BUDGET BRIEF:

MILWAUKEE COUNTY

2026 EXECUTIVE BUDGET

WISCONSIN POLICY FORUM

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The Wisconsin Policy Forum was created on January 1, 2018, by the merger of the Milwaukee-based Public Policy Forum and the Madison-based Wisconsin Taxpayers Alliance. Throughout their lengthy histories, both organizations engaged in nonpartisan, independent research and civic education on fiscal and policy issues affecting state and local governments and school districts in Wisconsin. WPF is committed to those same activities and that spirit of nonpartisanship.

PREFACE AND ACKNOWLEDGMENTS

This report is intended to provide citizens and policymakers with an independent, comprehensive, and objective analysis of the Milwaukee County Executive's budget. We hope that policymakers and community leaders will use the report's findings to inform discussions during ongoing budget deliberations.

Report authors would like to thank officials and staff from the Milwaukee County Office of Strategy, Budget and Performance, the Comptroller's office, the Milwaukee County Transit System, the Milwaukee County Department of Transportation, and Milwaukee County Behavioral Health Services for their assistance in providing information on the budget and the county's finances.

Finally, we wish to thank the Northwestern Mutual Foundation for generously supporting our local government finance research.

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BUDGET BRIEF

Milwaukee County 2026 Executive Budget

October 2025

Report Authors:

Rob Henken, Immediate Past President
Andy Tisdel, Researcher

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INTRODUCTION

Highly challenging budget times have returned to Milwaukee County. A projected $47 million deficit for 2026 and revelation of a nearly $11 million mid-year 2025 budget hole for the transit system cast a tall shadow on budget preparations as they were initiated in the spring. Several new and expanded revenue sources adopted in the 2025-27 state budget alleviated the pressure considerably, but continued negative trends in public safety overtime and employee health care spending – coupled with new concerns about potential federal cuts -- offset much of that relief.

The result was one of the most difficult recommended budgets in years, highlighted by significant route cuts and fare increases for transit riders and elimination of some valued behavioral health services. Fortunately, significant programmatic impacts were largely limited to those two areas. Still, the budget includes the largest property tax increase in at least two decades and a larger-than-normal withdrawal from reserves, signaling that the circumstances that have made 2026 a difficult budget year have not been resolved and that service reductions may need to extend to other county departments in future years.

The recommended capital improvement budget amplifies that point. It pumps nearly $16 million into the design of a revamped courthouse complex – which at nearly half a billion dollars will be the county's most expensive capital project ever – while also finding more than $13 million for a new entranceway to the Milwaukee County Zoo, $5 million for the Mitchell Park Domes renovation, and healthy totals for parks, highways, and fleet. Yet a capital repair and replacement backlog estimated at more than $1 billion still grows, with more than $100 million in projects requested by departments pushed off for consideration until 2027.

Despite these concerns, there are also bright spots emanating from the 2026 proposal. Even with a recommended $9.8 million withdrawal from the Debt Service Reserve, a very healthy balance should remain for use in future years. Meanwhile, sales tax and state shared revenues show modest growth, suggesting fulfillment of the promise for continued revenue growth posed by Wisconsin Act 12, the 2023 state law that authorized an expanded county sales tax, enhanced state shared revenue aid, and critical pension reforms. Parks department revenues also continue to rise from greater use of golf courses and other amenities, staving off service reductions despite a reduced property tax allocation.

In the pages that follow, we highlight these and other encouraging and troublesome elements from the 2026 recommended budget, including key decisions made to balance the budget and what those decisions convey for future years. Our goal is to provide county policymakers and the public with impartial analysis and perspective that will inform budget deliberations this year and provide additional insight into the scope of the county's future challenges.

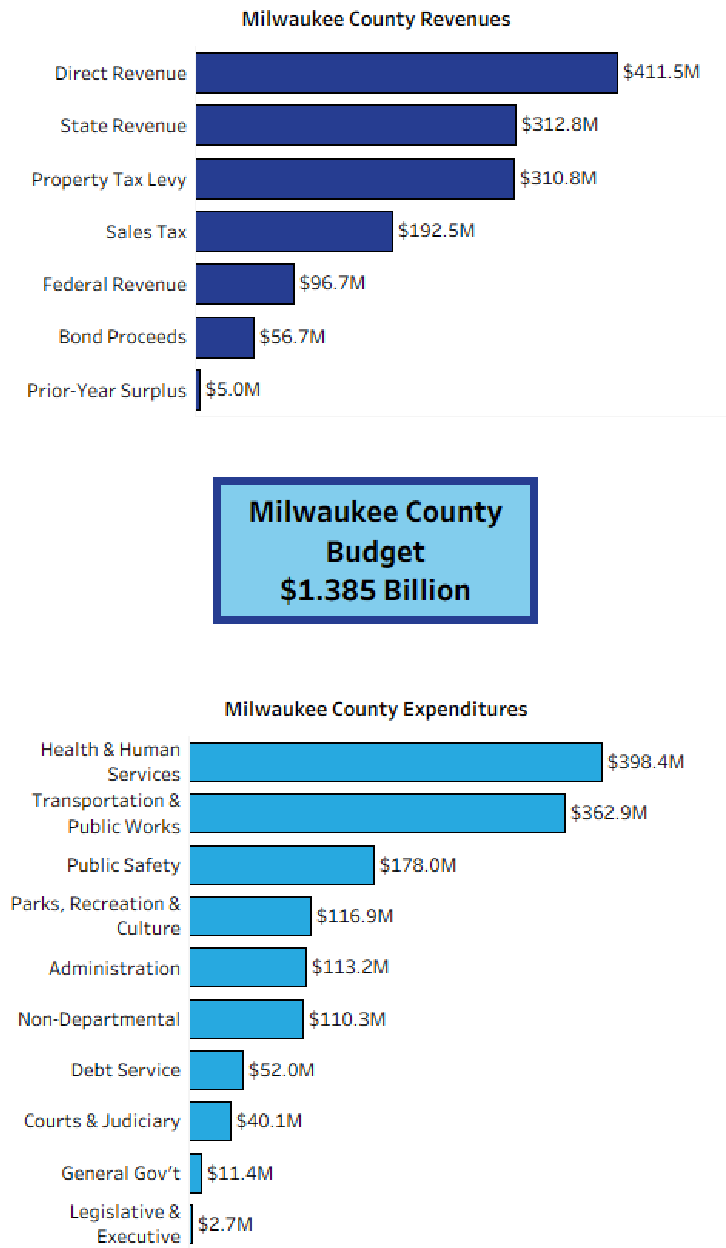
2026 RECOMMENDED BUDGET SYNOPSIS

The 2026 recommended budget totals $1.39 billion, a $15.4 million (1.1%) decrease from 2025. A primary contributor to the proposed decrease is an accounting change involving children's long-term support services in the Department of Health and Human Services (DHHS), which produces a $39 million spending reduction but no impact on services. Without that change, expenditures would have increased by $24 million (1.7%). The recommended operating budget for 2026 would decline by $13.0 million (1.0%) in part because of the DHHS accounting change, while the capital budget would decrease by $2.4 million (2.2%).

Figure 1 breaks down the budget by major revenue and expenditure categories. The two largest spending areas are health and human services at $398.4 million (including $216.0 million for behavioral health) and transportation and public works at $362.9 million (including $155.7 million for transit operations). Public safety is next at $178.0 million.

The largest revenue source is "Direct Revenue" at $411.5 million, which includes service-related fees and payments such as transit fares and Medicaid reimbursement. State revenue is next at $312.8 million (including $42.0 million in state shared revenue aid, a $1.9 million increase from 2025) and the property tax levy is a close third at $310.8 million ($12.1 million more than this year). The budget also includes $96.7 million from the federal government, a decrease of $18.6 million that results mainly from a one-year delay in bus purchases. Collections from the 0.9% county sales tax are budgeted at $192.5 million, a $4.4 million (2.3%) increase from the 2025 budgeted amount.

