BUDGET BRIEF:

MILWAUKEE COUNTY

2016 EXECUTIVE BUDGET

PUBLIC POLICY FORUM

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.

The report cover was designed by Alex Ragusin, the Forum's administrative assistant and graphic designer.

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

Northwestern Mutual®

Budget Brief:
Milwaukee County
2016 Executive Budget

October 2015

Study authors:

Rob Henken, President
Mike Gavin, Senior Researcher
Joe Peterangelo, Senior Researcher

Public Policy Forum
Impartial research. Informed debate.

Table of Contents

Introduction

The County Executive's 2016 Recommended Budget offers another source of evidence that Milwaukee County is making substantial headway in its long and grueling march from perennial financial crisis to relative fiscal normalcy. Faced with a manageable budget gap (at least by County standards), and armed with another year's worth of substantial unanticipated health care savings, the 2016 recommended budget largely avoids departmental cuts and again forsakes new revenues. Instead, it leans on growing reserves to maintain the status quo for most County departments and even provide a small compensation boost for most County employees.

Indeed, what is most striking about the recommended budget is the lack of new initiatives to cut costs or shed major areas of County responsibility, as well as the absence of health care benefit changes. While "status quo" often has negative connotations, this state of affairs is very much a positive, as it indicates the extent to which the County's diligent efforts to restore structural balance are bearing fruit.

As the recommended budget readily acknowledges, however, these signs of progress should not be misconstrued as evidence that the County's financial challenges have been vanquished. While the County's finances have benefited greatly from shrinking capital debt obligations, restructured employee/retiree health care offerings, and a vastly reduced workforce, it still faces intense pressure from its pension fund liabilities and its immense infrastructure needs. Moreover, the County's flat revenue picture still appears incapable of accommodating its expenditure pressures over the long term, particularly if the enormous health care savings produced by plan redesign have run their course.

In light of these concerns, the withdrawal of $17 million from reserves in the recommended budget should merit careful consideration. Are circumstances sufficiently dire in 2016 to merit such a move, notwithstanding the impacts of an error by the pension fund actuary that contributes to a sharp increase in next year's pension payment? Or should use of reserves be balanced by additional measures to bolster long-term structural balance, possibly including revenue enhancements?

Another set of key questions revolves around the Office of the Sheriff, which is the one area of County government that could face significant service reductions under the recommended budget. Despite substantial controversy over proposed cuts in previous budgets and a nearly $6 million deficit in 2014, the Sheriff is on pace to break even for 2015. Does this vindicate the assertion that there was ample opportunity for pain-free budget cutting and suggest there is room for even greater reductions in 2016, or does it instead imply that the Sheriff already has cut all there is to cut?

Overall, the budget's ability to fully fund the service requirements of most County departments while shoring up pension obligations, holding the line on taxes, and re-investing in its workforce, mark a significant change from previous years, when the County's ferocious fiscal pressures demanded sacrifice from workers and threatened service and staffing levels. While there are several recommended actions that merit scrutiny, the recommended budget as a whole shows the County has made great strides in addressing its core financial challenges.

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. Our aim is to promote objective and informed deliberations on the 2016 County budget.

2016 Recommended Budget Synopsis

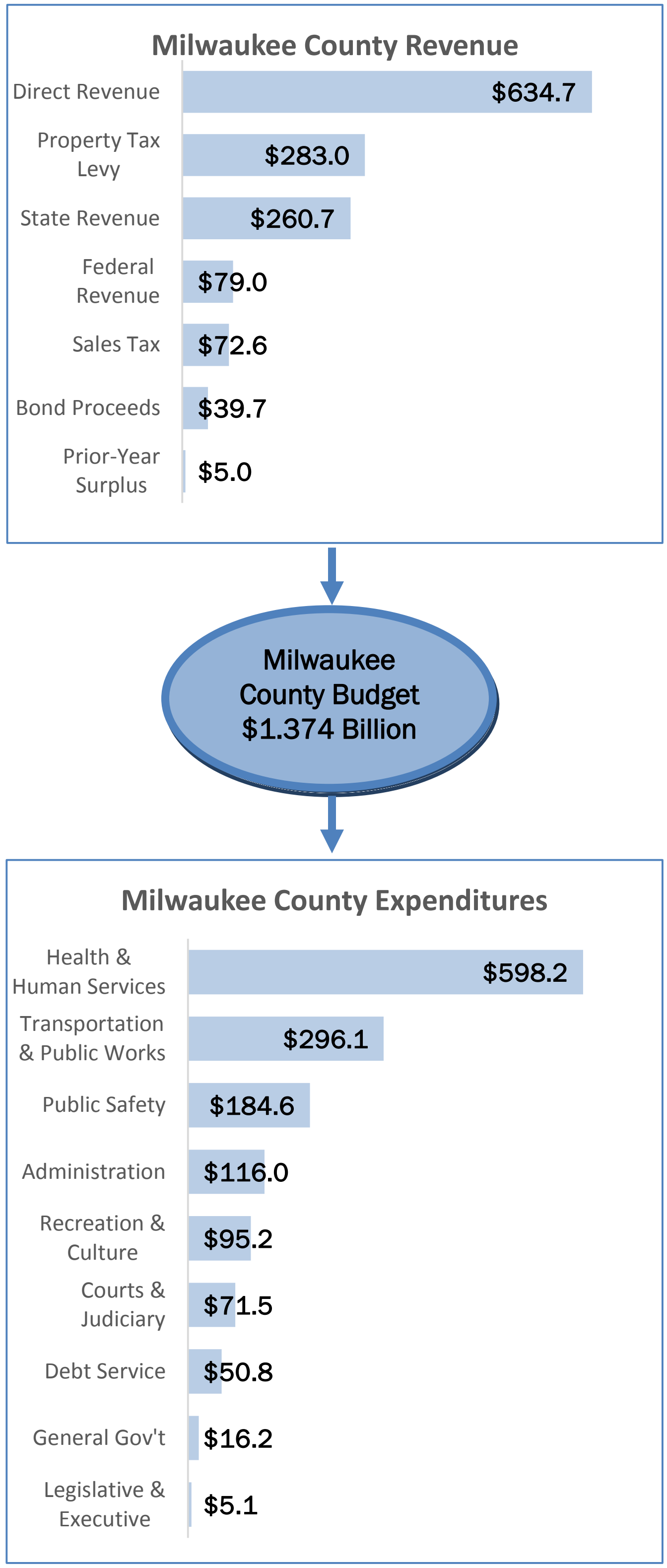
The 2016 Recommended Budget contains almost $1.4 billion in expenditures and revenues, an increase of 2.8% ($37 million) from 2015. Of that amount, all but $83 million allocated for capital improvements is considered part of the County's operating budget.

Figure 1 breaks down the recommended budget by major revenue categories and expenditure functions. Once again, three functional areas dominate the County's overall spending: health and human services at $598 million (including $304 million for the Family Care Managed Care Organization and $188 million for the Behavioral Health Division); transportation and public works at $296 million (including $163 million for transit); and public safety at $185 million. Capital spending is most pronounced in transportation/public works and administration; when looking only at operating expenditures, health and human services comprise 46% of all spending.

The largest source of revenue in the County budget is "Direct Revenue," at $635 million. This revenue source is derived from service fees and direct service reimbursement (e.g. zoo admissions, transit fares, and, most prominently, Medicaid reimbursement for Family Care and behavioral health services). The property tax is the next largest revenue source at $283 million (the same as 2015). The County also is budgeted to receive $261 million in revenue from the State of Wisconsin (down $1 million from 2015) and $79 million in direct Federal revenue (down $7 million from 2015).

The significant influence of State and Federal revenue sources in the County budget (including Medicaid) reflects the fact that many of the County's programs and services are mandated by the State or Federal governments.

Figure 1: 2016 Milwaukee County Finances (Millions)



THE 2016 Budget Gap

In previous years, the Forum's annual analysis of the County Executive's recommended budget has focused heavily on the County's annual budget "gap" and the primary strategies employed in the budget to bridge that gap. This approach has afforded an opportunity to analyze the "drivers" of both the County's long-term structural imbalance and its short-term budgetary challenges, and to assess the extent to which the recommended budget addressed those drivers both for the upcoming year and the future.

