Public Policy Forum
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BUDGET PREVIEW

2012 Milwaukee County Budget

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ABOUT THE PUBLIC POLICY FORUM

Milwaukee-based Public Policy Forum – which was 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 was undertaken to provide citizens and policymakers in the Milwaukee region and across the state with an independent and objective analysis of the nature and scope of Milwaukee County government's 2012 and five-year budget challenges. We hope that policymakers and community leaders will use the report's findings to inform discussions during upcoming policy debates and budget deliberations.

Report authors would like to thank Milwaukee County fiscal officials and staff for their assistance in providing information on the county's finances.

We also wish to thank the Richard and Ethel Herzfeld Foundation for funding this research.

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INTRODUCTION

This Public Policy Forum Budget Preview is the latest in a series of Forum research reports examining the fiscal and structural challenges facing Milwaukee County government. In addition to publishing annual budget briefs analyzing the county executive's recommended budget and a 2011 Budget Preview last July, the Forum produced a comprehensive fiscal assessment in March 2009 entitled "Milwaukee County's Fiscal Condition: Crisis on the Horizon?"; and a study of structural reform possibilities in January 2010 entitled "Should it Stay or Should it Go?"

This report is the first to assess the county's fiscal challenges since the enactment of changes to state law that substantially impact the pay and benefits of county employees, and the first since the adoption of a 2011-13 state budget that substantially reduces state aids for counties. Combined, these two state actions have dramatically altered Milwaukee County's financial landscape. The 2012 Budget Preview report focuses on the specific impacts of these dual developments on the county's 2012 budget and its five-year fiscal outlook.

While last year's Budget Preview was couched in uncertainty given the county's unsettled labor situation, this year's report is able to reliably analyze the scope of projected fiscal challenges in the coming year, as well as the options at the disposal of county policymakers to address those challenges. Yet, despite this increased certainty, it is apparent that the county's overall fiscal outlook is even more alarming than in previous years. That is because, as the report illustrates, the net impacts of recent state actions have not significantly reduced the county's annual structural deficit, leaving a need for substantial additional deficit reduction with fewer budget-cutting options.

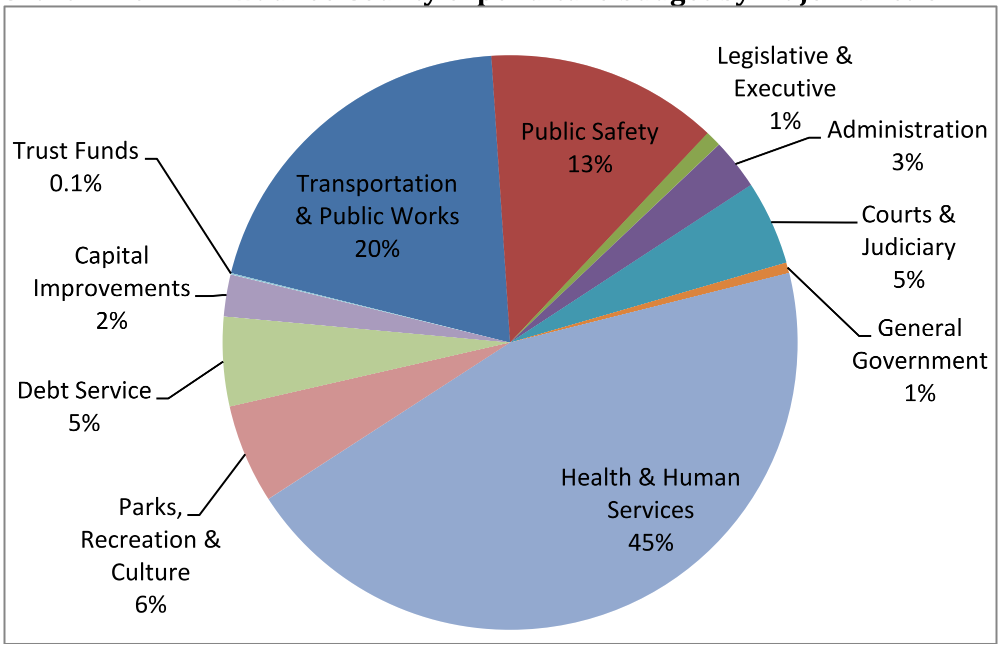
The report begins with an updated historical perspective of Milwaukee County's structural deficit, followed by an analysis of the county's specific 2012 budget challenges and an estimate of the size of next year's budget gap. We then model strategies available to county leaders to bridge the deficit, including additional modifications to the county's health care plan, reductions in the county workforce, elimination or reduction of discretionary grants and contracts, and enhanced revenues.

Similar to last year's budget preview report, this report shows that implementing options from *each* of those categories might be the best strategy for avoiding the most serious impacts to services and taxpayers. Our examination of the county's five-year outlook, however, shows that the county's sizeable annual budget gaps are likely to continue and even grow, which means that even the most severe options ultimately may need to be considered.

While this report is largely a modeling exercise, we hope it will provide important insights into the continued grim financial outlook for Milwaukee County, and the possible impact on programs and services if structural balance remains elusive.

Milwaukee County's expenditure budget totals $1.3 billion in 2011. As shown in **Chart 1**, the three largest categories of county expenditures are health and human services at $603 million; transportation and public works at $270 million; and public safety at $176 million. Those three categories eclipse all other categories of county spending.

Chart 1: 2011 Milwaukee County expenditure budget by major function

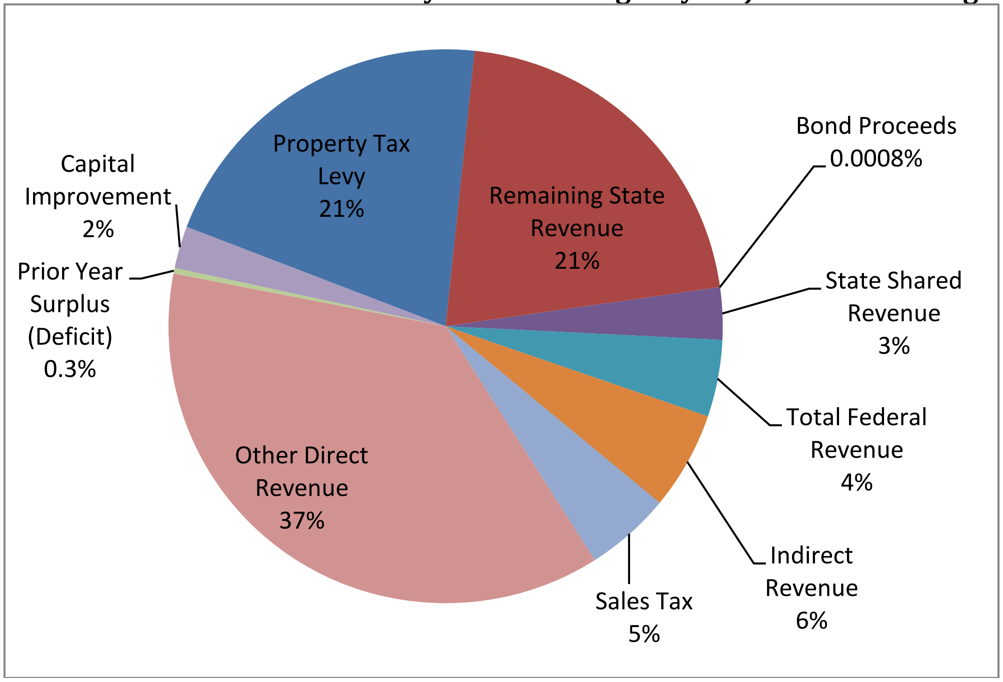


Source: Milwaukee County 2011 Adopted Budget

Chart 2 on the following page breaks down the county's budgeted revenue sources for 2011. More than a third ($480 million) is "other direct revenue," which consists largely of program revenue generated from users of county services and/or user-related reimbursement from the state and federal governments. Examples are Medicaid reimbursement for specific client services, bus fares, and zoo admission fees. The second largest source of revenue is "remaining state revenue" at $273 million. Most of this revenue consists of grants and other state aids that are for specific programmatic purposes, but that are not paid as direct reimbursement for services. Examples are state aids to support county trunk highways and state grants to support the circuit courts. Federal revenue, meanwhile, accounts for about $58 million of the county's revenue budget.

The significant influence of state and federal revenue sources in the county budget is understandable given that many of the county's programs and services are mandated by the state and/or federal government. The most prominent of these state-mandated services are in the areas of health and human services, courts, and public safety. Other, "discretionary" services – such as parks, the zoo, museums, and mass transit – have been added to the county's roster of responsibilities over time after approval by the state legislature.

