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Introduction

The 2010 Fiscal Trends Analysis has been prepared by the Milwaukee County Department of Administrative Service, Fiscal Affairs Division, at the request of the Committee on Finance and Audit. This analysis is based on the International City/County Management Association's (ICMA) model of evaluating local government financial condition, called the Financial Trend Monitoring System (FTMS). The model is derived from *Evaluating Financial Condition: A Handbook for Local Government (2003).* This report does not contain all of the indicators recommended by the FTMS, either due to Milwaukee County's unique operating situation or due to lack of data. It also does not include all of the indicators provided in the 1990s version of this report due either to a change in the indicators recommended by ICMA or, in many cases, to lack of available long-term data. Alternatively it does contain some indicators not recommended by the ICMA based on past practice.

The goal of the fiscal trends analysis is to provide key contextual information about the County's financial condition that would be valuable to the policy-making process. Through the evaluation of fiscal indicators, this report provides citizens, elected officials, and management staff with a big picture perspective of the factors that determine the financial condition of Milwaukee County. This report captures available data for the last five years, Fiscal Year (FY) 2006 to FY 2010, unless otherwise noted. Please note this report does not attempt to compare the County's fiscal data against benchmarks or other counties nationwide – its purpose is to expose and examine economic and fiscal trends that have an impact on the County's financial condition.

Evaluating Financial Condition

According to the ICMA, *financial condition* refers to a government's ability to (1) maintain existing service levels, (2) withstand local and regional economic disruptions, and (3) meet the demands of natural growth, decline and change. *Financial condition* encompasses four types of solvency: cash, budgetary, long-run and service-level.

- Cash solvency refers to "a government's ability to pay its bills over the span of 30 to 60 days."
- Budgetary solvency refers to "a government's ability to generate enough revenues over its budgetary period to meet its expenditures and not incur deficits."
- Long-run solvency refers to a government's ability to balance long-term revenues and costs through sound financial decision-making.
- Service-level solvency refers to "a government's ability to provide services at the level and quality that are required for the health, safety, and welfare of the community and that its citizens desire."

Financial Trend Monitoring System

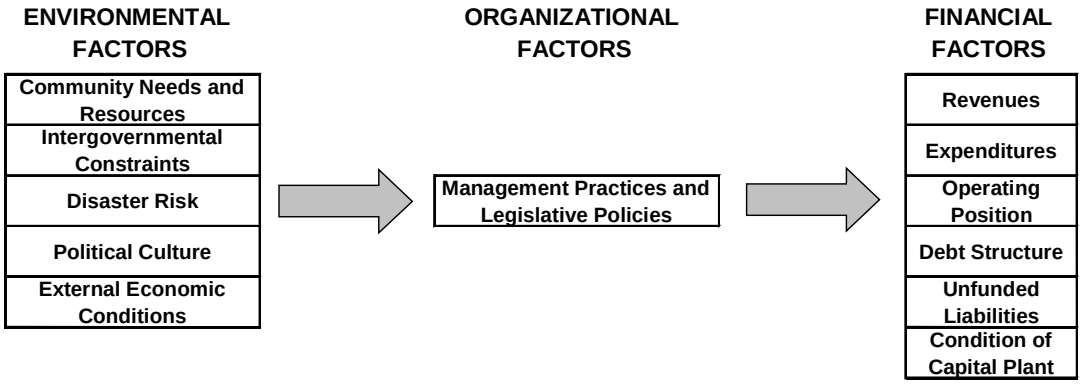
The FTMS systematically measures and analyzes the various interdependent factors that reflect financial condition. It is considered to be a management tool that pulls together information from a government's budgetary and financial reports, combines it with economic and demographic data, and creates a series of financial indicators that, when plotted over time, can be used to monitor changes in financial condition and alert the County to emerging problems. Although the

system cannot explain specifically why a problem is occurring, it does provide *flags* for identifying problems, *clues* about their causes, and *time* to take anticipatory action.

The FTMS will help citizens, policymakers and financial managers:

- Develop a better understanding of its financial condition
- Identify hidden and emerging problems before they reach serious proportions
- Present a straightforward picture of the County's financial strengths and weaknesses
- Introduce long-range considerations into the annual budgeting process
- Provide a starting point for setting financial policies

The three primary factors that affect financial condition are environmental, organizational, and financial factors. These interdependent factors are divided into twelve subcategories that represent causal relationships.



As indicated by the arrows on the figure, environmental factors create the organizational environment for management practices and legislative policies, which in turn determine financial factors. Taken together, the factors are a guide to organize the various issues that must be considered in evaluating financial condition. Indicators measure different aspects of the factors. The financial indicators are key to monitoring changes in financial condition. Whether a trend is positive, neutral or negative, it should be understood collectively with other indicators.

Milwaukee County's Financial Trend Monitoring System

For 2010, 24 indicators are evaluated for the most recent five consecutive years available. The five-year period for each indicator will be from FY 2006 to FY 2010, unless noted otherwise in the graphs. In each indicator, a description and analysis is presented in narrative form. Accompanying the text is a chart illustrating the related data. Also provided is a detail box that shows three items: Warning Trend, Trend Health, and Formula. Warning Trend indicates trend behavior that would result in a negative Trend Health; for instance, rising poverty or increasing fringe benefit costs. Trend Health for each indicator is described as positive, neutral, or negative. The Formula explains how the data is analyzed in order to provide the Trend Health.

With regard to Trend Health, the ratings are defined as follows:

Positive: When a trend is positive, it means the data shows that circumstances are beneficial to the County's financial condition. This can mean positive economic data, increasing flexibility of available resources, lower long-term costs or liabilities, or solid management of capital assets.

