BUDGET BRIEF

MILWAUKEE COUNTY

2025 EXECUTIVE BUDGET

WISCONSIN POLICY FORUM

BUDGET BRIEF

Milwaukee County 2025 Executive Budget

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INTRODUCTION

After word surfaced in July that Milwaukee County faced a $19 million mid-year budget deficit for 2024, supervisors did not mince words about the severity of the situation. In fact, one predicted a "brutal" budget for 2025 in a *Milwaukee Journal Sentinel* article that also cited the likelihood of renewed efforts to ask the state for help.

Taken in that context, the county executive's 2025 recommended budget can only be deemed a pleasant surprise. The budget is able to mostly avoid cuts in departmental staff and services, while keeping the Debt Service Reserve withdrawal to a reasonable level and adding nearly $11 million to shore up public safety departments. The budget does include an $8.3 million (2.8%) increase in the property tax levy – the highest percentage increase in 15 years – but that must be viewed in the context of a $24 million (7.7%) *decrease* in the levy in 2024.

A key to the relative mildness of the recommended budget is the continued benefits reaped from 2023 Wisconsin Act 12, the landmark legislation that authorized the county to increase its sales tax from 0.5% to 0.9% this past January (yielding an additional $84 million in the 2024 budget) and produced a $7.6 million increase in its 2024 state shared revenue payment. County leaders prudently used the immediate infusion to shore up budget weaknesses in ways that continue to pay dividends in the 2025 proposal.

Unfortunately, as we will discuss in depth in this report, the county's growing financial challenges – including its enormous capital improvements backlog that is highlighted by the imminent need to finance a new criminal courthouse – now appear to be eclipsing the Act 12 benefits sooner than expected. Other challenges include an ongoing structural gap in the transit budget that could produce a "fiscal cliff" two years from now, as well as escalating debt service obligations that have materialized even before initiation of the courthouse project. Together, these factors paint a far more alarming picture for the future than the mild nature of the 2025 recommended budget would suggest.

In the pages that follow, we highlight the key decisions made to balance the 2025 recommended budget and examine why the fiscal stability produced by Act 12 is likely to be short-lived. Our goal is to provide county policymakers and the public with impartial analysis and perspective that will be helpful in their consideration of the 2025 budget and in assessing the scope of the county's future challenges.

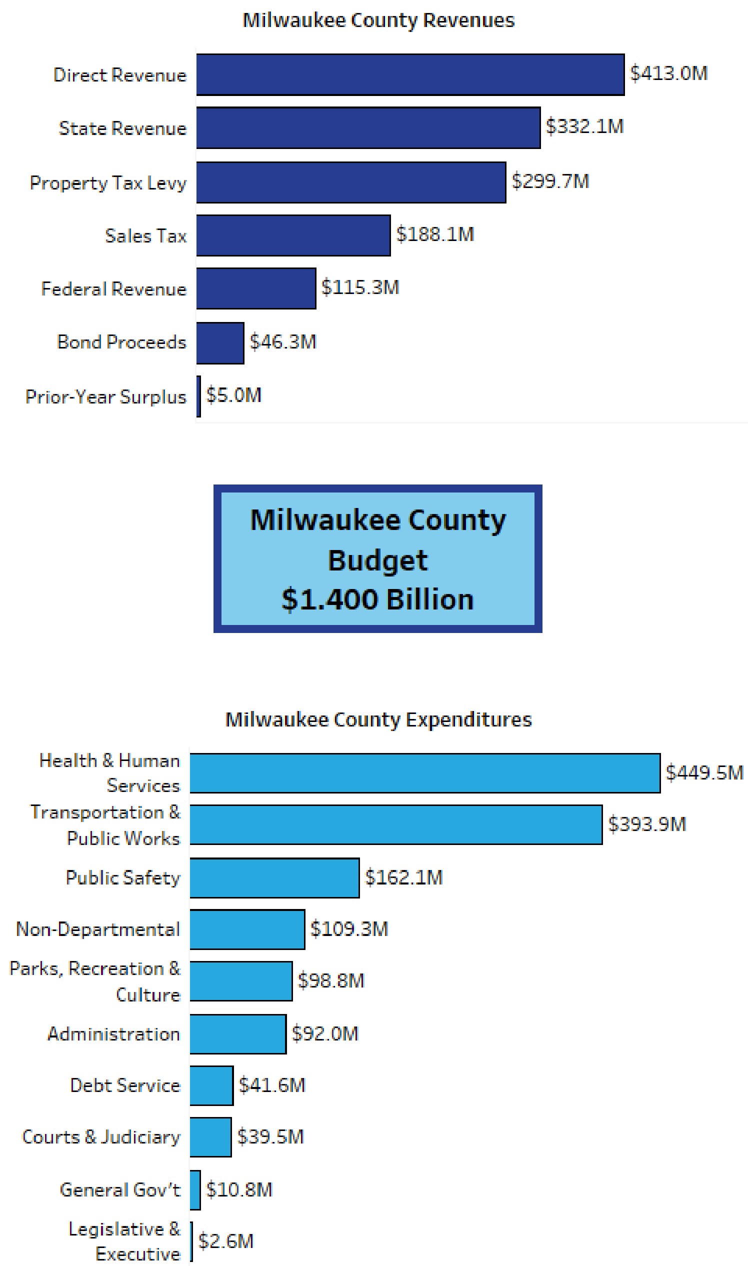
2025 RECOMMENDED BUDGET SYNOPSIS

The 2025 recommended budget totals $1.4 billion, a $28.2 million (2.1%) increase from 2024. Major contributors to the increase include higher spending on public safety and employee health care, as we will detail later in this report. The 2025 operating budget would increase by $43.8 million (3.5%), while capital improvements spending would decrease by $15.6 million (12.4%).

Figure 1 breaks down the budget by major revenue and expenditure categories. As in previous years, the two largest spending areas are health and human services at $449.5 million (including $233.6 million for behavioral health) and transportation and public works at $393.9 million (including $151.5 million for transit operations). Public safety is next at $162.1 million.

The largest revenue source is "Direct Revenue" at $413.0 million, which includes service-related fees and payments such as zoo admissions fees, transit fares, and Medicaid reimbursement. State revenue is next at $332.1 million, and the property tax levy is third at $299.7 million ($8.3 million more than 2024 but still 13.2 million less than the 2023 total). The county also expects to receive $115.3 million from the federal government.

Figure 1: Summary of 2025 Recommended Budget (millions)



Source: Milwaukee County budget documents

As noted, next year will be the second in which the county will collect revenues from a 0.9% sales tax, which is up from the 0.5% tax in place from the early 1990s through 2023. Sales tax collections are budgeted at $188.1 million, a $1.1 million (0.6%) decline from the $189.2 million budgeted in 2024.