This year, that analysis is simplified considerably by the absence of multiple deficit drivers. That is testimony both to the progress the County has made in addressing its key structural issues, and to the fact that the County did not suffer cuts in most major revenue streams from the latest state budget.

When Milwaukee County fiscal officials gathered this past spring to review initial deficit projections created by the "Municast" financial modeling program,[1] it appeared that the County would be facing a 2016 deficit in the vicinity of $12 to $13 million. That would have represented the smallest budget gap in recent memory. The fact that a gap still existed generally reflected the fact that growth in the County's fixed costs – while slowed considerably in recent years because of workforce reductions and benefit changes – still was expected to exceed growth in revenues in 2016.

This optimistic outlook was tempered, however, by two developments:

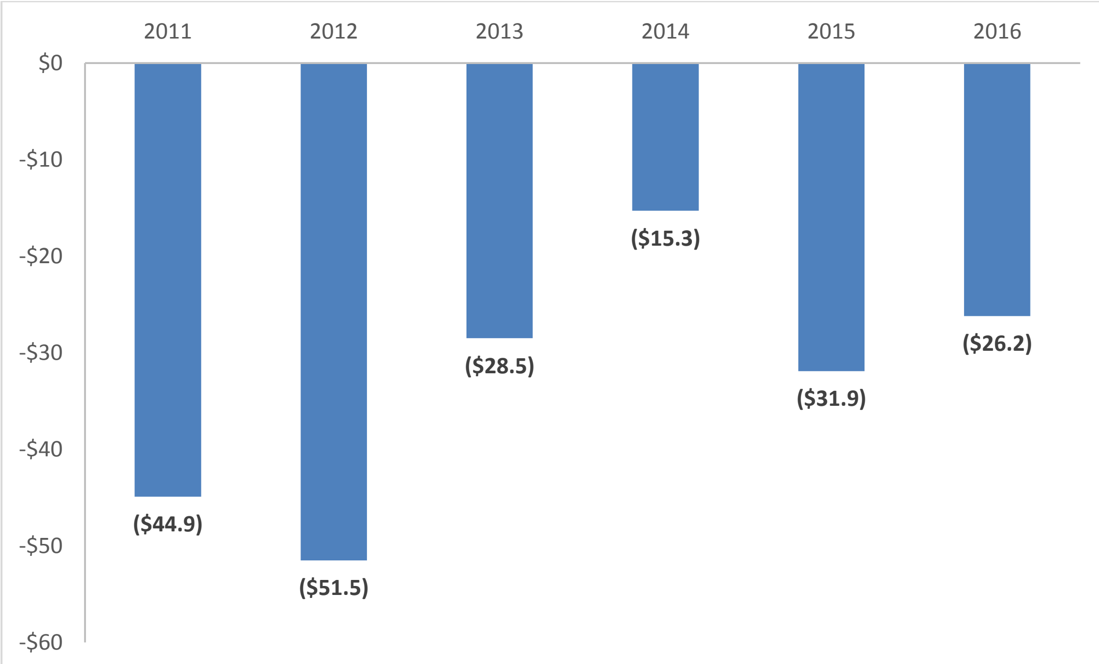
- Fiscal officials discovered an error by the pension fund actuary that had inadvertently caused the County to underfund its required pension fund contribution in 2015, thus necessitating a much larger contribution in 2016. Combined with a fiscally prudent decision to decrease the amortization period for calculating the unfunded liability from 30 to 20 years and assorted other factors, this created the need for a $20 million increase in the 2016 pension fund contribution.

- The legislation adopted in Madison providing for construction of a new arena for the Milwaukee Bucks requires an annual County contribution of $4 million, which is to be subtracted from its state shared revenue allocation. While the County may have some options to offset that amount via increased collections of unpaid debt, both Municast and the recommended budget assume the full $4 million will be withheld from shared revenue in 2016.

After incorporating those changes and accounting for other new information, the final Municast forecast estimated a 2016 budget gap of $26.2 million. As shown in **Chart 1**, that is still the second-smallest gap experienced by the County in the past five years.

[1] 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.

Chart 1: History of initial funding gaps, 2011 to 2016 (in millions)



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

The recommended budget uses two primary strategies to eliminate the 2016 gap before even needing to consider cuts in departmental budgets. First and foremost, the budget uses $17.3 million from the County's reserves – comprised of $14.3 million from the Debt Service Reserve and $3 million from a pension obligation bond reserve – to close about two thirds of the deficit. In addition, it estimates a $12.4 million savings in health care expenditures – about $8 million more than anticipated in Municast – to close the remaining third.

This broad overview of the recommended budget's deficit-cutting strategies is simplistic in that it does not take into account dozens of smaller changes in individual departmental budgets and revenue accounts that impacted the budget's bottom line and that have policy and service-level implications. Yet, it does accurately characterize how just two items in the recommended budget – both of which we review in greater detail below – allowed the County Executive, his budget team, and his departments to develop departmental budgets in an environment that lacked the typical imperative to identify savings and to explore service modifications or reductions.

2016 Recommended Operating Budget

The 2016 recommended operating budget totals $1.29 billion, an increase of $44.5 million (4%) over 2015. Two items – pension costs ($22.4 million) and Family Care ($19 million, which is completely offset by Medicaid revenue) – comprise the bulk of that increase.

As noted above, the recommended budget is notable for its lack of outsourcing initiatives, the absence of proposals to transfer services to other jurisdictions (e.g. the proposed transfer of parks patrol services to municipalities recommended for 2014 and 2015), and its general avoidance of staffing and service reductions in departmental budgets. On the contrary, most departments are made whole for their share of the County's increased pension fund contribution, and several receive small boosts in their property tax levy allocation that go beyond their cost to continue services at existing levels. Those include the following:

- The **Milwaukee County Transit System** receives a property tax levy increase of $2.4 million, mainly to replace lost farebox revenue and to avoid fare increases. We provide additional analysis of the transit budget below.

- **Courts and Pre-Trial Services** receive a combined levy increase of $3.4 million after receiving a combined increase of $2.4 million in 2015. These increases do not finance service expansions, but instead allow the Courts to accommodate substantially higher fringe benefit costs and interdepartmental charges, and pre-trial services to withstand the loss of state grant revenue. Nevertheless, we would repeat a concern voiced in last year's budget brief that unlike most County departments, the budgets for the Courts and pre-trial services do not include performance data and measures.[2] This omission makes it difficult for policymakers to assess the need for enhanced local resources for these functions in 2016.

- The **District Attorney** receives a levy increase of $1.9 million to meet cost-to-continue needs and provide 3.5 new full-time-equivalent positions (FTEs), as well as to replace grant funding for a Sensitive Crimes Witness Advocate position. Similar to the Courts, the District Attorney has received a sizable levy increase in each of the past two years despite the absence of annual performance measures and data.

- **Human Resources** receives a tax levy increase of $1 million, which includes $300,000 for an enhanced tuition reimbursement program for County employees and $80,000 for a new "employee engagement strategy" designed to solicit employee input on organizational issues. Those investments – plus separate appropriations of $1 million to correct compensation inequities in various position classifications, $1.2 million for mid-year one-time "bonuses" for employees, and $1.2 million for a mid-year 1% salary increase – are touted in the budget as part of a renewed effort to recognize the "essential role" of County employees.[3]

- The **Information Management Services Division** receives an additional $1.4 million in property tax levy for technical services, including $190,000 to establish a reserve for future personal

---

[2] The budget notes that performance measures for pre-trial services have been created but they are not delineated because a new system to track performance is under development.
[3] County employees will be required, however, to pay a greater percentage of their salaries toward their pensions in 2016 in light of the increase in the pension fund's unfunded liability.

computer and laptop needs. This investment reflects a much-needed, multi-year effort by the administration to reinvest in its information technology capacity.