Negative: When a trend is negative, the data suggests a situation that has negative impacts on the County's financial condition. For instance rising poverty and unemployment will likely lead to higher costs as citizens utilize more services, but lower revenues due to less economic activity; an increasing unfunded liability in the pension system will require additional resources that could otherwise have been utilized for services or capital improvements, etc.

Neutral: When a trend is neutral, it means the data is inconclusive as to impact on the County's financial condition. This may occur when there is little change in the data or the trend has both risen and fallen without any clear direction during the five-year period.

The Comprehensive Annual Financial Report (CAFR) is the source for the majority of the financial and statistical data presented in this report. This includes audited financial statements and unaudited economic and statistical data. As for the indicators adjusted for inflation, the Consumer Price Index (CPI) as calculated by the U.S. Department of Commerce – Bureau of Labor Statistics, for the Milwaukee-Racine area is used. Other sources include the Census Bureau, the State of Wisconsin Department of Administration, the County's five-year forecast model (Municast), and the Pension Fund's Annual Report.

For quick reference, the following table provides an overview of the trend conclusions. Of the 25 indicators included in this analysis, 16 are negative, four are positive and five are neutral. It is important to remember that this reflects each trend's technical health score based on the ICMA's analysis tool; in many cases this health score as determined by the model needs to be considered in context of the County's unique situation and recent policy choices.

Community Needs and Resources

Indicator	2006-2010 Trend Health
Population	Positive
Personal Income per Capita	Negative
Poverty Rate	Negative
Equalized Valuation	Negative
Top Five Taxpayers	Negative
Unemployment Rate	Negative

Revenues

Indicator	2006-2010 Trend Health
Revenues per Capita	Negative
Intergovernmental Revenues	Positive
General County Property Tax Levy	Neutral
Uncollected Property Taxes	Neutral
Sales Tax Per Capita	Negative
State Shared Revenues	Neutral

Expenditures

Indicator	2006-2010 Trend Health
Expenditures per Capita	Neutral
Expenditures by Function	Neutral
Employees per Capita	Positive
Fringe Benefits	Negative

Operating Position

Indicator	2006-2010 Trend Health
Operating Deficit or Surplus	Negative
Liquidity	Positive

Debt Structure

Indicator	2006-2010 Trend Health
Current Liabilities	Negative
Long-Term Debt	Negative
Debt Service	Negative
Overlapping Debt	Negative

Unfunded Liabilities

Indicator	2006-2010 Trend Health
Pension Obligations	Negative
Pension Assets	Negative

Condition of Capital Plant

Indicator	2006-2010 Trend Health
Depreciation	Negative

Milwaukee County - Economic Environment Report, 2006-2010

Long-Term Economic Summary
The economic base of the Milwaukee metropolitan area, including Milwaukee County, is similar in many ways to that of other major cities in the upper Midwest such as Pittsburgh, Cleveland, and Detroit. Prior to the 1970s, the regional economy was based on heavy manufacturing. As the manufacturing sector has declined nationally, the region has struggled to transition to attract economic growth based on high-tech, light manufacturing and service-oriented industries.

As in most Midwestern cities, since the 1970s the urban core has seen a relative decline in economic output and corresponding job losses, while growth has occurred mainly in the surrounding suburbs. Poverty in the City of Milwaukee doubled from 11 percent in 1970 to 21 percent in 1990, and increased steadily to nearly 25 percent in 2008, the 7th highest in the nation of all cities with more than 250,000 residents. In comparison, the neighboring suburban counties have poverty rates of between 4 and 5 percent[1].

Economic Environment, 2006-2010
As in much of the country, the economy in Milwaukee County was marked by generally positive growth, low and stable unemployment, and rapidly rising property values until early 2008. At that point, due to the global economic downturn, the positive economic trends reversed significantly. These trends are easily identified in the Community Needs and Resources section.

Economic Forecast
The national economic outlook remains generally positive, but growth has been slow and has not benefitted all socioeconomic groups equally, as unemployment among college-educated workers remains far lower than among those without college degrees[2], and income inequality continues to grow[3]. According to the Metropolitan Milwaukee Association of Commerce (MMAC) tracking of local economic indicators, most trends continue to be positive, but uneven and uncertain[4]. Nationally, Gross Domestic Product (GDP) increased by 2.5 percent the third quarter of 2011, a significant improvement over the 1.3 percent increase in the second quarter[5]. There remains little consensus on the degree to which the national economy will recover in the short term, but some macro-level forecasts suggest a prolonged period of slow GDP growth in 2012 and 2013 that does not produce significant job growth[6]; with inflation remaining a long-term concern[7]. If

[1] Bill Glauber & Ben Poston, "City has Nation's 7th Highest Poverty Rate", *Milwaukee Journal Sentinel*, August 27, 2008
[2] "Pathways to Prosperity", Harvard Graduate School of Education, February 2011 (http://www.gse.harvard.edu/news_events/features/2011/Pathways_to_Prosperity_Feb2011.pdf)
[3] Organisation for Economic Cooperation and Development, "Growing Income Inequality in OECD Countries: What Drives it and how can Policy Tackle it?" Table 1, May 2011.
[4] BizTimes.com, "MMAC Economic Indicators are Murky", October 7, 2011 (http://www.biztimes.com/daily/2011/10/7/mmac-economic-indicators-are-murky)
[5] U.S. Department of Commerce, Bureau of Economic Analysis, October 27, 2011 Press Release
[6] The Conference Board 2012 Global Economic Outlook, November 2011 (http://www.conference-board.org/data/globaloutlook.cfm)
[7] "The Economist Poll of Forecasters, November Averages", *The Economist*, November 8, 2011 (http://www.economist.com/node/21536963)

the county's economic base can continue to diversify, and if the manufacturing sector plays a major role in a recovery, the county's economic outlook will greatly improve.