Chart 2: 2011 Milwaukee County revenue budget by major revenue category

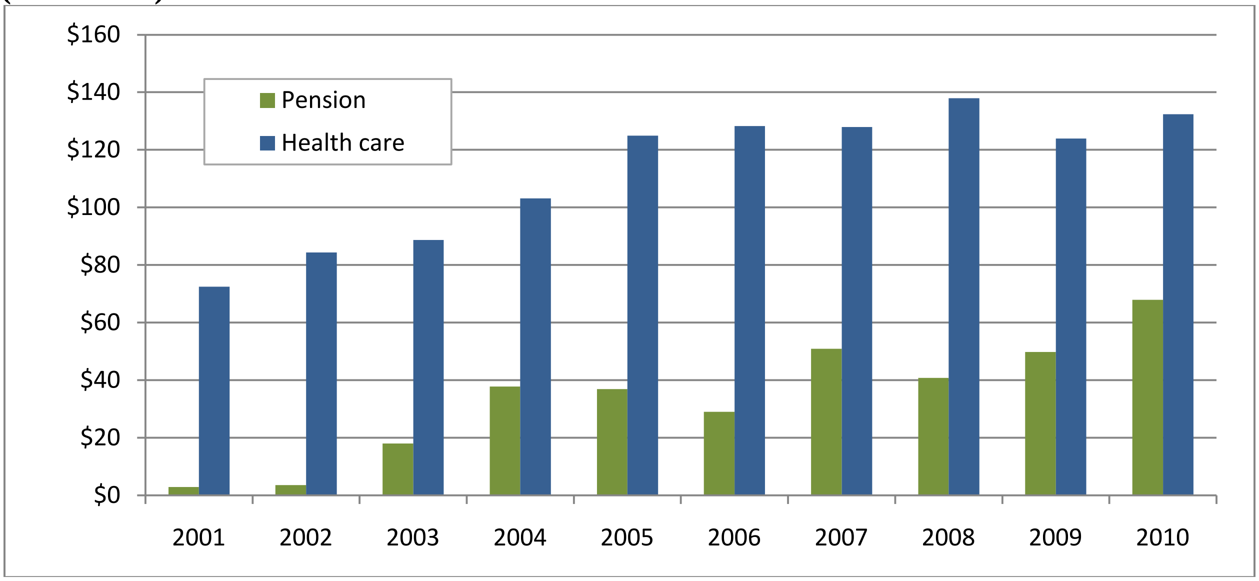


Source: Milwaukee County 2011 Adopted Budget

About a fourth of the county's total revenue ($334 million) comes from locally-generated sales and property taxes. The property tax levy will provide $270 million in 2011, while the 0.5% county sales tax is budgeted to generate $64 million. Another major source of general, non-program revenue is state shared revenue, which is distributed on a formula basis to counties and municipalities to help offset the cost of mandated local services, and which totals $39 million in the 2011 budget.

Milwaukee County has struggled for years to accommodate an imbalance between its revenue capabilities and expenditure needs, a situation that is commonly referred to as a "structural deficit." On the expenditure side, discussion about the structural deficit typically begins with the county's escalating fringe benefit costs. **Chart 3** shows the dramatic growth in actual expenditures on employee/retiree health care and the county's pension fund contribution during the past decade, which has placed significant pressure on other parts of the expenditure budget and on the county's revenue structure.

Chart 3: Milwaukee County actual pension and health care expenditures, 2001 to 2010 (in millions)



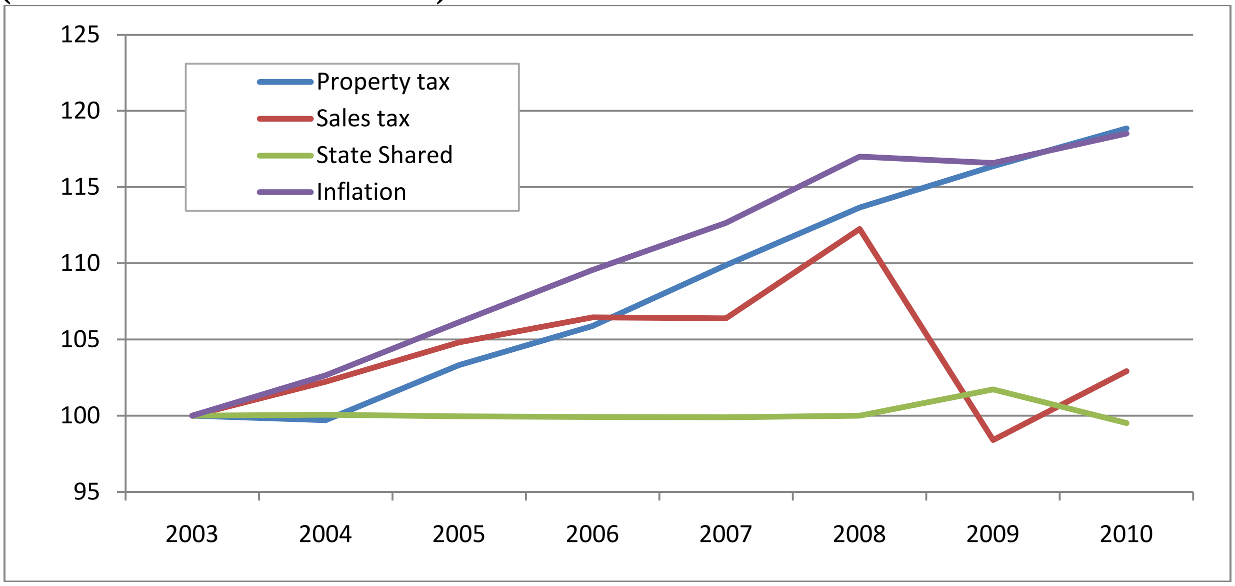
Source: Milwaukee County Department of Administrative Services

Other key cost drivers on the expenditure side include: employee wages; costs of commodities such as fuel, road salt, food and prescription drugs (for mental health patients and inmates at corrections facilities); and debt service on bonds issued to finance capital improvements.

On the revenue side, the main area of growth for the county has been in the "other direct revenue" category which, as noted above, largely consists of fees or reimbursement tied to use of specific services, as well as grant funding. Consequently, while growth in this revenue category has allowed the county to maintain and even expand those specific services, it has done little to help the county address its growing health care and pension benefit burden.

Meanwhile, the county's major sources of flexible revenue – shared revenue, property taxes and sales taxes – have been largely stagnant, as shown in **Chart 4**. Growth in these flexible revenue sources generally fell short of inflation, and did not come close to meeting the growth in fringe benefit costs outlined above.

Chart 4: Milwaukee County local tax revenues, shared revenue, and inflation, 2003 to 2010 (Actual revenues indexed to 100)

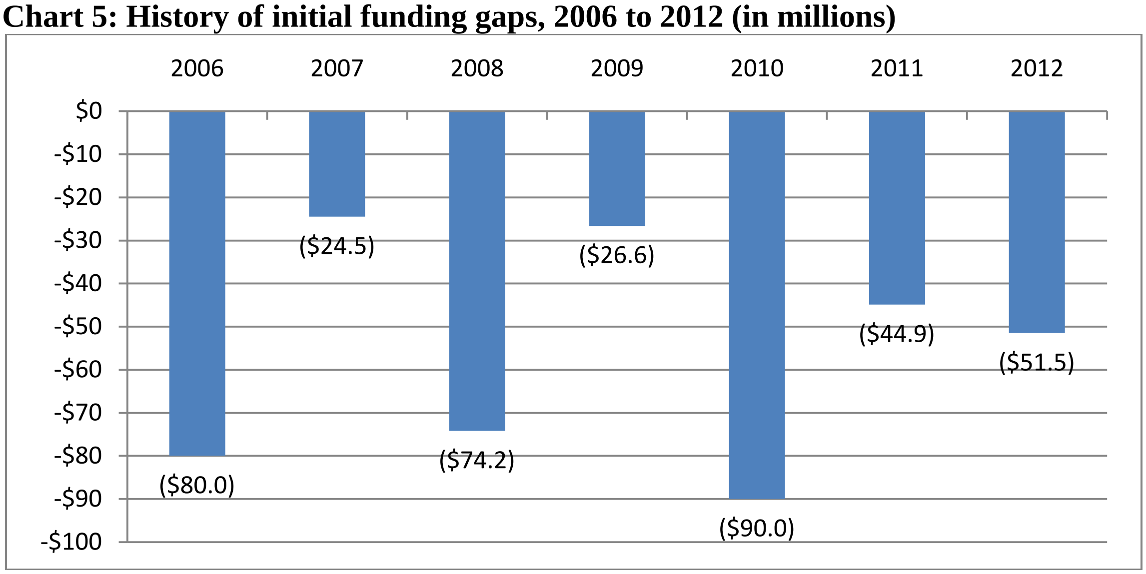


Source: Milwaukee County Department of Administrative Services

This dynamic helps explain – in simplified terms – why Milwaukee County has faced the prospect of significant cuts in programs and services year after year for the past decade. Simply put, the county's major revenue streams have not been able to keep pace with its growth in fixed costs, particularly those related to employee and retiree benefits.

Consequently, at the start of the county budget process every spring, when county budget officials calculate the amount of revenue needed to continue current levels of programs and services in the following year, they typically find a substantial gap between the amount needed and that which can reliably be anticipated. As shown in **Chart 5**, this gap has been between $25 million and $90 million annually for the past several years.

