Budget Brief:

Milwaukee County
2015 Executive Budget

Public Policy Forum

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ABOUT THE PUBLIC POLICY FORUM

The Milwaukee-based Public Policy Forum, established in 1913 as a local government watchdog, is a nonpartisan, nonprofit organization dedicated to enhancing the effectiveness of government and the development of Southeastern Wisconsin through objective research of regional public policy issues.

PREFACE AND ACKNOWLEDGMENTS

This report is intended to provide citizens and policymakers with an independent, comprehensive, and objective analysis of the Milwaukee County Executive's budget. We hope that policymakers and community leaders will use the report's findings to inform discussions during upcoming budget deliberations.

Report authors would like to thank Milwaukee County fiscal officials and staff – including staff from the Department of Administrative Services and Comptroller's Office – for their assistance in providing information on the County's finances.

Finally, we wish to thank the Northwestern Mutual Foundation for generously supporting our local government finance research.

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Introduction

Whereas the 2014 budget was remarkable by Milwaukee County standards given its manageable structural gap and the opportunity it afforded to reinvest in infrastructure and services, the 2015 recommended budget reflects a more familiar set of fiscal circumstances. Faced with increased pressure from fringe benefit and salary costs and less capacity to withdraw funds from the Debt Service Reserve, the county executive and his budget team returned to the customary scenario of a substantial budget gap and a limited set of options to address it.

Reflecting the nature of that challenge, the budget is noticeably lacking in major new spending initiatives when compared to 2014. Instead, it reflects almost a singular focus on the structural deficit, using additional health care changes, a wage freeze, and a series of restructuring and outsourcing initiatives both to fill the 2015 gap, and to effectuate long-term savings that should better position the County to alleviate its long-term structural imbalance.

There are many parallels between this approach and the "3 R" fiscal sustainability strategy established by the City of Milwaukee, which stands for "resizing, restructuring, and reinvestment." In the case of Milwaukee County, resizing is reflected by the reduction of 263 full-time equivalent positions (FTEs) in the 2015 budget, made possible primarily by the outsourcing of Courthouse security, mental health community service programs, and Zoo concessions. The budget also includes several restructuring initiatives, including creation of a new Department of Emergency Management, the sale and/or demolition of physical assets, and new service-sharing arrangements with municipal governments.

Reinvestment receives less prominence in the recommended budget, however, which is in part a reflection of the increased size of the 2015 budget gap. While the capital improvements budget does grow, it is acknowledged that the County does not possess the financial wherewithal to fully address deferred infrastructure needs. Meanwhile, the operating budget contains a wage freeze and health care premium increases for County employees, a continued property tax levy freeze, and limited new spending in stressed service areas like parks maintenance and mental health.

Overall, the budget's effort to hold the line on departmental expenditures and creatively seek structural savings is fiscally responsible and reflective of the County's ongoing fiscal challenges. A key question, however, is whether long-term balance can be achieved with a strategy that leans so heavily on annual demands for departments to operate more efficiently with fewer resources.

This question does not suggest that policymakers should raise the property tax levy to its legal limit, raid reserves, or inappropriately use one-time revenues. On the contrary, the budget establishes a series of sound financial management practices to which the County should adhere. The debatable issue is whether some additional reinvestment might be possible without sacrificing sound fiscal principles and long-term solvency; or, if not, whether it is time to consider eliminating entire service areas altogether so that resources can be redirected to those that remain.

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 immediate and long-term financial health. We hope our analysis will contribute to a more objective and informed 2015 budget debate.

2015 Recommended Budget Synopsis

The 2015 Recommended Budget contains slightly over $1.3 billion in expenditures and revenues, an increase of less than 1% ($9.4 million) from 2014. Of that amount, all but $79 million allocated for capital improvements is considered part of the County's operating budget.

Figure 1 breaks down the recommended budget by major function. Three categories represent the bulk of the County's operations spending: health and human services at $569 million (of which $285 million is for services administered by the Family Care Managed Care Organization); transportation and public works at $279 million; and public safety at $176 million. The county's general debt service payment of $51 million is included in the operating budget total as indicated in the figure.

The largest source of revenue in the County budget is "Direct Revenue," at $578 million. This revenue source is derived from service fees and direct service reimbursement (e.g. zoo admissions, transit fares, and Medicaid reimbursement for mental health services). The property tax is the next largest revenue source at $279 million (identical to the 2014 budgeted amount). The County also is budgeted to receive $262 million in revenue from the State of Wisconsin and $86 million in direct Federal revenue.

The significant influence of State and Federal revenue sources in the County budget reflects the fact that many of the County's programs and services are mandated by the State or Federal governments. Indeed, county governments in Wisconsin were created by the State primarily to deliver services at the local level on its behalf.

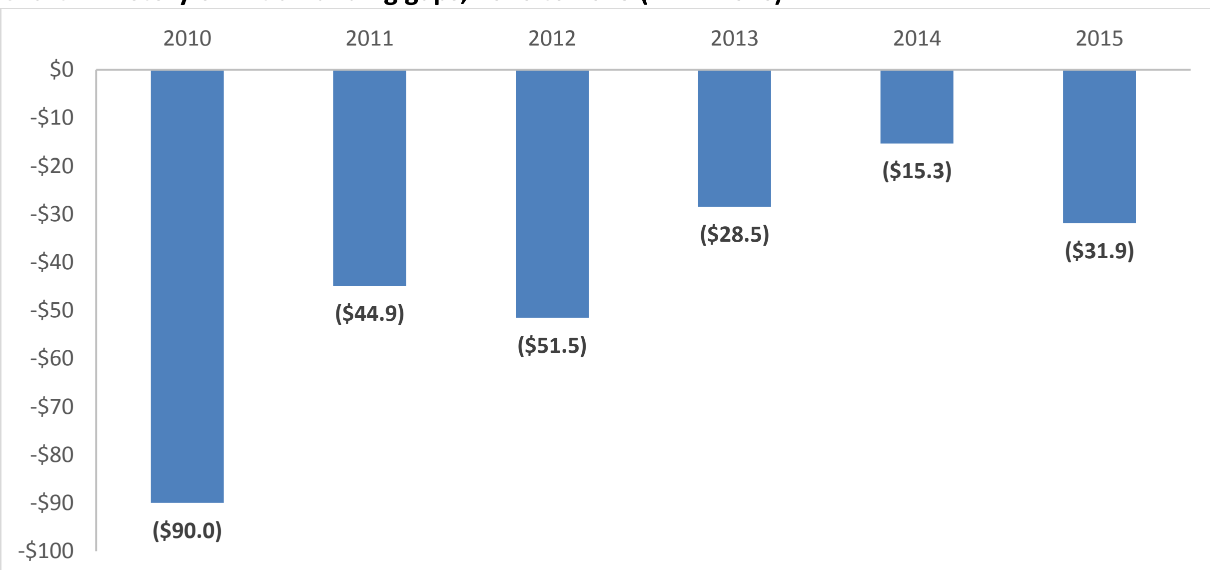
Figure 1: 2015 Milwaukee County Finances (Millions)

The 2015 Budget Gap

Each spring, Milwaukee County fiscal officials update the County's five-year fiscal forecast using the "Municast" financial modeling program. The Municast model is based on dozens of assumptions regarding expenditure and revenue line items in the County budget, most of which are based on multi-year trends. Those assumptions are updated each year by the Comptroller's office and a work group that also includes officials from the Department of Administrative Services (DAS) and outside entities.