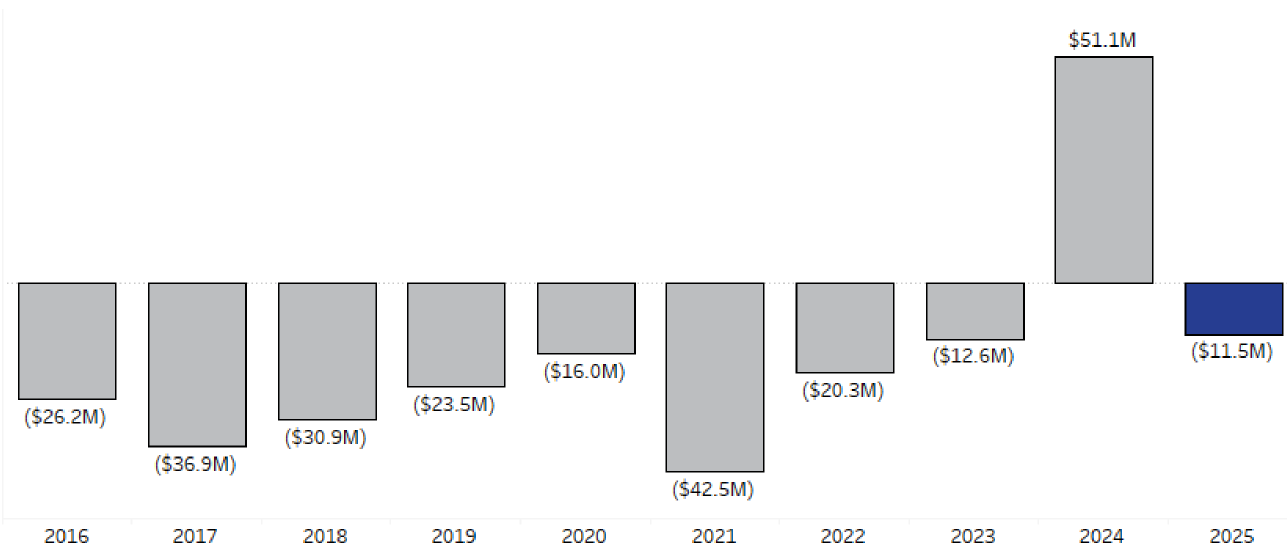
BRIDGING THE 2025 BUDGET GAP

After the uncharted experience of determining how best to spend a sizable budget surplus for 2024, the county executive and his budget team returned this year to the much more familiar task of figuring out how to bridge a relatively modest budget gap for 2025.

A return to structural deficits had been widely anticipated. The surge in revenues produced by Wisconsin Act 12 were seen as a critical lifeline that would help the county overcome the exhaustion of monies from the federal American Rescue Plan Act (ARPA) and provide better prospects for future annual revenue growth. However, the comptroller and budget officials warned that after the initial infusion, which produced a $51.1 million surplus for the 2024 budget, the county's annual expenditure needs again would grow faster than its key revenue sources, albeit in a less pronounced fashion than they had prior to Act 12.

The resumption of annual structural gaps was not expected until 2026, however. In fact, the comptroller projected at this time last year that the county would enjoy a $2.7 million surplus in 2025 before returning to deficit status the following year. An updated analysis this past March reversed that projection and forecast a deficit of $11.5 million for next year. While disappointing, that still would have represented a modest gap when compared to many previous years over the past decade (see **Figure 2**).

Figure 2: Initial projected funding gaps or surpluses (nominal $ in millions)



Sources: Milwaukee County Comptroller's Office and Office of Strategy, Budget & Performance. Note: The sizable increase in the funding gap shown in 2021 resulted largely from initial projections about pandemic-related revenue losses that did not fully materialize.

As the year progressed, other factors altered the size of the budget gap. One was recognition that about $12 million of expenditures in the 2024 budget were "one-time" and could be removed from the 2025 projection with little impact on ongoing services.[1] On the negative side, however, lower-

[1] The $12 million includes about $7 million from the Department of Health and Human Services, including $4.0 million for affordable housing development and $1 million for senior home repairs. While it was widely understood that these initiatives were only made possible through the use of ARPA funds, it is likely that county officials would have liked to continue at least some of them if not for budget constraints.

than-anticipated 2024 sales tax collections, higher health care spending, and lags in investment earnings caused the budget team to adjust those assumptions by late summer in ways that grew the deficit for 2025. In fact, for the first time in recent memory, sales tax collections are expected to decline in 2025 from the previous year's budgeted amount (by $1.1 million, or 0.6%), while budgeted earnings on investments are projected to decline by $5.2 million. The net result was a gap of about $14 million – still on the low side by historical standards but certainly not inconsequential.

How the gap was eliminated

The recommended budget contains dozens of individual decisions within departmental and revenue accounts that coalesce to achieve a balanced budget. The following strategies were among the most instrumental:

- **Use of the Debt Service Reserve.** A huge difference in the county's efforts to address sizable structural gaps today as compared to 10 or 20 years ago is the existence of a well-stocked Debt Service Reserve (DSR). The reserve has been built over time with annual budget surpluses – including one that exceeded $36 million in 2023 – and its year-end balance is now projected to stand at nearly $118 million according to an October report from the comptroller. Use of the DSR is limited largely to offsetting the amount of property tax levy needed for debt service, but such usage frees up that amount of levy for other needs and can be a key deficit reduction tool. The recommended budget proposes a $7.5 million withdrawal from the DSR,[2] which would be a decrease of $4.3 million from the $11.8 million budgeted for 2024.

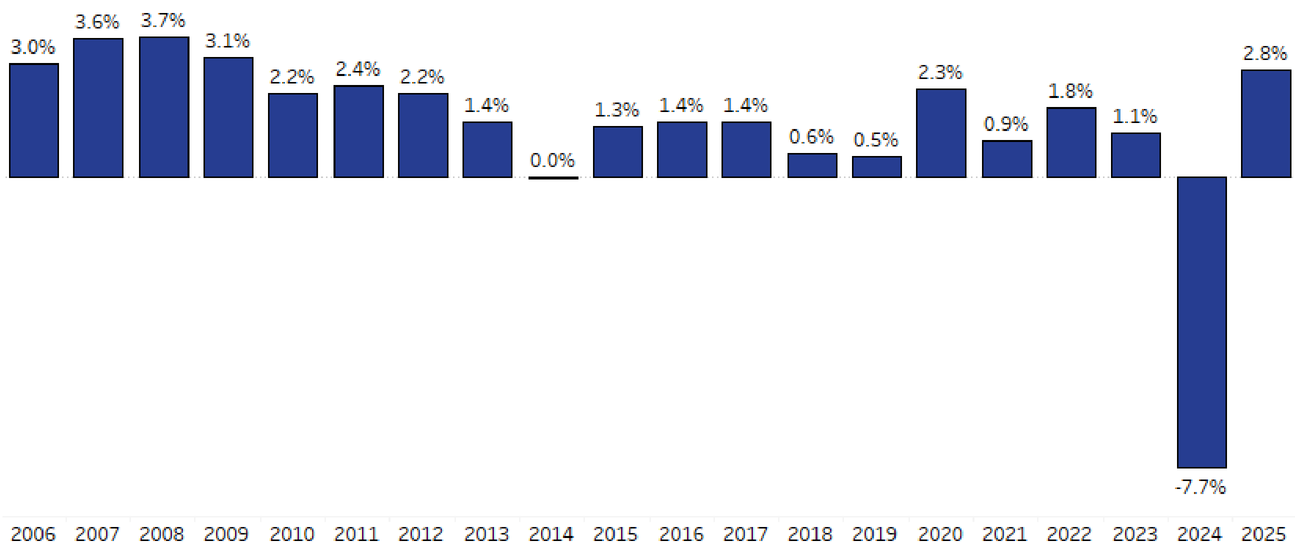
- **Limiting departmental increases**. Budget officials say that in addition to removing one-time items from departmental budgets, they generally held most departments to "cost to continue" increases and required many to absorb cost-of-living salary adjustments for staff and inflationary increases in other items like commodities, supplies, contracts, etc. They estimate an approximate savings of $5 million from those actions compared to original expenditure projections. Important exceptions include the Sheriff and Community Reintegration Center (CRC) – as we will discuss below, staffing challenges contribute to sizable proposed levy increases for those departments.

