

**COUNTY OF MILWAUKEE**  
INTEROFFICE COMMUNICATION

DATE: 2/21/2020

TO: Theodore Lipscomb, Sr., 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 2021 capital budget financing estimate as well as a general outline of the upcoming capital budget process.

**County Funding of Capital Projects**

The County finances capital projects primarily with general obligation bonds and notes (bonds), sales tax, tax levy, and reimbursement revenue (from Federal, State, and/or Local sources).<sup>1</sup> The 2020 Adopted Capital Improvement Budget includes 90 separate sub-projects with expenditures totaling \$91,627,336, which includes \$88,164,479 of County funding and \$3,462,857 of private contributions and Federal/State/Local revenue. The table below illustrates the 2020 Adopted Capital Budget funding sources:

Milwaukee County Contribution					Fed/State/ Local	Private Contribution	Adopted '20 Total Funding
Bonds GO/Notes	Sales Tax	Tax Levy	Veh Reg Fee/Misc	PFC/Airport Reserve			
44,927,646	7,354,784	4,245,310	0	13,712,002	3,011,807	451,050	91,627,336
<b>GARBS</b> 17,924,737							

*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 sales tax and tax levy) and/or other financing sources (i.e. private contributions, federal-state-locals funds, etc.).

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

**COUNTY OF MILWAUKEE**  
INTEROFFICE COMMUNICATION

**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.

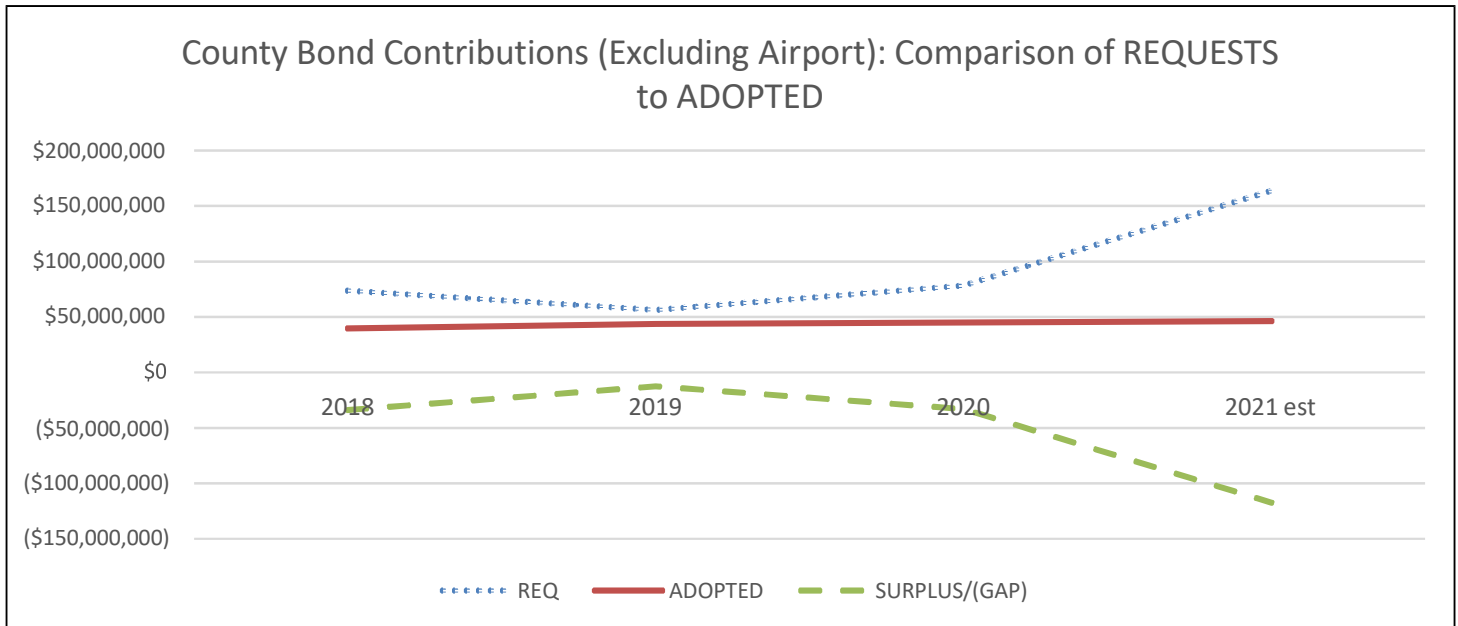
*2021 Estimated Annual Bond Limit*

Based on the 2020 adopted bonding amount of \$44,927,646, the estimated 3% bond increase results in a projected 2021 bonding limit of \$46,275,475.

