

Milwaukee County
Five-Year Financial Forecast
2019 – 2023



Office of the Comptroller
Scott B. Manske, Comptroller
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EXECUTIVE SUMMARY

The five-year forecast for Milwaukee County is a tool for helping policymakers and the public understand the future challenges and opportunities of the County budget. Mandated by § 59.255 (2)(h) Wis. Stats., the Comptroller produces this annual report based on reasonable assumptions about general economic conditions and projected changes in County revenues and expenditures. The goal of this forecast is to determine the extent of actions necessary to close the gap between revenues and expenditures, ensuring long term fiscal sustainability. The forecast assists policymakers in the County's financial decision-making process to demonstrate the long-range impact of courses of actions being considered by the County and to gauge the effect of past decisions.

Results of this year's forecast indicate an ongoing structural deficit with similar elements to five-year forecasts issued in prior years. The main findings of the report include:

- ***The projected structural deficit for the 2019 operating budget is approximately \$16.8 million. When including the cash shortfall in the 2019 capital budget, the projected structural deficit grows to \$21.8 million.*** Key assumptions contributing to the structural deficit in 2019 are funding for the ongoing cost-to-continue of current operations, including reversal of one-time expenditure abatements in the 2018 Adopted Budget, and the elimination of reserve contributions. Offsetting these increases are lower than anticipated expenditures for wages, healthcare and pension, and forecasted increases in property tax levy.
- ***The 2019 structural deficit of \$16.8 million is reasonable based on the forecasted cost-to-continue and use of one-time revenues in 2018.*** The County's prior year five-year forecast predicted that the County would have a structural deficit of \$10.4 million for the 2019 fiscal year if the 2018 structural deficit of \$31.0 million was solved with long-term solutions. The forecast further projected that if no long-term solutions were implemented, the 2019 structural forecast could reach \$41.3 million. Given the one-time revenues used in 2018, as well as other unanticipated changes, the 2019 structural deficit of \$16.8 million is reasonable.
- ***On average, the annual structural deficit will consist of a cost-to-continue of \$12.8 million due to a greater increase in expenditures than what is generated in additional revenue. Expenditures will grow on average 2.3 percent while revenues will grow on average 0.9 percent. The County can also expect an increase in the structural deficit each year in which one-time revenues or expenditure abatements were used in the prior year.*** In 2018, the County utilized such one-time revenues and expenditure abatements of approximately \$10.4 million, which increased the 2018 structural deficit roughly by the same amount. While a structural deficit of \$16.8 million is less overwhelming than previous years, if the County were to resolve this structural deficit with long-term solutions, it could expect a 2020 structural deficit of roughly \$10.5 million, barring any unforeseen issues. Any use of one-time revenues or expenditure abatements in the 2019 budget will worsen the structural deficit.

- Other issues such as potential outsourcing of the BHD inpatient units, the State 2019-2021 biennial budget, salary compression and limited wage growth in the County’s workforce, loss of the Froedtert / Doyne lease payment and deferred maintenance remain unsettled. Any of these issues may compromise the County’s future fiscal outlook and should be monitored closely.

THE FRAMEWORK OF THE STRUCTURAL DEFICIT

The annual structural deficit consists of two elements:

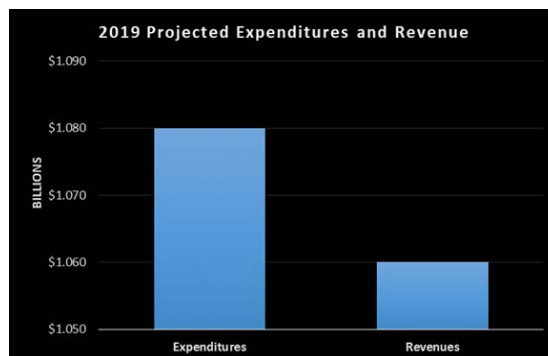
- Cost-to-continue increase
- One-time revenues and expenditure abatements utilized in the previous year

On average, the County can expect an average cost-to-continue of \$12.8 million annually due to a greater increase in expenditures than what is generated in additional revenue. The forecasted, average cost-to-continue has dropped for two consecutive years from \$14.1 million for the 2017 – 2021 forecast to \$13.6 million for the 2018 – 2022 forecast to \$12.8 million for the 2019 – 2023 forecast. On average, expenditures will grow 2.3 percent while revenues will grow 0.9 percent which generates the cost-to-continue amount. The amount is further adjusted by any changes to the assumptions used in previous forecasts as well as any unforeseen issues that arise during the fiscal year.

