Public Policy Forum
moving the region forward

BUDGET PREVIEW

2011 Milwaukee County Budget

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ABOUT THE PUBLIC POLICY FORUM

Milwaukee-based Public Policy Forum – which was established in 1913 as a local government watchdog – is a nonpartisan, nonprofit organization dedicated to enhancing the effectiveness of government and the development of southeastern Wisconsin through objective research of regional public policy issues.

PREFACE AND ACKNOWLEDGMENTS

This report was undertaken to provide citizens and policymakers in the Milwaukee region and across the state with an independent and objective analysis of the nature and scope of Milwaukee County government's 2011 and five-year budget challenges. We hope that policymakers and community leaders will use the report's findings to inform discussions during upcoming policy debates and budget deliberations, as well as in future discussions about the long-term structure of Milwaukee County government.

Report authors would like to thank Milwaukee County fiscal officials and staff – most notably including the Fiscal and Budget Administrator and Deputy Fiscal and Budget Administrator – for their assistance in providing information on the county's finances.

We wish to thank the Greater Milwaukee Committee for commissioning and funding this research.

TABLE OF CONTENTS

SYNOPSIS

For the past several years, the Public Policy Forum has produced reports analyzing the Milwaukee County executive's recommended budget shortly after its introduction in late September. This year, we add a new research product to our analysis of Milwaukee County's fiscal condition: a budget preview report that analyzes the county's immediate fiscal challenges at the onset of its budget process.

The 2011 Milwaukee County Budget Preview not only provides perspective on the specific fiscal issues facing the county as it begins to assemble next year's budget, but also explores the consequences associated with the county's persistent budget gap. It finds that while the 2011 projected deficit of $44.9 million is considerably smaller than that faced by budget officials at a similar juncture last year, it is sizable nonetheless. Furthermore, the report illustrates how several successive years of budget-cutting have left the county with few easy options for 2011.

Our research framework begins with an historical perspective of Milwaukee County's structural deficit. Next, we analyze the county's specific 2011 budget challenges in order to develop a modified estimate of the size of the 2011 budget gap, which we estimate to be $20 million. We then develop three distinct 2011 county budget models that illustrate the types of difficult decisions that will confront Milwaukee County elected leaders during the next four months as they seek to plug the gap:

- **Model 1**: Reduce the Size of the County Workforce – Assumes the county bridges its budget gap exclusively with workforce reductions.
- **Model 2**: Avoid Lay-offs – Assumes the county bridges its budget gap exclusively with program and service cuts that do not involve lay-offs of county personnel.
- **Model 3**: Avoid Service Impacts by Increasing Revenues – Assumes the county bridges its budget gap exclusively with revenue enhancements in order to avoid service cuts.

The three models include several budget-cutting options that are far more severe than those considered previously, including drastic reductions in parks and zoo staffing and elimination of support to county-owned cultural institutions. It also includes options that have been rejected previously, including a $20 vehicle registration fee and elimination of various discretionary social service programs.

In the near term, if elected leaders were to choose options from *each* of the three models, it might be possible to avoid the most serious impacts to services and taxpayers that would occur if any one model were used exclusively. If annual budget gaps similar to those experienced recently continue to be experienced in the *next* five years, however, then virtually all of the severe options described in the three models will need to be considered. To provide greater insight into that possibility, we conclude our analysis by examining the county's five-year fiscal outlook.

While this report is largely a modeling exercise, we believe it provides several important insights for those concerned about the future of Milwaukee County programs and services. If nothing else, it is our hope that this report provides impetus for county policymakers and civic leaders to continue their recent focus and progress on long-term solutions that will bring Milwaukee County's financial situation back into balance.

INTRODUCTION

This Public Policy Forum Budget Preview is the latest in a series of Forum research reports analyzing the severe fiscal and structural challenges facing Milwaukee County government. A previous report released in March 2009 and entitled "Milwaukee County's Fiscal Condition: Crisis on the Horizon?" assessed the county's fiscal condition using a methodology developed by the International City/County Management Association. More recently, a report released in January 2010 entitled "Should it Stay or Should it Go?" explored possibilities for structural reform, including the possible elimination of Milwaukee County government.

Since the release of those reports – and perhaps in part because of them – there has been a detectable change in the fiscal debate within the Milwaukee County Courthouse. Instead of arguing about *whether* Milwaukee County government is facing a grave structural fiscal imbalance that is threatening its very existence, policymakers now quarrel over *what to do* about that imbalance. In addition, despite continued deep disagreement among elected officials over solutions, the county has generated some considerable signs of progress during the past year that better position it to address its structural deficit. Those include the following:

- Development of a reliable five-year fiscal forecast that has credibility with both branches of government.
- Initiation of a new long-range strategic planning process that is focused on the structural gap and that is led by a committee including administration officials, county board supervisors and outside members.
- Realization of more than $12 million in savings from budgeted employee and retiree health care costs in 2009. This decreases the base level of expenditures going forward, thus reducing the severity of one of the structural deficit's key drivers for the next several years.
- Adoption of changes to future pension benefits, health care benefits and wages for non-represented employees and employees represented by three small unions. If similarly adopted for all represented employees, those changes will put an additional dent in the long-term structural problem.

Yet, despite these fiscally positive developments, and despite amassing an $8 million budget surplus in 2009, the county's long-term budget prognosis remains alarming. According to the county's latest long-term forecast, even if the proposed 2010 wage and benefits changes are adopted for all employees, the county's projected structural budget gap will grow to nearly $100 million by 2014. Furthermore, the fact that those changes have *not* been agreed to by the county's largest labor union leaves a potential $10 million hole in this year's budget that could carry over to future years.

This Budget Preview report, commissioned by the Greater Milwaukee Committee, updates and explores the consequences associated with the county's persistent budget gap in the context of its specific 2011 budget challenges and a glimpse at its five-year budget outlook. In doing so, it sheds light on the most frequent question emanating from the Public Policy Forum's previous reports: **What are the impacts for Milwaukee County residents if county government's structural budget issues are not addressed?**

That question is not easily answered. If county expenditure needs continue to outpace expected revenue growth by tens of millions of dollars per year – as has occurred every year since 2003 and as is projected to continue for the foreseeable future – then something clearly has to give. That something, however, can take several different forms.

For example, county leaders could be forced to drastically reduce the county workforce, which likely would produce significant cuts in service levels or elimination of entire programs given the significant decline in the county's workforce during the past decade. Alternatively, were they to reach "no layoff" agreements with their major labor unions (similar to those reached by the City of Milwaukee), they likely would be forced to greatly reduce or eliminate county spending on programs and services not provided by county employees, like cultural institutions, transit and emergency medical services. A third option would be to attempt to preserve existing programs and service levels and instead resort to increasing the taxes and fees currently allowed under state statutes.

This analysis uses those three general options to develop distinct models for how the county could elect to respond to its 2011 budget hole. We project the size of that hole to be $20 million after taking into account a series of factors that reduce the size of the county's current $45 million projection. Obviously, the county would not be bound to select just one of those models, but could (and likely would) mix and match options from each model to balance its budget. Presenting the options in this fashion, however, illustrates just how difficult the choices have become.

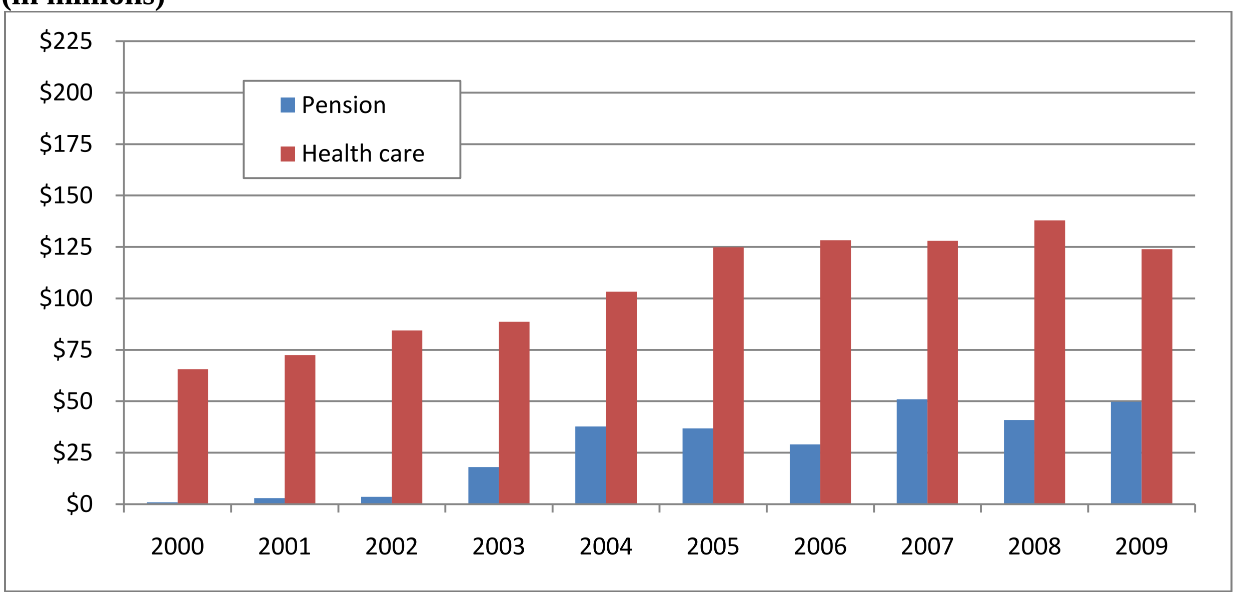
It is critical to point out that the county may choose to employ short-term options that do not fall under any of those models, including one-time revenues from land sales and other sources; multiple employee furlough days; and deferral of pension fund obligations and building and property maintenance. Our previous research, however, has detailed how such approaches only paper over the county's structural imbalance and are not in the long-term interest of citizens and taxpayers.

Finally, it is important to note there are several key wild cards that could substantially impact the county's long-term budget prognosis. Those include state authorization (and county enactment) of an increased sales tax for specific county functions per a November 2008 advisory referendum; agreement by the county and its labor unions on additional significant reductions to pension and health care benefits; a major change in state government's position on "unfunded mandates" resulting in greater allocations for state shared revenue, the courts or social services; and/or decisions to sell or lease major county assets. This report, however, assumes that none of those circumstances occurs in order to illustrate for policymakers and the public the types of changes to Milwaukee County government that will be necessary should the county's fiscal status quo remain in place.