The spring update of the Municast forecast not only allows County officials to gauge progress on efforts to alleviate the long-term structural deficit, but it also provides an early indication of the size of the budget "gap" facing the County as it begins to prepare for the next budget year. In April 2014, the updated Municast forecast projected that expenditure needs in 2015 would exceed projected revenues by $31.9 million. As shown in **Chart 1**, the size of this 2015 "gap" was more than double that of the 2014 projection prepared at the same time last year, though it was considerably smaller than those facing the County at similar junctures from 2010 to 2012.

Chart 1: History of initial funding gaps, 2010 to 2015 (in millions)



Source: Milwaukee County Comptroller's Office and Department of Administrative Services

The major forecasted budget changes contributing to the 2015 budget gap were a nearly $13 million increase in salaries and wages (comprised of an assumed $5.4 million increase in base wages and a $7.3 million increase in overtime payments); a $7.8 million increase in the County's pension fund contribution; an assumption that a $12.1 million contribution from the Debt Service Reserve in 2014 would not be repeated in 2015; and the loss of $5.2 million in Federal transit funds from the Congestion Mitigation and Air Quality (CMAQ) program that had previously been awarded for a limited timeframe.

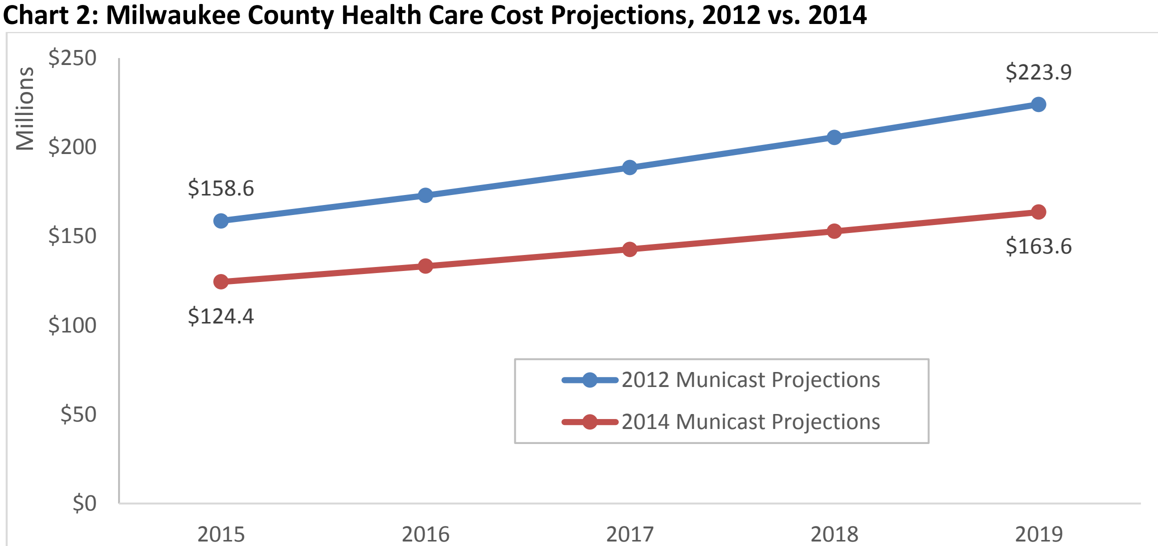
On the positive side, countywide health care expenditures were forecast to grow by only $4.2 million (3.5%) – a considerably smaller increase than typically projected – and the County's debt service payment was projected to drop by nearly $15 million, due largely to the pay-off of debt from a major refinancing initiative in 2003. Nevertheless, because of mostly flat revenues from State and Federal sources – as well as assumed minimal growth in local sources like the property and sales tax – the Municast forecast indicated that the County's expenditure pressures would continue to substantially exceed its projected revenue growth.

The growth in the budget gap for 2015 – combined with an accompanying Municast projection that structural deficits for 2016 and 2017 also would be slightly higher than previously forecast – appears at first glance to represent a reversal of three successive years of significant progress on the structural deficit. In some respects, that may indeed be the case.

For example, the increase in the size of the pension contribution was caused by the expiration of the amortization period for the $45 million Mercer pension lawsuit, which had been used to reduce the true size of the annual pension contribution for the previous five years but has now been exhausted. In addition, the availability of large, time-limited federal grants from the CMAQ program to offset Milwaukee County Transit System (MCTS) operating costs appears to be waning. Meanwhile, major State and local revenue streams are projected to remain relatively flat, thus calling into question the County's ability to provide even inflationary increases in wages and benefits to its workforce.

A closer look, however, also provides some evidence that the County's progress toward structural balance is continuing. As shown in **Chart 2**, the growth in health care costs projected for the 2015-2019 timeframe under the most recent version of Municast – while still challenging – pales in comparison to the amount and rate of growth projected just two years ago. In addition, once the loss of Mercer settlement funds is accounted for in 2015, the County's pension fund contribution is projected to grow only by about $1.1 million per year over the next five years, which is a far cry from the growth seen earlier in the decade. These factors provide some hope that the County's revenue streams might eventually accommodate annual growth in these major fringe benefit cost centers.

Chart 2: Milwaukee County Health Care Cost Projections, 2012 vs. 2014



Source: Milwaukee County Municast

An added element of optimism comes from the County's debt management. The annual payment to service the County's outstanding general obligation debt was projected to decrease by $14.8 million (from $129.2 million in 2014 to $114.4 million in 2015), reflecting the County's diligent efforts to control annual bonding. Moreover, while the Municast forecast assumed that none of the 2015 debt payment would be offset by a contribution from the Debt Service Reserve, the availability of more than $18 million in that reserve heading into 2015 provides an opportunity to make at least some contribution.

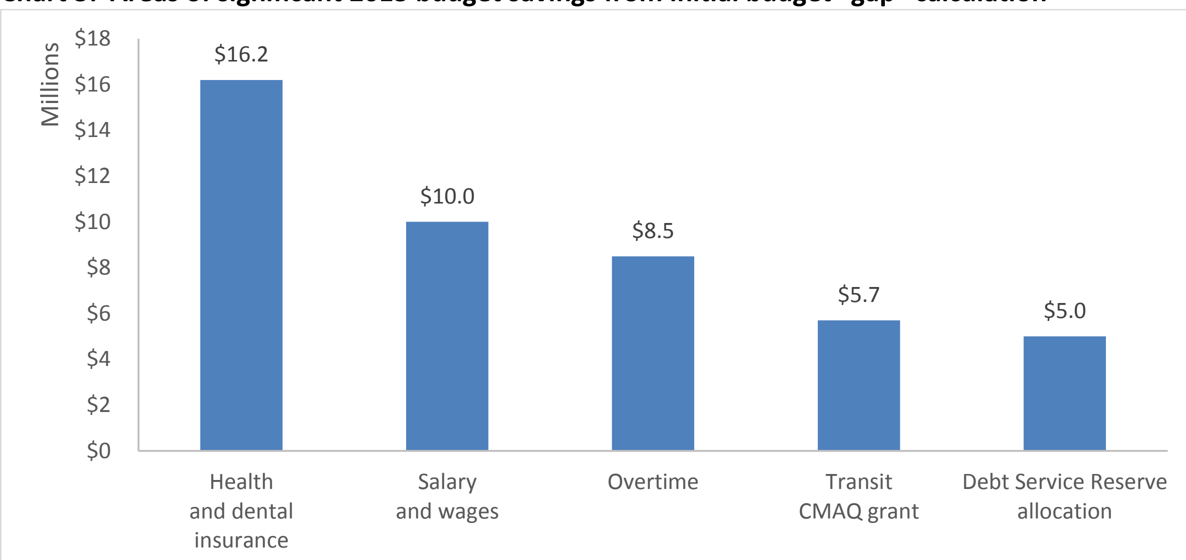
In the pages that follow, we consider not only how the 2015 Recommended Budget reconciled the $31.9 million Municast gap, but also how various budget initiatives may impact long-range structural issues.

