



BUDGET BRIEF:

MILWAUKEE COUNTY

2017 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, Ragusin Graphic Design.

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





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*Milwaukee County
2017 Executive Budget*

October 2016

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INTRODUCTION

It is rare for a 458-page budget document to have only one primary story line. On its face, however, that would appear to be largely the case with regard to the Milwaukee County Executive's 2017 Recommended Budget. The proposed \$60 vehicle registration fee (VRF) – or "wheel tax" – has received the lion's share of attention thus far, and for good reason. Indeed, it would be quite uncommon for a local government in Milwaukee County to enact a tax or fee that would produce such a noticeable year-to-year difference in the pocketbooks of residents.

The question of whether the VRF is "fair" and whether the amount proposed is affordable to residents is a matter of individual opinion and goes beyond the purview of our annual budget analysis. We can provide context on the rationale for such a proposal, however, by examining the factors that have created the County's 2017 budget challenges and the alternatives that may exist to eliminate (or perhaps reduce) the VRF. A significant portion of this year's budget brief is dedicated to doing so.

While the proposed VRF offers the most fodder for analysis and discussion, other key elements of the recommended budget should not be overlooked. For example, the budget finances new initiatives in delinquency services, behavioral health, and workforce development, while also beefing up the County's information technology and human resources capacity and expanding the capital improvements budget by more than two thirds. Meanwhile, the Sheriff's budget – while lacking the types of restructuring initiatives and position abolishments that have marked previous budgets – still may be a point of contention in light of a sizable proposed decrease in personnel expenditures.

Perhaps what is most striking about the recommended budget is that despite the unprecedented injection of \$27.1 million of VRF revenue and the first property tax increase proposed by a County Executive since 2002, most County programs and services would not look much different from previous budgets. The new funds are not directed toward expensive new initiatives (with the exception of bus rapid transit in the capital budget), but instead are used primarily to maintain existing service levels, avoid major changes to employee compensation, and address existing infrastructure needs.

This reality reflects the fact that the County's long-time structural imbalance – while impressively reduced in recent years through benefit restructuring and workforce reductions – finally has caught up to it. With the ability to squeeze additional major savings out of employee benefits or salaries no longer deemed possible and/or desirable, pension costs again on the rise, and no large infusions of federal infrastructure funding on the horizon, eliminating the 2017 budget gap will require painful expenditure cuts, significant revenue increases, or both.

After relying exclusively on the expenditure side of the budget ledger in recent years, this year's recommended budget turns to revenues both to fill the immediate gap and to produce *permanent* structural deficit reduction. Careful deliberation needs to occur with regard to the scope and use of the proposed new revenues, but our analysis suggests that additional revenues *are* required if County leaders wish to maintain existing service and employee compensation levels, tackle needed infrastructure projects, and forsake one-time fixes used in previous years. It also must be understood that the VRF is the only comprehensive new revenue option available to the County under State law.

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 informed deliberations on the 2017 County budget.



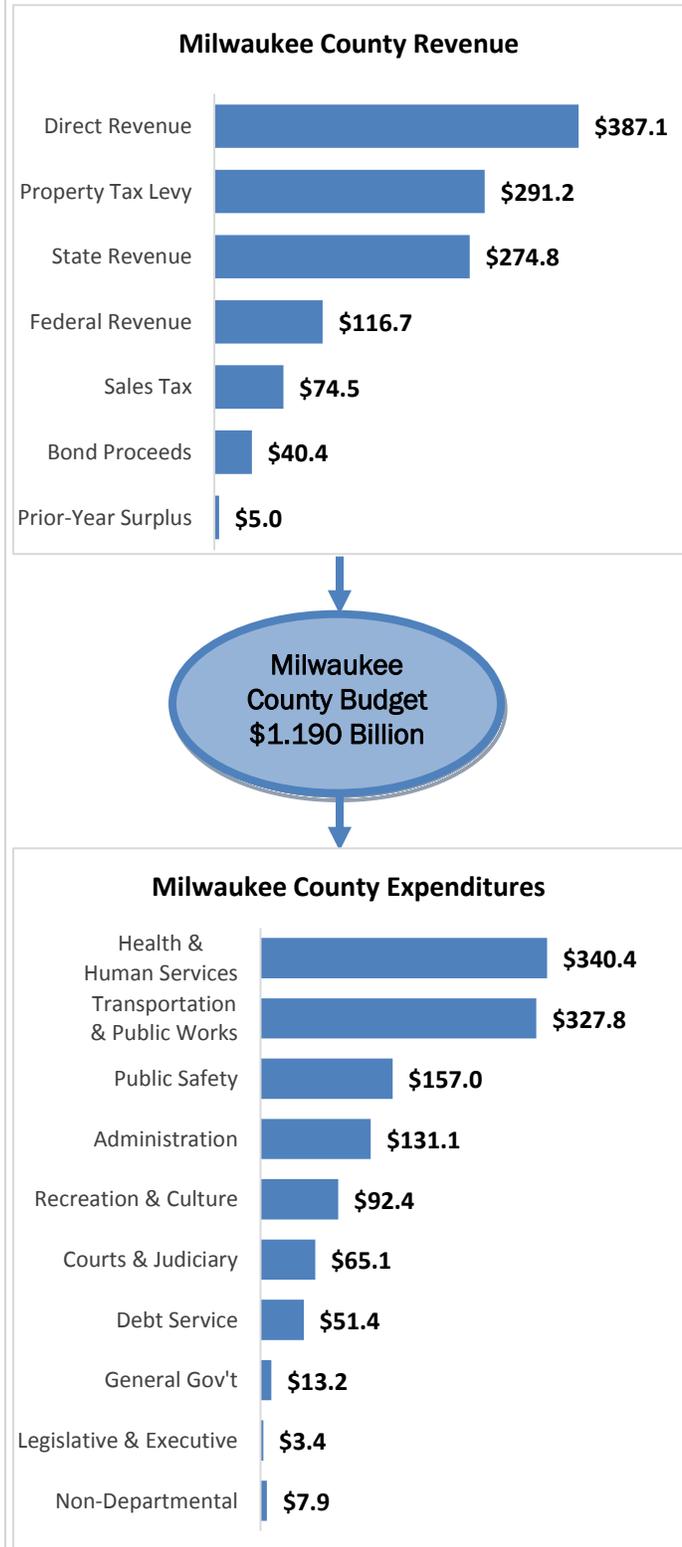
2017 RECOMMENDED BUDGET SYNOPSIS

The 2017 Recommended Budget totals \$1.2 billion, a decrease of 13% (\$185 million) from 2016. The reduction is attributed entirely to the Family Care program's recent separation from the County to become a private entity, which reduces expenditures and offsetting revenues by \$304 million. The budget would have increased by \$119 million (9%) if not for that circumstance, though \$26 million is attributed to a human services-related accounting change. The operating budget totals \$1.1 billion, while \$134 million is for capital improvements.

Figure 1 breaks down the recommended budget by major revenue categories and expenditure functions. The three leading areas of expenditure are health & human services at \$340 million (including \$207 million for behavioral health); transportation & public works at \$328 million (including \$180 million for transit); and public safety at \$157 million. As a result of the separation of the Family Care program and increased spending on transportation capital projects, the health and human service and transportation functions now are roughly equivalent as the leading areas of County spending.

The largest source of revenue in the County budget is "Direct Revenue," at \$387 million. This revenue consists of service-related fees and reimbursement (e.g. zoo admissions, transit fares, Medicaid reimbursement, and the new VRF). The property tax is the next largest revenue source at \$291 million. The County also is budgeted to receive \$275 million from the State and \$117 million from the federal government, reflecting the many programs mandated by other levels of government for which it is responsible.

