

# **SECTION V**

## **FINDINGS AND POLICY OPTIONS**



## FINDINGS

As stated in the introduction, 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. The following is a brief summary of the report's major 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 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, profits 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. In particular, the county's .5% sales tax could be a funding contributor to its legacy obligations if it is no longer responsible for debt service on physical assets transferred to the state or special districts.

- **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.

## **POLICY OPTIONS**

While governance reform promises to be complicated and in need of strong state leadership, local leaders should not abandon efforts to pursue comprehensive structural change in Milwaukee County government. On the contrary, the county's fiscal condition demands consideration of structural change, though the specific shape of such change should weigh the findings contained in this report and needs to be addressed on a function-by-function basis.

In the meantime, a set of critical issues has emerged from this and previous Public Policy Forum analyses that require immediate decision-making regardless of whether and what type of governance changes are pursued.

### **DECISION 1: THE FUTURE OF DISCRETIONARY COUNTY PROGRAMS**

As far back as 1996, the Milwaukee County Commission for the 21<sup>st</sup> Century raised serious concern about Milwaukee County's ability to provide sufficient resources for services other than those specifically mandated by state government. Today, it could be argued that unsustainable budget strategies are the only means through which the county is able to provide its three major areas of property tax-funded discretionary services (parks, zoo/cultural facilities and transit).

Those strategies include depletion of reserves and deferral of bus purchases – combined with use of one-time stimulus funds – to temporarily avert a gaping structural deficit in the transit system budget; and enactment of sizeable property tax levy cuts and deferral of major maintenance in parks and cultural facilities, which cannot continue without causing severe degradation to those facilities. In addition, discretionary functions benefited from the downsizing and gradual elimination of GAMP – a fourth major discretionary program.

Now, having exhausted those strategies, and facing the likelihood of continued cuts or flat funding from the state for mandated programs, the county cannot continue to provide these discretionary services at a level even approximating the expectations of their 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 urgency of this situation obviously has not been lost on several county and state elected officials, who have been pushing for a dedicated sales tax for some or all of these functions. Nor has that urgency been lost on a majority of the county's voters, who supported an advisory referendum calling for a 1% sales tax for parks, culture, transit and Emergency Medical Services (with some offsetting property tax relief) in November 2008.

To date, however, the sales tax debate has largely ignored how a dedicated funding source for discretionary programs could impact the severe budget issues facing other county services. Indeed, how the nearly \$130 million in annual revenue from the proposed sales tax specifically would be allocated to the discretionary services for which it is intended – and how those specific uses would impact the county's larger fiscal issues – has not been discussed (see adjacent sidebar).

The decision on how to fund parks, cultural facilities and transit must be made soon, and should be considered in the larger context of how to address county government's overall fiscal challenges. At the same time, **it also could be the starting point for the necessary debate on the county's long-term governance structure.**

This report shows there is not a clear-cut resolution to the issue of where to house the discretionary functions. Transferring functions into special districts is not likely to significantly reduce their costs, which means a value judgment must be made as to whether certain sets of services are

## USING THE SALES TAX

While proposals for dedicated sales taxes have been debated in Madison and put to voters, specific details on how the dollars would be allocated, how they would be restricted, and how they potentially would be offset with property tax decreases have been lacking. Such details, however, may be critical to the county's larger fiscal issues, as illustrated by a hypothetical approach that could be taken with regard to a proposed half-cent sales tax for parks and culture.

As this report has discussed, the county assigns legacy costs to departments based on their number of active employees, as opposed to actual legacy costs associated with the retirees of that department. Debt service, meanwhile, is *not* charged to most individual departments, but is budgeted in a separate organizational unit. If, after adoption of a half-cent sales tax for parks and culture, the county elected to change its legacy methodology to charge departments based on their own retirees, and to use revenue from the new tax to pay for both legacy costs and parks and culture-related debt service, then more than a third of the estimated \$65 million in new revenue would be used up without paying for a single additional parks worker or repairing a single playground.

While such a scenario likely would not sit well with parks supporters, it might represent the optimal scenario for those who are most concerned with addressing the county's structural deficit. Indeed, the county's financial picture would benefit greatly from the above scenario, which could free up about \$5 million in property tax levy annually and nearly \$20 million of revenue from the county's existing half-cent sales tax to pay for other needs.

sufficiently important or distinct from the primary mission of county government 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, as should consideration of whether other counties have interest in such an approach.

From the perspective of the county's governance 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. Whether this greater cohesion and problem-solving capacity is linked to size and structure needs to be contemplated.