The structural deficit then further increases each year by any one-time revenues or expenditure abatements used in the prior year. Any one-time revenues, such as land sales or reserve contributions, and any expenditure abatements, such as one-time budgetary reductions, will increase the structural deficit by the same amount. In 2018, the County utilized such one-time revenues and expenditure abatements of approximately \$10.4 million, which increased the 2019 structural deficit by roughly the same amount.

THE 2019 PROJECTED STRUCTURAL DEFICIT

The use of one-time revenues and expenditure abatements from 2018 coupled with the cost-to-continue results in a \$16.8 million structural deficit for 2019. Expenditures and revenues are projected to be \$1.08 billion and \$1.06 billion, respectively.



Further exacerbating the structural deficit in 2019 is the cash shortfall in the capital budget. The County has committed to cash financing up to 20 percent of its projects. For 2018, this amount was only budgeted at roughly one-half what the policy goal is, at the benefit of the operating budget. Addressing the capital issue would increase the overall structural deficit by \$5.0 million, resulting in a total structural deficit of \$21.8 million.

In comparison, the prior financial forecast projected that the County would have a cost-to-continue of \$10.4 million for the 2019 fiscal year if the 2018 structural deficit of \$31.0 million was resolved with long-term solutions. The forecast further projected that if no long-term solutions were implemented, the 2019 structural deficit could reach \$41.3 million.

The projected structural deficit in 2019 is largely comprised of the following changes from the 2018 Adopted Budget:

Expenditure Type	Amount (millions)
Salaries, Overtime & One-Time Expenditure Abatements	\$ 6.9
Other Purchase of Services	\$ 3.5
Other Professional Services, Services & Uses	\$ 3.4
Transit	\$ 1.4
Debt Service Principle/Interest	\$ 1.4
Pension	\$ 1.3
Commodities & Utilities	\$ 1.2
Liability & Work Comp	\$ 0.4
Capital	\$ 0.2
Other Benefits	\$ 0.1
Healthcare	\$ -
Expenditure Change	\$ 19.8
Revenue Type	
One-Time Revenues	\$ 6.6
Other State Reimbursements	\$ 4.3
Other Federal Revenue	\$ 0.9
Employee Health Contributions	\$ 0.8
Other Revenue	\$ (2.2)
Sales Tax	\$ (2.6)
Property Taxes	\$ (3.1)
Miscellaneous Other Revenues	\$ (3.6)
BHD Health Revenue	\$ (4.0)
Revenue Change	\$ (3.0)
Projected 2019 Operating Gap	\$ 16.8
Projected 2019 Capital Gap	\$ 5.0
Total Countywide Gap	\$ 21.80

Cost-to-continue items of significance include:

- **Salaries, Overtime and One-Time Expenditure Abatements.** For 2019, the forecast assumes that salary expenditures increase roughly 3.2 percent from 2018 forecasted expenditures, which includes a 1.0 percent cost of living adjustment mid-year. Due to a one-time expenditure abatement of 0.75 percent that was used to offset salary costs in 2018, the total year-over-year change is higher than it otherwise would have been without the one-time expenditure abatement. Therefore, roughly \$6.9 million will be needed to fund salaries and overtime at the forecasted level in 2019.
- **Employee Healthcare.** For 2018, the County is experiencing significant savings in healthcare costs. These savings and a lower anticipated growth in healthcare costs for 2018 and 2019 generate savings that is used to offset other changes in benefit costs in 2019, such as pharmaceutical costs. Pharmaceutical costs are growing at a much faster pace and are expected to grow at nearly 10 percent in 2018 and 2019. Overall within employee healthcare, there is no increase forecasted from the 2018 Adopted Budget to the 2019 forecasted budget, which is a forecasted savings of roughly \$7.5 million. Therefore, healthcare costs do not increase in 2019 but are forecasted to grow at an additional 7.5 percent each year thereafter.
- **Pension.** For 2019, the County's contribution to the pension system increases slightly due to higher than anticipated returns in 2017. In 2018, the County absorbed the increase in costs related to the first reduction in the pension system's assumed rate of return from 8.0 percent to 7.75 percent. The second drop occurs in 2020 and lowers the assumed rate of return from 7.75 percent to 7.50 percent. The rate of return was reduced to be consistent with financial projections and reflects a more reasonable rate of return for what can be expected.

Total forecasted pension-related expenses increase by \$1.3 million in 2019 mainly due to unexpected increases in the pension contribution to Froedtert Hospital for URMS employees.

