

**BUDGET BRIEF:**  
MILWAUKEE COUNTY  
2012 EXECUTIVE BUDGET

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## INTRODUCTION

In a series of budget briefs and reports produced during the past three years, the Public Policy Forum consistently has urged Milwaukee County's leaders to recognize the structural nature and depth of their fiscal problems and to develop a strategic approach to address them. As we put it in our March 2009 assessment of the county's fiscal condition ("Crisis on the Horizon"):

*The natural inclination of elected officials is to address annual budget issues with short-term solutions that do not solve structural problems, but simply put them off to the next budget. The magnitude of the county's long-term liabilities – combined with the deep budget cuts in individual departments that already have occurred and a worsening short-term outlook caused by the national recession – strongly suggests that such an approach in Milwaukee County is no longer tenable.<sup>1</sup>*

When measured against those previous calls for strategic prioritization and structural solutions, the county executive's 2012 recommended budget receives better than a passing grade. This is a budget that does not shy away from difficult spending cuts, ranging from elimination of support for the Emergency Medical Services (EMS) program and local arts groups; to substantial reductions in the Office of the Sheriff; to another sweeping call for health care savings from county workers. And, while the programmatic impacts and consequences of those decisions – and dozens of smaller budget cuts – must be carefully deliberated, the county executive and his budget staff deserve credit for recognizing the need to cut *somewhere*, and for mostly avoiding the use of short-term or precarious fixes for problems that are deep-seated and long-term in nature.

Despite these positive strides to address the county's structural imbalance, however, there is still much work to be done. In particular, the use of reprogrammed federal funds to avert substantial bus service reductions is a two-year solution at best, and it is questionable how much longer county leaders will be able to rely on wage freezes and health care cuts as primary budget-balancing tools. The county's glaring lack of reserves – an issue exacerbated by a recommendation to diminish its contingency fund – also gives pause to any notion that it has fully reconciled its fiscal shortcomings, or that 2012 will be the first year in recent memory devoid of the need to debate mid-year corrective actions.

In the pages that follow, we provide greater detail and analysis of the recommended budget's priorities and key features mentioned above, as well as other elements that speak to the county's long-term financial health. It is our hope that this analysis will be widely read by county supervisors, county employees, advocacy groups, taxpayers, and citizens, and that its insights will contribute to a more objective and informed 2012 budget debate.

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<sup>1</sup> <http://www.publicpolicyforum.org/pdfs/MilwaukeeCountyFiscalCondition.pdf>.

## BRIDGING THE 2011 STRUCTURAL GAP

In our August 2011 report previewing the 2012 budget,<sup>2</sup> we provided perspective on the roots of the county's longstanding structural deficit, linking it largely to the imbalance between the county's growing retirement costs and flat state and local revenue streams. We also discussed the opportunities and challenges created by the state budget repair bill and 2011-13 state budget, and the specific revenue and expenditure items that had led the county's Department of Administrative Services (DAS) to project a \$55 million gap heading into 2012.

**Table 1** catalogues some of the major structural, programmatic and state budget-imposed challenges that comprised the bulk of the county's 2012 budget gap. It should be noted that this is not an exhaustive list of the county's 2012 budget challenges and that it differs in minor respects from the list compiled by DAS.

**Table 1: Significant 2012 budget challenges**

Budget Challenge	Resulting expenditure increase/ revenue decrease
Transit: Loss of state & unrealized revenues <sup>3</sup>	\$9.3 million revenue decrease
Debt service	\$8.7 million expenditure increase
State shared revenue	\$8.3 million revenue decrease
Income Maintenance legacy costs <sup>4</sup>	\$4.9 million revenue decrease
Surplus/Deficit	\$4.4 million revenue decrease
Behavioral Health Division staffing/operational needs	\$3.5 million expenditure increase
Requests from public safety officials	\$2.9 million expenditure increase
Sales tax revenue	\$2.5 million revenue decrease
Transit: Increased fuel and other fixed costs	\$1.8 million expenditure increase
Deferred maintenance	\$1.5 million expenditure increase
Child Support revenue	\$1.2 million revenue decrease
Unclaimed money	\$1.1 million revenue decrease
Miscellaneous revenue reductions <sup>5</sup>	\$0.9 million revenue decrease
Zoo revenue shortfall	\$0.8 million revenue decrease
<b>Total</b>	<b>\$51.8 million budget hole</b>

Source: Milwaukee County Department of Administrative Services

This breakdown shows that a substantial portion of the 2012 budget gap is attributed to state budget actions that impacted transit, state shared revenue, Income Maintenance workers, and child support enforcement. Other factors included a projected increase in debt service (caused mainly by the loss of certain offsetting revenues in the county's debt service account) and the need to reconcile programmatic needs in areas like behavioral health, deferred maintenance and

<sup>2</sup> The report is available at <http://www.publicpolicyforum.org/pdfs/MilwCo2012BudgetPreview.pdf>.

<sup>3</sup> Consists of \$10.7 million in state/other revenue reductions offset by \$1.4 million of increased paratransit revenue.

<sup>4</sup> Because of a 2011-13 state budget provision that transfers hundreds of county Income Maintenance workers to the state payroll, the county no longer will receive state reimbursement for pension and retiree health care benefits earned by those workers.

