BUDGET BRIEF:
MILWAUKEE COUNTY
2014 EXECUTIVE BUDGET

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Public Policy Forum
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INTRODUCTION

On its surface, the 2014 Milwaukee County recommended budget is the latest and most definitive testimony of the remarkable turnaround in the county's financial picture. Unlike previous years, the list of controversial budget cuts is relatively short. Meanwhile, the budget makes significant new investments in areas that have suffered for years without increasing property taxes or deepening the county's debt burden.

Indeed, the county's overall financial condition – which five years ago was in "intensive care" – has progressed beyond "critical" and is heading toward "stable." The county's latest long-range forecast shows that a five-year structural deficit pegged at $125 million just two years ago now stands closer to $75 million. While that hole still is substantial, and while the forecasting model does not fully account for the county's infrastructure repair backlog and all of its service-level needs, the effort to achieve structural balance no longer looks like a hopeless proposition.

A closer look under the hood reveals that several of the county's nagging structural issues do remain, however. Key revenue streams are flat while fringe benefit costs – though tamed considerably – still require sizable annual increases unless shifted to employees. Given its immense retiree benefit obligations and reliance on intergovernmental revenues, the county also continues to lack the breadth and depth of "rainy day" reserves that should be on hand to protect it from unanticipated pension losses or state/federal budget cuts.

There is a strong need, therefore, for the 2014 budget to continue to make inroads into the county's structural challenges. Yet, countering that need is the equally compelling opportunity to reinvest in infrastructure and services in light of a substantial budget surplus remaining from 2012.

The recommended budget attempts to strike a balance between those competing necessities. In proposing higher employee health care premiums and major changes to sheriff's services, it again attacks two of the county's biggest structural cost drivers. Yet, at the same time, it makes substantial new investments in infrastructure repairs and community-based mental health services, and shores up several departmental holes. The budget document itself also is designed to contribute to structural improvement, introducing a new format that establishes important financial management policies and that begins to make the critical linkage between budget allocations and strategic objectives.

Despite this commendable effort to balance deficit reduction with strategic reinvestment, legitimate debate can and should take place regarding the depth and nature of proposed cuts to the sheriff, the continued shift of health care costs to county employees, and the extraction of a sizable sum from county reserves, among other key budget strategies. As the county board conducts that debate, however, it is imperative that it similarly respect the need for balance, and that it heed the financial management principles articulated in the budget.

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 2014 budget debate.

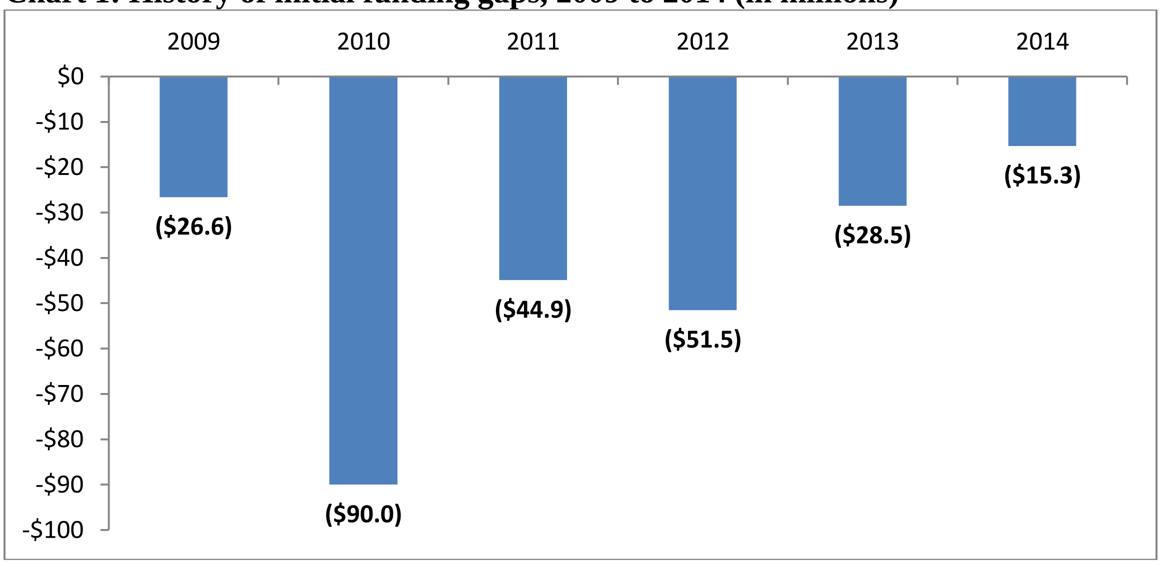
BRIDGING THE 2014 BUDGET GAP

Milwaukee County uses a financial modeling program called "Municast" to prepare annual five-year fiscal forecasts and to determine the approximate size of the budget gap at the outset of each year's budget planning process. The Municast model is based on dozens of assumptions regarding expenditure and revenue line items in the county budget, which are prepared by the Department of Administrative Services (DAS) and approved by a work group consisting of individuals from DAS, the comptroller's office, the county board, and outside entities.

When the Municast model was updated in the spring of 2013, it projected a total budget gap of $15.3 million for 2014. 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.

The size of the 2014 gap pales in comparison to those estimated by DAS in the previous five years, as shown in **Chart 1**. This shrinkage is attributable mainly to slower projected growth in employee/retiree health care and pension costs, a slowdown in employee wage increases (caused in part by a smaller workforce), and a decrease in debt service.

Chart 1: History of initial funding gaps, 2009 to 2014 (in millions)



Source: Milwaukee County Department of Administrative Services

While projected to grow at a far less rapid rate than in previous years, personnel-related costs for active and retired employees still were the major drivers of the county's Municast budget gap for 2014, as shown in **Table 1**. Those costs also continue to outpace projected annual growth in key local revenue streams. For example, Municast assumed a 1.6% increase in the property tax levy and a 2.8% increase in sales tax collections for 2014. Taken together, those projections produce a $6.3 million increase in local revenues, or only about a third of the $18.1 million in added costs projected for wages, health care, and pensions.

