

COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION

DATE: 4/15/2024

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)

REQUEST

This informational report provides a preliminary 2025 capital budget financing estimate as well as a general outline of the capital budget process.

BACKGROUND

County Funding of Capital Projects

The 2024 Capital Improvement Budget (Capital Budget) includes 75 separate sub-projects for a total expenditure appropriation of \$126,010,963. Anticipated reimbursement revenue (federal, state, local sources) and private contributions total \$34,349,899 resulting in a net County financing requirement of \$91,661,064 (when including the Airport).¹

Milwaukee County Contribution						
Bonds GO/Notes	Tax Levy	Veh Reg Fee/Misc	PFC/Airport Reserve	Fed/State/ Local	Private Contribution	Adopted 2024 Total Funding
53,550,497	26,429,985	0	2,777,682	28,836,777	5,513,122	126,010,963
GARBS 8,902,900	NOTE: GARBS: General Airport Revenue Bonds.					

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 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.

2024 Estimated Annual Bond Limit

The County Board adopted file #23-781 related to joint County (\$16.2 million) and Zoological Society (\$6 million) funding for capital project WZ0141-Adventure Africa Rhino Exhibit (Rhino Project). Of this amount, approximately \$12.4 million in County funding and \$6.0 million in Zoological Society funding was included in the adopted 2024 capital budget. The 2024 - 2028 Capital Improvement Plan included a planned (but not appropriated) funding amount of \$9,248,410 (in 2025) for the Rhino Project. This amount was to be financed from General Obligation bonds from the County. As part of the December 2023 Board Committee cycle, file #23-919 was approved, which advanced a \$9,248,410 appropriation from 2025 to 2024, and also reduced the 2025 capital budget bonding cap by a like amount (\$9,248,410). The action to advance \$9,248,410 of additional bonding authority for the Rhino Project allowed the project to move forward, avoiding potential delays and cost increases.

Based on the 2024 adopted bonding amount of \$53,550,497 and the previously outlined adjustment (\$9,248,410), the projected 2025 bonding limit is \$45,908,602. This results in an estimated funding shortfall between \$50 to \$69 million.

2024 BASE	53,550,497
3% Incr on Prv Yr's Base	<u>1,606,515</u>
= Calculated 2026 Bond Cap	55,157,012
Less Rhino Exh Advance in 2023	<u>(9,248,410)</u>
2025 Adjusted Bond Cap	45,908,602

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).

The capital gap analysis projection uses the 5-Year Capital Improvement Plan forecast of projects (2025 5-YR CIP** as 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 (2025 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 toward) changes in cost due to completed estimates, moving projects out to another year as design may still be ongoing, and/or moving projects out one year (or more) due to changing county/department priorities.

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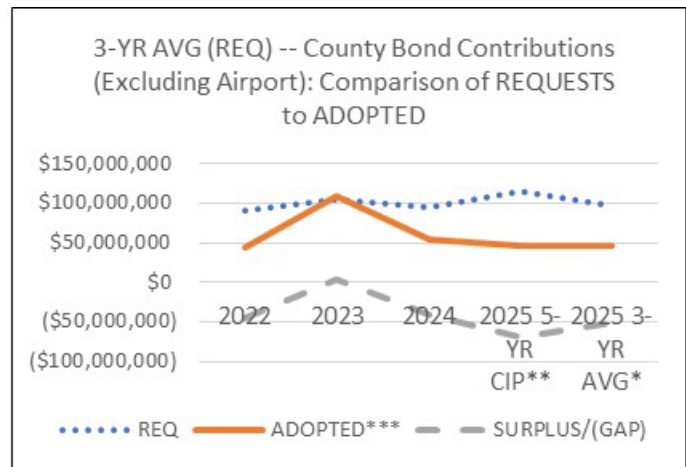
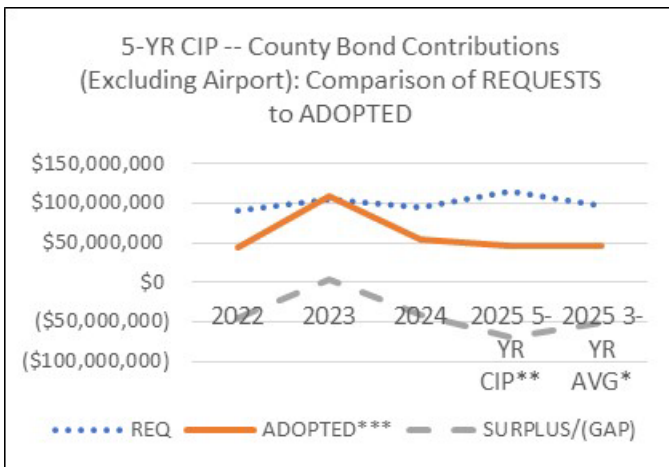
County Bond Funding Gap (Excluding Airport)					
BUDGET YR	BOND REQ	BOND ADOPTED***	BOND SURPLUS/(GAP)	% of REQ BOND PROJECTS:	
				FUNDED	NOT FUNDED
2022	\$89,656,702	\$44,505,364	(\$45,151,338)	49.6%	50.4%
2023	\$104,820,197	\$108,718,761	\$3,898,564	103.7%	-3.7%
2024	\$94,046,387	\$53,550,497	(\$40,495,890)	56.9%	43.1%
<i>Estimate 1</i> 2025 5-YR CIP**	\$115,145,258	\$45,908,602	(\$69,236,656)	39.9%	60.1%
<i>Estimate 2</i> 2025 3-YR AVG*	\$96,174,429	\$45,908,602	(\$50,265,827)	47.7%	52.3%