- **Changes in Health Care Benefits.** For most of the past decade, county leaders have been fortunate to see new pharmaceutical reimbursement strategies, decreases in utilization, and large numbers of vacant positions either reduce annual health care increases to manageable levels or produce sizable savings that contributed to substantial year-end surpluses. In 2024, that good fortune has run out, as the comptroller is projecting a $4.0 million deficit in health care and other fringe benefits spending for this year. The changed trajectory also creates the need for an increase in budgeted health care spending of $15.3 million in the 2025 recommended budget. To offset some of that increase, the budget proposes the first increases in employee payments for deductibles, co-pays, and spousal surcharges in recent memory, as well as an audit that is expected to disqualify some dependents from coverage. The combined savings are expected to total $2 million or more.

[2] The recommended capital improvements budget also authorizes an additional transfer of $5 million from the DSR for the criminal courthouse project if needed, but that appropriation is not part of the recommended budget.

Another key item that helped offset the initial gap while also adding resources to meet certain priorities was a decision to increase the property tax levy by $8.3 million (2.8%) to $299.7 million. That amount exceeds the comptroller's original assumption that the levy would increase by $1.5 million and, as shown in **Figure 3**, would be the highest levy boost (on a percentage basis) since 2009. It is important to note, however, that the increase follows a 7.7% *decrease* in the levy in 2024 and is only modestly higher than the 2.4% 12-month increase in the Consumer Price Index as of September 2024. As we will discuss in Key #3, higher annual property tax levy increases might be a new reality for the county in future years in light of its capital spending and debt service pressures.

Figure 3: Percent change in budgeted property tax levy, 2006-2025



Source: Milwaukee County budget documents

Overall, the boost in property taxes and reasonable withdrawal from the DSR ensure that the "pain" associated with deficit reduction in the 2025 recommended budget is limited largely to modest changes in departmental requests and increases in employee health care contributions. We will discuss in later sections whether the level of difficulty is likely to grow in future years.

OPERATING BUDGET OVERVIEW

The 2025 recommended operating budget totals $1.29 billion, an increase of $43.8 million (3.5%) over this year. The bulk of the collective increase would go to the three largest functional areas: Health and Human Services ($7.1 million, or 1.6%); Transportation and Public Works ($18.6 million – 6.3%); and Public Safety ($10.8 million – 7.1%). The non-departmental function also sees an increase of $8.8 million (8.7%), largely because of higher projected employee fringe benefit expenditures. Full-time equivalent positions (FTEs) grow from 3,984 in the 2024 budget to 4,121 (an increase of 138 FTES, or 3.5%).

While the Transportation and Public Works increase is largely linked to various inflationary costs to continue (including increased depreciation costs for the transit system and other divisions), the Public Safety and Department of Health and Human Services (DHHS) increases are more noteworthy, as they involve boosts in staffing and services that likely will be ongoing. For example, the **Office of the Sheriff would see the creation of nine additional deputies** to serve as bailiffs for the courts and a $2.1 million increase to its overtime budget to address perennial deficits in that area, while the **Community Reintegration Center, formerly the House of Correction, would receive an extra $3.1 million for contractual increases for correctional health care and food services** (see Key #1 for further discussion of Public Safety increases and their impacts).

Meanwhile, **DHHS would gain 32 positions** to be filled late in the year as training is initiated for a new county-owned Secure Residential Care Center for Children and Youth (SRCCCY) that is scheduled to open early in 2026. The facility will house youth from Milwaukee County who have been sentenced to secure placement by the Children's Court. Previously, those youth would have been sent to the state-owned Lincoln Hills and Copper Lake facilities. Overall, DHHS' budgeted expenditures would increase by $15.2 million and its property tax levy by $2.5 million.

The increase in **fringe benefits** is linked to the need to boost spending for both health care and pensions. As discussed above, the county's good fortune with regard to health care spending has run out, as a variety of factors create the need to increase pharmaceutical expenditures by $4.8 million and health insurance claims by $10.5 million (an increase of 8.5% from the 2024 budgeted amount). The 2025 budget also will take a hit from a $13.3 million (11.9%) spike in the county's pension contribution, caused mainly by a quirk in the debt service schedule for the county's pension obligation bonds (POBs) that caused the debt service payment to decline on a one-time basis in 2024. In 2025, it will increase by $10.6 million to a more typical level (about $36 million).

The following are other specific areas of the operating budget that would see notable new or enhanced investment:

- The **Courts** would receive an increase in both budgeted spending and staff, with an additional $2.7 million in expenditures and 13 additional FTEs (including eight for Children's Court). Tax levy directed to the Courts would grow by $1.7 million. In addition to the extra spending on positions, the amount dedicated to legal fees would grow by $1.7 million. These fees cover the cost of attorneys appointed by judges for defendants who are eligible for representation by the State Public Defender's Office but for whom such representation is unavailable because of a lack of capacity.

- The **Office of Emergency Management** (OEM) would receive 10 new FTE dispatcher positions to provide relief for existing staff in light of increased call volumes. The office's expenditures would increase by $589,000 and its tax levy by $503,000. Increased 911 call volumes pose similar challenges for municipal dispatch centers, which prompted us to suggest in a [2016 report] the exploration of dispatch consolidation within the county. The added expenditures in this area for OEM would seem to further support such consideration.

- For the third consecutive year, the **Parks Department** would see increases in budgeted expenditures and personnel, with 10 new FTEs and an extra $2.4 million in spending authority. The department's levy would *decrease* by $375,000, however, as the expenditure increase instead would be funded by $2.7 million in projected revenue growth from grants as well as fees paid by users of parks amenities. Notably, the department would see a $1.2 million increase to support its operations and trades division, which is responsible for maintenance activities.

- Most county employees would receive a 2% **cost-of-living adjustment** (COLA) in January at a tax levy cost of about $5.1 million, according to budget officials.[3] In addition, the budget includes $2.1 million to support an effort initiated this year to analyze compensation levels for certain positions and bring them closer to market levels (this initiative also received a $2.9 million appropriation in 2024). As noted above, the COLA will be offset somewhat for some employees by increases in health care co-pays and deductibles as well as a higher employee pension contribution resulting from the increase in pension expenditures.

Overall, **it is somewhat remarkable that the 2025 recommended operating budget is able to mostly avoid position cuts and service reductions in non-public safety departments given the sizable increases in fringe benefits and public safety spending.** In the pages that follow, we provide additional insight into key decisions that paved the way for a relatively pain-free budget as well as lingering and emerging areas of fiscal concern.