Table 1: Projected increases in personnel-related costs for 2014 (per Municast)

Budget Challenge	Assumption	Resulting expenditure increase
Employee/retiree health care	7% increase over adjusted base	$5.7 million expenditure increase
Employee wages/FICA	2.4% increase over 2013 budget	$5.8 million expenditure increase
Pension Fund contribution	Per actuary/comptroller	$6.6 million expenditure increase
		$18.1 million total increase

Source: Milwaukee County Department of Administrative Services Municast Model

At the same time, the $18.1 million in increased personnel costs is about $11 million lower than the projected increase for those three items heading into 2013 budget planning. Thus, Municast also reveals how the county has "bent the curve" with regard to its traditional rate of growth of personnel-related costs.

The next key juncture in the county budget process is the submission of departmental requests to DAS in June. DAS reviewed those requests and further analyzed non-departmental revenues and cost pressures to identify additional 2014 budgetary challenges and opportunities. On the "negative" side were several requests for additional funding from county departments (including a $14.9 million increase from the sheriff). On the positive side, DAS was able to reduce both health care and pension projections based on new information and recent experience.

In the end, the adjusted budget gap was eliminated through a series of expenditure reductions, revenue increases, and adjustments to Municast projections. Meanwhile, additional budget-cutting strategies were developed to free up funds for new initiatives. **Table 2** shows the major fiscal and programmatic strategies used to balance the budget (countless smaller expenditure and revenue changes are not shown).[1]

Table 2: Significant 2014 budget modifications from initial budget "gap" calculation

Budget Reduction	Tax Levy Savings
Health care revisions based on adjusted base & benefit changes	$11.1 million
Sheriff budget reductions[2]	$8.3 million
Transit/paratransit adjustments[3]	$6.2 million
Additional Debt Service Reserve allocation	$6.0 million
County Board Act 14 changes[4]	$2.4 million
Eliminate step increases[5]	$1.7 million
Subtotal	**$35.7 million**
Eliminate property tax increase	($4.5) million
Total	**$31.2 million**

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

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[1] Subsequent to the budget's release, $3 million in technical errors by DAS, sheriff's and comptroller's staff were identified; thus, the budget technically is "out of balance" and policymakers will need to identify additional revenues or expenditure cuts to address the $3 million shortfall.

[2] As explained later in this report, the recommended reduction from the Sheriff's 2013 property tax levy – exclusive of activities transferred to other entities – is $5.3 million. The $8.3 million represents a change from the original budget gap calculation, which included a $3 million increase in the sheriff's budget per Municast.

[3] This reflects a decrease in property tax levy funding compared to Municast, which had projected a $5.5 million property tax increase caused largely by the loss of federal CMAQ funds.

[4] The budget includes a substantial reduction in staffing and expenditures in the county board budget in accordance with Wisconsin Act 14, which caps county board expenditures at no more than 0.4% of the county's overall property tax levy.

[5] "Step increases," are annual advancements to the next step in the pay range for certain employees.

This breakdown shows that the county executive and his budget staff were able to identify and/or develop budget reductions that significantly exceeded the size of the original $15 million gap, thus enabling them to redirect property and sales tax resources to several priority areas and to freeze the property tax levy at the 2013 amount.[6] Priority areas include the following:

- **Appropriation for Contingencies**, which is increased by $3.6 million to $7.7 million. Of that amount, $3.4 million is placed in allocated contingency accounts to protect against specific budget uncertainties.

- **Behavioral Health Community Services**, which receives an earmark of $4.9 million to expand and implement an array of community-based mental health services (see below for further discussion). The budget also includes $1 million in the Behavioral Health Division (BHD) for incentive payments to encourage employees of facilities that will be downsized to stay on the job, and $245,000 for new security cameras at the Mental Health Complex.

- **Capital Improvements Budget**, which receives $10 million in sales tax revenue (up from $6.4 million in 2013) to cash finance several infrastructure projects. Typically, the county's non-airport capital projects are financed largely through borrowing, which is subject to an annual self-imposed cap. The $10 million sales tax appropriation would allow the county to fund more than 20 additional projects, including several that would not have been eligible for bond financing, while staying within its $36 million bonding cap. Recommended projects include several that address basic repair needs of highways, walkways, parkways and buildings, as well as major upgrades in radio communications and information technology. The budget also specifies that 11 additional capital projects totaling $4 million will be financed with land sale revenue should that revenue be realized in 2014.

- **DAS-Facilities Management**, which receives $1.5 million for a combination of increased repair/maintenance activities ($813,000) and space utilization/strategic planning consulting assistance ($700,000).

- **DAS-Fiscal Affairs**, which receives $227,000 to establish a new Records Management Division that will coordinate and improve the county's data and information retention practices.

- **House of Correction**, which receives an increase of $2.8 million for medical and mental health services for inmates to ensure compliance with a court-ordered consent decree.

- **Housing Division**, which receives an extra $400,000 for services and rental assistance in new supportive housing units.

- **Law Enforcement Grants**, which include $350,000 to support the Milwaukee Police Department's ShotSpotter system, which will be used to detect firearm usage in and around county parks in the City of Milwaukee.

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[6] According to a September 18 memo by the comptroller, the county can raise property taxes by $3.6 million (1.3%) in 2014 under an allowance for new construction growth and a growth in certain debt service. In addition, the memo indicates that the county can raise the levy by an additional $3.6 million on a one-time basis because of a provision in the state statutes allowing a levy increase to cover the cost of emergency medical and library services.

- **Paratransit**, which receives an additional $1.5 million to accommodate a $1.00 fare cut.[7]

- **Parks Department**, which receives an increase of $458,000 for minor maintenance and repair activities. Per the budget, $279,000 of that amount comes from savings yielded from the closure of two indoor pools. The budget suggests that those pools have low attendance and require substantial property tax levy support, and recommends that those resources instead be directed to basic repair/maintenance needs and other amenities. This also reflects a larger strategy emphasized in the budget that calls for addressing infrastructure challenges not only by focusing on priority repairs, but also by liquidating underutilized facilities.

In addition, longstanding structural revenue deficits in the Parks Department, Zoo and Housing Division are addressed through additional allocations of property tax levy.

Collectively, these priority investments reflect an enhanced effort to address basic infrastructure repair needs and to reinvest in priority medical and human services programs. Also notable is a concerted effort either to correct problematic revenue assumptions, or to provide contingency funding in the event that certain tenuous revenue sources do not materialize.

The following provides further analysis of the three major strategies used by the county executive and his budget team to bridge the 2014 gap and carve out additional resources to support his priorities.