The *Financial Times* defines a structural deficit as "a budget deficit that results from a fundamental imbalance in a government's receipts and expenditures, as opposed to one based on one-off or short-term factors." *Wikipedia* provides further context by defining "structural deficit issues" as those that "can only be addressed by explicit and direct government policies: reducing spending (including entitlements), increasing the tax base, and/or increasing tax rates."

Milwaukee County's structural deficit, according to a September 2009 memorandum prepared by the county's fiscal and budget administrator, "is the result of expenditure growth outpacing revenue growth." That memorandum cites a handful of key drivers, including growing fringe benefit costs, which it deems the "largest driver of expenditures." **Chart 1** shows the growth in actual expenditures on employee/retiree health care and the county's pension fund contribution during the past decade, while **Chart 2** shows projected growth in those areas during the next five years, which is expected to be substantial.[1]

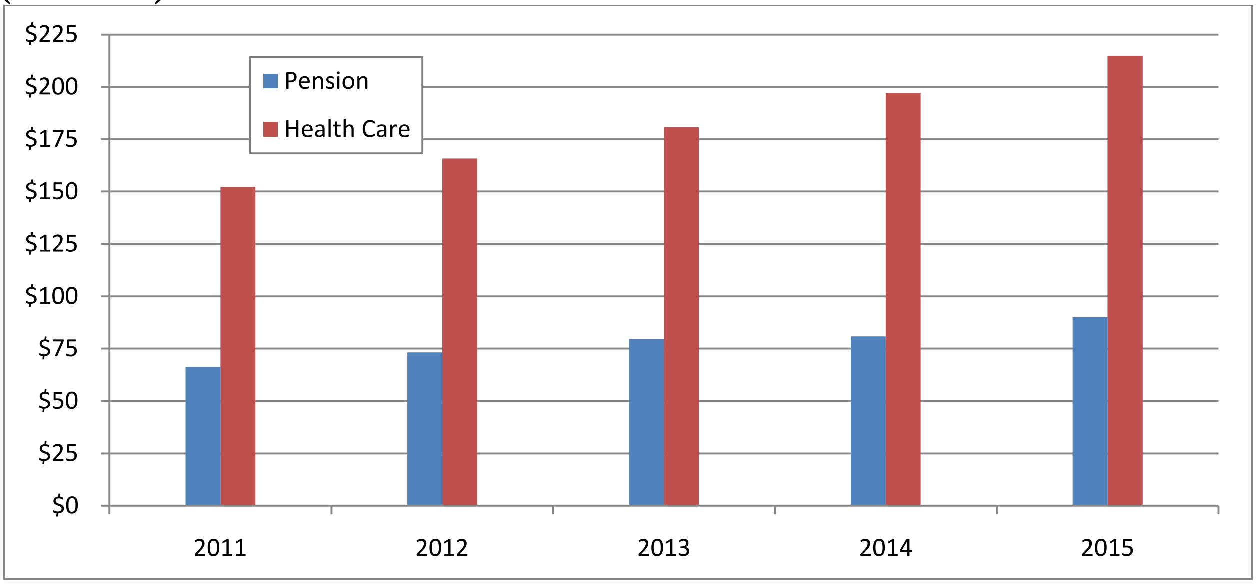
Chart 1: Milwaukee County pension and health care expenditures, 2000 to 2009 (in millions)



Source: Milwaukee County Department of Administrative Services

[1] Health care projections are based on budgeted 2010 employee/retiree health care expenditures and an assumption, based on regional trends, that those expenditures will increase 9% per year. Pension projections are derived from the county's five-year fiscal forecast and a report from the pension board actuary dated May 14, 2010.

Chart 2: Milwaukee County forecasted pension and health care expenditures, 2011 to 2015 (in millions)



Source: Milwaukee County Department of Administrative Services Five-Year Fiscal Forecast

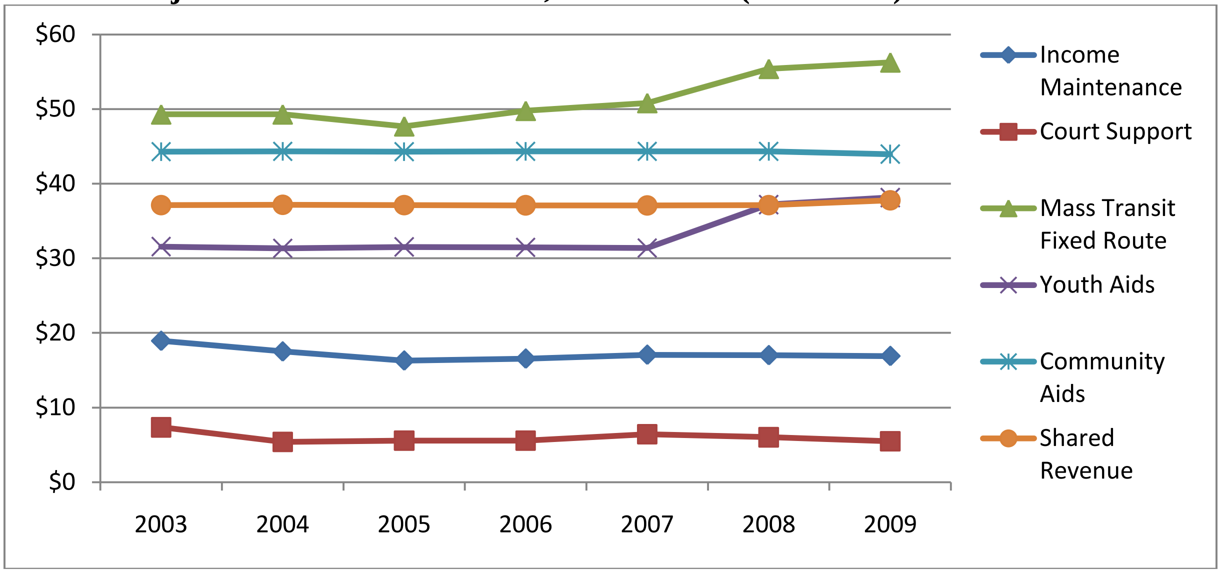
Other key factors on the expenditure side include: employee wages, which prior to the economic downturn typically increased by 2-4% per year; costs of commodities such as fuel, road salt, food and prescription drugs (for mental health patients and inmates at corrections facilities); and debt service on bonds issued to finance capital improvements.

On the revenue side, the fiscal and budget administrator's memorandum cites the Public Policy Forum's March 2009 report in pointing out that the major revenue growth experienced by the county in recent years is linked to specific program expenditures (e.g. payments from the State of Wisconsin linked to clients served under the Family Care program). In contrast, other state and federal revenues, as well as local property and sales tax revenues, have been largely stagnant. This is particularly troublesome because these revenue sources provide the county with flexibility to address the key expenditure drivers.

Chart 3 tracks the county's six major sources of state revenue since 2003 in actual dollars. Only two of those revenue sources – mass transit operating assistance and Youth Aids – showed any meaningful increase in actual funding during the period. Furthermore, it could be argued that the Youth Aids increase was inconsequential given that state juvenile corrections charges to the county – which are paid with Youth Aids revenue – increased at a similar rate.

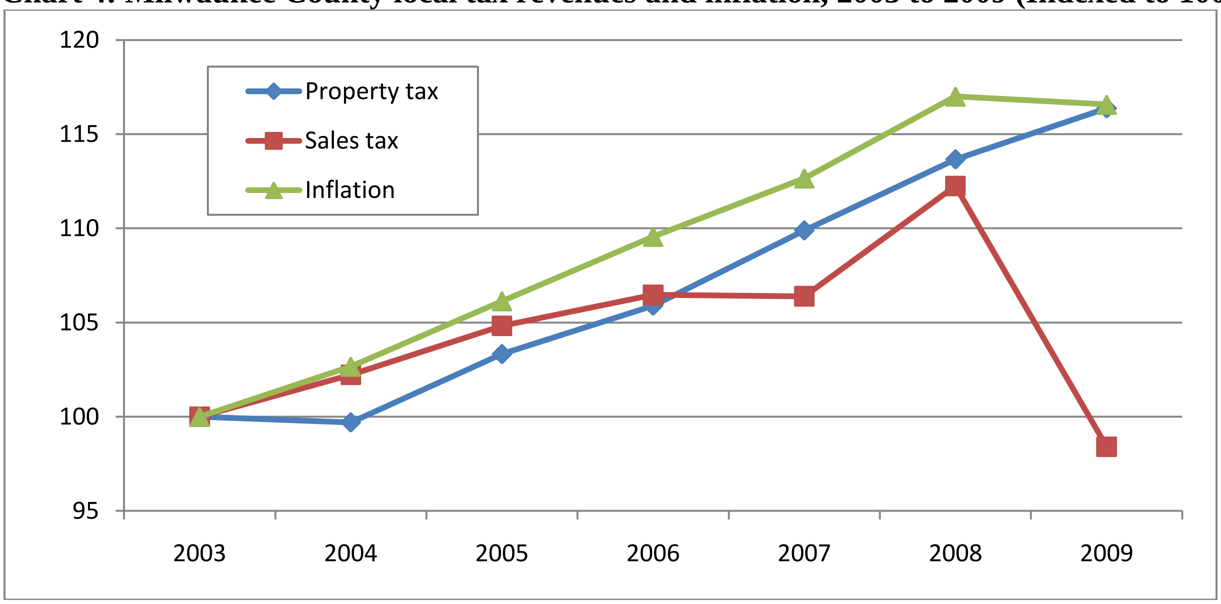
Chart 4, meanwhile, compares the growth of property and sales tax revenues during the same period with the rate of inflation. This chart indicates that these local revenue sources – while exhibiting limited growth – generally fell short of inflation.

Chart 3: Major sources of state revenue, 2003 to 2009 (in millions)



Source: Milwaukee County Department of Administrative Services, Department of Health and Human Services and Milwaukee County Transit System

Chart 4: Milwaukee County local tax revenues and inflation, 2003 to 2009 (Indexed to 100)



Source: Milwaukee County Department of Administrative Services

This tension between difficult-to-control major expenditure items and flat or declining revenue streams is the essence of a structural deficit. At the start of the county budget process every spring, the structural deficit is manifested in the projected gap between the cost to continue current levels of programs and services in the following year and the revenues anticipated to meet those costs. The projected budget gap has been between $25 million and $90 million annually for the past several years. The county's most recent five-year fiscal forecast estimates the gap will grow to $121 million by 2015.