The County's five-year fiscal forecast incorporates many of these indicators and makes similar broad assumptions. For instance, real estate transaction fees and recording revenues in the Office of the Register of Deeds are projected to continue to decline sharply in 2012 before rising slowly. Other revenues, such as from recreation-based fees and investment income also continue to decline in 2012 and then grow slowly in the following years. Interest and penalties on delinquent property taxes however have increased sharply since 2008 and are forecasted to continue to climb steadily.

On the expenditure side, demand for social services such as child support, mental health programs, and human services can be expected to increase, putting further pressure on the County's overall fiscal position (see indicator Expenditures by Function). The Health and Human Services function for instance accounted for 54 percent of total County expenditures in 2010 and is forecast to require nearly 60 percent by 2020.

Recent budgets adopted by the County have taken these economic trends into account. Most of the revenue items noted above have been reduced to reflect the economic environment. Investment revenue has been reduced due to continued low interest rates, revenues in the Office of the Register of Deeds have been reduced to reflect the continued slump in the real estate market, and sales tax has been budgeted to increase only slightly.

Financial Pressures

In Wisconsin, counties provide a wide variety of services, many of which (especially health and human services) are mandated by the state government. The State of Wisconsin and federal government provide some financial support for these mandated services, however counties often must provide additional resources from the property tax, local option sales tax, and/or user fees. Financial support, in both constant and real dollars, from the State for most mandated services has declined in recent years (note the trend for Intergovernmental Revenues). This trend will be significantly increased in future versions of this analysis due to the reductions in state aids included in the State's 2011-13 biennial budget. As this support has declined, the County has been forced to replace these funds with property taxes and user fees, and to reduce service levels when alternative resources are not sufficient.

As in other units of government, personnel expenditures make up the largest cost in providing these services. Milwaukee County has unusually high personnel costs due generous pension benefits granted in 2001 (which were subsequently rescinded for new employees) and health care costs that are significantly above the regional average[8]. This trend continues even as significant reductions in fringe benefits for employees and retirees have been implemented in recent budgets. The Fringe Benefits indicator illustrates this issue, though its health should be expected to moderate in future versions, as many of the fringe benefit reductions were not actually implemented for the majority of the County's workforce until mid-2011. Therefore, as both this model and the County's five-year financial forecast (Municast) depict, the County is caught in a

[8] BizTimes.com, "Southeastern Wisconsin Health Care Costs Still Above Midwest Average", June 8 2011. (http://www.biztimes.com/daily/2011/6/8/southeastern-wisconsin-health-care-costs-still-above-midwest-average)

position where its largest expense, personnel costs, is increasing faster than its ability to find alternatives to falling intergovernmental support.

Community Needs and Resources

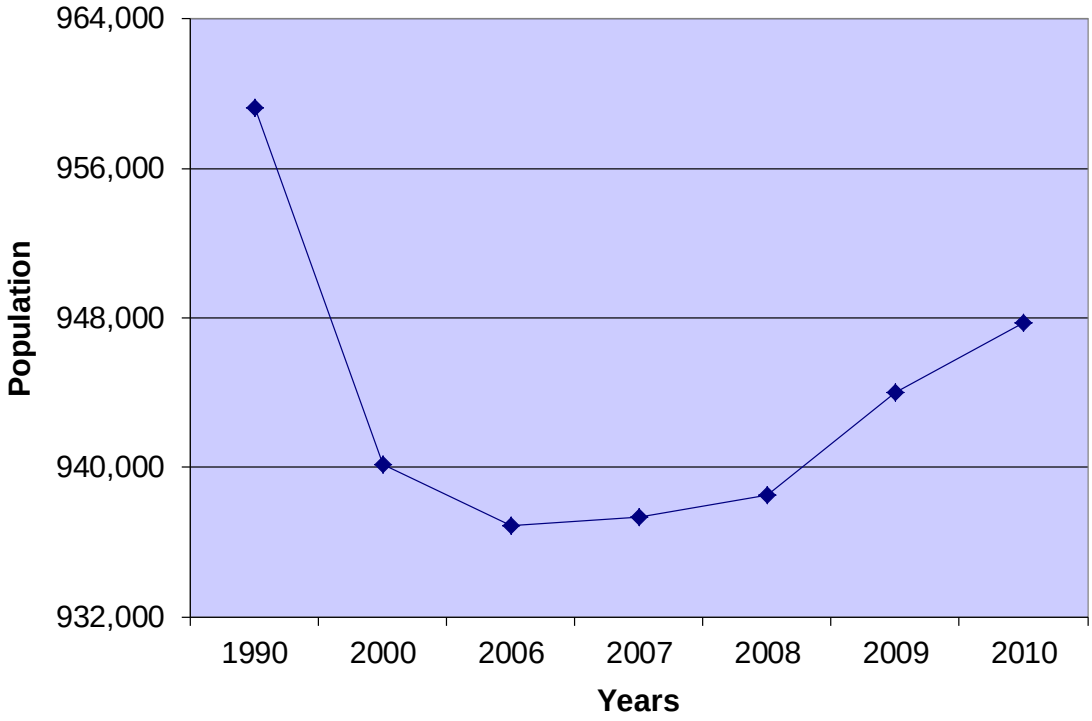
Community Needs and Resources encompass various economic and demographic characteristics including population, employment, personal income, property value, and business activity. Tax base determines a community's wealth and ability to generate revenue, while economic and demographic characteristics affect community demands, such as public safety, capital improvements, and social services.

