

SHOULD IT STAY OR SHOULD IT GO?

*Exploring the potential for structural reform in
Milwaukee County government*



EXECUTIVE SUMMARY

January 2010

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Milwaukee County government faces immediate and substantial fiscal and programmatic challenges. A combination of stagnant state and local revenues, skyrocketing pension and health care obligations, and several successive years of severe budgetary stress have left it weakened in virtually all areas. Meanwhile, as its fiscal pressures worsen and its service levels erode, it operates with no long-range plan for digging its way out.

The urgency of this matter cannot be overstated. The county's structural deficit – defined as the gap between expenditure needs and anticipated revenues – is projected to grow from \$48 million in 2011 to more than \$106 million by 2014, despite several successive years of significant expenditure and staff reductions and anticipation of significant wage and benefit concessions in 2010. This projection is the clearest indication yet that the county's finances are crumbling and that valued services in areas like parks, transit, mental health and public safety face severe degradation without prompt and concerted action.

This action could take any of several forms, including the complete elimination of Milwaukee County government. This report, commissioned by the Greater Milwaukee Committee, provides detailed analysis and perspective on the complex issues surrounding that option, as well as other potential structural changes. Among other things, it explores the legal and logistical challenges involved with eliminating a \$1.4 billion government with 5,500 full-time employees; alternative administrative structures used by other metropolitan areas to deliver services now housed in Milwaukee County; and whether radical restructuring would save taxpayer dollars and improve service quality.

The report begins by quantifying and analyzing perhaps the largest component of Milwaukee County's budget difficulties: its pension and health care obligations to its retirees, also known as "legacy costs." Next, it analyzes the budgets of each of the critical functions of county government and potential alternative homes for each function. The report then models and analyzes what county government would look like under three different restructuring scenarios, including one in which Milwaukee County government is eliminated entirely. After a discussion of Massachusetts' experience with abolishing county governments, the report closes with a series of policy options.

The overall intent of this report is to provide community leaders and elected officials with a level of analysis that will allow them to reasonably debate whether downsizing or eliminating Milwaukee County government is a viable and desired option. For those who conclude that it is, this report offers a source of fiscal and policy analysis that can be utilized to contemplate legislative initiatives and resolve some of the complex issues we identify. For those who do not, this report provides further insight into the extent to which Milwaukee County government's overriding fiscal problems are negatively impacting its various functions, and highlights the need for immediate consideration of alternative strategies to address those problems.

SUMMARY OF KEY FINDINGS

- **Retiree fringe benefit liabilities are a legal obligation and must be financed regardless of any county governance change that may (or may not) be implemented.** The county's pension and health care expenditures nearly tripled during the first eight years of this decade, from \$67 million in 2000 to \$179 million in 2008. About 46% of those costs are "legacy costs" attributed to retirees. Retiree fringe benefit cost increases will continue to accumulate in future years, driven by unfunded pension liabilities and the rising cost of health care, and will continue to have a huge impact on county taxpayers for the foreseeable future. Prompt action is needed to isolate and control those costs.
- **The treatment of the county's fringe benefit obligations would be a key factor in reorganization deliberations.** If consensus was achieved to remove certain functions from Milwaukee County government, the magnitude of the retiree legacy liabilities attached to such functions makes it unlikely that any other government would readily accept them. Moving those functions to another government while leaving their associated legacy liabilities with the county, however, could result in a much smaller county government even less capable of affording its legacy-related costs.
- **Milwaukee County operates a vast array of diverse programs that must compete for a shrinking set of resources.** Milwaukee County was created as an "administrative arm" to manage programs locally on behalf of the state, but it has taken on significant discretionary programs over the years. This creates a level of competition for county taxpayer resources among diverse programs that is somewhat unique and that perhaps was not intended by those who founded Milwaukee County's current governance structure.
- **Transferring functions like parks and transit to special districts with a dedicated funding source would enhance funding stability but also would produce new government bodies with their own funding demands.** In other states, the primary rationale for creating special districts has been to provide services more effectively at a regional level and/or to prevent certain services from being negatively affected by the budget difficulties facing a municipal or county government. Before taking a similar approach, Milwaukee County citizens should weigh the potential for stable funding and better quality versus the creation of new, independent government bodies that claim a share of taxpayer resources. Citizens also should weigh the potential benefits of creating a streamlined county government that is able to focus solely on its mandated services.
- **Potential savings associated with government restructuring are difficult to measure precisely but merit further exploration.** Restructuring could produce several sources of potential savings that could not be quantified in this report. Those include reduced overhead costs, proceeds from liquidating unneeded buildings and equipment, and the opportunity to negotiate lower wage and benefit costs. The report models three restructuring scenarios and reports savings that *can* be reliably estimated ranging from \$2 million to \$9.6 million annually. Restructuring also could produce new possibilities for funding the county's long-term liabilities if state elected officials create new funding sources for transferred functions while allowing existing county revenue streams to remain intact.