Figure 1: Summary of 2026 Recommended Budget (millions)



Source: Milwaukee County budget documents

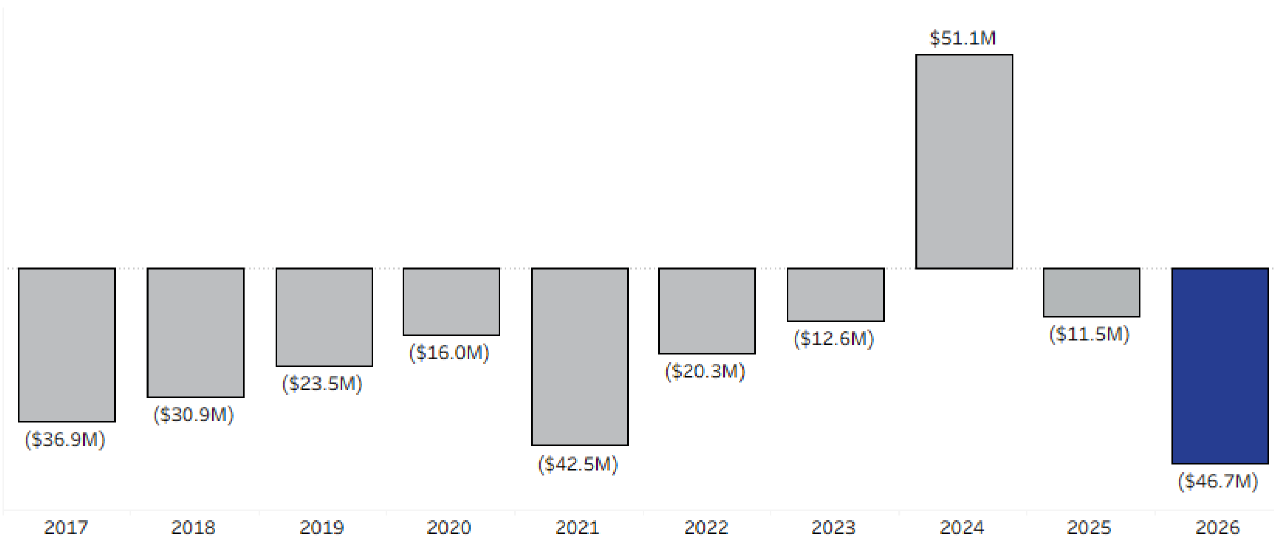
BRIDGING THE 2026 BUDGET GAP

Alarm bells about the 2026 budget have been ringing in the Milwaukee County Courthouse since March, when the comptroller's annual five-year fiscal forecast projected the county would confront a $46.7 million deficit next year.

The projection of a budget gap of some magnitude for 2026 was not a surprise. In fact, except for 2024 – the year in which Wisconsin Act 12 gave Milwaukee County access to a new 0.4% sales tax – the county's projected expenditure needs have exceeded its projected revenue growth at the start of every year since at least 2002. In last year's budget brief, we projected that 2026 would be no different, warning that "a return to difficult budgets will come sooner rather than later."

What was both surprising and alarming, however, was the size of the projected gap. The extra sales tax and state shared revenues produced by Act 12 – plus the prospect for annual growth in those critical revenue sources – were thought to have put the county on a path toward greater financial stability that would lead to manageable annual deficits for at least the next few years. Instead, as shown in Figure 2, the $46.7 million deficit heading into the 2026 budget season was the largest in the past decade and reversed three consecutive years of relative budget calm for the county.

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.

So, what changed to erase this calm? A primary factor, according to the comptroller's report and budget officials, was a surge in spending on employee salaries and health care benefits as vacancies were filled coming out of the pandemic and compensation was increased to keep up with rising inflation and a tight labor market. Escalating debt service – caused largely by the county's commitment to major capital projects involving the Milwaukee Public Museum and a new forensic science center – also was a key contributor. As we will discuss, while the county's prospects for annual revenue growth have indeed improved, they have not done so sufficiently to offset these and other growing expenditure pressures.

How the gap was eliminated

While the comptroller's initial forecast produced a gloomy start to the 2026 budget season, the outlook improved markedly when a new state budget that included several favorable measures for the county was adopted in July. That good news was partially offset, however, by current year deficits in public safety and transit budgets (the lingering causes of which would need to be addressed in the 2026 budget), the threat of decreases in federal Medicaid support (which has contributed to proposed cuts for Behavioral Health Services), and negative trends in employee health care spending. Consequently, the original 2026 gap – while modestly improved by late summer – still was in the $40 million range when budget development began in earnest and required some of the most impactful budget cutting strategies since the onset of the pandemic.

In the end, the recommended budget is balanced by the use of dozens of individual decisions involving both county spending and revenues. The following developments and strategies stand out as the most instrumental:

- **Favorable state budget.** The 2025-27 state budget produced several "wins" for Milwaukee County, highlighted by a decision by state leaders to reimburse the county for its full cost of providing interstate and state highway patrol services within county borders, yielding an additional $19 million in state aid in 2026. Most of those funds will be used to support the courthouse complex renovation capital project, but $3 million would bolster the sheriff's budget in 2026. A reduction in state charges at juvenile detention facilities produces a $6.4 million savings while state-authorized increases in citation revenues ($2.2 million) and circuit court support payments ($1.5 million) generate additional funds.

- **Use of the Debt Service Reserve.** The county's well-stocked Debt Service Reserve (DSR) continues to play an important role in deficit reduction. The reserve has been built over time and continues to be replenished with annual budget surpluses – including a $13.9 million surplus in 2024. Its year-end balance is projected to stand at about $138 million at the end of 2025 despite healthy withdrawals this year, according to budget office officials. The recommended budget proposes a $9.8 million withdrawal from the DSR, which would be a $2.4 million (32.4%) increase from the $7.4 million budgeted for 2025. The comptroller's original projection included no transfer from the DSR.

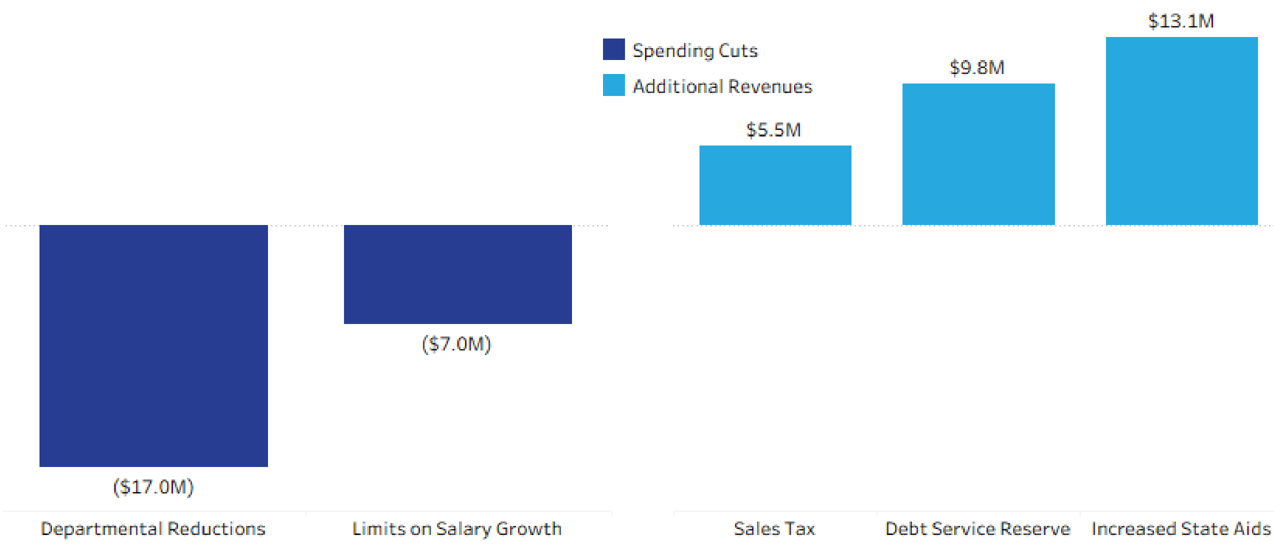
- **Departmental reductions**. Budget officials say agencies were instructed to find savings in their requested budgets that yielded a collective $10 million in property tax savings. On top of that, the "cost to continue" increases assumed in the comptroller's original projection were largely eliminated from departmental requests. Combined, these two steps produced about $17 million in deficit reduction from the original projection, with varied impacts across individual departments but few impacts to core services.

- **Limited salary increases.** The comptroller's forecast assumed 3.8% growth in salaries countywide in light of recent experience. The projected increase accounted for an assumed cost-of-living adjustment (COLA) for all employees and also reflected recent moves to boost compensation for certain difficult-to-fill positions and fill vacant positions. The recommended budget essentially limits salary growth to a 1% proposed COLA for employees but does not project the additional salary growth the county has seen in recent years from other actions. This would produce a savings of $7 million from the original projection.

- **Increased sales tax collections.** Greater-than-anticipated growth in sales tax collections so far in 2025 allowed budget officials to project a $4.4 million (2.3%) increase in collections in 2026; the total is $5.5 million higher than the comptroller's original estimate, which projected a $1.1 million decline.[1] The recommended budget also would increase property taxes by $2.9 million for operations, but that equals the amount projected by the comptroller.