Figure 1: 2017 Milwaukee County Finances (Millions)



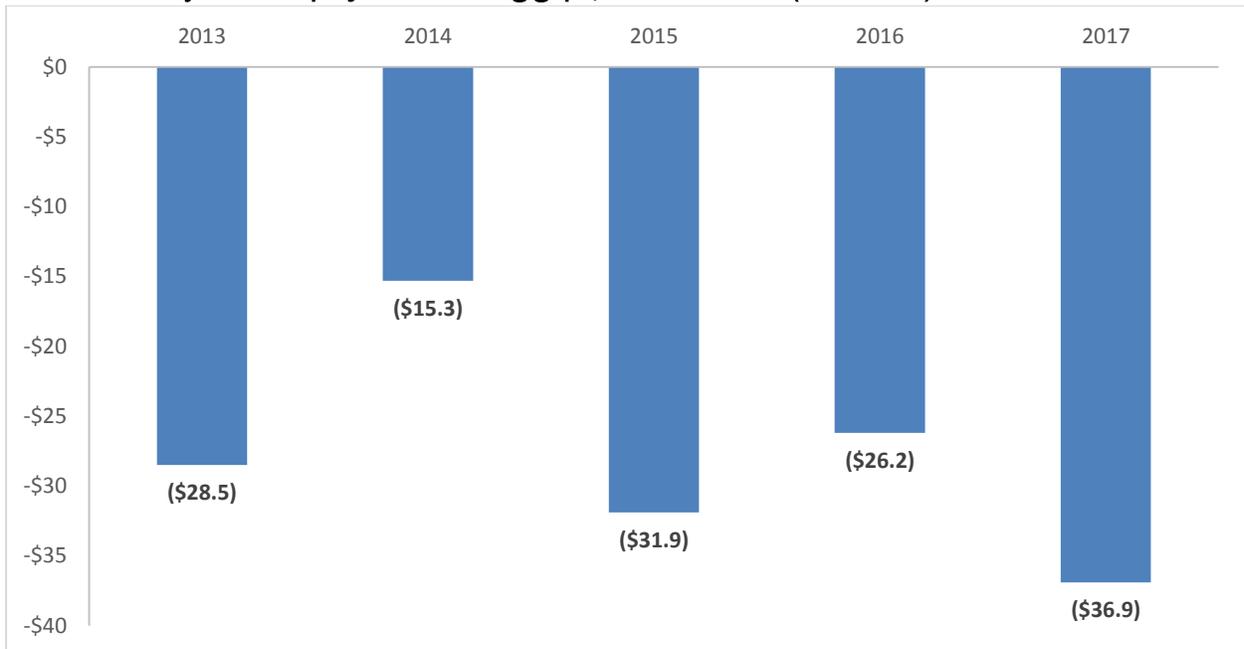
THE 2017 BUDGET GAP

For at least the past 15 years, Milwaukee County officials have initiated their budget planning for the following year with the knowledge that they would have to bridge an operating budget deficit or "gap." This predicament results from the County's long-time structural imbalance, which stems from the fact that the annual growth the County can expect in its major revenue streams does not come close to meeting the growth in annual expenditures that is needed to address personnel and retirement-related costs, and to continue programs and services at existing levels.

In previous years, we have commented on the progress the County has made in reducing the size of the structural deficit. That progress has been linked, in large measure, to its efforts to modify its health care benefit structure in a manner that has sharply reduced annual expenditure increases, as well as its successful efforts to reduce annual debt service payments. The County also has taken important steps to reduce the size of its physical footprint, which have eased pressure somewhat on its capital improvements budget.

Heading into 2017, however, the size of the structural deficit appears to have grown. Last month, the County Comptroller released a report indicating that the County's "Municast" financial modeling program¹ projected a structural deficit of \$36.9 million for 2017, which was an increase of more than \$10 million from the \$26.2 million Municast deficit projection for 2016. As shown in **Chart 1**, that is the largest projected gap heading into a budget season in the last five years.

Chart 1: History of initial projected funding gaps, 2013 to 2017 (in millions)



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

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.



The Comptroller's report suggests that the deficit has grown because of the prominent use of "one-time" strategies to balance the budget in 2016. In other words, to bridge the 2016 gap, the County leaned on strategies that may not be replicable in the future, as opposed to permanent revenue enhancements or spending reductions that would have had an ongoing positive impact on the structural imbalance.

The two primary one-time strategies used in 2016 were the transfer of \$12 million from reserves and creation of \$7.3 million in "abatements" in departmental budgets (including \$5.6 million in the Sheriff's office). The sizable reserve transfer was considered unsustainable given the limited nature of the County's reserves. Abatements – which are unspecified lump-sum reductions that are included in departmental budgets – often do not materialize because of their unspecified nature, thus creating the same property tax levy "hole" the following year. Muncast assumes neither of these strategies will be used in 2017, thus accounting for \$19.3 million of the \$36.9 million deficit.

The bulk of the remaining \$17.6 million of the structural deficit reflects annual growth in personnel-related costs that cannot be accommodated in light of the County's flat revenue streams.² As shown in **Chart 2**, Muncast anticipates that health care, pension, and salary costs will increase by a combined \$15.5 million in 2017, while the County's two major local revenue streams – property and sales taxes – only were projected to grow by a combined total of \$4.5 million to offset those increases. Major State revenue streams are largely anticipated to remain flat.

Chart 2: Muncast projected health care, pension, salary, and local revenue changes (in millions)



Source: Milwaukee County Comptroller's Office

This annual \$10-\$15 million imbalance between personnel-related cost pressures and stagnant revenue streams is the core of the County's structural problem. In fact, this problem has persisted for decades, though it has diminished in recent years largely because of the County's successful efforts

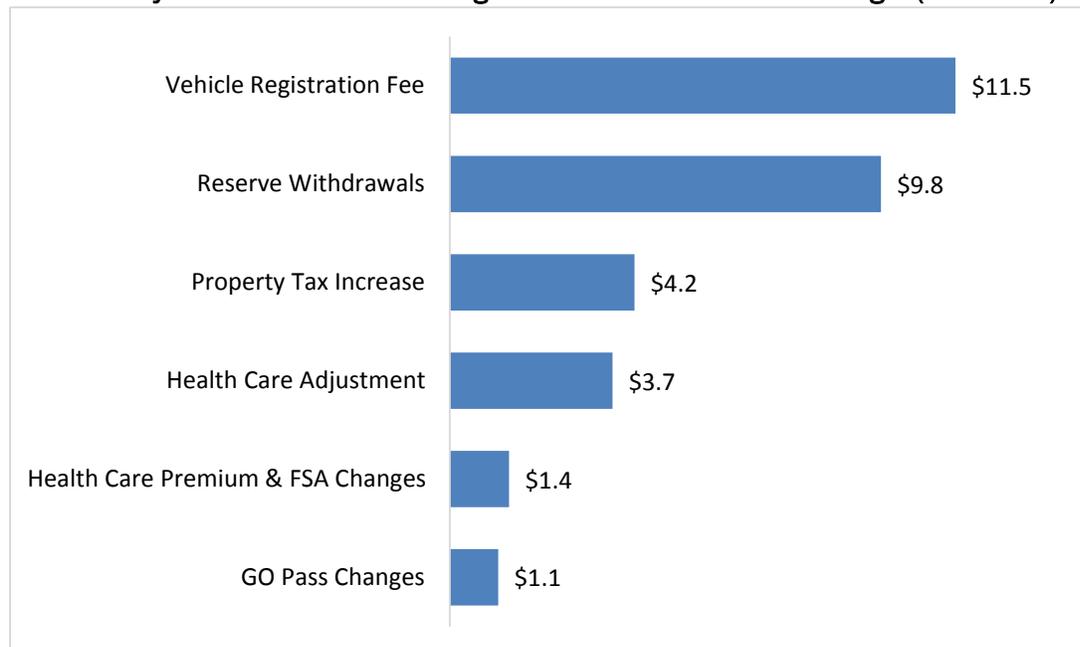
² Another contributor to the deficit in 2017 is a projected decrease of \$5 million in transit passenger revenue resulting from an overall decline in ridership and implementation of the GO Pass program, which provides free rides for seniors and persons with disabilities. That issue is discussed later in this report.