Changes in community needs and resources are interrelated in a continuous, cumulative cycle of cause and effect. An example of this is the effect that declining populations would have on housing demands and values in housing markets, which in turn reduces property tax base. Community needs and resources are difficult to translate into indicators because the data is not readily available. The indicators detailed in this section represent only those for which data is reasonably available.

The Community Needs and Resources indicators are as follows:

- Population
- Personal Income per Capita
- Poverty Rate
- Equalized Valuation
- Top Five Taxpayers
- Unemployment Rate

POPULATION



WARNING TREND:
Rapid Change in Population

TREND HEALTH:
Positive

FORMULA:
Population

Description

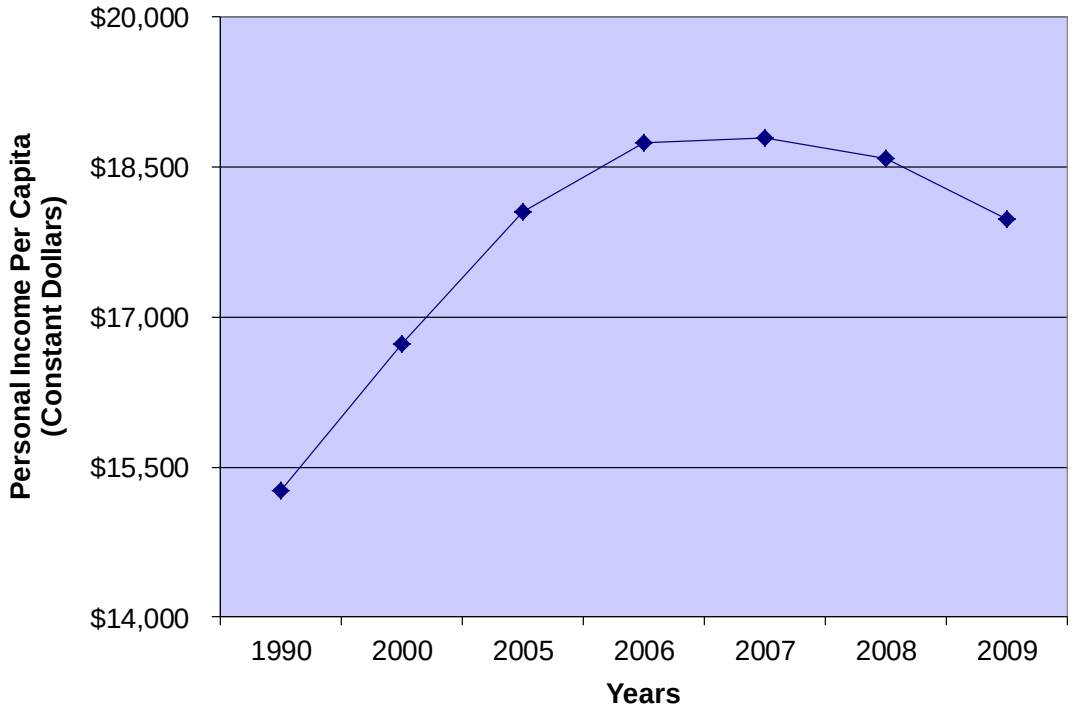
Population change can directly affect economic factors such as employment, income, housing and business activity, and in turn affect governmental revenues. The interrelationship between these factors tends to give population decline a cumulative negative effect on revenues, while a sudden increase in population can create immediate pressures for higher levels of service.

Census figures for Milwaukee County are included for the years 1990, 2000, and 2010. For other years, annual estimates of the County's population are made by the Wisconsin Department of Administration.

Analysis

The trend is considered positive because to the County's population has been stable over the most recent 5 and 10-year periods. Since the sharp population decline between 1990 and 2000, there has been a steady increase. The 2010 population count of 947,735 by the Census Bureau is an increase of 7,571 from the 2000 count. Population change over the past five years does not appear to be the cause of any significant changes in the service demands of Milwaukee County residents.

PERSONAL INCOME PER CAPITA



Description

Personal income per capita is one measure of a community's ability to pay taxes. Generally, the higher the per capita income, the more property tax, sales tax, and service fee revenue the community will generate. If income is evenly distributed, a higher per capita income will usually mean a lower dependency on government services. A decline in per capita income results in loss of consumer purchasing power and can provide advance notice that businesses, especially in the retail sector, will suffer a decline that can ripple through the rest of the County's economy. Bond rating agencies use per capita income as an important measure of the County's ability to repay debt.