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

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

**Estimate is based on (forecast) Year 2025 of the current 5-YR CIP and prorated by the 3-YR cash/bond funding of requested projects.

***Bond Adopted column for Estimate Rows 1 and 2 assume the calculated Bond Cap.



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 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 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. 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 Airport reserves) that do no impact the County's overall tax levy.

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2024 Cash Financing

The 2024 Adopted Capital Improvement Budget reflects net County financing (excluding private contributions) of \$29,207,667 when including the Airport and \$26,429,985 when the Airport is excluded. The table below details the cash financing sources.

Milwaukee County Contribution					
	Tax Levy	Veh Reg Fee/Misc	PFC/Airport Reserve	Total Cash Financed	% Cash Financed
Include Airport:	26,429,985	0	2,777,682	29,207,667	31.9%*
Exclude Airport:	26,429,985	0	0	26,429,985	33.0%**

*Assumes a net County Contribution of \$91.7 million.

**Assumes a net County Contribution of \$79.9 million.

2025 Estimated Cash Financing

Based on the 2025 projected capital bonding amount of \$45,908,602, the estimated (Net County) 20% cash contribution calculates to a 2025 cash goal of \$11,477,150. This results in a projected funding shortfall between \$32 to \$67 million.²

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 property tax levy 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.

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	
2022	\$44,540,834	\$7,914,736	(\$36,626,098)	17.8%	82.2%	
2023	\$36,782,814	\$18,103,873	(\$18,678,941)	49.2%	50.8%	
2024	\$49,730,870	\$26,429,985	(\$23,300,885)	53.1%	46.9%	
<i>Estimate 1</i>	2025 5-YR CIP**	\$78,446,452	\$11,477,150	(\$66,969,302)	14.6%	85.4%
<i>Estimate 2</i>	2025 3-YR AVG*	\$43,684,839	\$11,477,150	(\$32,207,689)	26.3%	73.7%

