Five-Year Financial Forecast

2025 - 2029

MILWAUKEE COUNTY

Office of the Comptroller

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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 on future budgets.

With the commencement of a new 0.4% sales tax for Milwaukee County and newly authorized annual increases to state shared revenue, county taxpayers might have been hoping for a promising forecast that contemplated potential for growth throughout the many programs and services that the community relies on. But even with the dawn of a new fiscal era for Milwaukee County, just as iterated in almost every prior five-year fiscal forecast, the county's structural deficit persists, driven by expenditure growth that outpaces revenue growth. Heavily restrictive state-imposed levy limits and limited increases in state and federal reimbursement for mandated services provide little ability to raise meaningful and sustainable revenue. This revenue problem, coupled with the pressures of maintaining a robust workforce and the smaller, yet still dire, fiscal cliff in transit operations continue to jeopardize the programs and services that our community relies on.

While the county was the recipient of hundreds of millions of federal dollars that helped combat the pandemic, meet essential worker needs, and reclaim lost revenue during the pandemic, those federal dollars were one-time funds. The county's ability to provide services funded by the pandemic funding after the dollars run out will be extremely difficult. Without additional revenue sources, policymakers will be tasked with the difficult choices of either eliminating services and supports provided with pandemic funding or finding additional revenue or other expenditure cuts to sustain that programming.

It should be noted that for possibly the first time in history, the county has amassed a debt service reserve that is over $100 million. However, these reserves can only be utilized to 1) reduce taxpayer costs for debt service; 2) provide cash financing for one-time capital projects, or for one-time operating items that result in improved county service and/or reduced ongoing costs in future years; 3) provide cash financing for the refinancing of debt when financially advantageous; and 4) respond to emergencies as allowed by Wisconsin State Statute 59.60(5)(g). While these funds could be used for one-time operating items that would otherwise put further strain on the annual operating gap, the limitations on use of funds within the debt service reserve provide little relief for the ongoing structural deficit.

Other findings of the report include:

- ***One-time property tax levy investments of $26.4 million in the 2024 capital budget reduces the projected structural deficit for the 2025 operating budget from $37.9 million to $11.5 million.*** With the commencement of the additional 0.4% sales tax on January 1, 2024, it would have been reasonable to assume that county policymakers were going to enjoy a reprieve from the difficult budget decisions that have plagued the county for at least two decades. Getting from a structural deficit of $37.9 million to $11.5 million or even to a positive position for 2025 is not necessarily out of reach and will largely be determinant on how policymakers reallocate various "one-time" expenditures in the 2024 budget. As suggested above, this forecast assumes that $26.4 million of property tax levy investments in the capital budget are reallocated to fund general operating expenditures given that this property tax levy commitment deviates dramatically from previous budgets and is generally unsustainable in the long run. Furthermore, various operating expenditures possibly considered "one-time" in the 2024 budget would also need to be reallocated to ongoing operating expenditures to further reduce the 2025 structural deficit down to $0. This could potentially mean the defunding of items within the Department of Health and Human Services such as housing fiscal agents, case management, and vouchers, senior home repair, or birth-to-three and aging services. Other areas with significant potential "one-time" expenditures that could be defunded include various appropriations for Park enhancements, traffic and water safety, and aquatic implementation as well as funding for the mental health court in Pre-trial Services. This forecast makes no attempt to distinguish which of these appropriations could be or will be reduced to offset the 2025 structural deficit of $11.5 million.

- ***Prior forecasts predicted that by 2025 the Department of Transportation (DOT) – Transit Division would require an additional $25.1 million in tax levy to support operations. This "fiscal cliff" was largely mitigated by an unprecedented tax levy increase of $17.8 million in 2024 but will still require an additional $17.5 million in property tax levy support by 2029***. Based on most recent projections, the DOT – Transit Division will extend its remaining allocation of federal stimulus funding through 2026 and increase its share of federal Section 5307 used in the operating budget to absorb cost increases over the next two years. By 2027, the estimated gap between operating expenditures and revenues hits $12.6 million, growing to $17.5 million by 2029, and will likely fall to the property tax unless new or increased revenue sources are secured.

- ***The additional 0.4% sales tax provides $88.8 million in revenue in 2025, enough revenue to offset the $58.6 million unfunded actuarial accrued liability (UAAL) cost and $30.1 million of the $37.3 million pension obligation bond (POB) payment.*** With the approval of the additional 0.4% sales tax allowed under 2023 Wisconsin Act 12 (Act 12) came several changes to various aspects of the Employees' Retirement System (ERS), including a maximum amortization period of 30 years and an annual investment return assumption that is the same as or less than the annual investment return assumption used by the Wisconsin Retirement System (WRS). These changes result in an estimated UAAL payment of $58.6 million for 2025. Further, Act 12, and subsequently 2023 Wisconsin Act 40 (Act 40), provide that after first making the payment towards the UAAL, any additional 0.4% sales tax revenue can be used for payments towards the county's POBs, or for additional payments towards to the UAAL, or for payments towards the employer contribution to the ERS. This forecast assumes that the additional 0.4% sales tax funds the full UAAL payment of $58.6 million and then funds $30.1 million of the $37.3 million POB payment. It is worth noting that county policymakers could choose to reallocate roughly $24.2 million in additional 0.4% sales tax to the ERS normal cost payment for 2025 which would have the effect of "freeing up" tax levy for other purposes. While this reallocation would be acceptable under Wisconsin Statutes, it is not assumed within this forecast as this action would deviate from the practice established in the 2024 budget and would alone result in a 2025 property tax levy increase of $24.2 million to fund the POB debt service.