- **Massachusetts overcame similar (though much smaller-scale) complexities to eliminate several county governments** and could be a model for how such an endeavor might be undertaken in Milwaukee. The Massachusetts example also demonstrates the extraordinary amount of leadership, resources and attention that would be required by state government.

FRAMING THE ISSUES

County governments exist as creations of the State of Wisconsin. Unlike cities and villages, counties do not have constitutional “home rule” authority, which means they only may undertake functions expressly granted to them by state statutes. In fact, many consider counties “administrative arms of state government” that were designed by the state to administer local functions on its behalf, but not necessarily to do anything more.

Milwaukee County, of course, does *much* more, which is a reason for its unique nature and, arguably, its unique problems. A good deal of the public debate about Milwaukee County’s financial challenges, for example, has centered on the condition of its parks, cultural facilities and transit system – three functional areas that Milwaukee County government elected to assume with the permission of state government, but not at its behest.

A FUNCTION-BY-FUNCTION REVIEW

With this perspective in mind, consideration of Milwaukee County’s governance structure should start with an analysis of each major county function. This approach includes exploration of why the county is performing the function; how the function is administered in other metropolitan areas; whether transferring it to a different government body is logistically and politically viable; and whether doing so would improve its quality and cost effectiveness.

Our analysis indicates that many other metropolitan areas decided to consolidate services like parks, transit and human services at a regional or state level largely to secure financial and programmatic stability. A similar argument could be made for transferring those same types of services outside of Milwaukee County government, but citizens and policymakers must weigh the desire to secure stability for certain functions against any potential negatives associated with creating additional local governmental bodies or enhancing the role of the state.

We also find that the legal, logistical and political complexity associated with transferring certain functions outside of Milwaukee County government is significant. Complex issues that would need to be resolved range from legal and constitutional uncertainties, to the appropriate treatment of real property and debt, to dilemmas regarding cash flow and accounting. This suggests that any effort to dismantle Milwaukee County government needs to be addressed on a function-by-function basis and would require strong leadership at the state level.

EXPLORING THREE RESTRUCTURING SCENARIOS

Using the insights gained from the individual functional analyses, the report develops and provides a broad fiscal analysis of three alternative restructuring scenarios:

- The first scenario is the complete elimination of Milwaukee County government.
- The second scenario returns county government to its “roots,” consisting only of its constitutional and statutory mandates. The one exception is health and human services. While this is largely a mandated service, this scenario returns it to the state in recognition of the previous state takeover of several human service functions in Milwaukee County, and the rationale that it may be beneficial to have all human services in the county administered and coordinated by one governmental entity.
- The final scenario removes only the transit system, airport, parks and cultural facilities from county government. This scenario differs from the second scenario in that all existing health and human services functions remain with the county. The functions that are removed are not mandated and already have been subject to considerable discussion regarding new governance options. In addition, these are functions for which new regional approaches to governance may be most viable.

Using 2008 actual spending, the table below summarizes the three scenarios, while the diagram on the following page depicts the flow of county services to alternative government entities.