– assisted by Wisconsin Act 10 – to reduce annual health care expenditures and share annual pension and health care cost increases with employees and retirees.

For 2017, the recommended budget relies upon the new \$60 VRF as a primary means of eliminating the budget gap. The fee would add \$11.5 million in operating revenue in 2017 (as well as \$15.6 million to support the capital budget) and shrink the longstanding imbalance between the County's expenditure and revenue growth. A proposed 1.5% property tax levy increase, the ability to reduce Muncicast's health care expenditure projection based on actual experience,³ eligibility modifications to the transit system's Go Pass program, and modest increases in employee health care payments also contribute to reducing the 2017 gap, as shown in **Chart 3**. While there will be substantial debate about the nature and scope of these strategies, **each would impact the structural deficit in a permanent manner**.

Chart 3: Major deficit reduction strategies in 2017 recommended budget (in millions)



Source: Milwaukee County Comptroller's Office

Chart 3 also reveals that a substantial withdrawal from reserves again is proposed as a central component of deficit reduction. The \$9.8 million withdrawal certainly is on the high side, but it is a lesser concern than the \$12 million withdrawn in 2016, in part because the County was able to replenish its Debt Service Reserve in 2016 with more than \$20 million from its 2015 surplus. Also, the reduced transfer reserve withdrawal at least starts the County on a path toward eliminating its dependency on reserve withdrawals. In the same vein, the budget refrains from using abatements in departmental budgets, thus also easing reliance on one-time strategies, though the approach used to balance the Sheriff's budget still is cause for concern (as we will discuss later in this report).

³ Shortly after the recommended budget's release, the budget director notified the County Board that health care savings in the budget document had been mistakenly overstated by \$2.5 million. To correct this error, he suggested that reserve withdrawals be increased by \$2.5 million, with \$1.5 million coming from the Debt Service Reserve and \$1 million from the Pension Obligation Bond Reserve. We consider the corrected health care expenditure projection and the increased reserve withdrawals as part of the recommended budget in this budget brief.



2017 RECOMMENDED BUDGET: OPERATIONS

The 2017 recommended operating budget totals \$1.06 billion, a decrease of \$239 million (18%) from 2016. As noted above, the transfer of the Family Care program to a private nonprofit corporation reduces expenditures and offsetting revenues by \$304 million. If that change had not occurred, then recommended operating expenditures would have increased by \$65 million (5%), though it also should be noted that \$26 million is attributed to an accounting change in the Department of Health and Human Services (DHHS).

The recommended budget largely accommodates departments' cost-to-continue needs and avoids staffing reductions. This is made possible by growth on the revenue side, which includes not only the VRF and property tax increase, but also a projected \$1.9 million increase in sales tax revenue (up \$300,000 from the original Muncast projection) and some enhanced revenue projections in DHHS. Revenue growth also allows some departments and programs to receive small *boosts* in their property tax levy allocation or programming, including the following:

- The **Information Management Services Division** is one of the biggest winners in the recommended budget, receiving a \$3.1 million expenditure increase for six new positions, an offsite data center, and a new Security Management program. This is not reflected as a property tax levy increase within IMSD's budget because the costs are charged out to other departments, but the increased investment – which the administration says is needed to modernize the County's information technology functionality and security – stands out as one of the largest granted to a single department in the recommended operating budget.
- **Human Resources** receives a tax levy increase of \$878,000 and four additional positions, which are intended to enhance recruitment capacity and efforts to ensure workforce diversity. Also, while accounted for separately, the budget contains \$1.1 million for a mid-year 1% salary increase for all employees, \$1.9 million for potential adjustments required by ongoing efforts to restructure pay ranges, and \$2 million that will be allocated to departments for performance-based and equity-related pay increases.
- **Pre-Trial Services** receives a property tax levy increase of \$776,000 to accommodate anticipated increases in contracts with service providers. Pre-trial services' property tax allocation would grow from \$4 million to \$5.2 million (29%) since 2015 if the recommendation is adopted, showing the prioritization that is being given to this programming, which includes initiatives to reduce jail overcrowding.
- The **Economic Development Division** receives \$665,000 for workforce development-related initiatives in impoverished Milwaukee neighborhoods. The bulk of those funds (\$500,000) would be directed to Employ Milwaukee to further the Uplift Milwaukee initiative, which seeks job placements for individuals from Milwaukee zip codes with the highest rates of unemployment.
- The **District Attorney** receives a levy increase of \$379,000 that largely would be used for four new positions – two to enhance witness protection and two to bolster financial management.
- The **Office of African American Affairs** – created as part of the 2016 budget – would receive a property tax increase of \$300,000 for enhanced staffing. The office also would receive \$1 million in land sale revenue for economic and workforce development activities provided that such revenue materializes and is not needed for deficit reduction or related purposes.



- The **House of Correction** would expand job training opportunities for inmates by becoming one of 20 correctional facilities nationally to house an American Jobs Center. Costs associated with the program would be fully funded by the U.S. Department of Labor in 2017.
- The **Parks Department** receives an additional \$1.8 million in property tax levy that is largely used to replace revenue from the O'Donnell Park parking garage (which is in the process of being sold to the Milwaukee Art Museum) and the Downtown Transit Center (which is being razed). Otherwise, the department's budget is largely status quo, though the \$500,000 Parks Amenities Matching Fund is eliminated.

There are also several new initiatives in the **Department of Health and Human Services** budget that are discussed in depth later in this report.

Overall, the recommended operating budget makes a substantial additional investment in information technology and modest investments in a few other areas prioritized by the County Executive in previous budgets, while striving simply to hold the line on most County services. Holding the line is not an insignificant accomplishment given the County's decades-old structural challenges and the typical need to cut, but it is telling that this feat only could be accomplished in the 2017 budget with a substantial influx of new revenue.



2017 RECOMMENDED BUDGET: CAPITAL IMPROVEMENTS

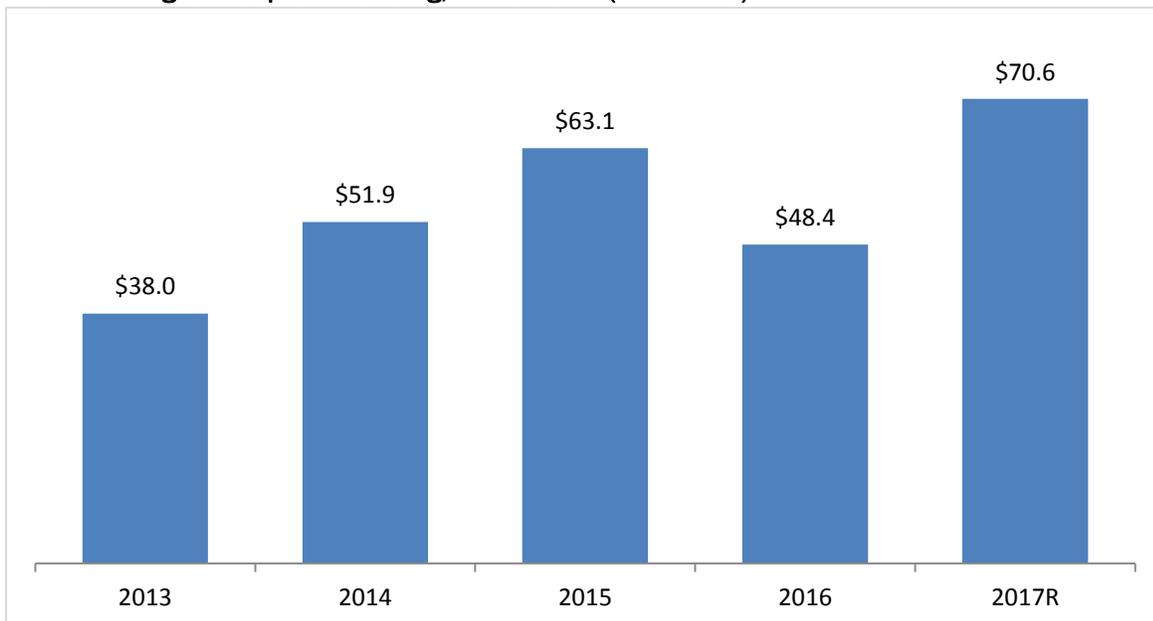
The capital improvements budget receives a large boost in spending and is one of the primary stories of the 2017 recommended budget. Non-airport projects total \$119 million,⁴ which is an increase of \$61.2 million compared to 2016. It is important to note, however, that the increase is skewed by one major project – bus rapid transit (BRT) – which would receive \$43.8 million in 2017 (consisting of \$36 million from the federal government and a \$7.8 million County match).