- ***The impact of inflation on wages and benefits is finally emerging in the forecast period, particularly as the county continues to reduce its staffing vacancy and turnover.*** Two of the largest categories of expenditures within the county, wage-related items ($284.5 million) and health, pension, and other benefits ($222.5 million) are projected to rise more significantly than previously projected. **Salaries took an unexpected, significant jump as actual salary and overtime costs rose 11.7% and 13.3%, respectively, in 2023.** This increase, coupled with a lower vacancy and turnover rates and annual 2.0% increases, is projected to result in an additional $11.5 million in salary-related expenditures in 2025. An anticipated decrease in the vacancy and turnover rate corresponds with cost increases related to healthcare and other benefits. Increases due to higher participation in the healthcare plan as well as medical inflation result in additional costs of $12.1 million in 2025.

- ***Historic property tax reductions in 2024 will be negated by significant property tax increases in the future to fund debt service for the county's Center for Forensic Science and Protective Medicine and the Milwaukee Public Museum.*** The county makes its best effort to maintain a relatively flat debt service payment over time, but it is now forecasted that in 2026 a property tax levy increase of $17.2 million will be required largely to pay the anticipated debt service on previously approved projects, including funding for the Center for Forensic Science and Protective Medicine and Milwaukee Public Museum. Moving into 2029, another property tax levy spike of $12.7 million is estimated due to forecasted increases in the debt service payment. These potential spikes in property tax levy should be a key element in future bonding decisions if county policymakers wish to limit the impact on property taxpayers over the forecast period.

- ***The key takeaway is that even with a dedicated funding source to help pay for the county's UAAL and POB debt service, the annual structural deficit persists because expenditures continue to increase at a rate faster than all other county revenues.*** From 2025 to 2029, the average, annual cost-to-continue is projected to be $13.8 million. This is a significant reduction from the average, annual cost-to-continue estimated in the 2024 to 2028 forecast of $21.9 million, which included significant cost increases due to anticipated pension cost increases and the transit fiscal cliff, both of which have been somewhat mitigated in this forecast. ***While one-time revenues or expenditure abatements are used to mitigate budgetary deficits and negatively impact the subsequent year, for 2024, the county reaped the one-time benefit of the additional 0.4% sales tax, and judiciously preserved some of the benefit by budgeting for expenditures that were considered "one-time" and could be used to offset the 2025 structural deficit.*** In the 2024 budget, the county utilized such one-time expenditures of approximately $26.4 million, which positively impacted the 2025 structural deficit roughly by the same amount and offset other one-time revenues of $11.8 million. If the county were to resolve the 2025 structural deficit with long-term solutions, it could expect a 2026 structural deficit of roughly $14.5 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 2025 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 2025 – 2029 of $13.8 million annually due to a greater increase in expenditures than the amount generated in additional revenue. Since 2015, the forecasted, average cost-to-continue has fluctuated from year to year, averaging between $12.8 million and $21.9 million. For the 2025 – 2029 forecast, expenditures are forecasted to grow 2.4% while revenues grow 1.0% 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 2024 budget, the county utilized such one-time revenues of approximately $11.8 million, which directly impacted the 2025 structural deficit by roughly the same amount.

For 2024, the adoption of the additional 0.4% sales tax in Milwaukee County created the unprecedented opportunity to budget for one-time expenditures, which correspondingly decrease the structural deficit by the same amount in the subsequent year. The 2024 budget includes a contribution of $26.4 million in property tax levy to various capital projects, which are considered one-time expenditures and become available to offset the 2025 structural deficit.

Without the availability of the $26.4 million in savings preserved in 2024, the county's structural deficit in 2025 would have been more than triple what is currently projected.

THE 2025 PROJECTED STRUCTURAL DEFICIT

Expenditures and revenues in 2025 are projected to be $1.281 billion and $1.269 billion, respectively, resulting in a structural deficit of $11.5 million. The 2025 projected structural deficit is comprised of the following changes from the 2024 budget:

Expenditure Type	Amount (millions)	
Levy-funded Capital	$	(26.4)
Other Uses (Wauwatosa Fire Charge)	$	(4.0)
Cost to Continue	$	0.2
Transit	$	2.1
Debt Service	$	5.0
Pension	$	10.4
Salaries & Overtime	$	11.5
Health & Other Benefits	$	12.1
Expenditure Change	**$**	**10.9**
Revenue Type		
One-time Revenue	$	11.8
State & Federal Revenues	$	3.4
Investment Earnings	$	1.6
Odd Year Unclaimed Funds	$	(1.2)
Property Taxes	$	(1.5)
Transit Revenue	$	(2.0)
Sales Tax	$	(2.4)
Miscellaneous Revenue	$	(8.9)
Revenue Change	**$**	**0.7**
Projected 2025 Operating Gap	**$**	**11.5**

Items of significance include:

- **Levy-funded capital.** Property tax funding of $26.4 million previously budgeted within the 2024 capital budget is forecasted to be available to fund general operating expenditures in 2025.