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[3] The COLA would produce an estimated $5.9 million increase in expenditures countywide but the county is able to receive reimbursement for the salary increases for certain departmental staff whose salaries are charged to federal, state, or outside funding sources (e.g. employees of General Mitchell International Airport). That limits the levy increase to about $5.1 million.

CAPITAL BUDGET OVERVIEW

After two years of elevated capital spending this year and last, the 2025 recommended capital improvements budget would return the county to more typical levels of both borrowing and spending. In 2023, general obligation (G.O.) bonding exploded as the county addressed two major needs – a new forensic science center on the Milwaukee County Grounds and the county's contribution to a new privately-owned Milwaukee Public Museum (MPM) building. Then, in the 2024 budget, county leaders used a sizable portion of the surplus created by Act 12 to pour $26.4 million of property tax levy into the capital budget, allowing them to address several outstanding projects without having to add to the county's debt load.

In the 2025 proposal, the capital improvements budget totals $110.4 million, which is a $15.6 million (12.4%) decrease from 2024. Of the total, $18.9 million is for projects at General Mitchell International Airport, which are fully reimbursed by airlines or outside revenue sources. Non-airport projects total $91.5 million, **a decrease of $21.6 million (19.1%) compared to this year**.

The major source of capital financing in the recommended budget is general obligation (G.O.) bond proceeds, which would total $46.3 million for non-airport projects. That total slightly exceeds (by $342,000) the amount allowed under the county's self-imposed bonding limit, which was adopted by county leaders in the early 2000s to prevent an escalation of future debt payments and generally allows for a 3% increase each year.

Property tax levy-based cash financing in the capital budget is cut by $14.5 million, which frees up those funds to shore up the operating budget. Still, the levy allocation remains at $11.9 million to finance some or all of 13 non-airport projects. More than half of the cash ($6.0 million) would be directed to planning and design for a new criminal courthouse, which we discuss in further detail below. This follows a cash appropriation of $9.5 million in 2024 for initiation of the courthouse project, which will replace the outdated Safety Building and has been deemed necessary for more than a decade.

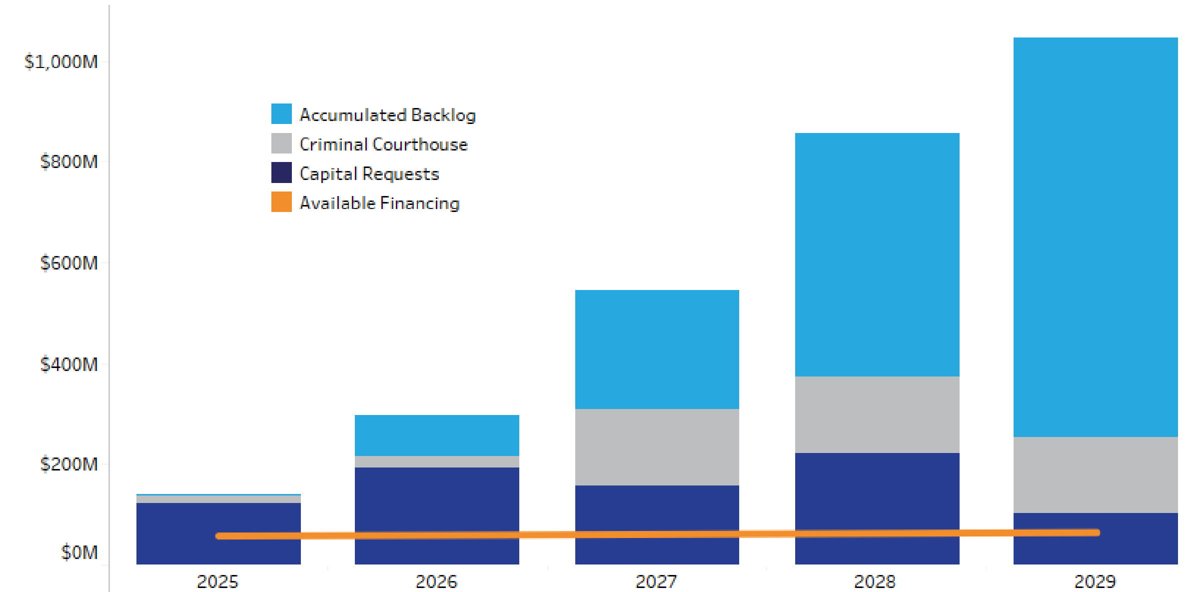
The recommended budget is largely devoid of large new projects after the county initiated several in recent years, including not only the forensic science center and new public museum building, but also the replacement of the Coggs Center, a new rhinoceros exhibit at the Zoo, and a new breakwater for South Shore Park (this project would receive a $3.9 million appropriation for continued work in 2025). However, the budget does include sizable sums for parks roadway reconstruction at Jackson Park ($4.5 million) and Underwood Creek Parkway ($6.6 million).

The largest project would replace ventilation and exhaust systems at the Milwaukee County Transit System's (MCTS) bus storage and garage facility at a cost of $8.1 million in 2025. MCTS' bus replacement program is another major capital appropriation for 2025; $5.3 million in bond proceeds would be appropriated to match $20.8 million in federal funds for the purchase of 40 buses.

Overall, a relatively routine capital budget that stays close to the bonding cap masks the magnitude of the county's upcoming capital challenges. The infrastructure backlog continues to grow; while the recommended budget provides $58.1 million of G.O. bond and cash financing for 42 non-airport projects, **departments requested dozens of additional projects totaling $81.3 million that did not receive funding.** Some of these requests may never score highly enough to receive funding and may ultimately be deemed unnecessary, but many are needed and will simply be pushed off for another year.

A longer-term look is provided in **Figure 4**,[4] which compares the amount of borrowing and cash that would be available under the bonding limit and 20% cash financing goal in each year of the county's five-year capital improvements plan to the amount that would be required to finance projects already requested by departments and included in the plan. Again, even if some ultimately will never merit funding, a capital backlog approaching $1 billion is certainly real, particularly with a need to begin work on the $430 million-plus criminal courthouse as soon as 2026[5] and hundreds of millions of dollars in parks projects. Also, the dollar amounts for requested projects shown in the figure do not include costs associated with the renovation of the Mitchell Park Domes, which could involve a $30 million capital commitment from the county as laid out in a recent proposal.

Figure 4: Available county financing vs. non-airport capital requests, 2025-2029



Source: 2025 Recommended Capital Improvements Budget

This dilemma has no good answers, which is one reason it has grown more serious over time, notwithstanding the county's recent ability to address a handful of major needs with increased borrowing and use of property tax levy and ARPA dollars. The most obvious solution would be to reassess and expand the current bonding cap, but as we will discuss in Key #3, doing so in a way that would not pose a significant threat to departmental operating budgets and create a substantial burden for property taxpayers will be exceedingly difficult.