As shown in **Figure 3**, these items collectively produced about $52 million in combined savings and additional revenues that would eliminate the budget gap. In addition, they produced some additional capacity to address overtime deficits in the sheriff's office and Community Reintegration Center (formerly the House of Correction) and reduce the amount of budget cutting originally anticipated in the health and human services and parks departments.

Figure 3: Key deficit reduction items in 2026 recommended budget



Source: Milwaukee County budget documents and WPF calculations

As we will discuss, one major department that is not spared is the Milwaukee County Transit System (MCTS). The impact on the county's bottom line is not substantial, as MCTS would see its property tax levy reduced "only" by about $1.9 million.[2] However, MCTS' fixed route services would see several million dollars of cuts and substantial fare increases, in part because of the reduced amount of federal pandemic relief aid available to support transit operations and the budget's lack of capacity to fill the gap with additional property tax levy.

Overall, the fortuitous state budget, healthy use of reserves, and efforts to restrict salary growth limit the most severe pain in the 2026 recommended budget to MCTS and, to a lesser extent, Behavioral Health Services. However, most areas of county government would face some pinch, and next year looks to be the start of several years of difficult budgets with the potential for intensifying negative impacts on core services and property taxpayers.

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[1] The sales tax projection takes into account the impact of a provision included in the 2025-2027 state budget to exempt consumers' electric and gas utility charges from state and local sales taxes. This negative impact offsets to a small extent the positive state budget impacts we discuss throughout the report.
[2] A transfer of $1.1 million in vehicle registration fee revenue from the highway maintenance division lowers the net reduction in local funding support for MCTS to about $778,000.

OPERATING BUDGET OVERVIEW

The 2026 recommended operating budget totals $1.28 billion, a decrease of $13.0 million (1.0%) from this year. The Health and Human Services function sees a large decrease ($51.7 million, or 11.5%), in part because of the accounting change involving children's long-term support services mentioned above. Another primary factor is a $17.7 million expenditure decrease in Behavioral Health Services, driven by expiring state and federal grants and reduced Medicaid reimbursement. The Public Safety function receives the largest increase among departmental functions ($14.2 million or 8.8%), while debt service expenditures would rise by $11.5 million (28.3%). Full-time equivalent positions (FTEs) shrink slightly from 4,123 in the 2025 budget to 4,112 in 2026 (0.2%).

The recommended budget is largely status quo for most county departments, with minimal changes in their budgeted positions and sufficient resources to allow them generally to maintain existing service levels. However, as reflected by the decrease in behavioral health spending and increase in public safety spending, there are some notable exceptions to that rule. Also, while overall recommended expenditures for the Transportation and Public Works function grow by $9.2 million (2.9%), that growth masks the most significant service-level changes in the recommended budget, which would occur in MCTS.

We will address the **MCTS** changes as one of our budget keys later in this report. The following are other specific areas of the operating budget that would see notable changes:

- The **Office of the Sheriff** would see expenditures increase by $10.3 million (15.9%), from $64.7 million to $75.1 million, although $3.8 million of that amount is attributed to a technical accounting change. The office's recommended property tax levy would fall by $6.0 million (12.1%), from $55.4 million in 2025 to $49.4 million in 2026, as the office instead would use the $19 million in newly granted expressway patrol funds to address budget holes while also giving back some tax levy for other purposes. The recommended budget adds $3.6 million to address the office's overtime deficit – **a sizable amount but still short of the $8.6 million overtime deficit projected for 2025 in September**. Other increases include compensation adjustments for staff ($1.7 million) and contractual increases for transportation services ($543,000). FTE levels increase only slightly – from 708 to 709.

- The **Community Reintegration Center** also faces an overtime problem, with a $2.5 million projected deficit reported by the comptroller in September. The recommended budget provides $974,000 extra for overtime costs as part of a $1.7 million (2.5%) increase in expenditures and a $1.8 million (2.9%) increase in property tax levy for the center. A $617,000 increase for inmate medical costs is included in the overall increase.

- The **Office of the District Attorney** would receive a $1.2 million (8.6%) expenditure increase but see its tax levy fall slightly (by $41,000, or 0.4%). The office benefits from a new state budget provision that allows Milwaukee County to retain all of the revenue collected from citations issued by the sheriff's expressway patrol, in part to fund 12.5 assistant district attorney positions that had previously been financed with federal funds.[3] About $1.3 million of the projected $2.2

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[3] This provision is being challenged in a lawsuit filed by the Wisconsin Institute for Law and Liberty, as discussed in this recent Milwaukee Journal Sentinel article.

million of new citation revenue is budgeted for this purpose, while the remaining $900,000 would generally support the office.

- **Behavioral Health Services** would see a $17.6 million (7.6%) drop in expenditures, from $233.6 million in 2025 to $216.0 million in 2026, as well as a $491,000 reduction in property tax levy. The decline is tied to reductions in several revenue streams (totaling $17.2 million), including the sunsetting of certain grants and, most prominently, cuts in budgeted revenues for several Medicaid-related reimbursements. BHS officials say some of the revenue losses stem from a return to pre-pandemic Medicaid eligibility standards, which caused some clients to lose coverage and BHS to lose Medicaid reimbursement for certain services provided to those clients, many of whom are now uninsured. Other factors include new state criteria for crisis intervention activities that diminish BHS' ability to draw down another form of Medicaid reimbursement.

  The budget states that "major expenditure reductions" are necessary to respond to these revenue losses, including elimination of a $2.9 million, decades-old residential detoxification program; a $700,000 cut to alcohol and other drug abuse prevention programs; elimination of BHS' $1.0 million contribution to Housing First activities provided by the county's housing division (although funds were identified in the Department of Health and Human Services budget to replace that contribution); and other smaller reductions for advocacy and training programs. Overall, while some spending reductions are tied to reduced program utilization or contractual changes and do not produce service-level impacts, **these are some of the most substantial programmatic cuts to behavioral health services in recent memory.**

- The **Department of Health and Human Services** would see an expenditure reduction of $34.0 million (15.8%) that is largely attributed to the accounting change discussed earlier. The department's property tax levy would increase slightly (by $401,000, or 0.9%) and it is largely provided with sufficient resources to maintain existing levels of service. That likely would not have been the case without a last-minute state budget move (resulting from a Governor Tony Evers veto) to dramatically reduce the rate charged by state juvenile corrections facilities for Milwaukee County youth detained by the state, which will save the county an estimated $6.4 million in 2026. The budget notes that if the original rates are restored in future budgets – which would appear to be a very real possibility – then DHHS would need to respond by cutting most non-mandated services, including support for senior centers and housing outreach and support.

- For the fourth consecutive year, the **Parks Department** would see a boost in budgeted expenditures ($1.4 million, or 2.9%), although its tax levy is reduced by $1.0 million. That reduction is more than offset by a $2.7 million increase in revenues tied to continued growth in the use of golf courses, picnic areas, pavilions, and other parks amenities, as well as minor increases in the fees charged to use those amenities. Also, $200,000 of the department's levy is replaced with General Transportation Aids from the state, which increased 3% as called for in the state budget. In general, parks services, staffing, and maintenance levels would remain the same as in 2025, which is in contrast to cuts that occurred over several years prior to the pandemic (see our 2021 report, *Sinking Treasure*, for further details).

To summarize, **while the proposed operating budget generally avoids position cuts and service reductions in most departments despite growth in the structural deficit, some significant cracks in the county's recent budget stability have emerged.** For example, overtime challenges in the sheriff's office and CRC are only partially addressed, while behavioral health and transit see significant service reductions. In the pages that follow, we provide additional insight into these growing challenges and what impacts they may hold for the future.

CAPITAL BUDGET OVERVIEW

The 2026 recommended capital improvements budget addresses several new and ongoing repair and replacement needs but still lacks the capacity to address more than $100 million of projects requested by departments. This continues a long-term trend that has produced a huge backlog of deferred capital needs as the county has tried to balance the imperative to appropriately invest in its capital assets with the equally pressing goal of maintaining affordable levels of debt.

The 2026 recommended capital improvements budget totals $108.0 million, which is a $2.4 million (2.2%) reduction from the $110.4 million budgeted in 2025. Of the total, $17.8 million is for projects at General Mitchell International Airport, which are fully reimbursed by airlines or outside revenue sources. Non-airport projects total $90.2 million, a decrease of $1.2 million (1.3%) compared to the $91.4 million budgeted this year.

The largest source of capital financing is general obligation (G.O.) bond proceeds, which total $56.7 million for non-airport projects. That borrowing total is slightly below 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.