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

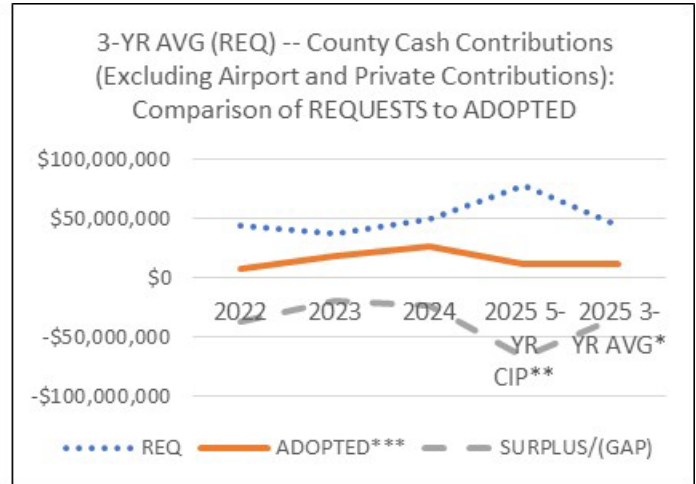
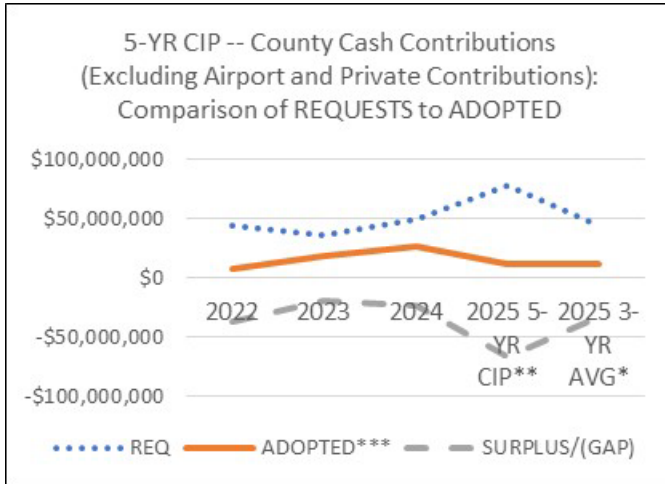
*Estimate is based on 3-YR Average of cash/bond funded projects as submitted by the requesting departments.

**Estimate is based on Year 2025 of the current 5-YR CIP and prorated by the 3-YR cash/bond funding of requested projects.

***Cash Adopted column for Estimate Rows 1 and 2 assume the calculated Bond Cap.

[2] The total projected Net County Contribution for 2025 is \$45,908,602 bond funding (80%); \$11,477,150 cash funding (20%).

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Projected County Funding of Anticipated Capital Projects: 2025 Budget Year

The table below reflects the estimated County funding gap for 2025 as reflected in the adopted 5-Year CIP (2024 - 2028). Airport projects are excluded as they are not funded by bond and cash sources noted previously in the report.

Requesting Department	County \$s	Total as %
PARKS DEPARTMENT	\$58,012,530	30.0%
DEPARTMENT OF ADMINISTRATIVE SERVICES	\$36,816,200	19.0%
DOT - TRANSIT	\$29,933,262	15.5%
FLEET MANAGEMENT	\$15,301,690	7.9%
DOT - TRANSPORTATION SERVICES	\$14,756,519	7.6%
ZOOLOGICAL DEPARTMENT	\$14,454,810	7.5%
EMERGENCY MANAGEMENT	\$13,946,028	7.2%
SHERIFF	\$5,860,197	3.0%
CULTURAL INSTITUTIONS	\$2,692,780	1.4%
COMMUNITY REINTEGRATION CENTER	\$746,990	0.4%
DOT - HIGHWAY MAINTENANCE	\$500,000	0.3%
DEPT HEALTH AND HUMAN SVCS	\$456,144	0.2%
COMBINED COURT RELATED OPER	\$114,560	0.1%
	\$193,591,710	100%

Parks, Transit, and DAS-Facilities Management comprise about \$124.7 million (or 64.5%) of the total anticipated funding requirements for 2025.

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The adopted 5-Year CIP includes the following projects over \$5 million (for year 2025):