<sup>5</sup> Includes projected reductions in power plant and Potawatomi revenue and earnings on investments.

the zoo. The budget gap also was negatively impacted by the county's break-even status in 2010, which compared unfavorably to the \$4.4 million surplus achieved in 2009.<sup>6</sup>

Those challenges were overcome in the 2012 recommended budget by a series of expenditure reductions, revenue increases and programmatic strategies, the most comprehensive of which are catalogued in **Table 2**. Again, while these savings items and amounts are based on information provided by DAS, this list does not include all budgetary savings in the 2012 recommended budget and differs in minor respects from DAS' list.

**Table 2: Significant 2012 budget savings**

Budget Reduction	Tax Levy Expenditure Decrease/Revenue Increase
Health care & pension changes	\$25.5 million expenditure decrease
Sheriff budget cuts	\$11.0 million expenditure decrease <sup>7</sup>
Assumed federal funds for transit	\$7.7 million revenue increase
Contingency Fund reduction	\$4.4 million expenditure decrease
Revised Doyne Hospital revenue assumption	\$3.7 million revenue increase
Elimination of EMS supplemental payment	\$3.0 million expenditure decrease
Parks Department position reductions	\$2.7 million expenditure decrease
Revised sales tax revenue assumption	\$2.0 million revenue increase
Freeze in step increases for represented employees	\$2.4 million expenditure decrease
Fire protection charge to County Grounds tenants	\$1.1 million revenue increase
Reduction in support for cultural entities	\$0.9 million expenditure decrease
<b>Total</b>	<b>\$64.4 million budget savings</b>

Source: Milwaukee County Department of Administrative Services

**Table 2** shows that the county executive and his budget staff were able to identify savings that exceeded the size of the original gap, thus enabling them to direct additional resources into several priority areas. Those areas include the following:

- **Behavioral Health Division (BHD)**, which received more than \$3 million in additional funds for enhanced community-based services and other strategies that align with recommendations made by recent consultant and work group reports. The division also was granted additional dollars to help fill longstanding revenue holes and meet staffing needs.
- **Courts Pre-Trial Services**, which received \$1 million to implement universal screening, a strategy intended to provide better information to judges and district attorneys on the characteristics and risks associated with detainees upon their intake into the justice system. This approach is expected to allow judges and prosecutors to divert additional individuals into treatment programs and deferred prosecution, thus avoiding costly incarceration.
- **Child Support Enforcement**, which received funding sufficient to restore 18 of 28 positions originally scheduled for abolishment due to state budget reductions.

<sup>6</sup> Per county ordinances, any budget surplus or deficit achieved in a given year is reflected in the budget in the year following its discovery.

<sup>7</sup> This figure differs from the \$14.4 million property tax levy reduction in the sheriff's budget cited in the budget document and later in this report because the \$14.4 million also includes the impacts of fringe benefit changes and step increases. Those impacts are cited separately in this table.

- **Economic Development**, which would become a new and expanded division in 2012 equipped with a new economic development tool: a revolving loan fund financed with a share of county land sale revenue that will be used to make loans to small businesses.

In addition, several human services functions – including the Department on Aging, the Disabilities Services Division and the Housing Division – do not receive notable increases, but are largely spared from the types of reductions experienced in previous years and anticipated this year in light of the county’s budget gap.

**Collectively, the strategies used to fill and exceed the gap, and the manner in which “surplus” resources are reallocated, reflect the new administration’s clear strategic priorities. Social service, transit and several quality of life programs are largely preserved or expanded, at the expense of “discretionary” public safety services and previous levels of health care benefits enjoyed by county employees.**

The latter move reflects the county executive’s willingness to take full advantage of one of the critical “tools” provided by the budget repair bill: the opportunity to unilaterally modify health care plan design and benefits outside of collective bargaining. In fact, as shown in **Table 2**, the county executive uses budget repair bill tools to offset \$25.5 million of the \$28.7 million loss in state revenue from the latest state budget.<sup>8</sup> While the difference of \$3.2 million exacerbated the county’s 2012 budget challenges, the county executive’s ability to bridge much of the gap supports the notion that budget repair bill tools – whether fair or not – do provide local governments with an opportunity to offset state budget impacts.

The following provides further analysis of the major strategies used by the county executive and his budget team to bridge the 2012 gap and carve out additional resources to support his clearly established priorities.

### **Health care, pension and wage adjustments**

- Pension fund – The recommended budget includes \$9.2 million from employee contributions to the county pension fund, which are made possible by the state budget repair bill’s stipulation that non-public safety employees contribute one-half of the county’s actuarially required annual pension fund contribution. Based on a methodology recommended by the pension fund actuary, each impacted employee will contribute 4.7% of his or her salary in 2012, which is slightly higher than the 4% contribution included in the 2011 adopted budget.<sup>9</sup> The increased employee share – as well as a \$3.2 million reduction resulting from investment gains and plan modifications – nets the county a \$5.5 million savings in its pension fund payment for 2012.

It is important to note that the employee contribution could rise substantially in future years if, as expected, the county’s actuarially required contribution increases. Consequently, while

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<sup>8</sup> This savings is over and above the \$17.4 million in fringe benefit savings made possible by the budget repair bill that already were budgeted in 2011, as described in our August budget preview report.

