Five-Year

Financial Forecast

2023 – 2027

MILWAUKEE COUNTY

Office of the Comptroller

Scott B. Manske, Comptroller

March 2022

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.

Results of this year's forecast indicate an ongoing structural deficit with similar elements to five-year forecasts issued in prior years. The main findings of the report include:

- ***The projected structural deficit for the FY2023 operating budget is approximately $12.6 million.*** The FY2023 structural deficit is less than forecasted in previous reports for two key reasons. In past reports, the Department of Health and Human Services (DHHS) – Behavioral Health Division (BHD) and Department of Transportation (DOT) – Transit Division have had a substantial impact on the structural deficit. For FY2023, tax levy for the DHHS - BHD is projected to remain flat at the state-mandated minimum and therefore, has no impact on the structural deficit; and the DOT – Transit Division's $4.0 million cost-to-continue is fully offset by federal stimulus revenue. The other main contributor is due to the structural surplus within wage appropriations throughout the County. Even with increases to salaries in FY2022, surplus salary appropriations exist that lessen the overall structural deficit.

- ***The impact of 7.5 percent inflation during 2021 is not a significant factor in the short-term fiscal outlook of the County but will likely increase costs in the future.*** Although the incredible inflationary growth experienced in 2021 will have an impact on the County's financial health, in the short-term, the largest categories of expenditures within this forecast are largely insulated from the general inflationary growth in the economy. The five largest categories of expenditures are mental health-related expenditures ($248 million); salary-related items ($232 million); health, pension, and other benefit expenditures ($225 million); transit-related expenditures ($139 million); and debt service costs ($108 million). These categories alone comprise roughly 82 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 absorb costs through FY2024). 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 substantial increase in costs would largely be mitigated by the payment level-setting that occurs. 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 growth in inflation during 2021, but those costs are excluded from this forecast.

- ***In FY2025, the structural deficit jumps dramatically because it is assumed the DOT – Transit Division has no remaining federal stimulus funding and will require an unprecedented $32.9 million tax levy increase to support operations.*** It is forecasted during FY2023 and FY2024 that the DOT – Transit Division will use its entire allocation of federal stimulus funding. Moreover, the situation is made worse by the lack of any projected growth in farebox revenue and the necessary use of federal Section 5307 funds for operating expenses to maintain a flat tax levy in FY2023 and FY2024, and to reduce the structural deficit in fiscal years FY2025 – FY2027. It is imperative that the County strategically address the DOT – Transit Division's forecasted FY2025 fiscal cliff over the next three years to avoid major disruptions to service.

- ***One-time funds for continuing operating expenditures negatively impact the structural deficit for future years.*** The FY2022 one-time Debt Service Reserve contribution and the one-time stimulus funding contribution negatively impacts the structural deficit by $13.2 million in FY2023. The FY2022 budget included a debt service contribution of $7.3 million which has historically been considered a one-time revenue. Assuming no further contributions to the Debt Service Reserve, this level of withdrawal from the Debt Service Reserve would reduce it by $36.5 million over the next five years which is more than half of its current balance. Furthermore, $5.9 million in federal stimulus funding was budgeted to fund correctional officer premium pay and to fund the Right to Counsel program. This equates to $29.5 million in funding over the next five years. In comparison, tax levy is forecasted to provide additional revenue of $46.0 million over the same time period, of which roughly 64.0 percent would be needed to fund correctional officer premium pay and to fund the Right to Counsel program alone.