Health care adjustments

For the third consecutive year, the recommended budget takes advantage of the flexibility granted under Wisconsin Act 10 to require all non-public safety employees to pay more for their health care benefits, thus sharing the cost of inflationary health care increases with most active workers. While the 2014 proposal avoids health care plan design changes – thus sparing retirees from major changes – it eliminates the county contribution to employees' flexible spending accounts (which range from $600 for individuals to $1,800 for families) and increases their health care premiums. The premium for single workers would grow from $100 to $165 per month, while the family premium would increase from $225 to $365, though those increases are tempered somewhat by a $50 per month incentive payment for participation in the county's wellness plan. In addition, the budget recommends substantial increases in dental premiums, from $2 single/$6 family per month to $10 single/$25 family.

Those actions – plus adjustments to baseline spending based on 2013 actual experience, anticipated savings in prescription drug charges, and cost savings from a new wellness provider – allow the county to reduce net health care spending by $2.6 million from the 2013 budgeted amount (from $110.6 million to $107.9 million). As shown earlier, when compared to the original Municast projection for 2014, the savings total more than $11 million. **Table 3** shows the major health care savings strategies and the amount of savings generated by each.

[7] After the budget was submitted, it was discovered that an error had been made in calculating the impact of the paratransit fare decrease, creating a $1.5 million imbalance that will need to be resolved.

Table 3: Major health care savings items in 2014 recommended budget

Health Care Cost Reduction Strategy	Savings
Eliminate flexible spending account contributions	$ 3.7 million
Increased employee health insurance premiums	$ 2.0 million
Prescription drug savings	$ 1.1 million
Increased employee dental insurance premiums	$ 0.8 million
Dental plan changes	$ 0.8 million
Wellness program reduction	$ 0.5 million
Total	**$8.9 million budget savings**

Source: DAS, 2014 Recommended Budget Document

The decision to again require employees to pay more for their health insurance reflects the fundamental reality of the county's structural deficit. Health care costs – while sharply reduced over the past several years in terms of both baseline spending and the rate of growth – still constitute one of the single largest budget line items in 2014 at nearly $108 million, and still grow at a much faster pace than inflation because of the expensive nature of health care and the advanced age of the county's covered population. A key reason is the high percentage of retirees, who tend not only to incur greater health care costs, but who also do not pay monthly premiums. In fact, retiree health care costs will comprise $63 million (58%) of the county's overall net health care budget in 2014, a reflection both of the rising costs associated with retirees and the fact that the active workforce continues to shrink.

The recommended budget assumes a general inflationary increase of 7.6% in the cost of health care claims. That assumption is lower than the 9% used in previous years, but still requires an annual $5 million increase in that component of the health care budget alone. Factoring in inflationary increases in prescription drugs, dental, and Medicare Part B can add several million dollars more to the county's annual health care bill, producing a total cost increase that is difficult to accommodate given the flat nature of the county's revenue streams.

While those structural realities may justify the county's need to annually ask its employees to share the pain of rising health care costs, potential impacts on employee morale, recruitment and retention also must be considered. The recommended budget does provide a 2% wage increase on April 1 that helps offset increased health and dental premiums, but that is partially offset by an increase in the percentage of salary that each general employee must contribute to support his or her pension costs, from 4.4% to 5.1%. Consequently, depending on individual health care circumstances and salary levels, most county employees would experience an overall decrease in compensation in 2014, as they have for the past two years.

Whether it is fair and justifiable to reduce the compensation of county employees on an annual basis depends on one's perspective on their current pay and benefits, as well as one's views on the efficacy of alternative budget-cutting and revenue-generating options. It does appear, however, that this strategy – while perhaps necessary and viable in the short-term – eventually must be supplemented or replaced by alternative strategies to curb the growth of health care costs or to otherwise accommodate them.

Reductions to Office of the Sheriff

For the third consecutive year, the recommended budget proposes substantial changes to the sheriff's operations and staffing. Several services provided by the sheriff in 2013 are transferred to other areas of county government, and expenditures for those services that remain are reduced by about $5.3 million.[8] The most significant reductions are shown in **Table 4**.

Table 4: Major Office of the Sheriff reductions in 2014 recommended budget*

Cost Reduction Strategy	Savings
Reduce staffing/expenditures in the County Jail	$3,381,005**
Reduce civil process/warrants section	$1,351,728
Reduce command/managerial staff	$1,040,208
Reduce Tactical Enforcement Unit & contract with Milwaukee Police	$ 508,893
Reduce general investigations w/some responsibilities shifted to D.A.	$ 385,342
Total	**$6,667,176**

Source: Department of Administrative Services and 2014 Recommended Budget
* The $6.7 million cited here exceeds the $5.3 million in net expenditure reductions because this list includes only major programmatic reductions. There are dozens of additional smaller changes in revenues and expenditures within other areas of the sheriff's budget that account for the $5.3 million net total.
** This savings amount includes the elimination of laundry ($400,000) and food service ($1,254,000) expenditures at the Jail, which are now housed in the House of Correction budget. Consequently, $1.7 million of the total does not reflect an actual reduction of staffing or services at the Jail.

In addition to cutting staffing and service levels in the areas cited above, the budget recommends a transfer of the following service areas and their corresponding staff and expenditures:

- Responsibility for **patrolling county parks** within the City of Milwaukee – including the downtown lakefront – is transferred to the Milwaukee Police Department (MPD).

- Responsibility for managing the **training academy in Franklin** – which traditionally has been used to train both sheriff's and House of Correction (HOC) staff – is transferred to the HOC, along with about $1.2 million of appropriations.

- **Emergency management and 911 dispatch services** and staff are transferred from the sheriff to a new Department of Emergency Preparedness. This results in a transfer of about $4.2 million in funding from the sheriff to the new department.

- Five deputy sheriff positions that were previously allocated to an **apprehension unit** are unfunded, and $581,000 is transferred to the District Attorney's office to take over that function.

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[8] The recommended budget shows a property tax levy reduction of $7.6 million in the sheriff's budget compared to 2013. If expenditures that are transferred to the new Department of Emergency Preparedness had been included, then the true tax levy reduction would have been closer to $11.7 million. The $5.3 million expenditure reduction figure cited above does not include those expenditures, and also subtracts about $2.3 million for additional services that are reflected in the sheriff's recommended budget but are transferred to the House of Correction and District Attorney. Thus, the $5.3 million figure reflects an estimate of the actual reduction in expenditures that would occur for services currently provided by the sheriff, as the transferred services ostensibly would remain at current levels.