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[4] **Figure 4** considers capital requests based on those included in the current five-year capital improvements plan for the county. It is important to note that additional projects almost certainly will be added to the plan as new needs arise while some projects in the current plan may be dropped based on further review or for other reasons. Also, annual appropriations for the criminal courthouse project (as well as some other projects in the five-year plan) are only rough estimates provided for planning purposes; these estimates will be refined once the planning and design phase is completed.

[5] The figure shows a $17.2 million request for the criminal courthouse project in 2025 because that was the amount originally requested by the Facilities Management Division for continued planning and design. According to budget office officials, the division later revised its request to between $6 million and $11 million based on the amount it felt could be spent in 2025. The recommended budget includes $6 million plus an authorization to transfer an additional $5 million from the DSR if necessary; the remainder is rolled into the anticipated request for 2026 (which totals $23.7 million).

FOUR KEYS TO THE 2024 RECOMMENDED BUDGET

Key #1: Public safety challenges chew up Act 12 benefits

A primary key to the 2024 budget – as well as to the county's vastly improved long-term fiscal outlook – was the infusion of an estimated $84 million in additional sales tax revenue and $7.6 million in additional state shared revenue from the adoption of Wisconsin Act 12. The legislation authorized the county to increase its sales tax from 0.5% to 0.9% and linked the state's shared revenue appropriation to one-fifth of its own sales tax collections, thus increasing the statewide appropriation by about $275 million for 2024. Just as important, Act 12 promised future annual growth in these two vital revenue sources as sales tax collections in the county and state increase with inflation and economic growth.

Unfortunately, because sales tax collections for 2024 are now projected to fall short of the budgeted amount, the sales tax revenue estimate in the 2025 recommended budget drops by $1.1 million (0.6%), from $189.2 million to $188.1 million. Meanwhile, due to lower-than-expected sales tax growth at the state level, the county's base shared revenue and supplemental aid payment is projected to increase by a modest $1.3 million (2.4%), from $54.6 million to $55.9 million.

There is certainly hope that sales tax collections will grow faster in future years. As we reported in our 2023 budget brief, the county's collections grew by 48.5% from the 2014 actual amount to the 2023 budgeted amount. If the county were to return even to 2.5% annual growth in its sales tax collections and shared revenue payment, then that would amount to a combined $6 million of revenue growth annually. Such growth would be well short of the amount needed to stamp out the county's structural challenges completely, but it would help.

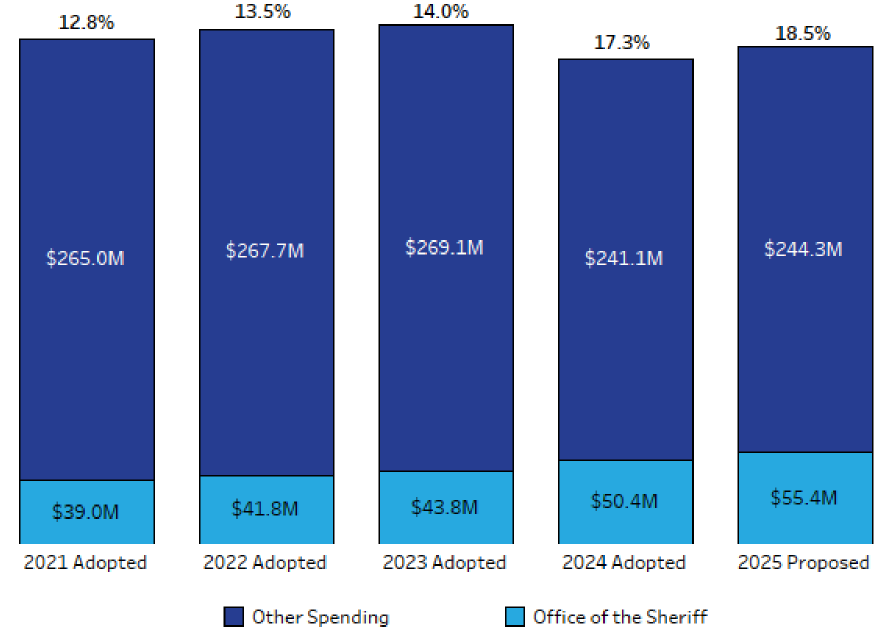
Juxtaposed with this promise of modest increased annual revenue growth from Act 12, however, is the fierce pressure posed by the county's public safety spending. In the proposed 2025 budget, as discussed above, **public safety spending would increase by $10.8 million (7.1%) - the largest percentage increase of any functional area in the budget besides non-departmental expenses.**

Much of this spending growth comes from the Milwaukee County Sheriff's Office (MCSO), whose spending would rise by $5.0 million (8.3%) to $64.7 million next year. Over the last five budgets, MCSO has commanded a larger share of the county's property tax levy. In 2021, $39.0 million in property taxes were devoted to MCSO's operations, or 12.8% of the total county levy. In 2025, despite the total levy remaining well below levels prior to last year, the proposed budget would provide $55.4 million for MCSO – a 42.2% increase relative to 2021, and nearly one-fifth of all county property tax dollars (see **Figure 5** on the next page).

As noted earlier, the recommended increase for MCSO includes funding to support nine new deputy sheriff positions to serve as bailiffs for the courts and an additional $2.1 million for overtime expenses. (MCSO is projected to run an $8.8 million overtime deficit in 2024, according to a September report by the comptroller.) In addition, the budget includes $800,000 to cover salary and benefit increases stemming from a new labor agreement with the Milwaukee Deputy Sheriff Association, and it would spend $300,000 on a pilot for hourly bailiff positions.

Still, the 2025 budget would only provide for 91 bailiff posts, despite a warning from the county's chief judge that it would take "about 114" to fully staff the courts. All other program areas within MCSO beyond court security (which includes bailiffs) would *lose* a combined four FTEs to help offset the need for more bailiffs.

Figure 5: Property tax levy, sheriff versus other county functions



Source: Milwaukee County budget documents

The county's Community Reintegration Center (CRC) would see an even greater increase in its budget, from $60.2 million in 2024 to $65.5 million in 2025, a rise of $5.3 million, or 8.8%. Much of this increase ($4.1 million) is due to health care and food service contract increases but more than $1 million is devoted to overtime costs, which are also projected to deficit for the CRC by $1.5 million in 2024. The CRC saw staff vacancy levels reach as high as 36% in 2022.

