BUDGET BRIEF:
MILWAUKEE COUNTY
2013 EXECUTIVE BUDGET

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Public Policy Forum
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INTRODUCTION

While the 2013 Milwaukee County budget process certainly will contain its share of hard choices and intense debates, there can be little disputing that this is the least difficult county budget in years. While the term "least difficult" needs to be considered in the context of the exorbitant challenges associated with many previous county budgets, this year's executive budget may be the first to avoid widespread service cuts since a perfect storm of Pension Fund investment losses, stagnant state revenues, and irresponsible pension enhancements first ravaged the county's finances a decade ago.

County officials deserve considerable credit for these improved circumstances. A multi-year effort to better manage employee and retiree health care costs – aided recently by the flexibility granted under Wisconsin Act 10 and difficult decisions to reduce the workforce – continues to produce savings that are countering the impacts of reduced state funding and other structural challenges. Meanwhile, the county's finances also are beginning to benefit from responsible debt management and the gradual turnaround in the local economy.

Despite the recent upturn in the county's financial picture, however, ominous storm clouds still hover overhead. The county's fiscal forecasting model shows that while the structural deficit has been cut nearly in half, it will grow from $28 million to $92 million by 2017 if no corrective actions are taken. That projection reflects the reality that expenditure needs still are poised to rise at a much faster pace than anticipated revenues. In addition, the model may understate the problem, as it does not account for possible future cuts in key state and federal revenue streams, a large infrastructure repair backlog, and existing holes in several departmental budgets.

With this context in mind, a key focus of our annual analysis of the county executive's recommended budget is the extent to which it uses the opportunity of an improving financial picture – highlighted by the availability of a sizeable budget surplus from 2011 driven by larger-than-anticipated savings from previous health care changes – not only to address immediate needs in 2013, but also to attack some of the county's deeper structural problems.

We find, on the whole, that the budget achieves progress on both fronts. Commendable efforts are made, for example, to address problem areas in the Behavioral Health Division (BHD) and Parks budgets; use surplus cash to finance infrastructure repairs; and invest in long-neglected areas of administrative infrastructure, including human resources and information technology. While we raise concerns about the county's continued lack of reserves and the still overwhelming nature of its infrastructure repair backlog, the budget does build on last year's effort to steer the county toward a more sustainable fiscal future.

The budget also establishes clear priorities, which is a needed change from previous tendencies to dole out cuts in an across-the-board fashion. As in 2012, sheriff's operations and employee/retiree health care are the primary foci for deficit-cutting, with savings in those areas used to preserve or enhance funding for safety net programs, transit, and the parks, and to freeze the property tax at the 2012 amount.

In the pages that follow, we analyze the recommended budget's priorities and key features mentioned above, as well as other elements that are relevant to the county's long-term financial health. Our purpose is to contribute to a more objective and informed 2013 budget debate.

BRIDGING THE 2013 BUDGET GAP

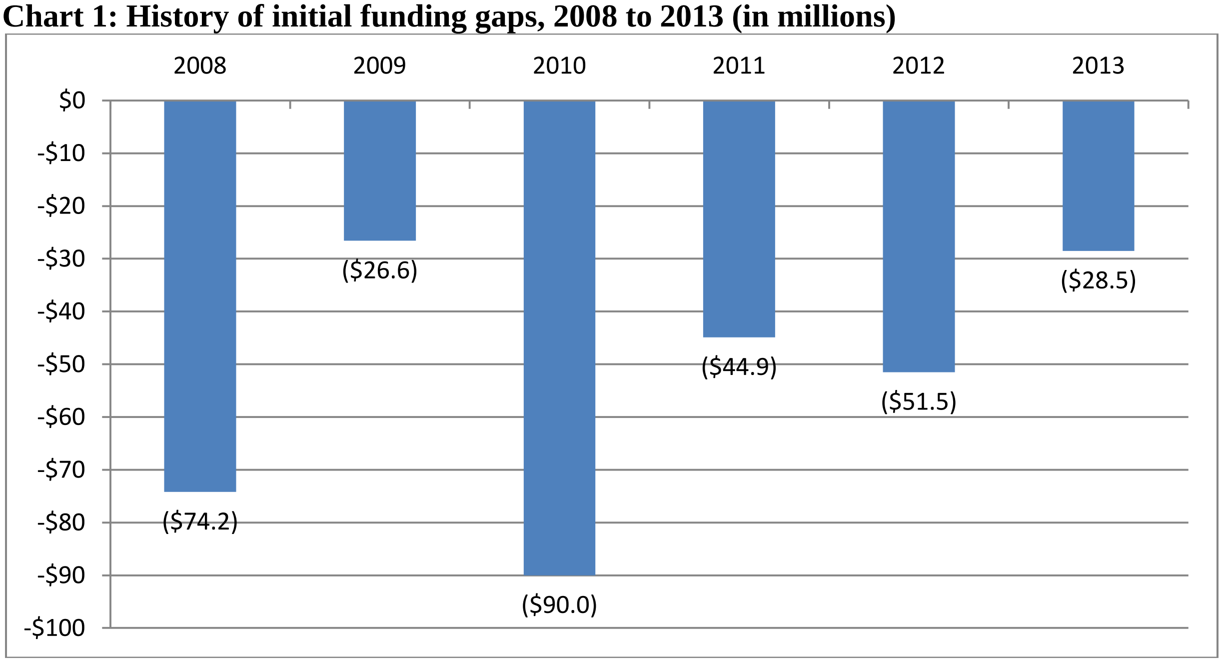
Since 2009, Milwaukee County has used a financial modeling program called "Municast" to prepare annual five-year fiscal forecasts. The Municast model is based on hundreds of assumptions regarding dozens of expenditure and revenue line items in the county budget, which are prepared by Department of Administrative Services (DAS) analysts based on trend analysis and other factors. The assumptions are approved each year by a work group consisting of fiscal staff from both branches of government and the independent comptroller's office, as well as some outside members.

In 2012, for the first time, DAS used the Municast model as the starting point for its consideration of the structural budget gap at the outset of the budget planning process. While it is important to understand that Municast is a *modeling* tool and should not be taken as a precise measure of line item budget challenges, it is very useful as a means of broadly defining the size and scope of the following year's budget challenges.