- The **Parks Department** receives a $1.4 million increase in property tax levy and three additional FTEs. While the levy increase is completely offset by increased fringe benefit and interdepartmental charges, the department also benefits from an extra $1.8 million in O'Donnell Park parking revenue. (The O'Donnell parking garage had been budgeted to receive only three months of revenue in 2015 because of its potential sale.) One of the new positions is a Development Officer who will work to enhance outside revenue sources and partnerships for the department. Similarly, $250,000 is allocated to the Parks Amenities Matching Fund in hopes of generating additional outside revenues to support departmental needs.

- **Facilities Maintenance** receives three additional FTEs and a $1.1 million increase in overall personnel expenditures to fortify efforts to address the County's facility needs.[4] The budget also maintains a $500,000 expenditure for implementation of the Consolidated Facilities Plan.

There are also several new initiatives in the **Department of Health and Human Services** budget that have important fiscal or policy implications, but that did not produce an overall tax levy increase in the affected division or department. Those include:

  - Creation of a new community-based secure residential facility in the Delinquency and Court Services Division that will serve delinquent youth enrolled in the Milwaukee County Accountability Program and allow fewer youth to serve time in the Juvenile Detention Center. The $2.8 million cost will be financed largely with state revenue and also will allow for the closure of one 11-bed pod in the detention center.

  - Expansion of the 24-hour mobile crisis team that serves individuals with intellectual/developmental disabilities accompanied by closure of a four-bed crisis resource center.

  - Creation of four positions in the Housing Division that will help implement the County Executive's initiative to end chronic homelessness, as well as the appropriation of a combined $1.8 million in that division and the Behavioral Health Division (BHD) via a mix of funding sources to finance the initiative.

  - A $270,000 appropriation in BHD's budget to replace grant funding and ensure continuation of the Adult Drug Treatment Court.

  - Several initiatives in BHD's budget that continue mental health redesign efforts, including increased appropriations to enhance the division's Crisis Mobile Team and Crisis Assessment Response Team, expand the Comprehensive Community Services program, and add several Community Based Residential Facility beds. Also worth noting is one initiative that did not make it into the recommended budget – full funding to provide third shift admissions at both of the County-contracted crisis resource centers as reflected in a budget amendment approved by the Mental Health Board in July.

---

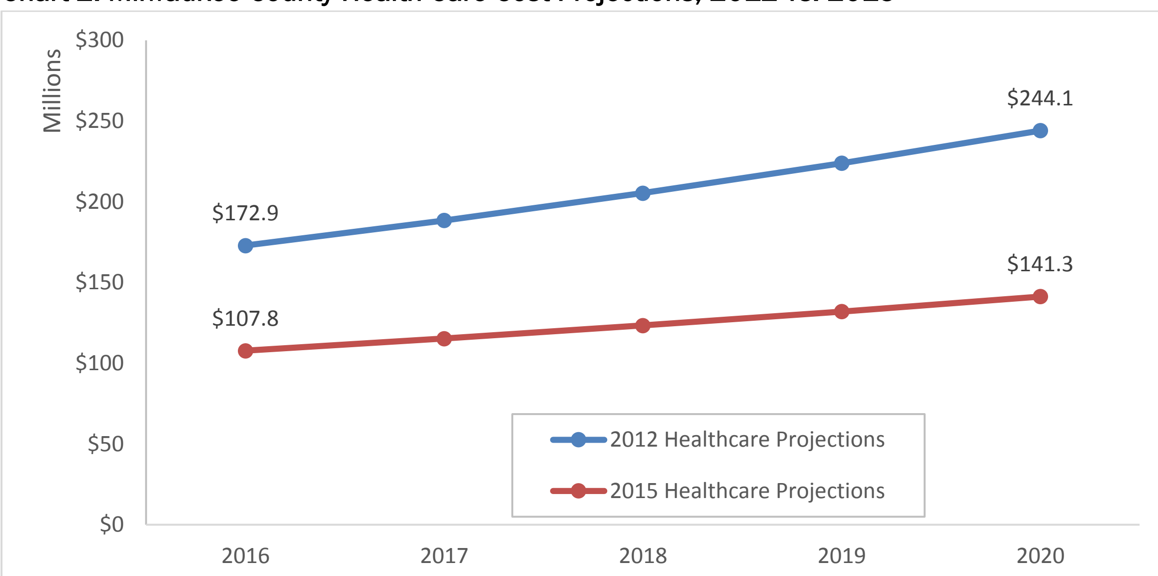
[4] While the Facilities Maintenance section received an increase in personnel expenditures, its overall property tax levy allocation declined by $1.9 million because of a series of accounting changes involving revenue accounts.

The areas of investment cited above highlight the priorities established in the recommended budget and show that the County Executive and his budget team were able to find resources within the County's constrained revenue streams to provide new spending in areas they deemed most important. In addition, there are a handful of areas in the recommend operating budget that merit further discussion because of their broader fiscal and operational impacts. We analyze those areas below.

Employee/Retiree Health Care

As noted above, the County continues to enjoy tremendous fiscal benefits from health care plan design changes and increased employee contributions adopted in each of the past four budgets. As shown in **Chart 2**, the benefits extend beyond the 2016 budget; in fact, when we compare the 2012 Municast projection for health care spending totals for the 2016-2020 period with the latest Municast projection, we see that health care costs five years from now are projected to be more than $100 million lower than projected just three years earlier.

Chart 2: Milwaukee County Health Care Cost Projections, 2012 vs. 2015



Source: Milwaukee County Municast

Health care modifications not only have contributed to the County's vastly improved five-year forecast, but they also have been a key budget balancing tool in annual budgets. The health care savings anticipated in each of the past four budgets have been vastly underestimated, in part because of lower-than-expected utilization rates by employees and retirees. This has produced two huge benefits: the ability for the County to generate substantial year-end surpluses, which typically have been used to replenish the Debt Service Reserve and allow substantial withdrawals in the following year's budget (as detailed in the next section of this report); and the ability to lower the baseline health care expenditure amount in each budget, thus allowing for year-over-year budgetary savings even when accounting for inflationary cost increases in health care services and pharmaceuticals.

The 2016 recommended budget exemplifies how this dynamic has worked. The budget assumes a 5% inflationary increase in general health care costs, which ordinarily would have produced the need for more than $5 million in additional expenditures. However, because actual 2015 health care expenditures are anticipated to be about $19 million lower than budgeted, the 5% increase is applied to a much lower baseline, contributing to a $12.4 million *savings* in overall health care expenditures from the 2015 budgeted amount.

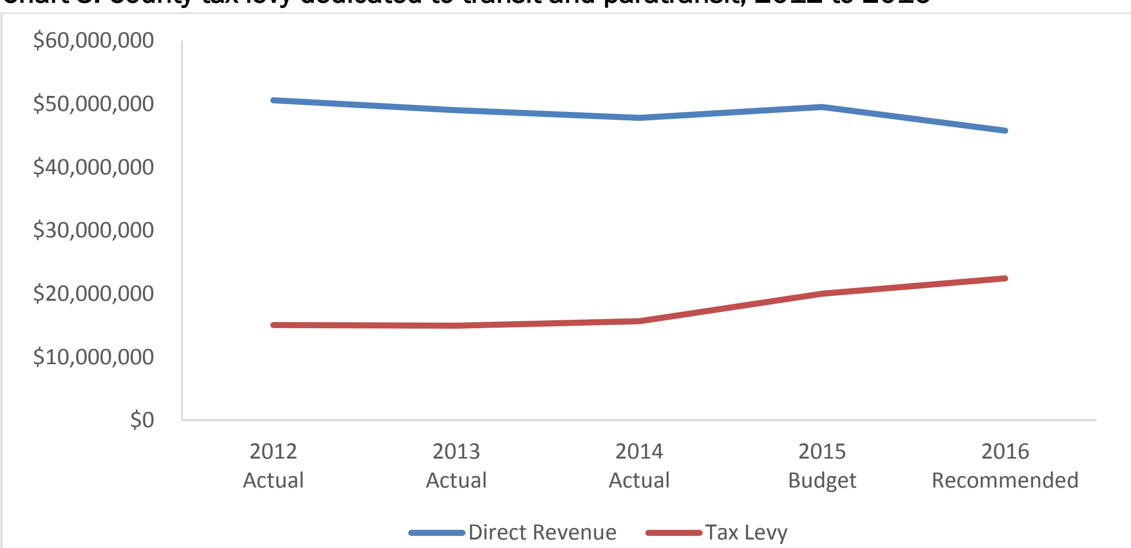
Notably, for the first time since he has been in office, the County Executive's recommended budget contains no significant changes in health care plan design or in premium contributions or out-of-pocket costs for employees and retirees. The only change impacting large numbers of employees is a modification to the employer match for their optional flexible spending accounts, which would be converted from a one-to-one County match to a match of $1 dollar for every $2 deposited by employees. This recommendation would produce a savings of $500,000, which is part of the overall $12.4 million health care savings in the recommended budget.