When we look at other county governments that do not administer transit systems, airports, comprehensive parks systems and regional cultural attractions – in other words, county governments whose primary focus is to effectively manage services as an administrative arm of state government – we see:

- Greater emphasis on hiring professional administrators and greater deference to those administrators.
- Greater focus on nuts-and-bolts administrative strategies – how to more effectively reduce jail populations, process individuals through the courts, achieve higher bond ratings, fill potholes – and less ideological debate.
- Greater emphasis on broad program oversight and program outcomes, and far less on program mechanics, staffing and contracts.

Consequently, the debate over how to *pay* for discretionary functions also must ask whether *removing* those functions and redesigning the administrative and legislative structure accordingly (as described in **Section III**) would produce the focused and professional approach to governance that is required to right the county's financial ship.

In the end, of course, creating a streamlined county government that focuses only on its state mandates might lead, as it did in Massachusetts, to more rigorous debate about the need for county government at all. In the meantime, it would provide actual experience with which to evaluate the pros and cons of streamlining versus elimination, and to engage state government about the practical and political efficacy of its takeover of remaining human service, courts and public safety functions in Milwaukee County.

## **DECISION 2: ISOLATE AND CONTROL LEGACY COSTS**

Whether or not they pursue major organizational change, 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. Different options and considerations for pursuing such a shift are discussed below.

### **Pension Liability**

A September 2002 Wisconsin Legislative Audit Bureau (LAB) report examined ending the county pension system and shifting county employees and retirees to the Wisconsin Retirement System (WRS). While that option was not pursued largely because of its legal, financial and administrative complexity, its reconsideration may be warranted.

In light of previous legal opinions, and per the Massachusetts example, instead of attempting to shift the entire county pension system to the WRS, policymakers could consider closing the county pension system but only shifting future costs and liabilities to the state system. All new employees, plus all future pension earnings of existing employees, would be covered by the WRS, thereby not impacting retirement benefits previously earned. The assets and liabilities associated with existing workers also could be shifted into the WRS, which then could assess the county annually to cover the actuarially determined liability and normal costs. Meanwhile, the existing county pension fund could be professionally managed until it eventually faded away.

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. Shutting down the county pension system might make it easier for taxpayers to understand and accept the notion of paying off its liabilities. While the cost of the liabilities would not be diminished, taxpayers could take comfort in the knowledge that, barring future investment losses, they would not grow and the legally required payments eventually would disappear.

Another approach could be to establish 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.

Pursuit of either option likely would be contingent upon collective bargaining and require significant administrative deliberation. In addition, removal of active members and their pension assets and liabilities from the existing pension fund could draw legal challenges, and could require the county to weigh larger near-term contributions to the remaining fund. Nonetheless, the WRS has absorbed other public pension funds over the years, so the task is not impossible.

While it explores those more complex options, the county might meanwhile consider the simple act of isolating the legacy share of its annual pension costs and determining how to address those costs centrally. As discussed previously, 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.

## **Retiree Health Care**

Similar to pension costs and for the reasons discussed above, the county could benefit from isolating health care costs and liabilities associated with retired employees and addressing those costs centrally. There are also other reasons to consider such a move. First, separating those costs from other health care costs would allow for the singular, priority focus they deserve. As noted earlier in this report, annual health care costs for retirees are nearly equivalent to those for active employees, and they are projected to grow dramatically for several years. Because many retirees are not required to pay a share of health care premiums, strategies utilized to control costs for employees have had limited impact on the retiree population, yet that population has not received specialized focus by policymakers or as part of collective bargaining.

In addition, isolating the retiree health care liability could encourage greater focus on potential long-term fiscal management options. The \$1.5 billion retiree health care liability discussed in **Section I** has not received much attention from county officials because of its pay-as-you-go status. Hence, in contrast to the county's pension bonding strategy, which resulted from lengthy deliberation regarding management of long-term pension liabilities, similar long-term financing strategies for addressing the retiree health liability have received little consideration.

Finally, just as consideration could be given to combining elements of the county and state pension systems, county and state officials could explore requiring county employees and retirees to access health insurance through the state's employee health care plans. Under such an arrangement, the county undoubtedly would be required to reimburse the state for the cost of such coverage, but it is possible that purchasing health insurance in this manner would be less expensive than its existing self-insured arrangement.

## **Exploring Legacy Benefit Modifications**

Based on Milwaukee County's previous judgment that little can be done legally to modify retirement benefits already earned by its employees, this report assumes that whether or not county government is restructured or eliminated, legacy liabilities are unlikely to be reduced significantly and will need to be paid.