When the Municast model was updated in April 2012, it projected a total budget gap of $28.5 million for 2013. That gap was comprised of a compilation of forecasted expenditure and revenue changes from the previous year for each of the county's major budget line items.

For context, **Chart 1** compares the size of the 2013 gap projected by Municast to DAS estimates from the previous five years that were made at the beginning of the annual budget process. The smaller projected gap for 2013, as compared to the previous three years, is attributable to slower growth in several key areas, including employee/retiree health care, pension contributions, employee wages (caused in part by a shrunken workforce) and transit funding, as well as a decrease in debt service. Taken together, those factors indicate that strategies pursued by county leaders in last year's budget and previous years have had a substantial positive impact on the county's structural imbalance.

Chart 1: History of initial funding gaps, 2008 to 2013 (in millions)



Source: Milwaukee County Department of Administrative Services

In the two tables below, we summarize the major negative and positive elements that emerged from the Municast model for 2013. **Table 1** shows the major budget challenges, while **Table 2** shows three significant positive changes that help offset those challenges. The assumptions behind each negative and positive element also are shown in the tables.[1]

Table 1: Significant 2013 budget challenges (per Municast)

Budget Challenge	Resulting expenditure increase/ revenue decrease	Assumption
Employee/retiree health care	$11 million expenditure increase	9% increase over 2012 budget
Employee wages/FICA	$7.9 million expenditure increase	3.2% increase over 2012 budget
Pension Fund contribution	$5.2 million expenditure increase	Per actuary's report
Transit fixed cost increases	$5.1 million expenditure increase	3% increase over 2012 budget
Overtime	$4.6 million expenditure increase	Based on updated forecast
Admission/recreation revenue[2]	$2.9 million revenue decrease	Based on updated forecast
Total	**$36.7 million**	

Source: Milwaukee County Department of Administrative Services Municast Model

Table 2: Significant 2013 budget positives (per Municast)

Budget Positive	Resulting expenditure increase/ revenue decrease	Assumption
Property tax[3]	$7.3 million revenue increase	2.6% increase
Debt service	$6.1 million expend. decrease	Based on debt service schedule
Sales tax revenue	$1.8 million revenue increase	Based on updated forecast
Total	**$15.2 million**	

Source: Milwaukee County Department of Administrative Services Municast Model

This breakdown shows that despite successful efforts to slow the growth of personnel-related costs, a substantial portion of the projected 2013 budget gap was attributed to presumed cost increases in wages and fringe benefits for both active and retired employees. The 9% increase in health care expenditures reflects both general health care inflation and the characteristics of the county's covered population. The 3.2% increase in wages, meanwhile, reflects an assumed mix of both salary increases and "step" increases (i.e. annual movement within established pay ranges) based on historical trends. The overtime increase also reflects recent experience, while the Pension Fund increase comes from a projection delivered by the county's pension actuary.

Taken together, these personnel-related assumptions alone produce a $29 million "cost to continue" existing services in 2013 without changes in the size of the county's workforce or in assumed pay or benefit levels. The difficulty associated with meeting this cost becomes apparent

[1] Subtracting the positive changes from the negative changes does not produce the overall gap of $28.5 million because these tables only show the budget line items with the largest net impacts; there are dozens of additional positives and negatives contained in the full model.

[2] Reflects revenue acquired from admissions fees/charges for parks and recreational amenities (e.g. Mitchell Park Domes admissions, golf course fees, etc.). These estimates were updated in Municast based on recent experience.

[3] Because the state's property tax levy limit can change with each budget and is currently based on an uncertain variable (growth in new construction), Municast uses an historical trend of 2.6% to forecast the annual increase.

when considering the comparatively flat levels of the county's main locally controlled revenue streams – the property and sales tax. Even assuming a 2.6% increase in the property tax based on recent averages, and a continued rebound in sales tax revenues, Municast projects only a $9 million increase in local tax revenue. Meanwhile, virtually all state revenue streams are flat per the 2011-13 state budget. This contrast between growing fixed costs and stagnant revenues explains why the county faces both an annual budget gap *and* a long-term structural imbalance.

After the submission of departmental requests in June and further consideration of non-departmental revenues and cost pressures, DAS identified additional 2013 budgetary challenges and opportunities. On the "negative" side were several requests for additional funding from county departments. On the positive side, DAS was able to reduce the health care projection based on recent experience, and apply a $5.5 million surplus from 2011 to the 2013 budget.[4]

In the end, the adjusted budget gap was bridged through a series of expenditure reductions, revenue increases, and adjustments to Municast projections. **Table 3** shows the major fiscal and programmatic strategies used to balance the budget, as well as the additional challenge posed by a decision to freeze the property tax levy, which increased the size of the gap and required additional offsetting reductions. This list does not include all budgetary and programmatic changes in the recommended budget, but only those deemed most significant.

Table 3: Significant 2013 budget savings from initial Municast "gap"

Budget Reduction	Tax Levy Expenditure Decrease/Revenue Increase
Health care revisions based on recent experience & design/benefit changes	$10.5 million combined expenditure decrease/revenue increase
Salary/wage adjustment[5]	$9.6 million expenditure decrease
Sheriff budget reductions[6]	$5.6 million expenditure decrease
Prior year surplus	$5.5 million revenue increase
Transit adjustment[7]	$5.1 million expenditure decrease
Elimination of POB stabilization fund payment	$2.0 million expenditure decrease
Miscellaneous revenue increases[8]	$1.9 million expenditure decrease
Revised sales tax revenue assumption	$1.7 million revenue increase
Subtotal	**$41.9 million**
Eliminate property tax increase[9]	($9.1) million revenue decrease
Total	**$32.8 million budget savings**

Source: Forum analysis, Milwaukee County Department of Administrative Services, Municast

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[4] The county ended 2011 with a budgetary surplus of nearly $13 million, but $7.3 million of that amount was deposited in its Debt Service Reserve. The remaining amount was deemed surplus, which per Wisconsin Statutes must be used in the following year's budget.

