2	*2023 5-YR CIP***	*$66,623,565*	*$11,460,131*	*($55,163,433)*	*17.2%*	*82.8%*

NOTE: As the Airport, in general, does not utilize County sales tax and/or tax levy to fund its capital or operating budgets, it is excluded from table above.

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

***Estimate is based on Year 2023 of the current 5-YR CIP and prorated by the 3-YR cash/bond funding of requested projects.*





[2] The total projected Net County Contribution for 2023 is $45,840,525 bond funding (80%); $11,460,131 cash funding (20%).

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Use of Sales Tax to Fund Capital Projects

Sales Tax is used to fund the County's general obligation bonding debt service. After funding debt service, surplus sales tax revenues are allocated to cash finance capital projects. Previous Adopted Capital Improvement Budgets included sales tax funding of $10.8 million (2019), $7.4 million (2020), $7.3 million (2021), and $7.3 million (2022). Remaining sales tax revenue is available for operating purposes stated in Milwaukee County Ordinance 22.04.

Projected County Funding of Anticipated Capital Projects: 2023 Budget Year

The table below reflects the estimated County funding gap for 2023 as reflected in the adopted 5-Year CIP (2022 - 2026). Airport projects are excluded as they are not funded by bond and cash sources noted previously in the report.

REQUESTING DEPARTMENT	TOTAL $	TOTAL as %
Dept of Parks, Recreation, & Culture	58,861,801	25.5%
Dept of Transportation - Transit / Paratransit System	56,521,305	24.5%
Dept of Administrative Services - Facilities Mngmnt - Facilities Maint	44,115,539	19.1%
Dept of Transportation - Fleet Mngmnt	12,747,767	5.5%
Dept of Health & Human Services	9,612,080	4.2%
House of Correction	8,087,185	3.5%
Office of the Sheriff	7,757,675	3.4%
Zoological Department	6,629,397	2.9%
Dept of Administrative Services - Information Mngmnt Service Division	4,667,651	2.0%
Milw Public Museum	4,568,889	2.0%
Office of Emergency Management	4,510,556	2.0%
Dept of Transportation - Transportation Services	3,386,599	1.5%
Medical Examiner	2,255,755	1.0%
Dept of Transportation - Highway Maint	2,000,000	0.9%
Dept of Administrative Services - Facilities Mngmnt - Envrmntl Services	1,776,766	0.8%
Charles Allis / Villa Terrace	1,354,324	0.6%
Marcus Center for the Performing Arts	860,000	0.4%
Dept of Administrative Services - Office of Persons w/ Disabilities	613,264	0.3%
War Memorial Center-Art Museum	313,000	0.1%
Milw County Historical Society	201,605	0.1%
TOTAL:	**230,841,158**	**100%**

Parks, Transit, and DAS-Facilities Management comprise about $159.5 million (or 69%) of the total anticipated funding requirements for 2023.