Chart 5: History of initial funding gaps, 2006 to 2012 (in millions)

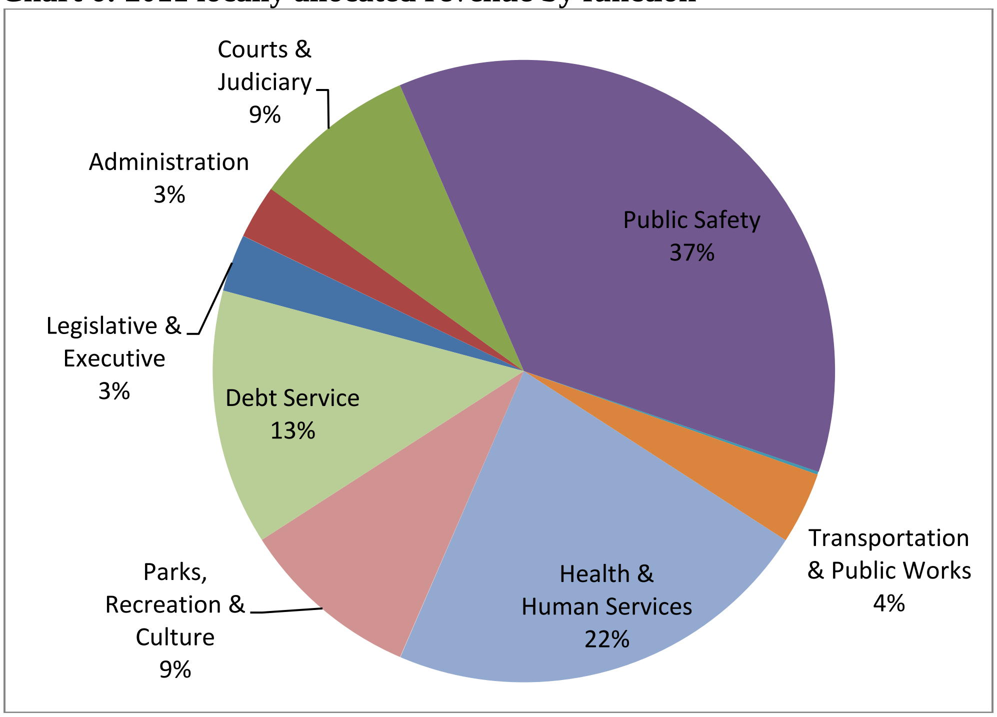


Source: Milwaukee County Department of Administrative Services

As outlined in the next section, the county has pursued several different strategies to reduce employee pay and benefits in an effort to bridge its persistent structural gaps. The county also has eliminated 1,238 full-time equivalent positions (FTEs) since 2006.

Despite those efforts, however, the Forum has found that county leaders also have been forced to shift more of their flexible revenues to the budgets of departments that provide legally mandated services, at the expense of those that provide administrative and discretionary services.[1] **Chart 6** reveals that the county's locally allocated resources (consisting mostly of property tax, sales tax and shared revenue) are now principally consumed by the largely state-mandated functions of public safety, courts, and health and human services, as well as legally required debt service. This has put a financial squeeze on discretionary services like parks, culture and mass transit, raising difficult questions regarding the future of those functions.

Chart 6: 2011 locally allocated revenue by function



Source: Milwaukee County 2011 Adopted Budget

[1] See the Forum's March 2009 report, "Milwaukee County's Fiscal Condition: Crisis on the Horizon?" at http://www.publicpolicyforum.org/pdfs/MilwaukeeCountyFiscalCondition.pdf.

RECENT CHANGES TO EMPLOYEE AND RETIREE COMPENSATION

County leaders have pursued several initiatives in recent years to address the growing cost of employee and retiree compensation and benefits in order to balance the annual budget without making wholesale cuts in programs and services. Those initiatives include:

- A series of administrative changes to the county's employee health care plans which, according to county estimates, saved more than $100 million from original projections in 2006-2009.
- Issuance of nearly $400 million in Pension Obligation Bonds in 2009, which has created greater stability in the county's annual pension fund contribution and is projected to save more than $230 million over 25 years if investment objectives are achieved.
- Elimination of step increases (i.e. automatic advancement to the next-highest level in a salary range) for most county employees in 2010 and 2011.
- Institution of at least 12 furlough days for most county workers in 2010 (many union employees were furloughed for 26 days) and 13 furlough days for most union employees in 2011.
- Various changes to reduce the manner in which overtime is accrued and paid.
- Various increases to the employee share of monthly health insurance premiums, as well as increases in out-of-network co-payments, emergency room co-payments and plan deductibles in both 2010 and 2011.
- A reduction in the annual "multiplier" for pension benefits for future years of service for most county workers from 2 percent to 1.6 percent, and an increase in the normal retirement age for most newly hired county workers from 60 to 64.
- Elimination of the Medicare Part B reimbursement for retirees effective April 1, 2011.
- A required 2% employee pension contribution effective January 1, 2011, which was scheduled to grow to 4% by the end of 2011 (offset by a 2% wage increase).

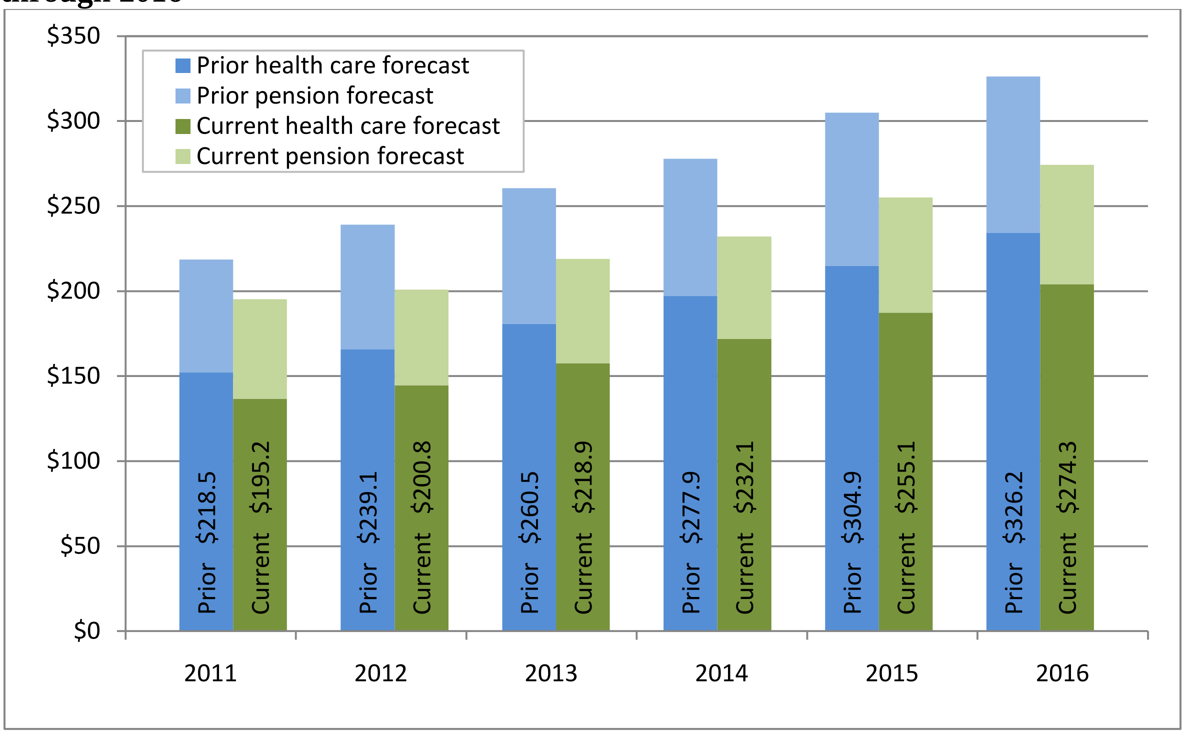
Because of requirements associated with collective bargaining, the county was unable to apply several of the changes cited above to its represented employees in 2010 and the first several months of 2011. With enactment of the state budget repair bill in late June, however, it is now possible for the county to apply each of these provisions to all county employees and retirees once existing labor contracts expire, with the exception of represented deputy sheriffs (and a small group of Airport firefighters), who are exempted from several of the provisions under the public safety exclusion in the state legislation.

In addition, the state budget repair bill allows the county to implement even greater pension system cost sharing for most of its employees than previously adopted in the 2011 budget.

According to the bill, the county is able to recover half the cost of its annual actuarially required pension contribution from its non-public safety employees. Consequently, most county employees will contribute 4.7% of their salaries toward their pension for the remainder of 2011 and 2012.

Thus, from a fiscal perspective, the state budget repair bill produced substantial benefits for Milwaukee County, allowing county leaders to address the biggest expenditure factor contributing to the structural deficit. According to a memorandum prepared by the county's Intergovernmental Relations Division (IGR) and Department of Administrative Services (DAS) dated July 11, 2011, wage and benefit reductions made possible by the budget repair bill could reduce expenditures by $24.7 million in 2012. **Chart 7** illustrates the positive fiscal impact even further by showing the five-year projected trajectory of county health care and pension expenditures contained in the county's latest long range fiscal forecast, versus health care and pension projections for the same time period contained in last year's budget preview report.[2]

Chart 7: Prior and current projections for health care and pension expenditures, 2011 through 2016



Source: Milwaukee County Department of Administrative Services

The savings that could be recognized by Milwaukee County from the budget repair bill come with one important caveat, however. In both 2010 and 2011, the county budgeted savings from wage and benefit changes under the assumption that the changes ultimately would be applied to the entire workforce (despite the fact that the savings could not materialize for most represented employees without an agreement reached through collective bargaining or arbitration).