[5] Countywide salaries and wages were reduced to account for a decision to provide a pair of 1.5% increases at the middle and end of 2013 (overall annual increase of 1.39%), instead of the 3.2% increase modeled in Municast.

[6] This figure reflects the change from the 2013 cost to continue and does not include fringe benefits. The Sheriff's 2013 budget shows a small increase in property tax levy from 2012.

[7] The transit budget was adjusted to account for a sizeable drop in Paratransit rides in 2012, the cause of which has not been fully determined.

[8] Includes increases in federal revenue linked to Medicare reimbursement for prescription drug benefits, and adjusted estimates for earnings on investments, real estate transfer fees, and delinquent property tax collections.

[9] This includes eliminating both the $7.3 million increase in operating budget levy assumed in the Municast model and about $1.7 million of levy contained in the 2012 capital improvements budget.

Table 3 shows that the county executive and his budget staff were able to identify and/or develop budget reductions that exceeded the size of the original gap, thus enabling them to redirect resources to several priority areas. Those areas include the following:

- **Behavioral Health Division**, which received $1.5 million in additional funds subsequent to its budget request to help fill longstanding revenue holes and meet staffing needs. In addition, $3 million for new community-based services initiated in 2012 is continued, though only an additional $50,000 is provided to further advance mental health redesign plans.[10]
- **Courts**, which receives $611,000 for a project to enhance operational efficiency by electronically scanning court documents, and $92,000 to replace expired federal grant funding and sustain the Drug Treatment Court.
- **District Attorney's Office**, which receives $368,000 for three new investigators and enhanced pay for existing investigators.
- **Housing**, which receives $110,000 to fund supportive services in new special needs housing units, as well as a new position to secure housing for mental health consumers.
- **Human Resources**, which nets four new positions and receives $500,000 for a new employee performance bonus program.
- **Parks Department**, which receives an overall property tax levy increase of $1.4 million, including $736,000 to bring revenue estimates more in line with actual experience.
- **Transit**, which receives an additional $500,000 for enhanced security.

In addition, several smaller administrative functions – including the Procurement Division, Risk Management, Facilities Management, and Fiscal Affairs – receive additional resources to boost capacity or embark on new initiatives.

Collectively, these areas of reinvestment reflect a commendable commitment to correcting budget holes caused by flawed or outdated revenue assumptions, and to strategically invest in key areas of operations that hold promise for reducing expenditures in future years. Also praiseworthy is the effort to shore up important areas of administrative services that are needed for future fiscal planning and efficiency initiatives.

The following provides further analysis of the three major strategies used by the county executive and his budget team to bridge the 2013 gap and carve out additional resources to support his priorities, including the decision to freeze the property tax at the 2012 amount.

[10] The lack of new investment in community-based resources may impact BHD's ability to safely close an inpatient and long-term care unit in 2013, which helps fund other needs by generating a combined $1.1 million savings in the recommended budget. This issue may warrant further deliberation during the budget process.

Health care adjustments

The recommended budget proposes plan design changes, increased employee premium contributions, and the elimination of a county contribution to employees' flexible spending accounts (FSAs) to reduce overall health care spending by $4.9 million from the 2012 budgeted amount (from $122 million to $117.1 million). When compared to the original Municast projection, the savings are closer to $11 million. **Table 4** shows the major health care savings strategies and the amount of savings generated by each.

Table 4: Major health care savings items in 2013 recommended budget

Health Care Cost Reduction Strategy	Savings
Plan design changes	$ 6.4 million
Eliminate FSA contributions	$ 3.4 million
Increased employee premium contributions	$ 0.8 million
Wellness program reduction	$ 0.4 million
Total	**$11.0 million budget savings**

Source: DAS, 2013 Recommended Budget Document

While critical to filling the county's 2013 budget gap, the proposed changes would be costly for most county employees and retirees. Active employees would lose an employer-paid FSA contribution of $500 for singles and $1,500 for families that was established to offset the substantially higher premiums and out-pocket-costs adopted in the 2012 budget. In addition, a new four-tier model would be applied to deductibles and premium co-pays, and the amount of each also would rise, from $500/$1500 for deductibles to $900/$1,200/$1,800/$2,100; and from $85/$170 for monthly premiums to $100/$125/$200/$225.[11] Consequently, a county employee who currently obtains insurance for his or her spouse and children would see a $600 deductible increase and a $55 monthly premium increase, while losing the $1,500 FSA contribution.

Whether it is appropriate to ask county employees to pay substantially more for their health care again in 2013 is not just a matter of fairness, but also should be considered in the context of employee morale, recruitment and retention. It should be recognized, however, that this year's health care increases are at least partially offset by a pair of 1.5% wage increases at the middle and end of 2013 (at a cost of $3.2 million). In addition, the budget proposes a reduced pension contribution (from 4.7% of salary to 3.2%) for about 1,500 non-public safety employees who are not eligible for the pension backdrop, producing an estimated $750 savings for the average eligible employee. Finally, from an equity standpoint, seeking savings from the health care budget may be seen as preferable to seeking them from pay freezes or furloughs (which are avoided in 2013), as health care impacts are shared by both active and retired workers.

From a financial perspective, the decision to extract substantial savings from employee/retiree health care also can be readily justified. At $117 million, the health care budget is one of the largest line items in the county budget, and the county continues to maintain a huge unfunded

[11] Under the new four-tier approach, the previous family tier would be replaced by three tiers: employee plus child(ren), employee plus spouse, and employee plus family. Consequently, while an employee who obtains insurance for his or her spouse plus children would see an increase in the monthly premium, a single parent employee would see a reduction.

health care liability for retirees. Thus, fiscal reality dictates that the county *must* consider cost savings in this area every year, unless its revenue streams somehow keep pace.

Whether the county can use health care benefit reductions as its foremost budget-cutting strategy year after year, however, is a critical question. Employee/retiree health care savings bridge about 37% of the $28.5 million budget gap in the 2013 recommended budget, and bridged nearly 40% of the projected $55 million budget gap in 2012. Whether the county can continue to lean on its active and retired workforce for such savings every year – without having a destructive impact on workforce quality – will be one of the most important fiscal issues facing county leaders both in 2013 and beyond.