- ***On average, the annual structural deficit will consist of a cost-to-continue of $17.4 million due to a greater increase in expenditures than what is generated in additional revenue.*** Expenditures will grow on average 1.6 percent each year while revenues will grow 0.2 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 FY2022 budget, the County utilized such one-time revenues of approximately $13.2 million, which impacted the FY2023 structural deficit roughly by the same amount. A structural deficit of $12.6 million is less overwhelming than some previous years, although the options to close the gap are getting more difficult. If the County were to resolve this structural deficit with long-term solutions, it could expect a FY2024 structural deficit of roughly $9.3 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 FY2023 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 FY2023 – FY2027 of $17.4 million annually due to a greater increase in expenditures than the amount generated in additional revenue. Since 2017, the forecasted, average cost-to-continue has fluctuated from year to year, averaging between $12.8 million and $17.4 million. For the FY2023 – FY2027 forecast, expenditures are forecasted to grow 1.6 percent while revenues grow 0.2 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 FY2022 budget, the County utilized such one-time revenues of approximately $13.2 million, which directly impacted the FY2023 structural deficit by roughly the same amount. Had long-term, sustainable changes been used in FY2022 rather than one-time revenues of $13.2 million, the County would have had almost no structural deficit in FY2023.

THE FY2023 PROJECTED STRUCTURAL DEFICIT

The use of one-time revenues coupled with the cost-to-continue results in a $12.6 million structural deficit for FY2023. Expenditures and revenues are projected to be $1.165 billion and $1.153 billion, respectively. The projected structural deficit in FY2023 is largely comprised of the following changes from the FY2022 budget:

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**

Items of significance include:

- **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. While most of the categories within this catchall are projected to grow at the average inflation level of 2.2 percent, contingency and purchase of service costs are expected to remain flat, which reduce the overall increase in this category to 1.4 percent in FY2023.

- **Health, Pension, and Other Benefits.** The County continues to see favorable growth in its healthcare costs year-over-year. FY2023 is no different, with an overall 3.3 percent increase in expenditures projected from the FY2022 budget or $3.7 million. Medical claims are forecasted to grow at 3.9 percent, while prescription drug claims grow by 8 percent. Offsetting these prescription drug costs is an increase in prescription drug rebates of roughly $2.5 million over the FY2022 budget. It is likely total health and other benefit costs will decrease further in the future with a reduction in participants anticipated due to closures within DHHS – BHD. These costs, however, are offset by revenue from DHHS – BHD so there will be minimal impact to the County's bottom line.

- **Wages**. For FY2023, the forecast assumes salary and overtime expenditures increase by 0.7 percent from FY2022 budgeted expenditures, which includes the annualization of all FY2022 adopted wage increases and a 2.0 percent cost-of-living adjustment in the second quarter of FY2023. Historically, the County has underspent the total adopted salary budget by an average of 6.0 percent, while spending nearly double the budget for overtime. 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 costs resulting in a slight increase of $1.7 million necessary in FY2023.

- **Transit Expenditures.** For FY2023, the forecast assumes transit-related expenditures grow by 2.6 percent over the FY2022 budgeted expenditures, which is an estimated $4.2 million in costs to continue. To maintain a flat tax levy in FY2023 (and FY2024), $27.0 million of federal stimulus funding and $14.5 million of federal Section 5307 funding is projected. Future year transit expenditures are forecasted to grow on average 2.2 percent.

- **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, fees, permits, fines, forfeitures, court fees, rental revenues, admission revenue, recreational revenue, concession revenue, Potawatomi revenue, and employee contributions to health and pension costs. Roughly 25 percent of the $100.0 million in this catchall revenue category is forecasted to grow at an average inflation level of 2.2 percent, while the remaining 75 percent is projected to have no growth. Furthermore, the $3.5 million loss of rental revenue for the Marcia P. Coggs Human Services building is included for a total revenue reduction of $2.6 million.

- **Record and Filing Fees.** For the FY 2021, general recording revenue and real estate transfer fee revenue exceeded budget by more than $2.1 million. It is assumed the level of transactions occurring in the market will remain at similar levels in the future and that this revenue will remain at the higher level throughout the forecast.

- **Property Tax Levy**. The FY2023 forecast assumes the County will assess a property tax levy up to the five-year average of net new construction or 1.3 percent. This provides an additional $4.1 million in revenue.