<sup>9</sup> This requirement was phased in for non-represented employees and members of a few small county unions beginning in January 2011 but was not implemented for all county employees until effectuation of the budget repair bill in mid-summer, at which time the 4.7% contribution was used.

the employee contributions required by the budget repair bill are a critical budget-balancing tool for 2012, potential mandatory increases in future years could have an impact on the willingness of county officials to continue to employ other important tools, such as wage freezes and increases in health care contributions.

- **Health care contributions and plan design** – The recommended budget proposes plan changes, increased employee premium contributions, and other strategies that reduce overall health care spending by \$20 million from the 2011 budgeted amount (from \$131.6 million to \$111.6 million). **Table 3** shows the major health care savings strategies and the amount of savings generated by each. The total savings from these strategies exceeds the \$20 million in overall health care savings because the budget also takes into account a projected 9% (\$8.9 million) increase in the cost of basic health care, as well as other variances. The 9% increase, incidentally, is similar to the increase budgeted in previous years, but lower than the 12% suggested by the county’s health care consultant.

**Table 3: Major health care savings items in 2012 recommended budget**

Health Care Cost Reduction Strategy	Savings
Plan design changes	\$22.2 million
Medicare coordination change	\$ 5.7 million
Increased employee premium contributions	\$ 3.6 million
Reduction for IM/Child Care workers <sup>10</sup>	\$ 2.9 million
<b>Total</b>	<b>\$34.4 million budget savings</b>

Source: Milwaukee County Department of Administrative Services

As shown in **Table 3**, while much of the attention devoted to public sector health care benefits has focused on the amounts government workers contribute toward their health care premiums, the recommended budget generates the bulk of its 2012 health care savings from comprehensive changes to its health care plan design.<sup>11</sup> Currently, the county offers two health care plans to employees and retirees: an HMO option, which provides 100% coinsurance for most health care costs after an annual deductible; and a Preferred Provider Option (PPO), which provides 90% coinsurance for in-network providers. The recommended budget proposes only a PPO, with coinsurance reduced to 80% after an unchanged deductible. The new plan also increases various out-of-pocket co-payments and changes prescription drug procedures, though it softens the blow by proposing an automatic county contribution to employee Flexible Spending Accounts (FSAs) of \$500 for individuals and \$1,500 for families.

County policymakers already have engaged in spirited discussion regarding the equity of these changes, and whether the health care obligation that would be borne by county workers

<sup>10</sup> The county experiences reduced expenditures from no longer having to provide health insurance for hundreds of Income Maintenance and Child Care workers, as those functions have been transferred to state government. This is not a property tax levy savings, however, as the county previously was reimbursed by the state for those costs.

<sup>11</sup> That is not to say that the recommended premium contribution increases are insignificant. Employees will pay \$85 per month for single coverage and \$250 per month for family coverage, which is an increase from the \$75/\$150 currently paid by most workers.

under the redesigned plan and premium structure is comparable to that borne by other public sector and private sector workers. While such discussion is necessary and appropriate to gauge potential impacts on employee recruitment and retention, there should be little debate about the necessity of extracting additional substantial savings from the county's health care budget, both for the sake of balancing the budget in 2012 and for the sake of addressing the long-term structural deficit.

The health care changes proposed for 2012 offset nearly 40% of the projected \$55 million budget gap in 2012, and they are projected to reduce the county's estimated \$1.5 billion long-term retiree health care liability by more than \$230 million. In terms of equity, it should be noted that the county executive and his team devote considerable focus to plan changes that share the sacrifice with retirees, most of whom do not pay monthly premiums and, therefore, do not pay more for health care when the employee share of monthly premiums increases. Active employees also are impacted by those plan changes – such as decreased coinsurance and increased co-payments – but some relief is provided via the increased FSA contributions.

Another substantial retiree-related health care savings (\$5.7 million) involves a proposed change in the reimbursement methodology for those who also are covered by Medicare. For those retirees, the county provides coverage that is designed to fill the gap between that afforded by Medicare and that provided under the county plan. Nevertheless, according to the recommended budget, the county traditionally has paid the full difference between the cost of a medical procedure and the amount covered by Medicare, as opposed to the difference between the Medicare amount and the amount that would have been covered by the county plan. The recommended budget would shift the county to the latter approach.

This potential policy change first surfaced in a 2004 report by the county's audit department, but it was determined to be subject to collective bargaining and possible legal challenge, and thus not attempted previously. The amount of savings attributed to this change is difficult to forecast and would need to be closely monitored during 2012, but it appears this is another reasonable approach to share the burden of necessary health care benefit reductions with the retiree population, which traditionally has enjoyed extremely generous health care benefits.

- Employee wages – The recommended budget would eliminate any advancement within individual pay ranges – otherwise known as “step increases” – for most non-public safety workers represented by labor unions, for a savings of \$2.4 million. Step increases had been eliminated for non-represented workers in 2010 and 2011, but remained in place for most represented workers because of the need to collectively bargain such action. The recommended budget also declares the county's intent to extend the step increase freeze for represented workers for another year in 2013, so that a two-year freeze will be imposed on all workers to correspond with the treatment of non-represented employees.

The recommended budget includes no general wage increase for any county employees in 2012. Non-represented employees received a pair of 1% wage increases during 2011, in part to offset increased health care and pension contributions that were applied only to them for the first half of the year because of collective bargaining requirements. Small wage increases also were received by a limited number of county unions that reached labor agreements prior to effectuation of the budget repair bill. Members of the county's largest union – AFSCME District Council 48 – have not received a general wage increase since 2008.