- **Cost-to-Continue.** This is a catchall for various 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, all of which tend to be the most susceptible to changes in inflation. These expenses grow by $10.8 million in 2025. Changes to abatements, county service charges, and the Department of Health and Human Services – Behavioral Health Services (BHS) are also included in this category. A $10.6 million abatement decrease is included within this category to offset the increased POB cost. The net result is a slight increase of $0.2 million for the overall cost-to-continue category.

- **Transit-related expenditures and revenues.** In 2024, the county provided $17.8 million in additional levy support to maintain current operations within the transit system. For the five-year forecast period, gross transit-related expenditures are forecasted to rise 1.84% each year, which results in $3.2 million of additional expenditures 2025. To maintain a near flat tax levy in 2025, $5.9 million of federal stimulus funding and $21.2 million of federal Section 5307 funding would be required. By 2027, federal stimulus funding will be exhausted and without additional state or federal support, the county will need to contribute an additional $12.6 million to maintain operations. This would bring tax levy support for transit operations to nearly $40.0 million by 2027.

- **Debt Service.** As mentioned above, debt service for POBs increases by $10.6 million in 2025, but debt service relating to non-pension general obligation bonding decreases by $5.8 million resulting in an overall increase in debt service payment of $4.8 million. Other minor expenditure increases of $0.2 million are also forecasted. While typically an increase to the debt service would result in an increase to the property tax levy, an additional $6.7 million of the additional 0.4% sales tax is allocated towards the POB payment, reducing the overall debt levy portion of the property tax by $1.8 million.

- **Pension**. This category includes payments to both the ERS for the normal cost and UAAL and to the WRS for new employees. It also includes the POB payment. Increases in 2025 include $1.3 million in ERS normal cost, $10.6 million in POB payments, and $1.5 million for WRS normal cost, offset by a reduction of $2.0 million in the UAAL and $1.0 million in the OBRA contribution.

- **Salaries and Overtime**. The county experienced an extraordinary 11.7% year-over-year growth in salaries and 13.3% growth in overtime from 2022 to 2023, by far the largest the county has had in recent history. The projected 2024 salary amount assumes an allocation of $3.3 million of salary dollars through the compensation study and to bargaining units and further assumes that the county will continue its positive trend in hiring and fill an additional 140 FTEs. Salaries are then projected to increase by 2.0% in 2025, and each year thereafter. Even as wages climbed in 2023, presumably as a result of positive hiring trends, overtime expenditures climbed to almost $22.0 million, more than double the actual overtime budget. Based on early estimates for 2024, it is possible that overtime will exceed the 2023 amount. This forecast assumes that 2024 will be the peak for overtime expenditures, and that between 2025 and 2027, overtime expenditures drop and level out at $16.0 million.

- **Health and Other Benefits.** Although 2023 medical claim expenses rose only slightly over 2022 levels, the final quarter of 2023 saw week-over-week increases from 2022 of over 25.0%, suggesting that the county's favorable growth in its healthcare costs may be reversing. Pharmacy claims grew at 10.0% in 2023, up from the prior year's 9.0% growth rate. The year-over-year savings in healthcare costs are likely due to a healthcare census that declined to its lowest point around the end of 2022 and has been slowly reversing during 2023. This forecast assumes that participation in the plan continues to rise in 2024, resulting in an overall increase of 11.1% from the 2024 budget or $12.1 million.

- **Mental Health Expenditures.** For several years, property tax levy at DHHS – BHS remained flat at the State-mandated minimum of $53.0 million. The 2024 budget included property tax levy of $46,921,117 and sales tax levy of $12,664,615 to put the county within its state-mandated limits. For the forecast period, it is assumed that the property tax and sales tax levies remain flat. Any increases to the property tax levy at the DHHS – BHS will directly increase the county's structural deficit by the same amount.

- **Sales Tax Revenue.** The 2024 capital budget broke from the standard budgeting practice of allocating a portion of the 0.5% sales tax to the capital budget and did not include a sales tax contribution, likely due to the sizable property tax investment that was made instead. This forecast assumes that the county will contribute $8.1 million of the 0.5% sales tax in the 2025 capital budget, which offsets the anticipated growth in the 0.5% sales tax of $5.9 million and results in a small increase to the structural deficit of $2.2 million. The additional 0.4% sales tax is expected to grow by $4.7 million, which is used to offset the additional cost in POB debt service. The overall result estimated is a positive net impact of $2.4 million.

- **State and Federal Revenue.** For 2025, these revenues are reduced to account for the following: a $2.5 million contribution to the state for the county's share of the Brewers stadium costs as defined in Act 40; a $2.0 million DHHS reimbursement reduction relating to the reduced fringe benefit costs throughout DHHS; and a $1.0 million reduction due to housing fewer state sanctions in the Community Reintegration Center. This category does account for the newly enacted annual growth in state shared revenue, which provides a year-over-year increase of $1.3 million.