Traditionally, the County has financed its capital improvements with a mix of general obligation bond proceeds, sales tax revenues, and reimbursement from other governments or private sources. In 2017, those sources would be buttressed significantly by VRF revenue.

Of the \$119 million recommended for non-Airport projects, \$48.4 million would be derived from other levels of government, including the \$36 million in federal funds for BRT. The remaining \$70.6 million of County financing would consist of \$40.4 million in bonds, \$15.6 million from the VRF, \$8.2 million in sales tax revenue, \$6.3 million in private donations (including \$4.3 million from the Zoological Society for the Zoo's Adventure Africa project), and \$125,000 in property tax revenue. The \$40.4 million bond issue would be \$1.2 million more than budgeted in 2016 and is slightly less than the amount allowed under the bonding cap established by the County in 2003.

The \$70.6 million in recommended County financing for non-airport projects represents a 46% above the 2016 amount. **Chart 4** provides further perspective on the size of the increase by showing budgeted County financing for non-airport projects over the past five years.

Chart 4: Budgeted capital financing, 2013-2017 (in millions)



Source: Milwaukee County budget documents

⁴ Our analysis focuses on non-airport projects because capital projects at General Mitchell International Airport are fully reimbursed by the airlines or outside revenue sources and do not directly impact County finances.



In previous years, we have questioned whether recommended capital spending amounts were sufficient to appropriately meet the County's infrastructure needs. Despite the surge in spending in 2017 that is made possible by the proposed VRF, that question still does not have a clear-cut answer.

Interestingly, while providing a substantial boost in County funding over the 2016 amount, the 2017 recommended budget would finance fewer non-Airport projects (57 in 2017 vs. 76 in 2016). That is because the recommended budget contains three large projects requiring a County contribution in excess of \$4 million, as compared to one such project (bus replacement) in 2016. In fact, those three large projects – bus rapid transit (\$7.8 million), the Zoo's Adventure Africa project (\$4.3 million), and a new enterprise server platform for the County's financial and human resources management systems (\$14.6 million) – would account for about 40% of the County's local capital financing commitment in 2017.

Another distinction is the relatively small number of capital projects in County parks – six projects totaling \$5.8 million in the recommended budget, as compared to 26 projects totaling \$8.3 million in 2016. The backlog of infrastructure repair needs in the parks has been well documented, and it is worth noting that nine Parks projects submitted for consideration to the Capital Improvements Committee for potential funding in 2017 are not included in the recommended budget. However, it also should be noted that dozens of Parks capital projects that have been authorized in recent years have not yet been completed, a factor that contributed to the decision to limit the number of Parks projects in the recommended budget.

Overall, the recommended budget's enhanced commitment to infrastructure repairs and improvements is a step forward from an asset management perspective. Nevertheless, as we will discuss in greater detail later in this report, this enhanced commitment likely will need to be the first of a multi-year effort that will grow substantially. Expensive new capital needs are emerging even as the County begins to make a dent in its existing backlog. Consequently, we would reiterate our warning from last year's budget brief that "with health care and pension expenditures seemingly under control, infrastructure is poised to become the foremost financial challenge facing Milwaukee County."



2017 RECOMMENDED BUDGET: DEBT SERVICE AND THE DEBT SERVICE RESERVE

The 2017 recommended budget cites total outstanding debt of \$658.2 million, which consists of \$337.7 million in bonds and notes for capital improvement projects and \$320.5 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 \$33.2 million in debt service is counted as part of the annual pension fund contribution.

As we have discussed in previous budget briefs, the County's significant progress in reducing its capital-related debt has been one of its foremost fiscal accomplishments. The County is projected to hold \$338 million in capital debt at the end of 2016 , which is 23% less than the \$437 million it held five years earlier.

One of the most important benefits has been the County's ability to devote increasingly smaller amounts of sales and property tax revenue in annual budgets to supporting that debt. The 2017 recommended budget contains \$33.6 million in local revenue-supported debt service, which is an increase of \$4.2 million from 2016. Still, as shown in **Chart 5**, that amount is nearly \$23 million (41%) lower than the amount budgeted five years ago, which has freed up an equivalent amount of funds for other uses in the operating and capital budgets.

Chart 5: Budgeted local revenue-supported debt service, 2012-2017 (in millions)



Source: Milwaukee County budget documents



The County's progress in this regard 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 service costs ordinarily paid with sales or property tax revenues.⁵ The DSR typically has been funded with unanticipated excess bond proceeds, but in the past four years it also has benefited from responsible decisions by County leaders to deposit a sizable portion of large year-end surpluses into the reserve.

The County has deposited a combined amount of more than \$70 million from year-end surpluses into the DSR since 2013, including \$20.5 million earlier this year. According to an August report from the Comptroller, the DSR is projected to have a fund balance of \$34.8 million at year end. This is a significant accomplishment given the County's annual financial challenges and the fact that until four years ago, the DSR seldom maintained a fund balance above the \$5-\$6 million range.

While the net balance in the DSR has grown substantially since 2013, policymakers also have taken advantage of its largesse by making sizable withdrawals that have been used to further reduce debt service payments. The additional debt service savings have been used to finance various spending initiatives and to provide general sales and property tax relief. The 2016 budget included a \$10.5 million DSR withdrawal, and an additional \$1.9 million has been withdrawn so far this year to meet various mid-year needs.

This constant churn should not be seen as fiscally irresponsible, but it will be sustainable only to the extent that sizable year-end surpluses continue to materialize to replenish the DSR. Unfortunately, that is unlikely to be the case. The huge surpluses that have transpired in recent years have emanated largely from unanticipated annual health care savings that – as we discuss in detail below – appear to be exhausted. In fact, the recommended budget notes that the health care budget is projected to break even in 2016, and the Comptroller recently projected that the County as a whole similarly is projected to break even for the year.

Because it is highly unlikely that the County will be able to build the DSR in future years to the extent that it has recently, its ability to make large annual withdrawals to lower debt service payments and support other budget priorities will be limited. The 2017 recommended budget reflects that reality by lowering the DSR withdrawal to \$8.3 million, which in turn has required increased local revenue support for debt service in the coming year. A withdrawal of that magnitude still is sizable, however, and similar withdrawals to address annual budgetary needs will not be possible much longer if the County wishes to maintain a well-stocked DSR for unanticipated emergencies.

⁵ The DSR is the County's only real general reserve that can be carried over from one year to the next. The County also maintains a small pension obligation bond (POB) reserve that is intended to afford protection from unanticipated reductions in interest earnings from the investment of POB proceeds.



FIVE KEYS TO UNDERSTANDING MILWAUKEE COUNTY'S 2017 RECOMMENDED BUDGET

KEY #1: THE VEHICLE REGISTRATION FEE PROPOSAL

The proposed implementation of a \$60 vehicle registration fee (i.e. wheel tax) is the most striking and controversial item in the recommended budget. As noted above, the proposed fee – which is the only *new* comprehensive local revenue source available to the County under State statutes – would generate \$27.1 million in 2017, with \$15.6 million allocated to the capital budget and \$11.5 million to operations. The revenue projection assumes the fee will be implemented on March 1; in future years, 12 months of revenue collection will produce increased annual revenue totals.