## Reductions to Office of the Sheriff

Perhaps the most notable aspect of the recommended budget is its proposal to reduce property tax levy support for the Office of the Sheriff by \$14.4 million (10.9%). Given that the sheriff's budget contains 49% of the county's total property tax levy in 2011, it was inevitable that the sheriff's office would need to bear some of the burden of the county's necessary budget-cutting in 2012. Also, the fact that most pension and health care changes proposed for county workers do not apply to members of the deputy sheriffs' union increases the need for cost-cutting in other areas of the sheriff's budget. Still, given the office's Constitutional status and the traditional reluctance of county officials to reduce spending on public safety services, the magnitude of the reduction is striking.

In his budget speech, the county executive justified the reduction by citing a 62% increase in the sheriff's property tax levy since 2001 and the opportunity for renewed focus on "the statutory role of the sheriff...and redefining the services he provides to what is required in the statutes."

**Table 4** addresses the first part of that justification by honing in on a more recent snapshot. This table shows the last four years of actual property tax levy expenditures by the sheriff, as well as the 2011 budgeted levy and the amount recommended for 2012. In addition, it breaks out a key component of those expenditures – fringe benefits charges – in an attempt to determine the impact that growing countywide pension and health care costs had on the sheriff's levy allocations.

**Table 4: Sheriff property tax levy expenditures and fringe benefit costs, 2007-2012<sup>12</sup>**

	2007	2008	2009	2010	2011B	2012R
Property Tax	\$121,238,300	\$122,571,944	\$119,640,393	\$121,682,688	\$121,784,697	\$107,858,663
Fringe Benefits*	\$46,802,912	\$47,673,904	\$47,244,138	\$54,444,814	\$53,448,396	\$48,262,506

Source: County financial documents

\* Fringe benefit amounts are included in the property tax levy total

This information shows that the sheriff's property tax levy has remained largely stable during the past five years, while the amount of property tax levy allocated to the sheriff's budget for countywide fringe benefits has increased. Consequently, it can be concluded that the amount of levy spent on actual sheriff's programs and services has decreased during this period. On the other hand, other county departments also were required to absorb growing amounts of the county's escalating fringe benefit costs while their levy was *reduced*. It also could be argued that the sheriff's ability to weather this predicament has been greater than other departments given that the detention population has plummeted in recent years, which should result in reduced expenditures, as documented in a report released by the Forum in June.<sup>13</sup>

<sup>12</sup> This table adjusts property tax levy amounts produced by the county's financial system to account for the transfer of the former House of Correction to the sheriff's budget in 2009 and other changes in the county's financial methodologies during the time period.

<sup>13</sup> See <http://www.publicpolicyforum.org/pdfs/MilwaukeeCountyDetentionBrief.pdf>.

From a budgetary perspective, a more pertinent question is whether the magnitude of the recommended cuts threaten the sheriff's ability to carry out legally mandated services, such as the proper custodial care of inmates at county corrections facilities, patrol of Milwaukee County expressways, and provision of bailiff services to the courts. That question is important because such a threat might cause the sheriff's office to exceed its budgetary allocations in order to fulfill what the sheriff would deem to be his Constitutional responsibility to carry out the legally required duties of his office.

The county executive's budget speech and the budget narrative suggest such a threat would not exist. The budget prescribes several specific strategies to achieve the \$14.4 million in tax levy savings, most of which it suggests can be implemented without significant impact on the sheriff's core mandated responsibilities.

That logic clearly has merit in that the sheriff's office does conduct a series of activities and services that are not mandated by state law, including patrolling county parks and buses; performing certain investigative and drug enforcement services; running a "boot camp" program for certain inmates; and conducting community relations activities. In light of the county's structural hole, it is difficult to dispute the notion that those services must be on the county's list of potential service cuts to the same extent that other discretionary services – such as parks, culture and transit – make that list.

There are several nuances not explained in the budget narrative, however, that raise questions regarding the viability of some of the recommended budget-cutting strategies and whether, in fact, they can be accomplished without impacting core services. Those include the following:

- **Universal screening.** The budget eliminates one third of the "screening and release staff" in the jail (17 positions) because of the new universal screening program. The sheriff's office attests those positions actually are in the "booking" section of the jail, however, which ostensibly would not be impacted by universal screening because inmates would be screened after booking. The administration counters that the budget provides sufficient flexibility for the sheriff to determine how to implement staff reductions made possible by the initiative. It should be noted that there is a smaller, separate unit that "screens" inmates in order to make housing determinations. It is possible that unit would become duplicative with implementation of universal screening, but we noted in a 2008 analysis<sup>14</sup> that because the unit's screening responsibilities may not directly correspond to those associated with universal screening, eliminating all of those positions may not be possible.
- **General investigative services.** Citing the fact that only 19 felony offenses were prosecuted by the sheriff in 2009, the budget eliminates the 10-deputy General Investigative Services unit, with replacement by 8.5 full-time hourly sworn positions. According to the sheriff's office, however, that justification downplays the other mandated responsibilities performed by the unit, which include extraditions, evictions, warrants, and temporary restraining orders, and which also may not be conducive to use of hourly workers. In addition, greater analysis

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<sup>14</sup> This report, which also speaks to the general effectiveness of universal screening, is available at [http://milwaukee.gov/ImageLibrary/Groups/cjcouncil/PPF Universal Screening Research Summary July 08.pdf](http://milwaukee.gov/ImageLibrary/Groups/cjcouncil/PPF%20Universal%20Screening%20Research%20Summary%20July%2008.pdf)

may be warranted to determine whether there is a sufficient supply of sworn officers in the community seeking hourly employment to fulfill all of the enhanced responsibilities assigned to hourly deputies in the budget (which also include parks and transit patrol, bailiff, and relief for a variety of mandated functions).