[2] The actual change in the county's pension and health care trajectory is likely to be even more pronounced given that the latest fiscal forecast model only anticipated the pension and health care cost savings sought in the 2011 county budget, which are not as substantial as those ultimately realized from the budget repair bill.

Consequently, according to the July memorandum, of the $24.7 million in projected 2012 budget repair bill savings, $17.4 million already were built into the county's base budget.

As will be seen in the following section, while the net unbudgeted savings of $7.3 million for 2012 made possible by the budget repair bill are substantial, they do not come close to offsetting the $28.7 million in state aid reductions contained in the 2011-2013 state budget. **Hence, a main premise of the new state budget paradigm – that reductions in wages and benefits realized via the budget repair bill would allow local government leaders to offset the loss of state aids – almost certainly will not pan out for Milwaukee County in 2012.**

The July 11 memo referenced above identifies a total negative impact of $28.7 million in 2012 produced by reductions in state aids and other provisions in the 2011-13 state budget. The specific items that comprise that total are shown in **Table 1** below.[3]

Table 1: 2011-13 state budget impacts for Milwaukee County's 2012 budget

ITEM	2012 IMPACT
State Shared Revenue	(8,316,885)
Transit Operating Aids	(6,858,300)
Paratransit	1,450,000
Child Support Base Funding	(3,664,779)
Youth Aids/JCI Charges	(3,550,092)
Income Maintenance Legacy Costs	(4,900,000)
Courts Programs/Victim Witness Assistance	(1,230,911)
Mental Health/AODA	(1,217,123)
General Transportation Aids	(427,901)
TOTAL	**($28,715,991)**

Source: Milwaukee County Department of Administrative Services and Division of Intergovernmental Relations

DAS has cited this $28.7 million figure as part of its most recent calculation of the projected 2012 budget gap, which is based on the county's "cost to continue" existing programs and services. When considering the actual impact on the county's finances, however, the type of state revenue that is being reduced should be taken into account. Because certain state revenue sources are linked directly to specific mandated services, a reduction in the revenue source may produce a reduction of those services, as opposed to a need for additional property tax levy.

An example is the $3.7 million reduction to the Child Support Enforcement, which traditionally has received only minimal local property tax levy to fulfill its federally and stated-mandated responsibilities. The loss of $3.7 million in base funding could prompt county policymakers to fill the gap with local resources, but there would be limited precedence for such action.[4]

Conversely, in program areas in which local resources already play a major funding role, county policymakers often have responded to state or federal cuts by attempting to backfill with property levy. Mass transit and substance abuse treatment are examples of such program areas.

Clearly, the state funding cut cited above that produces the greatest financial pain for Milwaukee County is the $8.3 million cut in shared revenue. As explained earlier in this report, shared revenue is one of the few major revenue streams in the county budget that is *not* tied to specific programs or services and that can be used, therefore, to meet general expenditure needs as determined by the county executive and county board.

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[3] This table does not include the possible negative impact of cuts in state Medicaid reimbursement for county human services programs that may occur in response to reductions to the state's Medicaid budget, nor does it take into account possible fiscal ramifications from the new state cap on Family Care enrollment.
[4] In this case, a property tax appropriation of approximately $1.2 million could draw down an additional $2.5 million in federal funds to fill the gap.

THE 2012 BUDGET OUTLOOK

In a memo dated May 9, 2011, DAS advised county departments that the county was facing an estimated budget gap of $51.5 million. The basis for that estimate was explained in the following passage from the May 9 memorandum:

In preparation for the upcoming 2012 budget process, the Department of Administrative Services (DAS) has completed its 2012 cost-to-continue analysis. Projections indicate that the County's total cost-to-continue is approximately $25.8 million. The County has also been carefully monitoring the impacts of the 2011-2013 proposed state budget. The impact of the proposed state budget is significant and is estimated to be an additional $25.7 million in 2012, creating an anticipated gap of approximately $51.5 million. In addition, the proposed state budget has severely limited the County's ability to raise taxes to offset any of these costs.

Since May, DAS has refined its estimate of the state budget impact and the projected gap. According to information provided by DAS in early July that includes a compilation of items from departmental budget requests, as well as estimates of non-departmental revenues and expenditures prepared by budget staff, the estimated 2012 property tax levy gap is $36.9 million. In addition, DAS has identified several other problematic areas in the budget that would require an additional $18.2 million of property tax levy to address. Adding those two amounts together yields an updated estimated budget gap of $55.1 million.

It is important to note that this calculation does not constitute a department-by-department analysis of potential budget issues (both negative and positive) that have arisen for 2012 or that eventually will arise between now and this fall. Rather, it is a broad compilation of items from requested budgets, which were submitted in mid-June. Also, the county's budget office typically is extremely conservative in calculating major non-departmental revenue amounts and health care expenditures at this early juncture in the process.

Consequently, we performed some additional budget analysis and have developed our own refined estimate of the county's 2012 budget gap. Our calculations are summarized in **Table 2**. **It is important to note that our refined estimate does not reflect a refutation of DAS' calculations, but rather use of a different methodology that focuses on key revenue and expenditure variances, as opposed to the county's cost to continue all existing programs and services at current levels.**

Table 2: PPF estimate of 2012 budget gap

BUDGET ISSUE	CHANGE FROM 2011	DESCRIPTION
REVENUES		
Transit (including paratransit)	(9,339,300)	The county's mass transit operating assistance is reduced by $6.86 million in the 2011-13 state budget, while increases in paratransit funding produce a $1.45 million revenue increase. Also, the transit system faces a $2 million shortfall from video advertising revenue that will not materialize, and a $1.9 million reduction in Medicaid reimbursement for paratransit rides.
State Shared Revenue	(8,316,884)	Based on 2011-13 state budget.
State Income Maintenance Revenue for Legacy Costs	(4,900,000)	Because the state budget transfers all county Income Maintenance workers to the state payroll, it eliminates reimbursement for their direct pay and benefits. The county realizes a corresponding savings because it no longer will pay for those actual salary and fringe benefit costs, but it also loses state reimbursement for costs linked to unfunded retirement liabilities for those workers, for which it is still responsible.
Prior Year Surplus	(4,144,018)	The county is projected to break even in 2010, which means there will be no surplus to apply to the 2012 budget. A $4.1 million surplus from 2009 was applied to the 2011 budget.
Sales Tax	(2,461,884)	Based on most recent DAS projections.
Unclaimed Money	(1,100,000)	Unclaimed money only is budgeted in odd years.
Misc. Revenue Reductions	(945,467)	Includes projected decreases in Potawatomi and power plant revenues and earnings on investments.
Zoo	(800,000)	The Milwaukee County Zoo is projecting a net revenue deficit of $800,000 in 2011 that is considered structural in nature and likely will carry over to 2012.
TOTAL	**(32,007,553)**	
EXPENDITURES		
Debt	8,704,608	Based on updated debt service schedule and calculations of offsetting revenues.
Behavioral Health Division (BHD) Expenditure Gap	3,488,239	BHD's requested budget assumes an unspecified expenditure reduction of $3,000,000 to meet its tax levy target that has yet to be identified and may not be achievable; in addition, salary increases for medical positions approved in July 2011 create an additional unbudgeted cost of $488,239.
Health Care Adjustments	(2,948,870)	DAS' July 2011 estimate does not include the positive impact of applying 2011 health care design changes to all non-public safety employees ($3,690,936), nor the negative impact of a new domestic partnership benefit ($742,066).[5]
Requests from Public Safety Officials	2,944,613	Reflects the combined amount exceeding budget targets contained in 2012 budget requests by the Sheriff, Courts and District Attorney, whose requests carry particular weight because of their independent legal status.
Transit Fuel Costs	1,773,700	The Milwaukee County Transit System estimates increased fuel costs will add nearly $1.8 million to its cost of operations.
Deferred Maintenance	1,500,000	Reflects property tax levy-funded deferred maintenance items deemed critical in 2011 but for which funding was not secured. It is assumed these expenditures will need to occur in 2012.
Election Commission	400,912	2012 is an election year, meaning higher costs for the Commission.
TOTAL	**15,863,202**	
TOTAL 2012 GAP	**47,870,755**	

[5] The $3,690,936 in assumed savings is a figure cited in the July 11, 2011 IGR/DAS memo, while the $742,066 in added costs comes from the fiscal note of the resolution adopted by the county board in July 2011. DAS officials caution that these are only estimates that may need to be refined.

As noted above, the items cited in this estimate consist of major variances in expenditures and revenues that we identified from departmental budget requests and information provided by DAS, and that we believe cannot be absorbed in departmental budgets or addressed in a non-impactful manner. Like the DAS projections, our compilation should be viewed as an estimate, and not a rigorous review of departmental budgets and non-departmental revenues.