Finally, in addition to understanding how Milwaukee County's structural deficit is defined, it is important to understand what elements of the county's fiscal situation are not captured in this definition. The structural deficit calculation takes into account expenditure needs that are built into the annual budget, but it *does not* take into account needs that have not been budgeted but that exist nonetheless, such as outstanding maintenance and capital improvements and investments in quality improvement for various county functions. Addressing those needs would have to occur outside of the framework of addressing a structural budget gap, which is an exceedingly difficult task when a large structural gap exists and persists over a lengthy period of time.

BRIEF HISTORY OF BUDGET-BALANCING STRATEGIES

The existence of a large structural deficit is not a new phenomenon for Milwaukee County government. As far back as October 2001, a County Board staff report noted that "for the past several years, the county has struggled mightily to retain and improve its existing array of services in the face of rising employee salaries and health care costs, as well as increased costs associated with providing state-mandated services. Together, these have eclipsed the amount of additional revenue available annually under the state-imposed property tax levy cap and from other existing revenue streams."[2]

The problem took on far greater urgency early in 2003, when three successive years of negative pension fund investment returns – coupled with the impacts of significant pension and benefit enhancements adopted in 2000 and threats of sharp reductions in state aids – prompted warnings of a severe budget crisis for the following year.

In January 2003, top county fiscal officials pointed to a "fundamental core problem" involving "fixed costs (that) are growing at a much faster rate than the county's revenue streams."[3] And in April, the county's fiscal and budget administrator outlined a projected $78 million budget hole for 2004, and warned that "the major revenue sources available to the county are limited to such a degree that a structural deficit exists and will continue to exist until the gap between cost increases and revenue availability is closed."[4]

The imminent crisis projected for 2004 prompted the county to undertake a major debt refinancing initiative. The initiative provided short-term relief in the form of significant reductions in debt service payments for the next four years, but at a cost of pushing off larger debt service payments to future years.

An exhaustive five-part series on the county's budget woes by the Milwaukee Journal Sentinel noted that this strategy and other short-term fixes helped balance budgets in the initial years following the 2003 warnings. In recognition of the unsustainable nature of those fixes, however, the county executive launched a "reality tour" in 2006 designed to warn civic leaders and citizens that the county was on a "path to financial insolvency."[5] That assertion was backed by projections from county budget officials "that the county could face an $89 million funding gap as it plans the 2007 budget, growing to $298 million in 2011."[6]

Chart 5 shows the initial funding gap at the start of each annual budget process during the past five years. This chart shows that while the crisis did not grow to the epic proportions projected in 2006 – in part because of the county's successful efforts to control health care expenditures – dealing with sizable budget gaps has become an annual rite of spring and summer for Milwaukee County.

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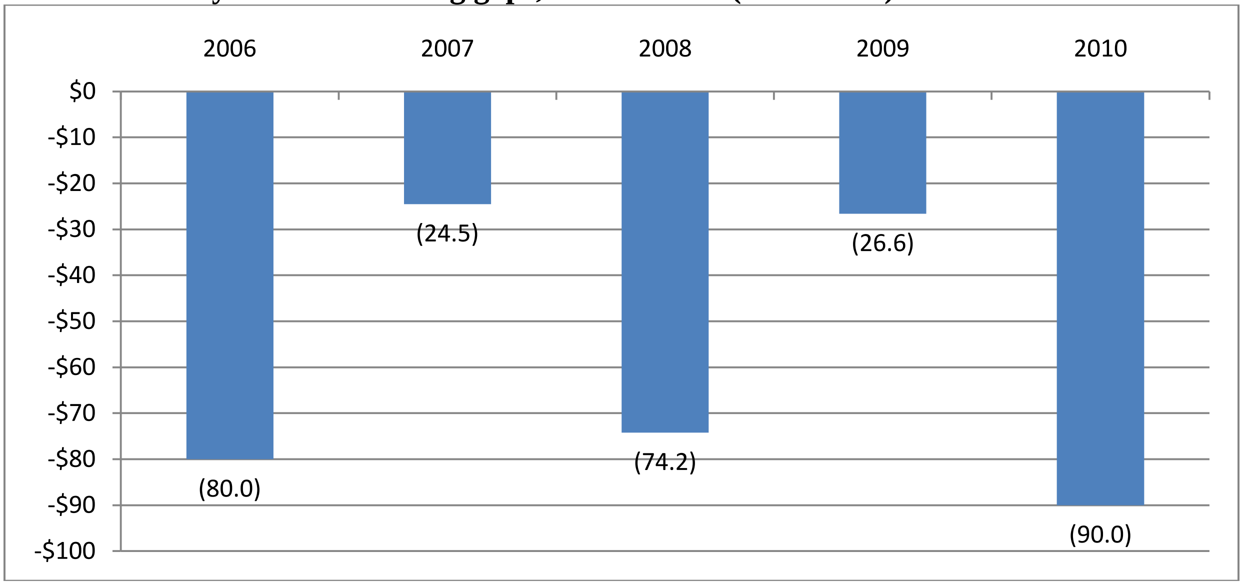
[2] 2002 Budget Overview, County Board Staff, October 4, 2001, p. 5.
[3] Minutes of the Committee on Finance and Audit, January 16, 2003, pp. 4-5.
[4] Memorandum to the Chairman of the County Board by Terry D. Kocourek, Fiscal and Budget Administrator, April 7, 2003, pp. 17-18.
[5] Umhoefer, Dave and Avrum D. Lank, "County's Road to Insolvency?", Milwaukee Journal Sentinel, May 6, 2006.
[6] Ibid.

Chart 5: History of initial funding gaps, 2006 to 2010 (in millions)



Source: Milwaukee County Department of Administrative Services

So, in the face of these annual funding gaps, how has the county achieved balanced budgets while avoiding severe cuts in services and sizable tax increases? The Forum's March 2009 report (available at http://www.publicpolicyforum.org/pdfs/MilwaukeeCountyFiscalCondition.pdf) considers that question in detail and describes several key budget-balancing strategies, including:

- Charging all departmental units a share of retiree fringe benefit costs based on their number of full-time employees (as opposed to countywide strategic priorities), thus requiring departments to offset those costs with operational cuts. For most departments, this produced significant cuts in personnel (sometimes accompanied by privatization initiatives); and for several, it resulted in sharply reduced spending on important yet largely invisible items like maintenance, quality assurance and fiscal oversight.

- Delaying action on the structural deficit facing the Milwaukee County Transit System for the first several years of the decade by drawing down reserves and avoiding bus purchases. More recently, the county has used a significant allotment of federal stimulus dollars to avert major transit service reductions. It is important to note that while significant year-to-year service cuts have been avoided, transit service has gradually eroded over the past decade, as evidenced by a 20% reduction in bus service hours and a 50% increase in cash fares.

- Using one-time revenues and other short-term measures. In recent years, those have included a one-time windfall of more than $5 million from the termination of the General Assistance Medical Program; reimbursement from the Care Management Organization for property tax levy dollars spent earlier in the decade; budgeting of significant land sale revenues from the anticipated sale of Park East freeway land; and budgeting one-time savings from anticipated issuance of pension obligation bonds (POBs).

To the county's credit, it also developed several initiatives that produced budgetary savings of a more permanent nature that will help diminish the size of the structural deficit in future years. Those include:

- A series of administrative changes to the county's employee health care plans, which according to county estimates saved more than $100 million from original projections in 2006-2009.

- Consolidation of the Jail and House of Correction under the Office of the Sheriff, which subsequently implemented administrative efficiencies that are projected to save several million dollars annually.

- Several privatization initiatives, including non-clinical services at the Mental Health Complex and housekeeping and security at various county facilities.

- Establishment of several new and enhanced public-private partnerships in the Milwaukee County Parks, and enhancement of funding commitments from private sector partners at the Zoo and the Department of Health and Human Services.

Finally, it is worth noting that the county's property tax levy increased 13% in the past five years, from $229 million in 2005 to $258 million in 2009, giving it some modest revenue elasticity.

While these temporary and permanent changes allowed the county to produce balanced budgets in each of the past five years without wholesale cuts in programs or services, the Forum's March 2009 report concluded that the need for more fundamental changes was imminent, stating that "the low hanging fruit has been harvested, and now the county's ladder rests at the top of the tree."

That warning appeared to materialize as the county prepared its 2010 budget. On top of the county's typical structural challenges related to projected wage, health care and commodities increases and flat or declining state revenues, the severe plunge in the stock market caused the required pension fund contribution to increase by nearly $20 million. Meanwhile, key revenue items like sales tax and earnings on investments plummeted. As **Chart 5** shows, those factors caused the initial funding gap to reach $90 million, which was considerably higher than the significant gaps the county had experienced during the past several years.

Furthermore, the options available to bridge a structural budget deficit grow more limited with each successive year of budget-cutting due to the "low hanging fruit" phenomenon, i.e. the fact that those options likely to be deemed most tenable already have been exhausted. Consequently, even if the 2010 gap had been in the typical range of $30 to $50 million, it would have constituted a much greater challenge than earlier in the decade. As County Board staff put it in their overview of the 2010 budget, "the challenges are now greater and the corrective options necessary to balance the budget are more severe."[7]

[7] 2010 Budget Overview, County Board Staff, October 1, 2009, p. 15.

Ultimately, service cuts or revenue increases of a nature the county had never before experienced were averted by the use of $20.1 million in employee wage and benefit reductions to balance the 2010 budget. Specific wage and benefit reductions included both short-term and permanent modifications, including the following:

- No wage increases and elimination of all step increases (i.e. automatic advancement to the next-highest level in a salary range) for 2010.
- 12 furlough days for most county workers.
- Various changes to reduce overtime pay.
- Various increases to the employee share of monthly health insurance premiums as well as increases in out-of-network co-payments, emergency room co-payments and plan deductibles.
- A reduction in the annual "multiplier" for pension benefits for future years of service for most county workers from 2 percent to 1.6 percent, and an increase in the normal retirement age for most newly hired county workers from 60 to 64.

While the 2010 budget includes the full $20.1 million in projected savings from these wage and benefit reductions, only about half can materialize without approval from county labor unions: $7.2 million in savings from the 12 furlough days (this includes alternative savings proposed by certain county departments that were allowed to avoid furloughs); and about $2.6 million in savings from those wage and benefit provisions the county can unilaterally implement for the 15% of county workers who are not represented by a labor union. The remaining $10.3 million in savings only will materialize if they are accepted by county unions, which so far have failed to accept them with the exception of three small unions.[8]

Consequently, as the county begins its 2011 budget process, it does so with a potential carryover of a $10.3 million hole from 2010. Further complicating matters is the fact that using significant numbers of furlough days should not be viewed as a sustainable budget-cutting practice, which means those $7.2 million in savings should not be replicable in future years. Finally, it should be noted that the resolution implementing the $2.6 million in wage and benefit modifications for non-represented employees specifies that those modifications may be reconsidered and potentially reversed if they are not implemented for the county's largest labor unions.