While it is impossible for us to assess the "affordability" of the proposal for Milwaukee County residents, and while the question of whether it represents the most appropriate response to the County's fiscal challenges will be determined by individual belief and ideology, we can provide important context based on our long history of analyzing the County's finances.

We have warned for the past eight years that in light of the sheer size of the County's structural imbalance, difficult decisions impacting the County's services, workforce, and capital assets would be required to place the County on a path toward fiscal sustainability. We have also suggested that a balanced approach that would consider both expenditure reductions and modest revenue enhancements would be the most appropriate solution.

Many County residents likely will not consider a \$60 vehicle registration fee to be a "modest" amount, but it should be no surprise that a fee of that magnitude has been proposed. The County has been deferring needed infrastructure projects for more than a decade, and that approach has caught up to it at the same time that expensive new needs have emerged. Meanwhile, opportunities to dramatically reduce pension and health care obligations using the authority granted by Wisconsin Act 10 arguably have been exhausted, and State revenues remain stagnant. Consequently, any local revenue-based solution that is intended to avert service reductions and address the County's infrastructure needs will have to be comprehensive in nature.

With regard to affordability, we can provide perspective by comparing the potential impact of the proposed \$60 wheel tax with year-over-year financial impacts experienced by Milwaukee County households from other local government property tax and fee increases in recent years.

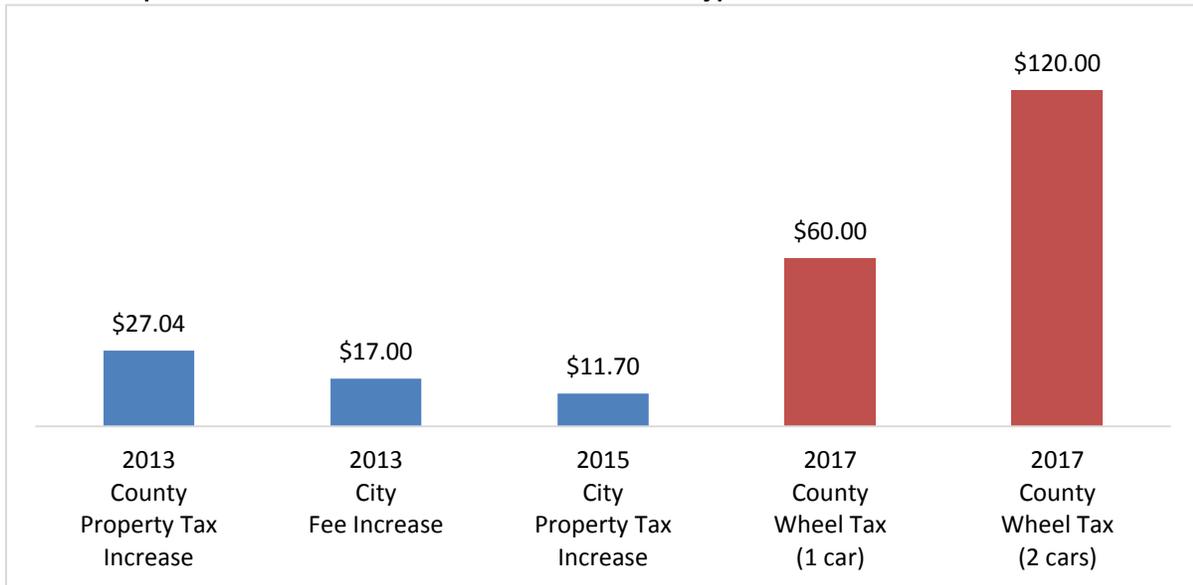
For illustrative purposes, **Chart 6** compares the financial impact of the \$60 wheel tax for both a one-car and a two-car Milwaukee County household to the impact experienced by the average residential homeowner from the increase in the County's property tax levy in 2013; the increase in the City of Milwaukee's property tax levy in 2015;⁶ and the City's increase in homeowner-related fees in 2013 (e.g. solid waste, snow and ice removal, sewer maintenance). We selected those years for context because they represent the highest year-over-year increases for each tax or fee experienced during the last five years.⁷

⁶ We calculated the impact of property tax increases by taking into account both the change in the property tax rate and the change in the value of the typical residential property from one year to the next.

⁷ It is important to note that we have isolated these singular tax/fee increases simply for the sake of comparison. The total tax and fee impact for homeowners in each of these years would result from the sum of property taxes and fees, and would be the combined total of taxes and fees from all local government taxing bodies in that given year, including school districts.



Chart 6: Impact of recent local tax and fee increases on typical household



Source: Milwaukee County and City of Milwaukee budget documents

We see that even when selecting the years with the highest increases for comparison, the County VRF would produce a far greater impact. That should not necessarily be construed as an argument against the proposal, but it does illustrate the extent to which a single-year increase in a local government tax or fee of that magnitude would be unusual.

The proposed \$60 fee also must be considered in the context of the County's *need* for additional revenue. It is in that context that the County Executive's proposal becomes more understandable.

Simply put, the County has an enormous infrastructure problem. In 2003, when County leaders undertook a major debt restructuring initiative to seek relief from rising debt service payments, they also instituted a new debt management policy that imposed annual limits on general obligation bonding. That policy recognized that while the restructuring initiative would provide short-term relief, it would produce gradually increasing debt service obligations in future years, thus necessitating restrictions on the amount of annual new debt the County should issue for the foreseeable future.

County policymakers established specific caps on annual bonding for 2005 through 2008, and specified that annual increases over the \$30 million cap for 2008 and beyond should not exceed 3%. The County generally has adhered to those caps, which has allowed it to sharply decrease both its overall amount of long-term debt and annual principal and interest payments.

Unfortunately, these prudent debt management policies have conflicted sharply with capital spending needs. Indeed, going as far back as the middle of the previous decade, the County's annual capital spending demands have exceeded the resources it has been able to allocate to its capital budget as a result of the bonding cap, creating a sizable backlog of needed capital repairs and improvements.

The Forum has assessed components of that backlog in recent reports. For example, our 2013 report, [Pulling Back the Curtain](#), estimated a need for \$246 million in capital spending on County-owned parks and cultural facilities for the following five years, which compared with \$103 million of actual spending over the previous five-year period. And, our recently released report on local transportation infrastructure – [A Fork in the Road?](#) – cited a backlog in bus replacements that would require the County to provide local funding of \$13 million per year over the next five years – roughly one third of its total annual borrowing capacity – to implement its needed replacement schedule.

The magnitude of the County's current backlog of infrastructure needs is most aptly portrayed by considering the non-airport capital budget requests for the 2017-2021 timeframe submitted by departments to the Capital Improvements Committee earlier this year.⁸ As shown in **Chart 7**, the amount of County financing needed for those requests – which total \$564 million over the five-year period – would vastly exceed projected capital financing capacity in each year (that capacity is determined both by the bonding cap and the amount of cash financing deemed affordable).⁹

Chart 7: County financing for capital requests submitted by County departments, 2017-2021 (in millions)



Source: Milwaukee County Capital Improvements Committee and Department of Administrative Services

The VRF revenues that are directed to the capital budget in the recommended budget would be used exclusively for transportation-related projects (i.e. County highways, parkways, and buses) as required by State statutes. However, doing so also provides a boost for the overall capital program by allowing the entire \$40 million in bonding that is allowed under the 2017 cap to be used for non-transportation needs.

⁸ Airport projects are not included because the airport functions as an enterprise fund and its capital expenditures are reimbursed via user fees, contractual payments from airlines, and outside funding sources.