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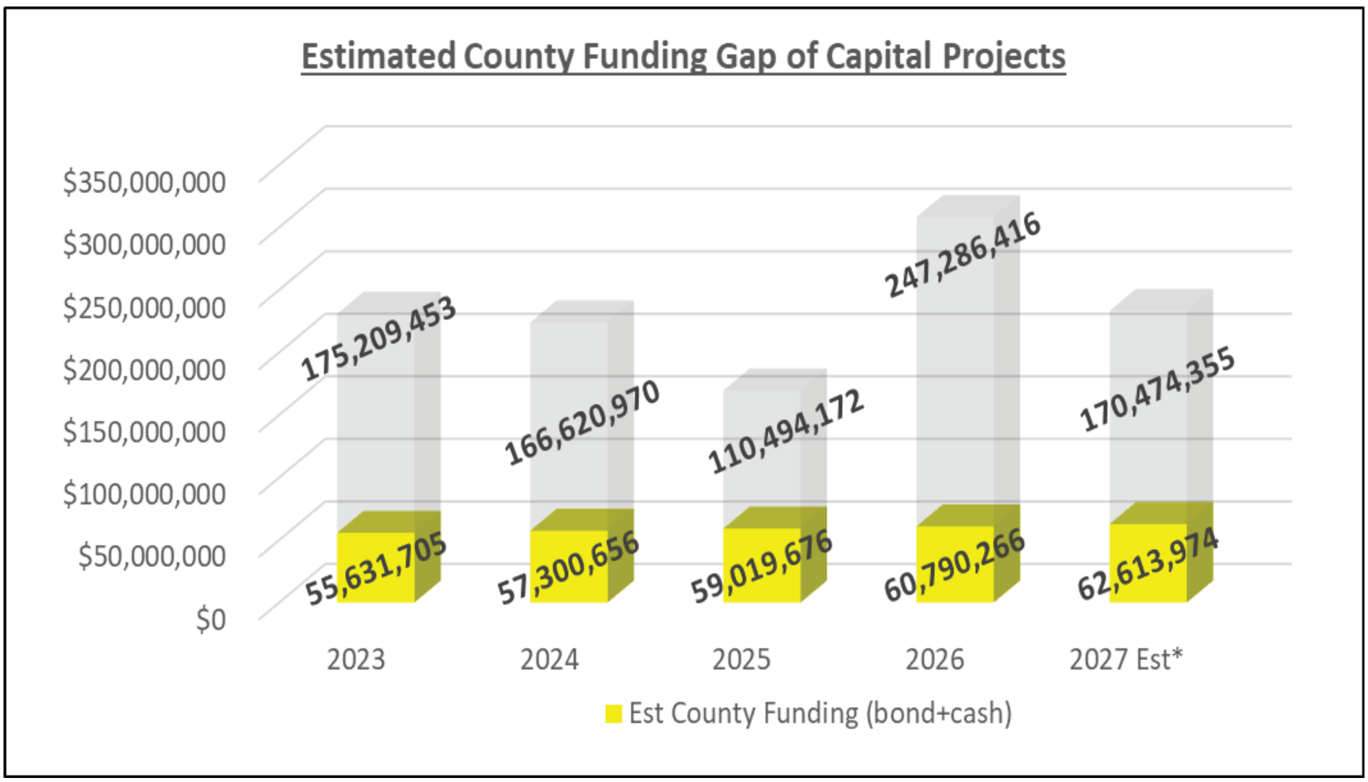
The adopted 5-Year CIP includes the following projects over $5 million (for year 2023).

DEPT	Project	Project Description	2023
PARKS	WP66401	Lake Michigan Shoreline Stabilization - Sheridan Park	5,000,000
ZOO	WZ14101	Zoo Adventure Africa-Rhinos Exhibit	5,000,000
PARKS	WP37201	McKinley Park Flushing Channel	5,368,798
PARKS	WP70601	South Shore Breakwater	17,883,306
DAS-FM-FM	WC20901	Forensic Science Center-Phase 2	25,035,867
DOT-TRANSIT	TBD	Bus Replacement Program-Placeholder	50,000,000

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

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

The chart below illustrates the estimated County funding gap for years 2023 through 2027 based on the projects in the current CIP and existing County funding policies. This includes both BOND and CASH funded projects.3



**Based on average of the previous 4 years.*

[3] County funding shown in the table reflects the existing County policy of increasing the amount of general obligation bond funding by three percent over the previous years adopted bonding amount. In addition, County funding also reflects the current policy of including a 20% cash financing goal.