Bridging the 2015 Budget Gap

As noted above, the Municast forecast provides a rough estimate of the size of each year's budget gap based on analysis of trends in major expenditure and revenue accounts. The actual size of the gap also is predicated on the budget requests from individual departments – which may include needed revenue cuts or expenditure increases that were not included in the Municast model – as well as actual revenue figures received from the State and other outside entities and updated fringe benefit estimates based on that year's actual experience.

In the end, the adjusted budget gap was eliminated through a series of expenditure and revenue decisions made in individual departmental budgets and countywide cost centers. While there were countless minor expenditure and revenue changes in different areas of County government that ultimately produced a balanced budget, **Chart 3** shows that property tax levy savings generated from decision-making in four major areas – health care benefits, salaries/overtime, the Debt Service Reserve, and transit – were central to eliminating the $31.9 million Municast gap.[1]

Chart 3: Areas of significant 2015 budget savings from initial budget "gap" calculation



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

These major reductions not only helped eliminate the budget gap, but also freed up some additional property and sales tax resources to redirect to priority areas and to freeze the property tax levy at the 2014 amount.[2] The following highlights some priority areas that received increased local revenue

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[1] The savings reflected in **Chart 3** reflect savings from the original Municast forecast and, therefore, may not match savings figures contained in the recommended budget. Also, it is important to note that a portion of the savings in salaries and wages were offset by increased contractual service expenditures to account for outsourcing of certain services. Additional discussion on this dynamic occurs later in this report.

[2] According to a September 22 memo by the Comptroller, the County can raise property taxes by $8.2 million (2.9%) in 2015 under an allowance for new construction growth and a growth in certain debt service. In addition, the memo indicates that the County could raise the levy by an additional $3.1 million for certain excludable items, though there would be fiscal implications in future years if it did so. Municast assumed a $1.8 million (0.7%) property tax increase in 2015 based on prior year trends.

allocations in the recommended budget. Notably, this list is considerably smaller than in the 2014 budget.

- The **Capital Improvements Budget** receives a $1.4 million increase in sales tax revenue ($11 million as compared to $9.6 million in 2014) to finance several infrastructure projects. The use of sales tax dollars in the capital budget allows the County to address a greater portion of its infrastructure needs with cash while still adhering to its self-imposed bonding cap of approximately $38 million.

- **Courts and Pre-Trial Services** receive a combined property tax levy increase of $2.2 million. A sizable portion of the $1.9 million increase in the Courts accommodates "cost-to-continue" increases related to higher fringe benefit costs and interdepartmental charges, but it is noteworthy that the Courts were not required to "absorb" those costs similar to most other departments. The $292,000 increase in pre-trial services, meanwhile, uses new property tax levy to help offset the loss of a federal grant.[3]

- **DAS-Facilities Management** receives an additional $884,000 in tax levy, including $700,000 for ongoing planning related to consolidation of facilities.

- **DAS-Risk Management** receives a $4 million increase in expenditures (from $7.4 million to $11.4 million), largely because of a $2.6 million increase in workers' compensation costs and a $1 million increase in the County's property insurance premium.[4] All Risk Management costs are charged out to individual departmental budgets, so the impact of the $4 million increase is spread across county departments. The need to appropriate an extra $4 million for insurance costs in 2015 diminishes the County's ability to use those funds for other priorities.

- The **District Attorney** receives a levy increase of $601,000 to meet cost-to-continue needs and provide four new investigative positions.

In addition, the budget commendably allocates property tax levy to address longstanding structural revenue deficits in the Zoo and Office of the Sheriff, and to "clean up" areas where interdepartmental charges did not reflect actual service levels.

The lack of new *spending* initiatives in departmental budgets should not be mistaken for a lack of new initiatives in the recommended budget as a whole. Rather, it illustrates the extent to which this year's budget focuses on changing the manner in which the County "does business" in several areas, as opposed to new investment. That circumstance reflects not only the priority given to resizing and restructuring by the county executive and his fiscal team, but also the reality that the 2015 budget afforded little capacity to bolster services or address investment needs.

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[3] The recommended budget commendably includes performance data and measures for most County departments in the second year of an effort to move the County to performance-based budgeting. However, budgets for the Courts, Pre-Trial Services, and District Attorney – which are among the few County functions that receive significant property tax levy increases – do not include such information. This omission is concerning, as information regarding service levels and performance outcomes is helpful in assessing the need for increased appropriations.

[4] The County's deductible for property insurance also increased by $1.3 million, which is accounted for by a separate appropriation of that amount in the Appropriation for Contingencies that will be accessed by departments as need arises.

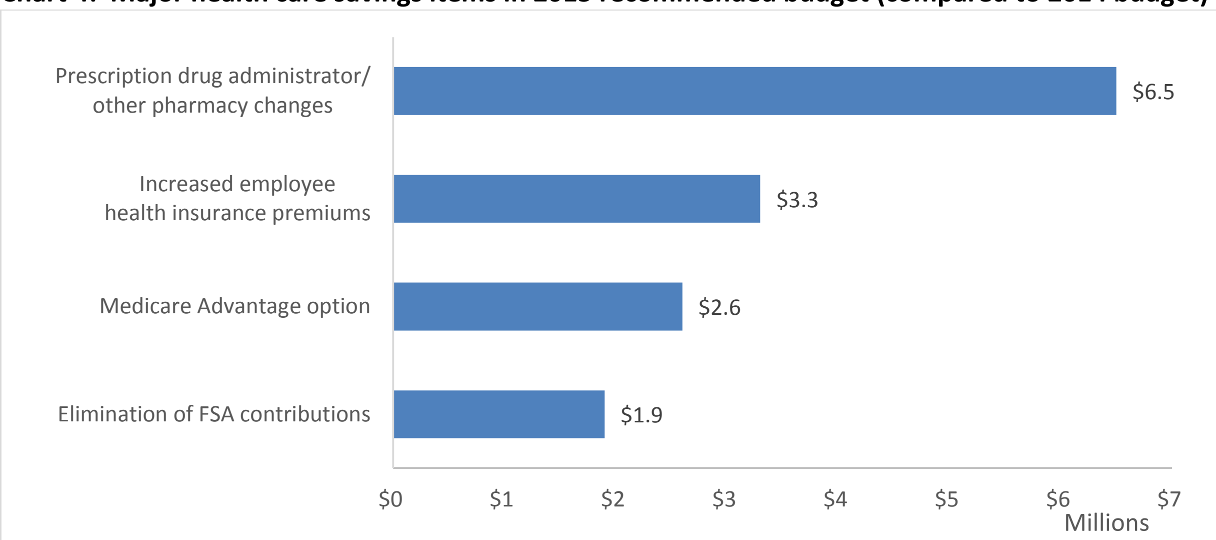
The following provides further analysis of the four major areas of decision-making that bridged the 2015 budget gap.

Health care adjustments

For the fourth consecutive year, the recommended budget uses changes to the County's health care benefits plan and increased cost sharing by participants as primary strategies for eliminating the budget gap. In fact, the changes recommended in 2015 collectively would produce property tax levy savings of $11.9 million from the 2014 budgeted amount, and more than $16 million when compared to the Municast forecast (which projected a $4.2 million increase in health care spending). Thus, this strategy alone accounts for more than half of the reduction in the $31.9 million Municast gap.