- **Corrections staff restructuring.** The budget attributes \$3.4 million in savings to an initiative to accelerate the replacement of sworn deputies in the detention bureau with lower-paid corrections officers. As part of that initiative, funding also is eliminated for 19 correction officer lieutenant positions, which would appear to eliminate much of the supervisory capacity at the jail. The budget links this decision to the fact that 21 of those positions were vacant as of mid-September, but the sheriff's office says those vacancies were attributed to the fact that several soon-to-be-vacated deputy sheriff sergeant positions were still filled at the time.
- **Discipline Order Training Structure (DOTS).** The budget eliminates one staffing unit linked to the sheriff's DOTS program (also known as a "boot camp" program for inmates housed at the Franklin corrections facility), citing lack of performance-based evidence of the program's effectiveness. While that point may have credence, the sheriff's office argues that elimination of the DOTS cost center not only ends the program, but also wipes out the positions needed to maintain one entire dormitory at the Franklin facility. The budget already assumes five dorms will be closed in 2012, and barring continued reductions in the county's corrections population, it is questionable whether the DOTS participants could be absorbed in remaining dorms to accommodate closure of a sixth dorm.
- **Jail Processing Fee.** The budget establishes a new one-time processing fee of \$24 for certain sentenced inmates admitted to the jail to provide partial reimbursement for the cost of their incarceration. The budget notes that at least 27 counties charge such a fee, but the county's Corporation Counsel had previously advised that doing so in Milwaukee County may not be permitted under state law. A recent opinion from the new Corporation Counsel challenges that opinion, however. The budget anticipates that \$500,000 will be generated from the new fee.

The issues described above do not necessarily justify restoration of property tax levy funds to the sheriff's budget, nor should they temper praise for the commendable effort by the county executive and his budget staff to scrutinize the sheriff's budget for activities that are not required by state law and that may duplicate municipal police functions. Greater scrutiny is required, however, to determine whether it is possible to realize \$14.4 million in property tax levy savings via reductions in the sheriff's discretionary activities.

If that is not the case, then the sheriff's argument that he alone can decide whether to run a budget deficit in order to fulfill his legal responsibilities would carry greater weight. Given the county's depleted contingency fund (discussed in greater detail below), it would appear essential to fully understand the ramifications of such a scenario before the budget is adopted.

## **Emergency Medical Services supplemental payment**

Another contentious budget decision in the public safety realm is the recommendation to eliminate the county's longstanding \$3 million "supplemental payment" to municipalities that provide emergency medical services. The EMS system traditionally has been one of the region's best examples of intergovernmental cooperation and coordination, with the county providing (and funding) overall medical direction, communications, quality control and training, and municipal fire departments providing advanced life support services to county residents.

The program's financial structure has changed substantially over the past decade, but the \$3 million supplemental payment to municipalities has remained, despite the fact that municipal providers now collect and retain their own reimbursement revenue from insurance companies and individuals, and establish their own rates. While eliminating the supplemental payment, the recommended budget maintains about \$5 million of property tax levy funding to support EMS coordination, infrastructure and training.

It is important to note that neither the supplemental payment nor the appropriations for system infrastructure are mandated by state law. Paramedic services are a municipal responsibility, but they are coordinated in Milwaukee County on a countywide basis to ensure consistent service standards across municipal boundaries and reduce duplicative infrastructure. Consequently, a case could be made that all forms of paramedic spending by the county need to be on the potential chopping block, and that municipal leaders should be appreciative of the budget's continued support of system infrastructure, which allows them to avoid expenditures on items like medical direction and communications.

Conversely, some view the supplemental payment as the biggest incentive for municipal governments to take part in the countywide system, and it is possible that without it they may create alternative service delivery frameworks that will produce greater fragmentation and inefficiency. The irony, in that case, is that the county might then reap additional savings from this fragmentation by being able to reduce or eliminate its overall system support.

## **Assumed federal funds for transit**

The recommended budget averts major service reductions and fare increases for fixed route transit service largely because of an assumption that most of the county's request for reprogrammed federal Congestion Mitigation and Air Quality (CMAQ) funds will be granted by state and federal officials. Those funds would be used in 2012, 2013 and the first month of 2014 to support new express bus service designed to meet the federal CMAQ criteria for congestion mitigation and air quality improvements. Doing so would allow the county to reduce local service along the new express routes, thus enabling it to shift property tax levy supporting that service to other routes that otherwise would have been cut.