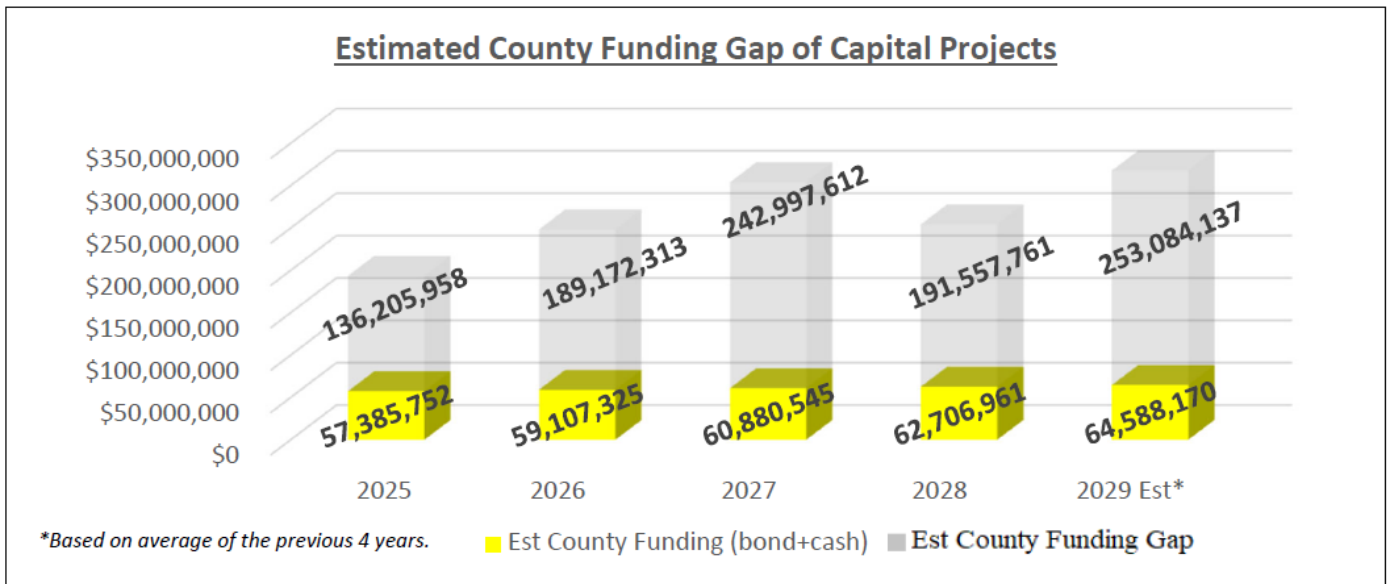
Requesting Department	Project #	Project Title	County \$\$
DOT - TRANSIT	TBD-379895	PROGRAM PLACEHOLDER (FOR OUT-YEARS 2 - 5) - BUS REPLACEMENT PROGRAM*	\$ 21,000,000
FLEET MANAGEMENT	TBD-255763	PROGRAM PLACEHOLDER (FOR OUT-YEARS 2 - 5) - VEHICLE AND EQUIPMENT REPLACEMENT PROGRAM	\$ 14,000,000
PARKS DEPARTMENT	WP054501	Whitnall Golf Course Irrigation	\$ 9,330,240
ZOOLOGICAL DEPARTMENT	WZ014101	Adventure Africa - Rhinos	\$ 9,248,410
DOT - TRANSPORTATION SERVICES	WH026001	S 76th St. (CTH U)-S. County Line Rd. to S. Creekview Ct.	\$ 6,032,833
PARKS DEPARTMENT	TBD-545248	LAKE MICHIGAN SHORELINE STABILIZATION - SHERIDAN PARK	\$ 5,000,000

*Bus replacements will likely have federal funding offsets (80% or \$16.2 million), resulting in significantly less County funding than the amount shown.

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 2024 - 2028 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 mid-July.

The chart below illustrates the estimated County funding gap for years 2025 through 2029 based on the projects in the current CIP and existing County funding policies. This includes both BOND and CASH funded projects.³



[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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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 2025) 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 (2026 – 2029) 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 Office of Strategy, Budget, and Performance (OSBP) towards mid-July.⁴ Departmental requested budgets (Capital and Operating) are posted by the OSBP on the County's website no later than August 15th of each year.⁵

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 or alternate;
- (c) Comptroller (committee chair as appointed by the Chair of the County Board), or alternate;
- (d) Chair of the committee on community, environment and economic development, or alternate;
- (e) Chair and vice-chair of the committee on finance, 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 OSBP.

[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/Performance-Strategy-and-Budget/Budget-Archive>

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County Executive Recommended Phase

Upon receipt of the departmental CIP requests, the SBP 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

Finance and Audit Committee

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 answer 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.

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 vetoes by the County Executive and whether to sustain or override each veto.

[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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Preliminary 2024 Timeline (for the 2025 for the Capital Budget)

- February-May – Preliminary planning with departments;
- April or May – Presentation of 2025 Capital Financing/Process to County Board;
- February - May – Departments develop their budget requests;
- Mid-July – Departments submit their (capital) budget requests to the OSBP;
- August-September – County Executive works with the OSBP 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 2025 budget;
- December – OSBP and the Comptroller’s Office work to implement the 2025 budget

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

vincent.masterson@milwaukeecountywi.gov

PREPARED BY

Vince Masterson, Capital Budget Coordinator, Office of Strategy, Budget, & Performance

APPROVED BY

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