- **Investment Earnings**. The county continues to experience substantially higher average daily balances due to the federal stimulus funding and nearly $100.0 million in debt service reserve funds within the county's investment portfolio. Short-term and long-term investment earnings are forecasted to earn at 3.3 and 2.8%, respectively, over the forecast period. It is estimated that by 2026 average daily balances return to pre-pandemic averages and that market gains phase out, bringing investment earnings in line with historical averages, which results in less revenue in 2025.

- **Property Tax Levy**. The 2025 forecast assumes the county will assess a property tax levy up to the maximum allowable amount under a 1.3% net new construction percentage. This, coupled with estimated increases for the EMS tax levy and changes to the debt service, provides an additional $1.5 million in revenue. For 2026, property tax levy is expected to increase by $17.2 million over 2025 to accommodate the additional debt service largely due to the issuance of debt for the Milwaukee Public Museum and the Center for Forensic Science and Protective Medicine.

- **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, airport revenue, fees, permits, fines, forfeitures, court fees, rental revenues, admission revenue, recreational revenue, concession revenue, Potawatomi gaming revenue, and employee contributions to health and pension costs. This revenue category grows in 2025 largely due to increases in parks revenue and additional airport revenue to offset a forecasted increase in costs. An increase in employee pension contributions is also projected due to higher expected contribution rates in 2025.

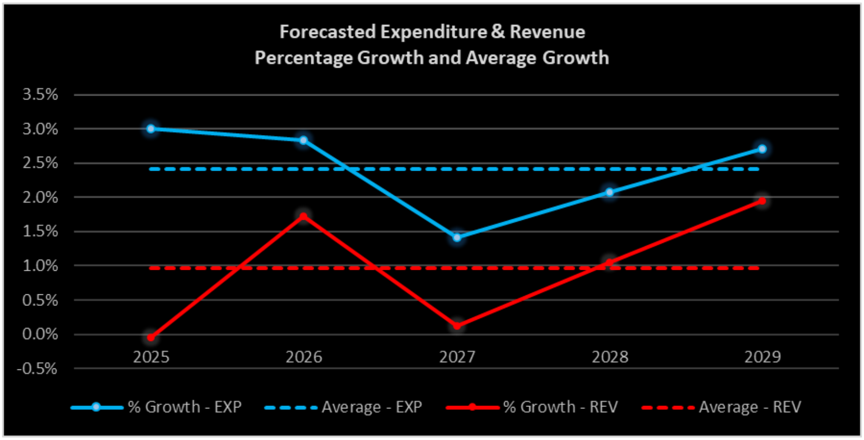
One-time revenue:

- **One-time Revenues**. The 2024 budget includes a contribution from the debt service reserve of $11.8 million. The forecast assumes no debt service reserve contributions in 2025. This decrease in one-time revenue contributes to the 2025 structural deficit.

THE FUTURE OF THE STRUCTURAL DEFICIT

When the model was first utilized after passage of the 2009 budget, expenditures were forecasted to grow by 6.1% annually while revenues were to grow by 3.7% annually. Expenditures are now forecasted to grow by an average of 2.4% annually, while revenues are forecasted to grow by an average of 1.0% 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.



The previous model predicted that the county's structural deficit would grow to $109.7 million by 2028 if each year within the forecast period the structural deficit was resolved with temporary solutions. The current model now predicts a $57.4 million structural deficit by 2028, and $68.9 million structural deficit by 2029 when assuming one-time budgetary fixes. Cost-to-continue in the current model declined from the prior model, with the prior model projecting an average annual cost-to-continue of $21.9 million over the forecast period and the current model projecting an average annual cost-to-continue of $13.8 million. The substantial reduction is attributable to the investment of property tax levy in the transit system and to the additional 0.4% sales tax which effectively mitigated scheduled pension contribution increases.

Structural Deficit and Cost-to-Continue 2025 - 2029				
Year	**Expenditure**	**Revenue**	**Structural Deficit**	**Cost-to-Continue***
2024	$ 1,243,604,017	$ 1,270,034,002	$ -	
2025	$ 1,280,888,707	$ 1,269,365,502	$ (11,523,205)	$ (11,523,205)
2026	$ 1,317,217,072	$ 1,291,170,725	$ (26,046,347)	$ (14,523,141)
2027	$ 1,335,920,686	$ 1,292,643,427	$ (43,277,260)	$ (17,230,913)
2028	$ 1,363,721,150	$ 1,306,273,040	$ (57,448,110)	$ (14,170,851)
2029	$ 1,400,690,978	$ 1,331,756,373	$ (68,934,605)	$ (11,486,495)
			Average Cost-to-Continue:	$ (13,786,921)

*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, including salaries, overtime, and fringe benefits, are the leading expenditure category within the county, with over 40% of all budgeted expenditures being personnel-related. Various indicators suggested that through 2022 the county grappled with a high vacancy and turnover rate. Those same indicators suggest that the county has been successful at reversing those trends during 2023 and that the county workforce is slowly returning to previous staffing levels. While reduced staffing levels contributed to countywide surpluses in wages and benefits over the past few years, the return to more normal staffing levels is likely to cause strain on future structural deficits as salary and fringe benefits are increasing at higher rates than previously forecasted.