Chart 4 shows the major areas of budgetary savings in the recommended health care budget. This shows that about two thirds of the savings are derived from plan changes, and about a third from increased employee contributions or a reduction in benefits.

Chart 4: Major health care savings items in 2015 recommended budget (compared to 2014 budget)



Source: 2015 Recommended Budget Document

Savings of $6.5 million are achieved from a change in the County's prescription drug program administrator and other prescription drug changes that should not impact costs to employees and retirees, while a new Medicare Advantage plan option for retirees age 65 and over is expected to save $2.6 million. Increases to health care premium co-payments made by active employees are projected to add $3.3 million to the savings amount. Those increases range from $50 per month for single participants to $170 per month for employees who also ensure their spouse and child(ren). In addition, the budget eliminates the County's matching contribution of up to $1,200 per employee to their flexible spending accounts, saving an additional $1.9 million, and it increases annual deductibles and out-of-pocket maximums (a precise cost savings is not delineated in the budget).

As in previous years, the decision to require employees to pay more for their health insurance reflects the fundamental reality of the County's structural deficit. While the trajectory of health care spending has decreased dramatically, even a 4-5% increase each year adds $3-$4 million in costs. Because the County's stagnant revenue streams have difficulty accommodating such cost increases, it could be argued that there is a need for at least some cost sharing from participants. Furthermore, because 64%

of the County's covered population is comprised of retirees who do not pay monthly premiums, there is little choice but to ask active workers to bear the burden when such cost sharing is required.

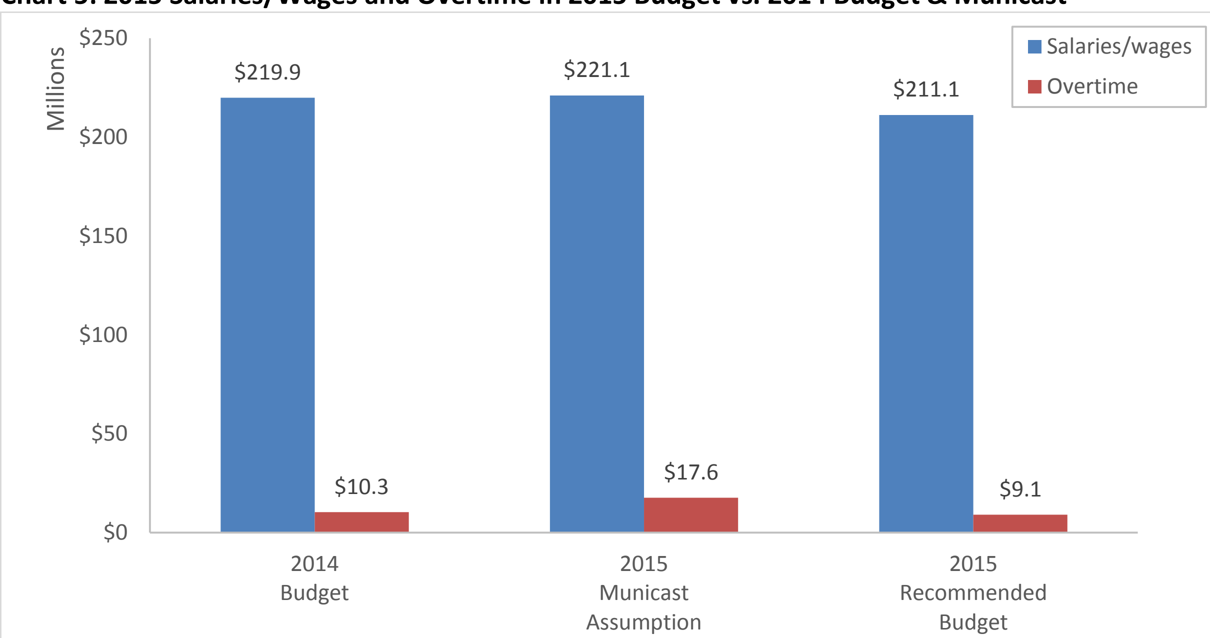
It is important to note, however, that in the 2015 recommended budget, inflationary health care increases are more than offset by the prescription drug changes (to the credit of the administration). Consequently, increased employee contributions were not needed as a cost-sharing mechanism, but instead were applied to general deficit reduction, which might suggest to some that 2015 is a year in which such increases could have been avoided.

Overall, the decision to increase health care costs for employees reflects a determination that asking the active workforce for additional sacrifice is a preferable policy choice to otherwise reducing departmental budgets or raising property taxes. Whether that approach is justifiable depends on one's perspective on the fairness of current pay and benefits for County workers, as well as one's views on the desirability of alternative budget-cutting and revenue-generating options.

Employee wages and overtime

Reductions to the appropriations for salaries and overtime comprise another major area of savings from the original Municast forecast. As shown in **Chart 5**, total salaries and wages are budgeted at $211 million, which is $8.8 million below the 2014 budgeted amount and $10 million lower than the amount forecast in Municast. Overtime, meanwhile, is budgeted at $9 million countywide, which is a decrease of $1.3 million from the 2014 budget and $8.6 million from Municast.

Chart 5: 2015 Salaries/Wages and Overtime in 2015 Budget vs. 2014 Budget & Municast



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

It is important to note that the salary "savings" shown above are skewed by several outsourcing initiatives in the recommended budget, which are described in detail later in this report. Those initiatives involve the elimination of dozens of positions, which contributes to the countywide reduction in salary and wage expenditures (and to a lesser extent overtime). The additional dollars spent on contractual services to replace the outsourced positions, however, must be taken into account as an offset to any salary savings.

Salary savings can be more accurately pinpointed when it comes to pay increases. The recommended budget does not include a wage increase for general County employees and also eliminates any advancements by eligible workers to higher "steps" within their pay ranges. A 1% across-the-board increase in salaries costs the County about $2.1 million, while step increases typically cost about $2.5 to $3 million. Municast included an additional $5.3 million in 2015 for a combination of wage and step increases based on multi-year trends; that amount, therefore, is "saved" in the recommended budget.

In a communication to County employees, the county executive cited the size of this year's structural deficit and the provision of general wage increases in the past two budgets as the rationale for the 2015 freeze. Most County workers received mid-year increases of 1.5% in 2013 and 1% in 2014. In both instances, wage increases contained in the recommended budget were reduced by the County Board to offset a portion of the cost of reversing some aspects of employee health care cost sharing. Obviously, the lack of a wage increase in the 2015 recommended budget prevents the County Board from using that strategy to reverse health care premiums in this year's budget deliberations.

With regard to overtime, the $17.6 million expenditure level included in Municast reflected an assumption that the County would seek to budget overtime spending in a more realistic manner. The Municast amount is equivalent to actual countywide overtime spending in 2013. According to budget officials, the decision to substantially reduce this amount was predicated mainly on changes to staffing models at the Behavioral Health Division (BHD) and elsewhere in the County, as well as a desire to require departments to absorb overtime within general salary appropriations as a means of controlling its use.

Efforts to discourage use of overtime – which typically is paid to employees at a higher rate than regular time and which also can impact performance and morale – are laudable. A possible concern, however, is whether the lower budgeted countywide figure for overtime actually can be achieved. BHD, for example, would see its budgeted overtime decrease from $2.7 million in 2014 to $1.2 million in 2015, despite the fact that actual 2014 overtime is projected to total $3.4 million per a report issued in June of this year. Failure to achieve budgeted overtime could place even greater pressure on departmental operating budgets or potentially require use of the County's Contingency Fund or mid-year corrective actions.