The county has applied for two sources of CMAQ funding: \$15 million from a pool of funds now available because of the demise of the KRM commuter rail proposal; and \$6.4 million originally designated for a Bus Rapid Transit (BRT) plan, which the administration has indicated it is not interested in pursuing. Because the BRT funds already have been earmarked for

Milwaukee County, the budget assumes that request will be accepted in full. The budget also assumes that \$10.6 million of the \$15 million request for KRM funds will be granted.<sup>15</sup>

While budgeting substantial amounts of uncertain and unrealized revenue typically is a highly questionable budget practice, in this case there are several factors that mitigate the risk of doing so. The first is the relatively high level of certainty that the request regarding the \$6.4 million in BRT funds will be granted, given that those funds already were allocated to the county. There is less certainty regarding the KRM funds, but county officials are confident that officials at other levels of government will recognize the desirability of using a large share of those dollars to preserve vital bus routes in Milwaukee County. In addition, only two-thirds of the request is budgeted, and there will be time to deliberate an alternative course of action (if need be) before budget adoption, as the CMAQ decision is expected before the end of October.

As the county executive has acknowledged, even if the county is able to secure the CMAQ revenues and successfully implement the new express routes, this approach is only a stopgap that buys the county two years before substantial holes are likely to reappear in the transit budget. Clearly, a two-year reprieve is a far more attractive alternative than no reprieve at all, but this approach continues a decade-long trend of implementing short-term transit funding solutions that successfully delay the imposition of massive service cuts, but that also diminish the sense of urgency that may be needed to establish permanent solutions.

In addition, there should be little celebration among transit supporters for the sources of funding being used to obtain the reprieve. For years, such supporters have advocated for the addition of modern forms of rapid transit service to complement existing local and express bus service and attract new transit riders. It is ironic that the severe cuts in bus service feared by transit advocates for the past several years may only be avoided (for now) because of the demise of two proposals for enhanced mass transit that once held potential to broaden transit's appeal and possibly boost its long-term sustainability.

### **Quality of life programs and services**

The recommended budget's impact on the county's parks, recreation, and cultural services – often referred to as “quality of life services” – is difficult to pinpoint. Notable cuts in this area include elimination of the \$378,000 provided to the Milwaukee County Fund for the Arts (otherwise known as CAMPAC); a 15% reduction to several county-funded and county-owned cultural institutions, including the War Memorial Center (WMC), the Charles Allis/Villa Terrace museums, and the Marcus Center for the Performing Arts; and a significant reduction in seasonal workers and parks maintenance personnel in the Parks Department. Notably spared, however, are the Milwaukee County Zoo, which receives a \$520,000 property tax levy increase and fee increases to plug a longstanding revenue hole; and the Milwaukee Public Museum and UW-Extension, which are funded at 2011 levels.

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<sup>15</sup> Milwaukee County will be competing for those funds with transit systems from Kenosha and Racine. A request from the City of Milwaukee for about \$2 million from this pool to support its downtown streetcar was rejected.

The cuts to CAMPAC and the WMC appear to be the most consequential. CAMPAC supports dozens of local arts organizations through a matching grant program, as well as free performances in county parks and community cultural programs aimed at minority and underserved communities. The 2011 budget, in fact, cited the matching grant program as “critical to sustaining Milwaukee County’s arts organizations.” With regard to the WMC, a recent county audit found that its nonprofit board “has been unable to maintain the War Memorial facility at a desirable level with the public resources provided.”<sup>16</sup> While many of the unmet needs involve capital improvements, county support for WMC operations is critical for minor maintenance activities and support of its mission to honor veterans and promote the arts.

The Milwaukee County Parks Department, meanwhile, experiences a \$3.5 million property tax levy reduction, of which about \$2.6 million is attributed to expenditure reductions and \$846,000 to outside revenue increases. The expenditure reductions are primarily linked to two initiatives: a reduction of 43 seasonal staff (saving \$1.3 million), which the budget argues still will allow the department to maintain the average level of seasonal hours provided in previous years; and elimination of 15 “Park Maintenance Worker in Charge” positions, which are replaced by 15 regular maintenance worker positions that will work for the Highways Division in the winter and the Parks during the summer months (for a savings of \$469,000).

At first glance, those proposals appear to be creative strategies to generate needed budget savings without meaningfully impacting the condition of the parks. That may indeed be the case, but concern also may be generated by the fact that the park maintenance move leaves the department with considerable less maintenance capacity in the winter months, during which it still operates indoor recreational centers and various levels of outdoor activities.

In addition, the reduction of \$1.3 million for seasonal workers – coupled with the \$846,000 increase in departmental revenue – may be deemed problematic in light of the interplay between the two. Because of the volatility of parks revenue streams, many of which are weather-dependent, parks administrators often adjust seasonal staffing hours as a means of offsetting potential revenue deficits. The reduced level of funding for seasonal workers in the recommended budget will reduce their ability to do so, while the projected revenue increase creates additional risk of a mid-year revenue deficit.

Despite these concerns – and despite continued questions regarding the sufficiency of budgeted funds for maintenance activities throughout all of the parks and cultural institutions – it would be difficult to argue that the 2012 recommended budget has not prioritized preservation of the county’s quality of life programs and services. Taken together, the provision of additional tax levy funding for the Milwaukee County Zoo, preservation of funding for the Milwaukee Public Museum, and effort to limit Parks Department cuts to personnel changes that are not deemed impactful (while sparing the department from pool, golf and recreational facility closures), demonstrate resolve to maintain the county’s most heavily used recreational and cultural facilities at existing levels despite the county’s intense budget pressures.