Also, two items regarding our calculation should be noted:

- State budget impacts: **Table 2** includes three of the major state budget impacts cited by DAS and IGR – reductions in shared revenue, transit operating assistance, and Income Maintenance funds. Not included, however, are the reduction in Child Support Enforcement funds, because we assume the county will not supplant the loss with local revenue; the loss of Youth Aids funds, because the Department of Health and Human Services (DHHS) expects to largely offset the loss with savings from its reduced state juvenile corrections population; and the reduction in General Transportation Aids, because the reduction has been addressed via service reductions on county trunk highways in the Department of Transportation and Public Works' requested budget. Also, our estimate does not include specific line items for state revenue reductions in mental health and the judiciary because those cuts are reflected in the BHD and Public Safety Officials expenditure lines. Finally, we assume that the health care and pension changes adopted for non-represented employees in 2011 will be applied to all non-public safety employees per the authority granted in the budget repair bill.

- Transit: Our estimate includes $11.1 million in revenue and expenditure gaps in the Milwaukee County Transit System (MCTS) budget, which consists of the net estimated impact of mass transit and paratransit items from the state budget, plus a $2 million revenue gap caused by unrealizable revenue from the 2011 budget, a $1.9 million reduction in Medicaid reimbursement for paratransit, and a $1.8 million increase in fuel costs. DAS' July estimate includes a potential $13 million hole, which is based on inclusion of other costs to continue in the transit budget. We do not refute those items, but assume that MCTS and county officials will identify ways to meet those costs without substantial reductions in service and/or increases in fixed route fares, as has typically occurred in previous years.

In the next section of this report, we consider the magnitude of potential cuts in workforce, programs and services – and/or potential revenue increases – that will be required to address the projected 2012 budget gap. Before doing so, we believe it is important to adjust our projected budget gap to take into account three additional factors:

1. The volatility of the county's health care expenditures makes the task of forecasting those expenditures in the following year a difficult one. The current DAS projection for 2012 is based in part on current projections for actual 2011 health care spending, which only encompass information from the first six months of the year, and which are understandably conservative. When it comes time to plug a health care expenditure number into the recommended and adopted budgets in September and November, the

county typically has readjusted its mid-summer estimates and often has found millions of dollars of additional savings.[6]

2. The county's budget preparation toolbox contains several possible miscellaneous one-time actions that may not constitute ideal fiscal policy, but that governments with the fiscal challenges of Milwaukee County inevitably rely upon to some extent to balance budgets. For example, if the county were to utilize four furlough days in 2012, it could achieve budgetary savings of approximately $3 million. Or, it could tweak revenue projections for items like sales tax, earnings on investments or land sales, as it has done in previous years.[7] Our assumption that the county ultimately will rely on at least a few such actions is not meant to condone them, but simply recognizes that such actions are likely to be part of the budget-cutting mix to some degree and would stave off other impactful budget decisions.

3. The new county executive has spoken repeatedly about his desire to scour county services and administrative activities for opportunities for new efficiencies and possible sharing with other levels of government. We take him at his word and anticipate that some level of efficiency savings will be reflected in his 2012 recommended budget.

Consequently, in the budget reduction modeling conducted in the next section of this report, we reduce our projected 2012 budget gap by $10 million to account for these miscellaneous factors, producing a working estimate of $37.9 million.

[6] For example, during 2009 budget deliberations, the county board reduced employee health care expenditures by more than $3 million after developing revised health care expenditure projections.

[7] For example, during 2011 budget deliberations, the County Board added $1.5 million of sales tax revenue, $1.75 million in revenue from the Early Retiree Reinsurance Program, and nearly $700,000 of state computer aid revenue to the budget. Also, in his recommended budget, the county executive used an estimate for Froedtert Hospital lease revenue that was based on the 2010 actual amount, as opposed to a lower multi-year average.

In our 2011 budget preview report, we developed three budget-cutting models to provide insight into the types of strategies available to the county to bridge its budget gap, and the service-level impacts associated with those strategies. At the time, the county's hands were tied by its unsettled labor situation, which made it difficult to predict its possible use of wage and benefit reductions. Consequently, one of our models was predicated on the notion that the county instead would need to resort to employee layoffs, while a second assumed an agreement would be reached to avoid layoffs in the coming year. Our third model was based on a scenario in which the county relied exclusively on enhanced revenues to cover its budget gap.

Using these three models to inform consideration of deficit-reduction strategies in 2012 still is useful, with one exception. Whereas in 2011 the county had few options to reduce its health care expenditure budget without obtaining agreement from its unionized workforce, it now possesses greatly enhanced flexibility to unilaterally change the design of its employee health care plan and/or impose greater employee cost-sharing, as such actions no longer are subject to collective bargaining.[8] **Consequently, the three primary sets of options we developed in 2011 and update here – reducing the workforce, reducing or eliminating discretionary expenditures not tied to county personnel, or raising broad-based taxes and fees – now are complimented by a fourth option**.

In light of the magnitude of the county's budget gap and the desire of policymakers to avoid reductions in programs and services, we believe it is *likely* that additional changes in the county's health care offerings and employee contributions will be part of the deficit-reduction strategy for 2012. It is highly uncertain, however, whether such actions can constitute the *primary* strategy. We base that statement on the following factors:

1. We estimate that the 2012 savings experienced from the county's comprehensive health care redesign in 2011 – assuming they are applied to all non-public safety employees – will total about $11.4 million. That redesign includes substantial increases in employee/retiree deductibles and co-pays, as well as sizeable increases in premium cost sharing for most union members who participate in the county's HMO plan. County officials have estimated that as a result of these changes, most county employees will now pay more than 20% of the cost of their annual health care. Producing an additional $38 million of health care savings, therefore, could impose impacts on employees that are more than triple those that already have been experienced by non-represented employees, and that have been approved for most of the remaining county workforce in 2012.

2. The state budget repair bill requires all state government workers to pay 12.6% of their health insurance premiums. Depending on whether they receive individual or family coverage, and in which of the county's two health plans they are enrolled, county officials estimate that most county employees will pay 9-13% of the cost of their health

[8] There is still a lack of clarity regarding the applicability of state legislation in this area to public safety unions. The county currently is operating under the assumption that health care plan design is not subject to collective bargaining for public safety unions, but the employee share of health care premiums is subject to collective bargaining. Neither item is subject to collective bargaining for non-public safety unions.

care premiums when the 2011 design changes are fully implemented. We estimate that bringing all county employees up to the 12.6% level experienced by most other public sector workers would save the county about $2 million in 2012 – not an inconsequential amount, but far short of the amount needed to bridge the 2012 deficit. Furthermore, because the county's plan design, co-pays and deductibles differ from those at the state, some may argue that it is not appropriate to require the same percentage payment of the health care premium.

There is little question that county leaders will need to consider additional steps to reduce or share the cost of health insurance. It is likely, however, that in light of the additional employee cost-sharing already being imposed and the size of the projected deficit, such modifications will need to be accompanied by several other substantial deficit-reduction strategies. The three models detailed below are designed to provide perspective on the types of broad strategies available to the county and the extremely difficult nature of the choices it would confront if any one strategy were utilized exclusively.

BUDGET-CUTTING MODEL 1: REDUCE THE SIZE OF THE COUNTY WORKFORCE

Given that more than a quarter of the county budget is dedicated to pay and benefits for active county employees, one potential strategy that will have to be entertained for balancing the 2012 budget is to reduce the size of the county workforce. It is certainly worth noting, however, that the number of budgeted full-time-equivalent employees at the county already has decreased from 7,416 to 5,336 between 2001 and 2011, and that such an approach could not be accomplished without a substantial diminishment of programs and services.

Because of the size of the 2012 gap, in this scenario we do **not** assume that county workers would be replaced with private sector workers under new privatization initiatives. Instead, it is assumed that the county would need to realize the *full* savings associated with eliminating positions, as opposed to a *net* savings that might be realized from a potential difference between the cost of a county position and a private sector position.

We estimate that a total of 617 full-time equivalent positions (FTEs) would need to be eliminated in order to achieve a property tax levy savings of approximately $38 million to offset the 2012 projected budget gap. **Table 3** illustrates how those position reductions might be distributed among the various functions of county government.[9] We explain our rationale for each item in the text below as well as potential worst-case programmatic consequences.

[9] For the sake of simplicity, **Table 3** does not take into account the fact that a relatively small percentage of county positions – such as those at the Airport and Care Management Organization – are not funded with property tax levy. Because elimination of those positions would not reduce the budget gap, some adjustments to the position actions cited in the table would be necessary to achieve the cited dollar savings if this hypothetical scenario were utilized.

Table 3: Potential position reductions necessary to offset projected 2011 budget gap

STAFF REDUCTION	SAVINGS*	POSITION LOSS (FTES)
Half of vacant funded positions	$15,378,000	233.00
2% staff reduction in all departments	$6,952,962	104.92
25% Parks Department staff reduction	$5,141,709	119.57
25% Zoo staff reduction	$2,637,716	62.80
25% staff reduction in administrative departments	$4,374,733	49.10
50% staff reduction to county executive office	$372,501	4.28
50% staff reduction to county board	$1,381,080	18.92
25% Sheriff staff reduction in certain divisions	$1,665,000	24.49
TOTAL POTENTIAL REDUCTIONS	**$37,903,702**	**617.08**

*Estimated savings reflect average compensation costs within each county department and include salary, FICA and active health care and pension costs. Offsets to account for potential increases in unemployment compensation costs are not included.