[8] The county also adopted a plan early in 2010 to require an additional 10 furlough days for most county unionized workers that is projected to save an additional $2 million.

THE 2011 BUDGET OUTLOOK

Notwithstanding the tenuous nature of its 2010 budget, by its own calculations Milwaukee County enters its 2011 budget proceedings with a budget gap that is only about half the size of the 2010 gap. Furthermore, the initial calculation from county budget officials estimating that gap at $44.9 million understandably is quite conservative.

Table 1 shows the Milwaukee County Department of Administrative Services' (DAS) original calculation of its 2011 budget gap, which was shared at public listening sessions in May. The "Description" column provides our brief explanation of these items.

Table 1: Milwaukee County Department of Administrative Services estimate of 2011 budget gap

BUDGET ISSUE	CHANGE FROM 2010	DESCRIPTION
REVENUES		
Unclaimed Money	1,100,000	Unclaimed money only is budgeted in odd years
Land Sales	(3,611,300)	Eliminates use of land sales money in operating budget
Sales Tax	(4,297,236)	Based on updated projections from 2010
Other	(1,011,350)	Miscellaneous revenue changes estimated by DAS
TOTAL	**(7,819,886)**	
EXPENDITURES		
Furlough Days & Steps	10,070,223	Assumes no furlough days & resumption of step increases
Fringe	18,068,993	Assumes various inflationary/trend increases in health care, dental and other fringe benefit expenditures above 2010 budget and $6 million increase in pension contribution based on initial 2009 estimate of pension fund assets
Debt	5,691,062	Based on updated debt service schedule
TOTAL	**33,830,278**	
OTHER ITEMS		
Transit One-Time Revenues	2,540,000	Assumes federal stimulus funds no longer available
Airport	1,232,032	Assumes revenue changes in new airport lease agreement with airlines
Non-election year	(500,000)	Fewer elections in 2011 means lower costs for Election Commission
TOTAL	**3,272,032**	
TOTAL 2011 GAP	**44,922,196**	

It is important to note that this calculation does not constitute a department-by-department analysis of potential budget issues (both negative and positive) that have arisen for 2011 or that eventually will arise between now and this fall. Rather, it is a broad, initial compilation of known budget issues that budget officials used to determine budget targets for departments. Those targets guided departments in their preparation of requested budgets, which were delivered in mid-June. Also, the county's budget office typically is extremely conservative in calculating the size of the county's forthcoming budget gap at this early juncture in the process.

Consequently, before analyzing potential consequences associated with the county's 2011 budget gap, we considered it appropriate to perform additional analysis on this projected deficit. Like DAS, we have not conducted a department-by-department review. Instead, we first analyzed each component of the DAS projection and inserted a new revenue or expenditure total where appropriate; and then, we made additional adjustments based on other insights into the county's budgeting process.

Using this approach, our estimate of the county's 2011 budget gap first was reduced to $31 million. This new estimate reflects the following adjustments to the DAS projections.

- Pension: County budget officials initially projected an increase of approximately $6 million in the 2011 pension fund contribution over 2010 using 2009 year-end investment return information and assumptions regarding amortization of the Mercer lawsuit settlement and the county's contribution to a stabilization fund for its POBs. Subsequent to that calculation, the pension board actuary submitted an official report to the county estimating the 2011 contribution. Using that official projection, as well as DAS' previous assumptions regarding the Mercer settlement and POBs, **reduces the DAS projection by $960,000.**

- 2009 Surplus: County budget rules dictate that the year-end surplus or deficit experienced in 2009 will be recognized in the 2011 budget. The original DAS projection assumes that the 2009 year-end surplus will equal the 2008 year-end surplus of $4.1 million. County budget officials recently reported, however, that the 2009 year-end surplus is approximately $8 million. Using that more recent projection **reduces the DAS projection by $3.8 million.**[9]

- Sales tax revenue: DAS' original 2011 projection estimated a sales tax revenue decrease of $4.3 million from the 2010 budgeted amount based on trend analysis using 2009 and prior year actual information. In mid-May, the county's controller projected that the county's actual 2010 sales tax revenue would fall $2.2 million short of the budgeted amount based on the first two months of sales tax collections this year. Given the recent modest improvement in the state and local economy, we believe the county likely will end up budgeting 2011 sales tax revenue at an amount that is higher than DAS' original projection. Consequently, we assume a 2011 sales tax revenue projection that will equal the controller's mid-May 2010 estimate, thus **reducing the original DAS projection by $2.1 million.**

- Froedtert Hospital Lease Payment: The county receives an annual lease payment from Froedtert Hospital that is based on a formula derived in 1995 when the county-owned Doyne Hospital was closed and Froedtert assumed many of its operations. This payment is linked to Froedtert's fiscal performance in the preceding fiscal year, so it can vary from year to year. The county recently learned that its 2010 payment would be approximately $7.9 million, which exceeds the 2010 budgeted amount by $4 million. Because the 2011 budgeted amount will be based on the 2010 actual payment, it is likely that the county will budget increased

[9] At the time of publication, a possibility existed that DAS might submit a proposal to the county executive and county board to allocate part of the 2009 year-end surplus to the Debt Service Reserve for potential use in addressing unexpected expenditure needs in 2010 or a projected 2010 budget deficit. Should that action take place, then the size of the 2009 surplus allocated to the 2011 budget would be reduced. Because no formal action has yet been taken, our analysis assumes that the full $8 million will be used in the 2011 budget.

Froedtert lease payment revenue in 2011, though it is uncertain whether the county will budget the full actual amount received in 2010. For this analysis, we assume the county will budget half of the unexpected 2010 revenue surplus in 2011, thus **reducing the original DAS projection by $2 million**

- 2010 budget-cutting initiatives: DAS estimates ongoing savings in 2011 of $5 million from layoffs and other actions imposed upon departments subsequent to adoption of the 2010 budget. It has distributed those savings to departmental budgets as part of the 2011 budget process, **thus reducing the original projection by $5 million.**

We also conducted significant analysis of the county's 2011 employee/retiree health care projection in light of its unexpected $12 million health care surplus in 2009. Our original inclination was to reduce the 2011 projection – which was based on a 9% increase to the 2010 budgeted amount – in light of the fact that the 2010 budgeted amount had not taken into account the final 2009 total. We subsequently learned, however, that an actuarial analysis performed by a county consultant is projecting a $1.7 million to $6.7 million health care *deficit* for 2010. Consequently, we make no adjustment to the county's 2011 projection, which estimates expenditures on basic health benefits of approximately $140 million, an increase of about $12.8 million above the 2010 budgeted amount.

Finally, to further refine our estimate, we take certain political realities into account. For example, we assume that $5 million of the $30.1 million will be absorbed by departments without significant changes in service levels. This is consistent with the approach taken by DAS in formulating its budget targets for 2011, which was to distribute $5 million of its projected $45 million gap to departments (plus the $5 million for 2010 mid-year savings initiatives) and hold the remaining $35 million to be addressed centrally.

The difficulty for departments of coming up with a collective $5 million in savings – on top of the $5 million in 2010 mid-year savings – should not be underestimated. As noted above, departments already have been required to absorb substantial budget cuts throughout the past decade, and most face real "cost to continue" increases in areas like wages, fuel and other commodities. We assume for this exercise, however, that department heads again will identify efficiencies, new revenue sources, privatization initiatives and other strategies that will allow them to accommodate another year of cuts without significantly impacting service levels.

We also assume an additional $6 million in savings from miscellaneous one-time actions that may not constitute ideal fiscal policy, but that governments with the fiscal challenges of Milwaukee County inevitably rely upon to some extent to balance budgets. For example, if the county were to utilize four furlough days in 2011, it could achieve budgetary savings of approximately $3 million. Or, if it were to budget the same amount of land sale money in its operating budget as it did in 2010, it would achieve budgetary savings of $3.6 million. The county also may elect to forego a $2 million contribution to its pension obligation bond stabilization fund as it did in 2010. Our decision to account for anticipated actions of this nature should not be interpreted as condoning them, but simply as recognizing that such actions are likely to be part of the budget-cutting mix to some degree and would stave off other impactful budget decisions.

Table 2 shows our working estimate of the county's 2011 budget gap after adjusting the DAS estimate and taking into account the additional changes described above.

Table 2: Modified estimate of Milwaukee County 2011 budget gap

ADJUSTMENT	SAVINGS
Initial DAS Estimate	**$44,922,196**
Pension contribution adjustment	(960,000)
2009 surplus adjustment	(3,832,062)
Sales tax revenue adjustment	(2,097,236)
Froedtert lease payment adjustment	(2,000,000)
2010 budget-cutting initiatives	(5,000,000)
Amount absorbed by departments	(5,000,000)
Miscellaneous one-time savings	(6,000,000)
TOTAL 2011 GAP	**$20,032,898**

Finally, it is very important to note two additional factors not included in our estimate that could cause the projected gap to *increase* rather significantly:

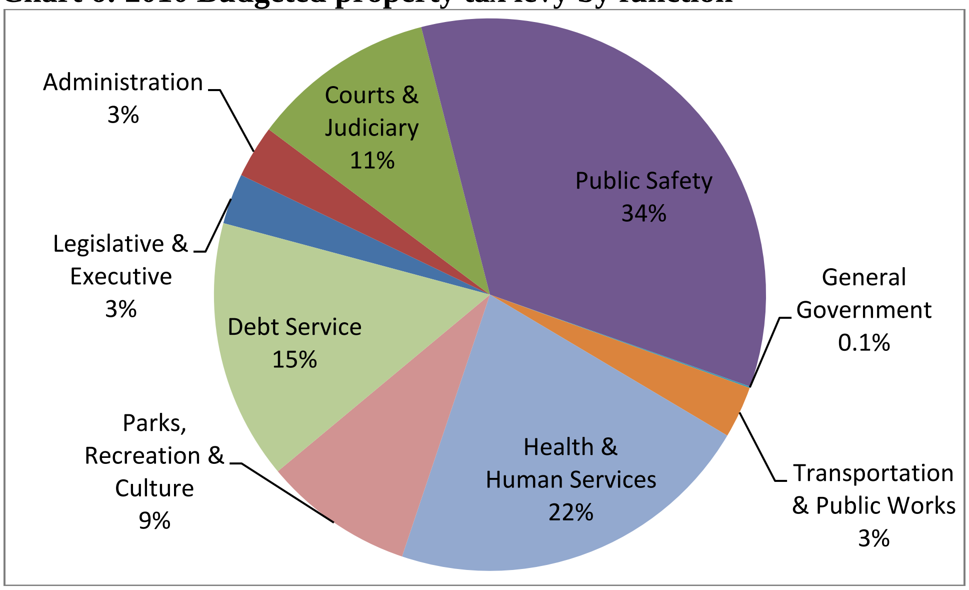
1. Both the DAS estimate and our modified estimate **assume the full savings from wage and benefit adjustments contained in the 2010 budget will end up materializing in some fashion**. Should that not be the case, then the projected gap could increase by up to an additional $10.3 million.