As in previous years, the recommended budget cites a desire to prioritize "core, mandated services" within the sheriff's budget, and argues that some resources have been redirected from lower-priority and discretionary areas of the budget to sufficiently fund (and in some cases bolster) those services. It also states that the transfer of the functions cited above provides an opportunity to streamline the sheriff's management structure to a "more appropriate level."

The sheer size of the Office of the Sheriff (it is the largest departmental recipient of property tax levy at $68 million and houses nearly 700 positions) requires that it be considered for budget reductions when the structural gap demands substantial countywide reductions. The justification for this year's cuts, however, appears to be linked more closely to a determination that certain areas of spending in the sheriff's budget are unnecessary or of low priority, and a desire to shift those resources to areas of county government that are deemed higher priorities, like mental health and infrastructure repairs.

The county executive certainly is justified in establishing his own priorities and seeking organizational efficiencies in all areas of county government. His office also has experience in managing transformational change in sheriff's operations with the recent transfer of control of the HOC, which appears to have met the administration's stated objectives.

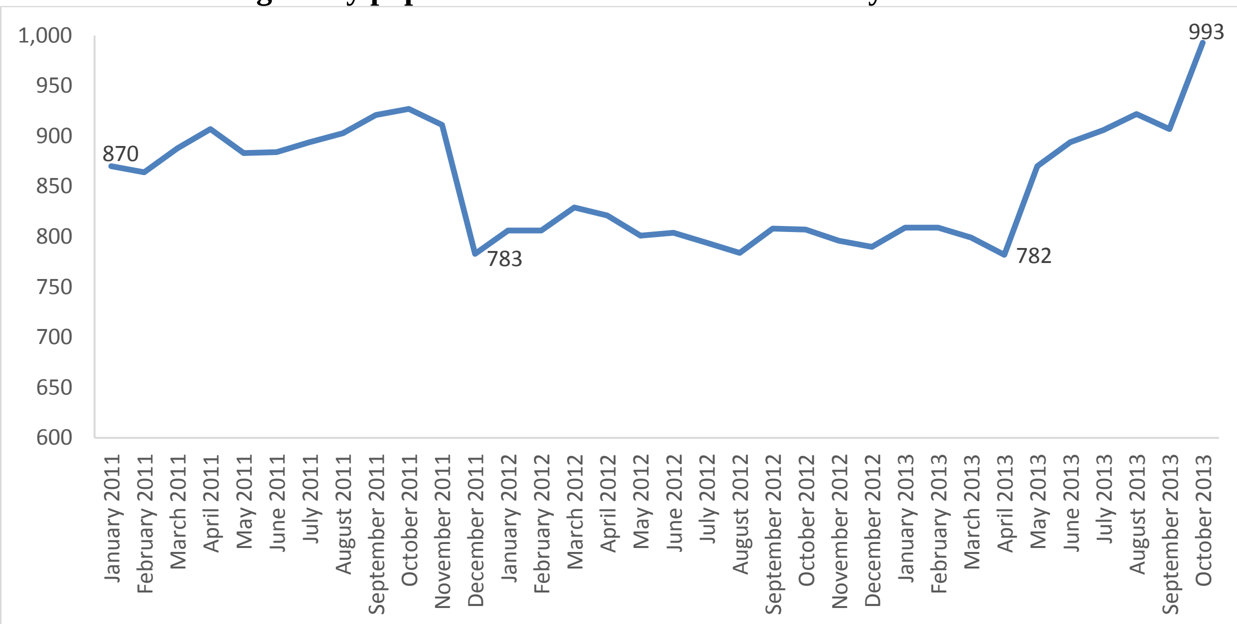
Given the sheriff's status as an independently elected constitutional officer, however, there is a higher bar to clear when it comes to making substantial cuts that could impact his office's service-level capacity. In the end, policymakers need to consider whether the reductions imposed by the recommended budget conflict with the sheriff's ability to effectively carry out his mandated services and duties. The following discussion reviews that question with respect to some of the major budget-cutting initiatives contained in the recommended budget.

- **Staffing levels in the County Jail.** The budget reduces property tax levy in the County Jail by $3.4 million (from $38.1 to $34.7 million), though as noted above, almost half of the decrease is attributed to the transfer of laundry ($400,000) and food service ($1.3 million) charges to the HOC budget. Staffing levels are slightly reduced from 342 to 336 full-time equivalent workers (FTEs), though a $500,000 increase in budgeted vacancy and turnover savings would require several additional positions to be kept vacant during the year.

  According to the budget narrative, the correctional officer staffing level of 256 FTEs reflects the two-year historical average of corrections officers per pay period. The sheriff's office does not refute that number, but points out that those average staffing levels reflect a much lower Jail population and would be insufficient to manage the higher level of 920 inmates per day that is assumed in the budget.

  As shown in **Chart 2**, the Jail's average daily population for much of the past two years hovered in the 800 range, in part because of the six-month closure of two housing units for repairs in December 2011, and also because of the sheriff's flexibility to distribute inmates among the Jail and HOC largely at his discretion. The sheriff's flexibility to control the Jail's population was reduced earlier this year with the transfer of the HOC to a new superintendent, and the population has escalated since that time to a high of 993 in early October. The budget's assumption of an average of 920 daily inmates takes into account this recent spike, and is considerably higher than the 840 assumed in 2013 and the actual population for much of the period on which the two-year average is predicated.

Chart 2: Average daily populations at the Milwaukee County Jail



Source: Office of the Sheriff

Consequently, policymakers need to consider whether the number of corrections officers provided in the recommended budget will be sufficient to meet the needs of the actual Jail population, or whether there is a budgeting mismatch of staff to inmate population. Also, it should be noted that while the sheriff does have flexibility to shift resources to the Jail from other areas of his operation (and vice versa), proposed cuts to most of those areas in this and previous years' budgets will limit his ability to do so.