WARNING TREND:
Decline in the level, or growth rate, of personal income per capita (constant dollars)

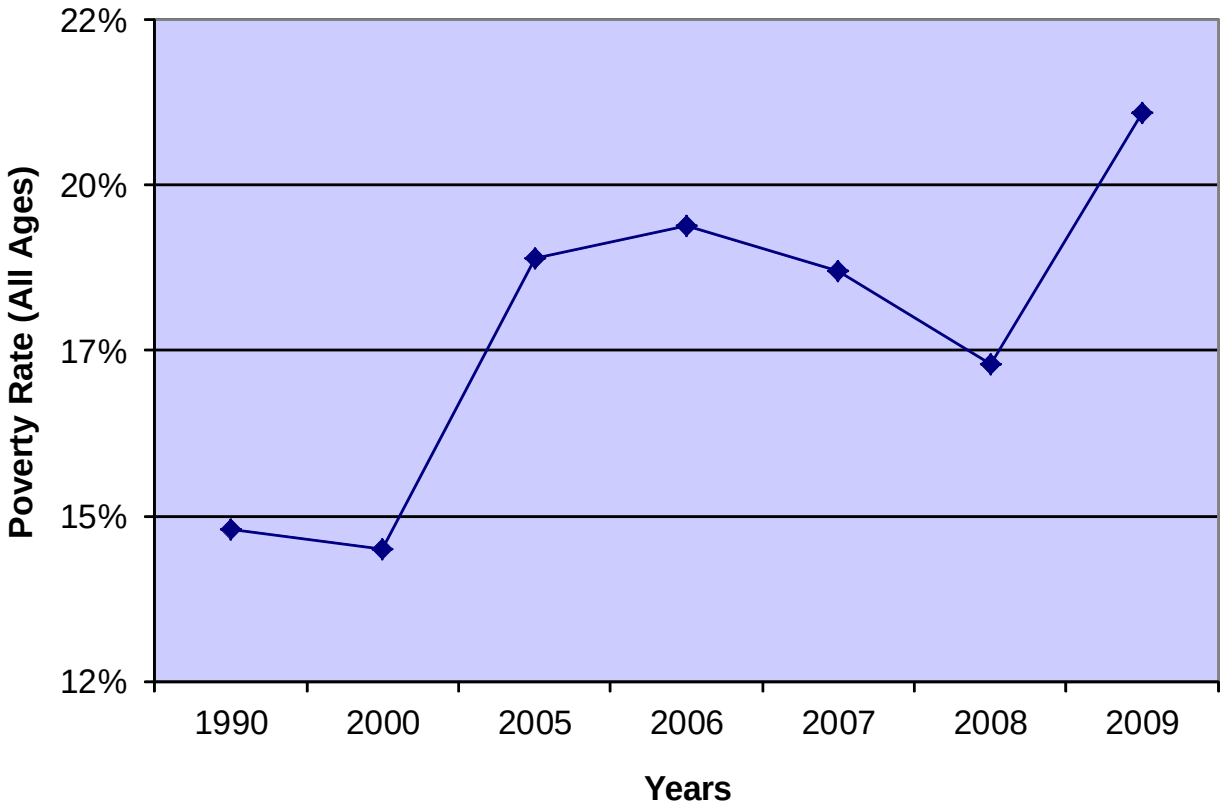
TREND HEALTH:
Negative

FORMULA:
Personal income (constant dollars) / Population

Analysis

The trend is negative due to the recent peak and decline from 2006 to 2009, which is mainly related to the global economic downturn. When measured in constant dollars, personal income per capita peaked at approximately $18,800 in 2006 and 2007 and then began to decline to $17,980, or 4.3 percent, by 2009. This indicates that Milwaukee residents have less disposable income available to purchase goods and services and pay taxes. In comparison, inflation-adjusted personal income per capita increased by $1,347 or 8.0 percent between 2000 and 2004.

POVERTY



Description
The percentage of the total population living below the federal poverty level is used to measure a community's standard of living, employment and income. In addition to measures of overall change in personal income, the poverty rate can signal a future increase in the level and unit cost of some services. This is due to the fact that low-income individuals have relatively higher needs and lack personal wealth. The data on poverty is from the Small Area Income and Poverty Estimates (SAIPE) of the U.S Census Bureau.

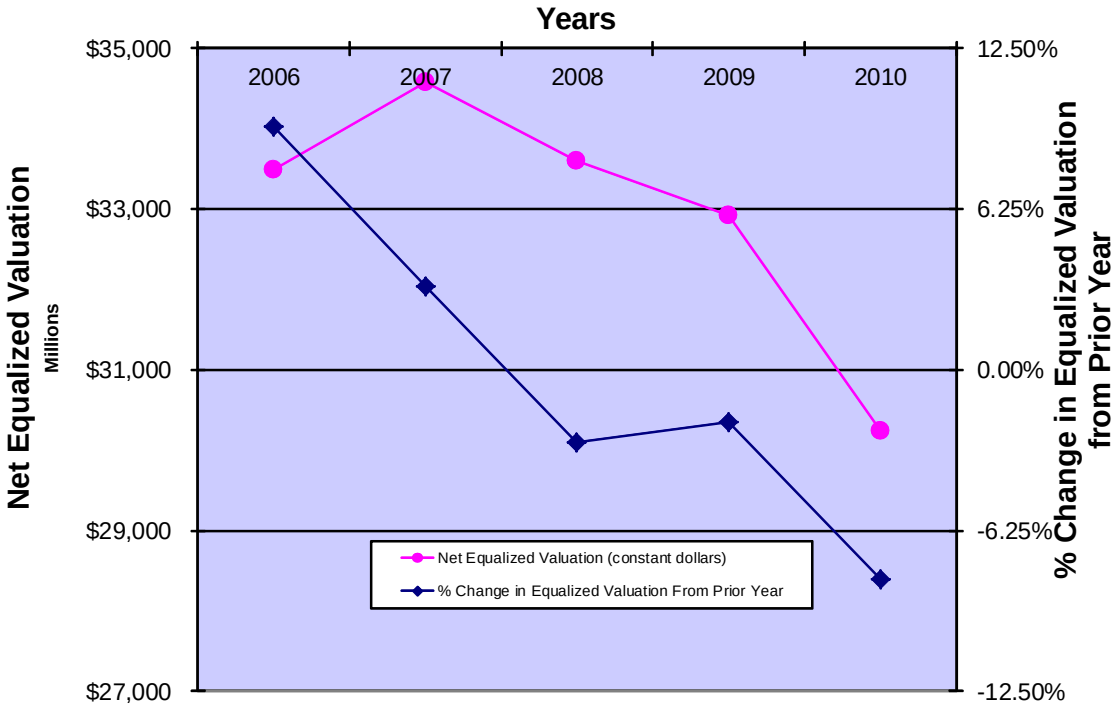
WARNING TREND:
Increasing poverty rate
(all ages)