- **Sales Tax Revenue.** Sales tax continues to exceed projections with a surplus anticipated in FY2022. This FY2022 surplus coupled with a 3 percent growth rate results in an additional $6.1 million in revenue to support FY2023 operations.

One-time revenue:

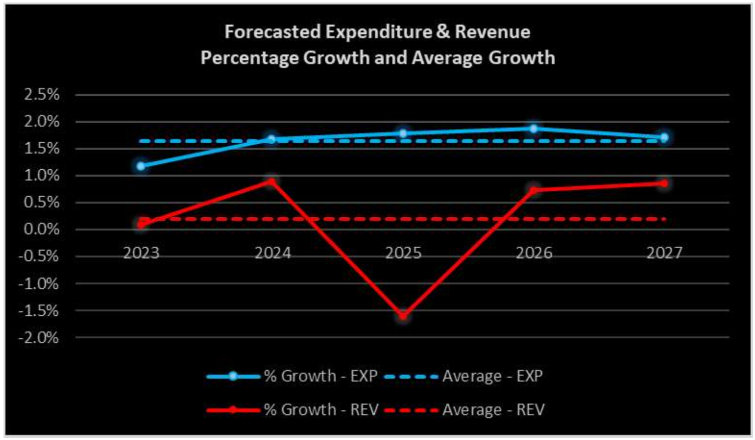
- **One-time Revenues**. The FY2022 budget includes a contribution from the Debt Service Reserve of $7.3 million. The forecast assumes no Debt Service Reserve contributions in FY2023. This decrease in one-time revenue contributes to the FY2023 structural deficit.

- **One-time Federal Stimulus Revenues.** The FY2022 budget includes $5.9 million in federal stimulus funding to pay for the cost of correctional officer premium pay and the Right to Counsel program. The forecast assumes no federal stimulus funding in FY2023. This decrease in one-time revenue contributes to the FY2023 structural deficit.

THE FUTURE OF THE STRUCTURAL DEFICIT

When the model was first utilized after passage of the FY2009 budget, expenditures were forecasted to grow by 6.1 percent annually while revenues would rise by only 3.7 percent annually. Expenditures are now forecasted to grow by an average of 1.6 percent annually, while revenues are forecasted to grow by an average of 0.2 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 is very similar, with a structural deficit of $87.2 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 both the prior year model and current model have remained relatively flat, with prior models projecting an average cost-to-continue of $15.9 million annually and the current model projecting an average cost-to-continue of $17.4 million annually.

Year	Expenditure	Revenue	Structural Deficit	Cost-to-Continue*
2022	$ 1,151,989,761	$ 1,152,006,961	$ -	
2023	$ 1,165,589,552	$ 1,153,035,230	$ (12,554,322)	$ (12,554,322)
2024	$ 1,185,186,729	$ 1,163,318,932	$ (21,867,798)	$ (9,313,476)
2025	$ 1,206,344,503	$ 1,144,562,638	$ (61,781,864)	$ (39,914,067)
2026	$ 1,228,911,884	$ 1,152,886,936	$ (76,024,948)	$ (14,243,083)
2027	$ 1,249,945,147	$ 1,162,732,677	$ (87,212,469)	$ (11,187,522)
			Average Gap:	$ (17,442,494)

*Cost-to-continue assumes that the prior year gap was eliminated with long-term solutions.

IMPACT OF THE COUNTY'S COST-TO-CONTINUE

Personnel Costs: Personnel-related costs comprise about $463.0 million in FY2023, growing to $516.5 million in FY2027. This represents roughly 39.7 percent of total County expenditures in FY2023 and 41.5 percent in FY2027. Given the proportion of County expenditures that are personnel costs, these costs will inherently always factor into the County's cost-to-continue if the County is to remain a competitive employer in the marketplace by providing a competitive wages and benefits package.

- For FY2023, the total structural deficit is lessened by the recognition of the ongoing surplus within salaries. From FY2017 to FY2021, the County spent on average 93.9 percent of the total appropriated salary budget while spending nearly double the total appropriated overtime budget.