Reductions to Office of the Sheriff

As in 2012, the 2013 recommended budget proposes several substantial changes to the sheriff's operations and staffing, producing a $5.6 million tax levy savings from the sheriff's "cost to continue" as calculated by DAS (excluding fringe benefits). The most significant changes are shown in **Table 5** (savings amounts are based on comparison with the sheriff's budget request).

Table 5: Major Office of the Sheriff savings items in 2013 recommended budget*

Cost Reduction Strategy	Savings
Close three dorms/implement enhanced EMUother staffing changes at Franklin facility	$ 1.9 million
Eliminate Tactical Enforcement Unit & 911 cell calls/MOU with Milwaukee Police	$ 1.7 million
General staffing adjustments based on program analysis	$ 1.6 million
Total	**$5.2 million savings**

Source: Department of Administrative Services
* Savings do not include fringe benefits

Given that the Office of the Sheriff is the county's largest department and receives about 36% of its annual locally generated tax revenues ($122 million of a combined $336 million in property and sales tax revenues), it stands to reason that this department must be closely scrutinized for potential budget cuts to bridge the annual structural gap. The recommended budget uses three implicit strategic principles to do so:

1) A focus on mandated core services (i.e. detention, expressway patrol, airport, civil process, courtroom security), and de-emphasis of activities deemed discretionary or potentially overlapping with other levels of government, like parks patrol and investigations.

2) In light of this potential overlap, seeking opportunities to reduce redundancy by partnering with municipal law enforcement agencies where appropriate.

3) Using the opportunity provided by the size of the sheriff's budget and staff ($139 million and 1,074 full-time equivalent employees) to seek efficiencies that will cut costs without sacrificing service quality.

It is difficult to argue with the need to pursue those principles in the context of the county's overall budget struggles (though it also should be noted that the sheriff's budget has been the subject of substantial scrutiny and cuts in recent years). The key question, however, is whether the specific budget strategies used in 2013 to correspond with those principles can achieve their stated intentions and savings without producing intolerable impacts on the sheriff's ability to effectively carry out his mandated services and duties. The following discussion assesses that question with respect to the three major cost-savings initiatives cited in **Table 5**.

- **Dorm Closures at the County Correctional Facility-South (CCFS)**. The budget reduces the sheriff's cost to continue by $1.9 million (excluding fringe benefits) via the closure of three dormitories and other "right-sizing" actions at the CCFS in Franklin. The dorm closures – which reflect a reduction in the average daily population of 180 inmates – are predicated on a recommendation to restore the use of electronic monitoring to 200 inmates daily.[12] Earlier this year, the sheriff sharply curtailed electronic monitoring, and his 2013 budget request called for 25 inmates to be on electronic monitoring daily. The 200 inmates proposed in the executive budget is slightly higher than actual levels in 2010 and 2011.

  The sheriff's decision to all but eliminate electronic monitoring earlier this year has been vigorously contested by other justice system officials and the county executive, who assert it is both less expensive than housing those inmates at the CCFS, and produces better outcomes for low-risk offenders who pose little or no threat to the community. The savings cited in the budget appear to support the cost effectiveness assertion, assuming there are at least 180 individuals who otherwise would be housed at the CCFS who are eligible for electronic monitoring. Eligibility is determined both by the sentencing guidelines provided by the courts and risk tolerance levels established with the use of a screening tool. Under state statutes, however, the sheriff has ultimate responsibility to determine which prisoners can safely be placed on electronic monitoring, and his definition of "appropriate" risk tolerance may determine whether sufficient candidates can be identified to support the dorm closures.[13]

  The sheriff's fiscal director also has raised several questions regarding the basis for the savings calculation. For example, the sheriff had been using 15 corrections officers in the electronic monitoring unit (EMU) prior to the program's downsizing, and it is questionable whether a $308,000 contract with a private firm could replicate the same amount of monitoring (though some may question whether the level of staffing provided by the sheriff truly was necessary). In addition, one of the sheriff's justifications for shutting down the EMU was that few participants had gainful employment, rendering them unable to afford the daily fee charged to help offset the cost of the monitoring equipment and reducing the cost effectiveness of the program. The recommended budget adds about $260,000 of inmate revenue linked to the EMU to the sheriff's request, which may be difficult to realize depending on the program's utilization.

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[12] Under electronic monitoring, certain low-risk offenders are allowed to remain in the community and are monitored by detention staff remotely using GPS or other electronic devices.

[13] The statutes indicate that the sheriff or the "superintendent of a house of correction" may place inmates on electronic monitoring. Because the superintendent position no longer exists at Milwaukee County, the sheriff currently has that sole authority.

As the Forum has suggested in previous reports, the ideological and public safety issues surrounding the use of jail diversion strategies should be settled within the Milwaukee County Community Justice Council based on recidivism and other data. In the meantime, however, it is hard to ignore the fact that communities across the state and country are making increased use of electronic monitoring as a means of reducing corrections costs. Further analysis of the cost savings projections contained in the budget and the mechanics of the new EMU contract certainly is warranted, but the need to consider a "robust" EMU as part of the 2013 budget appears justified from a deficit-reduction perspective.

- **Elimination of Tactical Enforcement Unit (TEU) and 911 cellular calls and agreement with Milwaukee Police Department (MPD).** A key feature of the recommended budget is its elimination of the 28-person TEU in the sheriff's budget, and establishment in its place of a Memorandum of Understanding (MOU) with MPD to conduct policing duties in county-owned city parks and Milwaukee's lakefront. As part of the MOU, MPD also would take over the sheriff's responsibilities with regard to cellular 911 communications in the city. The budget cites both initiatives not only as cost-saving strategies, but also as an important step to better coordinate duties between the sheriff and municipal police departments.