TREND HEALTH:
Negative

FORMULA:
Total population / Individuals below federal poverty level
(all ages)

Analysis
Historically, Milwaukee's poverty rate has been relatively high compared to other large U.S cities. The poverty rate increased to 20 percent during the economic downturn of the early 2000s, then slowly declined to approximately 17 percent in 2008, and then rose sharply again due to the global economic downturn. The decrease in inflation-adjusted personal income shown in the previous indicator suggests the downturn has negatively affected members of every economic class within the County. As a result, the County's citizens contribute less to the tax base (especially sales tax) but likely require additional public services.

EQUALIZED VALUATION



Description

The Wisconsin Department of Revenue annually adjusts or equalizes the assessed values of all property subject to general property taxes to reflect true market value. Current real estate selling prices provide the basis for determining equalized valuation and are used to adjust overall assessed values. Changes in property value are important because the County depends on the property tax for a total of 31 percent (2010) of its general fund operating revenues. A decline in property value will also be a symptom of other, underlying problems.

WARNING TREND:
Declining growth or drop in equalized valuation (constant dollars)

TREND HEALTH:
Negative

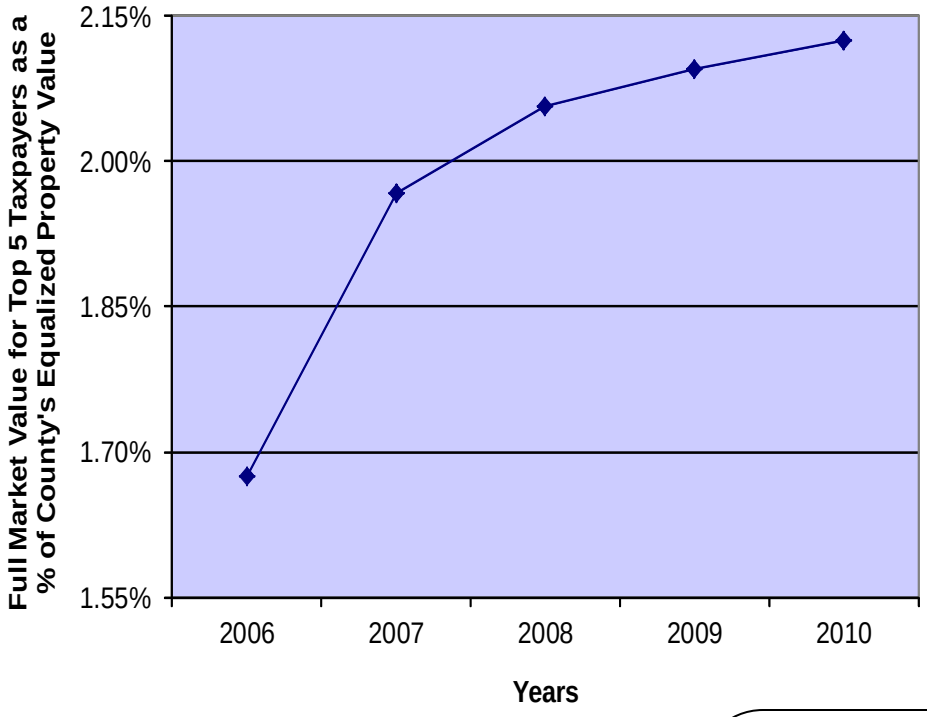
FORMULA:
Change in equalized valuation (constant dollars) / Equalized valuation in prior year (constant dollars)

Analysis

Between 2004 and 2007, the net equalized valuation increased by an average of 7.5 percent annually. Since 2008 however, inflation-adjusted net equalized valuation has declined by an average of 4.3 percent annually and is now roughly at the 2005 level. This decline has been the result of the global economic downturn and contraction of the real estate market that began in 2008. The continued decline in net equalized values suggests the real estate market may not have yet reached its trough. Declining net equalized values will result in increased property tax rates, since levy will be spread over reduced values. This decline also has a negative impact on the local economy and on sales tax and other revenues, as recent studies suggest consumers will curtail purchases as they perceive a decline in the value of their assets[9].

[9] Applebaum, Binyamin "Gloom Grips Consumers, and It May Be Home Prices", *New York Times*, October 18, 2011

TOP FIVE TAXPAYERS



WARNING TREND:
High % or increasing % of overall equalized property value owned by a few taxpayers

TREND HEALTH:
Negative

FORMULA:
Full market value for top 5 taxpayers / County's equalized property value