Despite the sizable deficit heading into the year and the county's vast operating budget challenges, the recommended capital budget finds $24.5 million in property tax levy to cash finance several projects. This represents 30.2% of net county financing, far exceeding the county's 20% cash financing goal and more than double the 2025 budgeted levy total of $11.9 million. A major source of that cash comes indirectly from the new state budget provision that provides $19 million in 2026 to fully fund expressway patrol costs in the sheriff's office. Because those funds free up property tax levy in the sheriff's office and elsewhere, the capital budget is able to dedicate $15.8 million of levy to support continued design of the revamped courthouse complex.

The appropriation for courthouse project design is the largest in the capital budget and the need to finance continued design and construction pose a huge fiscal challenge for the next several years. The project will replace the outdated Safety Building and make other improvements to the historic courthouse itself. While critical to the county's ability to provide safe and efficient public safety services, the cost will be prohibitive with an estimated $458.4 million required to finance the project from 2026 through 2032.

The county's current five-year capital plan calls for appropriations for the courthouse project of $32.5 million in 2027, $280.3 million in 2028 (when actual construction is anticipated to begin in earnest), and a combined $98.6 million in 2029 and 2030. While not yet specified, it is assumed that the bulk of future appropriations will be financed through G.O. borrowing. This will drive up annual debt service obligations considerably, although anticipated ongoing state funding for the full cost of sheriff's expressway patrol services will provide a partial offset.

The recommended budget contains one additional large and notable project – a $13.6 million appropriation for a revamped front entrance for the Milwaukee County Zoo. The project, which is intended to reduce long lines and traffic congestion at the zoo entrance, will be financed with $13.4 million of G.O. bonds and $250,000 of outside revenue.

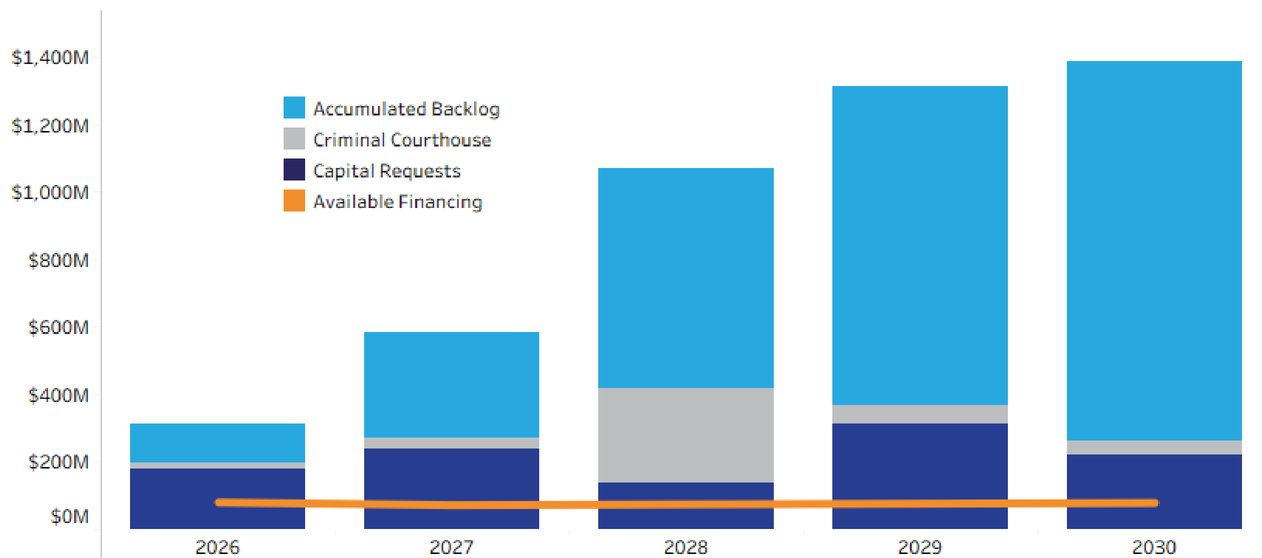
Notably absent from the capital budget is an allocation for bus purchases. The county typically seeks to purchase about 30 new buses each year to keep its fleet up to date and budgeted $5.3 million of county financing as a 20% match for federal funds to do so in 2025. According to budget officials, bus purchases will not be pursued in 2026 because of a change in Environmental Protection Agency bus engine regulations that led transit officials to recommend a one-year delay.

Other major non-airport capital investments include $7.2 million for countywide vehicle and equipment replacement and $4.9 million to upgrade the electrical system at the courthouse. The budget also recommends 10 county highway and bridge projects totaling $7.7 million and 11 projects in the parks totaling $13.3 million.

Notably, one of those parks projects is the first of six planned $5 million bond-financed contributions to a $133 million privately led initiative to repair and enhance the Mitchell Park Domes. These annual $5 million contributions will limit the county's ability to address other infrastructure needs in the parks, where a sizable backlog of repair and replacement needs has been identified. Because of the county's G.O. bonding cap, the 2026 recommended budget was unable to include parks capital projects totaling $24.7 million that had been requested by the parks department.

The inability to address the full range of capital repair needs in the parks is emblematic of the county's larger capital budget crisis. County officials acknowledge a backlog of infrastructure needs that exceeds $1 billion and that continues to grow. For example, while the budget recommends more than $80 million of G.O. bond and cash financing for 55 non-airport projects, departments requested dozens of additional projects totaling $115.1 million that did not receive funding. Some of these requests may never score highly enough to warrant investment, but many are needed and will be pushed off for consideration next year, adding to the existing backlog.

Figure 4: Available county financing vs. non-airport capital requests, 2026-2030



Source: 2026 Recommended Capital Improvements Budget

As in previous years, we have prepared a visual (**Figure 4**) to illustrate the growth and magnitude of the capital backlog.[4] The figure 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

[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.

improvements plan to the cost of projects already requested by departments and included in the plan. **The gap between current financing capacity and requested projects grows from $115.1 million in 2026 to $341.7 million in 2028 when courthouse complex project construction is initiated, before declining to still inconceivable totals of $292.6 million in 2029 and $180.1 million in 2030.**

County leaders now acknowledge that there will be no choice but to ignore the self-imposed bonding cap to accommodate the courthouse complex project, so our visualization has become more illustrative than real. Still, even if we were to put aside the courthouse project, the annual gaps between financing capacity and departmental requests would be substantial, as illustrated by the gap each year between the dark blue bars and the orange line in the figure.

As we stated in last year's brief, this dilemma has no good answers. The county's plan to disregard the bonding cap to finance the courthouse project already is setting up taxpayers for several consecutive years of hefty property tax levy increases (as we will discuss in Key #3). Adding even more debt above the cap to address other elements of the backlog would exacerbate that issue. Conversely, doing nothing and allowing the backlog to continue to grow would ignore the county's obligation to appropriately maintain, repair, and replace its capital assets, which in turn could lead to even greater eventual costs for taxpayers. This is a problem that has lingered and grown for two decades and that still has no viable solution in sight.

FOUR KEYS TO THE 2026 RECOMMENDED BUDGET

Key #1: The transit fiscal cliff has arrived

The Milwaukee County Transit System's impending "fiscal cliff" – a term used to describe a budget year when the gap between the system's projected expenditures and revenues will skyrocket – has been on county leaders' radar for quite some time. In fact, in 2022, the county commissioned us to assess the cliff and explore options to address it. Our March 2023 report, *Detour Ahead*, cited the exhaustion of federal pandemic relief aid as the "primary culprit" but also warned that "dwindling passenger revenue, flat state aids, and a continued conflict between the use of federal formula funds for operations versus bus replacements have combined to perpetuate deep structural problems irrespective of the pandemic."

MCTS received about $192 million of American Rescue Plan Act (ARPA) monies and other supplemental federal transit aid in the wake of the pandemic. The monies were intended by federal lawmakers to give MCTS and other large urban transit systems the financial means to maintain service levels despite huge pandemic-induced losses of passenger revenue. It was hoped that the emergency aid would plug budget holes in the short term as passenger revenue eventually climbed back to pre-pandemic levels to replace it.

MCTS and county officials have been judicious in their use of the federal pandemic aid, spreading it over several budgets since 2021 while using other strategies – such as the reprogramming of monies from a delayed second Bus Rapid Transit line and a boost in property tax support – to help maintain services each year in the face of the structural issues identified in our 2023 report.

The original plan was to spread the use of federal pandemic aid through 2027 to maintain current service levels, thus delaying the onset of the cliff until 2028. At that time, the cliff would be created by the need to replace the federal pandemic monies used in the previous budget plus address the structural gap that year. In its March five-year forecast report, the comptroller's office estimated that an extra $17.8 million in property tax levy would be required to address the cliff in 2028.