Fiscal Year	Actual Salaries	Salaries Budget	Percent of Salary Budget	Actual Overtime	Overtime Budget	Percent of Overtime Budget
2017	$ 173,285,000	$ 185,267,000	93.5%	$ 18,301,000	$ 6,967,000	262.7%
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*	$ 193,729,000	$ 207,043,000	93.6%	$ 15,268,000	$ 9,472,000	161.2%
***2022 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 prior year's actual overtime paid after any budgeted and forecasted wage increases. The amount included for salary dollars is also based on the prior year's actual salaries paid after any budgeted and forecasted wage increases, and additionally includes a 2.0 percent variance. Reducing the variance to 2.0 percent assumes that the FY2023 budget will capture the bulk of the salary surplus and spend closer to 98.0 percent of the total appropriated salary budget.

	2022B	2023	2024	2025	2026	2027
Salaries & Wages	209,260,000	203,885,000	206,943,000	210,047,000	213,198,000	216,396,000
Overtime	9,471,000	15,497,000	15,730,000	15,966,000	16,205,000	16,448,000
FICA	15,751,000	16,783,000	17,034,000	17,290,000	17,549,000	17,813,000
Total	234,482,000	236,165,000	239,707,000	243,303,000	246,952,000	250,657,000

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 percent in 2021, the County provided cost-of-living increases in FY2021 of only 0.5 percent for employees in pay grades with median salaries of $100,000 and higher and 1.0 percent for employees in pay grades with median salaries below $100,000. For FY2022, a cost-of-living adjustment of 2.0 percent is provided to all employees in the second quarter, with additional funding of $2.5 million provided for salary adjustments based on the results of a compensation study the Department of Human Resources is completing in 2022. If inflation remains high, it may be necessary to increase salaries even higher than what is forecasted to recruit and maintain employees in the future. Any additional increases will increase the County's cost-to-continue.

- Fringe benefits includes healthcare, pension, other compensation and benefits, life insurance, and OPEB liability costs. These costs are forecasted to grow from $226.8 million in FY2023 to $265.9 million in FY2027.

In FY2024, 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 FY2025 with an anticipated payment of $37.3 million. This results in a one-time expenditure decrease for the fringe benefits category in FY2024, but not for the County's overall costs as total debt service remains relatively flat throughout the forecast period. Offsetting this FY2024 decrease is an expected increase in the payment towards the unfunded liability of $2.2 million. Absent any policy changes, the County's expected payments for ERS and OBRA grow from $74.6 million in FY2023 to $80.1 million in FY2027. While the percentages change slightly year-over-year, it is worth noting that of the FY2021 net pension costs, 79.0 percent were attributed to County retirees, while only 21.0 percent were attributed to active County employees.

Recent trends in medical claims costs have kept the County's overall growth in healthcare down, with medical claims averaging 3.9 percent growth over the past several years. Prescription drug claims continue to grow at roughly 8.0 percent, offsetting positive gains in medical claims; however, prescription drug rebates continue to outperform estimates providing additional offsets to the increased prescription drug costs. It is again worth noting that of the FY2021 net healthcare costs, 46.0 percent were attributed to County retirees and 54.0 percent were attributed to active County employees.

	2023	2024	2025	2026	2027	Percent Change (FY23 - FY27)
Healthcare	$ 111,110,000	$ 118,085,000	$ 125,509,000	$ 133,414,000	$ 141,834,000	27.7%
Pension	$ 108,740,000	$ 103,812,000	$ 116,134,000	$ 117,176,000	$ 116,756,000	7.4%
Other Benefits	$ 6,977,000	$ 7,050,000	$ 7,123,000	$ 7,199,000	$ 7,276,000	4.3%
Total Benefits Cost	$ 226,828,000	$ 228,947,000	$ 248,767,000	$ 257,789,000	$ 265,866,000	17.2%
Total Retiree Cost	$ 137,016,000	$ 136,330,000	$ 149,480,000	$ 153,939,000	$ 157,481,000	14.9%
Total Active Cost	$ 89,811,000	$ 92,616,000	$ 99,286,000	$ 103,849,000	$ 108,385,000	20.7%