Transit

The commitment to transit is one of the primary story lines in the 2016 recommended budget. As noted above, the Milwaukee County Transit System (MCTS) receives an increased property tax levy commitment of $2.4 million, bringing the total levy amount to $22.4 million. This increase makes up for reduced farebox revenue and allows MCTS to maintain existing service levels without increasing fares.

As shown in **Chart 3**, direct revenue – which consists largely of revenue collected from riders at the farebox, as well as advertising revenue and other small miscellaneous sources – is projected to be $3.7 million (8%) lower in 2016 than in 2015, while the amount of tax levy dedicated to transit will increase by 12%. When compared to the 2012 actual amount, the 2016 recommended levy represents an increase of nearly 50%.

Chart 3: County tax levy dedicated to transit and paratransit, 2012 to 2016



Source: Milwaukee County budget documents

The projected decline in farebox revenue appears to be driven by two major factors. The first is increased utilization of the new MCTS GO Pass, an initiative adopted by the County Board (over the County Executive's veto) that offers free bus rides to seniors and people with disabilities.[5] Usage of

[5] Previously, half-price fare was offered to those populations.

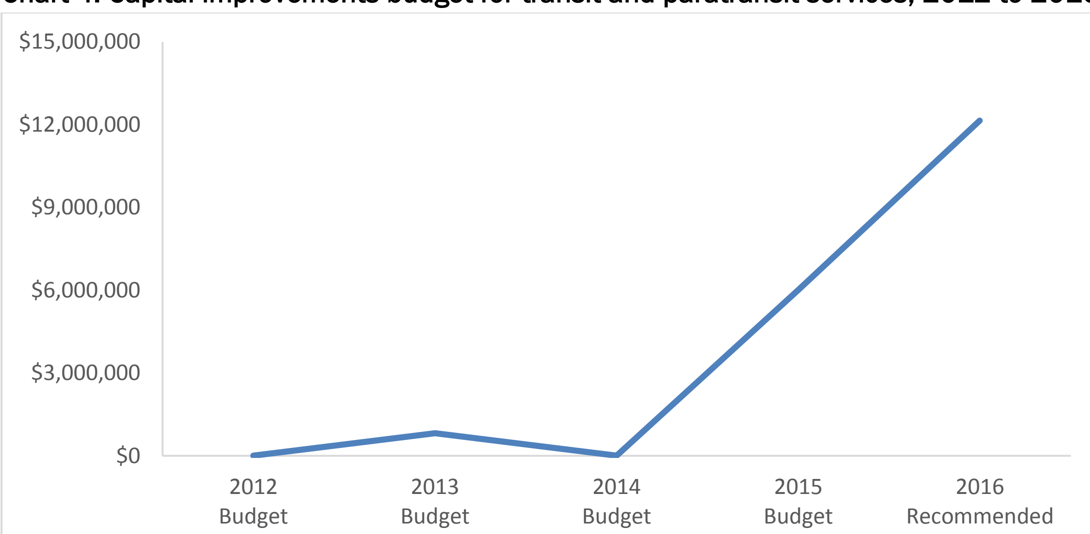
the GO Pass has been growing steadily since it was introduced on March 31, 2015, and currently, there are more than 15,800 GO Pass holders who account for roughly 119,000 free bus rides each week.[6] MCTS estimates that the new GO Pass program will result in a $1.8 million reduction in farebox revenue in 2015 and an even greater loss in 2016, as more passes will be issued and the program will operate for the entire year.

A decline in overall transit ridership is the other major factor contributing to lower projected farebox revenue. Total ridership for 2015 is down slightly from 2014 (despite an increase in bus hours and bus miles), which MCTS estimates will result in $1.95 million less in farebox revenue than was expected by the end of the year. The potential for an additional decline in total ridership is built into revenue projections for 2016.

Another notable item in the operating budget is $300,000 for planning services to explore the potential for introducing a new bus rapid transit (BRT) service in Milwaukee County. In June 2015, the County Executive announced plans to develop a BRT service connecting downtown Milwaukee and the Regional Medical Center in Wauwatosa.[7] The provision of funds for BRT planning signals commitment to that initiative.

Exceeding the prioritization given to MCTS in the operating budget is the commitment in the recommended capital improvements budget. A total of $14.5 million is recommended to replace 30 aging buses, with $12.2 million of that total coming from County-issued general obligation bonds. As shown in **Chart 4**, the contribution of County funds will be far higher in 2016 than was budgeted in previous years, when federal funding sources covered most of the costs of bus replacements.

Chart 4: Capital improvements budget for transit and paratransit services, 2012 to 2016



Source: Milwaukee County budget documents

[6] Dranzik, Brian. Interoffice communication from the Milwaukee County DOT to leaders of the County's Finance, Audit and Personnel Committee. September 29, 2015.
[7] Behm, Don. "Abele proposes bus rapid transit service for county." *Milwaukee Journal Sentinel*. June 2, 2015. http://www.jsonline.com/news/milwaukee/abele-proposes-bus-rapid-transit-service-for-county-b99512007z1-305885121.html

The recommended budget's greater use of property tax levy to offset lost farebox revenue, combined with its extensive use of bonding to pay for bus replacements, shows steadfast dedication to maintaining existing transit service levels, particularly in light of the County's other pressing operating and capital challenges. While the effort to hold the line on fares and service is impressive, however, it will be challenging for the County to maintain such a commitment as transit-related challenges continue to mount in future years.

For example, several new MCTS express bus routes are supported by funding from the federal Congestion Mitigation and Air Quality Improvement (CMAQ) program, which can be used to support new bus routes for their first three years of operation. That funding will run out by 2018, at which point MCTS will have to find another way to pay for those routes if they are to be maintained. The County also has used temporary funding from a legal settlement regarding the Zoo Interchange project for "reverse commute" routes that will similarly expire by 2019.

The deep structural hole in the transit system's budget (articulated in detail in a 2008 Forum report[8]) remains one of the County's foremost financial challenges. While the problem was temporarily alleviated during the past few years through the use of two sources of one-time Federal revenue,[9] that hole still remains. The bottom line is that MCTS' revenue streams still do not have nearly the capacity required to cover its growth in fixed costs and its bus replacement needs.

This suggests that at some point, a new local funding source will be needed to maintain transit services if policymakers wish to do so without sacrificing other important County services. As we have pointed out frequently in the past, MCTS is one of very few large transit systems in the U.S. that lacks a dedicated local funding source. While State approval for the establishment of a new local sales tax does not appear politically viable in the immediate future, a modest wheel tax is one option the County could elect to implement on its own at any time. That option may be particularly appropriate for addressing bus replacement needs, as it would provide an ongoing source of revenue to replace or support transit-related debt, thus potentially removing transit from the County's long list of capital concerns and dovetailing with ongoing efforts to reduce the County's debt burden.