Wages. From 2019 to 2022, year-over-year growth in salaries averaged 3.1%, while year-over-year growth from 2022 to 2023 was 11.7%. This substantial one-year increase is likely attributable to a few factors, including wage increases allocated through the compensation study, a nearly 14.0% wage lift provided to the deputy sheriffs, and generally higher wages provided for new hires. With increasing staffing levels, the expectation that overtime would decrease has not come to realization. Overtime peaked in 2023 at $21.8 million, and based on early estimates in 2024, overtime will surpass that and could exceed $24.4 million by the end of 2024.

Actual Salary and Overtime Dollars 2018 - 2024						
Fiscal Year	**Actual Salaries**	**Salaries Budget**	**Percent of Salary Budget**	**Actual Overtime**	**Overtime Budget**	**Percent of Overtime Budget**
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	$ 194,696,040	$ 213,746,756	91.1%	$ 19,244,796	$ 9,514,632	202.3%
2023	$ 217,386,168	$ 222,803,919	97.6%	$ 21,799,906	$ 10,699,160	203.8%
2024*	$ 233,090,000	$ 241,866,343	96.4%	$ 24,408,000	$ 11,940,409	204.4%

***2024 salaries/overtime are estimated based on 4 payrolls. DHHS - BHS are excluded from calculations.**

A 2.0% cost-of-living wage increase is assumed at the start of the first quarter in each year, and in 2024, an additional $3.3 million is included for changes recommended in the compensation study and bargaining unit wage increases. It is also assumed that the vacancy and turnover rate will continue to decline, with additional wages for 140 FTE being incorporated in 2024 estimates. Based on the additional staffing that the county has hired, this forecast assumes that beginning in 2025 the increasing overtime trend reverses and eventually levels at $16.0 million by 2027. With these assumptions, the year-over-year increase in 2025 for all salary-related expenditures is 4.2%.

Salary-related Expenditures 2025 - 2029					
	2025	2026	2027	2028	2029
Salaries & Wages	245,120,571	250,022,983	255,023,443	260,123,911	265,326,390
Overtime	19,167,120	17,250,408	16,000,000	16,000,000	16,000,000
FICA	20,218,008	20,446,414	20,733,293	21,123,479	21,521,469
Total	284,505,700	287,719,805	291,756,736	297,247,391	302,847,858

Fringe Benefits. Fringe benefits includes healthcare, other compensation and benefits, life insurance, pension, and OPEB liability costs. These costs are forecasted to grow from $245.1 million in 2025 to $279.3 million in 2029.

Health, Pension, and Other Benefits Expenditures 2025 - 2029						
	2025	2026	2027	2028	2029	Percent Change (2025 - 2029)
Healthcare & Other Benefits	$ 123,259,659	$ 130,519,619	$ 138,241,671	$ 146,567,111	$ 155,440,772	26.1%
Pension	$ 121,795,478	$ 120,603,593	$ 120,127,442	$ 121,868,439	$ 123,892,162	1.7%
Total Benefits Cost	$ 245,055,137	$ 251,123,212	$ 258,369,113	$ 268,435,550	$ 279,332,934	14.0%
Total Retiree Cost	$ 154,678,000	$ 157,101,000	$ 160,311,000	$ 165,575,000	$ 171,318,000	10.8%
Total Active Cost	$ 90,377,000	$ 94,022,000	$ 98,058,000	$ 102,861,000	$ 108,015,000	19.5%

Fringe Benefits – Health and Other Benefits. Medical claims costs have yet to return to pre-pandemic levels as costs have bounced around since 2020, attributable to healthcare changes during the height of the pandemic and to the increase in vacancy and turnover amongst county staff. But the final quarter of 2023 saw week-over-week increases from 2022 of over 25.0%, suggesting that the county's favorable growth in its healthcare costs may be reversing. Since the county's long-term year-over-year growth in medical claims costs continues to be roughly 3.0%, this forecast continues that assumption with the caveat that healthcare costs may be on the rise and should be monitored closely over the forecast period. Pharmacy claims grew at 10.0% in 2023, up from the prior year's 9.0% growth rate and is the basis for the assumed pharmacy increase in 2024. Overall, this forecast assumes that the health and other benefits expenditures continue to follow these trends, resulting in an overall increase of 11.1% from the 2024 budget or $12.1 million in additional health and benefit expenditures.