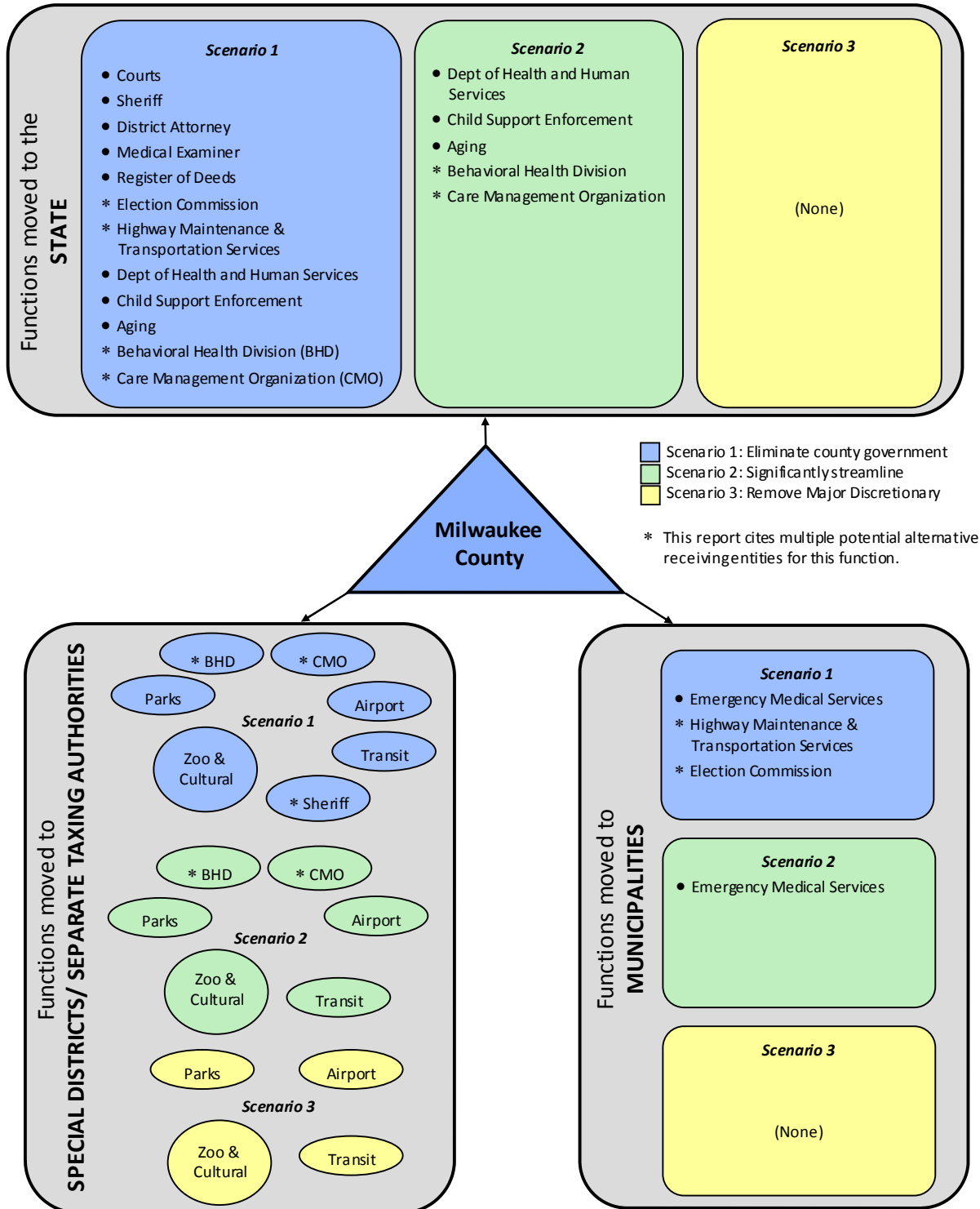
Summary of Three County Government Restructuring Scenarios

	Key functions removed	Estimated remaining expenditure budget	Estimated Remaining property tax levy*	Legacy costs as % of remaining tax levy	Estimated remaining full-time county employees
2008 County Government**	None	\$1,340,250,497	\$236,268,763	34.2%	5,707
Scenario 1 – Eliminate County Government	All	\$85,685,857	\$80,685,858	100.0%	0
Scenario 2 – Significantly Streamline	Parks, Culture, Airport, Transit, Human Services, CMO, Aging, Child Support Enforcement	\$370,377,101	\$104,423,293	77.3%	2,424
Scenario 3 – Remove Major Discretionary	Parks, Culture, Airport, Transit	\$1,014,430,758	\$181,790,833	44.4%	4,567

* Under each of the three scenarios, policymakers would need to determine whether and to what extent the existing .5% Milwaukee County sales tax would remain in place and continue to be utilized to offset debt service. That decision could significantly impact the property tax levy amounts shown for each scenario.