Debt Service Reserve

The Debt Service Reserve (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.[5] The DSR typically is funded from unanticipated excess bond proceeds, though it

[5] 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.

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 successfully built up the DSR in recent years. After experiencing a $24 million budget surplus in 2012, officials prudently deposited $19 million of that amount into the DSR in the middle of 2013. The 2014 budget then used $12.1 million to offset debt service costs in the operating budget (thus freeing up property tax levy for other uses) and to cash finance a series of needed capital improvements. While that action, combined with other allocations during the course of the year, left a fund balance of only $6.1 million, another healthy surplus in 2013 ($21.6 million) allowed for the mid-year transfer of an additional $16.6 million into the DSR. About $4.7 million of that has already been allocated, leaving the current fund balance at $18.1 million.

The 2015 recommended budget includes a transfer of $5 million from the DSR, which again offsets debt service costs and frees up property tax resources for other purposes. Because the Municast forecast did not include a DSR transfer, this also produces a $5 million improvement to the original budget gap. The transfer would leave a balance of $13.1 million, which is above the County's stated policy goal of $10 million.

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 that exceeds $50 million and a sizable pension reserve fund, the County has had no reserves to speak of outside of the DSR. The $10 million minimum fund balance goal – as well as related policies regarding allowable uses of the DSR – are important steps in the right direction and also have the benefit of being viewed favorably by bond rating agencies.

An argument against the use of $5 million from the DSR is that the County's $10 million policy goal is inappropriately low, and that efforts should be undertaken to further build the reserve given the volatility of the County's revenue streams and the risks involved with various lawsuits aimed at reversing employee/retiree fringe benefits changes. However, a counter-argument also could be made that the need to utilize the DSR for its primary intended purpose – to offset unexpectedly large swings in debt service costs – has dissipated dramatically because of the County's frugal annual borrowing amounts. On the whole, the use of $5 million of the $18 million DSR fund balance does not appear excessive, though efforts to increase the withdrawal during budget deliberations should be viewed with caution.

Transit

As noted above, a key potential budget hole facing the County was the loss of $5.2 million in Federal CMAQ funds, which represented the final year of a 2012 grant that allowed the Milwaukee County Transit System (MCTS) to establish three major express routes (the RedLine, BlueLine, and GreenLine routes). Because corresponding local service was reduced along the three routes, the County essentially was able to replace sizeable sums of property tax levy that had supported the local service with federal grant money to support the new express service.

In the 2015 budget, MCTS was faced with the challenge of replacing the expired CMAQ grant monies with property tax levy in order to retain the express service. That challenge was partially addressed with the acquisition of new CMAQ grants totaling $5.7 million in 2015 to support three new express routes. Again, MCTS plans to accompany the new express service with corresponding cuts in local service. **Table 1** lays out this dynamic.

Table 1: Financial Breakdown of New CMAQ-Funded Express Routes

	Route 10X	Route 27X	Route 30X
Total Non-Farebox Cost	$5,114,000	$3,367,000	$2,807,000
CMAQ	($2,045,600)	($2,693,000)	($1,122,500)
Net County Cost	**$3,068,400**	**$674,000**	**$1,684,500**
Reduced Local Service	**($2,791,000)**	**($2,296,000)**	**($1,986,000)**
Total County Cost/(Savings)	**$277,400**	**($1,622,000)**	**($301,500)**

Source: Milwaukee County Department of Public Works and Transportation

As shown in the table, because two of the three express routes received only a 50% matching grant from the CMAQ program (as opposed to the 80% requested), the County did not receive as substantial a financial benefit from creating those routes.[6] Overall, the County saves about $1.6 million per year from this strategy but was not able to fully offset the loss of $5 million from the 2012 CMAQ grants. However, tax levy savings of $1.4 million in the paratransit budget and additional savings elsewhere in the fixed-route budget allow the recommended budget to slightly reduce the overall property tax levy allocation to transit (from $18.4 million to $18.1 million) without resorting to fare increases or cutting service.

Finally, it should be noted that the new CMAQ grants again are limited to three years, after which the County would need to identify local resources or offsetting savings elsewhere in the transit budget to maintain the new express service.

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[6] It is important to point out that the 10X and 30X routes were submitted as a single application since there is significant overlap of the two routes from the east end of downtown to 35th Street. The two routes combined provide a small net savings.

Other Key 2015 Budget Issues

Office of the Sheriff

The 2015 recommended budget again contains substantial changes to the Sheriff's operations and staffing. For example, several services provided by the Sheriff again are recommended to be transferred to municipalities or other areas of county government, despite the rejection of similar proposals by the County Board in 2014. Those include the following:

- Responsibility for **patrolling county parks** would be transferred to municipal governments. The budget anticipates that service agreements would be reached with municipalities and it provides $1.15 million as reimbursement. Of that amount, $970,000 is designated for the Milwaukee Police Department, which would take over law enforcement in parks located within city limits and at the downtown lakefront. The remaining $180,000 is reserved for the 18 other municipalities in Milwaukee County.

- In a proposal that is new for 2015, **Milwaukee County Zoo and Milwaukee County Grounds security and law enforcement services** would be transferred to a municipal government as well. The recommended budget includes $511,000 – the amount of property tax levy requested by the Sheriff for those services in 2015 – to pay a municipal police department that successfully bids to provide the services. The new service provider also would be anticipated to collect the roughly $500,000 in revenue that is currently paid to the County for those services by County Grounds occupants.

- **Emergency management and 911 dispatch services** and staff are transferred from the Sheriff to a new Department of Emergency Management. This results in a transfer of about $4.5 million in funding (and $3.9 million in property tax levy) from the Sheriff's budget to the new department.

According to the budget, the Sheriff would receive a $3.9 million property tax levy increase for the services that remain in his budget when compared to the same set of services in 2014. Those services include bailiff services, expressway patrol, and operation of the County Jail. The sheriff's budget totals $75.6 million, including $66.8 million in property tax levy.

It is important to note, however, that $2.8 million of additional property tax levy is provided to fill a longstanding revenue hole and better reflect actual collections from outside sources. In addition, $2.3 million offsets increased interdepartmental charges, and $800,000 results from a shift of capital monies into the sheriff's operating budget. In fact, the Sheriff's budget includes a $1.9 million "lump sum" spending reduction that is to be allocated at his discretion among his various services. Because of these and other factors regarding internal service charges and similar variables, it is difficult to determine whether the Sheriff would have additional or fewer resources to pay for the services that remain in his budget in 2015 than he had in 2014, a year in which his office is projected to run a $3 million expenditure deficit.

Given the financial pressures facing both the County and its municipalities, efforts to consolidate parks, zoo, and County Grounds patrols in one jurisdiction would appear to have merit, though the precise operational and financial details recommended in the budget may merit further scrutiny. Similarly, further deliberation is warranted on what constitutes "core" services in the Sheriff's budget, as opposed to discretionary services that might be handled by other jurisdictions or that the County simply may no longer be able to afford.

At the same time, appropriate scrutiny also needs to take place regarding the resources that are legitimately required by the Sheriff to run the jail, service the courts, and fulfill other statutory duties, particularly after several successive years of budget cutting. As noted above, such consideration appears to be given in this budget to the courts and District Attorney's office, which similarly function under the leadership of independently-elected Constitutional officers. Enhanced communication between the Office of the Sheriff and DAS would be helpful in sorting out this matter, as would detailed and objective analysis of the causes of the Sheriff's 2014 budget deficit, which the independent Comptroller's office would appear uniquely suited to lead.