⁹ This list of requests contains \$40 million in 2020 and \$80 million in 2021 for the first two years of what could be one of the largest capital projects in the County's history – a reconstruction of the Courthouse Complex that ultimately could cost close to \$180 million. However, it does not include a possible reconstruction of the Domes, which could cost more than \$70 million.



The other need addressed by the VRF proposal is that faced by the Milwaukee County Transit System (MCTS). We first reported on the severity of MCTS' budget challenges in a 2008 report entitled [Milwaukee County's Transit Crisis: How did we get here and what do we do now?](#) The overriding problem we revealed – which still exists today – is that MCTS' revenue streams do not have nearly the capacity required to cover its annual growth in fixed costs and its bus replacement needs.

The situation has been managed with both skill and luck since that time – the luck stemming from the receipt of tens of millions of one-time revenues from the federal government as a result of the 2009 stimulus package and the transfer of funds previously earmarked for light rail and commuter rail. However, the County's capacity to continue to manage the situation without resorting to substantial increases in property tax levy or significant cuts in service now appears to be exhausted.

In last year's budget brief, we noted that the recommended \$2.4 million property tax levy increase for MCTS and \$12.2 million in bonding for 30 new buses reflected a remarkable degree of prioritization for transit, and we suggested that such an approach would not be sustainable in future years given other operating and capital needs. We warned 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."

That point appears to have arrived in 2017. As we discuss in greater detail in the next section, the recommended budget steers \$11.5 million in VRF revenue to MCTS, which allows it to avert service cuts while also freeing up \$8.5 million in property tax levy for other operating budget needs. Meanwhile, it seeks to replace only 15 buses in 2017 using a combination of \$1.7 million in VRF revenue and federal funds, thus freeing up the \$12.2 million in bonding capacity utilized in 2016 for other capital needs.

Could the County manage its daunting financial challenges – particularly in the areas of capital improvements and transit – without a \$60 wheel tax? Elimination of the VRF in the 2017 budget would create a "hole" of \$27.1 million, while cutting it in half to \$30 would create a \$13.5 million gap. Consequently, the answer to that question should consider the alternatives:

- **Reduced expenditures.** While all areas of County government could be considered, the most logical would be those to which the new wheel tax revenues are directed, i.e. the capital budget and MCTS. With regard to the former, policymakers could consider eliminating County funding for expensive "new" capital improvements (as opposed to repairs/modernization of existing assets), such as bus rapid transit, the new Adventure Africa exhibit at the Zoo, or the new enterprise server platform. However, compelling reasons exist to justify each of those projects, including the opportunity to leverage substantial outside investment, boost earned revenue, and/or create significant service-level improvements. Also, it may be possible to delay the enterprise server project for a year or two, but eventually that project needs to proceed. With regard to MCTS, eliminating or reducing the \$11.5 million earmarked for transit operations would lead to a direct reduction in transit service, which would have negative implications for transit-dependent citizens and businesses that rely on the bus system to bring workers to jobs.
- **Other forms of increased revenue.** A possible alternative to the wheel tax on the revenue side (or a means of lowering it) would be to raise property taxes. The County is limited, however, by the State-imposed levy cap, which would allow for only an additional \$2.9 million increase above the \$4.2 million increase already contained in the recommended budget. Otherwise, State statutes provide the County with no additional comprehensive fee or tax options. While valid arguments could be made that the vehicle registration fee is somewhat regressive and



would not be as fair or effective as countywide sales, income, fuel, hotel/motel, or sin taxes, it must be understood that under existing State law, this is the *only* option the County can legally pursue if it wishes to look to the revenue side of the budget equation to finally tackle its capital, transit, and overall structural challenges in a meaningful way in 2017.¹⁰

- **Issuing more debt.** A key justification for the proposed VRF is the capacity it provides to finance \$15 million of additional capital projects without requiring the County to exceed its \$40 million borrowing cap. Using a dedicated "cash" revenue stream as an alternative to borrowing is a sound fiscal practice for numerous reasons, including the ability to sustain reduced annual debt service payments. Nevertheless, with interest rates still at historically low levels, consideration could be given to exceeding the \$40 million gap on a temporary basis with a corresponding reduction in the amount of the proposed wheel tax. It should be noted, however, that this likely would not constitute a long-term approach, as the County's pressing capital needs will not subside for quite some time, and exceeding the cap for several successive years could result in unaffordable levels of debt service, particularly if interest rates rise. The County would benefit from updated analysis as to whether the specific bonding caps that are locked in for 2017 and beyond are appropriate in light of today's challenges and debt burden.

A combination of these alternatives also could be pursued, particularly if policymakers wish to phase in the full \$60 fee over a number of years.

Ultimately, support for the proposed vehicle registration fee should be determined by the value that residents place on the County's existing levels of service and its existing array of physical assets. If maintaining those assets and services is the policy objective – and if policymakers wish to refrain from another year of dodging the structural problem by raiding reserves or developing other one-time fixes – then *some* substantial new form of revenue will be required.

KEY #2: TRANSIT RIDERSHIP, TRANSIT REVENUE, AND THE GO PASS

For most of the previous decade (i.e. 2001-2010), MCTS' growing financial crisis stemmed from a combination of expenditure pressures linked to rising fuel, personnel, and bus replacement costs on the one hand, and revenue streams that had stagnated from the inability of the State and County to provide annual revenue increases on the other. Those circumstances produced a spiral of fare increases and service cuts, as well as the deferral of needed bus purchases.

More recently, expenditure pressures have eased somewhat because of lower fuel prices and successful efforts to control fringe benefit costs through labor negotiations. In addition, as noted above, MCTS has benefited from one-time federal funds to replace buses, and it also has strategically plugged three-year Congestion, Mitigation and Air Quality (CMAQ) grants from the federal government into the operating budget to avoid service reductions.

Yet, as relief has been generated from those circumstances, a new problem has emerged. A general decrease in ridership and implementation of the new GO Pass program created a \$3.5 million revenue shortfall in 2015,¹¹ and those factors are projected to create a \$6.1 million shortfall in

¹⁰ State statutes do grant counties authority to levy a local sales tax of up to 0.5%, but Milwaukee County already has used that authority.

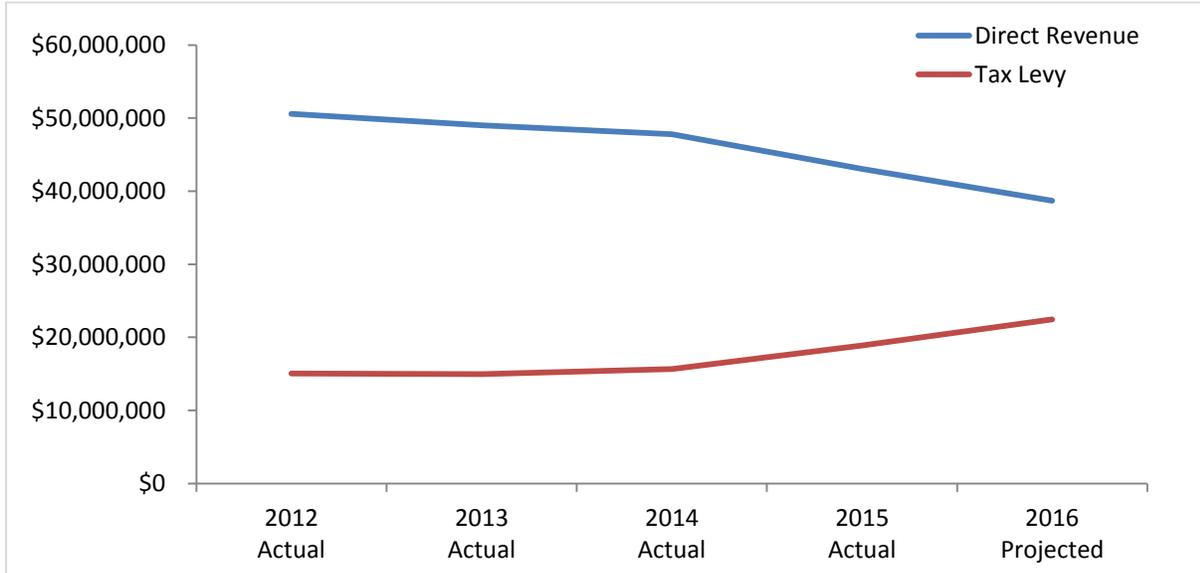
¹¹ A March 2016 report from the Comptroller attributed \$1.8 million of an overall \$4.9 million passenger revenue deficit in 2015 to the GO Pass and \$1.7 million to a general decline in ridership.