Office of the Sheriff

As in the previous four years, the Office of the Sheriff provides one of the major areas of contentiousness in the 2016 recommended budget. At first glance, however, the budget does not look that way. Total expenditures in the Sheriff's budget actually increase by $1 million (from $80.7 million in 2015 to $81.7 million in the recommended budget), and property tax levy is maintained at the 2015 level of $70.8 million. Meanwhile, the budget maintains the current array of services provided by the Sheriff and does not tinker with his organizational chart. That contrasts with previous years, in which the recommended budget has called for the transfer of County parks patrols and County Grounds security to municipal governments and proposed changes in command structure and other elements of the office's organization.

Diving into the details of the budget, however, reveals that the Sheriff would face a substantial reduction of resources that potentially would necessitate substantial cuts in staffing and services. For example, the budget allocates an additional $3.2 million in salaries, $2.7 million in space rental

---

[8] The report can be accessed at: http://publicpolicyforum.org/sites/default/files/MilwaukeeTransitCrisis.pdf.
[9] The first revenue source was about $35 million remaining from the East-West Corridor study, and the second was about $12 million of CMAQ funds freed up from the demise of the Kenosha-Racine-Milwaukee commuter rail proposal. In both cases, the revenues were used for bus replacements.

and information technology charges, and $1.9 million in legacy health care and pension costs to the Sheriff's budget in 2016. These are costs over which the Sheriff has little to no control, yet his office must "absorb" them with no additional property tax levy support.

The recommended budget does not attempt to prescribe how the Sheriff should cover those costs. Instead, it provides him with a $9.8 million "abatement," or lump sum budget reduction, which essentially allows him to determine how to implement the savings on his own. This is about $8 million higher than a similar lump sum expenditure adjustment in his 2015 budget. While there may be some opportunities to trim overtime costs because of deputies added in 2015 – or to reduce general operating costs (the Sheriff requested and received a $1.5 million increase in that area in the recommended budget) – accounting for the entire lump sum reduction likely would involve significant cuts in staffing and/or services.

The Sheriff also could attempt to run a deficit, which he did in 2014 in the amount of $5.9 million. This year, the Sheriff is on pace to break even (though he has been aided in that endeavor by a mid-year appropriation from the Contingency Fund). The Sheriff may argue that all options to reduce spending without impacting his state-mandated responsibilities (e.g. expressway patrol, running the Jail, providing bailiffs to the courts) have been exhausted, and that he has little option but to revert back to deficit spending. If that is the case, then a successful effort to control one of the most problematic areas of the County budget will be reversed.

While it is reasonable to expect that there is some ability within the Sheriff's $82 million budget to reduce expenditures without impacting mandated responsibilities, a $9.8 million abatement appears excessive. As we have pointed out in previous budget briefs, appropriate scrutiny needs to take place regarding the Sheriff's service array and organizational structure, but that scrutiny also must define and acknowledge what resources are required for him to fulfill his mandated duties. The recommended budget again appears to give such consideration to the Courts and District Attorney's office – which similarly function under the leadership of independently-elected Constitutional officers – but fails to do so for the Sheriff.

In fairness, the administration would argue that the Sheriff has not cooperated in efforts to identify mutually acceptable spending reductions. But after five consecutive years of budget chaos that has impacted other important fiscal decisions, the question is not who is to blame, but what needs to happen to resolve the problem. As in previous years, we would suggest that the independent Comptroller might be best positioned to weigh in on what resources are legitimately required by the Sheriff to run the jail, service the courts, and fulfill his other statutory responsibilities.

Department of Administrative Services

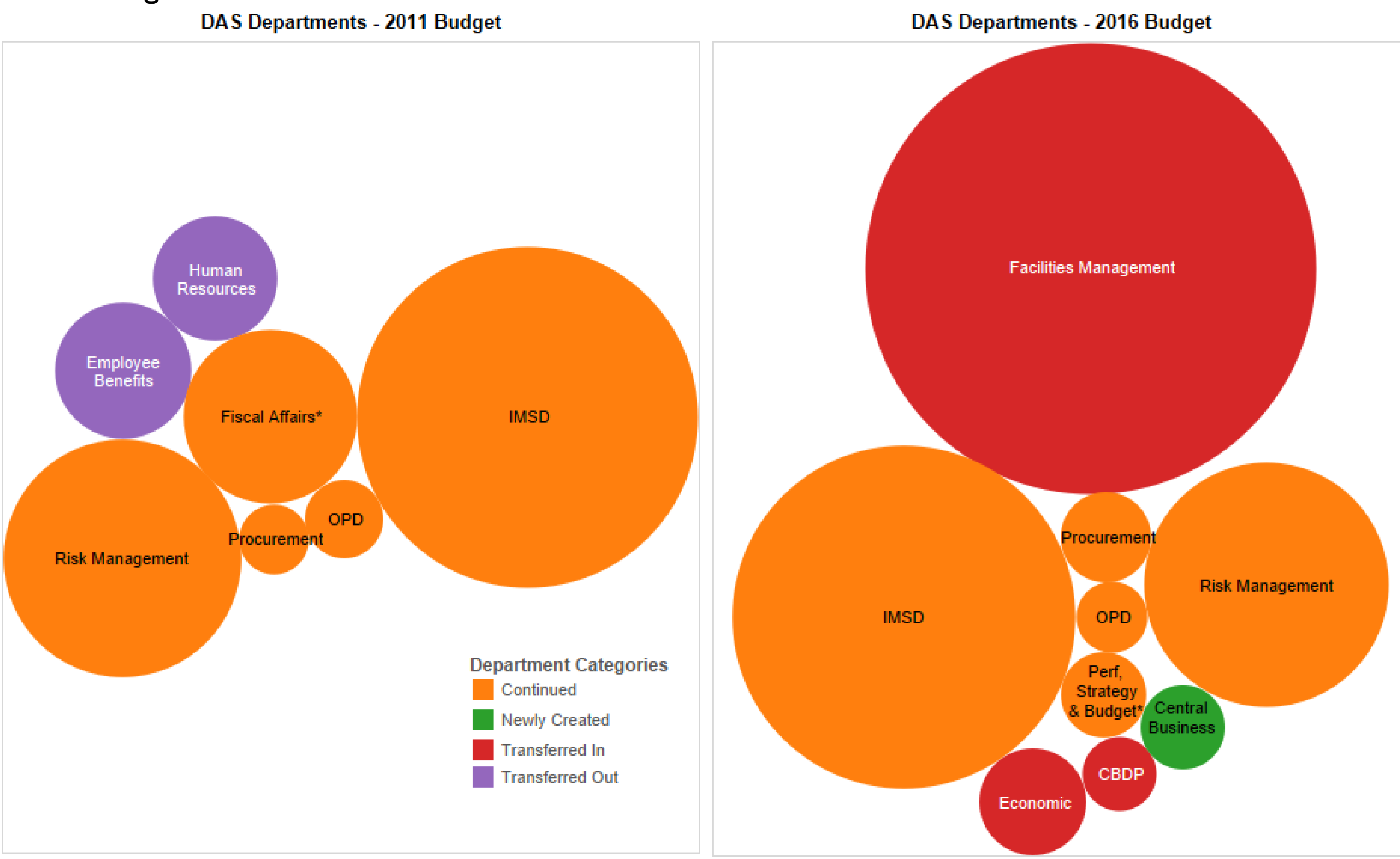
A striking change in county government in recent years involves the composition of the Department of Administrative Services (DAS). While it is too early to evaluate the success of this transformation, it does merit discussion in light of its breadth and significance.

DAS always has been the seat of administrative and budgetary control in county government, though its role as a "support" agency for county departments has changed over time. For example, in 2002, the name of the department was changed from "Department of Administration" to "Department of Administrative Services." The name change reflected an effort to centralize most fiscal, information technology, human resources, and related functions within one department that would have as its primary mission the provision of "overhead" services to departments. This contrasted with the existing structure at the time, which gave large departments the opportunity to maintain their own staffing and support in those areas. Ironically, the changes implemented in 2002 came on the heels of earlier efforts in previous decades to do just the opposite (i.e. disburse more administrative functions out to departments).