  The cellular 911 component completes a transfer that was initiated by the sheriff in 2011. Prior to that time, 911 calls that originated from cell phones within city limits were fielded by sheriff's dispatchers, who then transferred most of the calls to MPD. Having MPD field the calls improves efficiency and enhances response times, but the full transfer had yet to take place because staffing levels had not been able to keep pace with call volumes. Under the new MOU, MPD would receive $463,000 from the county for 11 new telecommunications positions. The county, in turn, would be able to eliminate six positions and reduce overtime in its dispatch center, thus saving $463,000 for itself. While further analysis may be required to verify that staffing levels at MPD and the sheriff's dispatch center are sufficient to field respective call volumes, the sheriff appears supportive of this arrangement.

  The new approach for providing police protection in county parks and the lakefront is far more contentious. The recommended budget pays $1.2 million to MPD to assume lakefront security duties and patrols in county parks located within city limits. (A separate $125,000 allocation is provided to the Intergovernmental Cooperation Council to reimburse the 18 other Milwaukee County municipalities for parks patrols in suburban parks.) The cost to the county is more than offset by a $2.9 million reduction in the sheriff's cost to continue resulting from the elimination of the TEU.[14]

  Similar to the EMU proposal, the effort to promote more cost-effective law enforcement strategies is justifiable. Also similar to that proposal, however, the new lakefront and parks patrol strategies will need to be further analyzed, in this case with two key questions in mind:

  - *What other activities was the TEU performing (besides parks patrol), and will the potential loss of capacity to conduct those activities create operational impacts?* Past and former sheriff's officials contend the TEU provides flexibility that is particularly vital in

[14] The recommended budget also adds $500,000 to the transit budget (requested by the transit system) to enhance private security on county buses. The TEU has provided some level of transit security services in the past.

light of the sharp personnel reductions adopted for 2012. For example, TEU deputies have provided backfill as needed for civil processing, bailiff services, expressway patrol, detention, and special events, and actually were pulled out of the parks for much of 2012 to fill big holes in those areas (thus already indicating that parks patrol is a relatively low priority). While MPD's assumption of services for the parks and lakefront ostensibly will replace the TEU in those areas, it will be important to determine whether the TEU's elimination would cause unacceptable service-level impacts or overtime costs in other areas, particularly given the impacts of 2012 budget cuts on core services.

  - *Is the capacity provided to MPD and suburban police departments via the MOU and ICC payments sufficient to meet the law enforcement needs of the lakefront and county parks?* Administration officials assert that because the sheriff was providing little service in city and suburban parks anyway, the funds provided should allow local police to enhance parks security. The sheriff refutes that assertion, and it should be explored with municipal officials.

- **General staffing adjustments based on program analysis.** The budget recommends dozens of position actions within all major areas of sheriff's operations emanating from a DAS examination of "the level of service historically provided in key functions." According to the budget, this analysis revealed "significant, consistent variances between budgeted and actual staff utilization in the past three years," which are addressed by adjusting positions in accordance with the service hours deemed necessary to fulfill key functions. Collectively, those actions produce a $1.6 million savings from the sheriff's cost to continue.

  The use of a data-driven approach to determine staffing needs in key areas of the sheriff's operations is necessary and appropriate. The methodology used by DAS has been called into question by the sheriff's fiscal director, however, who contends it is flawed based on two factors: 1) An assumption that each full-time equivalent position (FTE) provides 1,750 regular service hours is much too high, and skews the analysis by suggesting that fewer staff are needed to fulfill certain critical duties; and 2) The analysis was based on staffing utilization for the first six months of 2012, which were atypical because of the need to quickly accommodate the loss of more than 100 FTEs in the 2012 budget. In addition, according to the fiscal director, the methodology used to determine appropriate staffing levels in the investigations unit uses a flawed approach based on average caseloads that fails to recognize that not all members of the unit carry caseloads.

  It is beyond the capacity of this analysis to determine whether these alleged flaws in the DAS methodology are accurate, and whether they invalidate the budget's staffing recommendations if they are. Optimally, DAS and the sheriff's fiscal staff would have used a mutually acceptable data-driven methodology to analyze and review staffing needs, even if the conclusions reached after its application would have been in conflict.

Overall, the strategies used to reduce the sheriff's cost to continue appear to be based on strategic, long-term principles and reflect the realities of the county's fiscal circumstances. **It will be important, however, for the county board to explore whether the actual analysis employed by DAS to justify specific actions in the sheriff's budget is sound.**

It also is worth noting that ideally, the county executive and sheriff would have agreed prior to the budget's submission on the need to seek a certain level of savings from the sheriff's budget to meet the county's bottom line, and worked collaboratively to identify cost-saving strategies that were mutually determined to produce the greatest efficiency and lowest service-level impacts. It is difficult to ascribe blame for the fact that this did not occur, but given the likely ongoing need for annual cost reductions in the sheriff's budget, both parties would benefit from improvements in the political climate that could accommodate such an approach in the future.

Treatment of reserves and contingency funding

In last year's budget review and previous analyses of county finances, the Forum has pointed to Milwaukee County's noticeable absence of reserves. Unlike the City of Milwaukee, for example, which entered 2013 budget deliberations with tax stabilization and pension reserve funds each containing more than $30 million, the county entered its budget season with no general reserves outside of its Debt Service Reserve (DSR), which contained about $5.7 million.[15]

This lack of reserves leaves the county vulnerable to substantial annual swings in its fiscal fortunes from uncontrollable factors like Pension Fund investment losses, cuts in state or federal reimbursement, or sharp increases in adult or juvenile corrections populations. While the county's inability to address this issue is understandable given its tremendous fiscal stress during the past decade, building reserves should be a fiscal priority if that stress dissipates.

The DSR is used by the county to offset debt service costs ordinarily paid with sales or property tax revenues and is the county's only general reserve that can be carried over from one year to the next.[16] The DSR typically is funded from unanticipated excess bond proceeds, though it also has been used recently as the repository of a portion of general surplus monies that materialize in a given year and are not immediately needed for budget-balancing purposes. County leaders have never sought to build the DSR as an ongoing hedge against budget volatility, however. On the contrary, past practice has been to use whatever funds materialize in the reserve in the following year's budget to provide a modest offset to that year's budgetary pressures.