Description

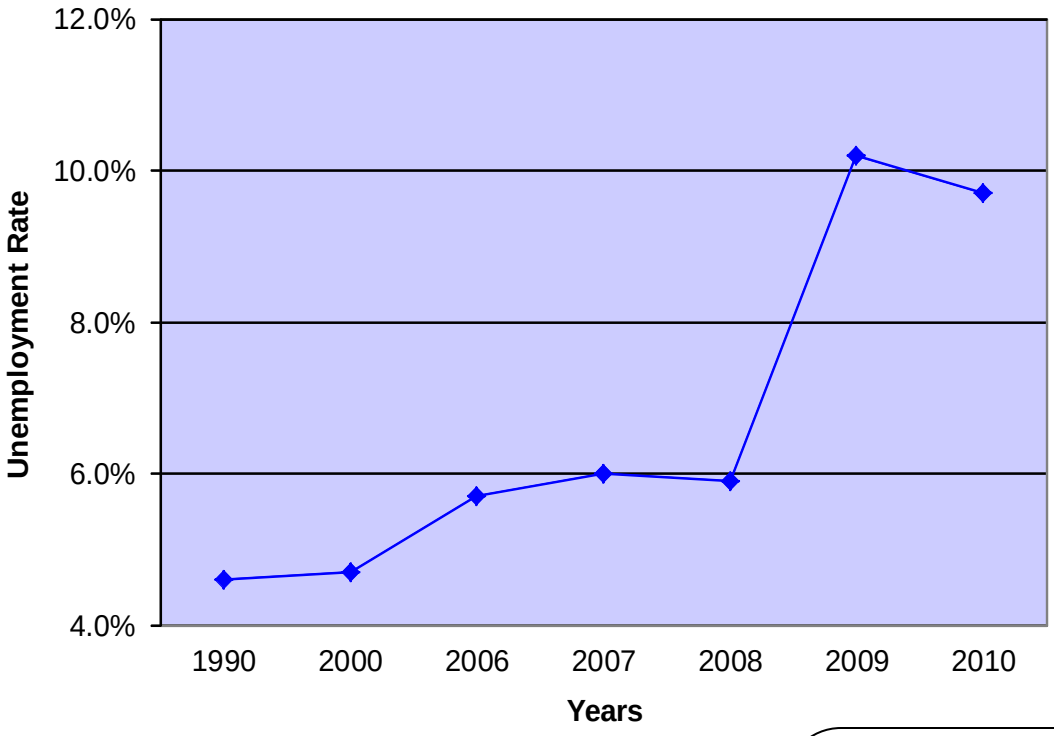
This indicator measures the concentration of property values in the County and helps to analyze the vulnerability of the economic base to the fortunes of a few taxpayers. Bond rating agencies use this indicator to determine the degree of concentration. If the County relies heavily on a few taxpayers for property taxes, it is vulnerable to any changes in these taxpayers' assessments. According to the ICMA it is cause for concern if the top five taxpayers hold more than 5 percent of the County's equalized property value.

Analysis

The combined value of the top five valued properties is far below the five percent threshold. However, the five-year trend is negative due to their increasing share of market value. The increasing rate suggests other residents' and businesses' real estate has declined much farther in value relative to these properties. As of December 31, 2010, the top 5 taxpayers include:

1. Bayshore Town Center, LLC
2. Northwestern Mutual Life Insurance Co.
3. Mayfair Property Inc
4. US Bank Corporation
5. Bre Southridge Mall LLC

UNEMPLOYMENT RATE



Description
Changes in the rate of employment of the community's citizens are related to changes in personal income, and are a measure of the health of the local business sector. A decline in employment base, as measured by unemployment and number of jobs available, can be an early warning signal that overall economic activity and County revenues may be declining. A stable or growing employment base indicates a healthy local economy.

WARNING TREND:
Increasing rate of local unemployment

TREND HEALTH:
Negative

FORMULA:
Local unemployment rate

Analysis
The trend is negative due to the continued elevated rate caused by the global economic downturn. Over the long term, unemployment has remained higher than before the downturn of the 2000s, and spiked in 2009. A slight decline in 2010 is positive news but could be caused by more individuals dropping out of the labor market altogether. This measure must be closely monitored as the national recession comes to an end to determine if local employment rates are returning to pre-recessionary levels.