2016.¹² Combined with a continued pressing need to replace buses and the expiration in the near future of the CMAQ grants referenced above, these developments again have placed MCTS' finances in an extremely precarious state.

In the wake of these new revenue pressures, County leaders budgeted a \$2.5 million property tax levy increase in 2016, which came on the heels of a \$3.5 million increase in 2015. **Chart 8** shows how the County's tax levy commitment to transit has increased over the past three years as MCTS' direct revenue – which consists largely of revenue collected from riders at the farebox, as well as smaller amounts of advertising revenue and miscellaneous sources – has sharply diminished.¹³

Chart 8: MCTS property tax levy and direct revenue, 2012 to 2016



Source: Milwaukee County budget documents

Municast projects that MCTS will face another \$5 million decrease in passenger revenue for 2017, which means the County again would need to provide a significant amount of its limited additional property tax levy capacity to the transit system to maintain existing levels of service. Instead, the County Executive has recommended two alternative actions:

- 1) As discussed above, the budget would direct \$11.5 million in VRF revenue to MCTS. This not only averts the need to direct *more* levy to transit, but it also helps free up \$8.5 million in levy for other County needs by reducing MCTS' \$22.5 million tax levy appropriation in 2016 to \$14 million in 2017.
- 2) The budget also recommends substantial changes to the GO Pass, which since April 2015 has provided unlimited free rides for all Milwaukee County residents over the age of 65 and

¹² An August 2016 report from the Comptroller attributed \$3 million of a projected \$7.1 million revenue deficit in 2016 to the GO Pass and \$3.1 million to a general decline in ridership.

¹³ Our 2016 projection was calculated by taking the 2016 budgeted amount of direct revenue and subtracting \$7.1 million, which is the total passenger revenue deficit projected in the Comptroller's August 2016 report. This is \$1 million higher than the amount referenced on the previous page because the passenger revenue deficit also includes \$1 million attributed to a Milwaukee Public Schools busing decision.



all who have a disability as defined by the Federal Transit Administration. The proposed changes would limit GO Pass eligibility for seniors by specifying that they also must currently be receiving Medicaid and FoodShare benefits; and to residents with a disability by specifying that they must meet more stringent disability criteria as defined by the Social Security and Medicaid programs. In addition, a new \$5 annual fee and a 25-cent per ride fare would be charged to GO Pass recipients. The budget estimates that the changes would restore \$1.1 million in passenger revenue in 2017.

Combined, these strategies – as well as lower fuel prices – allow MCTS to maintain existing service levels (though some fare increases are recommended for freeway flyers and adult passes), while also accommodating a \$1.7 million reduction in CMAQ revenue.

Given that only \$3 million of VRF revenue is needed to accomplish that goal while the remaining \$8.5 million is used to back property tax revenue out of the MCTS budget for other uses, it could be argued that a much smaller VRF could be implemented if the goal solely is to preserve transit service. However, the viability of that argument would be based on the palatability of options to find \$8.5 million of savings in other areas of County government.

KEY #3: HEALTH CARE SAVINGS EXHAUSTED

As noted above, the County has benefited greatly from its efforts to reduce health care expenditures in recent years, with savings from plan design changes and increased employee contributions used to address other fiscal challenges in annual budgets. In addition, as discussed above, because the magnitude of annual savings has greatly exceeded the amounts budgeted, the County has generated huge year-end surpluses that have given it the wherewithal to make substantial withdrawals from the Debt Service Reserve to further address its variety of financial needs.

As shown in **Chart 9**, however, this good fortune is about to run out. After an \$8.9 million (8%) decline in actual gross health care/dental expenditures from 2012 through 2015, those expenditures were budgeted to increase by \$2.1 million (2%) in 2016. In the 2017 recommended budget, they are projected to rise another \$1.7 million (1.7%).



Chart 9: Milwaukee County gross health care/dental costs, 2012-2017



Source: Milwaukee County Department of Administrative Services

A primary reason for the modest upward trend is the fact that the 2016 adopted and 2017 recommended budgets – unlike the previous several budgets – do not include significant changes in health care plan design or substantial increased employee cost sharing to further reduce net health care expenditures. The 2017 recommended budget proposes only modest health and dental premium increases (from \$5 to \$20 per month depending on coverage) and a reduced County match for employees' Flexible Spending Accounts (FSAs), which collectively generate \$1.35 million to offset a portion of the increase in projected expenditures.

This scenario likely represents a "new normal" for the County with regard to employee health care in which gross expenditures will increase annually at around the general pace of health care inflation (a 5% inflation factor is used for 2017), and in which employees will be asked to make relatively modest contributions to share some of the increased cost. Of course, the County does have the ability under Wisconsin Act 10 to demand more from non-public safety employees, but today's competitive labor market makes that a risky proposition. For employees, this is a better scenario than the first four years of the current administration, when either cost sharing was increased substantially and/or benefits were reduced each year.

For the County, however, this scenario poses fiscal challenges. While the annual net increase should be nowhere near the double digit increases typically experienced in the previous decade, even net increases of 3-4% per year would require the County to identify an additional \$3-\$4 million annually to pay the bill. Furthermore, the absence of annual health care *savings* will mean that other strategies will need to be developed to fill the annual structural gap.

KEY #4: THE SHERIFF'S BUDGET STILL HAS QUESTION MARKS

While the County Executive's previous five recommended budgets for the Office of the Sheriff contained substantial funding reductions and several highly contentious organizational changes – including the transfer of parks patrol and County Grounds security functions to other governments and significant prescribed staffing reductions – the 2017 recommended budget is largely absent of such far-reaching proposals. Nevertheless, the Sheriff's budget still is constructed in a manner that raises questions about its viability.

The budget does not eliminate any positions in the Sheriff's office and actually increases property tax levy by just over \$1.2 million – from the \$59.3 million budgeted in 2016 to \$60.5 million in 2017 – largely to offset reduced revenues in a variety of areas. However, because it eliminates the \$5.6 million abatement from the Sheriff's office (described earlier in this report) but does not provide additional tax levy to fill that hole, it still would leave the office with a substantial budget challenge. That challenge would require the Sheriff either to reduce staffing or to run a sizable deficit, which is what he plans to do in 2016 (according to the Comptroller's August 2016 surplus-deficit report, the Sheriff is projecting a \$5 million year-end deficit).

In 2017, instead of using an abatement, the recommended budget includes a \$2.7 million reduction in the Sheriff's budgeted overtime (from \$4.7 million to \$2 million) and a \$1.7 million increase in budgeted "vacancy and turnover," or V&T (from \$2.3 million to \$4 million). With regard to the former, the recommended budget makes the case that an influx of new deputies expected in 2017 will reduce the vacation entitlement for a substantial percentage of the workforce, as the newly hired deputies will receive far less vacation time than the retiring deputies they have replaced. That, in turn, should reduce the need for overtime.

With regard to V&T – which refers to salary savings that materialize from funded positions that are vacant during all or parts of the year – the budget suggests the Sheriff can meet the increase by keeping positions unfilled as they become vacant. It particularly cites the opportunity to use V&T to shrink the size of his command staff, a suggestion the Sheriff has vehemently protested in the past.