- **Other Purchases of Services.** This category is general catchall for purchases made throughout the County in all departments, with a majority of purchases coming from health and human services. Assuming that these expenditures will increase by a minimum of 2.3 percent, or annual CPI, results in a \$3.8 million expenditure increase in 2019.
- **Other Professional Services, Services and Uses.** These accounts are used to track expenditures for professional services, services and uses not categorized elsewhere in the model. Assuming that these expenses will increase by a minimum of 2.3 percent, or annual CPI, results in a \$3.4 million expenditure increase in 2019.
- **Other State Reimbursements.** The reduction in state revenue in 2019 is largely due to a reduction in state funds of \$3.2 million that the County had previously used to support transit operations

that mitigated the Zoo Interchange reconstruction and another \$1.3 million that was recategorized as federal revenue.

- **Sales Tax Revenue.** Assuming that sales tax grows at a minimum of 2.3 percent, or annual CPI, results in a \$1.6 million revenue increase in 2019.
- **Other Revenue.** Due to the collection of unclaimed money in 2019, as well as an annual assumed growth rate of CPI or 2.3 percent, other revenue increases \$2.2 million in 2019.
- **Miscellaneous Other Revenue.** This is a general catchall for all other revenue received by the County, such as court revenues, real estate revenues, rental revenues, admission revenue, concession revenue and Potawatomi revenue. Most of these revenues are forecasted to grow at a minimum of CPI, or 2.3 percent in 2019 and beyond, resulting in \$3.6 million in additional revenue in 2019.
- **BHD Health Revenue.** For purposes of this forecast, it is assumed that the tax levy of BHD will be held flat and that any expenditure increases will be covered with additional BHD health revenue. This results in no impact to the County's bottom line for BHD expenditure increases.
- **Property Tax Levy.** The 2019 forecast assumes that the County will levy up to the net new construction which was 1.43 percent in 2018. This provides an additional \$4.1 million in revenue.

One-time revenue and expenditure abatement items of significance include:

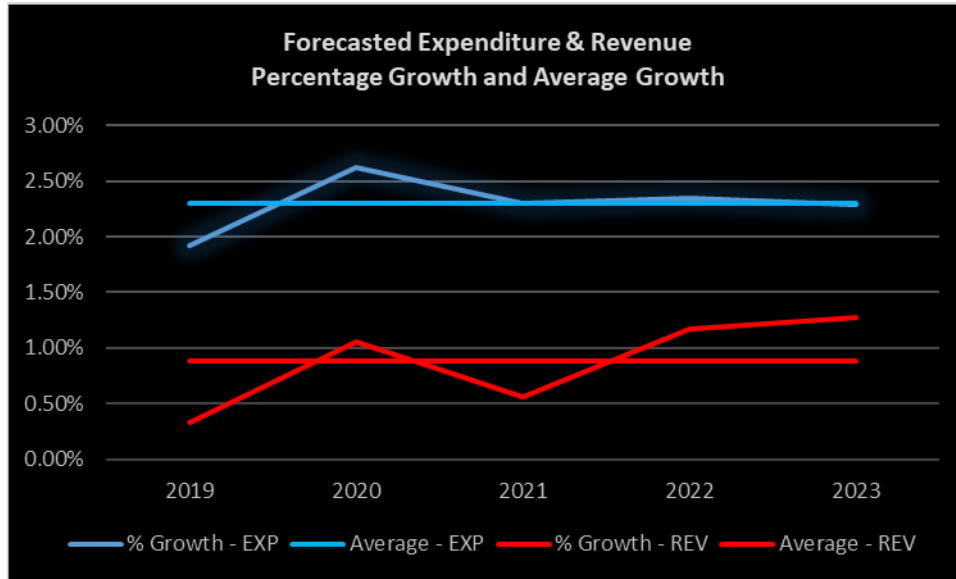
- **One-time Revenues.** The \$6.6 million miscellaneous revenue loss is from the elimination of one-time revenue appropriated in the 2018 Adopted Budget of \$6.6 million from the Debt Service Reserve.
- **One-time Expenditure Abatements.** The \$3.8 million expenditure abatement utilized in the 2018 Adopted Budget, as discussed above, increases the actual dollars needed to fund 2019 salaries and overtime.

THE FUTURE OF THE STRUCTURAL DEFICIT

When the model was first utilized after passage of the 2009 budget, expenditures were forecasted to grow by 6.1 percent annually while revenues would rise by only 3.7 percent annually. Expenditures are now forecasted to grow by an average of 2.3 percent annually, while revenues are forecasted to grow by an average of 0.9 percent annually.

Even with the fundamental changes the County has made to lessen the structural deficit, it continues to persist albeit at a much lower level than originally forecasted. Since expenditure growth is forecasted to

outpace revenue growth on annual basis, the County will continue to have a structural deficit each year in the forecast period absent any policy changes.