More importantly, 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.

<b>County Bond Funding Gap (Excluding Airport)</b>					
BUDGET YR	BOND REQ	BOND ADOPTED	BOND SURPLUS/(GAP)	% of REQ BOND PROJECTS:	
				FUNDED	NOT FUNDED
2018	\$73,718,901	\$39,642,309	(\$34,076,592)	53.8%	46.2%
2019	\$56,238,941	\$43,619,074	(\$12,619,867)	77.6%	22.4%
2020	\$78,147,924	\$44,927,646	(\$33,220,278)	57.5%	42.5%
2021 est	\$163,631,273	\$46,275,475	(\$117,355,798)	28.3%	71.7%

*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.*



**COUNTY OF MILWAUKEE**  
INTEROFFICE COMMUNICATION

## 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 is based off 20% of the Net County Funding Contribution (which excludes Federal/State/Local revenue sources). Private contributions have historically been included as part of the Net County Funding Contribution. The 2020 Adopted Capital Improvement Budget included \$0 in County “cash” financing through implementation of the Vehicle Registration Fee (VRF) (which was introduced as part of the 2017 Adopted Budget).

### *2020 Cash Financing*

The 2020 Adopted Capital Improvement Budget reflects net County financing (including private contributions) of \$88,164,479 when including the Airport and \$56,527,740 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:	7,354,784	4,245,310	0	13,712,002	25,312,096	28.7%
Exclude Airport:	7,354,784	4,245,310	0	0	11,600,094	20.8%

### *2021 Cash Financing*

Based on the 2021 projected capital bonding amount of \$46,275,475, the estimated cash contribution of 20% of Net County Contributions results in a cash goal of \$11,568,869.<sup>2</sup>