Earlier this year, when county policymakers found themselves in the unique position of having to determine the disposition of a nearly $13 million year-end surplus from 2011, they prudently decided to deposit $7.3 million of that amount into the DSR. About $2.3 million was used to repay two State Trust Fund loans (saving $424,000 in principal and interest in the 2013 budget), and the remaining $5 million remained in the reserve. The recommended budget recommends spending that $5 million plus an additional $500,000, leaving a DSR balance of only $228,000. Fiscal officials indicate that by doing so, they were able to free up an equivalent amount of sales tax revenue to cash finance a series of needed capital improvements.

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[15] Milwaukee County was given statutory authority to create a tax stabilization fund early in the last decade, but county officials have cited issues with the statutory language that may make the fund unworkable. No effort has been made to change the law, however.

[16] The Family Care program's Care Management Organization maintains a multi-million dollar operating reserve, and some departments (like BHD and the Zoo) maintain small trust funds, but those dollars are reserved for specific programmatic uses.

Given the county's vast infrastructure repair needs – estimated at more than $200 million in the parks alone – the recommendation to use the DSR's allocation of unanticipated 2011 surplus funds to responsibly finance a small chunk of those repairs certainly is defensible. In addition, because the county may be on track to realize a substantial year-end surplus again in 2012 (thus possibly offering another opportunity to replenish the DSR), and because it is forecasting a sharp decline in debt service payments within the next two years, the need to maintain a robust DSR heading into 2013 does not appear pressing.

It also could be argued, however, that the county not only should refrain from using its sole source of general operating reserves in a relatively calm budget year, but that 2013 should be viewed as a prime opportunity to begin building reserves to levels enjoyed by other area governments. Looking ahead to 2014 and beyond, the county faces considerable uncertainty in its key state and federal revenue streams, as well as the expiration of $8 million of federal congestion mitigation funds in the transit budget, and the potential exhaustion of strategies to limit annual health care cost increases. In addition, several pending lawsuits aimed at reversing employee/retiree health care and pension changes – as well as the now ambiguous legal status of Wisconsin Act 10 – could pose a severe threat to future budgets. While the county certainly is no stranger to budgetary uncertainty, having at least some level of reserves to address impending problems would have been optimal.

While not a reserve that can be carried over from year to year, Milwaukee County also maintains an Appropriation for Contingencies (also known as the Contingency Fund), which is a set-aside of funds in each year's budget that can be used to address unanticipated *mid-year* needs or problems. **Table 6** shows Contingency Fund appropriations for the past five years, as well as the 2013 recommended amount. The recommended budget commendably adds more than $1.5 million to the fund, though the appropriation still is considerably lower than most previous years.[17]

Table 6: Budgeted Milwaukee County Contingency Fund appropriations, 2008-2013

	2008	2009	2010	2011	2012	2013R
Contingency Fund appropriation	$6,655,758	$7,760,427	$5,800,000	$8,650,000	$1,550,000	$3,103,329

Source: 2013 Recommended Budget

Whether the $3.1 million recommended budgeted for the Contingency Fund in 2013 is sufficient is a subjective question. Ideally, the level of annual contingency should take into account the volatility of a government's key revenue streams and the predictability of its major expenditure components. Both of those considerations point to the need for a healthy Contingency Fund at the county, which relies heavily on parks and zoo admissions revenues that are weather-dependent; Medicaid rates for health and human services programs that are established (and often applied retroactively) by other levels of government; and sales tax revenues that are highly dependent on general economic conditions. The county also faces unpredictable expenditure

[17] The budget assumes that $500,000 of that amount will be directed to the Zoo in the event that an agreement currently being negotiated with the Zoological Society to increase its contribution by $500,000 does not materialize. Doing so would require a two-thirds vote of the County Board.

needs at its adult and juvenile corrections facilities and Mental Health Complex that often are driven by factors beyond its control.

The amount recommended for 2013 equates to less than a tenth of a percent of the county's general operating budget, which puts it far below the amount suggested by a policy adopted several years ago, under which the county was to build toward an annual Contingency Fund equivalent to 5% of operating revenues. On the other hand, the county has never come close to meeting that policy objective – which likely was overly ambitious – and it appears not to have suffered from its historically low level of contingency funding in 2012, as the comptroller's most recent fiscal report estimates a $5.5 million year-end surplus.

In deliberating whether the 2013 recommended amount is sufficient, county policymakers should recognize that two of the primary factors responsible for the 2012 surplus – lower-than-anticipated health care and Paratransit expenditures – already have been accounted for in the 2013 recommended budget and may not re-materialize. In addition, the use of $5.5 million of prior year surplus in the 2013 budget puts pressure on the county to realize a surplus of at least that amount in subsequent years, so as to avoid a gap in that line item in the future. Conversely, given admirable efforts in recent years to plug revenue holes in departmental budgets, end the use of land sale revenue in the general operating budget, and employ conservative health care expenditure projections, policymakers may determine that the county's level of financial risk justifies a relatively small Contingency Fund in 2013.

Finally, it is worth noting that the recommended budget suspends a $2 million contribution to another form of reserve – a stabilization fund created by county policymakers when they issued $400 million of pension obligation bonds (POBs) in 2009. The purpose of that fund, according to a summary created by DAS in July of that year, was "to help mitigate volatility in investment returns and future borrowing rates." [18] The stabilization fund was initiated with a $6.5 million deposit in 2009 and was supposed to receive annual $2 million deposits in subsequent years, but no deposit has been made since that time.

The decision to suspend the deposit again in 2013 may be warranted by the strong investment returns enjoyed by the Pension Fund since the POB issuance, which has diminished the risk that the long-term rate of return on POB proceeds will fail to exceed the interest rate being paid on the bonds. In addition, it should be noted that the recommended budget devotes $2.5 million (created by savings related to excess budgeted debt service) to pay down principal on existing POB debt, thus reducing the total debt amount and producing a long-term debt service savings for the county.

Overall, while building and maintaining reserves and contingency funds is a widely recognized fiscal best practice, Milwaukee County has not had the wherewithal to follow that practice for the past decade because of its annual budget struggles. Taking the first steps to reverse that situation in 2013 would be easier than in many previous years, but it would be difficult nonetheless in that the resources to do so would have to come from *somewhere*.

