

**COUNTY OF MILWAUKEE**  
INTEROFFICE COMMUNICATION

DATE: 1/19/2021

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 2022 capital budget financing estimate as well as a general outline of the upcoming capital budget process.

**County Funding of Capital Projects**

The 2021 Capital Improvements Budget (Capital Budget) includes 64 separate sub-projects for a total expenditure appropriation of \$79,996,322. Anticipated reimbursement revenue (federal, state, local sources) and private contributions total \$16,753,197 resulting in a net financing requirement of \$63,243,125 (when including the Airport):<sup>1</sup>

Milwaukee County Contribution							
Bonds GO/Notes	Sales Tax	Tax Levy	Veh Reg Fee/Misc	PFC/Airport Reserve	Fed/State/ Local	Private Contribution	Adopted 2021 Total Funding
46,275,475	7,256,584	0	3,763,816	5,947,250	14,733,162	2,020,035	79,996,322

*NOTE: The 'Veh Reg Fee/Misc' category reflects Behavioral Health Division Reserves used to partially fund capital project WS12601-Youth Services Admin Relocation and Tenant Imprv. No Vehicle Registration Fee revenue was used in the 2021 Adopted Capital Budget.*

**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.

*2022 Estimated Annual Bond Limit*

Based on the 2021 adopted bonding amount of \$46,275,475, the projected 2022 bonding limit is \$47,663,739. This results in a projected funding shortfall between \$72 to \$132 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 (2022 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 (2022 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 moving projects out one year (or more) due to changing county/department priorities.

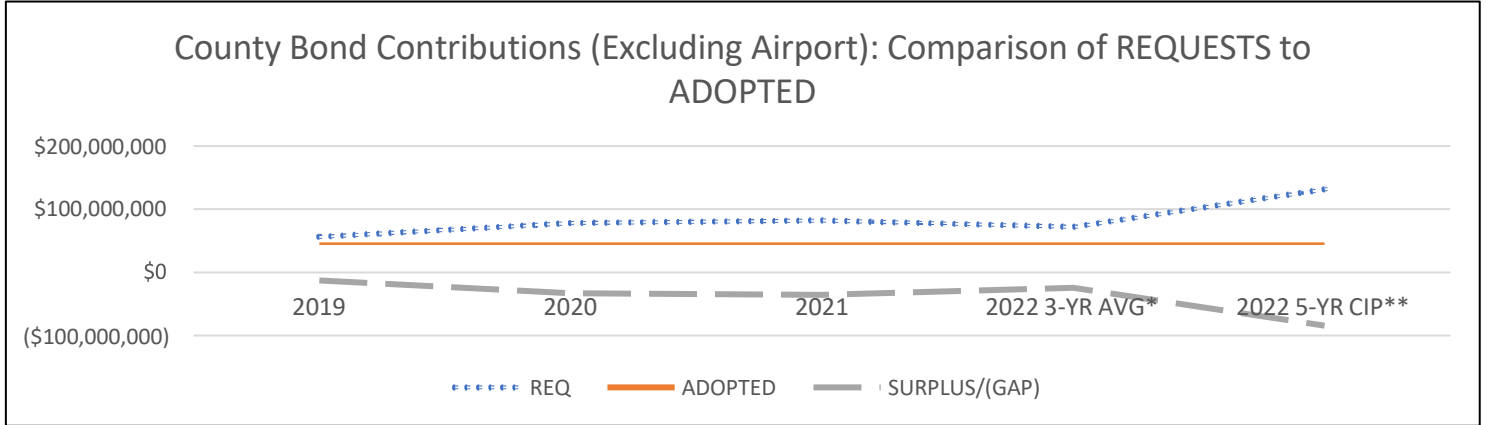
<b>County Bond Funding Gap (Excluding Airport)</b>						
BUDGET YR	BOND REQ	BOND ADOPTED	BOND SURPLUS/(GAP)	% of REQ BOND PROJECTS:		
				FUNDED	NOT FUNDED	
2019	\$56,238,941	\$43,619,074	(\$12,619,867)	77.6%	22.4%	
2020	\$78,147,924	\$44,927,646	(\$33,220,278)	57.5%	42.5%	
2021	\$82,304,205	\$46,275,475	(\$36,028,730)	56.2%	43.8%	
<i>Estimate 2</i>	2022 3-YR AVG*	\$72,230,357	\$47,663,739	(\$24,566,618)	66.0%	34.0%
<i>Estimate 1</i>	2022 5-YR CIP**	\$131,623,678	\$47,663,739	(\$83,959,939)	36.2%	63.8%

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 2022 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 Airport reserves) that do no impact the County's overall tax levy.