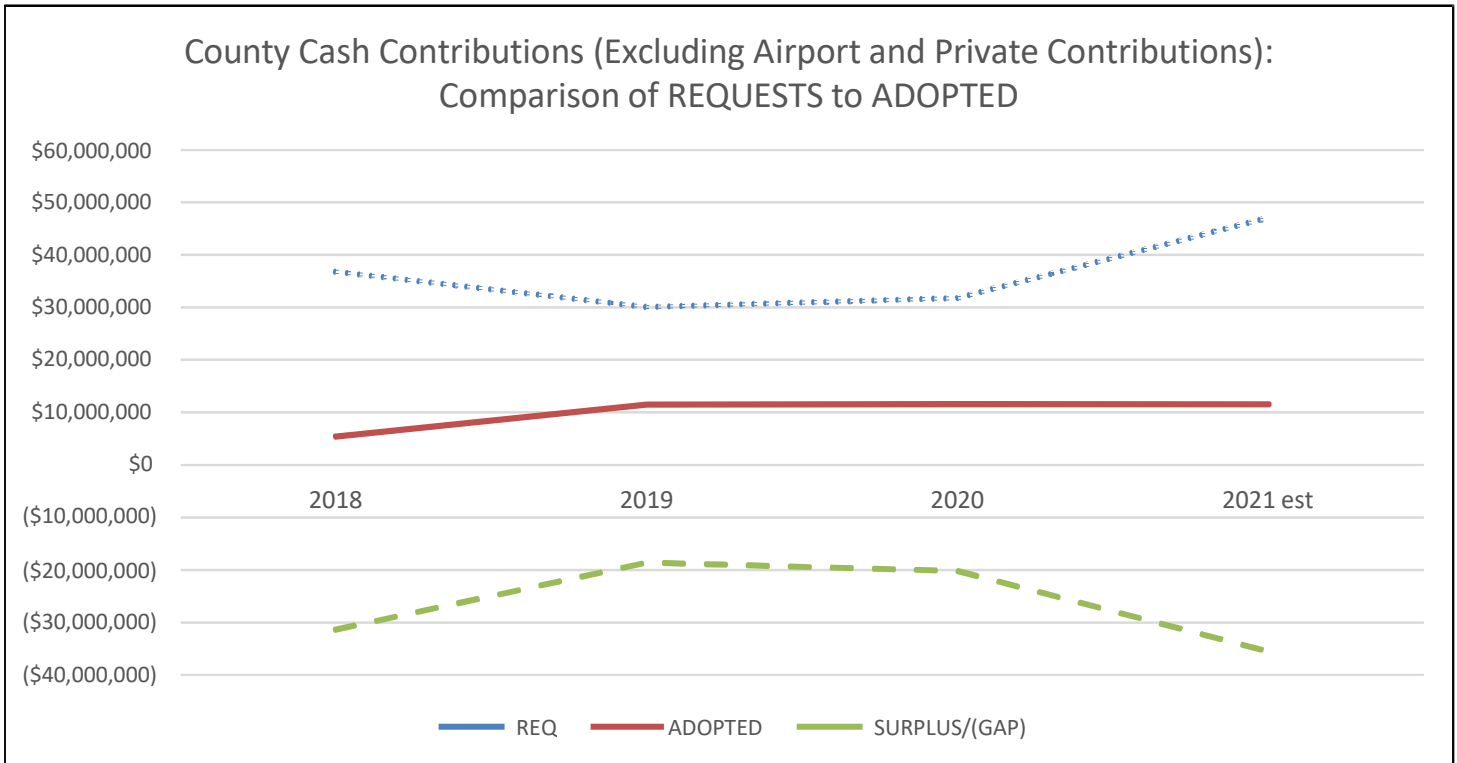
Similar to bond financing issues noted previously, NON-BOND ELIGIBLE projects at the DEPARTMENTAL REQUEST Phase consistently, and significantly outpace the County's ability to finance projects using sales tax, tax levy, and/or VRF revenue (i.e. "cash"). Given the fiscal challenges facing the operating 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 anticipated reduction of Doyne Hospital Sales Revenue starting after 2020 (based on the 1996 sale agreement between Milwaukee County and Froedtert Memorial Lutheran Hospital).

<sup>[2]</sup> The total projected Net County Contribution for 2021 is \$57,844,344 (\$46,275,475 bond funding, or 80%; \$11,568,869 cash funding, or 20%).

**COUNTY OF MILWAUKEE**  
INTEROFFICE COMMUNICATION

<b>County Cash Funding Gap (Excluding Airport and Private Contributions)</b>					
BUDGET YR	CASH		CASH SURPLUS/(GAP)	% of REQ CASH PROJECTS:	
	REQ	ADOPTED		FUNDED	NOT FUNDED
2018	\$36,785,176	\$5,409,618	(\$31,375,558)	14.7%	85.3%
2019	\$30,085,532	\$11,476,492	(\$18,609,040)	38.1%	61.9%
2020	\$31,783,042	\$11,600,094	(\$20,182,948)	36.5%	63.5%
2021 est	\$47,108,922	\$11,568,869	(\$35,540,053)	24.6%	75.4%

*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.*



**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 \$9.3 million (2015), \$6.7 million (2016), \$6.8 million (2017), \$4.8 million (2018), \$11.5 million (2019), and \$7.4 million (2020). Remaining sales tax revenue is available for operating purposes stated in Milwaukee County Ordinance 22.04.