As discussed above, the previous model predicted that the County would have a structural deficit of only \$10.4 million for the 2019 fiscal year if the 2018 structural deficit of \$31.0 million was solved with long-term solutions. Due to the various factors affecting the 2019 budget, the model is now forecasting a \$16.8 million structural deficit for 2019. While this amount may seem daunting, if the County resolves this structural deficit with long-term solutions, in each of the following years, barring any unforeseen issues, the County could expect much smaller annual structural deficits comprised mainly of the County’s cost-to-continue. As shown below, the forecasted cost-to-continue ranges from \$10.4 million to \$16.8 million

Year	Expenditure	Revenue	Structural Deficit	Cost-to-Continue*
2018	\$ 1,056,556,396	\$ 1,056,556,396	\$ -	
2019	\$ 1,076,871,733	\$ 1,060,056,855	\$ (16,814,878)	\$ (16,814,878)
2020	\$ 1,105,079,570	\$ 1,071,217,035	\$ (33,862,535)	\$ (10,475,548)
2021	\$ 1,130,542,394	\$ 1,077,257,807	\$ (53,284,587)	\$ (10,366,194)
2022	\$ 1,157,052,901	\$ 1,089,885,022	\$ (67,167,879)	\$ (13,883,292)
2023	\$ 1,183,483,449	\$ 1,103,716,485	\$ (79,766,964)	\$ (12,599,085)
			Average Gap:	\$ (12,827,799)

*Cost-to-continue assumes that the prior year gap was eliminated with long-term solutions.
*For 2020, the increase in pension contribution of \$6.6 million is considered an outlier and removed from cost-to-continue.
*For 2021, the loss of \$9.0 million in Doyno Hospital revenue is considered an outlier and removed from cost-to-continue.

IMPACT OF THE COUNTY'S COST-TO-CONTINUE

One element of the annually recurring structural deficit is the County's cost-to-continue, that is the disproportion between annual revenue growth and annual expenditure growth. The County has controlled major expenditures related to salaries and healthcare, which have driven down the County's cost-to-continue. Other expenditures have been controlled through various service model changes and through historically low inflationary periods. With respect to revenues, the County has been severely limited in its ability to raise meaningful revenues due mostly to state restrictions. Furthermore, aside from the five-year forecast presentation, the County has only recently begun meaningful discourse on a long-term sustainable strategy to match revenue and expenditure growth, while also minimizing the impact of the current year structural deficit. It is important to note that this is not unique to Milwaukee County. Municipalities across the nation struggle to provide the same level of services under ever increasing costs and slow growing revenues. The following chart shows that even if the County adds a new, continuing \$16.8 million revenue source in 2019, the cost-to-continue remains a problem in future years. Furthermore, it shows that if the County adds a \$16.8 million revenue source in 2019 and increases its revenues by 1.0 percent to 1.88 percent, the cost-to-continue still is a problem, albeit at a lower amount.