*2021 Cash Financing*

The 2021 Adopted Capital Improvement Budget reflects net County financing (including private contributions) of \$63,243,125 when including the Airport and \$57,295,875 when the Airport is excluded. The table below details the cash financing sources.

Milwaukee County Contribution					Total Cash Financed	% Cash Financed
Sales Tax	Tax Levy	Veh Reg Fee/Misc*	PFC/Airport Reserve			
Include Airport:	7,256,584	0	3,763,816	5,947,250	16,967,650	26.8%
Exclude Airport:	7,256,584	0	3,763,816	0	11,020,400	19.2%

*\*Reflects Behavioral Health Division (BHD) Reserves used to partially fund capital project WS12601-Youth Services Admin Relocation and Tenant Imprv. Excluding the BHD Reserves from the calculation results in cash funding of 20.9% when including the Airport and 12.7% without the Airport. No VRF revenue for 2021.*

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*2022 Estimated Cash Financing*

Based on the 2022 projected capital bonding amount of \$47,663,739, the estimated cash contribution of 20% of Net County Contributions calculates to a cash goal of \$11,915,935.<sup>2</sup> This results in a projected funding shortfall between \$37 to \$67 million.

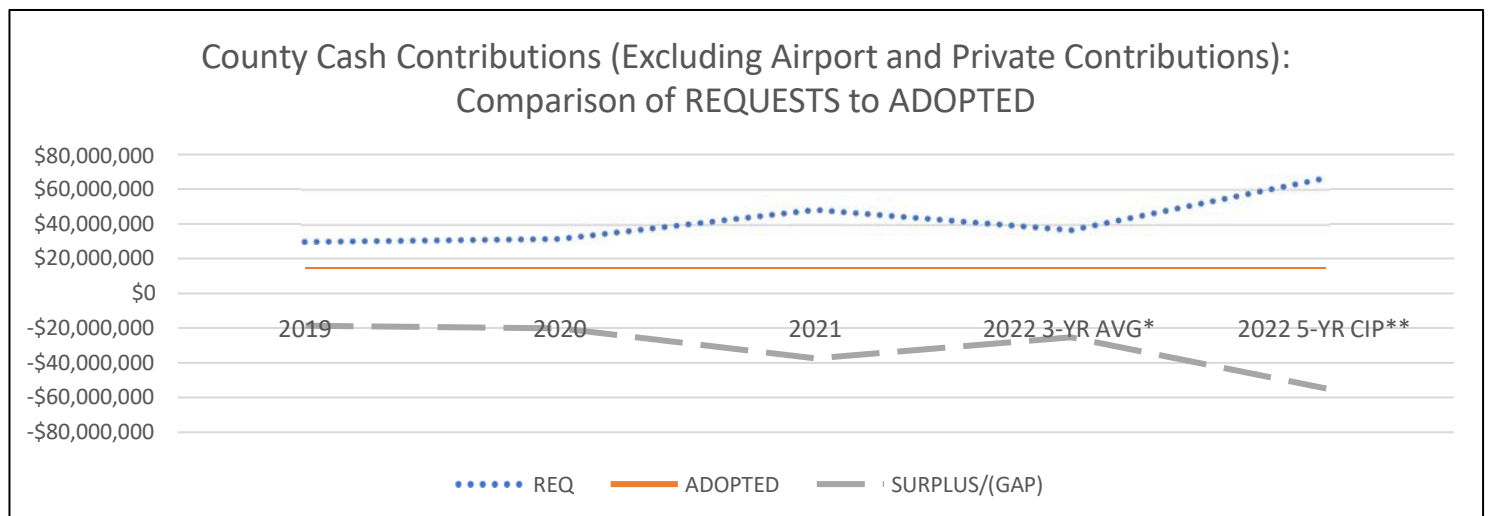
Similar to bond financing issues noted previously, NON-BOND ELIGIBLE projects at the DEPARTMENTAL REQUEST Phase consistently outpace the County's ability to finance projects using sales tax, tax levy, and/or VRF revenue (i.e. "cash"). Given the fiscal challenges facing the operating budget and assuming 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 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).