Unfortunately, a series of circumstances have now transpired to push the onset of the cliff squarely into the 2026 budget. The first was discovery of a $10.9 million deficit in the transit budget for 2025, which officials attributed to factors like unplanned overtime, higher costs for parts and materials, and higher-than-budgeted paratransit costs (a comptroller's audit has been initiated to certify the deficit's causes). In response, MCTS implemented a series of budget cutting measures, including frequency reductions on several existing bus routes.

According to information provided by MCTS, the system also will need to use more than $10 million of federal pandemic relief funds previously earmarked for 2026 and 2027 to balance this year's budget (bringing the pandemic aid total to more than $20 million in 2025). That leaves only the last $8.5 million for use in the 2026 recommended budget, as compared to the $10.5 million originally budgeted this year, and no funds available for 2027 and future years.

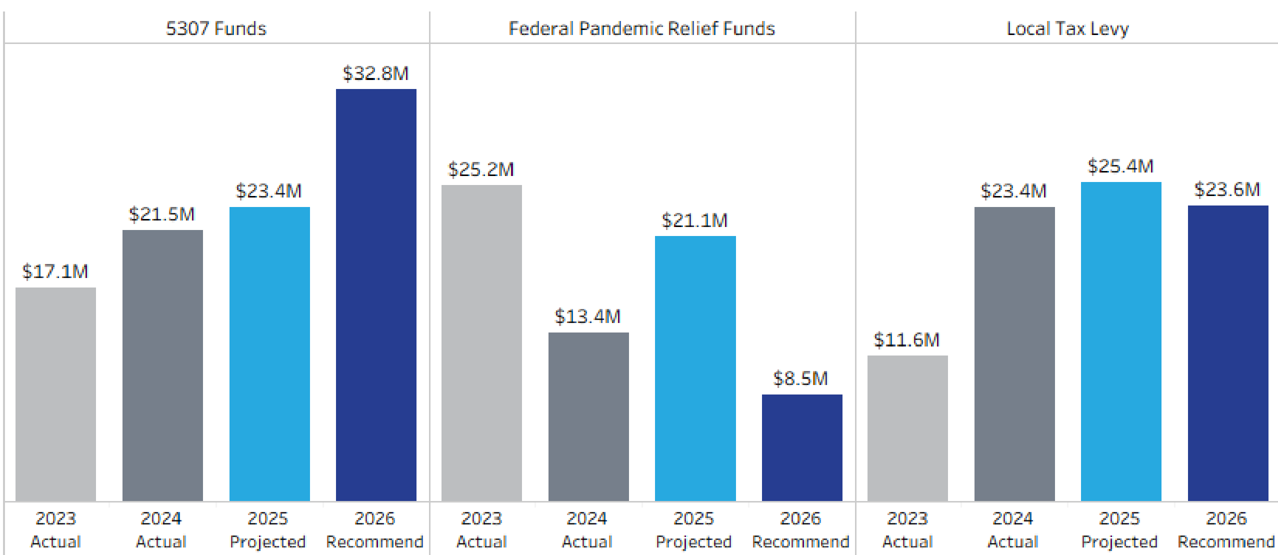
The reduced pandemic relief aid is only one component of MCTS' larger financial challenge for next year. The system's largest source of operating support for its fixed route services – state mass transit operating assistance – has grown only slightly since 2023, from $59.6 million to $60.9

million budgeted in 2026 (the same as 2025).[5] Meanwhile, what used to be its second largest source – revenues collected from riders – has been slow to recover from the pandemic. In fact, the $23.5 million budgeted for 2026 is $5.4 million (18.7%) lower than the $28.9 million budgeted in 2019 (without adjusting for inflation).[6]

With little to no growth in these major revenue sources, MCTS and county officials have looked to two other sources (besides the federal pandemic monies) to maintain service levels while offsetting annual growth in costs for items like salaries, benefits, fuel, and maintenance. As shown in **Figure 5**, the first is the property tax levy. MCTS received an additional $11.8 million in levy in 2024 compared to 2023 after the expanded sales tax boosted the county's finances. The infusion plugged that year's structural gap and reduced the use of pandemic monies, preserving them for future years. Fiscal constraints likely will preclude the county from adding much if any property tax levy to the transit budget in subsequent years, however. In fact, MCTS' levy is reduced by about $2 million in the 2026 proposal, although a shift of about $1 million in vehicle registration fee revenue from the highway maintenance division to the transit budget will offset some of that reduction.

The second is "5307 funds," a source of federal, formula-based aid intended for bus purchases and other capital needs that also can be used to pay for maintenance costs in MCTS' operating budget. Use of those funds for operations has grown since the pandemic, with a particularly notable increase of $9.6 million (41.0%) in the 2026 proposal. This increase is made possible, in part, by the decision discussed earlier to delay bus purchases next year, but it may exacerbate financial challenges in future years when purchases resume and fewer 5307 funds are available for operations (although officials say the availability of other sources of federal funds should address that challenge in 2027).

Figure 5: Expiring pandemic relief aid puts pressure on other key revenue sources



Source: Milwaukee County Transit System and 2026 Recommended Budget

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[5] MCTS' state operating assistance was reduced by $13 million on a one-time basis in 2022. Lawmakers first reduced it by $32.7 million in the state budget but Gov. Evers restored $19.7 million with state ARPA funds. This shortfall in 2022 required MCTS to use more of its ARPA allotment that year than otherwise would have been necessary to maintain services.
[6] MCTS officials also revealed this year that fare evasion is a pervasive problem. Per a recent Milwaukee Journal Sentinel article, they are now implementing strategies to reduce the number of fare evaders by 3%, which would potentially generate an additional $900,000 in passenger revenue.

All of this adds up to the need to reduce transit spending in the 2026 recommended budget, as the additional 5307 funds are not sufficient to offset the combined impact of the reduced federal pandemic aid, flat state and local funding, and the various cost pressures that produced the mid-year deficit in 2025. Transit officials say their original funding gap was about $14 million.

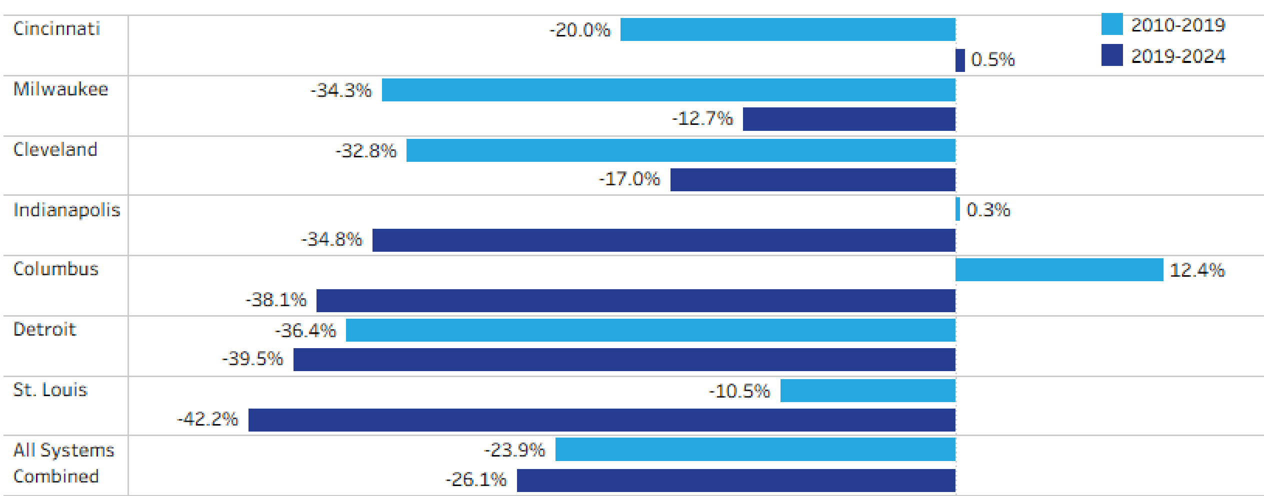
To address the gap, the budget proposal would eliminate six routes, modify five others, and reduce bus frequency on several other routes, including the Connect 1 Bus Rapid Transit line. It also would increase the base fare from $2.00 to $2.75 (the budget document says this would be the first increase to the base fare since 2007). MCTS officials say the route cuts and modifications would reduce bus hours by 15% and the eliminated routes would impact about 5% of riders.

Officials cast these proposed cuts as the start of a needed effort to "right size" the system and reimagine how transit services are provided given post-pandemic demand. According to data from the Federal Transit Administration's National Transit Database, MCTS has seen a 42.6% decline in ridership since 2010, from 44.1 million unlinked passenger trips that year to 25.3 million in 2024.