** 2008 expenditure totals do not include expenditures on the General Assistance Medical Program, as that program has since been eliminated and would no longer factor into this analysis.

Summary of Flow of Functions in Restructuring Scenarios



Note: As discussed in Section II of this report, an alternative to creating separate special districts for parks and zoo/cultural would be to create one special district for parks and cultural services. The same holds for the airport and transit system—those two functions could fall under one umbrella transportation district.

Determination of potential fiscal savings associated with each scenario is complicated by uncertainty regarding how alternative governing bodies would secure administrative services now provided by the county (e.g. accounting, human resources, information technology); whether they would utilize transferred county workers and be required to abide by existing labor agreements; whether they would utilize county buildings and equipment; and whether the function *now* has sufficient operating funds to fulfill its mission and responsibilities. The savings that *can* be reliably estimated are shown in the table below (based on 2008 actual expenditures).

Comparison of 2008 Levy Savings, Scenarios 1, 2 and 3

	Scenario 1: 2008 levy savings	Scenario 2: 2008 levy savings	Scenario 3: 2008 levy savings
County Executive	(\$831,826)	(\$656,711)	(\$284,628)
County Board	(\$5,459,700)	(\$4,438,180)	(\$1,669,370)
County Treasurer	(\$1,185,901)	--	--
County Clerk	(\$310,195)	--	--
Election Commission	(\$1,155,025)	--	--
Community Business Development Partners	(\$417,841)	--	--
Personnel Review Board	(\$171,347)	--	--
Civil Service Commission	(\$27,596)	--	--
Total	(\$9,559,432)	(\$5,094,891)	(\$1,953,999)

Insights derived from the modeling of these scenarios include the following:

- If county government is eliminated but legacy costs are not distributed to the governments that take over county functions, then about \$81 million in annual legacy costs would remain as a responsibility of county taxpayers. In addition, about \$5 million in annual debt service costs would remain for capital assets that could not logically be transferred to alternative governments. As a point of reference, we calculated what the 2008 impact of that combined \$86 million obligation would have been on the owner of a Milwaukee County home assessed at \$150,000, assuming that state government elected to assess the county's property taxpayers for those costs in the absence of county government. We found that this average homeowner would have seen a line item of \$197 on his or her property tax bill.
- A potential alternative might be to use revenues generated from the county's existing .5% sales tax to partially offset the \$86 million remaining cost. Based on our assumption that most debt service costs would be spread to receiving entities, if we also assume that those entities would pay for debt service out of new or existing revenue streams, then most of the \$65 million per year generated by the county sales tax could be utilized to offset the annual legacy payment, as opposed to its current use of paying for debt service on capital assets. That possibility, of course, would depend upon a decision by policymakers to leave the county sales tax in place even if county government no longer existed.
- Scenario 2 assumes a much smaller county expenditure budget (\$370 million as opposed to the current \$1.3 billion) with county board and county executive offices that are reduced by a similar proportion. This scenario would return Milwaukee County government to the

traditional role of “administrative arm” of state government, which could significantly reduce the politics and dissention that characterize Milwaukee County government today. It also could produce more accountability and better coordination of human services programs in the county by consolidating those programs under state leadership. The fact that the new county government would have a proportional legacy burden triple the size of the current liability is a significant challenge, however. Policymakers could continue using the property tax to fund that obligation, though that would produce a situation in which legacy costs would be equivalent to 77% of the county tax levy.

- Scenario 3 differs from Scenario 2 only in its assumption that current health and human services would remain with county government. Because that function comprises about 45% of the county expenditure budget, the overall county budget in Scenario 3 exceeds \$1 billion. Again, the size of the county board and county executive’s office is reduced in proportion to the reduction in overall county expenditures. Because the county’s severe financial challenges arguably have had the greatest negative impact on parks, culture and transit, there may be appeal in separating those functions from county government in order to eliminate their uphill struggle to compete for scarce resources. Also, as with Scenario 2, there may be logic to re-establishing the county’s focus on its mandates and to explore a regional approach to providing aviation, transit and parks/culture services. The legacy problem still would exist, with legacy costs equaling 44% of the county tax levy.

THE MASSACHUSETTS EXAMPLE

In the late 1990s, Massachusetts eliminated several of its county governments. While the Massachusetts example does not provide an exact parallel with the concept suggested for Milwaukee County because its counties had far fewer responsibilities to begin with, this example does offer several important insights into how a layer of government can be made to disappear.