<b>County Cash Funding Gap (Excluding Airport and Private Contributions)</b>					
BUDGET YR	CASH			% of REQ CASH PROJECTS:	
	REQ	ADOPTED	SURPLUS/(GAP)	FUNDED	NOT FUNDED
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	\$48,452,372	\$11,020,400	(\$37,431,972)	22.7%	77.3%
<i>Estimate 2</i> 2022 3-YR AVG*	\$36,773,649	\$11,915,935	(\$25,407,987)	32.5%	67.5%
<i>Estimate 1</i> 2022 5-YR CIP**	\$66,623,565	\$11,915,935	(\$54,707,630)	17.9%	82.1%

*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 2022 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 2022 is \$47,663,739 bond funding (80%); \$11,915,935 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 \$4.8 million (2018), \$10.8 million (2019), \$7.4 million (2020) and \$7.3 million (2021). Remaining sales tax revenue is available for operating purposes stated in Milwaukee County Ordinance 22.04.

### Projected County Funding of Anticipated Capital Projects: 2022 Budget Year

The table below reflects the estimated County funding gap for 2022 as reflected in the adopted 5-Year CIP (2021 - 2025). Airport projects are excluded as they are not funded by bond and cash sources noted previously in the report. Parks, Transit, and DAS-Facilities Management comprise about \$129.0 million (or 65%) of the total anticipated funding requirements for 2022.

REQUESTING DEPARTMENT	TOTAL \$	TOTAL as %
Dept of Parks, Recreation, & Culture	43,486,279	21.9%
Dept of Transportation - Transit / Paratransit System	42,846,809	21.6%
Dept of Administrative Services - Facilities Mngmnt - Facilities Maint	42,666,039	21.5%
Dept of Transportation - Highway Maint	11,971,996	6.0%
Dept of Transportation - Fleet Mngmnt	8,234,261	4.2%
Office of the Sheriff	7,060,242	3.6%
Zoological Department	6,883,950	3.5%
Office of Emergency Management	6,839,577	3.5%
Dept of Administrative Services - Information Mngmnt Service Division	6,249,390	3.2%
Milw Public Museum	5,427,068	2.7%
Dept of Transportation - Transportation Services	4,078,773	2.1%
Dept of Health & Human Services	2,988,085	1.5%
House of Correction	2,855,116	1.4%
Dept of Administrative Services - Facilities Mngmnt - Envrmtl Services	1,526,037	0.8%
Charles Allis / Villa Terrace	1,369,256	0.7%
Dept of Administrative Services - Office of Persons w/ Disabilities	1,019,209	0.5%
Medical Examiner	940,875	0.5%
Marcus Center for the Performing Art	773,000	0.4%
Office on African American Affairs	450,000	0.2%
War Memorial Center-Art Museum	240,000	0.1%
District Attorney	235,668	0.1%
Milw County Historical Society	105,613	0.1%
<b>TOTAL:</b>	<b>198,247,243</b>	<b>100%</b>

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The adopted 5-Year CIP includes the following projects over \$5 million (in year 2022):