Mental Health Services

After the Office of the Sheriff, BHD is the second-largest departmental recipient of County property tax levy. The recommended budget for BHD totals $179.6 million, including a property tax allocation of $59.1 million, which is an increase of $1.6 million over 2014. The 2015 budget is the first to be approved under a new governance structure for mental health services adopted by the Wisconsin Legislature and governor earlier this year. Under the new framework, BHD operates under the jurisdiction of a new Milwaukee County Mental Health Board, and its annual property tax levy is capped at $65 million.

During the past several years, the County has been working to overhaul its adult mental health service delivery model. The goal is to create a new system that de-emphasizes the use of emergency and inpatient services, while putting in place a comprehensive array of crisis, treatment, and recovery services that can be accessed in the community.

Central to that effort has been substantial downsizing of the County's adult inpatient units and two nursing home facilities, as well as efforts to reduce admissions to its psychiatric emergency room, or PCS. While the transition has not been easy, BHD plans to close one of its two long-term facilities by the end of 2014, at which time it also will have reduced its adult inpatient capacity to 60 beds (from 96 in 2010). The 2015 recommended budget continues the downsizing effort by providing for the closure of the second nursing home facility by the end of the year.

The ultimate success of the redesign effort will depend on whether sufficient and effective community-based capacity is developed to accommodate the reduction in beds. An open question, therefore, is whether the property tax levy savings that have been generated from inpatient and long-term care downsizing have been ample enough to build this capacity, or whether additional local and/or state investment will be required.[7] This question is especially pertinent now that statutory restrictions on property tax levy allocations to BHD are in place.

Chart 6 provides perspective on the inpatient and nursing home savings and increased community-based investments based on 2013 actual expenditures and the 2014 and 2015 budgets. Inpatient expenditures are defined as those services provided to adults at the County's Mental Health Complex (i.e. inpatient, nursing homes, and the emergency room and observation beds at PCS). "Community-based services" also specifically refer to the adult population.[8] This analysis shows that about $7 million more will be spent on community-based services in the 2015 recommended budget than was actually spent in 2013, while $14 million less will be spent on Mental Health Complex services.

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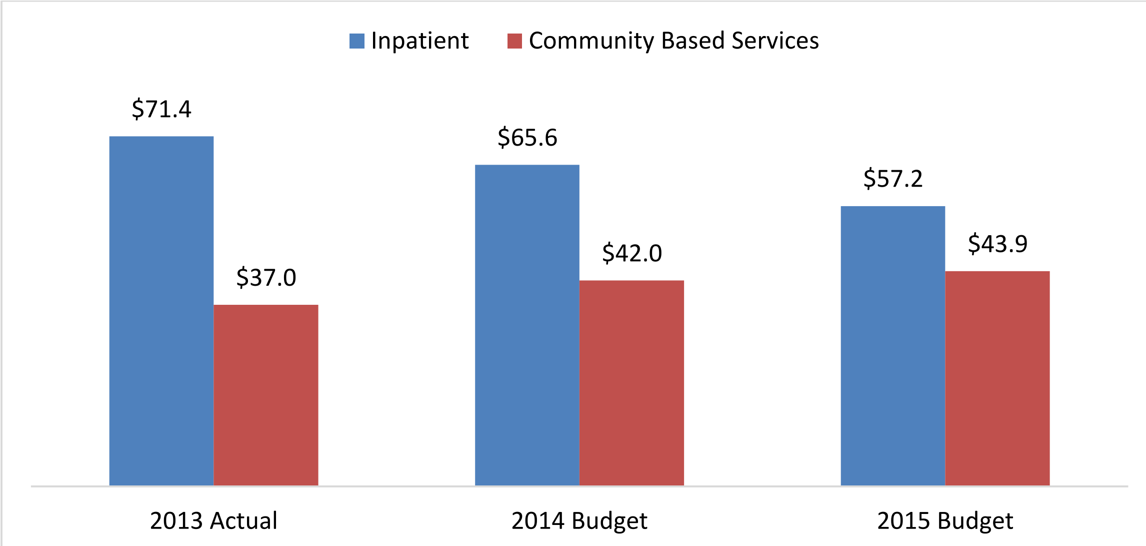
[7] The Forum plans to provide a detailed analysis of that question in a report to be released by the end of this year.
[8] The expenditure figures cited in this section will not line up with those included in the 2015 Recommended Budget, as our analysis considers certain services that are budgeted in PCS as community-based services, such as the Mobile Treatment Team.

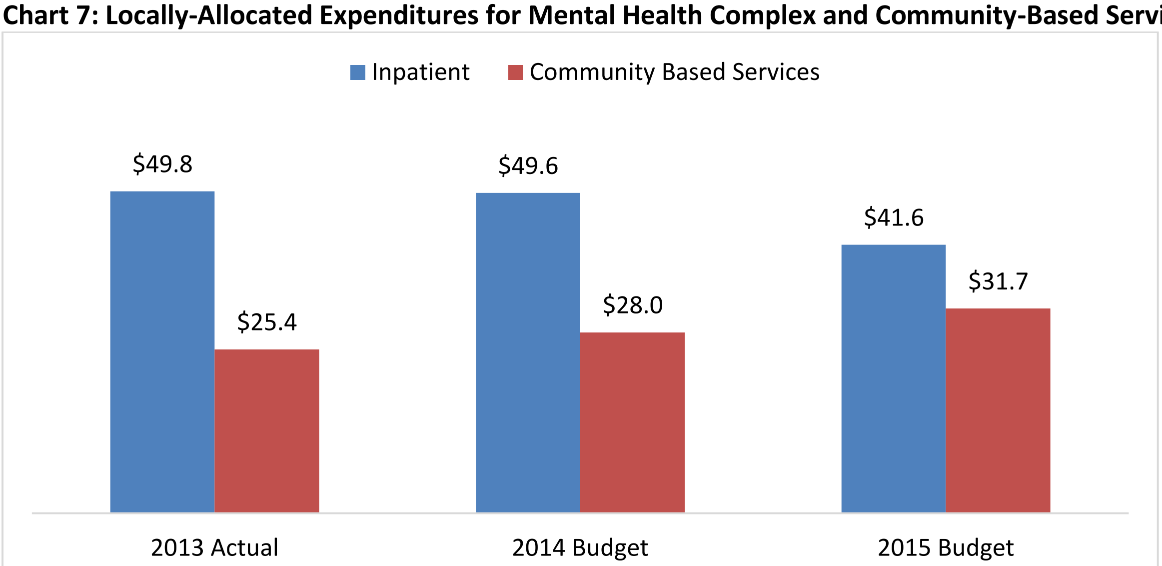
Chart 6: Total Expenditures for Mental Health Complex and Community-Based Services



Source: Forum analysis, Milwaukee Behavioral Health Division, Milwaukee County budget documents

It is important to consider not only total expenditures, but also the County's use of locally-allocated resources to support BHD. Those resources consist of property tax levy and the County's Community Aids allocation from the State, which it allocates to various human services at its discretion. As shown in **Chart 7**, there also has been a substantial shift in the use of locally-allocated resources between the Mental Health Complex and community-based services.

Chart 7: Locally-Allocated Expenditures for Mental Health Complex and Community-Based Services



Source: Forum analysis, Milwaukee Behavioral Health Division, Milwaukee County budget documents

It is worth noting that the additional investment in community-based services – while substantial – represents only a portion of the savings generated by downsizing. That is not entirely unexpected given that BHD is a large, multi-faceted department with a variety of programs areas, and that portions of any annual savings from inpatient downsizing may need to be used to offset increases in salaries and fringe benefits for its active workforce and retirees, or increased costs associated with interdepartmental charges for services such as legal, accounting, and risk management.