We were curious to see how MCTS' ridership decline compared to Midwestern peers using the same national transit data. Of the seven cities we examined (see **Figure 6**), Milwaukee's transit system had the second-greatest decline in unlinked passenger trips between 2010 and 2019 (34.3%), much higher than the average decline across all the systems in the seven cities (23.9%). However, MCTS' post-pandemic 12.7% ridership decline was substantially smaller than almost all of the systems in the Midwestern peer cities. The average decline among this group from 2019 to 2024 was 26.1%.

These declines in ridership appear to be independent of reductions in bus service. MCTS actually increased its bus service, as measured by vehicle revenue miles, both during the 2010 to 2019 (2.9%) and 2019 to 2024 (2.0%) periods. The latter increase again compares favorably to most peer cities; the average change from 2019 to 2024 in this group was a reduction of 8.8%.

Figure 6: MCTS' post-pandemic ridership losses are less severe than most peers



Source: National Transit Database

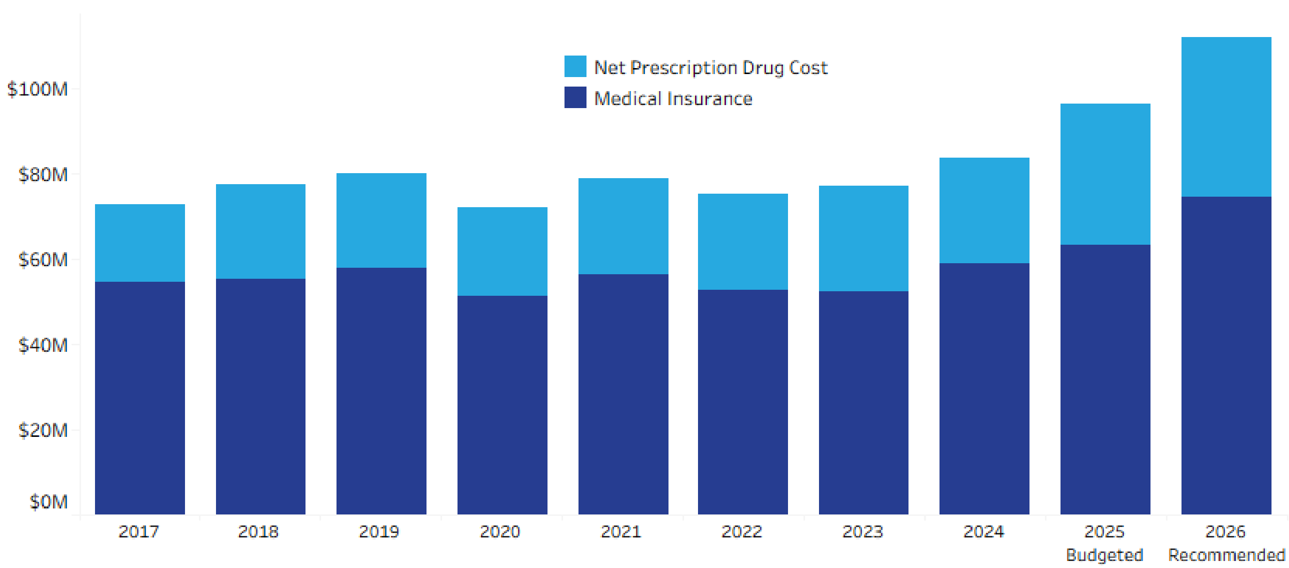
In the end, **with operating costs certain to rise and little hope of substantial increases in passenger revenue, state aid, or property tax levy – and a possible need to reduce the use of 5307 funds for operations in the future – it is likely that MCTS' financial challenges will continue to mount.** There is one important revenue source that could be tapped – the county's $30 vehicle registration fee generates $17.3 million annually to support MCTS and has not been increased since its implementation in 2017. However, increases in registration fees have drawn objections in the past from citizens and the County Board. Also, even use of that option likely would not obviate the need to consider moving toward a more limited, reimagined array of transit services that takes into account the nature, breadth, and types of services that will be most valuable to county residents in the future.

Key #2: Health care costs become pressing threat

While the expanded sales tax produced by Act 12 is widely and justifiably credited with turning around Milwaukee County's fiscal fortunes in recent years, the county had been seeing greater stability and reduced structural deficits since 2019 and continuing through the pandemic. A primary factor was its receipt of nearly $400 million of federal ARPA monies and other pandemic aid for general operations and transit since 2020, but another since at least 2017 has been the county's ability to control (and even reduce) its annual health care spending.

Figure 7 shows that the county's actual spending on medical costs and prescription drugs for its employees and retirees rose only marginally or even fell on an annual basis from 2017 to 2023 without adjusting for inflation. Actual spending for medical and prescription drug costs stood at $77.1 million in 2023 – only $4.5 million (6.2%) higher than the $72.7 million spent in 2017. Given the sharp rise in overall inflation as measured by the Consumer Prince Index (CPI) in 2021 (from 1.2% to 4.7%) and again in 2022 (8.0%) – and the fact that health care inflation typically outpaces the CPI – this is a notable and even remarkable feat.

Figure 7: Medical and prescription drug costs surge in recent years



Source: Milwaukee County Budget Office

Milwaukee County maintains a self-funded health care plan for its employees and retirees, which means its benefits are administered by a private provider, but its annual expenditures are determined by the utilization and cost of health care provided to covered individuals each year. This can make annual health care expenditures difficult to project, and county officials have tended to be quite conservative in their annual budget estimates. That approach has often produced budget surpluses (which have been instrumental in building the DSR) and limited the need to increase expenditures in the subsequent year's budget. In addition, county health care expenditures have been reduced in recent years by large numbers of vacant positions.

Beginning in 2024, the tide began to turn. Actual expenditures for medical and prescription drug costs rose by $6.7 million (8.7%) to $83.8 million as more vacant positions were filled and utilization increased. In the 2025 budget – based on larger-than-anticipated spending patterns in the first several months of 2024 – county leaders increased budgeted expenditures by another $12.8 million (15.2%) to $96.6 million. Unfortunately, with medical and pharmacy claims again exceeding budgeted amounts so far this year according to a September report by the comptroller, the 2026 recommended budget increases spending by another $15.4 million (15.9%). That means **budgeted spending for medical and prescription drug costs will have increased by nearly $35 million (45.3%) in three years when compared to 2023 actual spending.**

The recommended budget attempts to control the growth in costs by making some changes to the county's benefits structure. A new spousal surcharge, adjustments to premiums and copays, and some modest changes to the county's dental plan are budgeted to generate $1.8 million in savings – not an insignificant amount, but also not enough to meaningfully reduce the projected increase in overall health care spending.

A key question mark moving forward is whether the county can return to annual health care spending increases that at least mirror the rate of inflation. The budget notes that employee premiums and copays have not increased since 2018, raising the possibility that some additional proportion of cost increases might again need to be shared with employees in future years on top of the changes proposed for 2026. The county also faces recruitment and retention challenges, however, that might preclude such action.

Key #3: Property taxes on the rise

A 4.1% ($12.1 million) proposed increase in the property tax levy is one of the most notable items in the 2026 recommended budget – not necessarily because it is unanticipated, but because it may be the start of a trend that will cause ongoing pain for taxpayers. As shown in **Figure 8** on the next page, the proposed increase for 2026 would be the largest on a percentage basis since 2002 and the first to exceed 2.5% since 2009. The $12.1 million increase includes $2.9 million more for operations (the maximum allowed under state levy limits) and an additional $9.2 million to support debt service.

The increase was foreshadowed by county leaders three years ago when they decided to set aside previous strict limits on borrowing and committed to issuing more than $100 million in combined G.O. debt for a new forensic science center to house the Medical Examiner and Office of Emergency Management and a new home for the Milwaukee Public Museum. The annual debt service payments on both projects will be initiated in 2026, helping to increase overall net levy-supported debt payments next year by $11.5 million (28.3%) – from $$40.6 million to $$52.1 million.[7]

It is important to recognize that because county leaders elected to *reduce* the property tax levy by $21.5 million (7.7%) in 2024 when Act 12 produced a surge in sales tax revenues, the recommended increase for 2026 still would leave the total property tax levy of $310.8 million about $1.7 million short of the 2023 levy of $312.5 million. Also, because of rising property values, the property tax rate would stay the same at $2.93 per $1,000 of assessed value.