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<sup>16</sup> The full audit report can be accessed at <http://county.milwaukee.gov/ImageLibrary/Groups/cntyAudit/2011reports/WarMemorialReportFINALSept2011.pdf>

## COUNTY RESERVES AND DEBT

The recommended budget makes changes to long-established county policies on reserves that help generate additional resources for priority programs, but that also may impact the county's wherewithal to address unanticipated revenue shortfalls or expenditure needs in 2012. The most obvious of those changes is a \$4 million reduction in property tax levy for the county's contingency fund, from \$5.4 million to \$1 million.<sup>17</sup>

Maintaining sufficient reserves is a commonly cited government finance best practice,<sup>18</sup> and the county adopted a policy several years ago that declared its intent to budget an annual contingency fund that is equivalent to 5% of operating revenues. **Table 5** shows that while the county has not come close to achieving that level of contingency funding during the past five years, the \$1 million recommended for 2012 would be considerably lower than budgeted appropriations in previous years.

**Table 5: Budgeted Milwaukee County contingency fund appropriations, 2008-2012**

	2008	2009	2010	2011	2012R
Contingency Fund appropriation	\$6,655,758	\$7,760,427	\$5,800,000	\$8,650,000	\$1,000,000

Source: 2012 Recommended Budget

The level of annual contingency needed by a government typically is premised on the volatility of its key revenue streams and the predictability of major expenditure components. In the case of Milwaukee County, both of those factors point to the need for a healthy contingency fund. Several of the county's revenue streams are quite unpredictable, like parks and zoo admissions, which are weather-dependent; BHD Medicaid revenue, which is dependent on patient volume and characteristics and actions by the state and federal governments; sales tax revenue, which is driven by economic conditions; and the county's annual lease payment from Froedtert Hospital, which is based on the hospital's net profit and has varied widely from year to year (and which is budgeted well above the five-year average in 2012).

Meanwhile, several of the county's large expenditure components – like employee/retiree health care and corrections spending – can be influenced heavily by societal factors and must be budgeted based on a series of educated assumptions. In 2012, as discussed above, there may be even more risk in those areas because of the vast health care plan design changes (both from the standpoint of difficult-to-forecast savings and the threat of costly legal challenge) and the variety of circumstances surrounding the sheriff's budget. Also, juvenile corrections populations have seen remarkable decreases in recent years, but that area of the budget tends to be cyclical and may be impacted by recent high-profile juvenile crime incidents.

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<sup>17</sup> In 2011, \$3.25 million of non-property tax revenue also was earmarked to the fund, of which \$1.75 million materialized.

<sup>18</sup> For example, the Government Finance Officers Association maintains a best practice on appropriate reserve levels that urges governments to “maintain adequate levels of fund balance to mitigate current and future risks (e.g. revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates.” See [http://www.gfoa.org/downloads/AppropriateLevelUnrestrictedFundBalanceGeneralFund\\_BestPractice.pdf](http://www.gfoa.org/downloads/AppropriateLevelUnrestrictedFundBalanceGeneralFund_BestPractice.pdf).

The contingency fund also is affected by the budget's termination of a policy under which any unbudgeted land sale revenue received during the course of the year is transferred to the fund. Instead, unbudgeted land sale revenue would be evenly split between the county's Debt Service Reserve (DSR) and a new economic development revolving loan fund for small businesses. The loan fund revenue allocation would be capped at \$5 million each year, after which 100% of land sale proceeds would flow to the DSR.

The DSR is the county's only real source of ongoing reserves,<sup>19</sup> and it has typically been the recipient of unanticipated revenues only when it is determined they are not needed to balance the budget in the year in which they are realized. The most common use of the DSR – which also receives unanticipated excess bond proceeds – is to reduce the amount of property tax levy needed to service the county's long-term debt in annual budgets.

In addition to the new policy on land sales, the recommended budget modifies the function of the DSR by creating a new Debt Retirement Program. An appropriation of \$1 million is provided to initiate the program, which will entail the use of property tax levy to retire debt, thus eliminating future interest payments on that debt and reducing the county's long-term debt obligations. The budget also specifies that the unbudgeted land sale revenue earmarked for the DSR specifically be used to retire debt.

The Debt Retirement Program certainly is commendable for its well-intended effort to gradually reduce annual debt service payments and eliminate interest costs, thus alleviating some of the fierce pressure on the county's operating budget. In this case, however, policymakers should keep in mind the fact that 1) the county has traditionally received praise from ratings agencies for its rapid debt repayment and affordable levels of long-term debt; and 2) tax-supported debt service payments were expected to decline dramatically anyway by 2015 (to approximately \$46 million from today's \$59 million) even before the creation of the Debt Retirement Program. Consequently, policymakers may wish to consider the relative merits of both the \$1 million debt retirement appropriation and the diversion of up to \$5 million in land sales to a new loan fund versus a better-funded contingency fund.

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<sup>19</sup> Unlike the City of Milwaukee, Milwaukee County does not possess a Tax Stabilization Fund or a Pension Reserve Fund, which provide measures of long-term stability.

## A BALANCED APPROACH?

In the Forum’s 2012 Milwaukee County Budget Preview report, we presented several broad scenarios for tackling the county’s budget gap, as well as a “balanced approach” that we noted might have “the best chance of effectively bridging the gap in the near term while avoiding the worst consequences that would occur if any one or two approaches were used exclusively.”