The modifications to DAS over the past five years have not been as much about changing the department's service provision role as they have been about making DAS the driver of the County's strategic planning efforts and initiatives deemed critical to its long-term fiscal health.

Figure 1 depicts the movement of County functions in and out of DAS during the past five years (the size of the circles depicts the relative size of annual budgets). It shows, in particular, how facilities management and economic development functions have been transferred into DAS, while the human resources function was transferred out. In addition, the figure shows the shrinkage in the budget of the DAS Fiscal Affairs Division (now called the Division of Performance, Strategy & Budget), which was caused by the movement of certain financial management functions to the Comptroller's ofice subsequent to adoption of State legislation in 2012 that established an independently elected Comptroller for the County.

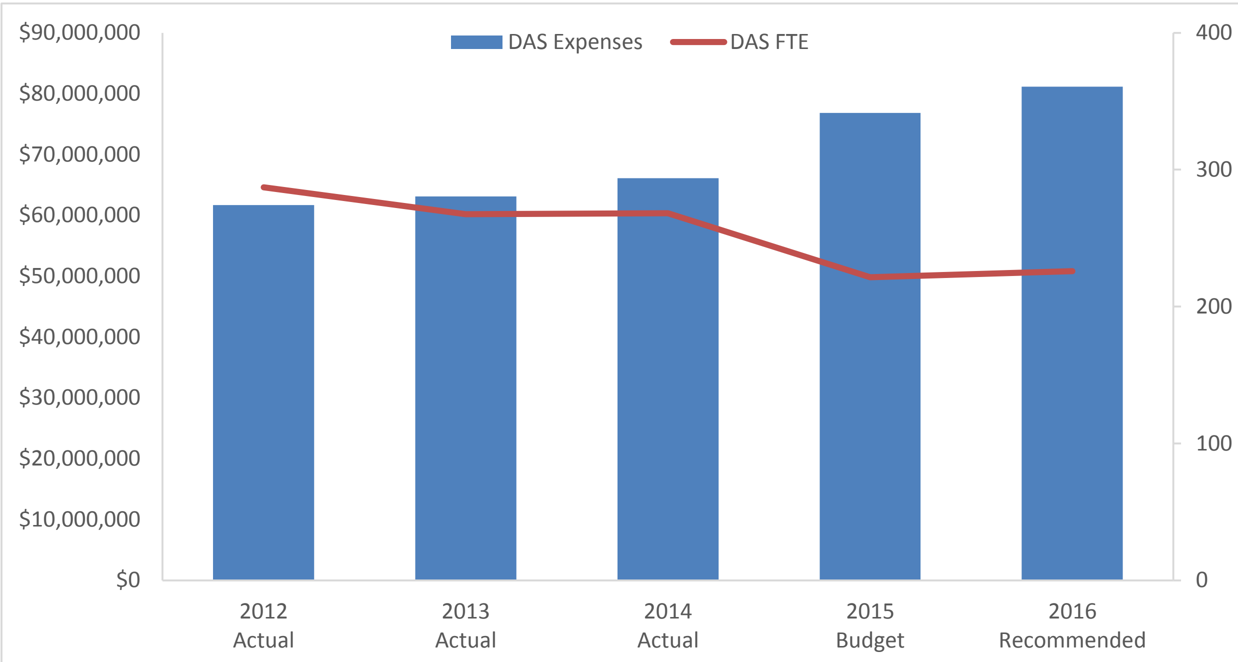
Figure 1: DAS divisions in 2016 vs. 2011



* The DAS Fiscal Affairs Division was recently re-named the Division of Performance, Strategy, & Budget. The size and budget of the division decreased substantially with creation of the independent Comptroller's office, as payroll, accounting, and capital finance functions (as well as the Comptroller himself) moved from DAS-Fiscal Affairs to the independent office.

In **Chart 5**, we show how DAS' budget and FTEs have changed in the past five years. While DAS expenditures have increased dramatically, the number of positions housed in the department has diminished, in part because of the transfer of central accounting, payroll, and some other fiscal functions into the new Comptroller's office.

Chart 5: DAS expenditures and FTEs, 2012 to 2016



Source: Milwaukee County budget documents

For 2016, DAS' expenditure budget would grow by $4.3 million (from $76.8 million to $81.1 million) and its workforce would grow by 4.4 FTEs. Specific changes include continued growth in the DAS Central Business Office, which was established in the 2015 budget to provide financial and contract administration support to all departments. The recommended budget increases the office from nine to 13 FTEs, including a new grant writer position that would identify and implement grant opportunities countywide.

While DAS' expenditure budget has grown during the past five years, ***that does not necessarily mean that the County is spending considerably more on administration, as overhead and admninistrative functions are spread throughout County government.*** Determining spending levels on administration would require a tabulation of changes in expenditure levels in each individual function that was part of the department in either 2011 or 2016. Such an analysis would be complicated by the creation of the Comptroller's office and the movement of certain interdepartmental crosscharges between DAS and other departments, and it is beyond the scope of this budget brief. The growth in DAS expenditures does convey, however, the extent to which the responsibilities under its auspices have changed during the past five years.

The growth of DAS' budget should best be viewed, perhaps, in the context of the administration's overall approach to governing. During the past five years, the administration has commendably focused on a core set of strategic goals that are linked to addressing the County's long-term fiscal imbalance.[10] Primary among those goals are efforts to "reduce the County's footprint" and to "provide services differently and increase operating efficiency."

Reducing the County's footprint has entailed efforts to close and demolish City Campus, sell the O'Donnell parking garage, explore changes in governance on the Milwaukee County Grounds, and conduct overall space planning – efforts that arguably *should* be under DAS given their strategic importance to the County's financial outlook and their impact on multiple departments. Hence, the transfer of the County's Facilities Management, Economic Development, and Real Estate Services functions into DAS.

Efforts to provide services differently and increase operating efficiency are reflected by the change in name of the DAS Fiscal Affairs Division to the "Performance, Strategy & Budget Division," and by creation of the Central Business Office. These moves reflect not only an effort to introduce a more strategic approach to budget planning, but also greater emphasis by DAS on working with departments to improve the efficiency of their operations, and to maintain better control over how they do business and ensure they are adhering to the County's larger strategic goals.

Ultimately, the success of the transformed DAS should be judged not through a political lens, but by its results. Whether DAS is able to move the County toward true performance-based budgeting will be one key indicator of its success, and should also provide the wherewithal to determine whether critical internal services like facilities management and IT support are being conducted more efficiently. In some areas, like economic development and real estate management, the early returns are encouraging. Sufficient time needs to be allotted to determine the effectiveness of the overall transformation, though close monitoring is merited given the increased span of control now afforded to one department.

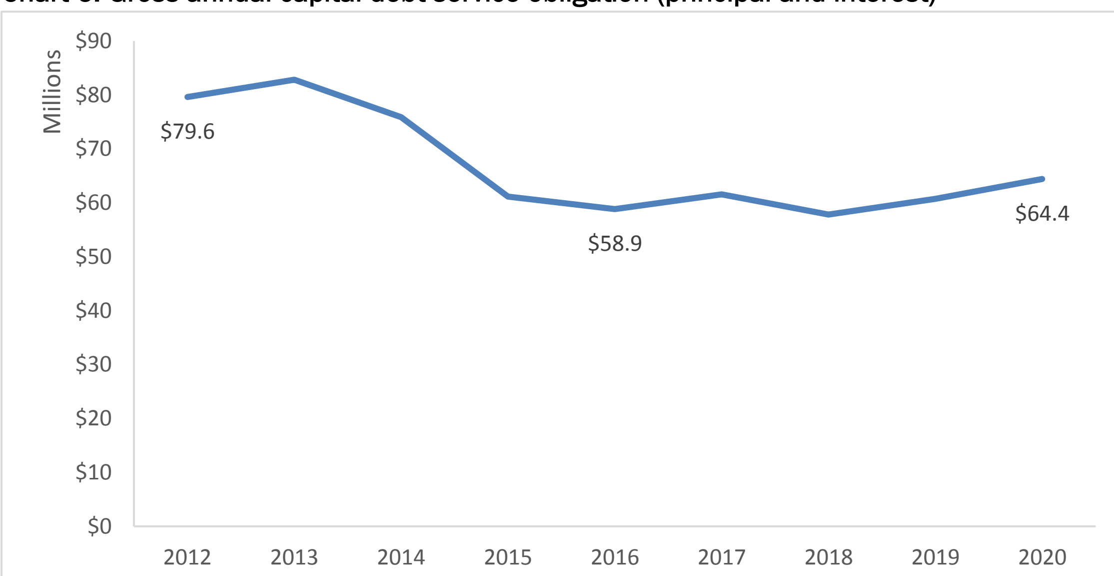
[10] Those goals were articulated in the County Executive's 2015 budget address: Providing Services Differently; Reducing the County's Footprint; Increasing Operating Efficiency; Increasing Benefit Cost Sharing; Building Reserves; Using One-Time Revenues Properly.