2. Both the DAS approach and our modified estimate assume that all county departments will meet their budget targets and absorb the full $5 million in cuts that has been allocated to them as well as the $5 million in 2010 mid-year savings. To the extent that does not occur – and a cursory review of 2011 requested budgets indicates it has not – then any overage will need to be addressed by DAS and the county executive as they wrestle with the budget during the summer.

In this section, we lay out three 2011 Milwaukee County budget-cutting models to address an estimated budget gap of $20 million. As noted in the Introduction, a variety of different strategies can – and likely will – be used by the county to address the gap. Developing these distinct models, however, sheds light on the types of broad strategies available to the county and the extremely difficult nature of the choices it would confront it if any one strategy were utilized exclusively.

As background for this analysis, it is important to understand the larger budgetary context in which Milwaukee County now is operating after several successive years of grappling with a substantial structural imbalance. **Chart 6** shows the distribution of the county's 2010 property tax levy among its various functions. What is striking is the extent to which the county's levy is now consumed by the state-mandated functions of public safety, courts, and health and human services, as well as legally required debt service.

Chart 6: 2010 Budgeted property tax levy by function



Source: Milwaukee County 2010 Adopted Budget

Thus, the difficult challenges posed by a structural imbalance of any significance become apparent. Because the four areas cited above cannot be cut significantly due to state law and/or the standards set forth by an independently elected judiciary and sheriff, and because county revenue streams are largely stagnant, the discretionary functions of county government bear the brunt of the county's budget cutting.

As **Chart 6** indicates, however, this budgeting approach cannot possibly continue much longer. *There is relatively little property tax levy left to cut in those areas, meaning that soon the only option will be elimination of complete functions*. This dilemma is illustrated most vividly in the first two models described below.

BUDGET-CUTTING MODEL 1: REDUCE THE SIZE OF THE COUNTY WORKFORCE

The county could see its 2011 budget gap as an imperative to reduce the size of its workforce. In fact, the need to view the gap in this manner has been voiced by the county executive and other policymakers in the context of their demand for significant wage and benefit concessions from county labor unions. Essentially, their message has been that wages and benefits are the driving force behind the structural deficit, so failure to address them by dramatically cutting wage and benefit levels will necessitate dramatic cuts in the *size* of the workforce.

The county executive has effectuated this approach already, to some extent, by laying off 76 workers early in 2010. It is also worth noting that the number of budgeted full-time-equivalent employees at the county decreased from 7,416 to 5,457 between 2001 and 2010.

Because of the size of the 2011 gap, in this scenario we do **not** assume that county workers would be replaced with private sector workers under new privatization initiatives. Instead, it is assumed that the county would need to realize the *full* savings associated with eliminating positions, as opposed to a *net* savings that might be realized from a potential difference between the cost of a county position and a private sector position.

We estimate that a total of 352 full-time equivalent positions (FTEs) would need to be eliminated in order to achieve a property tax levy savings of approximately $20 million to offset the 2011 projected budget gap. **Table 3** summarizes how those position reductions might be distributed among the various functions of county government. We explain our rationale for each item in the text below as well as potential worst-case programmatic consequences.

Obviously, there is no way of knowing precisely which positions county policymakers might elect to eliminate and how they might distribute the workforce reductions among the various functional areas. Consequently, **Table 3** should be viewed simply as an illustration of the types of position reductions that would be required under this scenario.

Table 3: Potential position reductions necessary to offset projected 2011 budget gap

STAFF REDUCTION	SAVINGS	POSITION LOSS (FTES)
2% staff reduction in all departments	$6,470,194	102.00
25% Parks Department staff reduction	$6,010,134	127.50
25% Zoo staff reduction	$2,924,278	64.00
10% staff reduction in administrative departments	$1,108,320	13.00
50% staff reduction to county executive office	$393,928	4.50
50% staff reduction to county board	$1,507,569	20.50
20% Sheriff staff reduction in certain divisions	$1,608,390	20.70
TOTAL POTENTIAL REDUCTIONS	**$20,022,813**	**352.2**

- **2% staff reduction in all property tax levy-funded departments** – Bridging a $20 million budget gap solely with workforce reductions would require every county department to lose some positions. Our modeling assumes, as a starting point, that each department would be required to eliminate 2% of its existing full-time positions. That would result in the elimination of 102 positions, saving an estimated $6.5 million. The departments facing the largest numbers of reductions include: the Sheriff (28 FTE); Behavioral Health Division (16 FTE); Department of Health and Human Services (13.5 FTE); Parks (7.5 FTE); Courts (5.5 FTE) and Airport (5.5 FTE).

- **25% Parks Department staff reduction** – This projection is based on an assumption that workforce reductions in excess of the 2% cited above in departments that provide *mandated* services would not be tenable. Consequently, our model assumes the Parks Department would have to reduce its staffing by an additional 25%, resulting in the loss of an additional 127.5 FTEs and saving $6 million. A reduction of this magnitude almost certainly would require the closure of several county parks and/or recreational facilities. In fact, in its 2011 budget request, the department cites the potential need to close all deep-well pools, the Wehr Nature Center and the Mitchell Park Domes if faced with a 10% reduction in expenditures. Under a scenario in which parks staffing would need to be cut significantly, it is possible the county would focus on maintaining those operations that provide the best return in terms of admissions and other revenue. Failure to do so could produce an additional loss of revenue, thus further exacerbating budget problems.

- **25% Zoo staff reduction** – Again, this projection is based on an assumption that workforce reductions in excess of the 2% cited above in departments that provide mostly *mandated* services would not be tenable. Consequently, our model assumes the Zoo would have to reduce its staffing by an additional 25%, resulting in the loss of an additional 64 FTEs and saving $2.9 million. A reduction of this magnitude almost certainly would require the closure of several animal exhibits at the zoo. This would call into question whether existing admissions and parking rates could be maintained and whether the negative impacts on attendance would create an unsustainable business model that might even require the entire Zoo to close.

- **10% staff reduction in administrative departments** – On top of the general 2% reduction, our model assumes that administrative departments – including the Department of Administrative Services (which contains fiscal affairs, human resources, information technology and employee benefits), Department of Audit, County Clerk and Corporation Counsel – would have to reduce their respective workforces by an additional 10%. This results in the loss of an additional 13 FTEs and saves $1.1 million. These administrative departments already have experienced significant reductions in the past decade and it is questionable whether they could experience an additional 10% reduction without significantly compromising the county's ability to appropriately administer its own operations.

- **50% staff reduction in county executive and county board staff** – On top of the general 2% reduction, our model assumes staff in the county executive's office and county board would need to be reduced by 50%. This assumption is based on our belief that – if required to accommodate such a significant reduction in workforce – county leaders would seek reductions to the greatest extent possible in areas of operation that would have the least significant impact on programs and services. This results in the loss of an additional 25 FTEs and saves $1.9 million.

- **25% staff reduction in certain Office of the Sheriff divisions** – Despite its largely mandated and independent status, our model assumes the Sheriff's office would have to experience an additional reduction in staffing above the general 2% because of its sheer size (it currently houses 26% of all county FTEs). Our model assumes this reduction would need to come from non-mandated operations (i.e. those located outside of the areas of detention and bailiff services), so it assumes a 20% reduction in areas such as expressway patrol, the Tactical Enforcement Unit and parks patrol. Cuts in the latter two areas also are consistent with the reduction in parks services. This results in the loss of an additional 20.7 FTEs and saves $1.6 million. Such a move essentially would eliminate the office of the sheriff's ability to provide security at county parks and on county buses and would reduce patrolling operations on county expressways.

BUDGET-CUTTING MODEL 2: AVOID LAY-OFFS

The City of Milwaukee recently was able to negotiate wage and benefits concessions from several of its major employee unions in return for an agreement to refrain from laying off any union employees for a two-year period. A similar agreement initially was negotiated by county labor negotiators with the county's largest union in 2009, but was not approved by policymakers.

Model 2 assumes, hypothetically, that the county reaches such an agreement with its unions (or has one imposed upon it by an arbitrator) and also applies it to its non-represented employees. While it is possible that under such a scenario the county could identify several vacant positions that could be eliminated to produce budgetary savings, we do not believe the number of such positions would be substantial. For modeling purposes, therefore, we assume in this scenario that the budget gap only could be addressed with budget cuts that would not involve the elimination of county positions.

It is important to note that while this model spares county workers from layoffs, the sharp reduction or elimination of county funds from contracted services likely would cause several non-county workers to lose their jobs. Bus drivers and other employees of the Milwaukee County Transit System are not employed by the county and likely would be subject to layoff under this model, for example, as would employees of county-contracted social service agencies and arts and cultural institutions that receive significant county contributions.

Table 4 summarizes a series of property tax levy reductions in various areas of county government that could be made without impacting county positions in order to achieve a property tax levy savings of approximately $20 million to offset the 2011 projected budget gap. In the text that follows, we explain our rationale for each item as well as potential worst-case programmatic consequences.

The reductions cited in **Table 4** constitute the major areas of property tax levy spending in county government that do not involve county positions *with the exception of certain contracted* *services in the areas of health and human services and courts*. Certain contracted services in those functional areas are not included because they are directly linked to efforts to reduce tax levy expenditures on other major mandated services within those functions, which means their elimination is unlikely to produce real savings. For example, in the health and human services function, contracted community-based mental health services reduce inpatient mental health costs, and contracted community-based delinquency services reduce juvenile detention costs. In the courts, meanwhile, contracted alternatives to incarceration for pre-trial detainees reduce costs in the adult detention facilities. If those contracted services were eliminated, it is quite likely that the savings associated with the terminated contracts would be exceeded by the additional institutional costs experienced in other areas.

As with the first scenario above, we cannot predict precisely how county policymakers might elect to distribute these reductions. Consequently, **Table 4** should be viewed simply as an illustration of the types of expenditure reductions that would be required under this scenario.