**COUNTY OF MILWAUKEE**  
INTEROFFICE COMMUNICATION

**Projected County Funding of Anticipated Capital Projects: 2021 Budget Year**

Based on the 2021 planned capital project requests (included in the 2020 - 2024 Capital Improvement Plan), continuing/contractual/mandated projects, and 2020 requested projects that were NOT adopted, there will be an estimated 2021 financing gap of just under \$153 million. As reference, last year's budget planning process forecast a 2020 County funding gap just below \$99 million.

As compared to the 2020 County funding gap, the (bond and cash) spike seen in the 2021 estimate can largely be attributed to:

1.) Roughly \$37.5 million increase mainly in (2021) PLANNED projects resulting from departmental projects being added due to increased use of the County's VFA facilities management system (which helps identify and plan for facility-related needs for County departments). Of the \$37.5 million, about \$10.7 million is related to increased bus replacement costs (moving from diesel to electric);

2.) An estimated \$34.5 million increase primarily from CONTINUING projects. This is mainly due to a larger number of projects with only planning/design appropriations in 2020 (in order to provide more cost efficient construction estimates).<sup>3</sup> As part of the 2021 request phase, these projects will be monitored to determine if planning and design has been substantially completed so that a well-defined scope and construction estimate can be submitted. Projects with design still in progress are anticipated to be completed in following budget cycles for consideration of construction appropriations at that time.

Two significant 2021 projects include (continuing) WC20901-Forensic Science Center Phase 2 for \$16.9 million and (planned) WT12701-Battery Electric Buses for \$25.5 million.

<b>2021 County Financing Estimates</b>			
<u>Estimated 2021 BOND Projects</u>	<u>\$</u>	<u>\$</u>	<u>Estimated 2021 CASH Projects</u>
<i>2020 Not Adopted--&gt;</i>	<b>\$5,038,123</b>	<b>\$11,556,259</b>	<i>&lt;---2020 Not Adopted</i>
<i>2021 Continuing-Mandated-Contractual--&gt;</i>	<b>\$57,056,857</b>	<b>\$12,749,127</b>	<i>&lt;---2021 Continuing-Mandated-Contractual</i>
<i>2021 Planned--&gt;</i>	<b>\$101,536,293</b>	<b>\$22,803,536</b>	<i>&lt;---2021 Planned</i>
	<b>\$163,631,273</b>	<b>\$47,108,922</b>	
	<b>2021 Est. Total Requests:</b>		
	<b>\$210,740,195</b>		
	↓		
<b>Financing @ 3% BOND Policy</b>			<b>Cash Financing @ 20% CASH Goal</b>
<i>2021 Estimated County BOND Financing--&gt;</i>	<b>\$46,275,475</b>	<b>\$11,568,869</b>	<i>&lt;--2021 Estimated County CASH Financing</i>
<i>2021 Est. County BOND Financing Surplus/(Gap)--&gt;</i>	<b>(\$117,355,798)</b>	<b>(\$35,540,053)</b>	<i>&lt;--2021 Est. County CASH Financing Surplus/(Gap)</i>
	<b>2021 Est. Total County Funding Surplus/(Gap):</b>		
	<b>(\$152,895,851)</b>		

<sup>[3]</sup> In general, new project cost estimates are performed at a conceptual level, usually resulting in contingencies of 20% or greater (of total project costs) due to project unknowns, potential risks, and basic scope detail. As a project moves through the planning/design process, the unknowns/risks are reduced as the scope and planning become more detailed. When planning/design is completed for a project, the contingency is typically reduced to 5% (of total project costs), resulting in greater overall costing accuracy/efficiency. It is expected this approach will generate staggered construction appropriations based on design completion.

Conversely, this approach also has the effect of reducing the year over year "Not Adopted" projects by approximately \$16.4 million dollars when compared to the 2020 Capital Gap Report.