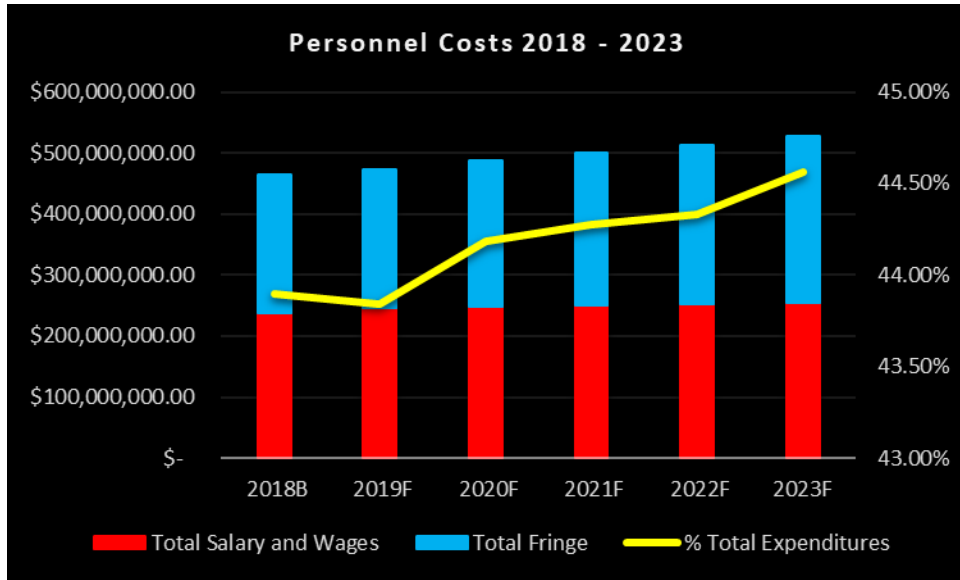
	Current - No Changes			Add \$16.8 M New Revenue			Add \$16.8M New Revenue & Increase Growth by 1.0%		
	0.88%	2.30%		0.88%	2.30%		1.88%	2.30%	
	Revenue (Millions)	Expenditure (Millions)	Cost-to-Continue	Revenue (Millions)	Expenditure (Millions)	Cost-to-Continue	Revenue (Millions)	Expenditure (Millions)	Cost-to-Continue
	0.88%	2.30%		0.88%	2.30%		1.88%	2.30%	
2019	1,060	1,077	\$ 16.8	1,077	1,077	0.0	1,077	1,077	0.0
2020	1,070	1,102	\$ 15.4	1,086	1,102	15.3	1,097	1,102	4.7
2021	1,079	1,127	\$ 15.9	1,096	1,127	15.8	1,118	1,127	4.7
2022	1,088	1,153	\$ 16.4	1,106	1,153	16.3	1,139	1,153	4.9
2023	1,098	1,180	\$ 16.9	1,115	1,180	16.8	1,160	1,180	5.1
2024	1,108	1,207	\$ 17.5	1,125	1,207	17.3	1,182	1,207	5.3
2025	1,117	1,234	\$ 18.0	1,135	1,234	17.9	1,204	1,234	5.5
2026	1,127	1,263	\$ 18.6	1,145	1,263	18.4	1,227	1,263	5.8
2027	1,137	1,292	\$ 19.1	1,155	1,292	19.0	1,250	1,292	6.0
2028	1,147	1,322	\$ 19.7	1,165	1,322	19.5	1,273	1,322	6.2

Expenditure Elements: Personnel costs comprise about 43.8 percent of the County's total expenditures in 2019, which is immaterially less than the previous model. The County's percentage of total expenditures for personnel-related expenditures grows only 0.72 percent over the forecast period, suggesting that the County, through its changes in the last several years, has continued to meaningfully restrain expenditure growth in this area. However, given the proportion of County expenditures that are personnel costs, these costs will inherently always be a factor in the County's cost-to-continue if the

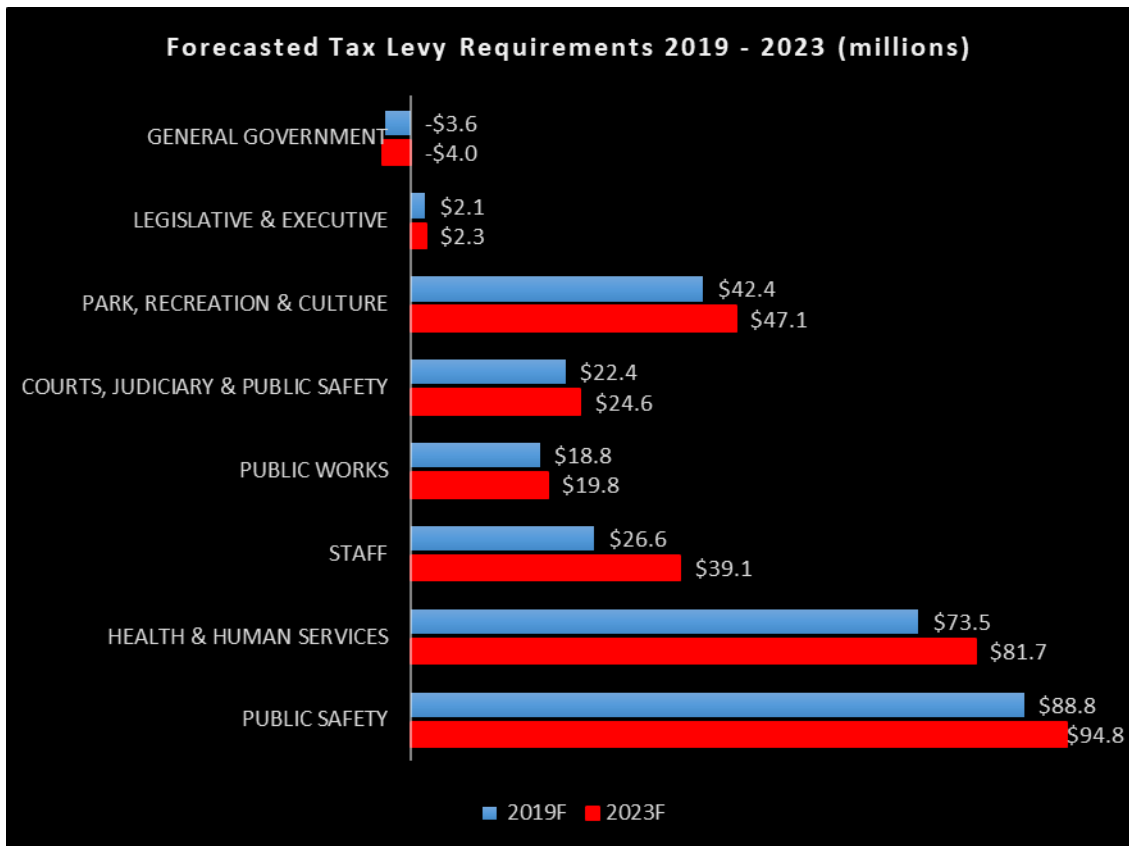
County is to remain a competitive employer in the marketplace by providing a competitive wages and benefits package.