- **Reduction of Tactical Enforcement Unit (TEU) and agreement with Milwaukee Police Department (MPD).** The recommended budget revisits last year's proposal to shift patrol of Milwaukee parks and the lakefront to MPD. Rather than completely eliminating the 28-person TEU, however, the 2014 budget preserves 10 positions and indicates that suburban park patrols only will be shifted if requested by individual municipalities. The 18 positions (including 17 deputy sheriffs) and associated costs eliminated from the TEU save about $1.6 million, which is offset by a $965,000 expenditure in a separate non-departmental account for a service agreement with MPD. In addition, $180,000 is provided to allow each of the suburban municipalities the opportunity to enter into service agreements to patrol their own parks in return for a $10,000 payment.

  The decision to retain a smaller TEU helps to address a concern voiced last year that the TEU does far more than patrol the parks. For example, TEU deputies often provide backfill as needed for civil processing, bailiff services, expressway patrol, detention, and special events, and actually have been pulled out of the parks in previous years to fill holes in those areas. An important question is whether the much smaller TEU – albeit with less responsibility – will be able to provide this important flexibility, particularly given reductions in other areas.

- **Reduction of staffing for civil process/warrants.** The budget reduces staffing from 30 to eight for a tax levy savings of $1.4 million. Budget officials point to the multiple law enforcement entities that clear warrants as part of their day-to-day responsibilities and suggest this responsibility can be better shared with those entities. They further attest that the resources provided are sufficient to allow the sheriff to pursue those whose warrants involve serious breaches of the law, while avoiding unnecessary expenditures on efforts to clear warrants for minor incidents. They also suggest that a slightly enhanced contract with the sheriff's process service vendor plus remaining staff will accommodate civil process needs.

  The sheriff, however, contends that these two distinct areas of his operation are mandated functions that are staff-intensive and require timely action. He particularly cites the broad range of activities in civil process – many of which require two deputies to perform and must be completed within statutorily-dictated timeframes – and argues that the limited staff in the recommended budget could not handle the workload. Those activities range from extraditions, to temporary restraining orders, to eviction and foreclosure notices and actions. The sheriff also cites a reduction from 15 to 10 deputies in the civil process area in 2013 and attests that considerable overtime was needed to address the workload. The recommended budget provides five deputies for both civil process and warrant activities.

- **Cuts to investigations and apprehension units.** In the criminal investigations area, 11 positions are cut (from 23.4 to 12.4 FTEs), and expenditures are reduced by $967,000, though $581,000 is transferred to the district attorney's office to take over apprehension duties for escapees from the HOC. The budget justifies the investigations staffing cuts by arguing that workload data shows relatively little investigative activity and meager investigative caseloads when compared to other law enforcement agencies, and that criminal investigations are more logically the purview of municipal police departments.

  The sheriff counters that the budget fails to recognize the true nature of these functions. In particular, he refutes the budget's contention that investigative activity is limited and mostly involves internal affairs, arguing instead that several of the investigators are assigned to special regional crime-fighting task forces that perform other critical duties that do not show up in the budget's statistical tables. The sheriff also argues that the apprehension unit spends considerable time picking up individuals with arrest warrants on behalf of municipalities, and that very little of that unit's activity involves hunting down absconders.

- **Reduction of administrative and managerial staff.** The budget eliminates one of two inspector positions and one of three funded deputy inspectors (for a combined savings of $225,000), as well as six of 10 funded captain positions ($663,000 savings). The community relations coordinator also is eliminated for a savings of $110,000. The budget cites the transfer of several key service areas, which provides an opportunity to streamline management. Budget officials also say managerial capacity at the jail will be maintained via the creation of two new civilian managerial positions to replace two of the captain positions.

  The sheriff argues that these cuts will decimate his command structure and expose the county to substantial liability, as sufficient supervisory capacity is needed to avoid mistakes in high-pressure areas like detention and expressway patrol. Furthermore, he points to substantial managerial reductions that he has implemented since taking office in 2002, including a reduction in deputy inspectors from seven to three, and in captains from 24 to 10.

The ability of the Public Policy Forum or any outside entity to discern who is correct with regard to each of these arguments is limited. Unfortunately, that is a major crux of the problem. Because communications between the budget office and sheriff's fiscal staff are limited – a product of the antipathy that exists between the county executive and sheriff – the budget office performs its own independent analysis to identify perceived areas of unnecessary spending in the sheriff's office and uses that analysis to develop and justify substantial budget cuts. While their intentions are completely appropriate – to redirect inefficient or low-priority spending to higher-priority areas as determined by the county executive – their analysis would be stronger if it also involved give-and-take with sheriff's staff, who could provide insight on operational considerations and consequences that may not be readily apparent from activity and staffing data.

We cannot determine which party is at fault for this lack of communication. We would suggest, however, that while enhanced dialogue almost certainly would not produce agreement on the need to cut substantial resources from the sheriff's budget, the process of laying out the operational consequences associated with those cuts would be vastly improved if staff from the two parties had greater interaction during budget development.

County supervisors now must attempt to sort out the arguments of both sides and address any programmatic consequences to sheriff's operations that are deemed unacceptable. As suggested above, their goal should be to consider the duties that *must* be performed by the sheriff per the state constitution and statutes, and to ensure that he has the flexibility to manage his budget in a manner that allows those duties to be appropriately fulfilled. In that regard, perhaps a preferable approach for this year would be to consider a "lump sum" reduction to the sheriff's budget, as that would afford him greater flexibility to deploy staff and otherwise manage his reduction as he sees fit.

Use of prior year surplus

The county's lack of reserves has been a longstanding fiscal concern raised in several of the Forum's previous budget analyses. Unlike the City of Milwaukee, which maintains an ample tax stabilization fund and has built a sizable pension reserve fund (both of which had balances exceeding $50 million at the start of the year), the county has had no reserves to speak of outside of its Debt Service Reserve (DSR), which typically has a balance of no more than $5 or $6 million.[9] While understandable in the context of the annual need to plug large budget gaps, the lack of reserves is particularly glaring given the county's heavy reliance on revenue from other sources of government, and the volatility of key expenditure and revenue items like corrections spending, parks/zoo admissions, and pension contributions.

Remarkably, this perennial concern has now receded. The county ended 2012 with a $24 million surplus, and policymakers prudently elected to transfer $19 million of that amount into the DSR. While a small portion of those funds were allocated earlier this year, the county currently enjoys

[9] 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. 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.

a DSR balance of about $18 million. This by no means constitutes a robust reserve given the county's $1.3 billion budget and its relatively high degree of budget volatility, but it does give the county the opportunity – for the first time in recent memory – to maintain and build a sizable reserve that can be rolled over from year to year to offset annual swings in major revenue and expenditure accounts or address emergency needs.