Table 4: Potential tax levy expenditure reductions not involving county positions necessary to offset projected 2011 budget gap

EXPENDITURE REDUCTION	SAVINGS
Eliminate levy for non-county cultural institutions	$7,242,514
25% transit levy cut	$4,783,232
Eliminate CJRC and other inmate programming	$984,272
Eliminate EMS payments to municipalities	$3,000,000
Eliminate certain disability services	$2,144,691
Eliminate levy for indigent burial program	$361,958
Eliminate levy for Interim Disability Assistance Program (IDAP)	$115,866
Eliminate shelter funding	$400,000
33% cut to administrative professional services contracts	$1,016,333
TOTAL POTENTIAL REDUCTIONS	**$20,048,866**

- **Eliminate levy for non-county cultural institutions** – Milwaukee County provided $7.2 million of property tax levy support in 2010 for the Milwaukee Public Museum, Marcus Center for the Performing Arts, War Memorial Center, Milwaukee County Historical Society, Charles Allis and Villa Terrace art museums, and several other smaller cultural and educational entities. Because these are non-mandated services, our model assumes bridging a $20 million budget gap without eliminating any county workers would require eliminating their funding entirely. It should be noted, however, that because the county owns the buildings associated with the institutions cited above, the elimination of county operating support could have negative impacts for the county in terms of repairs and maintenance. In addition, it is possible that the county would be forced to take back control of the buildings should the cultural entities not be able to survive without county operational support. Finally, elimination of county funding for these institutions could impact the significant amount of private sector funding that is leveraged from county resources.

- **Reduce property tax levy by 25% for mass transit** – Mass transit services in Milwaukee County are provided by the Milwaukee County Transit System (MCTS) under a contract between the county and Milwaukee Transit Services, Inc. Our model assumes the county would be unable to bridge a $20 million budget gap under this scenario without a significant reduction in property tax levy committed to mass transit. A 25% reduction in property tax levy for transit would save approximately $4.8 million and would require a significant reduction in mass transit service and/or significant fare increases. For example, according to testimony recently delivered by the MCTS managing director to the Assembly Committee on Transportation, MCTS was forced to consider the potential elimination of 14 routes, five route segments and several other route modifications when faced with a potential $4.2 million funding gap heading into the 2010 budget season. In addition, the MCTS managing director recently warned that the system faces a potential $10.2 million funding shortfall – which could produce a 14% reduction in service – even with a $2 million *increase* in property tax levy promised recently by the county executive.

- **Eliminate Emergency Medical Services (EMS) supplemental payments to municipalities** – County government coordinates and directs the Milwaukee County EMS system, while the paramedic services themselves are provided by municipal fire departments. The county will spend about $6.5 million on the program in 2010. Of that amount, about $3.5 million is used to support the communications center, medical direction, the education/training center, quality assurance and other oversight activities, while $3 million is contributed to municipal providers to support their delivery of services under a formula developed by the Intergovernmental Cooperation Council. The county is not legally required to provide this payment to municipalities and has discussed its potential elimination in previous years, though this possibility has been vehemently protested by municipal leaders. Elimination of this payment would save $3 million for the county, but this cost likely would be passed on to municipal governments and could lead them to pull out of the county-coordinated system.

- **Eliminate property tax levy funding for the Community Justice Resource Center and other inmate programming at the Jail and Correctional Facility-South** – The Office of the Sheriff maintains contracts with community-based organizations to provide a range of services to offenders that are intended to assist them with rehabilitation.[10] Those include assessment and employment services, job training and substance abuse treatment. Many of the services are housed in the Community Justice Resource Center, which also is used by the courts as an alternative to incarceration for certain non-violent offenders. Eliminating these programs would save about $1 million in property tax levy, though it should be noted that their elimination also could increase detention costs by eliminating an alternative sentencing option and/or not being available as a strategy to reduce recidivism. The sheriff has previously discussed eliminating these services if required to reduce his property tax levy.

- **Eliminate certain services for persons with disabilities** – The Department of Health and Human Services' (DHHS) Disabilities Services Division contracts with community-based providers for a variety of services for individuals with disabilities who do not meet the eligibility qualifications for the Family Care program and for whom the division, therefore, may not be legally required to provide services. Those include community living support services, work and day services, and other services designed to provide assistance to

[10] These services differ from alternatives to incarceration services housed in the Courts in that the Sheriff's services are for individuals already convicted of offenses and those released on deferred prosecution agreements, while the Courts' contracted services are for pre-trial detainees.

individuals and their families so that they may live in the community and avoid institutionalization. Eliminating those services would save about $2.1 million annually but could cause considerable hardship for individuals with disabilities who have relied upon these county-funded services for many years. In addition, such a move could subject the county to legal action by those who might argue that all such services are mandated under state law.

- **Eliminate levy for indigent burials program** – DHHS' Economic Support Division administers a program that pays for burials for indigent individuals. The program has two components: a state-mandated component that pays for burials for deceased individuals who qualified for W-2 and/or Medicaid, the costs of which are reimbursed by the state; and a discretionary component that pays for burials for other indigent individuals, the costs of which are borne by the county. Eliminating the discretionary component would save approximately $362,000 annually, though it could create a burden on the family members of such indigent individuals and/or on local funeral homes. Approximately 350 to 390 individuals are buried under the county-funded portion of this program annually.

- **Eliminate levy for Interim Disability Assistance Program (IDAP) –** DHHS' Economic Support Division also runs a non-mandated loan program that provides interim income assistance to individuals who have applied for Social Security disability benefits from the federal government, but whose applications will take several months to process. Elimination of this program – which has been proposed by the county executive in several previous budgets – would save approximately $116,000 annually, though it could cause hardship to the approximately 125 individuals served by the program annually.

- **Eliminate shelter funding** – DHHS' Housing Division includes funds for grants to support homeless and domestic violence shelters. Elimination of these discretionary grants would save $400,000 annually, though it would eliminate an important source of revenue for the shelters. In addition, it is possible that a reduction in shelter beds caused by this reduction in grant funding could produce negative fiscal impacts on the county's mental health complex and other DHHS programs.

- **Reduce property tax levy by 33% for administrative professional services contracts** – The county's administrative divisions use professional services contracts to carry out a variety of tasks, including consulting services for employee benefits and information technology, and specialized legal and auditing services. We speculate that such contracts would have to be considered for significant reduction if a significant countywide budget shortfall needed to be bridged without eliminating any county positions. Consequently, we assume a 33% reduction in these contracts, which would save about $1 million annually. Potential consequences could include significantly reduced capacity to service the county's information technology infrastructure, identify employee benefits savings and oversee and manage the county's financial resources.

BUDGET-CUTTING MODEL 3: AVOID SERVICE IMPACTS BY INCREASING REVENUES

A third model would be for the county to seek to address the estimated 2011 budget gap exclusively by increasing or introducing legally available revenue sources. Such an approach might be justified under the rationale that there is little left to cut in county government without having to resort to eliminating entire sets of services or programs.

It is important to note that while this model relies exclusively on increased revenues to generate the $20 million needed to bridge the estimated 2011 gap, *some* expenditure cuts still would be required. That is because under DAS' approach to establishing its budget targets (which is included in our modeling), departments collectively must accommodate $10 million in tax levy expenditure reductions from 2010 budgeted levels as well as various costs to continue.

With regard to specific revenue sources, this model focuses exclusively on the property tax and vehicle registration fee (also known as a "wheel tax"), which are the only broad-based taxes or fees available to the county that can be increased or established without authorization from state government. Other fee increases – such as golf, pool and zoo admissions fees, parking fees and bus fares – are not delineated in this model because they typically are reviewed and used by departments in requested budgets to meet the DAS budget targets. The sales tax also is not considered because Milwaukee County currently levies a .5% sales tax, which is the maximum allowable under state law. A proposal to increase that limit to a full 1% for the purposes of mass transit was considered by the Wisconsin Legislature during its recently concluded session but was not adopted. Consequently, that option will not be available for the 2011 budget unless a special session of the Legislature is called to adopt it.

Also, while annual county property tax increases are capped under state law, the cap should not be a factor for Milwaukee County under this scenario because the county is estimated to be more than $50 million under its cap for 2010. The vehicle registration fee also is limited, as Wisconsin Statutes specify that the proceeds generated by such a fee only can be used for transportation purposes.

For the purposes of constructing this model, we assume that Milwaukee County would follow the lead of the City of Milwaukee and levy a $20 vehicle registration fee for the owners of motor vehicles in Milwaukee County.[11] A similar proposal was approved by the Finance and Audit Committee during 2010 budget deliberations but was rejected by the full county board. We then assume the remaining gap would be filled with an increase in property taxes.

Table 5 shows the estimated amount generated by a new $20 vehicle registration fee and the corresponding property tax levy increase that would be required to fill the projected 2011 budget gap. **Table 6** shows the estimated impact on a Milwaukee County homeowner who owns two vehicles and a home with a value of $150,000.

[11] The City of Milwaukee adopted a $20 vehicle registration fee in 2008 that is used to support local road repairs.

Obviously, there is no way of knowing precisely how county policymakers would elect to distribute these revenue increases. Consequently, **Tables 5** and **6** should be viewed simply as illustrations of the types of revenue increases and homeowner/vehicle owner impacts that might be required under this model.

Table 5: Potential wheel tax and property tax levy increases necessary to offset projected 2011 budget gap

POTENTIAL TAX INCREASES	REVENUE GENERATED
Property tax increase	$9,350,898
$20 wheel tax	$10,682,000
TOTAL 2011 POTENTIAL TAX INCREASES	**$20,032,898**

Table 6: Impact of potential tax increases on average homeowner

POTENTIAL CHANGES	TOTAL IMPACT
PROPERTY TAX	
Average home value	$ 150,000
2010 Adopted assessed value	$ 63,679,471,400
Mill rate increase	$ 0.000147
Impact of property tax increase on $150,000 home	**$ 22.03**
WHEEL TAX	
Impact of wheel tax on two-vehicle resident	**$ 40.00**
TOTAL 2011 IMPACT OF POTENTIAL TAX INCREASES	**$ 62.03**

County policymakers would be prudent to seek additional context for their 2011 budget deliberations by analyzing the county's long-term budget outlook. Indeed, long-range financial planning is a commonly cited fiscal best practice to ensure that short-term spending decisions take place with an understanding of long-term trends and conditions. The Government Finance Officers Association cites the need for such planning as follows:

"Long-term financial planning combines financial forecasting with strategizing. It is a highly collaborative process that considers future scenarios and helps governments navigate challenges. Long-term financial planning works best as part of an overall strategic plan."[12]

Milwaukee County has had an uneven experience with long-range financial planning. For several years, the county produced an annual "fiscal trends report" that provided policymakers with information on expenditure and revenue trends and that also was used to warn of potential future trouble spots. That effort was discontinued in the late 1990s.[13]

As noted earlier, reports detailing the county's structural budget difficulties were produced regularly during the early 2000s. A formal long-range forecast was not produced until 2006, however, when the county's budget director developed projections in conjunction with the county executive's "reality tour." Those projections – which warned of a structural deficit that would approach $300 million within five years – were challenged by members of the county board and were never used as a formal tool during county budget deliberations.