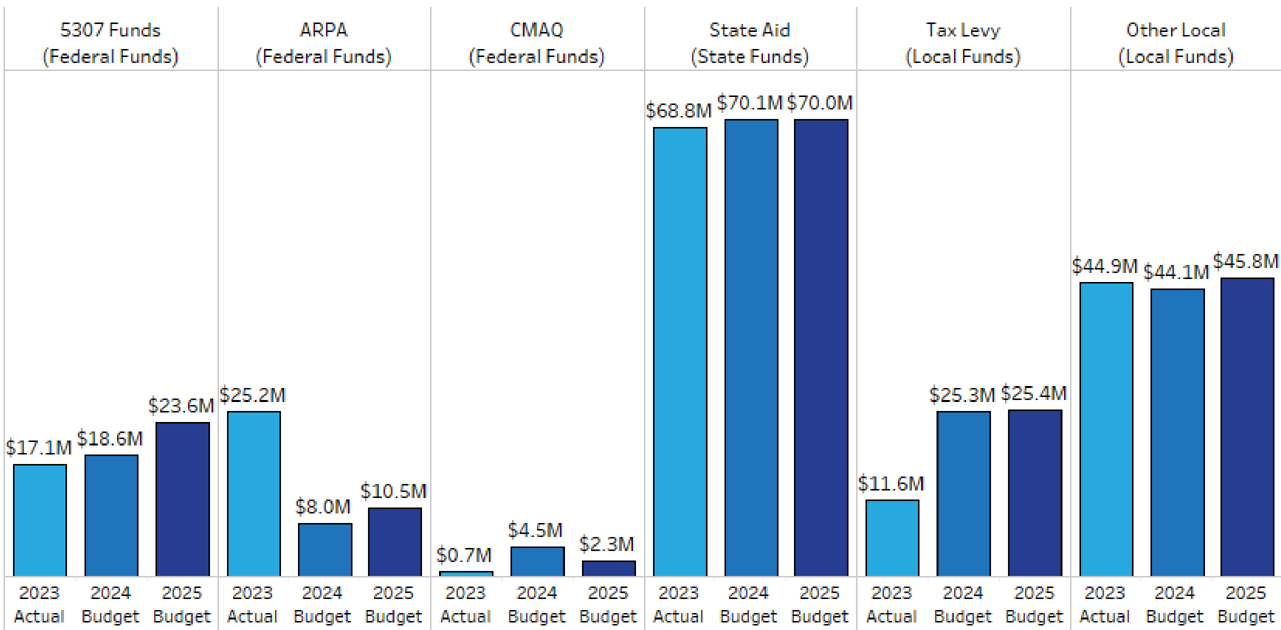
The need to perennially devote more resources to the MCSO and CRC has been a longstanding problem for the county, as recent budgets have also spent more to boost the pay of corrections officers and accommodate the growing cost of medical care at the county jail and CRC. Now, it is becoming apparent – if these trends continue – that public safety expenditure pressures will consume much of the annual revenue growth promised by Act 12, or all of it in years like 2025 when sales tax growth is modest. Consequently, unless new strategies are developed to control annual cost increases in the public safety function, the future impact of Act 12 in helping to resolve the county's structural deficit may be eclipsed.

Key #2: BRT decision reflects challenges beyond transit

For the past several years, both the Forum and the comptroller's office have warned of a fiscal cliff facing the Milwaukee County Transit System (MCTS) that would soon pose a serious threat to bus service – and perhaps to other county services if policymakers opted to shift property tax levy resources from other departments to address it. The cliff stemmed from the eventual exhaustion of MCTS's special allotment of $191 million of federal pandemic relief aid that has been parceled out annually since 2021 to offset drops in passenger revenue and other structural challenges in the transit budget. In our 2023 report, *Detour Ahead*, we cited a potential annual gap of $18 million to $26 million when those aids were fully spent as soon as 2025.

The substantial infusion of sales tax and state shared revenue in 2024 has now helped the county to push back the cliff. In the 2024 budget, as shown in **Figure 6**, the infusion allowed county leaders to more than double MCTS's property tax levy allocation, from $11.6 million to $25.3 million. That move addressed cost to continue challenges and also allowed MCTS to reduce its use of ARPA funds in the 2024 budget by $17.2 million (from $25.2 million to $8.0 million). As we wrote in our 2024 county budget brief, this preserved about $12.5 million of ARPA monies for future years and was thought to potentially delay the cliff through 2026.[6]

Figure 6: Shifts in MCTS revenue sources, 2023-2025



Source: Milwaukee County Transit System

It turned out, however, that larger forces affecting the overall county budget created a $19 million mid-year deficit and required a more aggressive step to push back MCTS's future challenges and free up some of its added levy for other needs. In August, county leaders decided to indefinitely delay a major planned investment in a new North-South bus rapid transit (BRT) line, despite the fact that $5 million already had been spent to design the project. The move allowed county leaders to redirect $15 million of ARPA monies to ongoing transit operations and was an acknowledgement that the county's future challenges likely would preclude it from having the financial means to operate the BRT line even if it was built.

Indeed, the decision went beyond MCTS's alarming fiscal outlook and was an important reflection of the growth in the county's overall challenges. While most of the $15 million was placed in reserve to shore up transit operations in future years, $2.2 million was used to replace levy in MCTS's 2024 budget, freeing up that same amount as part of the administration's plan to eliminate the countywide deficit.

Moreover, the move was a key strategy to balance the overall county budget in 2025. MCTS expenditures in the recommended budget increase by $6.2 million, with a large portion attributed in the budget to "depreciation and equipment replacements." Filling that gap with additional property tax levy would have been exceedingly difficult given other budget challenges, but the redirection from

[6] A recent estimate by the comptroller's office projects an MCTS budget deficit of about $15.7 million in 2027.

BRT allowed for a $2.5 million increase in the ARPA allocation in the MCTS budget, from $8 million to $10.5 million. This still leaves about $13 million of ARPA monies for 2026.

The recommended budget also increases the use of another source of federal funds that is distributed annually on a formula basis (known as “5307 funds”) by about $5 million – a move made possible, in part, by the larger reserve of ARPA funds for 2026, which allows MCTS to be more aggressive in spending its annual allotment of 5307 dollars in 2025. Together, these moves allow the county executive and his budget team to limit MCTS’s property tax levy increase in 2025 to about $70,000 (from $25.3 million to $25.4 million) while addressing the 2025 budget gap without cutting bus service or raising general fares.

The decision to eliminate the North-South BRT route was not an easy one, as transit leaders have argued for years that efforts to sustain and boost ridership and passenger revenue were dependent on service improvements to enhance speed and reliability. Still, it was seen as necessary both for the preservation of existing bus routes and the financial stability of the county as a whole.

The good news is that the historic tax levy boost for transit in the 2024 budget was preserved for another year in the 2025 recommended budget while the fiscal cliff has been pushed back a little further. The bad news is that the fixes used for 2025 still are only temporary, and that given the trajectory of the county’s overall challenges, the ability to grow or even maintain such a large property tax levy commitment to MCTS after the ARPA funds finally run out is dubious. That, in turn, likely will put service cuts, an increase in the county’s vehicle registration fee, or both squarely back on the table within the next two years.

Key #3: Pressure on the property tax builds

As discussed above, the 2.8% recommended property tax levy increase – if approved by the county board – would be the largest on a percentage basis since a 3.1% increase in 2009. Still, the increase to $299.7 million is only modestly above the rate of inflation and would produce a county levy that is $13.2 million lower than the 2023 amount thanks to the $24 million tax levy reduction in 2024. In fact, the 2025 recommended levy would still fall below the $301.1 million levied five years ago in the 2020 budget.

While it would be unfair, then, to bemoan the increased property tax levy reliance in the 2025 recommended budget, it would not be inappropriate to raise concerns about the possible property tax trajectory in the future.