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[18] See http://www.politifact.com/wisconsin/statements/2010/sep/29/tom-barrett/tom-barrett-says-gubernatorial-rival-scott-walker-/ for a copy of the county POB summary.

One obvious possibility would be to increase the property tax up to the amount allowable under the state-imposed cap, but the county executive has made it a priority to freeze property taxes at the previous year's amount.[19] Another possibility would be to seek savings from additional cuts in departmental budgets, or apply the $2.5 million devoted to the early retirement of POB debt to the DSR or Contingency Fund instead. Pursuing none of those alternatives in 2013 can be justified based on the continued financial hardship faced by many residents in the aftermath of the economic recession, and the desire to address underfunding in priority areas and reduce the county's debt. Eventually, however, the county will need to fully align its revenue streams with its expenditure needs, and pursuing one or more of those options in 2013 for the sake of building or maintaining reserves also could be seen as a way to cushion the blow of more onerous deficit reduction efforts in the future.

[19] According to a September 19 memo by the comptroller, the county can raise property taxes by 1.1% ($3 million) under an allowance for new construction growth, as well as an additional 0.5% ($1.4 million) with a three-quarters vote because of unused levy under the cap from the previous year. In addition, the memo indicates the county may be able to raise the levy by an additional $6 million on a one-time basis because of a provision in the state statutes allowing a levy increase to cover the cost of Emergency Management Services and library services.

DEFERRED MAINTENANCE AND CAPITAL IMPROVEMENTS

For the past several years, the significant repair and replacement needs associated with the county's aging infrastructure have come into conflict with a self-imposed cap on annual borrowing of approximately $30 million per year.[20] That cap was established in 2003, when the county decided to refinance a substantial portion of its general obligation debt in an effort to provide immediate operating budget relief. Because the refinancing framework increased overall debt service requirements and pushed out payments into future years, county officials also adopted limits on annual bonding so that the future debt burden would not be stifling.

While fiscally prudent from a debt management perspective, the annual bonding cap has contributed to a backlog of needed infrastructure repairs in several areas of county government. The Parks Department, for example, has cited a backlog exceeding $200 million, while pressing needs also have been cited by the Milwaukee Public Museum, Milwaukee County Zoo and War Memorial. In addition, the county has or soon will be contemplating a new mental health facility, a new corrections facility for work-release inmates, substantial improvements to the Safety Building, and the components of a new zoo master plan, but the wherewithal to borrow for those projects appears limited by the bonding cap.

The 2013 capital improvements budget represents the first opportunity since 2010 for the county to tackle this dilemma. In its 2010 capital improvements budget, the county took advantage of low interest rates available through the federal Build America Bond program to issue debt covering three years of new capital improvements. Consequently, no new major initiatives to address the infrastructure repairs backlog have been considered since that time.

The county executive's budget recommends $43.1 million of capital funding for 81 projects, including $34.7 million in general obligation bonds, which is slightly below the 2013 cap.[21] The big winners – in terms of bond proceeds – are the parks ($8.7 million); fleet equipment ($4.5 million); the Marcus Center for the Performing Arts ($3.2 million); an upgrade of the county's personal computing operating system ($1.9 million); a project to convert the county's public safety radio system to digital technology ($1.8 million); and the Courthouse Complex ($1.8 million). The capital improvements budget also is funded with $6.4 million in sales tax revenue, including $5.5 million freed up by the decision to allocate most of the balance from the DSR. Nearly half of the $6.4 million is recommended for remediation of the Estabrook Park Dam.

The recommended budget is able to address several longstanding capital needs while adhering to the county's bonding cap. For example, it uses $5 million originally intended for a new Moody Park pool for a less expensive (and more easily sustainable) splash pad and infrastructure repairs at that park, as well as a $3 million investment in four other central city parks. It also makes meaningful investments in the county's information technology infrastructure, funds the zoo master plan and planning for a new work release facility, adds resources for vehicle repair and replacement, and addresses high-priority needs at the War Memorial and Marcus Center. Also

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[20] The cap originally was established at no more than $1 million above the previous year's corporate purpose borrowing amount for the 2005-07 period, then set at $30 million for 2008 with future annual increases of no more than 3% per year.

[21] The $34.7 million includes $25.9 million for new projects, as well as $8.8 million for projects approved in 2011 for which bonds were not previously issued.

noteworthy is a new capital project selection process initiated for 2013, under which a panel of representatives from county departments rate proposed projects based on a series of selection criteria, thus adding transparency and order to the capital budgeting process.

Despite those positive elements, however, the disconnect between the county's capital funding needs and its capacity to address those needs under its self-imposed bonding cap remains apparent. For example, while only a rough initial barometer of future needs, the county's five-year capital plan indicates a need for $96 million of bonding in 2014 and $63 million in 2015, which would greatly exceed the cap's limits. This is caused, in part, by the fact that the 2013 budget provides initial funding for planning and design of several projects that could consume considerable resources in future years.

The good news is that the county anticipates a substantial decline in debt service costs within the next two years, which may free up capacity to engage in annual bonding that exceeds the cap levels established several years ago. Before reconsidering those levels, however, county leaders will need to evaluate whether operating budget concerns trump capital needs as the priority use of debt service savings. In addition, completion of an effort initiated this year to assess the condition of the county's major buildings and structures – with an eye toward determining which might be liquidated to reduce capital needs – will be critical in making that evaluation.

NEW COMPTROLLER'S OFFICE

The 2013 budget is the first to include the new office for Milwaukee County's elected comptroller, a position created by the Wisconsin Legislature in November 2011. According to the legislation, the primary function of the position – which replaces an unelected controller in DAS – is to be "the chief financial officer of the county, and the administrator of the county's financial affairs." The position also is charged with overseeing the county's debt and performing all audit functions. The first elected comptroller was sworn into office in April of this year.

While the new elected office was created by state legislation, it was up to the county executive and county board to establish staffing levels to support the office's broad responsibilities as cited in the legislation, and to more precisely define those responsibilities and duties within the county's existing fiscal management structure. In March 2012, the county executive submitted legislation to the county board to do so. That legislation subsequently was refined by the board and adopted in May, along with a series of changes to the county ordinances to ensure that the county's fiscal procedures conformed to the responsibilities of the new position.