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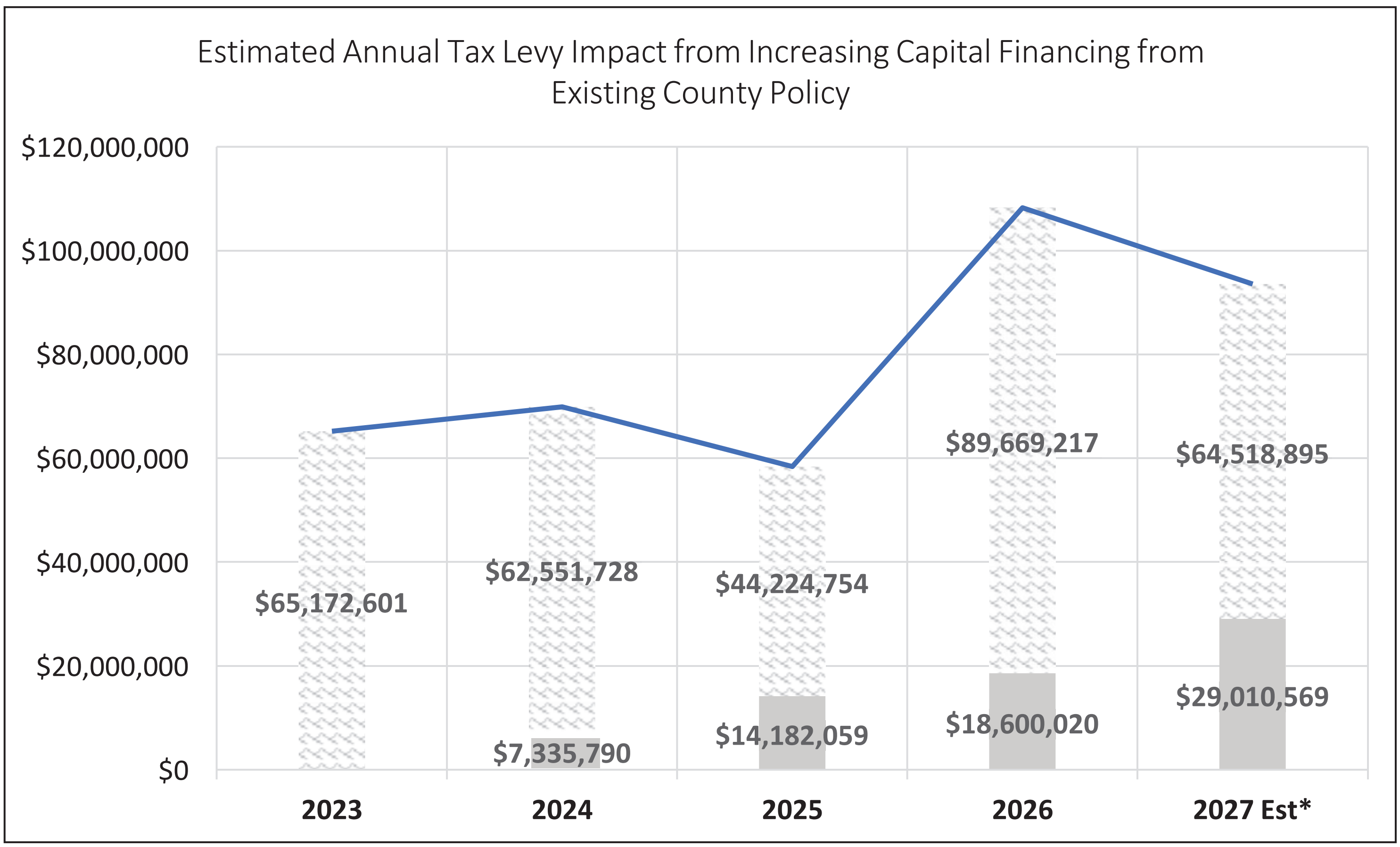
County Funding Level Scenarios of Anticipated Capital Projects

Over the next five years, under the existing County capital financing policy, approximately 26% (on average) of the TOTAL projected annual capital funding can be met. The funding gap spike reflected in the 2026 planning year (illustrated in the previous table and the table below) is primarily driven by the capital placeholder request for a New Criminal Courthouse ($180 million). <u>It is important to note these are high-level conceptual planning figures and will likely change upon refined cost estimates. Additionally, the funding gap seen in planning year 2026 will likely be closer to historical gaps as new projects are developed and unfunded requested projects from previous year(s) are shifted out.</u>

To illustrate the impact of increased County funding beyond the existing financing policy, the table below assumes full funding of the DEPARTMENTAL REQUESTs (from 2023 through 2027) and reflects an estimated cumulative tax levy increase when compared to the existing financing policy:



Note: Year 2027 reflects the average of years 2023 - 2026 based on the most recently adopted 5-YR CIP.