Until 1997, Massachusetts had 14 county governments, whose primary role was to administer jails, health facilities, agricultural schools, registries of deeds and probate, courthouses, county roads and extension services. Several of these counties experienced fiscal problems and turned to the state for emergency assistance in the early 1990s. Middlesex County, the state’s largest with 1.4 million citizens, defaulted on \$4.6 million of hospital loans and teetered on the brink of bankruptcy.

In July 1997, the state abolished Middlesex County and set up a process to eliminate two more county governments within one year and all county governments within two years. The mechanics of the legislation provide interesting insights into how Wisconsin officials might approach some of the complexities related to a similar governance reform effort in Milwaukee County. For example:

- The Massachusetts secretary of administration created what essentially was a balance sheet in which liabilities of the former county government (including unfunded pension liabilities) were listed and valued on one side, and assets on the other. Upon determining the net cost to the state (i.e. the value of liabilities incurred in excess of assets obtained), the secretary developed a schedule under which the state would be fully reimbursed over a period of

several years via an assessment on taxpayers of the former county. This approach not only demonstrates how the state might play a leading role in taking over county functions without saddling itself with county costs, but it also provides insight into its potential ability to leverage unneeded county real estate assets to offset liabilities. A balance sheet approach should be considered regardless of whether county government is restructured or eliminated.

- Massachusetts implemented dual strategies for addressing pension-related issues: it moved those employees transferred to the state payroll to the state retirement system, and left the county retirement system in place to continue to serve retirees and inactive members. Again, this approach holds relevance for the Milwaukee County discussion whether or not the government is dismantled or streamlined. For example, there is logic that suggests *immediately* closing the county retirement system to new members and additional employee earnings. Under such an approach, all existing and future county employees would become members of the state retirement system and any future benefits earned would be at the level enjoyed by state employees.
- Another intriguing component of the Massachusetts approach was its mechanism to allow the cities and towns of counties whose governments had been eliminated to form regional councils of government to provide shared services. A key difference between a regional council of governments and a county government is that municipalities are able to “opt in” to have certain shared services performed by the regional council when such an approach makes sense for their budgets and communities. Such an approach might be warranted for several services in Milwaukee County, including public health, general road and street maintenance, housing, property assessment, economic development, and even special public safety services.
- A primary lesson learned is that undertaking a governance reform that is so complex and contentious requires resolute leadership from state government and a willingness by the state to devote considerable human resources and an up-front financial investment to the endeavor. In Milwaukee County, the current county executive has expressed support for abolishing county government, but the governor and legislative leaders thus far have been largely absent from any discussion about significant downsizing or outright elimination. The Massachusetts example teaches us that state elected officials not only would have to be *in* on the discussion, but they would have to *lead it*.

POLICY OPTIONS

Although governance reform promises to be highly complex and in need of strong state leadership, we urge local leaders not to abandon efforts to pursue comprehensive structural change in Milwaukee County government. The specific shape of such reform must weigh the findings contained in this report, but there are certain key decisions that require immediate consideration regardless of whether and what types of governance changes are pursued.

DECISION 1: The future of discretionary county programs

In light of the county's fiscal condition, it cannot continue to provide its major discretionary services at a level even approximating the expectations of users while also accommodating its growing legacy costs. Simply put, county government and its citizens are at a crossroads. They can choose to dramatically increase property tax levy support for parks, cultural and transit services; identify new sources of revenue to support those services; or accept a significant decline in their breadth and quality.

The debate over how to *pay* for discretionary functions also is an opportunity to consider whether it is appropriate to *remove* those functions from Milwaukee County government. This report shows there is not a clear-cut resolution to the issue of where to house the discretionary services. Transferring functions into special districts may not significantly reduce their costs, which means a value judgment must be made as to whether certain sets of services are sufficiently important to justify not only their own segregated funding sources, but also separate governance. Whether the services might be more effectively delivered on a multi-county regional basis also should factor into the equation.

From the perspective of Milwaukee County's larger fiscal challenges, another question emerges: Could a reduction in the size and scope of Milwaukee County government, while not solving its fiscal problems, produce less political and more professional governance that would lead to better planning and decision-making?