- **Half of vacant positions –** A July 5, 2011 report by DAS indicates that as of early May, the county had 727.5 funded and vacant FTEs, which equates to 13.6% of its total funded workforce. This remarkably high vacancy rate has been caused, in part, by a rash of retirements, and reluctance by department heads to fill vacancies because of uncertainty over state budget impacts. The county does budget under the assumption that there will be substantial vacancies during the year, and the 2011 budget already includes savings equivalent to 262 vacant FTEs. We assume that half of the vacant funded positions from the July report from which budgeted savings can be realized will not be filled in 2012, creating a net reduction of 233 positions.[10] A reduction of this magnitude likely would cause service-level impacts throughout county government, though departments already have adjusted to the impacts to some extent in 2011.

- **2% staff reduction in all property tax levy-funded departments –** Bridging a $38 million budget gap solely with workforce reductions would require every county department to lose some positions in addition to its share of the vacant funded positions cited above. Our modeling assumes, as a starting point, that each department would be required to eliminate 2% of its existing full-time positions. That would result in the elimination of 105 positions, saving an estimated $7 million. The departments facing the largest numbers of reductions include: the Sheriff (27 FTE); BHD (17 FTE); Department of Health and Human Services (13 FTE); Parks (10 FTE); and Courts (6 FTE).

- **25% Parks Department staff reduction –** This projection is based on an assumption that workforce reductions in excess of the vacant positions and 2% reductions cited above in departments that provide mostly *mandated* services would not be tenable. Consequently, our model assumes the Parks Department would have to reduce its staffing by an additional 25%, resulting in the loss of an additional 120 FTEs and saving $5.1 million. A reduction of this magnitude almost certainly would require the closure of

[10] This calculation takes the 727.5 vacant funded positions from the July report and subtracts the 262 FTEs already budgeted to be vacant, creating a total of 465.5 positions. It then assumes half of those positions will be unfunded or abolished in 2012 (the July report notes that 56.2% of the vacant positions were in the process of hiring as of early May). We acknowledge that some of these vacant positions already may have been unfunded or abolished in 2012 requested budgets.

several county parks and/or recreational facilities, as the department's depleted human resources would need to focus on operating and maintaining a smaller number of facilities. It is possible the county would focus on maintaining those operations that provide the best return in terms of admissions and other revenue. Failure to do so could produce an additional loss of revenue, thus further exacerbating budget problems.

- **25% Zoo staff reduction –** Again, this projection is based on an assumption that workforce reductions in excess of the vacant positions and 2% across-the-board reduction in departments that provide mostly *mandated* services would not be tenable. Consequently, our model assumes the Zoo would have to reduce its staffing by an additional 25%, resulting in the loss of an additional 63 FTEs and saving $2.6 million. A reduction of this magnitude almost certainly would require the closure of several animal exhibits at the zoo. This would call into question whether existing admissions and parking rates could be maintained and whether the negative impacts on attendance would create an unsustainable business model that might even require the entire Zoo to close.

- **25% staff reduction in administrative departments –** On top of the vacant positions and general 2% reduction, our model assumes that administrative departments – including the Department of Administrative Services (which contains fiscal affairs, human resources, information technology and employee benefits), Department of Audit, County Clerk and Corporation Counsel – would have to reduce their respective workforces by an additional 25%. This results in the loss of an additional 49 FTEs and saves $4.4 million. These administrative departments already have experienced significant reductions in the past decade and it is highly questionable whether they could experience an additional 25% reduction without significantly compromising the county's ability to appropriately administer its own operations.

- **50% staff reduction in county executive and county board staff –** On top of the vacant positions and general 2% reduction, our model assumes staff in the county executive's office and county board would need to be reduced by 50%, based on an assumption that county leaders would seek reductions to the greatest extent possible in areas of operation that would have the least significant impact on programs and services. This results in the loss of an additional 23 FTEs and saves $1.8 million.

- **25% staff reduction in certain Office of the Sheriff divisions –** Despite its largely mandated and independent status, our model assumes the Sheriff's office would have to experience an additional reduction in staffing above its vacant positions and the 2% reduction because of its sheer size (it currently houses 26% of all county FTEs). Our model assumes this reduction would need to come from operations outside of detention and bailiff services (the levels of which are dictated by the size of the detention population and the workload of the courts), so it assumes a 25% reduction in areas such as expressway patrol, the Tactical Enforcement Unit and parks patrol. Cuts in the latter two areas also are consistent with the reduction in parks services. This results in the loss of an additional 24 FTEs and saves $1.7 million. Such a move essentially would eliminate the office of the sheriff's ability to provide security at county parks and on county buses and would reduce patrolling operations on county expressways.

Model 2 assumes, hypothetically, that the county determines it cannot bear any additional reductions to its workforce, and instead seeks to bridge the 2012 budget gap by reducing or eliminating discretionary contributions to outside entities or appropriations for contracted services. It is important to note that while this model spares county workers from layoffs, the sharp reduction or elimination of county funds from contracted services likely would cause several non-county workers to lose their jobs. Bus drivers and other employees of the Milwaukee County Transit System, for example, are not employed by the county and likely would be subject to layoff under this model, as would employees of county-contracted social service agencies and arts and cultural institutions that receive significant county contributions.

Table 4 theorizes a series of property tax levy reductions in various areas of county government that would come close to bridging the $38 million gap without impacting county positions. In the text that follows, we explain our rationale for each item as well as potential worst-case programmatic consequences. As with the first scenario above, we cannot predict precisely how county policymakers might elect to identify budget reductions under this scenario. Consequently, **Table 4** should be viewed simply as an illustration of the types of expenditure reductions that would be required to bridge the gap without reducing county positions.

Table 4: Potential tax levy expenditure reductions not involving county positions necessary to offset projected 2012 budget gap[11]

EXPENDITURE REDUCTION	SAVINGS
Do not use levy to backfill transit budget gap	$11,113,000
Eliminate levy for non-county cultural institutions and UW-Extension	$7,554,322
Eliminate EMS payments to municipalities	$3,000,000
33% cut to adult mental health purchased services[12]	$5,033,333
Eliminate certain disability services	$2,085,542
33% cut to delinquency purchased services	$2,641,838
Eliminate levy for senior centers	$1,451,688
Eliminate levy for miscellaneous DHHS discretionary programs	$1,410,452
33% cut to pre-trial services	$1,140,949
33% cut to administrative professional services contracts	$1,022,843
Eliminate litigation reserve funds	$275,000
Eliminate investment advisory services	$245,000
TOTAL POTENTIAL REDUCTIONS	**$36,973,967**

[11] Savings cited in this table reflect amounts budgeted in 2011, cited in departmental reports submitted to the county board, or provided by departmental staff. These amounts may differ slightly from amounts included in 2012 requested budgets.

[12] Includes services previously purchased under contractual agreements but moved to fee-for-service in 2011.

- **Do not use property tax levy to backfill transit budget gap –** Our model assumes that under this scenario, the size of the overall county budget gap would preclude policymakers from using property tax levy to backfill the projected transit funding gap. Consequently, many of the service reductions contained in MCTS' 2012 requested budget – which include elimination of service on all Freeway Flyer routes and six regular routes, route or frequency reductions on 31 additional routes, and a limitation of paratransit service to locations that are within three-quarters of a mile of a regular bus route – would need to be adopted, and/or substantial fare increases would need to be considered.

- **Eliminate levy for non-county cultural institutions –** Milwaukee County provided $7.6 million of property tax levy support in 2011 for the Milwaukee Public Museum, Marcus Center for the Performing Arts, War Memorial Center, Milwaukee County Historical Society, Charles Allis and Villa Terrace art museums, as well as other smaller cultural and educational entities. Because these are non-mandated services, our model assumes bridging a $38 million budget gap without eliminating any county workers would require the complete elimination of funding for these entities. It should be noted, however, that because the county owns the buildings associated with the institutions cited above, elimination of county operating support could have negative impacts for the county in terms of repairs and maintenance. In addition, it is possible that the county would be forced to take back control of the buildings should the cultural entities not be able to survive without county operational support. Finally, elimination of county funding for these institutions could impact the significant amount of private sector funding that is leveraged from county resources.

- **Eliminate Emergency Medical Services (EMS) supplemental payments to municipalities** – County government coordinates and directs the Milwaukee County EMS system, while the paramedic services themselves are provided by municipal fire departments. The county is budgeted to spend about $6.9 million on the program in 2011. Of that amount, about $3.9 million is used to support the communications center, medical direction, the education/training center, quality assurance and other oversight activities, while $3 million is contributed to municipal providers to support their delivery of services under a formula developed by the Intergovernmental Coordinating Council. The county is not legally required to provide this payment to municipalities and has discussed its potential elimination in previous years, though this possibility has been vehemently protested by municipal leaders. Elimination of this payment would save $3 million for the county, but this cost likely would be passed on to municipal governments and could lead them to pull out of the county-coordinated system.