The recommended budget diminishes that opportunity, however, by removing $12 million from the DSR, leaving it with a balance of $6.1 million. About half of the $12 million is used to offset debt service costs in the operating budget (thus freeing up property tax levy for other uses), while the other half is used to cash finance a series of needed capital improvements. The $6.1 million balance is higher than most previous years, but is still well below a $10 million goal established by the budget itself.

While reserves ideally should be maintained at healthy levels, this action can be defended from a number of perspectives. One is the vast nature of the county's infrastructure repair needs, which arguably may trump its desire for robust reserves. In fact, the five-year capital improvements plan contained in the budget cites a need for $125 million in bonded projects for 2015 – almost four times the size of the county's bonding cap. In addition, an important benefit of using DSR monies to pay for capital projects is that the county does not add to its debt burden and will not be required to pay bond interest on the projects that are funded. This is consistent with a fiscal priority voiced repeatedly by the county executive to limit borrowing and reduce the county's long-term debt.

Despite those arguments, however, there also is a sound rationale for preserving the DSR at a healthier level. For example, it could be argued that "smoothing" the use of the 2012 surplus monies over multiple years would allow the county to realize some benefit over a lengthier period, as opposed to reaping considerable benefit in just one year. In addition, while the county's financial fortunes have improved, they are still volatile. In 2015, the county may face a sizable increase in its pension contribution, as the five-year apportionment of proceeds from the $45 million Mercer pension lawsuit settlement will expire. Furthermore, several key intergovernmental revenue streams remain tenuous in light of federal deficit reduction efforts; corrections populations (and spending) again may be on the rise; and several lawsuits aimed at reversing employee/retiree fringe benefits changes still are proceeding through the courts.

Overall, the *manner* in which the recommended budget uses the 2012 surplus should not be challenged, but the decision to use such a substantial portion of the surplus could be. Of course, if fewer surplus dollars are extracted from the DSR in 2014, then those dollars would have to be made up elsewhere. One option would be to eliminate several projects from the capital improvements budget, though that would be inconsistent with the county's capital needs. Another would be to increase property taxes, though that would contradict the county executive's desire to freeze the levy at the previous year's amount. In the end, there may be no *right* answer to this question, but it is a sign of progress that a debate over the appropriate use of a sizable county surplus is occurring at all.

COMMUNITY-BASED MENTAL HEALTH SERVICES

Perhaps the most significant programmatic initiative in the recommended budget is a substantial investment in community-based mental health services to accompany the continued downsizing of inpatient and long-term care capacity at the county's Mental Health Complex. In fact, the budget removes community-based services as a division of BHD and creates a new Behavioral Health Community Services Division with its own management structure within the Department of Health and Human Services.

Overall, the budget cites $4.9 million in new and continued local investments in community-based mental health care, which in some cases also will draw down substantial federal/state matching funds. The largest components are summarized in **Table 5**.

Table 5: Major new and continued community-based mental health services investments

Community-Based Investment	Recommended Appropriation
Enhanced services for clients moved out of Rehab Central long-term care facility	$ 797,162
Inflationary increases for Community Support Program providers	$ 738,731
New treatment models in Community Support Program	$ 416,800
New crisis resources for clients w/dev. disabilities & co-occurring mental illness	$ 404,544
40 new scattered-site supportive housing units	$ 400,000
New peer-run drop-in center & increased peer support contracts	$ 276,333
Start-up costs for Comprehensive Recovery Services (CRS) program	$ 275,000
New south side access clinic for outpatient services	$ 250,000
New community consultation team for individuals with dev. disabilities & co-occurring mental illness	$ 247,452
New 24/7 crisis intervention team for elderly individuals	$ 200,000
New preventative strategies for African American & Latino consumers	$ 195,000
Maintain new Targeted Case Management slots added in 2013	$ 125,000
Total	**$4.3 million investment**

Source: Department of Health & Human Services and 2014 Recommended Budget

According to the budget, these investments fully align with BHD's mental health redesign initiative, which is geared toward providing more varied and enhanced forms of mental health care and treatment in community settings. The objective is to provide better and more preventative services in the community while reducing the need for expensive and ineffective emergency, inpatient and institutional care.

In keeping with that strategic direction – which was laid out in detail by the Forum and the Human Services Research Institute (HSRI) in an October 2010 redesign study[10] – the recommended budget also accelerates recent downsizing initiatives at the Mental Health Complex. The two remaining units at the Hilltop long-term care facility will close by November 1, while one of the three 24-bed units at the Rehab Central long-term care facility will close by July 1. In addition, 12 acute inpatient beds will close by April 1 to bring total adult inpatient capacity to 57 beds, which is down from 96 just three years ago.

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[10] http://publicpolicyforum.org/research/transforming-adult-mental-health-care-delivery-system-milwaukee-county

The budget cites $3.2 million in savings related to these capacity reductions, which stem not only from cuts in medical and patient-care staff, but also from a reduction in general administrative and overhead costs. In a report released earlier this year,[11] the Forum pointed to a $37 million internal administrative/overhead structure within BHD – as well as $6 million of charges incurred by the division for administrative services provided by other county departments – and suggested that meaningful savings would not be generated from unit closures without corresponding reductions in administrative costs. That finding is heeded in the budget, as reduced administrative and overhead expenditures account for $1.5 million of the downsizing savings. In addition, the budget reduces BHD's charges from other departments by $1 million.

Despite the lengthy list of community-based investments cited above, some have challenged whether they are sufficient to meet consumer needs in the face of such rapid downsizing. Ironically, the size of the list could be used to support both sides of that question. On the one hand, it represents a concerted effort to bulk up specific services that are directly connected to the long-term care downsizings, and to implementing a much broader array of recovery-oriented services through the CRS program and new case management treatment models. It also demonstrates sensitivity to the needs of specific populations and appears to reasonably reflect the amount of community capacity-building that could occur in a 12-month period.

At the same time, the distribution of the $4.9 million among dozens of different services and initiatives suggests an approach that is geared more toward addressing piecemeal gaps in the existing system than creating a new one. In fairness, mental health redesign is a work in progress, and the budget's approach may indeed represent another important installment on the road to a fully transformed system. It might be helpful, however, for that vision to be fully articulated by county leaders, so that policymakers and stakeholders could better understand what the eventual redesigned system will look like in terms of who and how many will be served, where and how they will receive services, and how the investments contained in the budget mesh with the redesign vision.