**COUNTY OF MILWAUKEE**  
INTEROFFICE COMMUNICATION

The chart below reflects the estimated County funding gap for 2021 assuming existing County funding policies and the inclusion of 2020 non-adopted projects and the 2021 mandated and planned projects in the current CIP:

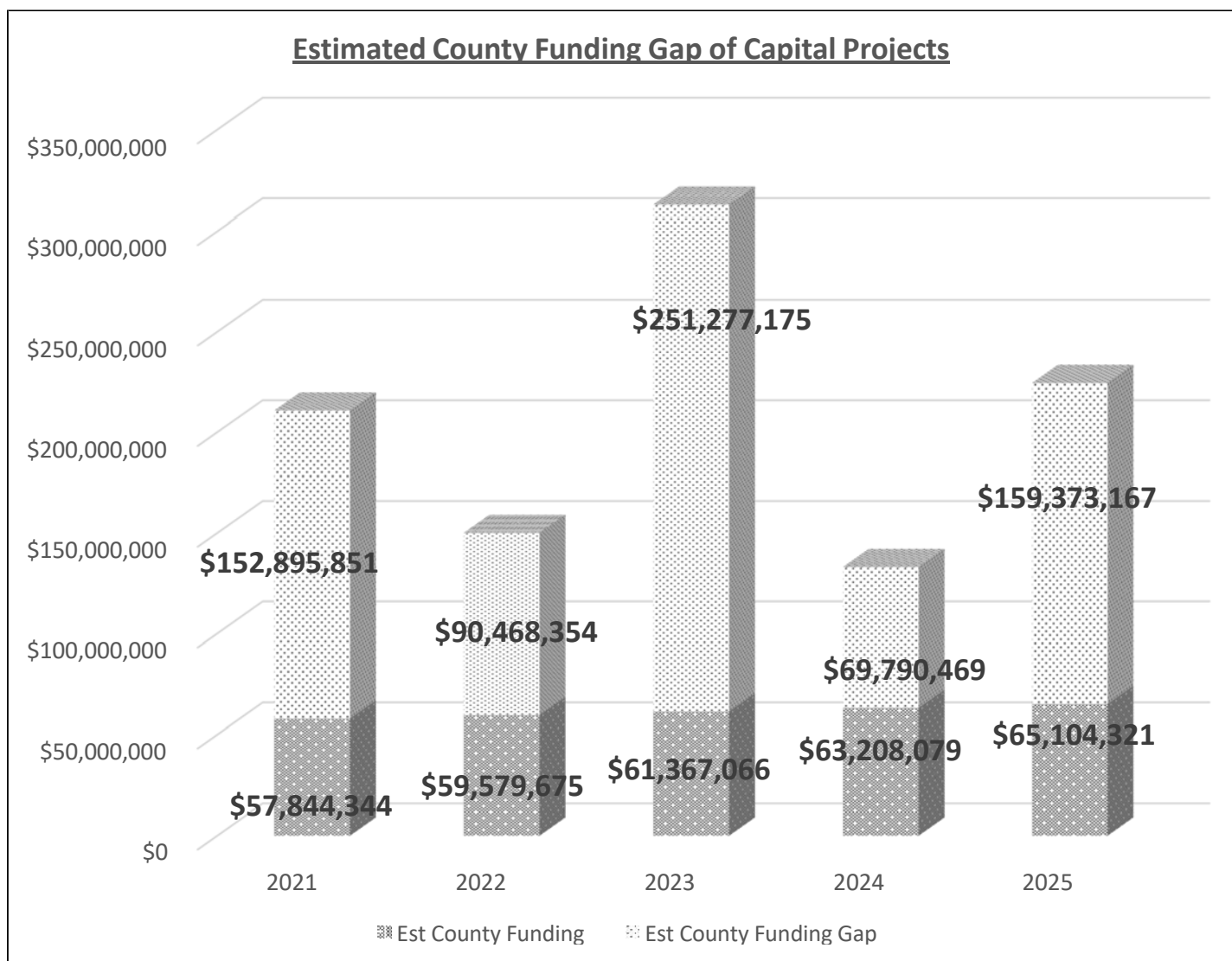
REQUESTING DEPARTMENT	2021 CONT-MANDT-CNTRCT	2020 REQ NON ADOPTED	2021 PLANNED REQ	TOTAL
Dept of Parks, Recreation, & Culture	20,159,016	2,495,287	42,395,110	65,049,413
Dept of Transportation - Transit / Paratransit System	8,585,399	-	32,158,412	40,743,811
Dept of Administrative Services - Facilities Mngmnt - Facilities Maint	19,447,614	2,836,310	14,643,622	36,927,546
Dept of Health & Human Services - Behavioral Health Division	-	4,959,827	3,858,449	8,818,276
Dept of Transportation - Fleet Mngmnt	-	-	8,196,713	8,196,713
Zoological Department	6,313,896	-	600,000	6,913,896
Dept of Health & Human Services	6,524,994	130,000	110,000	6,764,994
Dept of Transportation - Transportation Services	3,639,480	200,000	1,976,396	5,815,876
Milw Public Museum	300,000	-	5,427,068	5,727,068
Dept of Administrative Services - Information Mngmnt Service Division	215,165	1,690,610	3,387,426	5,293,201
Office of the Sheriff	1,342,148	1,216,374	2,382,181	4,940,703
Office of Emergency Management	-	1,560,500	3,314,601	4,875,101
Department on Aging	-	1,205,474	1,028,537	2,234,011
Charles Allis / Villa Terrace	1,504,978	-	721,989	2,226,967
House of Correction	700,000	-	902,714	1,602,714
Dept of Administrative Services - Facilities Mngmnt - Envrmntl Services	537,531	-	943,200	1,480,731
Medical Examiner	-	-	940,875	940,875
Dept of Administrative Services - Office of Persons w/ Disabilities	535,763	-	300,000	835,763
Marcus Center for the Performing Art	-	-	800,000	800,000
Office on African American Affairs	-	300,000	150,000	450,000
Milw County Historical Society	-	-	102,536	102,536
<b>Grand Total</b>	<b>69,805,984</b>	<b>16,594,382</b>	<b>124,339,829</b>	<b>210,740,195</b>