- **33% cuts to purchased services in BHD, Delinquency and Court Services and Pre-Trial Services –** The county uses property tax levy for certain contracted services in the areas of health and human services and the courts that reduce tax levy expenditures on other major mandated services within those functions. For example, in DHHS, contracted community-based mental health services reduce inpatient mental health costs, and contracted community-based delinquency services reduce juvenile detention costs. In the courts, meanwhile, contracted alternatives to incarceration services reduce costs in the adult detention facilities. If those contracted services were eliminated, it is quite likely that the savings associated with the terminated contracts would be exceeded by the additional institutional costs experienced in other areas. In order to bridge the $38 million budget gap in this scenario, however, substantial reductions to these contracted services would have to be considered. Our model assumes a 33% reduction in each of these areas of purchased services, which would produce the 2012 budgetary savings cited in **Table 4**, but which also may to lead to greater costs in other areas because of increased use of inpatient and detention facilities.

- **Eliminate certain services for persons with disabilities –** DHHS' Disabilities Services Division contracts with community-based providers for a variety of services for individuals with disabilities who do not meet the eligibility qualifications for the Family Care program and for whom the division, therefore, may not be legally required to provide services. Those include community living support services, work and day services, and other services designed to provide assistance to individuals and their families so that they may live in the community and avoid institutionalization. Eliminating those services would save about $2.1 million annually but could cause considerable hardship for individuals with disabilities who have relied upon these county-funded services for many years. In addition, such a move could subject the county to legal action by those who might argue that all such services are mandated under state law.

- **Eliminate levy for miscellaneous DHHS discretionary programs –** DHHS' 2011 budget contains funding for a small number of additional discretionary programs that serve poor or disadvantaged individuals and families. Those include the indigent burials program, which pays for burials for certain poor individuals who did not qualify for W-2 and/or Medicaid at the time of their death; the Interim Disability Assistance Program (IDAP), which provides interim income assistance to individuals who have applied for Social Security disability benefits from the federal government, but whose applications will take several months to process; grants to support homeless and domestic violence shelters; support for the 211-IMPACT emergency help line; and appropriations for the Sports Authority and Safe Alternatives for Youth programs, which support sports and recreational activities for disadvantaged youth. Elimination of these discretionary allocations would save $1.4 million annually, though these actions might cause some impacted individuals to require additional services from the county's mental health complex and/or other DHHS programs.

- **Eliminate levy for senior centers –** The Department on Aging contracts with private agencies to operate senior centers and/or programming at more than a dozen sites across the county. These centers provide a broad range of recreational and educational programs for older adults. The county is not required by law to provide funding for these programs, and eliminating this allocation would save approximately $1.5 million. Doing so, however, would eliminate a highly popular county service and potentially impact the department's ability to fulfill mandated senior meal program and other supportive service responsibilities for older adults.

- **Reduce property tax levy by 33% for administrative professional services contracts –** The county's administrative divisions use professional services contracts to carry out a variety of tasks, including consulting services for employee benefits and information technology, and specialized legal and auditing services. We speculate that substantial reductions to such contracts would have to be considered if a significant countywide budget shortfall needed to be bridged without eliminating county positions. Consequently, we assume a 33% reduction in these contracts, which would save about $1 million annually. Potential consequences could include significantly reduced capacity to service the county's information technology infrastructure, identify employee benefits savings and oversee and manage the county's financial resources.

- **Eliminate litigation reserve –** The county uses a litigation reserve account to provide a funding source for unanticipated costs associated with litigation or activities that require the assistance of outside legal resources. In 2011, the county budgeted $275,000 for that purpose, which the adopted budget attributed to anticipated arbitration costs. Because of the elimination of most collective bargaining for public sector employees, this reserve account arguably is no longer needed.

- **Eliminate investment advisory services –** The county maintains a non-departmental account to pay for contracts with three private firms that provide investment advice for the considerable cash reserves that accumulate during the course of the year. Those three contracts – which totaled $245,000 in the 2011 budget – ostensibly could be eliminated, though the absence of professional investment services likely would negatively impact the county's earnings on investments, which total $1.8 million in the 2011 budget. Also, personnel may need to be added in the Treasurer's office to fulfill this function if the contracts are eliminated.

BUDGET-CUTTING MODEL 3: AVOID SERVICE IMPACTS BY INCREASING REVENUES

A third model would be for the county to seek to address the estimated 2012 budget gap exclusively by increasing or introducing legally available local revenue sources. It is important to note that while this model relies exclusively on increased revenues to generate the amount needed to bridge the estimated 2012 gap, *some* expenditure cuts still would be required. That is because the 2012 budget requests used in our modeling include expenditure reductions that allow departments to avoid property tax levy increases.

With regard to specific revenue sources, this model focuses exclusively on the property tax and vehicle registration fee (also known as a "wheel tax"), which are the only broad-based taxes or fees available to the county that can be increased or established without authorization from state government. Other fee increases – such as golf, pool and zoo admissions fees, parking fees and bus fares – are not delineated in this model because they typically are already included in departmental budget requests. The sales tax also is not considered because Milwaukee County currently levies a .5% sales tax, which is the maximum allowable under state law.

The starting point of our model is the county property tax. The state budget contains a new property tax levy limit for counties and municipalities, which generally caps annual increases at the greater of 0% or the net percentage increase in new construction from the previous year. Because of a nuance in the new statutory language, however, Milwaukee County appears to be able to increase its levy by 3.6% in 2012 on a one-time basis.[13] A final determination will be made by the state in mid-August, but for purposes of this model, we assume that the county would take advantage of this provision and increase its property tax by the maximum amount allowable, which would generate about $9.7 million.

We next assume that the county would seek to generate the remaining $28.2 million by levying a vehicle registration fee on the owners of motor vehicles in Milwaukee County. Under state statutes, counties are allowed to levy such a fee provided that the proceeds are used for transportation purposes.[14] Requested budgets for 2012 include $18.8 million in property tax levy spending on transportation, which combined with the $11.1 million gap in MCTS' budget shows that the county would have the capacity to devote about $29 million of wheel tax revenues to transportation. Based on figures provided by the Wisconsin Department of Transportation, we estimate that imposition of a $50 wheel tax would leave us just short of the $38 million needed.

Table 5 shows the breakdown of annual amounts generated by a new $50 vehicle registration fee and the 3.6% property tax levy increase.[15] **Table 6** shows that the estimated impact on a Milwaukee County homeowner who owns two vehicles, and whose home is assessed at the average county value of $164,000, would be about $125.

Table 5: Potential wheel tax and property tax levy increases necessary to offset projected 2012 budget gap

POTENTIAL TAX INCREASES	REVENUE GENERATED
Property tax increase	$9,703,969
$50 wheel tax	$26,705,183
TOTAL 2011 POTENTIAL TAX INCREASES	**36,409,152**

Table 6: Impact of potential tax increases on average homeowner

POTENTIAL CHANGES	TOTAL IMPACT
PROPERTY TAX	
Average home value	$ 164,000
2011 Adopted assessed value	$ 63,679,471,400
Mill rate increase (per $1,000 of assessed value)	$ 0.15
Impact of property tax increase on average home owner	**$ 24.99**
WHEEL TAX	
Impact of wheel tax on two-vehicle household	**$100.00**
TOTAL 2011 IMPACT OF POTENTIAL TAX INCREASES	**$ 124.99**

13 This possibility was brought to the attention of policymakers by DAS/IGR in their July 11, 2011 memo.
14 Milwaukee County currently does not impose a wheel tax on its residents. A $20 wheel tax approved by the Finance and Audit Committee during 2010 budget deliberations was rejected by the full board. The City of Milwaukee adopted a $20 wheel tax for city residents in 2008. The state vehicle registration fee is $75.
15 State statutes require a 90-day notice period before imposition of a wheel tax, so actual wheel tax collections in 2012 only would encompass about 10 months of activity. Also, a state administrative fee is included in this calculation.

Analysis of the three county budget-cutting models – plus the county's new opportunity to unilaterally engage in further restructuring of its health care offerings – suggests that using elements from each of the four approaches might be the most palatable strategy for bridging the projected $38 million budget gap.

It is difficult to imagine, for example, that policymakers and the public would accept the closure of dozens of pools, golf courses and zoo exhibits; elimination of support for cultural institutions and municipal paramedic services; a 13% reduction in mass transit service; abandonment of community-based services for thousands of citizens with mental illness and developmental disabilities; or a $50 vehicle registration fee. Nor is it reasonable to believe that the county can wring another $38 million out of its workforce in the form of pay or benefit cuts without severely impeding its ability to attract and retain the skilled workers needed to carry out its vast array of essential public services.

A balanced approach, however, has the best chance of effectively bridging the gap in the near term while avoiding the worst consequences that would occur if any one or two approaches were used exclusively. An example of a hypothetical balanced approach – using elements from each of the four strategies – is shown in **Table 7**.

Table 7: Example of a balanced approach for bridging projected 2012 budget gap

DEFICIT REDUCTION STRATEGY	SAVINGS
Reduction in employee health benefits/increased cost- sharing	$8,055,341
Eliminate 25% of vacant funded positions (117 positions)	$7,689,000
1% staff reduction in all departments (52 positions)	$3,476,196
Assorted cuts in transit, cultural institutions, EMS and contractual services	$8,500,000
1.8% property tax increase	$4,851,985
$10 wheel tax	$5,298,233
TOTAL POTENTIAL REDUCTIONS	**$37,870,755**

It is clear that even this set of balanced budget-cutting options includes elements that many constituencies and individual taxpayers would find highly objectionable. It is equally clear, however, that developing a responsible plan for eliminating a $38 million budget gap for Milwaukee County without including objectionable items will be next to impossible.