Fringe Benefits – Pension and the additional 0.4% Sales Tax. Pension costs include required contributions to the ERS and OBRA plan, expected contributions to the WRS beginning in 2025, and debt service for the county's POB. The 2024 – 2028 model projected that the county's pension costs would grow substantially over the forecast period largely due to significant market losses in ERS investments and approved reductions to the assumed rate of return of the plan. After issuing the 2024 – 2028 forecast, Act 12 was enacted into law and provided the county with authority to enact an additional 0.4% sales tax under certain conditions. In July of 2023, the county approved the condition that the ERS plan be closed to new entrants effective January 1, 2025, and enacted the additional 0.4% sales tax effective January 1, 2024. Pursuant to Act 12, the 2024 budget also directed ERS to reset the unfunded liability using a 30-year amortization period and a 6.8% assumed rate of return for the January 1, 2024 valuation. These changes result in an estimated UAAL payment of $58.6 million for 2025. Act 12, and subsequently Act 40, defined specific allowable uses for the receipts of the additional 0.4% sales tax, which must first be used to pay the actuarially required UAAL payment, and can then be used to make an additional payment to the UAAL, to make a payment towards the county's POB debt service, or to make a payment towards the normal cost for the ERS system.

This forecast assumes that the additional 0.4% sales tax funds the actuarial required UAAL payment with any additional 0.4% sales tax funding the POB debt service. The 2029 reduction in POB debt service frees up roughly $23.0 million of additional 0.4% sales tax which is then reallocated to an additional UAAL payment at that time. As noted above, any remaining additional 0.4% sales tax after payment of the required UAAL amount can also be allocated to make additional UAAL payments or to pay the ERS normal cost. However, any change from the 2025 forecasted additional 0.4% sales tax allocation of $27.6 million in POB debt service could result in a one-for-one dollar increase in the property tax levy. Additionally, any payment of the ERS normal cost with the additional 0.4% sales tax would also free up property tax levy for other purposes but creates a possible structural deficit for the future when the additional 0.4% sales tax is no longer available to offset that cost. While these reallocations would be acceptable under Wisconsin Statutes, they are not assumed within this forecast as these actions would deviate from the practice established in the 2024 budget and would alone result in a 2025 property tax levy increase of $27.6 million to fund the POB debt service.

Schedule of Pension Benefit Expenditures and Offsetting Revenues
2025 - 2029

	2025	2026	2027	2028	2029
OBRA Cost	$ 200,000	$ 200,000	$ 200,000	$ 200,000	$ 200,000
ERS Normal Cost	$ 24,201,000	$ 22,093,000	$ 20,448,000	$ 19,096,000	$ 16,820,000
ERS UAAL Cost	$ 58,638,000	$ 58,638,000	$ 58,638,000	$ 58,638,000	$ 58,638,000
WRS Normal Cost	$ 1,452,000	$ 2,666,579	$ 4,135,288	$ 5,559,786	$ 6,960,460
POB Cost	$ 37,304,478	$ 37,006,014	$ 36,706,154	$ 36,394,426	$ 12,630,700
Additional ERS UAAL Cost					$ 25,784,985
Total Pension Costs	**$ 121,795,478**	**$ 120,603,593**	**$ 120,127,442**	**$ 119,888,212**	**$ 121,034,145**
UAAL - 0.4% Sales Tax	$ 58,638,000	$ 58,638,000	$ 58,638,000	$ 58,638,000	$ 84,422,985
POB Cost - 0.4% Sales Tax	$ 27,592,942	$ 30,179,870	$ 32,844,406	$ 35,588,879	$ 12,630,700
Total Pension Costs - 0.4% Sales Tax	**$ 86,230,942**	**$ 88,817,870**	**$ 91,482,406**	**$ 94,226,879**	**$ 97,053,685**
Total Pension Costs - Property Tax Levy	**$ 35,564,536**	**$ 31,785,723**	**$ 28,645,036**	**$ 25,661,333**	**$ 23,980,460**

Transit Operations: The 2024 – 2028 five-year forecast was the first to report the approaching fiscal cliff facing the DOT – Transit Division. With the crisis then projected by 2025, the $25.1 million fiscal cliff was driven largely by increasing costs, pre-pandemic level farebox revenue, and slashed tax levy funding that was less than half what it was pre-2017. The 2024 budget forestalled the fiscal cliff by investing an unprecedented tax levy increase of $17.8 million in 2024, for a total property tax levy of $26.4 million;

this is in addition to the $16.1 million in vehicle registration fees that also help fund transit operations. Based on most recent projections, the DOT – Transit Division will extend its remaining allocation of federal stimulus funding through 2026 and increase its share of federal Section 5307 used in the operating to absorb cost increases over the next two years. By 2027, the estimated gap between operating expenditures and revenues hits $12.6 million, growing to $17.5 million by 2029, and will likely fall to the property tax to fund unless new or increased revenue sources are identified.