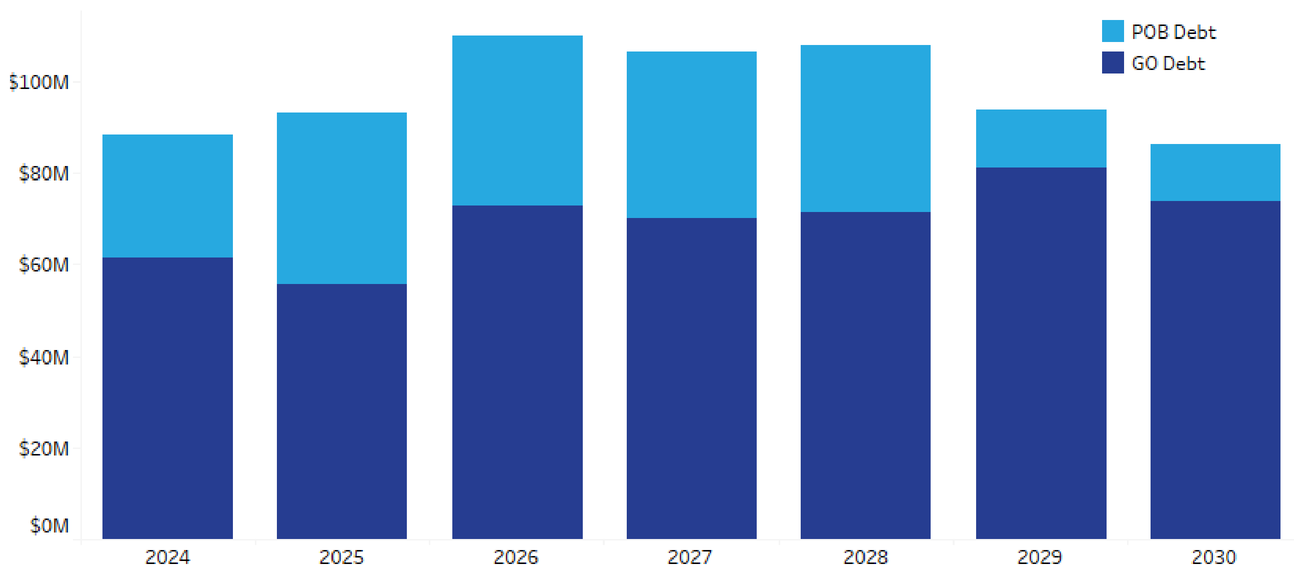
The county’s levy is impacted substantially by state-imposed property tax levy limits, which restrict annual growth for operations to the previous year’s percentage increase in countywide property values stemming from new construction. For 2025, the 1.1% growth in net new construction – combined with another boost from a terminated tax incremental district – give county leaders the ability to increase the operational levy by $2.6 million.

There are a couple of important exemptions to the state caps, however, that allow for additional levy growth. The first is an exemption for emergency medical services, the spending on which falls outside of the levy limits and allows for an additional $515,000 in 2025; and the second is for debt service, which means that the $9.1 million increase in debt service payments (including POB debt) budgeted for 2025 falls outside the limits and can be met through an increase in the countywide levy.[7]

Going forward, the county's recent commitment to two huge capital projects (the forensic science center and new public museum) – as well as its growing infrastructure repair backlog and the need to initiate the largest capital project in its history within the next couple of years – threaten to produce a substantial increase in debt service obligations that would be borne by property taxpayers. That, in turn, may put pressure on policymakers either to limit increases in the operations levy even below the state caps if they wish to lessen the impacts on taxpayers, or to accept annual levy increases that are substantially higher than citizens have seen over the past decade.

According to information provided by the comptroller's office, after rising by $4.8 million in 2025, the county's total annual debt service obligation is scheduled to increase by nearly $17 million in 2026, thanks largely to the forensic science center and museum projects (see **Figure 7**). It will remain at that elevated level through 2028. These projections assume the county issues G.O. debt in future years at a level that is consistent with the 3% annual increase in bonding prescribed by the current bonding cap and that POB debt is paid off according to the current schedule.

Figure 7: Current and projected annual debt service obligations, 2024-2030



Source: Milwaukee County Comptroller's Office

The county will reap an enormous benefit in 2029 when the annual payment for POB debt service is scheduled to fall from about $36.4 million to $12.6 million. After remaining at that level in 2030, it will be eliminated entirely in 2031, when the debt is fully paid off.

This decrease in pension debt will be a significant help in offsetting the impacts of growing G.O. debt service, which is projected to reach $81.1 million in 2029, an increase of $25.4 million (45.6%) from the $55.7 million budgeted for 2025. However, the projected decline in total debt service in 2029 comes with an important caveat: it assumes only a 3% increase in G.O. bonding each year, which

[7] In 2025, a new provision in state law that eliminates the tax on personal property tax and reimburses local governments from the resulting loss of collections further impacts the levy and produces the recommended increase of $8.3 million, which is the net amount allowed under the 2025 cap.

would not take into account any decision to exceed bonding caps to address the infrastructure backlog, including for the construction of the criminal courthouse or the effort to rebuild the Domes.

Fortunately, county leaders have anticipated the short-term rise in debt service and possess a critical tool to alleviate its impacts. The build-up of the Debt Service Reserve to its current level of nearly $120 million could allow for larger withdrawals in subsequent years that will at least partially offset the higher debt service payments, thus limiting the impact on property taxpayers and potentially allowing for increases in the operations levy that meet the state caps and provide needed growth for departmental operating budgets.

That's the good news. The bad news is that while the DSR is extremely well-stocked, aggressive use of it in the short term would deplete it before it will likely be more desperately needed to offset the longer-term debt service impacts of the criminal courthouse. Also, the county's financial struggles in 2024 likely will preclude it from making its typical DSR replenishment at the end of this year.

It is still too early to know how the courthouse may be financed and what the specific impacts on county debt service payments will be, but it is safe to assume they will be weighty. Meanwhile, the county's other infrastructure needs are immense, suggesting that bonding caps need to be exceeded and debt service obligations may need to grow considerably higher than shown in the current projections even without the onset of the courthouse project.

Again, state law allows county leaders to turn to property taxpayers to pay for escalating debt service costs. However, county policymakers may be loath to burden property taxpayers to the extent that may be necessary to address the county's overwhelming capital needs and ensure sufficient levy growth to support operations.

Key #4: Structural challenges take a turn for the worse

Now that more than a year has passed since the adoption of Act 12, both its short-term and long-term impacts have come more sharply into focus. From a short-term perspective, it is difficult to overstate the importance of the legislation. The infusion of $84 million in extra sales tax revenues in the 2024 budget (plus an extra $7.6 million in shared revenue) not only created a painless budget this year, but also allowed the county to better prepare itself for its future challenges. It also was instrumental in limiting the pain again in the 2025 recommended budget.