In a related vein, it will be essential for the new community services division to implement strong monitoring and data-gathering procedures to detect any programmatic problems that arise during the transformation and to measure its success. As stated in the HSRI report, "it is important that all system stakeholders know and communicate how they are performing, the outcomes they are achieving, and how the performance and outcomes compare to system-wide goals." Indeed, the best way for the division to satisfy concerns about the level of community-based investments is to collect and share data from the field that will speak to the success of relocated consumers and whether demands for services are being met.

Overall, the $4.9 million is a meaningful investment that upholds a commitment to redirect downsizing savings into community-based care. The true adequacy of the investment will be determined, however, by whether it creates the array and volume of community-based services that truly meets the needs created by the immediate reduction in beds, while also reducing long-term demand for inpatient, crisis and institutional care.

[11] http://publicpolicyforum.org/sites/default/files/BHDFiscalAnalysis2013.pdf

FISCAL MANAGEMENT POLICIES, PERFORMANCE-BASED BUDGETING AND THE STRUCTURAL DEFICIT

One of the most important and far-reaching elements of the 2014 recommended budget has nothing to do with dollars and cents. The county executive and his budget team have introduced a new format for the budget document, which includes the following significant changes:

- Departmental budgets are now broken down by major program areas, as opposed to divisions or sections. Program area narratives delineate activity data, performance measures, and spending/staffing levels as a means of linking spending levels to outputs and outcomes and re-introducing the concept of performance-based budgeting. In addition, a "strategic implementation" write-up for each program area describes how allocated resources will be used to achieve strategic objectives.
- The budget begins with introductory sections that review budget assumptions; analyze the county's long-term fiscal forecast; and summarize key expenditure and revenue items by functional area, thus allowing the reader to gain a comprehensive overview of the budget's contents and key initiatives without having to review each departmental narrative.
- Also included in the introductory section is a detailed description of the county's fiscal management policies, covering areas like the use of one-time revenues; the development of revenue assumptions; debt management and unrestricted fund balance policies; and use of the DSR.

Sufficient Fiscal Staff Key to Sound Fiscal Management

Changes to the budget document and the establishment of sound financial management principles are important enhancements to the county's budget process, but the provision of sufficient fiscal staff also is important.

In last year's budget brief, we noted that several DAS-Fiscal Affairs positions had been transferred to the comptroller's office and had not been fully replaced. This year, the recommended budget abolishes the Assistant Fiscal and Budget Administrator position, which traditionally has played an important role in the technical aspects of budget preparation.

Efforts to reduce unnecessary administrative staff are laudable. But in this case, care should be taken to ensure that DAS' fiscal staffing levels are equal to the task of preparing and monitoring the county's complicated budget.

Taken together, these formatting changes represent another sign of progress in the county's march toward fiscal stability. In particular, while the effort to establish sound performance measures and link budgetary allocations to strategic objectives is at its beginning stages (as the budget readily admits), these are important first steps toward a budgeting system that will allow policymakers to base budget decisions on strategic priorities and program performance. Similarly important is the effort to lay out the long-term forecast and establish fiscal management policies, both of which may discourage decision-making in annual budgets that exacerbate financial stress in future years.

The decision to reconstruct the budget format in this manner not only establishes broad fiscal direction for the county board, but it also places greater responsibility on the county executive and his budget team to similarly follow that direction. On the whole, the recommended budget does so by refraining from budgeting uncertain revenues, promoting prudent use of unanticipated and one-time revenue sources, shoring up areas where previous revenue projections have been troublesome, cash financing dozens of capital improvements, and controlling key cost drivers.

There are two areas, however, in which consistency with stated strategic and fiscal goals is less apparent. The first is the decision to use $12 million from the DSR which, as discussed above, runs counter to the stated policy of building and maintaining the reserve at $10 million. The second – which is tied somewhat to that decision – is the recommendation to freeze the property tax levy for the third consecutive year.[12]

It is hard to second-guess a decision to freeze the property tax at a time when the economy has not yet fully recovered, and in a budget year that has the smallest structural gap in recent memory. It should be recognized, however, that the county's structural deficit stems from a combination of growing fixed costs *and* flat revenues. Indeed, few would reasonably argue that local governments do not need some inflationary revenue growth to meet similar growth in costs. The International City-County Management Association, for example, suggests that "under ideal conditions, revenues would grow at a rate equal or greater than the combined effects of inflation and expenditure."

The need to provide some growth in the property tax would not be as pressing if other key revenue streams were increasing. Unfortunately, they are not. Federal and state revenues decrease by a combined $8.6 million in 2014 (though some of the reduction can be linked to BHD downsizing and other programmatic changes). Meanwhile, budgeted sales tax revenue decreases by $1 million to reflect lower-than-anticipated collections in 2013. The county does have other options to increase local revenues besides the property tax, such as charges and fees, and the recommended budget does include modest fee increases for the Domes, McKinley Marina and outdoor pools. Still, the revenues generated from those increases are insignificant in the context of the overall budget.

Again, while a property tax levy freeze may be justifiable in the context of 2014 budget circumstances, it is difficult to envision how the county's structural gap can be fully bridged over the long term without inflationary growth in revenues. Given the budget's new emphasis on steering policymakers' attention to long-term fiscal challenges and policies, discussion of policies on long-term revenue growth would be a helpful addition for next year.

[12] The county's levy has increased in each of the past two years because of action by the county board. The county executive's proposed freeze in each of the past two budgets has incorporated those increases and frozen the levy at the *adopted* amount from the previous year, as opposed to the amount in the previous year's recommended budget.

PROGRESS OF NEW COMPTROLLER'S OFFICE

In November 2011, the Wisconsin Legislature created an elected comptroller for Milwaukee County. The position – which replaced an unelected controller in DAS – is charged with acting as the chief financial officer of the county and the administrator of its financial affairs.