Transit Expenditures: In prior forecasts, transit services have typically contributed to the County's overall cost-to-continue as the cost of transit services grew more than transit service revenue. Expenditures are forecasted to grow between 2.6 percent and 2.2 percent over the forecast period. Prior to the pandemic, farebox revenue was already on the decline with a 11.5 percent decline between FY2018 and FY2019 which contributed to overall cost-to-continue for the County in subsequent years. While farebox revenue increased in FY2021, it still lagged FY2018 and FY2019 by 36.2 percent and 27.9 percent, respectively. Since the forecast assumes that tax levy for transit operations remains flat at the FY2022 level, and because minimal growth in farebox revenue is assumed, for FY2023 and FY2024 both federal Section 5306 and federal stimulus funding are expected to cover transit operating expenditures. By FY2025, federal stimulus funding provided to the transit system is fully depleted and no longer available to offset transit services. Absent any additional funding sources before FY2025, the result is an estimated increase of $32.9 million in the County's cost-to-continue in FY2025. Additional funding of $3.8 million is needed in FY2026 and again in FY2027 to cover projected expenditure increases over the forecast period.

	2023	2024	2025	2026	2027
Estimated Inflation	2.6%	2.5%	2.2%	2.2%	2.2%
Total Expenditures	$ 168,083,000	$ 172,269,000	$ 176,059,000	$ 179,932,000	$ 183,890,000
Tax Levy	$ 7,429,000	$ 7,429,000	$ 7,429,000	$ 7,429,000	$ 7,429,000
Other Revenues	$ 160,655,000	$ 164,840,000	$ 135,755,000	$ 135,868,000	$ 135,981,000
Total Revenues	$ 168,084,000	$ 172,269,000	$ 143,184,000	$ 143,297,000	$ 143,410,000
Estimated Gap	$ -	$ -	$ 32,875,000	$ 36,635,000	$ 40,480,000

It is imperative that the County strategically address the forecasted fiscal cliff in FY2025. Without proper planning, major disruptions to transit service could occur in FY2025.

Mental Health Services: Different from previous 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: With respect to revenues, the County has been severely limited in its ability to raise meaningful revenues due mostly to State restrictions. Furthermore, aside from the five-year forecast presentation, the County has only recently begun meaningful discourse on a long-term sustainable strategy to bring much needed revenue into the County.

Over the forecast period, the County's revenue growth is projected to average 0.2 percent. Long-term, low growth rates are attributable to mostly flat revenue projections for State and Federal resources, as well as discretionary resources that are mostly forecasted to grow at the Consumer Price Index (CPI) over the forecast period.

The County successfully grew its operational revenue base $12.2 million in FY2017 and further in FY2018 due to implementation of the vehicle registration fee. However, given overall changes in other revenue sources, the County's relative revenue growth rate has remained unchanged. Further hampering the County's ability to increase its growth rate is the loss of a significant source of revenue when the Froedtert Hospital payment for the Doyne Hospital sale phased out in FY2021; at its peak, the Froedtert hospital payment provided nearly $10.0 million in revenue for the County.

The two largest sources of annual revenue increases are the property tax increase and sales tax increases. The County operates under tax levy caps imposed by State Statutes. Generally, the County can raise levy by an amount equal to net new construction and by an amount equal to the growth in debt service issued after July 1, 2005. Assuming the County was able to levy additional property taxes, the chart below shows how the structural deficit would change if an additional $5.0 million were levied above the forecasted amount. The long-term structural deficit becomes more favorable under this assumption. As opposed to a $87.0 million structural deficit in FY2027 (assuming no long-term solutions are implemented over the five-year forecast period), the structural deficit is $61.6 million, a $25.6 million difference in the County's fiscal outlook.

Sales tax 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 $7.2 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.