2016 Recommended Budget: Debt Service and the Debt Service Reserve

The 2016 recommended budget cites total outstanding debt of $681.3 million, which consists of $342.2 million in bonds and notes for capital improvement projects and $339.1 million in pension obligation bonds and notes. The pension debt – which was issued in 2009 and refinanced in 2013 – reduces the County's unfunded pension liability, and its $33 million in annual debt service is counted as part of the annual pension fund contribution.

The County has made significant progress in reducing its capital-related debt in recent years; in fact, this has been almost as big a contributor to its improved fiscal outlook as its success in controlling health care costs. As shown in **Chart 6**, the County's gross annual debt service obligation on its capital debt was in the $80 million range in 2012-13 before dropping to about $76 million in 2014 and plummeting to $61 million in the current year.[11] Capital debt service is projected at $59 million in 2016 and is anticipated to remain relatively flat for the next four years. It is important to note that lower debt service payments free up sales tax revenues that are targeted for debt repayment, which then allows those revenues to be used to meet other needs in the County's operating budget.

Chart 6: Gross annual capital debt service obligation (principal and interest)



The County's progress in reducing annual capital debt service payments not only is linked to the reduction in its debt holdings, but also to its build-up and increased use of the Debt Service Reserve (DSR). The DSR was created by the County largely as a hedge against wide annual swings in debt

[11] The chart reflects the gross amount of principal and interest payments required to service the County's non-POB debt in each year per Municast. The amounts cited do not reflect revenues in the debt service account that directly offset debt service payments, including contributions from the DSR. Also, Municast does not contain a separate breakdown of POB debt service amounts for the years prior to 2016, but instead combines those amounts with non-POB debt service amounts. As a proxy for the POB debt service in each year, we subtracted $33 million from the Municast debt service totals. While this calculation does not produce the precise non-POB debt service figure, it is very close and does not impact the trend.

service costs ordinarily paid with sales or property tax revenues.[12] The DSR typically has been funded with unanticipated excess bond proceeds, but in the past three years it also has benefited from decisions by County leaders to deposit a sizable portion of large year-end surpluses in the reserve. Policymakers also have made healthy withdrawals from the reserve – but instead of doing so to offset greater-than-anticipated debt service costs, they have instead used the withdrawals to finance various spending initiatives and provide general sales and property tax relief in the budget.

The County has deposited a combined amount of more than $50 million from year-end surpluses in 2013, 2014 and 2015 into the DSR. It also withdrew a combined total of about $18 million to free up resources in the 2014 and 2015 budgets, and about $13 million to address mid-year needs in those years. According to a September report from the Comptroller, the DSR currently has a fund balance of $25.5 million. Until three years ago, the DSR seldom maintained a fund balance above the $5-$6 million range.

The 2016 recommended budget includes a transfer of $14.25 million from the DSR, which directly lowers the debt service obligation and frees up sales and property tax resources for other purposes. According to budget officials, the main objective is to use a portion of the DSR fund balance to help the County meet the cost of ramping up its pension contribution. As discussed earlier in this report, an additional $20 million is required in 2016 to account for underfunding that occurred in 2015 because of an error by the pension fund actuary and to support changes in actuarial assumptions. A key change is a reduction (from 30 to 20 years) in the amortization period for the unfunded pension liability. This can be viewed as a fiscally responsible change in that it requires the County to contribute sufficient sums to ensure that the fund is fully funded over a shorter timeframe.

Budget officials have developed a three-year plan to meet the increased pension requirement without impacting services or requiring enhanced revenues. That plan consists of:

1. A contribution of $10 million from the projected 2015 surplus (currently estimated at $18.5 million) to supplement the budgeted 2015 pension fund contribution.
2. Following up the $14.25 million transfer from the DSR in 2016 with a $6.75 million transfer in 2017. It is estimated that the DSR would have a balance of $10 million after the 2017 withdrawal.
3. Eliminating a reserve created in 2009 to offset risks associated with the issuance of pension obligation bonds by withdrawing $3 million in 2016 and the remaining $3 million in 2017.

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, the County had no reserves to speak of until prudently using unanticipated health care surpluses over the past three years to build the DSR. The County's need for reserves is particularly acute given its reliance on State and Federal revenues over which it has little control, and the impact that stock market fluctuations can have on its pension fund liability. Consequently, any decision to spend down reserves at such a rapid pace over the next two years must be viewed with caution.

[12] The DSR is the County's only real general reserve that can be carried over from one year to the next. The Family Care program's Care Management Organization and BHD maintain operating reserves, and some departments (like BHD and the Zoo) maintain small trust funds, but those dollars are reserved for specific programmatic uses. Also, the County maintains a small pension obligation bond reserve that is intended to afford protection from unanticipated reductions in interest earnings from the investment of POB proceeds.

Also, while the budget document cites adherence to a previously established $10 million minimum DSR fund balance goal, it could be argued that the policy goal is inappropriately low given the volatility of the County's finances. The Government Finance Officers Association (GFOA), for example, recommends "at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures."[13] The County also uses an annual Appropriation for Contingencies to offset unexpected expenditure needs or revenue shortfalls in each annual budget, and that fund also would decline in 2016, decreasing from $8.6 million to $5 million in the recommended budget.

Finally, the use of such large sums from the DSR in 2016 and 2017 – while ostensibly needed to address a one-time spike in the pension payment – does create a hole in future budgets given that similar-sized withdrawals from the DSR likely will not be possible in future years. Consequently, this move could impede the progress the County has made in gradually shrinking the size of the annual budget gap.

Despite these considerations, a case can be made that earmarking withdrawals from the DSR and pension obligation reserve to address the unanticipated pension fund burden is consistent with the widely accepted financial principle that reserves should be used only to offset the impacts of unique, unexpected occurrences. Furthermore, the fact that the County again is expecting a sizable surplus in 2015, and that it has made such great strides in recent years in reducing its debt service obligations, arguably have reduced its fiscal volatility to the point that a sizable DSR withdrawal can be justified.

In the end, the question of whether a $17 million reduction in reserves is merited in 2016 must be considered in the context of other options that exist to address the inflated pension fund payment. One option would have been to reduce the payment by phasing in the implementation of the new, fiscally responsible actuarial assumptions, but the County Executive and his budget team commendably rejected that approach. Another would be to identify cuts in departmental budgets, while a third would be to consider revenue enhancements.

With regard to the latter, it is worth noting that a key cause of the County's structural imbalance is stagnant revenues, yet that side of the fiscal equation has been largely ignored by policymakers. Holding the line on taxes and fees certainly is beneficial to county residents. However, in 2016, policymakers may wish to consider the extent to which that benefit outweighs the negative impact of ratcheting down reserves.

---

[13] The GFOA's "Best Practice" paper on general government reserves can be accessed at: http://www.gfoa.org/appropriate-level-unrestricted-fund-balance-general-fund-0.