The first (and current) elected comptroller was sworn into office in April 2012. In June of that year, the county board created the Office of the Comptroller and transferred 41 payroll, accounting, audit and related positions from other county departments to fulfill the responsibilities of the new office. The board also adopted a series of changes to the county ordinances to ensure that the county's fiscal procedures conformed to the responsibilities of the new position, which were to include "the oversight of all debt, financial reporting, fiscal analysis and fiscal note review, and financial forecasting," as well as traditional accounting, central payroll, and audit functions.

During the past year, the purview of the elected comptroller's office has grown. With the state legislature's adoption of Wisconsin Act 14 – which sharply curtails the responsibilities of the county board – four positions recently were created in the comptroller's office to take over the board's legislative research function. In addition, per the request of the comptroller, the recommended budget would add 10 more positions – eight to consolidate departmental payroll personnel in the comptroller's office, as well as an additional analyst for its fiscal analysis team and a new accountant. The office's recommended property tax levy for 2014 is $7.1 million, which is about $900,000 more than 2013.

The office's growth appears consistent with the vision originally articulated by supporters of an elected comptroller, who argued that the office would enhance the county's financial acumen by ensuring professional management of its accounting, audit, and core fiscal functions without political influence from either branch of government. It also was hoped that the comptroller could serve as an independent, expert voice that would help settle longstanding disputes between the two branches over the scope of fiscal challenges and strategies to address them.

Review of the office's major initiatives over the past year indicate that those expectations are being met. For example:

- The comptroller's office led an initiative to refinance the county's pension obligation notes at a vastly reduced interest rate that is expected to save more than $100 million over the long-term life of the notes.

- The proposed consolidation of payroll personnel is expected to ensure an appropriate separation of duties between payroll and human resources functions and create efficiencies across county government.

- The comptroller successfully argued for the allocation of $19 million of the county's $24 million 2012 surplus to the debt service reserve, where it can be preserved to offset unanticipated budget fluctuations in future years, as opposed to being spent only in the following year's budget.

- The office's fiscal analysis team has provided an enhanced level of fiscal support for various county initiatives, including reviews of pending legislation, lease and management agreements, and labor contracts.

On a less quantifiable but equally important basis, the comptroller has become a noteworthy presence at monthly meetings of the county's Finance, Personnel and Audit Committee, providing independent financial advice and occasionally injecting his viewpoints to try to settle disagreements between the two branches. In addition, his quarterly surplus/deficit reports have generated far less controversy than in previous years, when the executive branch was at times accused by board members of using overly conservative deficit projections.

Looking toward the future, it is unclear whether the comptroller and his office intend to take a more proactive role in influencing fiscal decision-making and conducting independent policy analysis. Currently, the office limits its role on policy issues to conducting independent fiscal analysis on such issues *when requested to do so* by the county board or county executive. Conversely, on the fiscal management front, the office has proactively sought approval from the two branches to undertake pension note refinancing initiatives and to replenish the DSR.

It bears watching whether the office will attempt to use its expanded capacity in the fiscal analysis area to analyze and opine on issues with important financial consequences even if not specifically prompted to do so by either branch. The comptroller also could consider an enhanced role in the fiscal note process, perhaps even by assuming responsibility for drafting all fiscal notes, as opposed simply to reviewing them.

Similarly, the office's role in budget development still is evolving. In last year's budget brief, we observed that much of the background work required for developing the capital improvements budget and key budget projections (e.g. health care expenditures) continued to be performed by the comptroller and staff who had recently transferred from DAS, as DAS had not yet replaced that expertise in its own operation. For the 2014 budget, while the comptroller and his staff were asked for advice and support at times (particularly with regard to the capital improvements budget), they generally played a far less active role.

This begs the question as to whether the comptroller and his staff should work with the budget office in budget preparation at all, or should remain independent from that process. For example, the comptroller could be called upon to deliver an independent report to the board on budget assumptions and revenue projections *after* the budget has been submitted, or his office could be required to independently certify all revenue items late in the budget process as a condition of their inclusion in the recommended budget, similar to the role currently performed by the City of Milwaukee comptroller. The latter approach likely would require a change in county ordinances.

Overall, there is both quantitative and qualitative evidence to suggest that the independent comptroller has contributed to more proactive financial management, and has de-politicized the consideration of fundamental information that should form the basis for fiscal decision-making. Whether the comptroller should be playing a more active role in independently analyzing contentious policy issues and refereeing policy disputes is a question that should be considered both by him and each branch as the office grows in stature and capacity.

CONCLUSION

Since early in the last decade, Milwaukee County's annual budget deliberations have been marked by heated debates over dozens of spending cuts and privatization initiatives linked to the need to plug sizable budget holes. This year, however, a much smaller budget gap limits major reductions to a handful of areas, while the sole substantive privatization effort relates to BHD's Community Support Program.

Consequently, while there certainly will be no shortage of heated rhetoric during this year's deliberations, the focus will change. In addition to debating proposed reductions, supervisors will need to consider the appropriateness and sufficiency of reinvestment strategies contained in the 2014 budget, as well as the underlying principles it articulates to guide the county in its future efforts to achieve structural balance.

The recommended budget establishes clear direction with regard to both matters. In terms of reinvestment, the budget indicates that mental health and infrastructure repairs will take precedence over other needs, though it also emphasizes the *preservation* of existing levels of services and funding for most other areas of county government, and finds room for a paratransit fare cut. The budget also contains several investments that are geared toward reducing operating costs in the long run, including a series of one-time efficiency projects to be funded with anticipated land sale revenue, and technology upgrades in several departments.

With regard to guiding principles, the budget again specifies that employee health care and sheriff's services will need to bear the brunt of major cost-cutting efforts; that cash financing will fund a growing share of the county's capital needs so as not to increase the long-term debt burden; that consolidation of facilities will be critical to meeting infrastructure needs; and that the property tax levy will remain flat.

As this analysis has discussed, just because these priorities and principles are clear does not mean they should escape careful deliberation, and does not mean that other deficit reduction strategies should be off the table. Legitimate questions can be raised, for example, regarding the amount of budget pain incurred by the sheriff's office, the drawdown of the Debt Service Reserve, and the viability of permanently freezing the property tax. It is entirely within the county board's purview and responsibility to challenge these and other items, but as it does so it must similarly acknowledge the county's long-term challenges and adhere to financial best practices.

Overall, the 2014 recommended budget should be seen as one that continues the county's path toward financial stability. While there is more work to be done, the fact that reinvestment is a key budget theme demonstrates how far the county has come in its march toward structural balance.