Main expenditure items of significance include:

- Salaries and Wages, including overtime, are forecasted to grow by 3.7 percent over the five-year forecast period which is unchanged from the prior year forecast of 3.7 percent. For 2019, the expenditures for salaries and wages are expected to increase over 2018 forecasted amounts by approximately \$6.9 million. For the later years, salaries are forecasted to grow only at 1.0 percent due to historically low increases in actual salary costs the County has incurred.
- Fringe benefits, including pension and healthcare, will grow by 20.3 percent during the five-year forecast period. This is less than the five-year projections in 2015 and 2016 due to significant savings in healthcare being realized in 2018.
 - Due to a forecasted surplus in healthcare for 2018, the County's fringe budget can absorb 2019 cost increases without increasing the total budgeted amount in 2019. Assuming no additional changes to the current plan design or premiums, the County will not have to absorb additional healthcare costs for 2019. The forecasted growth in later years results in a 33.6 percent increase in costs from 2019 to 2023, which is unchanged from the previous year's projection.
 - In the prior model, pension costs were forecasted to rise 10.8 percent over the five-year period. That trend has slowed and is now forecasted to rise 7.4 percent over the five-year period. In 2020, the County will again grapple with a large increase due to the second change in the assumed rate of return from 7.75 percent to 7.50 percent. The rate of return was reduced to be consistent with financial projections and reflects a more reasonable rate of return for what can be expected. Any of the increases could be offset by investment returns that exceed 7.75 percent (or the assumed rate of return at the time) or other favorable changes in the actuarial estimate.



Generally, growth in expenditures continues to outpace the revenues that support County functions requiring greater tax levy contributions or cuts to program and services over time. The chart below shows the change in tax levy requirements for functional units over the five-year period.

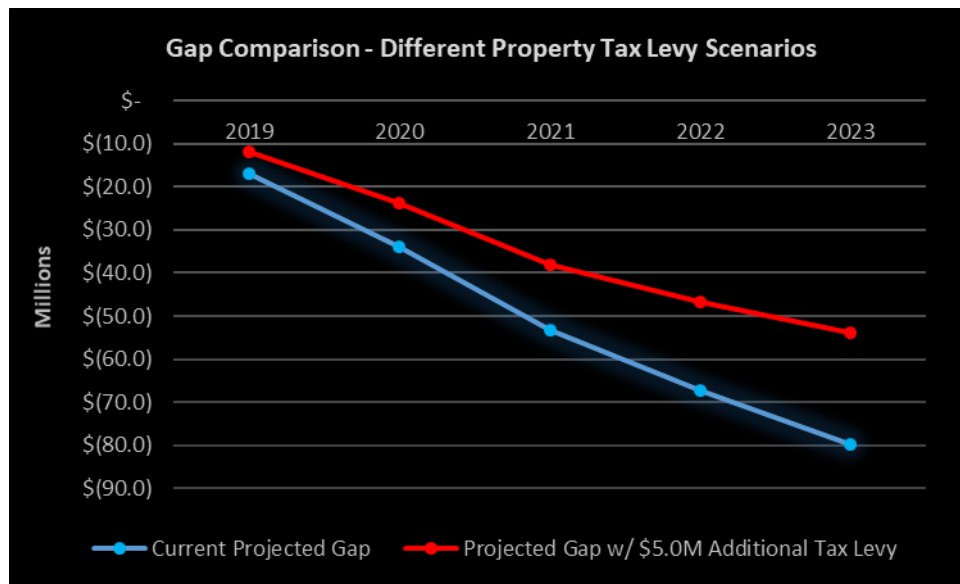


Inflationary Revenue Concerns: Over the forecast period, the County’s revenue growth is projected to average 0.9 percent, which is marginally higher than the previous model. Long-term, low growth rates are attributable to mostly flat revenue projections for State and Federal resources, as well as discretionary resources that are mostly forecasted to grow at the Consumer Price Index (CPI) over the forecast period.