In light of the substantial and escalating impact of those liabilities, however, possibilities for reducing the cost of previously earned county retirement benefits should be re-evaluated. Any such consideration must take into account not only the legal ramifications, but the moral implications associated with such action. Indeed, a compelling argument can be made that retirement benefits earned by county workers during their employment reflect a promise that should not be modified or broken. From a fiscal management standpoint, however, putting that question on the table is necessary and appropriate.

In 2002, the Greater Milwaukee Committee convened a special committee to explore options for improving administrative oversight of the county's pension system and reducing its costs. Broad

recommendations were made regarding procedural matters, some of which have been adopted and have improved oversight, but none of which produced changes to benefit levels for groups other than new employees.

Since 2002, the county has seen the prosecution of a key county pension official and settlement of its lawsuit against the pension board actuary, and it has adopted reductions in prospective pension earnings for non-union employees. Those actions may have altered the legal landscape. Furthermore, the cost of retiree health benefits was not considered by the 2002 committee, and a recent court ruling involving City of Milwaukee retiree health care benefits may have altered the legal landscape in that area as well.

Those factors suggest the time may be ripe for civic leaders to 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. Alternatively, or perhaps in addition to such an effort, the county could retain outside legal counsel to review both its own previous legal opinions and recent legal developments.

### **DECISION 3: A PLAN FOR THE COUNTY'S PHYSICAL ASSETS/INFRASTRUCTURE**

A private business faced with growing post-retirement liabilities that are wreaking havoc on its annual balance sheet first would seek to address the factors that are causing those liabilities to grow. Next, it likely would take stock of its assets and contemplate how those might be strategically utilized to reduce annual operating costs or pay down its liabilities. In light of the impact Milwaukee County's legacy costs are having on its fiscal health, it would be logical for it to consider a similar approach.

The discussion in **Section IV** explains that if county government was eliminated, such an approach would be guaranteed. If, as occurred in Massachusetts, the county's physical assets (with the exception of those transferred to new authorities) were turned over to state government, then the state logically would seek to determine in a strategic manner which of those assets it needed to carry out the county functions it was assuming, and which might be liquidated to eliminate maintenance costs and offset some of the liabilities it also was inheriting.

A similar approach, of course, could be taken now. That does not imply a "fire sale" of county property, but it does suggest the need for a strategic plan for the county's physical assets that takes into account the vastly reduced size of its workforce and its severe operating challenges. Quite simply, county taxpayers and elected officials need to determine the appropriate size of Milwaukee County government not only from an operational perspective, but also from a physical one.

Among the first issues the county might consider is the future of the land and buildings it owns and occupies on the already-developed portion of the Milwaukee County Grounds in Wauwatosa. Several years ago, the county had a major presence on the County Grounds, including Doyne Hospital and a 900-bed mental health complex. Today, Doyne Hospital is gone, and the mental health complex is down to 250 beds. In addition, a Children and Adolescent Treatment Center that once housed mental health units and GAMP now houses largely vacant office space and day treatment programs for delinquent youth.

The county's 2008 budget contained a provision calling for joint planning between the county and its Milwaukee Regional Medical Center partners to consider the future of the County Grounds, including whether and to what extent the county's ongoing presence as a property owner and manager is appropriate. That planning has not yet taken place, but it would appear appropriate to initiate it now in light of the county's reduced space needs and the potential value of the real estate on which several of its Watertown Plank Road buildings are located.

The strategic space plan also could look at potential long-term leases of valuable assets to secure resources to pay down county 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. Also, as discussed in **Section II**, the county could contemplate 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.

In light of the issues and problems currently facing the county, municipal leaders are not likely to view county government as an entity that could effectively serve as regional coordinator or provider of additional municipal services (as it currently does for EMS). However, a streamlined county government with a governance structure that is established to be administrative and non-political in nature could be the perfect home for such functions. This scenario also could offer an opportunity to pursue a "regional council of governments" approach (as described in **Section IV**), in which municipal governments could "opt in" to certain service provision by the county and have a voice in the oversight and administration of those services.

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 regarding the importance of various county services as well as to the leadership abilities of current and future county leaders.

The research and analysis contained in this report suggests a need for immediate decision-making in four key areas regardless of whether comprehensive governance changes are pursued. To summarize, those areas are as follows:

1. Immediately determine the future of parks, culture and transit services – both how to fund them and whether to continue to house them in county government. Within the context of that decision, revisit the appropriate purpose of Milwaukee County government and consider creating an executive and legislative structure that befits that purpose.
2. Isolate the county’s pension and retiree health care liabilities in order to more effectively manage them and to allow for better decision-making regarding the cost and priority of individual county services.
3. Determine the appropriate physical size of Milwaukee County government and its assets.
4. Explore consolidation of municipal services at the county or other levels of government.

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.