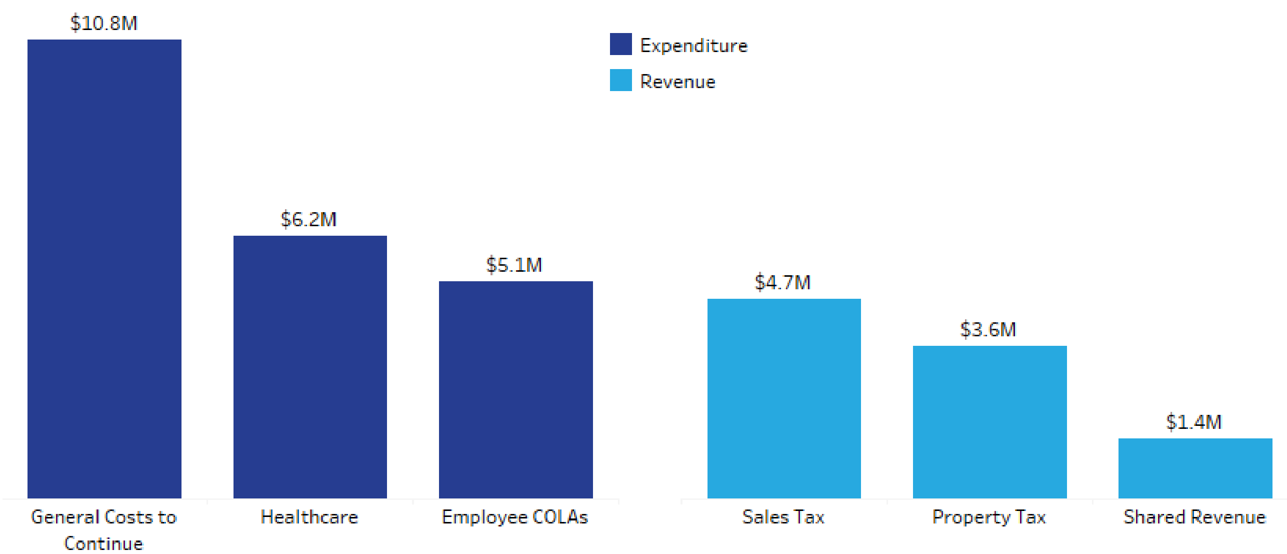
Of course, the benefits of the higher sales tax and new shared revenue paradigm will be ongoing, and it would be deeply unsettling to imagine what the county's finances would look like without Act 12. Still, its impact on the county's structural deficit has faded more quickly than originally anticipated. The main causes of this development have been discussed above – growing public safety and employee health care costs, lower-than-anticipated sales tax collections, and escalating debt service pressures.

The bottom line is that while Milwaukee County has come a long way in reducing its annual structural challenge – which now appears to be more in the range of $15 million per year than the $30 to $50 million annual holes that were common 10 and 20 years ago – the challenge remains stubborn and the options to address it remain limited. Even worse, it is possible that the structural deficit is now on an upward trajectory.

Figure 8 on the next page illustrates the most basic elements of the structural deficit. Under a hypothetical scenario in 2026 in which health care costs grow by a relatively conservative 5%, salary costs borne by the tax levy grow in accordance with a 2% annual COLA for all employees, and general costs to continue for items like utilities and commodities grow by $10.8 million annually (the estimate used for 2025 by the comptroller's office), the county would need more than $21 million of revenue growth to meet those costs. While Act 12 creates potential for greater revenue growth than the county enjoyed previously, such growth falls far short of the $21 million that would be needed. (We assume 2.5% growth in both county and statewide sales tax collections and a 1.2% increase in the property tax levy based on the recent average increase in net new construction cited in the recommended budget.)

This is obviously a rudimentary analysis and does not take into account growth in the county's state and federal aids, as well as other expenditure increases not related to salary, benefits, and general costs to continue. But the illustration is supported by the most recent five-year forecast produced by the comptroller, which estimates that the county's revenues will grow by roughly 1% per year from 2025 to 2029 while its expenditures will grow by 2.4% annually.

Figure 8: Hypothetical key elements of the structural deficit for 2026



Source: Milwaukee County budget documents and WPF calculations

So where do county leaders go from here? As discussed above, they certainly will make strategic use of DSR withdrawals, which may serve as a bridge to ease budget difficulties until the POB debt starts falling off the county's books in 2029. However, as also discussed above, both forms of relief might be needed simply to allow the county to withstand the impacts of escalating G.O. debt from the criminal courthouse and from more aggressive steps to tackle the infrastructure repair backlog, neither of which have been factored into the comptroller's five-year forecast.

While it is likely the county will again turn to Madison to justifiably seek assistance with the criminal courthouse project and to solicit other forms of help from the state, its prospects for success may be diminished based on the substantial assistance it received under Act 12. Meanwhile, its other options on the revenue front are severely curtailed by restrictions in state law.

One exception is the vehicle registration fee (VRF). The county implemented a $30 VRF in 2017, which now generates about $17.3 million annually, and it has not increased the fee since its inception. Doubling the fee to $60 could offset the bulk of the MCTS budget gap in 2027, and regular inflationary increases could help with MCTS' challenges in future years. Of course, that would also be a hit to Milwaukee County residents, who recently saw the sales tax increase and who may be facing higher annual property tax increases in future years.

It is possible, therefore, that these circumstances will require county leaders to again scrub departmental budgets and consider the liquidation of physical assets for savings, as they have done since the pension scandal first erupted in 2002. Whether substantial savings still are achievable from internal consolidations and efficiencies and the sale of buildings or property after so many years of seeking them is an open question. One area that certainly should be pursued – as we also advised city of Milwaukee leaders in our recent review of the mayor's proposed budget – is intergovernmental consolidation of administrative services with the city (as we detailed in a 2023 report) and sharing or consolidation of services like dispatch, public works, and public health with all Milwaukee County municipalities.

After the passage of Act 12, county fiscal officials warned policymakers and the public that while they should celebrate its immediate impacts, they should not lose sight of the severity of the county's ongoing financial challenges. Some unexpected bad news in 2024 in the form of health care and public safety overruns – coupled with the reality that the courthouse project should no longer be delayed – have now reinforced that warning in a much more immediate and pronounced fashion than they likely anticipated.

CONCLUSION

In the conclusion to our 2024 budget brief, we cited "the dawning of a new day for Milwaukee County" that in the near term would allow for avoidance of undesirable budget cuts, as well as opportunities to consider new investments. A year later, we are not ready to declare the new day already over, but it is now evident that a return to difficult budgets will come sooner rather than later.

The 2025 recommended budget does avoid harmful cuts and finds more than $10 million for additional investment in public safety. At the same time, it preserves a robust Debt Service Reserve and a $13 million tranche of transit-related ARPA funds while dedicating nearly $12 million of cash to the capital budget.

As a result, not only should the recommended budget for next year be viewed positively, but a look toward the future reveals that Milwaukee County today has many more assets to address its upcoming financial challenges (including both the ample DSR and the forthcoming elimination of POB debt) than it possessed in previous decades.

At the same time, as we have discussed throughout this report, it is disconcerting to realize that despite the huge revenue gains engendered by Act 12, the structural deficit again may be growing. In fact, the county is likely to return to budget-cutting mode as soon as 2026 and almost certainly by 2027, when the transit cliff hits. Moreover, the continued build-up of the capital backlog and the imminent need to initiate the criminal courthouse project create huge looming obstacles to its long-term fiscal stability.

Overall, it is certainly good news for county residents that the recommended budget largely avoids service cuts and increases the tax levy only modestly (particularly when viewed in the context of last year's levy reduction). At the same time, they should fasten their seatbelts for some potential turbulence ahead.