Actual experience through June 2016 suggests that the V&T target may be reachable, as the Sheriff's office was projecting a year-end salary surplus of \$4.3 million. However, the inclusion of \$1.3 million of V&T specifically for command staff positions means that 11 of the 18 filled command staff positions would need to become vacant, which is unlikely to occur.

With regard to overtime, as of June 30, the Sheriff was projecting a \$4.4 million *deficit* in 2016; eliminating that deficit and reducing overtime by another 57% – as the budget recommends – would appear to be a monumental task, even with the replacement of several retiring deputies with new deputies.

It is notable that the recommended budget does not again pick a fight with the Sheriff with regard to the scope of his responsibilities, nor by abolishing specific positions in specific program areas. Instead, similar to the abatement approach used in 2016, the recommended budget leaves it to the Sheriff to determine how to manage his decreased overtime appropriation and his increased V&T.

Yet, it is also worth noting that the recommended budget still will fall several million dollars short of what the Sheriff will insist are the resources required to fulfill the responsibilities of his office. Because he is a Constitutional officer, the Sheriff will argue that *he* has the right to determine what he needs to spend to fulfill his State-mandated duties, thus setting up the potential for another large deficit in 2017.



KEY #5: HEALTH AND HUMAN SERVICES A TOP PRIORITY

While much of the debate surrounding the 2017 budget will center around transit, the Sheriff, and the VRF, several substantial new policy initiatives in the Department of Health and Human Services (DHHS) should not go unnoticed. Indeed, no other area of County government has been the subject of more new initiatives and spending in recent years than DHHS.

The foremost of those initiatives in 2017 pertain to the Delinquency and Court Services Division (DCSD). The controversy over the State's Lincoln Hills juvenile correctional institution has focused considerable attention on DCSD, which runs the County's own juvenile detention facility and administers probation services and a host of community-based services for youth on a delinquency order that serve as alternatives to incarceration.

Since the release of information earlier this year showing alleged mistreatment of youth at Lincoln Hills, the County has been working to reduce the number of youth on a delinquency order who would require sentencing to that facility by beefing up alternative sentencing options and enhancing efforts to supervise youth who have been released from detention. The recommended budget contains several initiatives to further that approach, including the following:

- **Residential Treatment Center (RTC)** – In partnership with the Behavioral Health Division's (BHD) Wraparound Milwaukee program, DCSD will contract with a community-based provider to operate a new residential center that will focus on youth who are considered high-risk. Specifically, the center would provide residential care and individualized treatment plans for youth who are "stepping down" from juvenile corrections but who are considered to have a high risk of recidivating. The center will provide up to 44 slots at a cost of \$2.8 million, 65% of which would be covered by Medicaid.
- **Community-Based Alternative Programming** – A \$650,000 contract with a community provider will add 20 slots for an Alternative Placement Program that will serve as a direct alternative to correctional placement by providing intensive supervision and monitoring. In addition, DCSD will take over responsibility from the State for the Aftercare Program that supervises youth returning to the community after detention (the \$337,000 cost would be fully offset by elimination of the State contract); and it will spend \$750,000 to expand electronic monitoring of such youth.

Despite these initiatives, DCSD would see a \$1.7 million reduction in property tax levy in its 2017 budget. That is accomplished via a projected decrease in the average daily population at the State juvenile correctional institutions, from the 125 projected in the 2016 budget to 87 in 2017, which produces \$3.8 million in Youth Aids savings.

County officials say they are confident the assumption will pan out given that the average daily population now stands at about 80, and given the new sentencing alternatives proposed in the budget. However, a potential note of caution is that the budget assumes there will be no increase in the daily rate charged by the State to house County youth in its institutions; according to budget officials, if the rate increase reflected in the Department of Corrections' requested budget is adopted in the next State budget that takes effect on July 1, then the Youth Aids savings would be reduced by about \$1 million.

DHHS' Housing Division also receives increased support, mainly to expand the "Housing First" initiative that was launched in July 2015 to end chronic homelessness. The recommended budget includes \$1.7 million in federal revenues for 250 additional Section 8 rent assistance vouchers, as well as more than \$450,000 in property tax levy to support enhanced case management services



and a new Community Intervention Specialist position. Overall, the Housing Division would receive an additional \$642,000 in property tax levy. Its recommended levy of \$4.5 million is almost double the amount budgeted five years ago (\$2.4 million).

Finally, BHD's recommended budget shows a continued effort to direct more dollars toward community-based services and fewer to inpatient and emergency care. The division's foremost community-based services program – Comprehensive Community Services – would receive an additional \$5.8 million in State funds to expand from the 560 slots budgeted in 2016 to 800 by the end of 2017. Other new or enhanced community service initiatives include:

- An expansion of 110 slots for Targeted Case Management (costing \$283,000 in additional property tax levy).
- An expansion to 24/7 services at both of the division's crisis resource centers (\$330,000).
- Three additional Crisis Assessment Response Teams (\$218,000), which partner a BHD clinician with a Milwaukee Police Department officer.
- An expansion of 16 residential treatment beds for substance abuse treatment (\$614,000).
- A new Intensive Outpatient Program (\$600,000).
- A \$100,000 grant-funded initiative to address opioid overdoses.

The budget also includes \$2.5 million to "explore" new electronic medical records solutions and an extra \$700,000 for enhanced building security and maintenance. Yet, despite these added expenditures and the community-based service enhancements noted above, BHD's overall tax levy would decrease by \$1.4 million. That is attributed largely to a projected \$3.4 million increase in inpatient revenue, which the budget attributes to improved collection efforts and increased Medicaid reimbursement rates. As with the DCSD Youth Aids projection, there is some element of risk involved in that projection, though actual experience in 2016 suggests it is achievable.



CONCLUSION

The County Executive has referred to his 2017 recommended budget as a "path forward" that balances the needs of the community and the County's fiscal responsibilities. Whether that appropriate balance has been struck – and whether the proposed VRF is critical to striking it – should be the central points of budget deliberations.

Determining whether the recommended budget appropriately reflects community need is a subjective question. Our analysis indicates that the budget does maintain existing service levels. In addition, it adds new or enhanced program initiatives involving delinquency services, the homeless, and behavioral health; modest new investments in central city employment strategies and some elements of public safety; and an enlarged commitment to addressing the repair needs of important transportation and cultural assets.

The question of whether the budget meets the County's fiscal responsibilities is less subjective. Here, we find that the proposed VRF and property tax increase – despite what one's opinion may be with regard to the desirability of increasing taxes or fees – would generate *permanent* structural deficit relief and significantly improve the County's wherewithal to address its infrastructure needs. On the negative side, however, the budget continues to rely heavily on reserves and still has not rectified a multi-million dollar conflict in the Sheriff's budget. Overall, significant progress is made on the path toward fiscal sustainability, but considerable heavy lifting remains.

Without question, the \$60 vehicle registration fee asks a lot of County residents. It might have been more palatable for policymakers to adopt a more modest fee when we first documented the transit funding crisis in 2008, or when the backlog of infrastructure repairs in the parks was revealed by County auditors a year later. Such a strategy could have addressed the most pressing concerns in both areas before they worsened, and the fee could have been increased gradually as new needs arose.

However, such action did not occur, and infrastructure needs have continued to amass since that time, while new operational challenges have emerged and State revenues have declined. Consequently, little question exists that a sizable injection of new revenue is required if existing service levels are to be maintained, and if the needs of the County's most critical and expensive capital assets are to be addressed.

As we have discussed above, alternatives to a \$60 VRF do exist. Proposals for major infrastructure and information technology improvements could be scrapped or delayed, transit services could be reduced, borrowing could be increased, or reserves could be depleted as a means of reducing or even eliminating the fee. County employees also could be asked – once again – to pay more for their health care or to forsake any increase in salaries.

Yet, it also must be recognized that pursuing those options – either individually or collectively – also could *upset* the balance between community need and fiscal responsibility, embarking the County on a different path forward that would engender an equivalent set of issues and concerns.