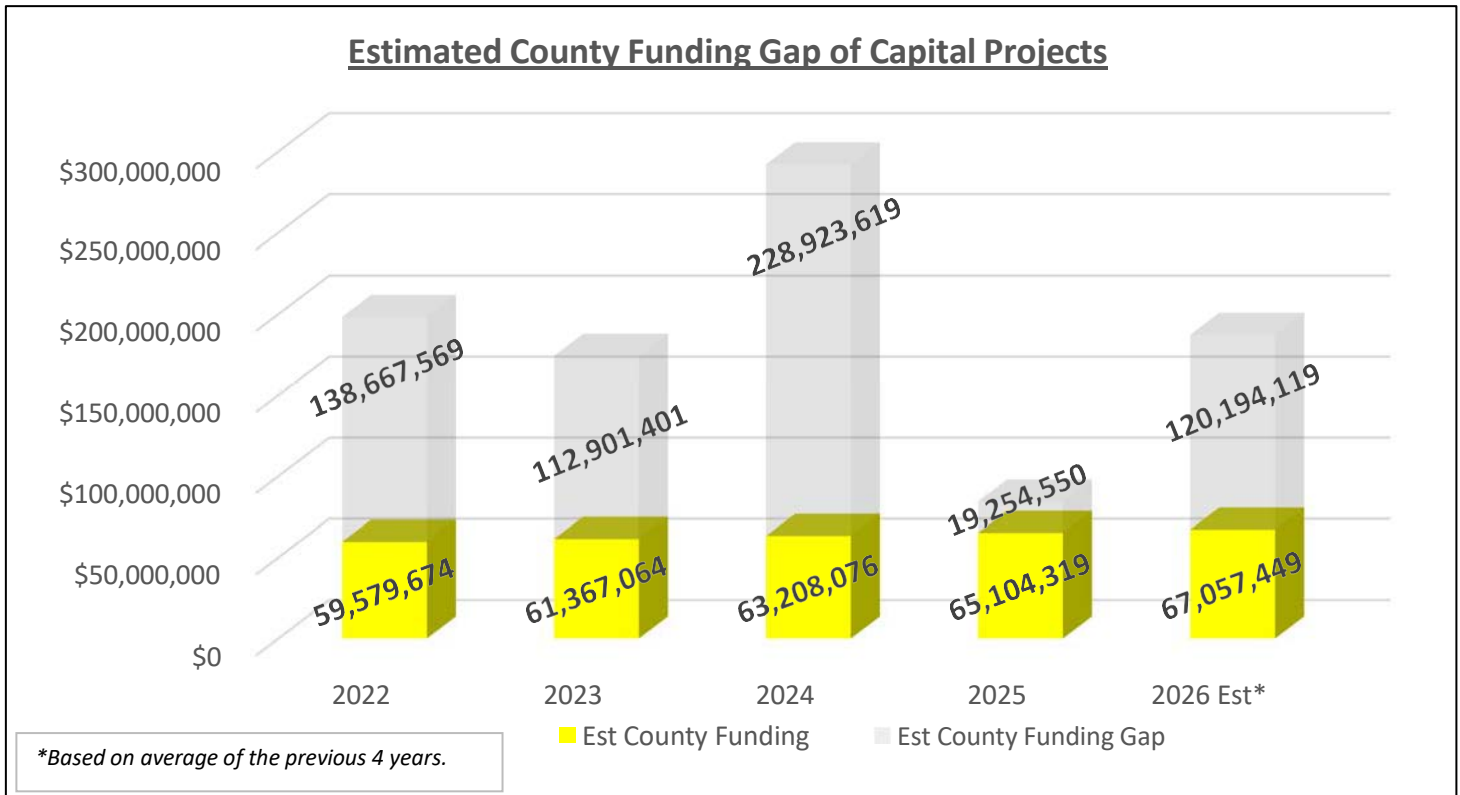
DEPT	Project	Project Description	Est County Funding
ZOO	WZ14101	Zoo Adventure Africa-Rhinos Exhibit	5,000,000
DOT-FLEET	Multiple	Fleet General Equipment-(Multiple Rplcmnts)	8,196,713
PARKS	WP70601	South Shore Breakwater	9,220,809
DOT-HWY	WH24201	North Shop Improvement	11,471,996
DAS-FM-FM	WC20901	Forensic Science Center-Phase 2	25,295,866
DOT-TRANSIT	WTXXX	Buses – Placeholder*	25,500,000

*\* Adopted County Board resolution file #20-850 paused the procurement of battery-electric buses at 15 to allow the Department of Transportation and Milwaukee County Transit System (MCTS) to acquire hybrid-electric buses as replacements for its diesel fleet. Therefore, the estimated 2022 project cost may be less than \$25.5 million due to the lower cost/bus of hybrid-electric vs. all electric.*

**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 2021 - 2025 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 2022 through 2026 based on the projects in the current CIP and existing County funding policies. This includes both BOND and CASH funded projects.<sup>3</sup>