The county board legislation specified that the comptroller would be responsible for "the oversight of all debt, financial reporting, fiscal analysis and fiscal note review, and financial forecasting," as well as the traditional controller and audit functions. To allow the office to fulfill those responsibilities, the county transferred 33 existing positions from DAS-Fiscal Affairs and 25 existing positions from the Department of Audit (which formerly had existed as an independent organizational unit under the purview of the county board).

Most of the Fiscal Affairs positions transferred to the new office were in central accounting, central payroll, and accounts payable – functions that previously were managed by the unelected controller. An exception, however, was the county board's decision to transfer the capital finance manager and a capital finance analyst position to fulfill the debt oversight function. Those positions previously had reported to the budget director and played a primary role in developing the capital improvements budget each year. The board also added two fiscal analyst positions to provide the office with the capacity deemed necessary to fulfill the fiscal analysis and fiscal note review functions, though no funding was provided for those positions.

The 2013 recommended budget provides $5.8 million to fund the comptroller's office and largely mirrors the comptroller's budget request. Included in that amount is an additional $227,000 to fund the two fiscal analyst positions, as well as funding for an accounting manager position.

Analysis of the comptroller's budget must take into account the rationale cited for the new position, which was not only to add greater independence to the traditional accounting, payroll and audit functions formerly performed by the unelected controller and audit department, but also to provide added capacity for independent fiscal policy analysis, planning and oversight. The new office has been tasked, for example, with evaluating the fiscal impacts of proposed legislation, providing policymakers with independent long-range forecasts, and weighing in on any finance-related issue when requested by the county executive or county board.

In its first five months of operation, the new office has begun to delve into those areas, with analyses of possibilities for refinancing a portion of the county's POB debt and allocating the 2011 budget surplus; and internal memos for DAS on the state's property tax levy cap and for the county board chairwoman on the characteristics of the DSR. In addition, the comptroller has continued to produce annual countywide quarterly fiscal reports, but with an independence that did not exist when the position reported to the budget director.

Whether the office will possess sufficient resources in 2013 to ramp up those efforts and carry out its full range of responsibilities is an important question. According to the budget narrative, the two new fiscal analyst positions will comprise a "fiscal review team" that will respond to requests for analysis from both branches of county government and review all fiscal notes. Whether two staff positions can handle this task will depend on the volume and nature of the requests it receives from policymakers.

There also is some question as to whether the office possesses sufficient capacity to handle additional activities it might logically perform to enhance the county's fiscal decision-making and planning. For example, in previous reports suggesting the need for an independent fiscal voice at the county, the Forum has suggested that re-establishing an annual fiscal trends report, certifying key revenue projections in the annual budget, and preparing a long-range fiscal plan (in addition to a five-year forecast) could be appropriate activities. In addition, some have envisioned a prominent role for the comptroller in proactively analyzing and reporting on key policy decisions that have fiscal implications, whether or not the office formally has been requested to do so.

The precise role the office will play in the budget development process also is an open question. This year, much of the background work required for developing the capital improvements budget was performed by the former DAS capital finance positions that were transferred to the comptroller, as DAS did not have time to replace that expertise and capacity. Similarly, while removed from actual decision-making, the comptroller himself still played a role in developing health care projections, as he had in previous years as an employee of DAS.

After the budget was submitted to the county board, the comptroller sent a detailed memorandum to both branches analyzing its health care and pension assumptions. The memorandum generally supported the reasonableness of the assumptions but raised policy issues for the board to consider. A question that arises is whether this is the appropriate timing for the comptroller to provide his independent assessment of these two critical areas of the county budget, or whether he should instead be reviewing and certifying the assumptions during the budget preparation process. A related question is whether the role played by the comptroller's capital finance staff in budget preparation should be maintained, eliminated, or even enhanced in the future.

Because the newly elected comptroller still needs time to fill vacant positions, structure his office and contemplate his precise role in the county's fiscal affairs, the 2013 recommended budget appears to represent a good starting point. Policymakers should recognize, however, that additional resources may be needed in future years to fulfill the office's potential.

CONCLUSION

For years, Milwaukee County's annual budget deliberations have required policymakers not only to confront severe immediate fiscal challenges, but also to address a larger structural imbalance that will take years of concerted action to fully rectify. Two primary criteria on which the county's annual budget should be judged, therefore, are the extent to which it responsibly addresses short-term needs without exacerbating long-term problems; and the extent to which it makes progress in reducing the structural imbalance while also establishing a framework for its future elimination.

The 2013 Recommended Budget can be judged favorably with respect to both criteria. It addresses immediate needs by maintaining existing transit service without increasing fares; avoiding cuts in safety net programs; investing in information technology upgrades; enhancing funding for the parks while maintaining it for the zoo and cultural institutions; boosting human resources and fiscal management capacity; and providing general wage increases for the first time in years. Those actions are accomplished not with the use of budget gimmicks or rosy revenue projections, but through the establishment of clear spending priorities (plus the help of the 2011 surplus).

The budget also continues progress on the county's long-term structural problem with additional reductions in health care benefits and the size of the county's workforce. In addition, it provides a strategic direction for the future by emphasizing greater collaboration with municipal governments, and the need to accentuate efficiency through technology enhancements, performance-based budgeting, and empowered employees.

Despite these positive elements, the recommended budget does contain several important choices that merit careful deliberation. Debate should occur, for example, about the nature of the budget's priorities, the viability of certain strategies cited to implement those priorities, and whether and how to spend the massive 2011 surplus. As the county board does so, however, it will be imperative for it to demonstrate similar respect for making tough choices, acknowledging long-term challenges, and avoiding the use of short-term band-aids.

Overall, the 2013 recommended budget should be seen as one that proposes several foundational steps that allow the county to continue its path toward financial stability. Nevertheless, the county's stagnant revenue streams, continued fringe benefits burden, immense infrastructure repair needs, and lack of reserves – combined with the still tenuous legal standing of its recent pension and health care changes – suggest that years of heavy lifting yet will be required before its journey is complete.