In 2017, the County successfully grew its operational revenue base \$13.4 million due to implementation of the vehicle registration fee. However, given overall changes in other revenue sources, the County’s relative revenue growth rate has remained unchanged. Further hampering the County’s ability to increase its growth rate is the loss of a significant source of revenue when the Froedtert Hospital payment for the Doyne Hospital sale terminates in 2021.

The continuous, low growth rate suggests that even when the County grows its revenue base in a given year due to new revenue sources, it has little prospect for increasing those new revenues over time. Without larger increases in Federal and State funding, it will be difficult for the County to ease the cost-to-continue burden without larger increases in Federal and State funding.

The County operates under tax levy caps imposed by State Statutes. Generally, the County can raise levy by an amount equal to net new construction and by an amount equal to the growth in debt service issued after July 1, 2005. Because these two factors change on annual basis, it is difficult to determine what the potential tax levy available will be in the future. However, for illustrative purposes, the chart below shows how the structural deficit would change if an additional \$5.0 million were levied in each year of the forecast (assuming it were available under the levy cap). As the chart shows, the long-term structural deficit is even more favorable under these conditions. As opposed to a \$80.0 million structural deficit in 2023 (assuming no long-term solutions are implemented over the five-year forecast period), the structural deficit is less than \$54.0 million, a \$26.0 million difference in the County’s fiscal outlook.



IMPACT OF ONE-TIME REVENUES AND EXPENDITURE ABATEMENTS ON THE STRUCTURAL DEFICIT

Another element of the structural deficit is the use of one-time revenues and expenditure abatements in the prior year. In any given year where the County adopts a budget using one-time revenues or expenditure abatements to resolve the cost-to-continue gap, the following year's structural deficit will increase by the amount of one-time revenues and expenditure abatements. This deficit is then compounded over the forecast period, until it is resolved by means of a long-term solution.

The 2018 Budget utilized approximately \$10.4 million in one-time revenues and expenditure abatements to resolve the 2018 structural deficit. This \$10.4 million in one-time revenues and expenditure abatements as well as other unknown impacts are then added to the 2019 cost-to-continue component to arrive at the County's true structural deficit of \$16.8 million. Had the County implemented \$10.4 million in funding solutions that were sustainable, the forecasted structural deficit of \$16.8 million for 2019 would have been reduced to \$6.4 million.

Therefore, while the County is only projecting an average of \$12.8 million in cost-to-continue annually for the County, any unsolved portion of the 2019 structural deficit will increase the 2020 structural deficit by the same amount.

OTHER ISSUES IMPACTING THE COUNTY'S FISCAL OUTLOOK

Other issues exist which may have an impact on the structural deficit and County finances in the future. The fiscal outlook presented in this report does not include any assumptions relating to these issues.

- **Freezing the Levy:** Generally, the forecast carries forward current policies in its assumptions. With respect to the property tax levy, the County has both frozen and increased tax levy in recent years. This model assumes that property taxes will grow over the forecast period by approximately 1.4 percent; the amount is limited mainly due to limits within Wisconsin State Statutes. Holding the property tax levy flat over the forecast period would increase the deficit over the next five years and would result in the County having to collect an additional \$63.3 million in revenues from other sources or find non-service impacting expenditure reductions to continue to provide the same level of service over the forecast period. Similarly, not increasing the levy to the allowable amount under State law could result in worsened fiscal impacts in the future years as revenue growth is a factor in the County's annual cost-to-continue.
- **Future Biennial State Budgets:** The State will soon begin deliberations on its biennial budget for the 2019 – 2021 fiscal years. Although there has been minimal County impact for the past few years, future budgets could affect the long-term fiscal health of the County. For purposes of this report, it is assumed that all local aids will remain flat, including youth aids, State shared revenue (with the exception of the \$4.0 million reduction for Bucks arena funding), general transportation aids and others. Other issues of concern are the closure of Lincoln Hills and the possible return of administration of Child Welfare to the County.