In 2009, the county's new (and current) budget director set out to re-establish long-term fiscal forecasting as an important piece of the county's budget monitoring and planning processes. The county purchased a financial modeling program – "Municast" – that was developed for use in California counties and municipalities and is now marketed by a company called Government Finance Research Group (GFRG).

According to the company's web site, Municast allows users to "create financial forecasts and test a wide range of assumptions impacting projected revenues, expenditures and fund balances."[14] In addition to purchasing the software package, the budget director formed a work group consisting of fiscal staff from both branches of government – as well as some outside members – to review and reach consensus on the assumptions it would use in the forecasting framework. That strategy was designed to avoid challenges to the credibility of the forecast as had occurred in 2006.

The first Municast five-year forecast was presented to county policymakers in September 2009. Early in 2010, DAS staff updated the model to reflect the 2010 adopted budget and other new information. **Chart 7** shows the projected annual structural gaps contained in the updated

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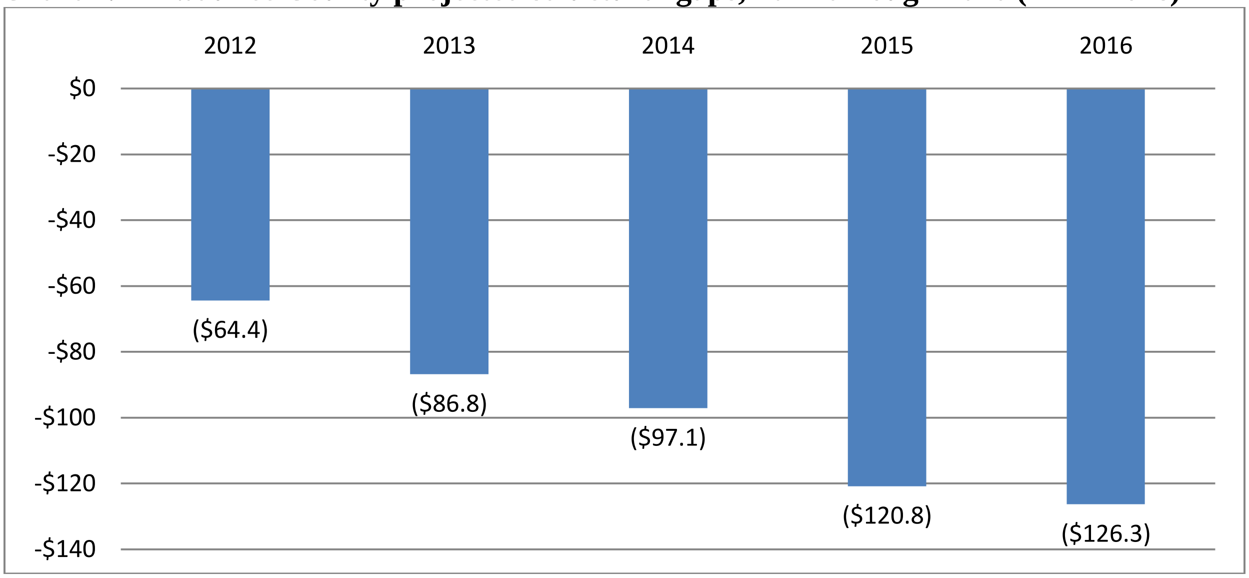
12 http://www.gfoa.org/downloads/LongtermFinancialPlanningFINAL.pdf

13 While fiscal trends reporting was discontinued for the operating budget in the 1990s, the county *has* engaged in long-range forecasting on the capital side, producing a five-year capital plan as part of its capital improvements budget each year.

14 http://www.municast.com/features.html

Municast model for the 2012-2016 period. It is important to note that this forecast does not incorporate any new information developed during the past three months regarding the county's projected pension fund contribution or projected health care expenditures, nor does it incorporate any new revenue projections contained in this report or information contained in 2011 requested budgets.

Chart 7: Milwaukee County projected structural gaps, 2012 through 2016 (in millions)



While the Municast forecasting model provides an important and reliable framework for considering the size and scope of the county's long-term fiscal challenges, it is important to consider the following limitations:

- The forecasting methodology does not anticipate possible long-term changes. The numbers shown above assume that in each year of the five-year period, the budget is balanced using only one-time solutions. Any sustainable deficit reduction initiative adopted in a given year, such as the identification of a new revenue source or a more efficient means of providing a service, would reduce the structural deficit in each subsequent year of the forecast, but such actions are not anticipated in the model.

- Figures will change as new information is obtained. As noted above, this information is taken directly from DAS' most recently updated Municast spreadsheet, but does not incorporate any new information developed during the past three months. In addition, the spreadsheet assumes that all of the wage and benefit concessions assumed in the 2010 budget materialize, though those concessions have not been ratified for most county workers. Consequently, the projections produced by the model are likely to change when they are next updated and/or when the county's unsettled labor situation is clarified.

- Projections use historical data and agreed-upon assumptions. The Municast modeling tool allows the county to input historical revenue and expenditure data and trend calculations to develop detailed forecasts in individual expenditure and revenue categories. Milwaukee County budget staff developed dozens of individual assumptions and trend analyses in dozens of distinct revenue and expenditure categories for use in the Municast model. As noted above, these assumptions and analyses were reviewed for accuracy by a balanced work group, but they are assumptions nonetheless.

The 2012-2016 projections, therefore, are best utilized as a tool to develop consensus regarding the seriousness of the county's fiscal condition, as opposed to a definitive calculation of the precise size of each year's structural gap. As the founder of GFRG puts it on the company's web site, "it is essential that the forecast be positioned as a projection of possible future outcomes based on a set of known variables and assumptions, rather than a 'predictor' of what will happen. As with a weather forecast, a financial forecast is always subject to change based on new information, and an effective budgeting and planning process will provide for a consistent routine for updating the forecast."[15]

What is clear from the Municast forecasting tool is that the county's structural budget problem – if not addressed by county or state policy prerogative or by extreme good fortune – will continue to grow precipitously during the 2012-2016 timeframe. **Table 7** shows additional details regarding key expenditure and revenue categories from the Municast model that provide insight into the circumstances that lead to that conclusion.

Table 7: Milwaukee County projections (Municast)

	2012	2013	2014	2015	2016	5-YEAR GROWTH RATE	AVERAGE ANNUAL GROWTH RATE
EXPENDITURES							
Salary	277,579,357	289,114,938	301,138,767	313,671,579	326,734,991	17.7%	4.2%
Healthcare	159,216,244	173,545,706	189,164,819	206,189,653	224,746,722	41.2%	9.0%
Pension	79,838,718	88,419,731	90,026,899	99,677,555	102,190,361	28.0%	7.8%
Other	868,229,449	918,655,239	965,336,104	1,022,561,802	1,071,600,351	23.4%	5.3%
TOTAL	**1,384,863,768**	**1,469,735,614**	**1,545,666,589**	**1,642,100,590**	**1,725,272,425**	**24.6%**	**5.6%**
REVENUES							
Property tax	283,896,482	293,265,066	302,942,813	312,939,926	323,266,944	13.9%	3.3%
Sales tax	68,537,224	70,182,117	71,866,488	73,591,284	75,357,474	10.0%	2.4%
State shared taxes	37,872,201	37,872,201	37,872,201	37,872,201	37,872,201	0.0%	0.0%
Other	930,184,281	981,610,314	1,035,852,448	1,096,883,071	1,162,461,238	25.0%	5.6%
TOTAL	**1,320,490,188**	**1,382,929,699**	**1,448,533,950**	**1,521,286,481**	**1,598,957,858**	**21.1%**	**4.8%**
STRUCTURAL DEFICIT	**(64,373,580)**	**(86,805,915)**	**(97,132,639)**	**(120,814,108)**	**(126,314,567)**	**96.2%**	**21.8%**

15 http://www.municast.com/features.html

Most notably, the model assumes salary, health care benefits and pension contributions will continue to grow per recent history and/or recent actuarial calculations. All other county expenditures, meanwhile, are projected to grow at an average of about 5.3% annually. This rate may appear, at first glance, to be on the high side, but it reflects dozens of individual calculations based on historical trends and other information developed by the county for all of its major expenditure categories. Those categories include services for the elderly, persons with disabilities and persons with mental illness, which tend to grow at a much faster rate than inflation.

On the revenue side, the model assumes the county's property tax levy will increase by 3.3% per year, while sales tax revenues will grow by 2.4% annually and state shared revenue will remain flat. Other revenues, meanwhile, are projected to grow by an average of 5.6% annually. Again, this may appear high, but it is logical considering that many of the county's major revenue streams are provided as 100% reimbursement for expenditures incurred, such as Medicaid reimbursement for expenditures made under the Family Care program and expenditures at General Mitchell International Airport (which are reimbursed by airlines).

It is apparent, therefore, that even with relatively healthy growth in property and sales tax revenues, the county's structural deficit will continue to grow rather dramatically without greatly enhanced state aids, new revenue sources or significant efforts to limit projected expenditure increases. To test the impacts of potential strategies to restore structural balance, we developed a pair of models that adjusted the Municast forecast in two distinct ways.

Under the first model, we assume that property taxes grow annually at double the rate assumed in the existing model, or 6.6%. All other assumptions contained in the Municast forecast remain the same. **Table 8** shows the results of these changes.

Under the second model, we assume that the growth rate for salaries is reduced by 50% (from 4.2% to 2.1% per year, including both wage increases and step increases), while the growth rate for pension fund contributions and health care costs is reduced by 25%. It is important to note that this 25% reduction in pension and health care costs would require significant adjustments to pension and health care benefits, and that both these adjustments and the limited growth in wages likely would require negotiation and cooperation from county employee unions and would constitute additional adjustments above and beyond those proposed in the 2010 budget (but not yet ratified for most county unions). Again, all other assumptions contained in the Municast forecast remain the same in this adjusted model. **Table 9** shows the results of these changes.