Increase in Annual Cash Goal *Increase in Annual Debt Service* *Total Annual Levy Impact*

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

Additionally, you will notice that 2023 only reflects the estimated increase in County cash (sales tax, tax levy, and potentially VRF) required to fund the anticipated non-bond eligible projects. This is because annualized debt service payments (related to bond financed projects) are typically realized in the subsequent year(s) as opposed to the bond adoption year. For instance, the amortized debt service repayment schedule for 2023 general obligation bonds will begin in 2024; the amortized debt service repayment schedule for 2024 general obligation bonds will begin in 2025; the amortized debt service repayment schedule for 2025 general obligation bonds will begin in 2026; the amortized debt service repayment schedule for 2026 general obligation bonds will begin in 2027.

Overall, 2023 through 2027 reflect the cumulative annualized debt service payment increases (over existing policy).

Capital Projects Development via Annual Budget Process

General Capital Improvement Plan Overview

The County utilizes a 5-Year Capital Improvement Plan (CIP) to help organize and estimate future capital project needs. The first year of the CIP (which for this year's budget development process is 2023) is the year in which capital projects scheduled for that particular year are submitted as REQUESTS by departments and (may) receive budget appropriation(s) through the normal capital improvement budget process. Years two through five (2024 – 2027) are planning years for future projects and/or continuing phases of existing projects.

Departmental Request Phase

As part of the annual County budget development process, each department is responsible for updating its 5-Year CIP. This process typically begins in late winter/early spring with as departments develop/update cost estimates for each capital project. Departments submit their requested CIPs to the Department of Administrative Services (DAS) towards mid-May.[4] Departmental requested budgets (Capital and Operating) are posted by the DAS on the County's website no later than August 15th of each year.[5]

[4] Per Wisconsin State Statute 59.60(2) (b), the Requested Budget Deadline is set annually by DAS Director (deadline can be no later than July 15).
[5] Per Wisconsin State Statute 59.60(5), DAS Director submits a summary of the budget requests to the County Executive and County Board no later than August 15th. County website address: https://county.milwaukee.gov/EN/Administrative-Services/Strategy-Budget-and-Performance

Capital Improvement Committee (CIC)

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

(a) Director of the Department of Transportation or alternate;
(b) Fiscal & Budget Administrator (DAS) or alternate;
(c) Comptroller (committee chair as appointed by the Chair of the County Board), or alternate;
(d) Chair of the Committee on Transportation, Public Works, and Transit, or alternate;
(e) Co-Chair of the committee on finance, personnel and audit, or alternates;
(f) Two (2) appointments of the County Executive who shall be mayors or village board

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

County Executive Recommended Phase

Upon receipt of the departmental CIP requests, the SBP and DAS staff reviews the requested capital projects and assists the County Executive with the formulation of the Recommended Capital Improvement Budget. Requesting departments are consulted and site visits are performed relative to the departments' capital requests. This budget development phase usually extends from July through September. The Recommended Budget is submitted to the County Board no later than October 1st of each year.[6]

County Board Phase

<u>Finance and Audit Committee</u>

After the County Executive submits the Recommended Budget, the Finance Committee (FC) holds budget hearings. The review typically lasts through the month of October. Departmental staff is present at FC hearings to answers questions related to their capital projects.[7]

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

[6] Per Wisconsin State Statute 59.60(6) (b) & 59.17(6), CEX submits recommended budget to the Board no later than October 1st.
[7] The County Board establishes the budget hearing calendar for this committee annually.

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Full County Board Meeting / County Executive Veto

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

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

Preliminary 2023 Capital Budget Timeline

- **February-May – Preliminary planning with departments;**
- **April or May – Presentation of 2023 Capital Financing/Process to County Board;**
- **February - May – Departments develop their budget requests;**
- **Mid-May – Departments submit their (capital) budget requests to the Department of Strategy, Budget, and Performance (SBP):**
- **August-September – County Executive works with SBP and departments to finalize the County Executive Recommended Budget;**
- **October-November – The Finance Committee reviews and requests information regarding the Recommended Budget;**
- **November – The County Board adopts the 2023 budget;**
- **December – SBP and the Comptroller's Office work to implement the 2023 budget**

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

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JOSEPH LAMERS

Joe Lamers
Director, Department of Strategy, Budget, and Performance

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