**Projected County Funding of Anticipated Capital Projects: 2021 – 2024 (From Current 5-YR Plan)**

The following figures and tables are based on project scopes and cost estimates relative to planned capital projects within the 2020 - 2024 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 and May/June.

**COUNTY OF MILWAUKEE**  
 INTEROFFICE COMMUNICATION

The chart below illustrates the estimated County funding gap for years 2021 through 2025 based on the projects in the current CIP and existing County funding policies: <sup>4</sup>



**County Funding Level Scenarios of Anticipated Capital Projects**

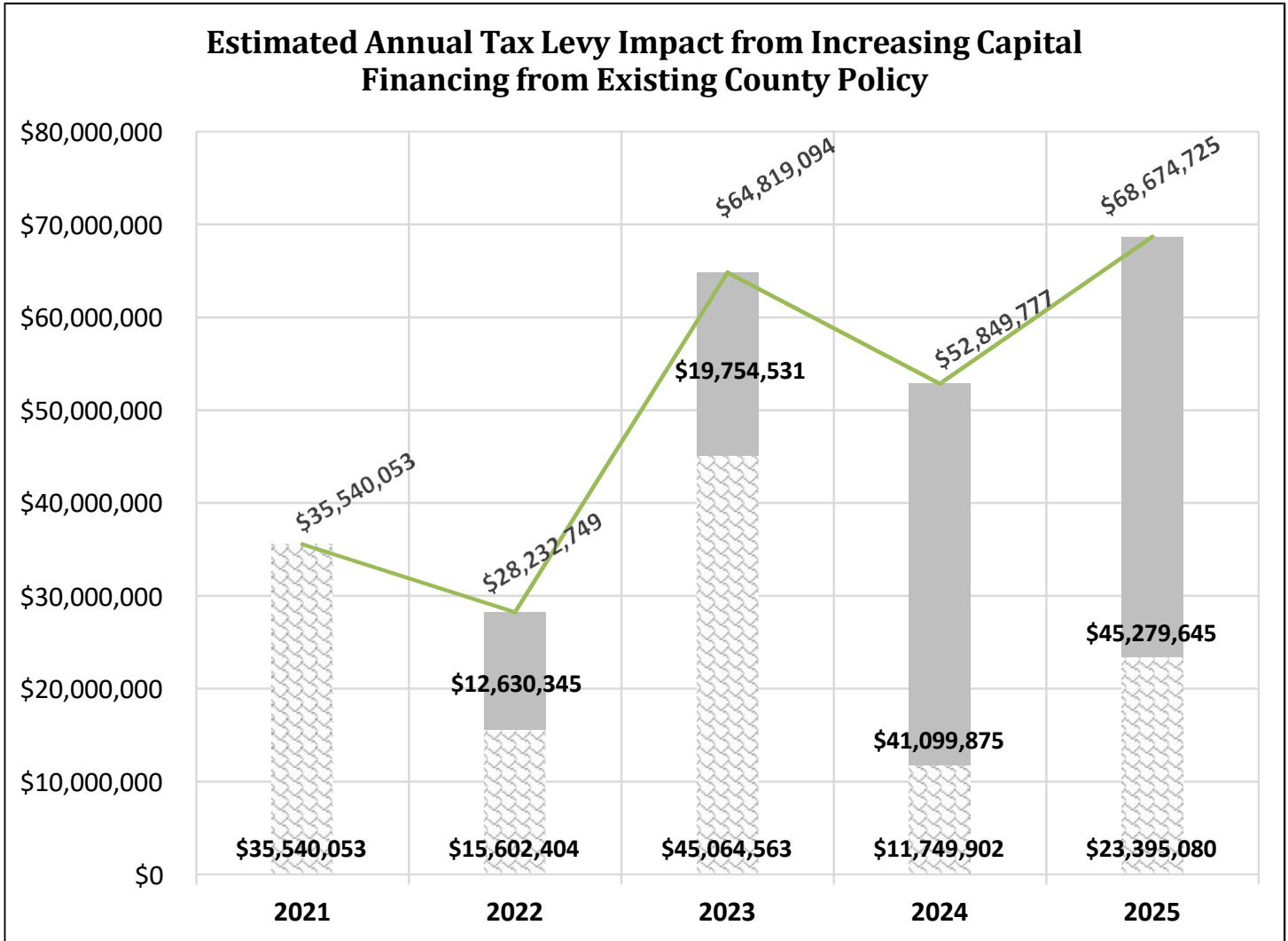
Over the next five years, under the existing County capital financing policy, approximately 33% (on average) of the projected annual capital funding can be met. It is important to note the funding gap spike reflected in the 2023 planning year (illustrated in the previous table and the table below) includes anticipated capital placeholder request(s) for Bus Replacements (\$25.5 million) and a New Criminal Courthouse (\$180 million). Additionally, bus replacements over the usual 30/bus replacement schedule is anticipated in 2022 (up to 90) and 2024/2025 (up to 55 each year) and may significantly impact may County capital costs. These bus replacements are not in the current 5-Year Plan (and not in the table above), but will be updated and placed in upcoming 5-Year Plan (2021-2025) as part of the 2021 Capital Budget Request process.

Again, these are high-level conceptual planning figures only and will likely change upon refined cost estimates.

<sup>[4]</sup> County funding shown in the table reflects the existing County policy of increasing the amount of general obligation bond (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.