	2023	2024	2025	2026	2027
Property Tax	$ 315,518,000	$ 319,732,000	$ 323,889,000	$ 328,099,000	$ 332,364,000
Sales Tax	$ 88,153,000	$ 91,035,000	$ 94,003,000	$ 97,061,000	$ 100,210,000
Total	$ 403,671,000	$ 410,767,000	$ 417,892,000	$ 425,160,000	$ 432,574,000
Year-over-Year Change	$ 10,139,000	$ 7,096,000	$ 7,125,000	$ 7,268,000	$ 7,414,000

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 FY2022 budget utilized approximately $13.2 million in one-time revenues to resolve the FY2022 structural deficit. This $13.2 million in one-time revenues as well as new fiscal impacts are then added to the FY2023 cost-to-continue component to arrive at the County's true structural deficit of $12.6 million. Had the County implemented $13.2 million in funding solutions that were sustainable in 2022, the forecasted structural deficit of $12.6 million for 2023 would have been effectively eliminated.

Therefore, while the forecast projects an average of $17.4 million in costs to continue annually for the County, any unsolved portion of the FY2023 structural deficit will increase the FY2024 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.

- **Correctional Phone and Video Revenue:** The County adopted a policy in 2022 to move towards free phone and free video calling for residents in the Criminal Justice Facility and House of Correction. The FY2022 budget includes roughly $2.0 million of revenue for the provision of these services. As the revenue generated from these services is phased out and the cost of the service phased in, the impact to the structural deficit could be $4.0 million or more. The implementation schedule will likely cause impacts in subsequent years' structural deficits.

- **Freezing the 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 initially by 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 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 $58.3 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:** The Governor signed Wisconsin's biennial budget for the 2021 – 2023 fiscal years after making 50 partial vetoes. Although there has been minimal County impact for the past few years, future budgets could directly impact the long-term fiscal health of the County. While the County was subject to a one-time reduction in State transit aid for FY2022, future State budgets will likely not contain increases to the transit aids. For purposes of this report, it is assumed that most local aids will remain flat, including youth aids. Other issues of concern are the closure of Lincoln Hills and the possible return of administration of Child Welfare to the County from the State.

- **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.

- **Debt Service and Infrastructure Needs:** The County's debt service declined from a high of $886 million in FY2010, which was due to the issuance of pension obligation bonds and the Build America Bond program, to $473 million in FY2021. Assuming the County adheres to its self-imposed bonding cap, the projected outstanding debt is anticipated to decrease to $381 million by FY2026. This amount does not include a new criminal courthouse. Although the debt service has been declining, 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 FY2022 – FY2026 that total approximately $985 million of County non-airport funding, which includes $201 million for a new criminal courthouse. 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 1.6 percent, suggesting the County has not provided significant salary increases for employees beyond cost-of-living adjustments over that period. The FY2022 budget includes a $2.5 million appropriation for mid-year compensation adjustments as well as a 2.0 percent cost-of-living adjustment in the second quarter. With inflation reaching 7.5 percent in 2021, the County will likely have to revisit additional compensation adjustments in the future as it has for correctional officers and lifeguards. 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 have begun to address this through pay equity and merit award increases, but additional resources may be necessary to fully address concerns.

- **Future Changes in the DHHS – BHD:** As the DHHS – BHD continues to move its psychiatric services to new venues it is likely that many of the County's internal service providers that support these services will experience a reduction in revenue. The County charges the DHHS – BHD roughly $10.0 million for County-related services. Depending on the changes implemented, the County may need to develop additional revenues or find expenditure reductions elsewhere to absorb some or all these costs if necessary.

- **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 FY2022 budget as the basis for the FY2023 – FY2027 projection. The FY2022 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 FY2022 base is further adjusted for one-time events particular to 2022, or programs/revenues/expenditures which end in a future year.

This exercise provides a first look at the FY2023 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 FY2023 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 $17.4 million, the projected FY2023 structural deficit of $12.6 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 FY2023 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.