- Vehicle Registration Fee:** In 2017, the County implemented a vehicle registration fee (VRF) of \$30 per vehicle. The 2017 revenue was budgeted for transit operations and capital purchases. There has been previous discourse that suggests that some State policymakers might advocate for terminating the County's vehicle registration fee or requiring a referendum to retain it which would likely lead to its dissolution. If the County were to lose this revenue, it would create a gap of approximately \$18.0 million in the County's budget. A gap of that magnitude coupled with the County's cost-to-continue scenario would likely lead to severe programmatic cuts and operational impacts throughout the County.
- Debt Service and Infrastructure Needs:** The County's debt service has declined from a high of \$885 million in 2010, which was due to the issuance of pension obligation bonds and the Build America Bond program, to \$607 million in 2017. Assuming the County adheres to its self-imposed bonding cap the projected outstanding debt is anticipated to decrease to \$480 million by 2023. Although the debt service has been declining, the County also faces significant infrastructure needs that outpace the County's current level of cash and debt financing for its capital assets. The County's Capital Improvements Committee has received requested five-year capital improvement plans from departments for 2019-2023 that total over \$745 million of County non-airport funding, which includes \$201 million for a new criminal courthouse. Without increases of funding for capital projects along with greater diligence by the County in the timely completion of capital projects or decreases in the size of the County's asset portfolio, the County will encounter growing future liabilities.
- Salary Compression and Limited Wage Growth.** The County's total salary dollars spent since 2015 has remained stagnant, suggesting that the County has not provided significant salary increases for employees beyond 1.0 percent cost of living adjustments. Furthermore, departments are indicating that they are struggling with salary compression as new employees are brought on at comparable salary levels to tenured employees that have been employed for several years. As the market changes and the County competes for qualified candidates, these salary issues will likely need to be addressed and may impact the County's future fiscal forecasts.
- Future Changes to the Behavioral Health Division:** The Behavioral Health Division, under direction of the Mental Health Board, is exploring options for the operations of its hospital. This could dramatically change how the division operates, as well as the County-related programs that support the division. The County charges the division approximately \$28.8 million for legacy health and pension and County-related services. About \$21.0 million of the \$28.8 million is directly related to legacy health and pension charged to the division for costs related to former employees. Depending on the changes implemented, the County may need to develop additional revenues or find expenditure reductions elsewhere to absorb some or all these costs if necessary in the future.
- Froedtert / Doyne Lease Payment.** In 2020, the County will receive its last full payment for its lease with Froedtert. The County anticipates receiving a partial payment in 2021, and no additional revenue

after that. This will result in a revenue reduction of approximately \$9.0 million that the County will need to absorb through new or enhanced revenue streams or expenditure reductions.

ABOUT THE MODEL

The five-year financial forecast for Milwaukee County provides a projection of the financial results for future budget years using the current budget year as a base, adjusted for known factors specific to Milwaukee County. The forecast uses the 2018 budget as the basis for the 2019-2023 projection. The 2018 budget expenditure base is then adjusted for inflation in most cases. For certain expenditures or revenues including wages, benefits and certain programs, inflationary increases are based on recent increases specific to Milwaukee County. The 2018 base is further adjusted for one-time events particular to 2018, or programs/ revenues/ expenditures which end in a future year.

This exercise provides a first look at the 2019 budget challenge for Milwaukee County, before any adjustments are proposed by the County Executive to prepare the recommended budget. The forecast provides a projection of the 2019 financial “gap” that the County would face if it were to budget a cost-to-continue budget.

CONCLUSION

A general conclusion reached this year, as in past years, is annual average inflationary cost increases associated with Milwaukee County, will not be offset by projected revenue increases. In other words, annual revenue increases for Milwaukee County cannot pay for projected cost increases specific to Milwaukee County. The County must then cut expenditures, increase revenues or a combination of both.

With the prospect of future year structural deficits averaging \$12.8 million, the projected 2019 structural deficit of \$16.8 million, albeit overwhelming, could be solved over multiple years by incrementally reducing its reliance on one-time budget fixes. This is only possible today because the County has accumulated a sizable reserve. Furthermore, if a new revenue source is implemented in 2019, depending on the resulting revenue, future year structural deficits can be mitigated by setting aside a portion of the revenues received rather than solving the current year gap only. This essentially buys the County additional time to make larger structural changes that can reduce expenditures, such as reducing infrastructure or programming.

Ultimately, the County will need to address the cost-to-continue issue, which has gotten little attention in past budgets. The continued disparity between the rate at which expenditures grow and the rate at which revenues grow will continue to generate annual budgetary issues for the County.

The County should be examining its service delivery models, one-time revenues, maintenance requirements and debt service requirements on a continual basis to find efficiencies and lower costs. But, the County’s long-term financial viability cannot be solved without the County Board and County Executive working together to find mutually agreeable resolutions to the long-term structural deficit.