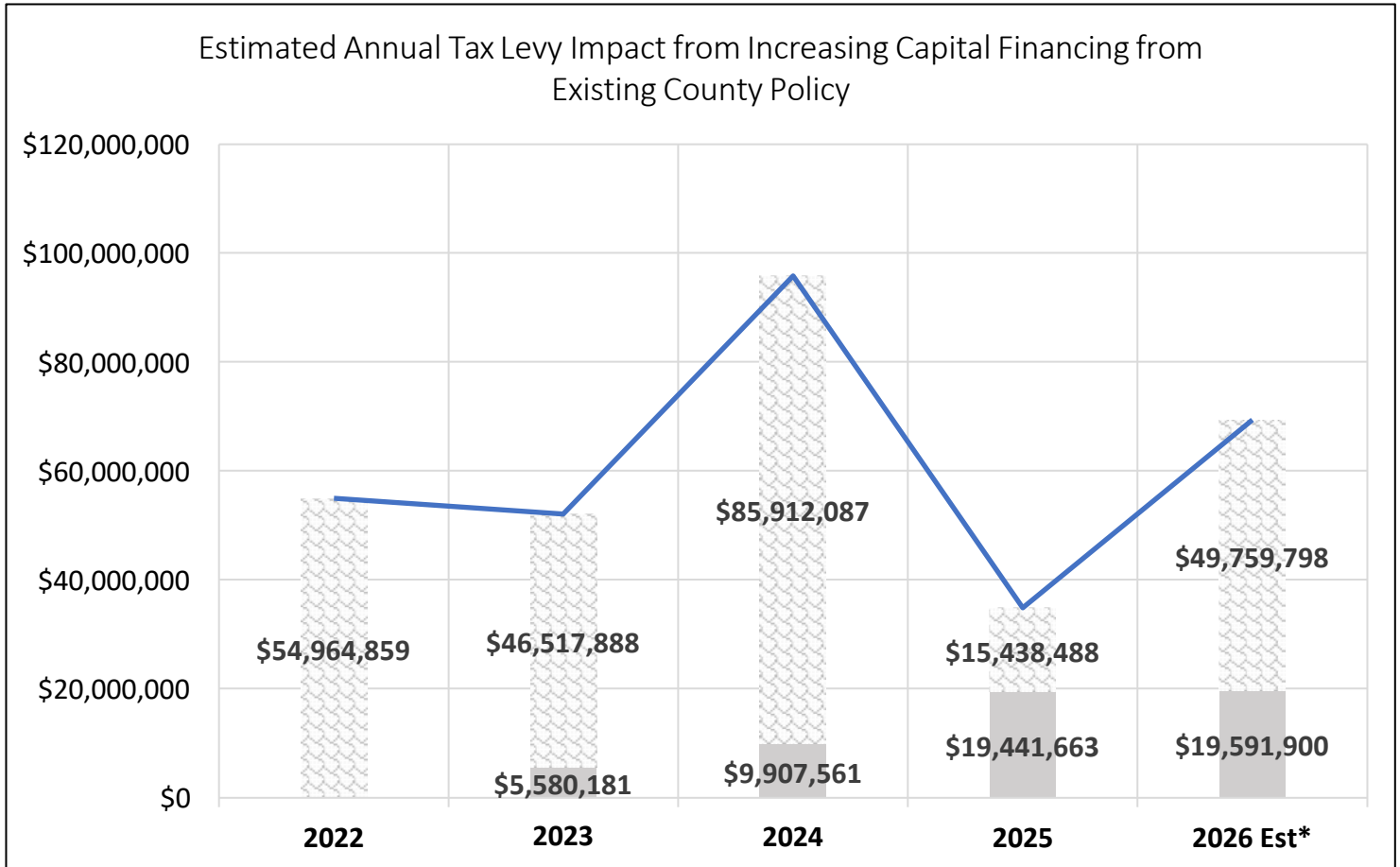
[3] County funding shown in the table reflects the existing County policy of increasing the amount of general obligation bond funding by three percent over the previous years adopted bonding amount. In addition, County funding also reflects the current policy of including a 20% cash financing goal.

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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 41% (on average) of the TOTAL projected annual capital funding can be met. The funding gap spike reflected in the 2024 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). It is important to note that these are high-level conceptual planning figures and will likely change upon refined cost estimates. Additionally, the funding gap seen in planning year 2025 will likely be closer to historical gaps as new projects are developed and unfunded requested projects from previous year(s) are shifted out.

To illustrate the impact of increased County funding beyond the existing financing policy, the table below assumes full funding of the DEPARTMENTAL REQUESTs (from 2022 through 2026) and reflects an estimated cumulative tax levy increase when compared to the existing financing policy:



Note: Year 2026 reflects the average of years 2022 - 2025 based on the most recently adopted 5-YR CIP.

 Increase in Annual Cash Goal

 Increase in Annual Debt Service

 Total Annual Levy Impact

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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 (however, the County may issue shorter term notes based on the useful life of assets).

Additionally, you will notice that 2022 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 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 begin in 2025; the amortized debt service repayment schedule for 2025 general obligation bonds will begin in 2026.

### **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 2022) 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 (2023 – 2026) 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 15<sup>th</sup> of each year.<sup>5</sup>

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



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*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 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>

*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 answers questions related to their capital projects.<sup>7</sup>

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 1<sup>st</sup> 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 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.

**Preliminary 2022 Capital Budget Timeline**

- **February-May – Preliminary planning with departments;**
- **March/April – Presentation of 2022 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; CIC review/scoring and advisory capital project report;**
- **October-November – The Finance Committee reviews and requests information regarding the Recommended Budget;**
- **November – The County Board adopts the 2022 budget;**
- **December – DAS-PSB and the Comptroller’s Office work to implement the 2022 budget**

**RECOMMENDATION**

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

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*Joe Lamers*

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Joe Lamers

Director, Office of Performance, Strategy, & Budget

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  
Julie Landry, 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