Transit Expenditures and Revenues
2025 - 2029

	2025	2026	2027	2028	2029
Estimated Inflation	1.8%	1.8%	1.8%	1.8%	1.8%
Total Gross Expenditures	$ 174,894,673	$ 178,112,735	$ 181,390,010	$ 184,727,586	$ 188,126,574
Tax Levy	$ 26,448,761	$ 26,448,761	$ 26,448,761	$ 26,448,761	$ 26,448,761
5307 Funds	$ 24,492,260	$ 25,000,000	$ 25,000,000	$ 25,000,000	$ 25,000,000
Federal Stimulus Funds	$ 5,915,804	$ 6,606,903	$ -	$ -	$ -
Passenger Fares	$ 29,052,111	$ 29,567,940	$ 30,093,813	$ 30,629,928	$ 31,176,488
Other Revenues	$ 88,961,504	$ 87,300,649	$ 87,254,774	$ 87,598,605	$ 87,949,313
Total Revenues	$ 174,870,440	$ 174,924,253	$ 168,797,348	$ 169,677,294	$ 170,574,562
Estimated Gap	$ (24,234)	$ (3,188,482)	$ (12,592,662)	$ (15,050,292)	$ (17,552,012)

Mental Health Services: This forecast isolates all expenditures and revenues relating to mental health services from other categories within the forecast and assumes that the tax levy provided to the DHHS – BHS will be maintained at the previously adopted level. The 2024 budget included property tax levy of $46,921,117 and sales tax levy of $12,664,615 to put the county within its state-mandated limits. For the forecast period, it is assumed that the property tax and sales tax levies remain flat. Any additional amounts provided up to the statutory maximum will directly impact the structural deficit in future years.

Projected Property Tax Levy Increases: The ability to enact an additional 0.4% sales tax increase created the extraordinary opportunity for the county to make a significant reduction to the property tax levy in 2024. The reduction of $21.5 million was due to the additional 0.4% sales tax offsetting the POB debt service and therefore, the debt levy portion of the property tax levy. For 2025, the current forecast projects a small increase in the allowable property tax levy. However, property tax increases of $17.2 million and $12.7 million are currently projected for fiscal years 2026 and 2029, respectively. These increases are due to upcoming bonding for the Milwaukee Public Museum and the Center for Forensic Science and Protective Medicine. While the final debt service amount will change over the next few years as new debt is issued and debt service schedules arranged, these forecasted increases should be a consideration when additional bonding requests are brought to the county over the forecast period.

Lack of Revenue Growth: For the past decade, the county has been limited in its ability to raise meaningful revenues due mostly to state-imposed restrictions. The county expanded its operational revenue base $12.2 million in 2017 and further in 2018 due to implementation of the vehicle registration fee. In 2023, the county successfully lobbied state policymakers for the ability to enact an additional 0.4% sales tax, which was subsequently passed by the county and took effect January 1, 2024. Beginning in 2024, the state also provided an increase to the county's shared revenue allocation and provided for future increases to shared revenue based on the state's sales tax growth rate. Even with these changes, the overall low growth rates are attributable to flat revenue projections for other state and federal resources, as well as discretionary resources that are mostly forecasted to grow at inflation over the forecast period.

For 2025, revenues forecasted to increase grow by $16.1 million. These increases are fully offset by other revenue reductions of $16.7 million, resulting in an overall revenue reduction in 2025. Compared to the forecasted revenue increases for the 2024 budget year, the 2025 forecasted revenue increases look quite different. The bulk of the total revenue increase derives from a 55.0% increase in miscellaneous revenue sources including parks and airport revenue and employee pension contributions; these increases are not anticipated in future years. Odd year unclaimed funds are only available every other year and while helping the structural deficit in 2025, will reduce county revenues in 2026. The growth in sales tax appears minimal in 2025 because the bulk of the increase, roughly $8.1 million, was forecasted as a contribution to the capital budget, and is therefore not available to offset the structural deficit in 2025. Future sales tax growth will offset the structural deficit, however. The limited growth in property tax forecasted is due to the reduction in debt levy required for the POB. And lastly, transit revenues show a year-over-year increase in federal Section 5307 funding which is then nearly fully allocated to operating expenses. These forecasted changes compare to a projected revenue increase of $27.5 million for the 2024 budget year, which were made up of sales tax, investment earnings, property taxes, and transit revenue. With expected decreases to transit and investment earnings, the county's only real sources of long-term revenue growth are again sales tax and property tax. Given the limits on property tax increases and the connection of sales tax to economic conditions, even those sources cannot provide the level of additional revenue necessary to sustain county operations.

Under current state-imposed levy limits, the county may only raise property taxes for operating costs roughly 1.3% annually. To eliminate the structural deficit with property tax, the county would need the ability to raise the property tax on average, an additional 6.0% each year.

The ability to increase the sales tax percentage is also limited by Wisconsin 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, excluding debt levy, and sales tax provide on average $6.4 million a year which is roughly only 18.6% of the total forecasted expenditure increases.

Total Revenue Growth from Property Tax and Sales Tax
2025 - 2029

	2025	2026	2027	2028	2029
Property Tax (Operating Only)	$ 226,556,184	$ 229,387,003	$ 232,253,194	$ 235,155,198	$ 238,093,462
Sales Tax	$ 102,858,944	$ 106,187,828	$ 109,616,579	$ 113,148,193	$ 116,785,755
Total	$ 329,415,128	$ 335,574,831	$ 341,869,773	$ 348,303,391	$ 354,879,217
Year-over-Year Change in Property/Sales Tax	$ 548,535	$ 6,159,703	$ 6,294,942	$ 6,433,618	$ 6,575,826
*This schedule does not include changes to property lax levy due to debt service changes.					