For example, BHD's charge from the central budget office for legacy pension and health care costs related to retired County employees increased by 10% on a per FTE basis (from $20,797, to $22,897 per FTE) between 2013 and 2015. Charges from administrative departments for other indirect costs increased by $152,000 between 2013 and 2015, despite the shrinkage in bed capacity and personnel.

As the Forum pointed out in its recent analysis of adult inpatient psychiatric bed capacity in Milwaukee County (published in conjunction with two Massachusetts-based national consultants),[9] it is too early to determine the extent to which the County's recent investment in community-based services has diminished demand for inpatient services. It appears evident, however, that the combination of that investment and agreements with private health systems to admit more psychiatric patients has appropriately accommodated the 36-bed reduction that has taken place since 2010.

Looking ahead to 2015, the budget includes $3.7 million in additional tax levy for adult community services. It is important to note, however, that $2.3 million of that amount is directly linked to service provision for individuals relocated from the Rehab Central nursing home facility and does not represent a general expansion of services. The budget does contain resources for new group home beds and it maintains increased community service expenditures adopted in the two previous budgets. It will be important for BHD to measure the impact of its new and expanded community services array as it pursues its goal of closing Rehab Central and considers additional downsizing of inpatient capacity.

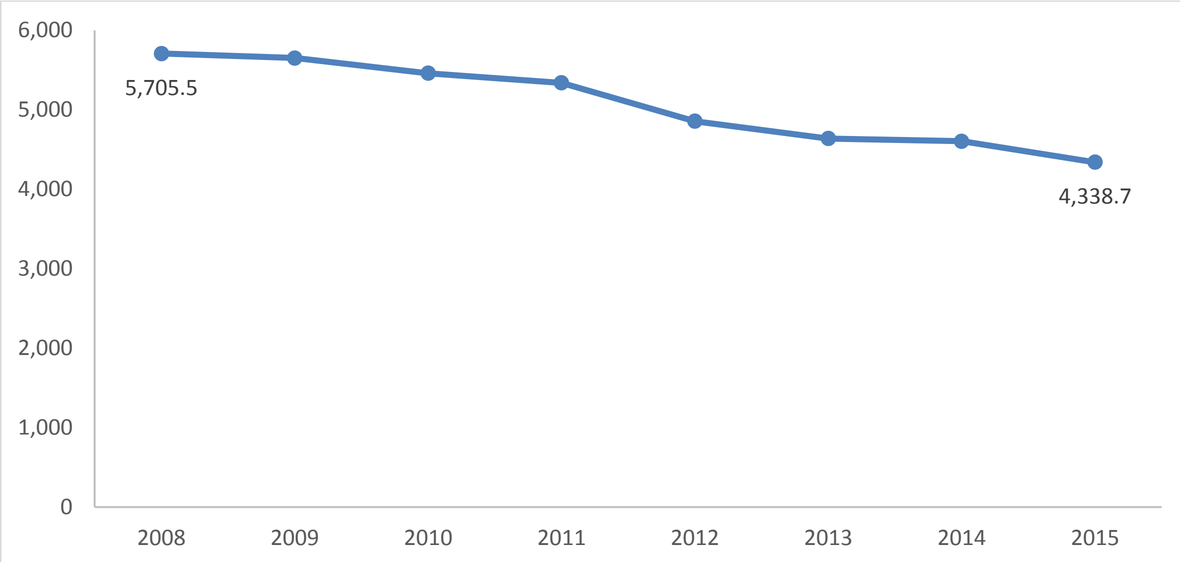
Restructuring and resizing

As noted above, one of the main strategies used to manage the budget gap is an ongoing restructuring of County services and resizing of the County workforce. One aspect of restructuring is the continued outsourcing of County functions to private contractors. Another is the centralization of administrative functions, which had become decentralized over many years as larger departments developed their own capacities for budget, information technology (IT), and human resources.

As shown in **Chart 8**, the number of County employees has declined by 24% since 2008. One of the primary reasons for this decline is that numerous County functions have been outsourced in recent years, though several other programmatic and budgetary initiatives also have affected total FTEs.

[9] The report can be accessed at http://publicpolicyforum.org/sites/default/files/MilwaukeeInpatientCapacity.pdf.

Chart 8: Number of County Full-Time Equivalent Employees



Source: Milwaukee County budget documents

Specific outsourcing proposals in the 2015 recommended budget include:

- **Inmate medical services** at the House of Correction and Jail would be transferred to a private vendor, resulting in the elimination of 91.3 FTEs and producing a net savings of $1.7 million. This initiative was initiated in the 2014 budget and would be completed in 2015.

- **Milwaukee County Zoo catering, concessions, and retail functions** would be outsourced for a five-year period. The contractor would provide the same level of net revenue to the zoo that it currently generates, so this proposal would not reduce property tax levy. However, the contractor would invest $3 million in capital improvements and $150,000 in marketing. This proposal would eliminate 50 FTEs, mostly consisting of seasonal employees.

- **Courthouse security** outsourcing would eliminate 32 positions for an expected savings of $72,000 in 2015 and more than $320,000 in future years.

- **Elevator service** maintenance and repairs would be contracted out, leading to the elimination of 3 FTEs and a 2015 savings of $230,000.

- BHD would outsource its two remaining **Community Support Programs** (previously the CSP caseload was handled by both BHD staff and private contractors) for a net savings of $559,132.

While the question of outsourcing is complex and variable, the County has not reviewed the many outsourcing initiatives that have been enacted during the past several years, with the exception of an August 2010 audit regarding the privatization of food service at BHD. Given that the County has passed a Living Wage Ordinance (increasing the cost of many contracts), as well as continuing declines in overall County employee compensation, it would appear that a systematic review of major privatization initiatives may be in order. Some questions that County policymakers should consider include:

- Has privatization saved as much as projected originally?
- Has the quality of services improved or declined with privatization?
- Has the County been able to manage contracts successfully, for example by replacing contractors when they are not performing and by actively monitoring contractor work?

A second element of the budget's restructuring strategy is the continued centralization of administrative services. Over time, many larger departments had built their own administrative staffs, including fiscal, payroll, human resources, procurement, and IT functions. The vast differences between many County departments encouraged the decentralization of administrative functions. Running a hospital at BHD, for example, has little in common with managing sheriff patrols or collecting admissions fees at the zoo. Decentralization may have served the immediate needs of County departments, but it also likely resulted in some examples of budgetary inefficiencies, especially in terms of procurement.

Over the past three years, the pendulum has swung back towards centralization, with the transfer of payroll staff to the Comptroller and departmental human resources staff to the Human Resources division, as well as the consolidation of facilities management functions in DAS. The 2015 Budget continues this trend by moving $2.3 million in appropriations for hardware, software, and professional services from departments to IMSD. While the proposal merely transfers expenditures, and does not eliminate the ability of certain departments to contract for their own IT services or use their own systems, the County's Chief Information Officer will have "accountability for ensuring that IT purchases are made on a Countywide strategic basis, and in the most cost-effective manner."

Finally, an additional reflection of the recommended budget's emphasis on restructuring and resizing is the effort to work with municipal governments on service sharing and consolidation. In addition to the shifts in the Sheriff's budget discussed above, the budget includes $1.8 million in capital spending to purchase new elections equipment for all 19 Milwaukee County municipalities. The municipalities would reimburse the County for 30% of that cost. By encouraging all municipalities to purchase and use the same equipment, the County would be able to reduce programming costs. A tentative agreement has been reached with the City of Milwaukee Election Commission to perform all programming, which holds potential for further increases in efficiency and additional cost savings.