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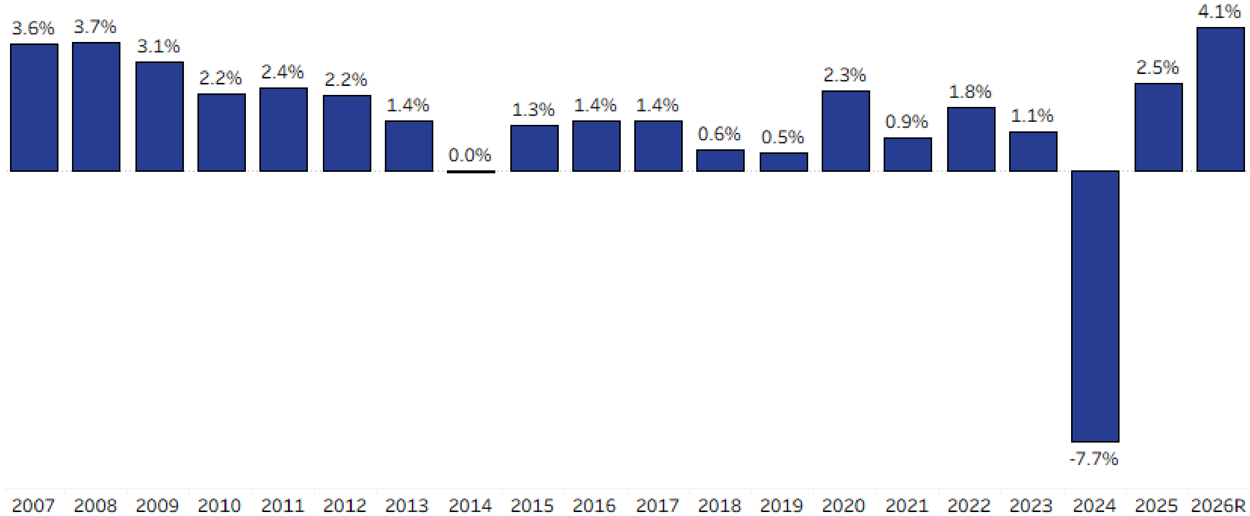
[7] Both projects also produce substantial financial benefits. The new forensic science center eliminates the need to spend tens of millions of dollars to repair the outdated facility that previously housed the Medical Examiner while also producing space consolidation opportunities, and the museum investment eliminates tens of millions of dollars of deferred maintenance on the current building while reducing the county's annual operating support to the museum by $2.5 million.

Figure 8: 2026 property tax increase would be largest in past 20 years



Source: Milwaukee County budget documents

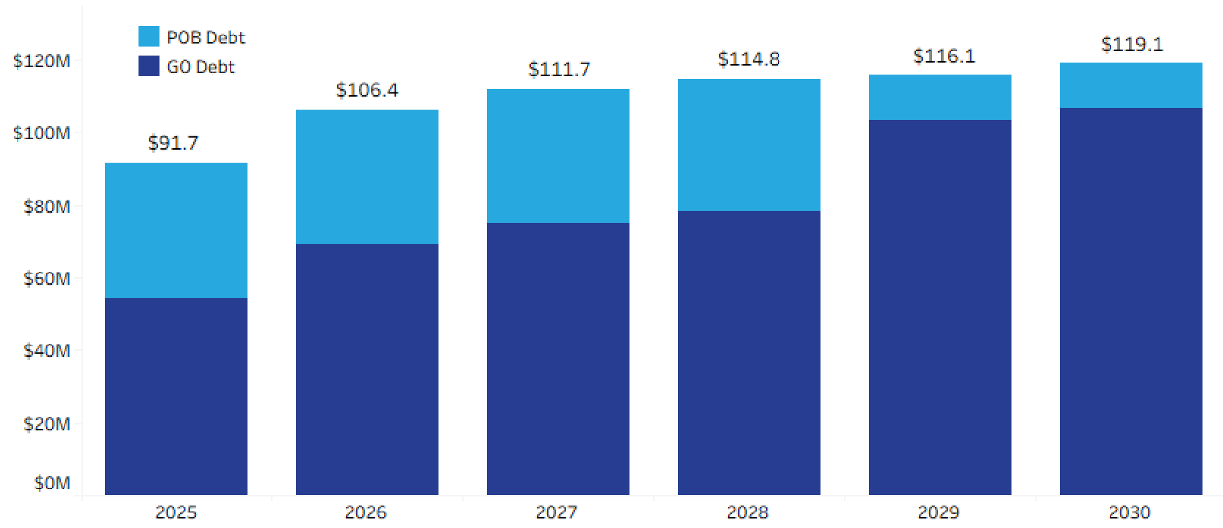
The recommended increase for 2026 appears defensible, therefore, but it is perhaps most disconcerting in the context of what it conveys for the future. Unlike the county's operational levy, which is generally restricted by state law from increasing at a rate that exceeds the percentage growth in net new construction in the county each year,[8] the levy required for debt service is not subject to a state-imposed limit. In the absence of such a restriction – and because the county has little choice but to finance major new projects like the two referenced above with G.O. borrowing – it appears very likely that annual property tax levies for debt service (and total levies) will continue to rise for the next several years.

Per debt service estimates used by the comptroller for the county's five-year forecast, budgeted annual debt service payments for capital-related debt are expected to almost double from 2025 to 2030 (see **Figure 9** on the next page). Because of a strategic restructuring of G.O. debt payments by the county, the largest single-year G.O. debt service increase of $25.1 million in 2029 will be timed to coincide with a $22 million reduction in pension obligation bond debt that year, thus limiting the impact.[9] Still, the county's total debt service payments are projected to rise from $91.7 million this year to $119.1 million in 2030 – an increase of $27.4 million, or 30.0%.

It is critical to note that these projections assume the county issues G.O. debt in future years at a pace that mirrors the 3% annual increase in bonding prescribed by the current bonding cap, which means they do not consider the substantial amount of additional bonding that is likely to occur for the courthouse complex project. Even with the ability to dedicate most of the new state expressway patrol reimbursement to partially offset these costs, the impact to property owners likely will approach $400 million over the anticipated 20-year length of the bonds issued for that project.

[8] The annual growth in net new construction in Milwaukee County typically been no greater than 2% in recent years and is 1.3% for purposes of the 2026 budget. The county also is allowed to increase its levy outside of the state limits for any additional operational costs incurred for its administration of the countywide Emergency Medical Services system. In 2026, that amount is about $298,000. Exceptions also exist for certain carryover provisions from previous years.
[9] The county issued $400 million in pension obligation bonds to help stabilize growth in pension payments in 2009. Payments on that debt (which was subsequently restructured) will wind down substantially in 2029 and end in 2031.

Figure 9: Debt payments projected to continue to rise in next five years



Source: Milwaukee County Comptroller's Office

Finally, because the additional 0.4% sales tax and expanded state shared revenues produced by Act 12 held promise of at least inflationary annual growth, it was reasonable to hope for reduced pressure on operational levies for the first several years following its passage. However, it now appears likely that county leaders will need to raise property taxes for operations at the maximum amount allowed by state law for the foreseeable future – unless they opt to pursue substantial cuts in workforce and services – to grapple with growing operational challenges. Illustrating that point is the fact that the additional $4.4 million in sales tax revenues and $1.9 million in shared revenue budgeted in 2026 produce only modest relief from the more than $25 million of salary, health care, and other additional fixed cost pressures confronting county departments next year.

With city of Milwaukee residents also facing substantial increases in their property tax obligations for city services and even more so for public schools,[10] **policymakers at all levels of government will need to consider what growing property tax levies may mean for the region's economy and affordability in the coming years.** In the case of Milwaukee County, there appear to be few alternatives to property tax increases of more than 4% annually given the backlog of vital infrastructure needs and its lack of alternative revenue options. Still, collective long-term planning, information sharing, and review of options among the leaders of governments that levy property taxes in the region might be advisable to inform decision-making by each jurisdiction and try to curb what might be a multi-year trend of substantial tax increases for property owners.

Key #4: Core services jeopardized by growing fiscal challenges

The 2026 recommended budget marks an unfortunate turning point for the county, as for the first time since 2018, two core service areas – transit and behavioral health -- are subject to substantial reductions. This is in contrast to the previous seven budgets, which benefited from relief from health care cost pressures, the infusion of federal pandemic relief aid, and the implementation of the

[10] See our recently released Property Values and Taxes Datatool, which revealed an 11.3% collective property tax levy increase for city taxpayers in 2024, the largest in at least the past 40 years. It should also be noted that the Milwaukee Metropolitan Sewerage District (MMSD) has begun to assess new flood control investment needs in the wake of recent historic flooding that may produce requests for sizable hikes in MMSD's levy to address those needs.

expanded Act 12 sales tax to secure relative stability. Those budgets were not free from cuts (including elimination of six low-ridership bus routes in 2020); in fact, in most years departments were required to absorb most costs to continue, which may have required under-the-radar reductions in low-priority positions or contractual spending. But for the most part, major county functions were sustained without noticeable impacts on citizens and service recipients.