IMPACT OF ONE-TIME REVENUES AND EXPENDITURE ABATEMENTS ON THE STRUCTURAL DEFICIT

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. In every year prior, this forecast has documented the use of one-time revenues and expenditure abatements in the budget, and the impact on the subsequent year's budget. For 2024, the adoption of the additional 0.4% sales tax in Milwaukee County created the unprecedented opportunity to budget for one-time expenditures, which correspondingly decrease the structural deficit by the same amount in the subsequent year.

The 2024 budget utilized approximately $11.8 million in one-time revenues which negatively impact the 2025 structural deficit. The 2024 budget also included a one-time contribution of $26.4 million in property tax levy to various capital projects, which are considered one-time expenditures and become available to offset the 2025 structural deficit. These one-time revenues and one-time expenditures together have the net effect of reducing the 2025 structural deficit by $14.6 million.

While the forecast projects an average of $13.8 million in costs-to-continue annually for the county, any unsolved portion of the 2025 structural deficit will increase the subsequent structural deficits 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.

- **Future Biennial State Budgets:** This forecast presumes that future state budgets will provide no additional aid to the county other than the minimal increases in various reimbursement revenues. Even with the recently enacted changes to the state shared revenue formulas, the imbalance between inflation and other state aids continues to directly impact the county's bottom line year-over-year as the county must make up the difference.

- **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 if the fee is raised.

- **Debt and Infrastructure Needs:** The county's outstanding debt declined from a high of $886 million in 2010, which was due to the issuance of pension obligation bonds and the Build America Bond program, to $436 million in 2022. During 2022, the County Board Resolution File 22-454 committed the County to providing $45 million of future general obligation borrowing to finance the construction of a new building for the Milwaukee Public Museum. In addition, the 2023 capital improvements budget included a total general obligation borrowing amount of $108.7 million; a majority of the financing of $62.9 million will be used to construct the Center for Forensic Science and Protective Medicine. The combined bonding amount between the new museum building and the 2023 adopted budget exceeded the 2023 self-imposed bonding cap of $45.8 million by $107.9 million. The 2024 budget exceeded the 2024 self-imposed bonding cap of $47.2 million by $6.4 million. It is assumed that in future years that the County will again adhere to its self-imposed bonding cap.

The projected outstanding debt is anticipated to increase to $397 million in 2024 and $522 million in 2025 then decrease to $495 million in 2026. This includes an increase of $6.4 million to the bonding cap, the amount for the Milwaukee Public Museum and the Center for Forensic Science and Protective Medicine in 2024, including an additional $14.2 million in bonding approved in prior years for the Center for Forensic Science and Protective Medicine. The outstanding debt amount does not include bonding for a new county criminal courthouse that will replace the current safety building. The county continues to face significant infrastructure needs that outpace the county's current level of cash and debt financing for its capital assets. The county's 2024 – 2028 five-year capital plan included funding requests for 2025-2028 that total approximately $1.2 billion of county non-airport funding, which includes $478.9 million for a new county criminal courthouse. Without increases to non-bond 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.

- **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 has fully committed the county's ARPA allocation of $183 million and funds are no longer utilized for ongoing expenditures which would have increased 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 2024 budget as the basis for the 2025 – 2029 projection. The 2024 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 2024 base is further adjusted for one-time events particular to 2024, or programs/revenues/expenditures which end in a future year.

This exercise provides a first look at the 2025 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 2025 financial “gap” that the county would face if it were to budget a cost-to-continue budget.

CONCLUSION

Despite changes to state laws that reformed the county’s revenue profile, the average, annual inflationary cost increases required to maintain current operations 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.

The prospect of an $11.5 million structural deficit in 2025 is not as overwhelming as previous structural deficits when considering that the 2025 structural deficit can likely be solved by no longer funding various 2024 expenditures that could be considered one-time. If that were the case, and no additional one-time revenues or expenditure abatements were used in the 2025 budget, then the county’s structural deficit for 2026 would be $14.5 million. Although the 2026 structural deficit is less intimidating than projections of the past, tax levy in 2026 is slated to rise $17.2 million due to debt service costs, with an additional $12.7 million jump slated for 2029. Budget year 2027 faces its own fiscal challenge, with a $12.7 million contribution to transit necessary to maintain operations.

With the sizable surpluses of the last few years, the county’s debt service reserve now exceeds $100 million. This judicious savings by the county can be used in future years to smooth out the large increases in the debt service in future years. While less likely, new revenue sources could also be implemented in future years to alleviate a portion of the structural deficit. Ideally, new revenue sources would be tied to some growth component, so that each subsequent year after inception the revenue would provide additional funding towards the county’s structural deficit. 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, similarly to how it phased in savings achieved from the additional 0.4% sales tax. 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.

In these seemingly prosperous times and after much collaboration with the state and City of Milwaukee on enacting sales tax legislation, it will undoubtedly be hard to gain traction discussing the county’s ongoing structural deficit. Failing to address future structural deficits with long-term solutions is not sustainable and will indisputably affect the county’s future fiscal position. Ultimately, the county will experience the cost-to-continue issue for the foreseeable future until the county has the means to further increase its revenue base. 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 the county’s revenue base, 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 still 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.