FIVE-YEAR FISCAL OUTLOOK

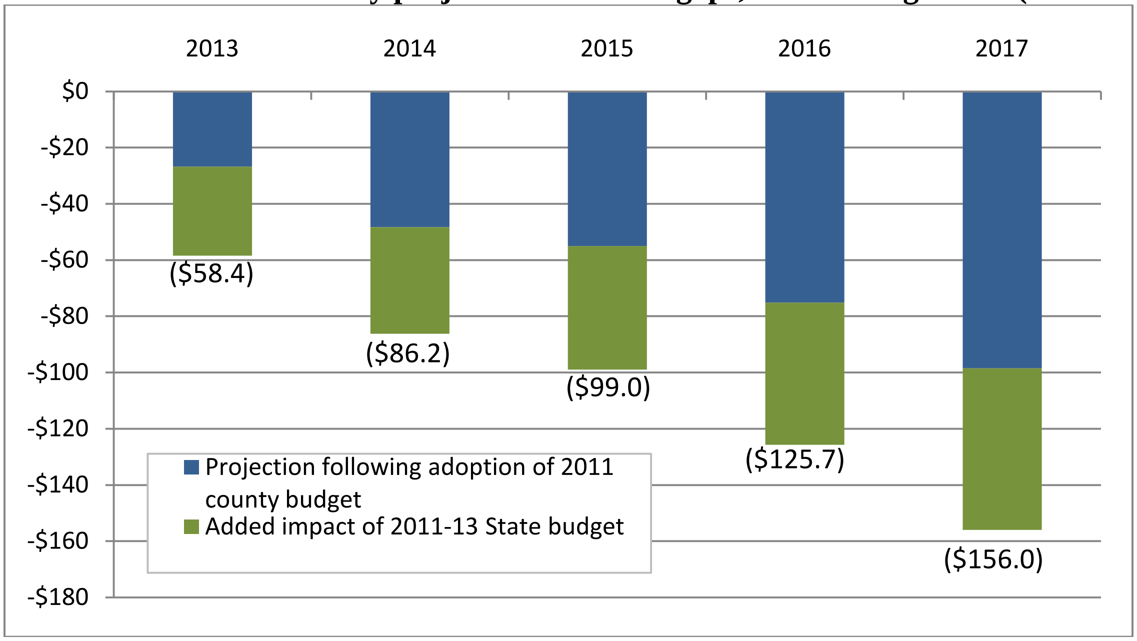
It is important for county policymakers to seek additional context for their 2012 budget deliberations by analyzing the county's long-term budget outlook. Long-range financial planning is a fiscal best practice to ensure that short-term spending decisions take place with an understanding of long-term trends and conditions.

In 2009, the county purchased a financial modeling program – "Municast" – that was developed for use in California counties and municipalities. In addition, the county's budget director formed a work group consisting of fiscal staff from both branches of government – as well as some outside members – to review and reach consensus on the assumptions it would use in the forecasting framework. The first Municast five-year forecast was presented to county policymakers in September 2009, and it has been updated and presented to county leaders twice since that time.

Milwaukee County's Long Range Strategic Planning Committee recently took steps to recognize and support the role of long-range fiscal forecasting in the county's budget deliberations. A resolution approved by the committee in May 2011 – and adopted by the full county board in June – requires the county to use the Municast five-year model to, among other things, "review progress in addressing the county's structural deficit…develop annual budget assumptions…(and) assess the multi-year impacts of present year budget decisions." In addition, the resolution specifically calls for use of the Municast forecast to "develop and recommend health and pension benefit levels as appropriate."

Chart 8 shows the projected annual structural gaps for the next five years (after 2012) from the latest Municast forecast, which was prepared by DAS in mid-April. The chart shows the structural gap for each year based on both the modeling that occurred after adoption of the 2011 budget, and additional impacts known at the time regarding impacts associated with the state budget and budget repair bill. It is important to note that the forecast has not yet been updated to include final 2011-13 state budget action or later interpretations regarding specific application of budget repair bill provisions. Nevertheless, the mid-April five-year forecast reasonably depicts the county's current five-year outlook.

Chart 8: Milwaukee County projected structural gaps, 2013 through 2017 (in millions)



Source: Milwaukee County Department of Administrative Services

While the Municast forecasting model provides an important and reliable framework for considering the size and scope of the county's long-term fiscal challenges, the following limitations should be noted:

- The forecasting methodology does not anticipate possible long-term changes. The numbers shown above assume that in each year of the five-year period, the budget is balanced using only one-time solutions. Any sustainable deficit reduction initiative adopted in a given year, such as the identification of a new revenue source or a more efficient means of providing a service, would reduce the structural deficit in each subsequent year of the forecast, *but such actions are not anticipated in the model*.

- Figures will change as new information is obtained. As noted above, this information is taken directly from DAS' most recently updated Municast forecast, but does not incorporate any new information developed during the past four months.

- Projections use historical data and agreed-upon assumptions. The Municast modeling tool allows the county to input historical revenue and expenditure data and trend calculations to develop detailed forecasts in individual expenditure and revenue categories. Milwaukee County budget staff developed dozens of individual assumptions and trend analyses in dozens of distinct revenue and expenditure categories for use in the Municast model, including assumptions on the rate of growth of sales tax revenue, various state revenue streams, and health care expenditures. As noted above, these assumptions and analyses were reviewed for accuracy by a balanced work group, but they are assumptions nonetheless.

The 2013-2017 projections, therefore, are best utilized as a tool to develop consensus regarding the seriousness of the county's fiscal condition, as opposed to a definitive calculation of the precise size of each year's structural gap.

Using the forecast in this way reveals that the original projected structural deficits for 2013-17 – which showed a beginning deficit of about $28 million that would rise to about $100 million – represented a noticeable improvement over the five-year Municast forecast from a year ago, which projected an initial $64 million structural deficit that would rise to $126 million within five years. This finding shows that the county's efforts to tackle runaway fringe benefit costs and require financial sacrifice from its employees and retirees had made a sizeable dent in the structural imbalance, particularly in the near-term.

The bad news, however, is that once the impacts of state aid reductions from the 2011-13 state budget were plugged into the model, the county's five-year outlook became even worse than that forecasted a year ago, despite the budget repair bill's provisions giving the county unilateral control over many labor and benefit costs. Consequently, it is difficult to escape the conclusion that any hope of resolving the structural imbalance is now likely to rest either with changes in state policy to allow for enhanced local revenue options, substantial reductions in county operations, or both.

CONCLUSION

Our analysis of Milwaukee County's 2012 budget challenges and its five-year fiscal outlook shows that the county's longstanding fiscal problems show no signs of abating, and quite possibly have worsened. Indeed, while the size of the 2012 cost-to-continue deficit and five-year structural gaps are similar to those experienced in previous years, some of the most promising options to address them now have been utilized, leaving few remaining strategies outside of deep service cuts and/or sharp revenue increases.

While this report is largely a modeling exercise, it provides some important insights for policymakers and citizens as they consider potential solutions to Milwaukee County's short-term and long-term budget predicament. Those include the following:

- The authority granted by the state budget repair bill to demand greater employee cost-sharing for pension and health care benefits allows the county to substantially reduce baseline levels of funding in those areas and save tens of millions of dollars annually. Unfortunately, despite those savings – many of which already were sought and budgeted by county officials – the county still faces significant future growth in its health care and pension expenditures. Additional actions to curb this growth will need to be considered, but such actions could force county leaders to make demands on their workforce that greatly exceed those recently imposed on other public sector workers in Wisconsin.

- On the revenue side, the county may have a one-time opportunity to boost its property tax levy by nearly $10 million in 2012. After next year, however, a more stringent state property tax cap is likely to further reduce the elasticity of one of its only locally-controlled revenue sources. Consequently, those who believe that enhanced local revenues need to be part of the county's deficit-reduction strategy may have a limited timeframe to effectuate that component. The only other local broad-based tax or fee available to the county is the vehicle registration fee, which could be used to generate additional revenue for transit or other transportation needs, but which has generated considerable political opposition in the past.

- Our discussion and modeling of four distinct approaches for bridging the 2012 gap – health care benefit restructuring, workforce reductions, reductions in discretionary contracts and grants, and enhanced revenues – shows potentially stark impacts for county employees, services, programs, and/or taxpayers. Those include the potential for deep cuts in mass transit and community-based mental health and disabilities services, severe reductions in parks and cultural amenities and exhibits, and a $50 vehicle registration fee. In the near term, the ability of elected leaders to choose options from *each* of the four approaches could enable them to limit the most serious impacts that would occur if any one model were used exclusively. In the long term, however, many of the options cited in our modeling will need to be contemplated, as will the possible sale or lease of major assets, and the prospect of turning over entire sets of county services to the private sector or other levels of government.

As noted throughout this report, the county now has greater certainty and flexibility with regard to its employee compensation framework, which has been the largest driver of its structural deficit. Consequently, renewed efforts to analyze the five-year fiscal outlook and use it to develop a countywide strategic plan not only are possible, but imperative.