Other service sharing measures in the recommended budget include a $2 million capital appropriation to complete an upgrade to the County's public safety radio system in conjunction with Waukesha County; and the new administrator contract for the County's prescription drug program noted earlier, which was pursued jointly with the City of Milwaukee and the Milwaukee Public Schools.

Parks and Culture Capital Needs

Deferred capital repair and improvement needs have been a persistent and growing problem for County policymakers. The problem stems not only from the sheer size and age of the County's inventory of capital assets, but also from its self-imposed limitations on annual borrowing. Those limitations were adopted in 2003 with the responsible intent of controlling the growth of annual debt service payments, but they failed to take into account the corresponding need to address infrastructure issues as they arose. Consequently, a backlog of needed infrastructure repairs has grown, and the County now is faced with a seeming inability to address that backlog within the confines of its other fiscal challenges.

This problem is perhaps most acute in Milwaukee County parks and among County-owned cultural institutions. The recommended budget makes note of this problem, citing the Forum's December 2013 report – *Pulling Back the Curtain: Assessing the needs of major arts, cultural, recreational, and entertainment assets in Milwaukee County*[10] – which estimated $246 million in capital needs at the County-owned parks and cultural institutions over the next five years.

In response, the recommended budget cites two strategies to begin to address the problem. The first involves a continued effort to liquidate infrastructure that is deemed outdated and too expensive to maintain in an effort to free up capital resources for other needs. This effort is best reflected by the decision to close the County's City Campus facility at 27th and Wells, which was deemed inefficient and unnecessary in light of the County's recent workforce reductions. An appropriation of $3.8 million is included in the capital improvements budget to demolish the building, which would save $400,000 annually in operating costs and $28 million in future capital expenditures.

Additional components of this strategy include the proposed demolition of the Estabrook Dam; the proposed sale of the O'Donnell parking garage to Northwestern Mutual; and the closure of four wading pools in County parks. As noted earlier, the budget also includes $700,000 for continued space planning that likely will yield additional infrastructure reduction opportunities. While the details of each of these components need to be considered on an individual basis, they are consistent with previous recommendations made by the Forum in its 2010 study of Milwaukee County government structural reform[11] and with the County's own strategic planning framework that was adopted in 2011.

The second strategy is a new requirement that the nonprofit cultural organizations that are housed in the County-owned institutions provide a 50% match for any new capital repair or improvement projects in those buildings. For 2015, this requirement would only apply to the Marcus Center for the Performing Arts and Charles Allis Museum, each of which has three capital projects in the recommended budget. Budgeted projects at the Milwaukee Public Museum and War Memorial Center are not affected, as funding agreements for those projects already were in place.

On its face, the expectation that the cultural organizations contribute equally to the cost of capital projects might seem reasonable given the County's financial constraints, and given the generosity that private donors previously have shown in supporting major improvements at the institutions. However, it is noteworthy that the new policy does not distinguish between capital *improvements*, on the one hand, and capital *repairs* on the other.

The importance of this distinction is illustrated at the Marcus Center. One of the recommended capital improvement projects is a $2.6 million renovation and expansion of Vogel Hall, which would include a number of accessibility improvements, an expanded lobby, and a relocated main entry. It would appear reasonable to assume the Center could raise private funds to support such improvements – which would noticeably enhance the appearance and attractiveness of the facility – and it would appear justifiable for the County to require cost sharing for improvements that might boost attendance and earned revenue.

The two other Marcus Center projects involve planning for an upgraded HVAC system ($500,000) and an elevator modernization project ($625,000). In the case of these two projects, it is far more difficult to imagine the Center being able to raise private funds to support them, given that they involve repairs to a

[10] The report can be accessed at http://publicpolicyforum.org/research/pulling-back-curtain-assessing-needs-major-arts-cultural-recreational-and-entertainment.
[11] The report can be accessed at http://publicpolicyforum.org/research/should-it-stay-or-should-it-go.

County-owned building that would logically be assumed to fall under the responsibility of the building owner. If the matching funds are not raised, then the new policy dictates that the projects would not proceed, which may ultimately increase their cost or create liability for the County.

The relative scarcity of capital improvements recommended for the Milwaukee County Parks also is noteworthy, given previous estimates of a capital repair backlog that exceeds $200 million, and the Forum’s estimate of $82 million of capital repair and improvement needs over a five-year timeframe. The recommended budget includes six capital projects in the parks at a cost of $8.7 million, including the $1.7 million Estabrook Dam demolition. The recommended budget does include a proposal, however, to create an endowment fund for any net assets realized by the sale of the O’Donnell parking structure that would be used to leverage matching funds for improvements in the parks.

Overall, while the recommended budget continues a commendable effort to consolidate the County’s physical footprint and liquidate unnecessary infrastructure, it does not appear to make a meaningful dent in the comprehensive capital needs of the parks and cultural institutions. It should be recognized that this challenge will continue to grow and eventually must be addressed in a meaningful way.

Conclusion

Milwaukee County's financial predicament is aptly summarized by a passage in the recommended budget that states *"with the County's revenue flexibility limited by State law, managing expenditures is the only significant option to achieve fiscal sustainability."* Reflecting that assertion, the budget uses a wage freeze, increased employee health care payments, and various initiatives to restructure and resize operations as the key strategies to manage departmental spending and plug the $32 million budget gap.

From a fiscal stewardship standpoint, this focus is commendable. Each of the budget-cutting strategies cited above not only addresses the 2015 gap, but also holds potential for longer-term savings that will alleviate the County's structural imbalance. These strategies also can arguably be implemented without noticeable impacts on service levels or quality, with the possible exception of the Office of the Sheriff, where a debate on the resources required to maintain core service levels is merited.

A question regarding this overall approach, however, is whether it can and should be utilized year after year as the primary means of balancing the budget. For example:

- Can the County continue to address only its most pressing capital repair needs every year as it complies with its self-imposed borrowing limits, or will the repair backlog ultimately be too comprehensive and too critical to defer?
- Is it possible to ask County employees to absorb compensation reductions on an annual basis without harming recruitment and retention and causing unpalatable harm to morale?
- Can the County's limited reserves continue to be tapped to offset the annual budget gap?
- And can departmental restructuring, outsourcing, and efficiency measures be counted on to generate sufficient savings to address programmatic needs, or will difficult decisions about eliminating whole sets of services eventually be required?

While raising these questions is far easier than resolving them, it is important to note that the recommended budget does leave revenue options on the table, such as a modest increase in the property tax levy or even a modest wheel tax, which could help support the transit system. While not necessarily warranted in 2015, one or both of those options likely will need to be considered to help meet future challenges. The possibility of a dedicated sales tax to address the capital needs of the cultural institutions and parks – which is being discussed by business and civic leaders – also could be an important part of a long-range solution to the County's infrastructure challenges.

On the expenditure side, there is considerable potential for maintenance and repair savings from additional reductions to the County's real estate portfolio. That may be particularly true at the Milwaukee County Grounds, where the Mental Health Complex soon will be down to about 80 beds. Additional service sharing opportunities with municipalities also are an area of future potential savings.

Overall, the 2015 recommended budget's ability to bridge a substantial budget gap without slashing services or raising taxes is a significant feat that should not be understated. At the same time, it is important to recognize that because certain longstanding problems continue to linger, the degree of difficulty is likely to increase in future budgets.