Table 8: Model 1 - Double projected property tax growth to 6.6%

	2012	2013	2014	2015	2016	5-YEAR GROWTH RATE	AVERAGE ANNUAL GROWTH RATE
EXPENDITURES							
Salary	277,579,357	289,114,938	301,138,767	313,671,579	326,734,991	17.7%	4.2%
Healthcare	159,216,244	173,545,706	189,164,819	206,189,653	224,746,722	41.2%	9.0%
Pension	79,838,718	88,419,731	90,026,899	99,677,555	102,190,361	28.0%	7.8%
Other	868,229,449	918,655,239	965,336,104	1,022,561,802	1,071,600,351	23.4%	5.3%
Total	**1,384,863,768**	**1,469,735,614**	**1,545,666,589**	**1,642,100,590**	**1,725,272,425**	**24.6%**	**5.6%**
REVENUES							
Property tax	292,965,779	312,301,521	332,913,421	354,885,707	378,308,164	29.1%	6.6%
Sales tax	68,537,224	70,182,117	71,866,488	73,591,284	75,357,474	10.0%	2.4%
State shared taxes	37,872,201	37,872,201	37,872,201	37,872,201	37,872,201	0.0%	0.0%
Other	930,184,281	981,610,314	1,035,852,448	1,096,883,071	1,162,461,238	25.0%	5.6%
Total	**1,329,559,485**	**1,401,966,153**	**1,478,504,558**	**1,563,232,262**	**1,653,999,078**	**24.4%**	**5.5%**
STRUCTURAL DEFICIT	**(55,304,283)**	**(67,769,460)**	**(67,162,031)**	**(78,868,327)**	**(71,273,347)**	**28.9%**	**8.8%**

Table 9: Model 2 - Reduce salary growth rate by 50% and fringe growth by 25%

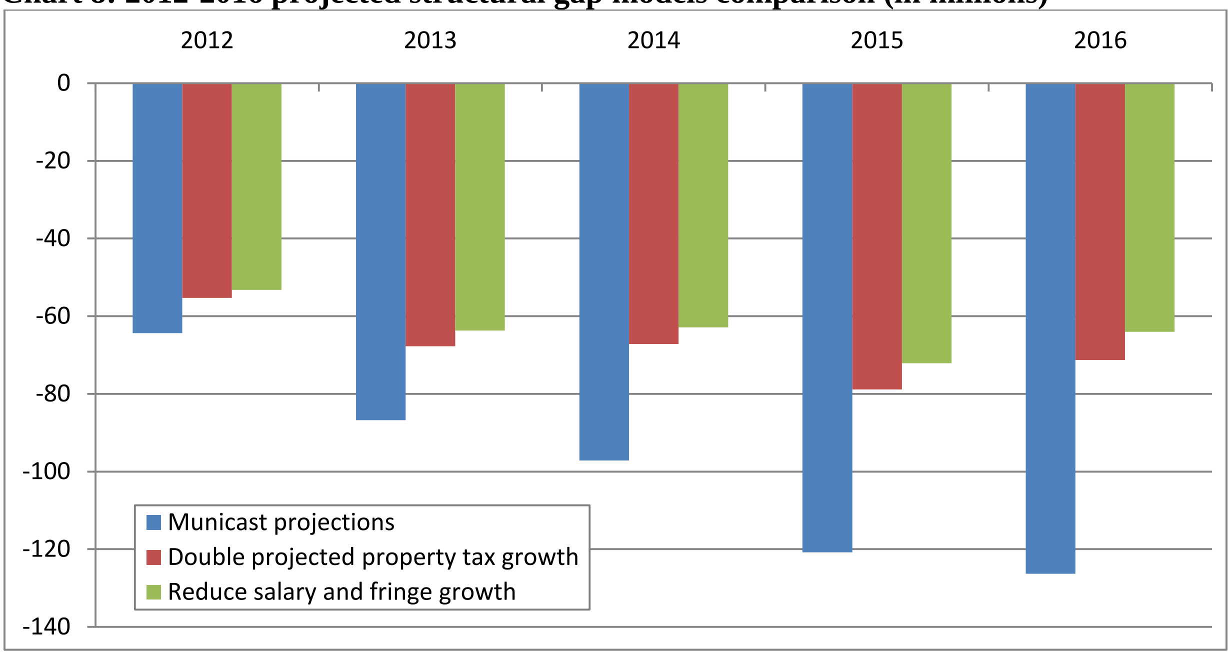
	2012	2013	2014	2015	2016	5-YEAR GROWTH RATE	AVERAGE ANNUAL GROWTH RATE
EXPENDITURES							
Salary	272,045,746	277,698,554	283,473,074	289,371,874	295,397,578	8.6%	2.1%
Healthcare	155,929,670	166,454,923	177,690,630	189,684,747	202,488,468	29.9%	6.8%
Pension	77,547,688	83,798,769	84,941,150	91,770,258	93,505,358	20.6%	5.8%
Other	868,229,449	918,655,239	965,336,104	1,022,561,802	1,071,600,351	23.4%	5.3%
Total	**1,373,752,553**	**1,446,607,485**	**1,511,440,958**	**1,593,388,681**	**1,662,991,755**	**21.1%**	**4.9%**
REVENUES							
Property tax	283,896,482	293,265,066	302,942,813	312,939,926	323,266,944	13.9%	3.3%
Sales tax	68,537,224	70,182,117	71,866,488	73,591,284	75,357,474	10.0%	2.4%
State shared taxes	37,872,201	37,872,201	37,872,201	37,872,201	37,872,201	0.0%	0.0%
Other	930,184,281	981,610,314	1,035,852,448	1,096,883,071	1,162,461,238	25.0%	5.6%
Total	**1,320,490,188**	**1,382,929,699**	**1,448,533,950**	**1,521,286,481**	**1,598,957,858**	**21.1%**	**4.8%**
STRUCTURAL DEFICIT	**(53,262,365)**	**(63,677,786)**	**(62,907,008)**	**(72,102,200)**	**(64,033,897)**	**20.2%**	**6.5%**

As shown in **Table 8**, if county policymakers decided that in order to address the long-term structural imbalance and prevent the erosion of services it was necessary to commit to a 6.6% increase in property taxes for each year of the 2012-2016 period, then the structural gap would shrink somewhat but still would not be bridged. The gap would peak at $78.9 million in 2015 (as opposed to $126.3 million in 2016 per the latest forecast), before beginning to diminish in 2016.

Meanwhile, as shown in **Table 9**, if county policymakers were able to moderate the projected growth of salary, health care and pension fund expenditures by a substantial amount – a strategy that could be dependent upon an agreement with county labor unions and/or a victory in arbitration – the structural gap similarly would not be eliminated. In this case, it would peak at $72 million in 2015 before beginning to diminish in 2016.

Chart 8 compares the 2012-2016 projected structural gaps in the latest Municast forecast with those developed under our two models. The inescapable conclusion of this modeling exercise – and a key theme of this report – is that the county's long-term structural deficit is of sufficient severity that it is difficult to imagine bridging it with a strategy that relies on a solitary approach of raising revenues or cutting wages and benefits. Likewise, an approach that does not accommodate the reality that substantial changes in county operations are necessary is likely to result in continued significant fiscal imbalance that will worsen with each successive year.

Chart 8: 2012-2016 projected structural gap models comparison (in millions)



OBSERVATIONS AND CONCLUSIONS

The three distinct 2011 county budget models – coupled with analysis of Milwaukee County's five-year fiscal outlook – are intended to illustrate the types of difficult decisions that will confront Milwaukee County elected leaders during the next four months and well into the future. However, while this report may be viewed largely as a modeling exercise, it also provides some important insights for policymakers and citizens as they consider Milwaukee County's short-term and long-term budget predicament. Those include the following:

- Milwaukee County clearly is running out of cost-cutting options to bridge its annual budget gap despite its recent signs of progress. Several successive years of trimming staff and expenditures in discretionary and administrative functions have left little to cut in those areas. Consequently, if a substantial annual structural gap continues to be the norm, the county soon may be required to eliminate entire sets of discretionary programs and services (including potential closure of some parks, cultural and recreational facilities) unless it somehow can identify ways to dramatically reduce expenditures in mandated areas while continuing to meet its legally required obligations.

- On the revenue side, the county has very little flexibility to address its structural deficit beyond the property tax, as state authorization is required for its consideration of a sales tax increase or increases in most other broad-based taxes or fees. One exception is the vehicle registration fee (i.e. wheel tax), which could be used to generate additional revenue for the Milwaukee County Transit System or other transportation needs, and which also could serve as a means of diversifying the county's revenue base.

- In the near term, the ability of elected leaders to choose options from *each* of the three models could enable them to limit the most serious impacts to services and taxpayers that would occur if any one model were used exclusively. For example, an approach in which one-third of the savings required to bridge the projected 2011 budget gap were identified from each of the three models may not look devastating "on paper." It is critical to note, however, that county departments have been required to absorb huge fringe benefit increases and other "costs to continue" for years, leaving many unable to absorb even seemingly minimal budget cuts (such as a 2% reduction in positions) without eliminating entire segments of service. It also is critical to note that if annual budget gaps similar to those experienced during the past seven years continue to be experienced in the *next* four or five years, then virtually all of the options described in the three models *will* need to be considered.

- As the county struggles once again to accommodate a \$20-\$45 million budget gap in 2011, attention necessarily will focus on the type of budget-cutting and revenue-raising options already outlined by DAS and described in this report. Largely absent from the conversation, however, will be the county's lack of wherewithal to address longstanding issues such as capital and maintenance needs in its parks, a gaping structural hole in its transit budget (which will reappear after federal stimulus funds are exhausted), and a series of concerns at its mental health complex. Indeed, one of the most disconcerting elements of the county's annual budget struggles has been its inability to focus on solutions to these and other long-term problems that may require *increased* investment or creative new approaches to management.

If nothing else, it is our hope that this report provides impetus for county policymakers and civic leaders to continue their recent focus on long-term solutions that will bring Milwaukee County's financial situation back into balance. As noted in the Introduction, the nature of the county's structural deficit could be dramatically changed by certain far-reaching developments, such as state authorization for increased sales tax authority; agreement with its labor unions on significant changes to pension and health care benefits; increased state allocations for mandated services; and/or a decision to sell or lease major assets. As we have suggested in previous reports, it is highly unlikely that any one of these developments would resolve the county's structural budget issues, but a balanced approach encompassing all of these options could be the best mechanism for addressing the county's long-term financial woes.