2016 Recommended Budget: Capital Improvements

The 2016 recommended capital improvements budget totals $82.7 million, which is a decrease of $7.4 million from 2015. Capital projects at General Mitchell International Airport are financed separately from the County's other capital projects and are fully reimbursed by the airlines or outside revenue sources; non-Airport projects total $60.5 million in the recommended budget, a reduction of $22.8 million from 2015.

The County finances its capital improvements with a mix of general obligation bond proceeds, sales tax revenues, and reimbursement from other governments or private sources. In 2016, the $60.5 million in non-Airport projects would be funded with $39.7 million in bonds, $10.5 million in sales tax revenues, and $10.3 million in reimbursement revenue. The $39.7 million bond issue would be $12 million less than budgeted in 2015 and is slightly less than the amount allowed under a policy goal established by the County in 2003.

Without question, the recommended budget's ability to substantially reduce the bond issue from the 2015 amount and stay within the County's self-imposed annual bonding limit is beneficial to its long-term fiscal health. In addition, as described in the previous section, limiting debt issuances at levels that sustain the dramatic drop in debt service in 2015 is critical from a near-term operating budget standpoint.

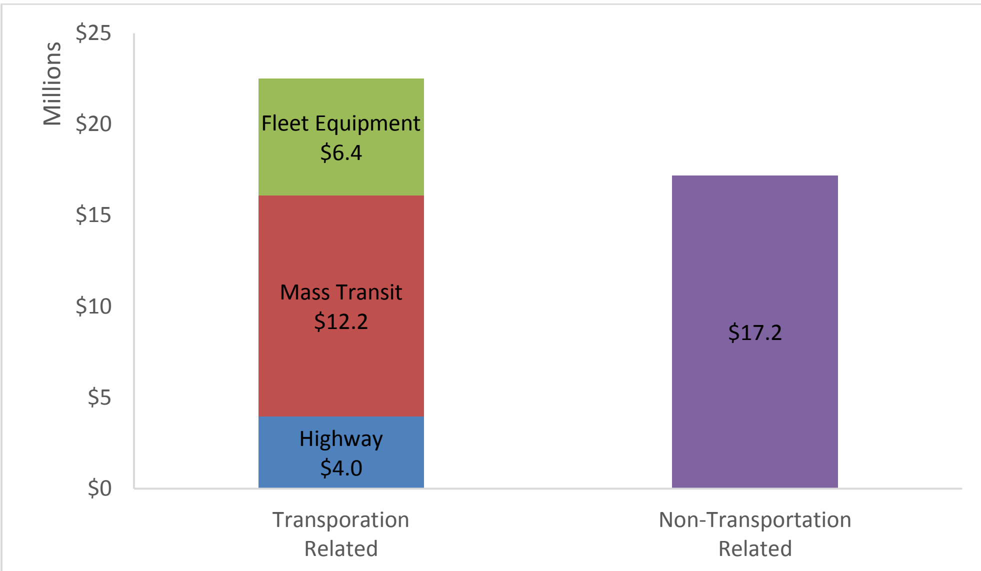
The capital budget also must be evaluated, however, based on its capacity to appropriately meet the County's infrastructure needs. Deferred capital repair and improvement needs have been a persistent problem for County policymakers. The problem stems not only from the size and age of the County's inventory of capital assets, but also from its self-imposed limitations on annual borrowing. Those limitations were adopted 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 emerged, and the County has struggled to address that backlog within the confines of its other fiscal challenges.

In recent years, County policymakers have attempted to address that issue in several ways. The administration has pursued efforts to liquidate (as opposed to repairing) certain infrastructure in an effort to free up capital resources for other needs. For example, the 2015 budget contained funds to demolish the County's City Campus facility at 27th and Wells, and the administration has pursued initiatives to demolish the Estabrook Dam and sell the O'Donnell parking garage. The 2016 recommended budget continues this line of thinking by including $3 million to demolish the Day Hospital wing at the Mental Health Complex. This is a first step toward an effort to sell and/or demolish the entire Complex as BHD seeks to outsource its inpatient and emergency care.

The County Board has taken a different approach, citing historically low interest rates and the recent plunge in annual debt service as an opportunity to increase borrowing to address areas of vast need. The Board added an amendment to the 2015 budget to increase borrowing by $10 million for parks and cultural facilities, and it recently appropriated $4 million from the DSR to address additional capital needs in the parks.

Whether the 2016 recommended budget strikes the appropriate balance between austerity and fulfillment of need is a difficult question to answer. On the one hand, it is worth noting that $12.2 million (31%) of the total recommended bond issue for 2016 would be dedicated to one item: the purchase of new buses for MCTS. An additional $4 million would be directed to highway projects and $6.4 million to vehicles in various county departments. As shown in **Chart 7**, that means almost three-fifths of bond proceeds would be dedicated to transportation and vehicle-related purposes, leaving only $17 million for the vast range of other County needs. The Parks department, for example, would receive $5.1 million in capital support – considerably less than the annual need of at least $15 million cited by department officials three years ago.

Chart 7: Transportation vs. other needs in 2016 recommended capital improvements bonding



On the other hand, the recommended budget does provide $10.4 million in sales tax revenue to buttress the bonding amount, illustrating the emphasis it has placed on reducing the County's debt while also addressing capital priorities. Also, in light of the substantial capital funds added by the County Board to the parks and culture function in recent months, it is possible that the amount recommended for the parks is appropriate to meet the immediate need and reflective of the department's capacity to spend capital dollars through the end of 2016.

Overall, while it is difficult to gauge the efficacy of recommended 2016 capital spending, there should be little doubt that infrastructure needs will remain a formidable challenge for the County in future years. The County's 2016-2020 capital improvements plan contains projected non-Airport bonding amounts of $71.3 million in 2017 and $64.4 million in 2018, indicating that there will continue to be many more projects requested by departments than can be accommodated under the bonding limit. With health care and pension expenditures seemingly under control, infrastructure is poised to become the foremost financial challenge facing Milwaukee County.

Conclusion

The County Executive has referred to his 2016 recommended budget as "a demonstration of Milwaukee County turning the corner towards a sustainable and better future."[14] We find that there is much in the budget to support that statement.

The budget reflects the County's remarkable progress in reducing health care expenditures and debt service obligations – two of the primary drivers of its long-term structural imbalance – by accommodating an unanticipated spike in its pension contribution with few service reductions and a flat property tax levy, and while also providing a pay *increase* for employees. Such a scenario would have been unthinkable five years ago.

The recommended budget also reflects a strong commitment to priority service areas by bolstering tax levy and bonding for the Milwaukee County Transit System; adding resources for homelessness and mental health initiatives; and maintaining momentum for countywide space planning and facilities consolidation. In fact, with the notable exception of the Sheriff, it appears that no County department will be required to meaningfully reduce service levels or staff to fill next year's budget gap.

Ironically, it is the progress that has been made toward fiscal sustainability and the relative ease with which the 2016 budget gap was bridged that call into question two of the most contentious elements of the recommended budget: the transfer of $17 million from reserves and the apparent underfunding of the Sheriff's budget. While a sizable reserve draw and sacrifice from the Sheriff both can be justified from a variety of perspectives, the extent to which these deficit reduction strategies are used in the recommended budget should be carefully reviewed, with particular focus on whether they might erode some of the County's recent steps toward sustainability.

As we have discussed above, the County faces intensified challenges with regard to transit operations and countywide infrastructure, and those challenges will be increasingly difficult to address once health care savings presumably run their course. Not only does the substantial reserve withdrawal potentially preclude such usage to address those issues in the future, but it also could exacerbate annual gaps if sizable withdrawals are not possible in future budgets. With regard to the Sheriff, if indeed the recommended lump sum reduction is too large for him to accommodate without incurring a deficit, then this too would exacerbate future challenges given the need to plug that hole in 2017 and beyond.

The likely alternatives to these strategies – cutting departmental budgets or raising revenues – admittedly are undesirable. Yet, in a year in which most departments got what they asked for and revenue enhancements are virtually nonexistent, consideration of modest doses of those strategies to ease future budget pressures and sustain recent structural improvements may be merited.

[14] Milwaukee County 2016 Recommended Budget, Introduction