**Table 6** summarizes the hypothetical balanced approach presented in the report, which uses a roughly equivalent mix of health care benefit reductions, expenditure cuts (in the form of personnel actions and cuts in non-mandated contractual services), and revenue enhancements.

**Table 6: 2012 Budget Preview Report hypothetical balanced approach**

Deficit Reduction Strategy	Savings
Health care changes	\$8.1 million
Position-related actions (cut 25% of vacant positions and 1% across-the-board cut)	\$11.2 million
Non-mandated contractual reductions (e.g. EMS, transit, cultural entities)	\$8.5 million
Revenue enhancements (1.8% property tax increase & \$10 wheel tax)	\$10.2 million
<b>Total</b>	<b>\$38.0 million</b>

In **Table 7**, we break down the major deficit reduction strategies used in the recommended budget under the same broad categories we used in August, thus shedding insight on whether the approach taken in the recommended budget is reflective of a “balanced” approach as we have defined it. The total amount of savings needed to bridge the gap in **Table 7** is greater than the amount in **Table 6** because of DAS’ slightly different perspective on the size of the 2012 gap, plus the county executive’s decision to generate additional savings to add funding to priority areas.

**Table 7: 2012 Recommended Budget deficit reduction by category**

Deficit Reduction Strategy	Savngs
Health care changes	\$20.0 million
Position-related actions (sheriff & parks FTE reductions, freeze on step increases)	\$16.1 million
Non-mandated contractual reductions (EMS, cultural entities)	\$3.9 million
Revenue enhancements (CMAQ, fire protection, paratransit fares)	\$9.9 million
<b>Total</b>	<b>\$49.9 million</b>

Source: Milwaukee County Department of Administrative Services

This analysis shows that while the tactics utilized within each deficit reduction category differ from our hypothetical approach, the recommended budget generally adheres to a mix of increased health care cost-sharing from employees and retirees, expenditure reductions linked to county positions and non-mandated contractual services, and enhanced revenues. Differences occur in the recommended budget’s far greater use of health care savings (40% vs. 21%), and its slightly reduced use of revenue enhancements (20% vs. 27%). Also, the mix of expenditure reductions in the recommended budget is more tilted toward position-related actions than reductions in non-mandated contractual services.

Another key distinction is in the specific revenue enhancement strategies used by the recommended budget. The budget refrains from increasing the county’s property tax levy or implementing a new vehicle registration fee, and instead uses CMAQ transit revenue, a new fire protection payment from County Grounds tenants, and a 38% increase in the paratransit fare as its primary means of enhancing revenues.

The desire to use those revenue sources to avert the need to raise taxes or broad-based fees in a struggling economy certainly is commendable, assuming the CMAQ revenue materializes. In light of the potential programmatic issues and consequences discussed throughout this report, however, as well as a one-time opportunity in 2012 for the county to increase the property tax levy above the percentage increase in new construction,<sup>20</sup> it also could be argued that modest additional tax revenue enhancements would be prudent in 2012 to maintain sufficient reserves and place the county on firmer financial footing for the future.

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<sup>20</sup> Nuances in the formula used to determine the county's state-imposed property tax limit provide the county with an opportunity to increase the property tax levy by approximately \$15.7 million (5.7%) in 2012, according to a county board staff report. In 2013, the limit will return to that prescribed by the 2011-13 state budget, which is the greater of zero or the percentage increase in net new construction from the previous year. Had that limit been in place in 2012, then the county would have been allowed only about a 0.4% increase.

## CONCLUSION

Since at least 1996 – when a blue ribbon commission warned of financial “ticking time bombs” that threatened the county’s future – Milwaukee County leaders have failed to reach consensus on a long-term fiscal solvency plan, relying instead on short-term fixes to balance the annual budget. There have been glimmers of notable progress in recent years, such as successful efforts to limit the growth of health care expenditures and reduce pension benefits for new employees. For the most part, however, policymakers have shied away from establishing true spending priorities, and from admitting that the government’s revenue challenges and fixed liabilities require it to re-examine its capacity to maintain its broad array of programs, services and capital assets.

The 2012 Recommended Budget provides a blueprint to alter that dynamic. The county executive has established a clear set of priorities, emphasizing preservation of the county’s health and human services, transit system, and parks and cultural amenities, while declaring that discretionary public safety services must be reduced, and county employees and retirees must be asked to pay even more for their health care benefits.

As has been emphasized throughout this report, debate should occur about the priorities selected in the recommended budget, and about the viability of certain strategies cited to implement those priorities. In addition, given the state of county reserves and the fact that even these difficult decisions only move the county partway toward long-term structural balance, careful deliberation must take place regarding the appropriate mix of revenue enhancements and spending cuts for 2012. Nevertheless, the county executive and his budget team deserve credit for proposing difficult reductions and largely avoiding short-term gimmicks, and it is imperative for the county board to do likewise even as it may modify those decisions and establish its own priorities.

Milwaukee County’s structural deficit has been built over several years, and it likely will take several more years, many more difficult decisions, and a helping hand from state government to restore long-term balance. The county executive’s 2012 recommended budget moves the conversation in the right direction, and its emphasis on setting the county on a sustainable long-term path should be preserved.