**COUNTY OF MILWAUKEE**  
INTEROFFICE COMMUNICATION

To illustrate the impact of increased County funding beyond the existing financing policy, the table below assumes full funding of the DEPARTMENTAL REQUESTs (from 2021 through 2025) and reflects a projected cumulative tax levy increase when compared to the existing financing policy:



Note: Year 2025 reflects the average of years 2021 - 2023 based on the existing 2020 - 2024 5-YR CIP.



The table above does NOT include pre-existing debt and only reflects a specific 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.



**COUNTY OF MILWAUKEE**  
INTEROFFICE COMMUNICATION

Additionally, you will notice that 2021 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 2021 general obligation bonds will begin in 2022; the amortized debt service repayment schedule for 2022 general obligation bonds will begin in 2023; 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

For reference, the Office of the Comptroller and the Office of Performance, Strategy and Budget, Department of Administrative Services, submitted a 2019 informational report ([file #19-626](#)) relating to the County's self-imposed bonding limit and fiscal analysis of alternative bonding limits.

**COUNTY OF MILWAUKEE**  
INTEROFFICE COMMUNICATION

## **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 2021) 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 (2022 – 2025) 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 the end of June/early July.<sup>4</sup> Departmental requested budgets (Capital and Operating) are posted by the DAS on the County's website no later than August 15th of each year.<sup>5</sup>

### *Capital Improvement Committee (CIC)*

The CIC is an advisory sub-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 DAS-PSB.

### *County Executive Recommended Phase*

Upon receipt of the departmental CIP requests, the 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.<sup>6</sup>

<sup>[5]</sup> 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).

<sup>[6]</sup> 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: <http://county.milwaukee.gov/PSB/County-Budget.htm>

**COUNTY OF MILWAUKEE**  
INTEROFFICE COMMUNICATION

*County Board Phase*

Finance and Audit Committee

After the County Executive submits the Recommended Budget, the Finance and Audit Committee (FAC) holds budget hearings. The review typically lasts through the month of October. Departmental staff is present at FAC hearings to answer questions related to their capital projects.<sup>7</sup>

During this phase, members of the FAC may introduce amendments to the Recommended Budget. Upon close of the budget hearings, the FAC 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 FAC. The County Board then meets to act on the amendments and recommendations submitted by the FAC 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.

<sup>[7]</sup> Per Wisconsin State Statute 59.60(6) (b) & 59.17(6), CEX submits recommended budget to the Board no later than October 1st.

**COUNTY OF MILWAUKEE**  
INTEROFFICE COMMUNICATION

**Preliminary 2021 Capital Budget Timeline**

- **February-May – Preliminary planning with departments;**
- **April or May – Presentation of 2021 Capital Financing/Process to County Board;**
- **March-June – Departments develop their budget requests;**
- **June (Last Business Day) – Departments submit their (capital) budget requests to the Office of Performance, Strategy, and Budget;**
- **August-September – County Executive works with DAS-PSB and departments to finalize the County Executive Recommended Budget;**
- **October-November – The Finance and Audit Committee reviews and requests information on the Recommended Budget;<sup>8</sup>**
- **November – The County Board adopts the 2021 budget;**
- **December – DAS-PSB and the Comptroller’s Office work to implement the 2021 budget**

<sup>[8]</sup> The County Board establishes the budget hearing calendar for this committee annually.

**COUNTY OF MILWAUKEE**  
INTEROFFICE COMMUNICATION

**RECOMMENDATION**

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



---

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

pc:

Chris Abele, County Executive  
Raisa Koltun, Chief of Staff, County Executive  
James Schmitt, Chairperson, Finance & Audit Committee  
Kelly Bablitch, Chief of Staff, County Board of Supervisors  
Steve Cady, Research & Policy Director, Office of the Comptroller  
Janelle Jensen, Sr. Committee Coordinator, Office of the County Clerk  
Teig Whaley-Smith, Director, Department of Administrative Services  
Scott Manske, Comptroller, Office of the Comptroller  
Pamela Bryant, Capital Finance Manager, Office of the Comptroller