We have observed that other county and municipal governments in southeast Wisconsin generally function with greater focus and far less acrimony than Milwaukee County. Consequently, it is appropriate to consider whether a streamlined and restructured county government that focuses solely on its state mandates and that views itself as an administrative arm of the state would produce the more focused and professional approach to governance that is required to right the county's financial ship.

DECISION 2: How to address legacy costs

Milwaukee County leaders would be wise to consider a shift in philosophy and methodology with regard to legacy costs. That shift would reflect the fact that legacy costs are a legal obligation to past employees that must be met (notwithstanding reasonable efforts to reduce it), but that must not impact the effectiveness of government functions without consideration of programmatic needs and priorities. The following are different approaches state and county leaders might consider to help control legacy costs and achieve this shift:

- Closing the county pension system as of a date certain and shifting future costs and liabilities to the state system. This approach not only could produce long-term savings for the county, but it also could enable the county to finally get past its 2000-2001 pension scandal.
- Establishing a defined contribution plan (i.e. 401(k)-type approach) for new county employees and for future pension benefits earned by existing employees. Again, this might entail closing the existing pension fund and isolating and managing it under the existing or a

new management structure. A new defined contribution fund then could be established to manage employer and employee contributions under the new plan.

- Isolating the legacy share of its annual pension costs and determining how to address those costs centrally. This would help ensure that the county copes with legacy costs based on its priorities and its legal mandates, as opposed to allocating those costs to departments at the beginning of the budget process as if they were directly related to departmental operations.
- Isolating retiree health care costs and liabilities and addressing those costs centrally. In addition to producing the benefits cited above, separating retiree health costs from other health care costs would allow for the singular, priority focus they deserve and encourage consideration of long-term financing strategies.

Civic leaders also might consider enlisting the best legal, actuarial and employee benefits professionals from Milwaukee's private sector to form a new task force to assist the county in re-exploring possibilities for reducing its legacy costs.

DECISION 3: A plan for the county's physical assets and infrastructure

In light of the impact Milwaukee County's legacy costs are having on its fiscal health, it would be logical for it to consider how it might use its assets to offset its liabilities. That does not imply a "fire sale" of county property, but it does suggest the county needs to develop a strategic plan for its physical assets that takes into account its shrinking workforce and its severe operating challenges. Quite simply, county taxpayers and their elected officials need to determine the appropriate size of Milwaukee County government not only from an operational perspective, but also from a physical one.

The strategic plan could include examination of long-term leases of valuable assets to secure resources to pay down liabilities. A potential long-term lease of General Mitchell International Airport has received the most attention to date in light of its tremendous value, but the county also owns parking lots, a marina and other land and structures that could be contemplated for lease arrangements, provided that the operation of those assets for their established public purposes could be maintained appropriately. In addition, the county could contemplate the possibility of transferring ownership of cultural institutions to the non-profit organizations that administer them in order to relieve itself of major maintenance and capital improvement needs and/or to generate new revenues.

DECISION 4: Alternative approaches to government reorganization

While the Greater Milwaukee Committee commissioned this report to explore the possibility of downsizing or eliminating Milwaukee County government, other metropolitan areas have pursued different forms of governance change, including city-county consolidation and metro government. Detailed consideration of such alternative forms of governance also may be warranted in Milwaukee County.

Consideration also might be given to simply consolidating additional municipal functions at the county level without turning to a merger of governments. Such services logically might include public health, economic development, housing, property assessment and “back office” administrative functions such as information technology, property tax collection, debt issuance/management and procurement.

Ultimately, a top-to-bottom review of all municipal services should occur that is similar to that performed for county services in this report. That review should consider which services might be more efficiently provided at a regional or state level, and whether there is political will to include jurisdictions outside of Milwaukee County in the definition of “regional.”

CONCLUSION

Whether to embark on a lengthy process to streamline and potentially eliminate Milwaukee County government cannot be determined conclusively by research and fiscal analysis alone; that determination also requires value judgments as to the importance of various county services as well as to the leadership abilities of current and future county leaders.

In the end, there are no silver bullets that will magically solve the financial problems facing Milwaukee County government and relieve taxpayers from obligations already incurred. The depth of those problems and obligations, however, does create an imperative to consider how government structure influences fiscal health and impacts fiscal management and decision-making.

Please visit
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