As we have discussed, that would not be the case for some transit riders and recipients of behavioral health services in 2026 if the county executive's proposal is adopted. And perhaps even more alarming, reductions in those two areas are likely to continue in the future, while the need for cuts may spread to other health and human services and functions like parks and public safety.

The good news is that Milwaukee County is unlikely to return anytime soon to the almost existential financial crisis it faced in the 2002 to 2010 timeframe, when skyrocketing pension costs helped precipitate annual deficits in the $80 million to $100 million range in some years. Today, while still uncomfortably high, the county's pension costs have stabilized, in part because of the structural reforms required by Act 12 (including the shift of new employees to the Wisconsin Retirement System). In fact, the amount of property tax levy dedicated to pension costs actually decreases by $3 million in the recommended budget, from $41.1 million to $38.1 million.

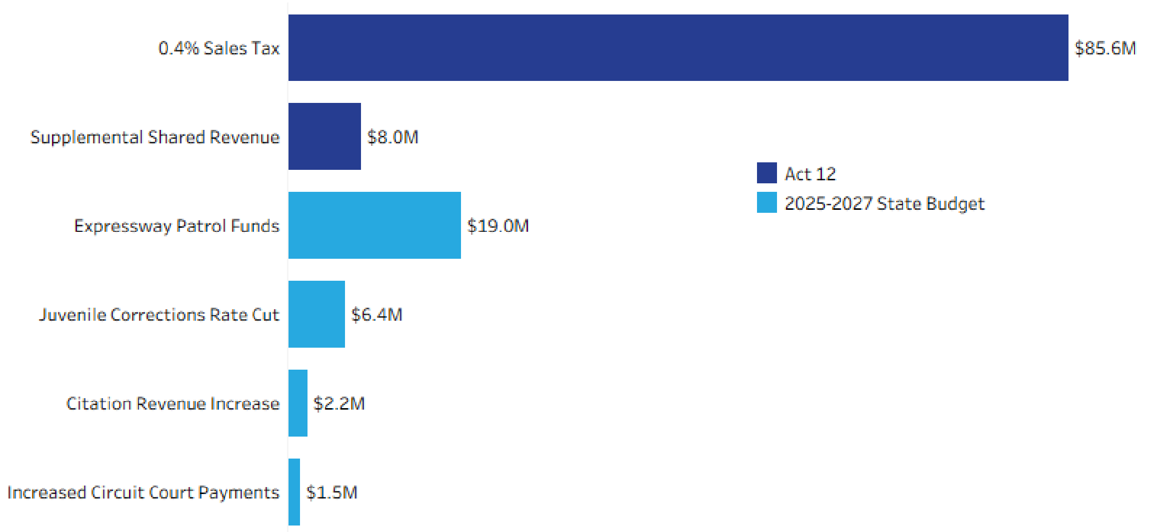
In addition, while the county had no reserves to help address its annual budget challenges 10 or 20 years ago, it now has a debt service reserve with a projected 2025 year-end balance of nearly $140 million. While a new policy goal aims to maintain a DSR balance in the $100 million range, it can continue to be drawn upon strategically for the foreseeable future to help alleviate annual budget challenges or reduce pressure on property taxes.

Nevertheless, the comptroller's March five-year forecast and the difficult decisions made to balance the 2026 recommended budget signal challenging times ahead. Leading the list of challenges are two issues discussed in previous keys – the continued structural hole in the transit budget and the return of higher-than-inflationary health care increases.

But there are others. As we have mentioned, growing overtime deficits in public safety departments have yet to be fully addressed and may require additional investments of several million dollars per year in future budgets. Also, the county has enjoyed substantial budget relief recently from investment earnings, which have been buttressed by high amounts of cash on hand from ARPA and the build-up of the DSR, as well as relatively high interest rates. The recommended budget assumes $14.8 million in investment earnings in 2026 – an increase of $1.6 million from 2025 and $12.1 million higher than the $2.7 million budgeted five years ago. While earnings may not drop to the 2021 level in the near term, a decline in interest rates and the exhaustion of ARPA monies – as well as potential increases in DSR withdrawals -- still may cause them to fall.

High levels of uncertainty regarding future federal and state funding cast an even bigger cloud on the county's financial future. As we have discussed, the two-year state budget adopted this past July, as well as Act 12's adoption in the summer of 2023, produced tremendous benefits for Milwaukee County. As shown in **Figure 10** on the next page, the county will receive $122.7 million of additional

Figure 10: Milwaukee County reaps huge benefits from recent state actions



Source: Milwaukee County budget documents

revenue in 2026 as a result of those two measures.[11] Additional substantial gestures of generosity by the state may not be achievable in future years, however, now that the bulk of the state's budget surplus has been spent or committed (as we detailed in our 2025-27 state budget brief). Moreover, political considerations may preclude state lawmakers from showing preferential treatment toward Milwaukee County in the future given the significant help they have provided in the recent past.

Further complicating the county's future financial picture is the budget turmoil at the federal level, which is likely to produce sizable cuts in Medicaid funding and may reduce grant opportunities and annual allotments in areas ranging from transit to housing to public safety (see our June report for additional perspective). It is impossible at this time to assess the precise impacts of federal budget cutting on county programs and services, but there will likely be new pressure to backfill federal funding cuts with scarce property tax levy resources in the years ahead, and certain state funding streams may also be under threat as state leaders grapple to backfill their own federal funding gaps.

County officials deserve credit for responsibly building and maintaining the DSR to ensure its availability for the challenging years ahead. The county executive and his budget team also seek to prepare for the future by initiating MCTS "right sizing" in their 2026 proposal as they attempt to forge a sustainable path forward for the transit system as its challenges intensify.

Still, while those moves will be helpful, **county policymakers face the stark reality that there is little they can do outside of increasing the vehicle registration fee to achieve the annual revenue growth that will be necessary to support existing service and staffing levels in the face of rising wage and benefit costs and unyielding cost pressures in areas like behavioral health, the jail, and the community reintegration center.** Consequently, it would appear that new efforts are in order to explore possibilities for service sharing and consolidation with other governments (such as those we suggested in our 2023 report on back office service sharing with the city of Milwaukee) as well as renewed focus on the types of workforce and physical space reductions that helped the county manage through its even more serious fiscal crises 10 and 20 years ago.

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[11] A relatively small portion of the financial benefits derived from Act 12 were offset by additional pension costs required by the legislation to hasten the elimination of unfunded liabilities and reduce the risk of unachievable investment returns. Also, as noted earlier, a 2025-27 state budget provision exempting certain utility payments from sales taxes could reduce county collections by up to 1.5% per year according to budget officials, thus further diminishing savings shown in the figure.

CONCLUSION

The county executive's introductory message in the recommended budget urges readers not to forget "where we were and how far we have come." In many respects, that is appropriate context for consideration of the 2026 proposal. While the budget contains service cuts and revenue increases that will impact most Milwaukee County residents, it is appropriate to consider these measures with an eye toward what might have been had the county not secured huge savings and revenue increases through its lobbying efforts in Madison.

On the other hand, the recommended budget must be considered in the context of what it suggests for the future. As we have discussed, the 2026 proposal largely limits its budget pain to two areas of county government and even its higher-than-usual property tax increase would leave the levy a tad lower than three years ago. But the budget also takes only an initial step to address the transit system's structural gap, and it fails to make a dent in the infrastructure backlog. The need to grapple with those items in future budgets while also contending with escalating debt service and continued growth in salary and benefit costs suggests that next year may only be the first of several successive years of increasingly painful budgets.

County leaders were careful to warn in the days following the passage of Act 12 that while financial catastrophe had been averted for the time being, much smaller but still significant structural issues remained and annual deficits were likely to re-emerge. Unfortunately, those deficits materialized far more quickly and substantially than originally predicted. Meanwhile, after achieving such unexpected success in Madison over the past three years, the ability of county leaders to again turn to state leaders for substantial assistance in future state budgets is uncertain.

This likely leaves them in a place that was very familiar to their predecessors prior to the pandemic, in which every budget season is consumed by efforts to identify structural changes, outsourcing opportunities, asset liquidation possibilities, new fees, and other strategies that might help fill the annual budget gap while preserving existing service levels. Fortunately, the degree of difficulty is much milder today given the county's healthier revenue mix and ample debt service reserve. Still, the options to stamp out deficits without impacting services are likely far more limited given that so many have already been pursued.

Overall, the 2026 recommended budget turned out better than expected given the comptroller's early projection of a gaping hole and the ensuing bad news on transit and public safety deficits. This is testament largely to some hard-fought victories in Madison and the ability to tap into reserves that county leaders have diligently built and maintained. Unfortunately, the years ahead look equally daunting, and faring better than expected will become more difficult as the county's structural challenges intensify and its options for painlessly addressing them are exhausted.