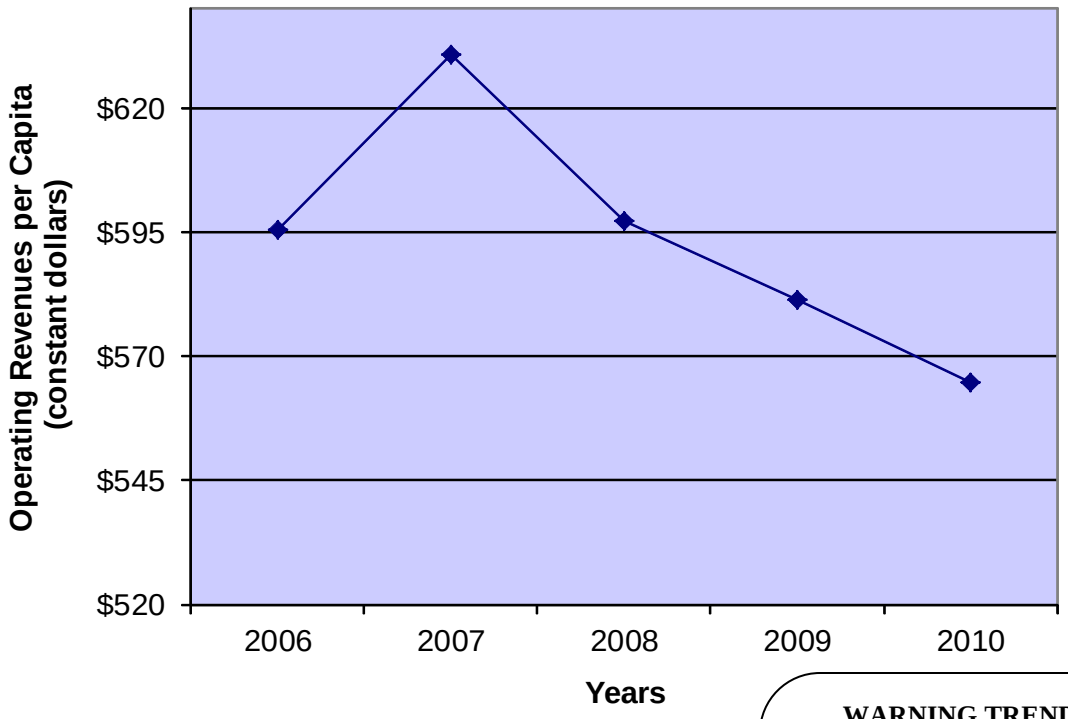
Revenue

Revenue determines the capacity of the County to provide services. Important issues to consider with respect to revenue are economic growth, diversity, reliability, flexibility, and administration. Under ideal conditions, revenue should be growing at a rate equal to or greater than the combined effects of inflation and expenditures. Revenue should be sufficiently unrestricted to allow for necessary adjustments to changing conditions. Revenue should be balanced between elastic and inelastic sources with respect to economic base and inflation. Some revenue sources should grow with the economic base and inflation, while others should remain relatively constant. Revenue sources should be diversified so as not to be overly dependent on residential, commercial, or industrial land uses, or external funding sources such as Federal grants or discretionary State aid.

The Revenue indicators are as follows:

- Operating Revenues per Capita
- Intergovernmental Revenues
- General County Property Tax Levy
- Uncollected Property Taxes
- Sales Tax Per Capita
- State Shared Revenue
- User Fee Coverage

OPERATING REVENUES PER CAPITA



WARNING TREND:
Decreasing general fund operating revenues per capita (constant dollars)

TREND HEALTH:
Negative

FORMULA:
General fund operating revenues

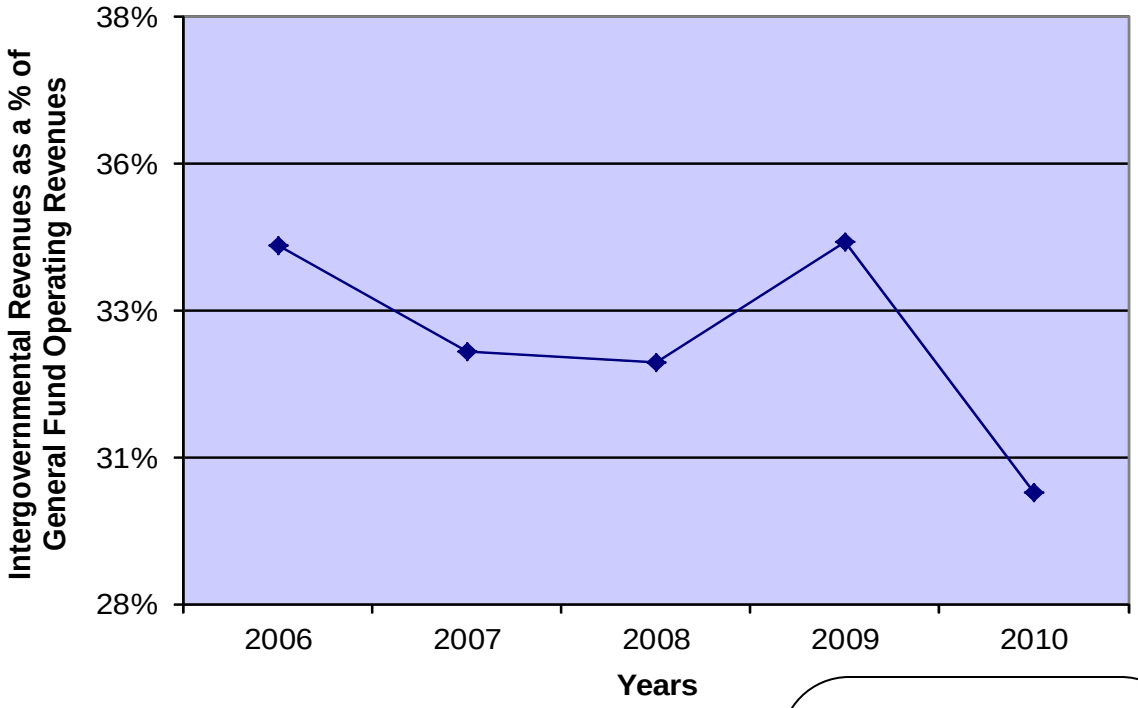
Description

Per capita revenues show changes in revenues relative to change in population size. Operating revenues for this indicator consist of two fund types: governmental and enterprise. This analysis is limited to governmental funds in accordance with generally accepted accounting principles (GAAP). As population increases, it may be expected that the need for services would increase proportionately and, therefore, the level of per capita revenue should remain relatively constant in real terms. If per capita revenue is decreasing, it would be expected that the County would be unable to maintain existing service levels unless it finds new revenue sources or efficiency savings. This analysis assumes that the cost of services correlates to population size.

Analysis

The trend is negative due to three consecutive years of decline in this ratio. The decline is mainly related to a significant decrease in intergovernmental support (9.5 percent decrease since 2007) and sales taxes due to the economic downturn. As a result, the County has fewer resources with which to fund discretionary services, capital investments, labor costs and services for those most affected by the downturn itself.

INTERGOVERNMENTAL REVENUES



WARNING TREND:
Increasing amount of intergovernmental revenues as a % of general fund operating revenues

TREND HEALTH:
Positive

FORMULA:
Intergovernmental revenues / General fund operating revenues

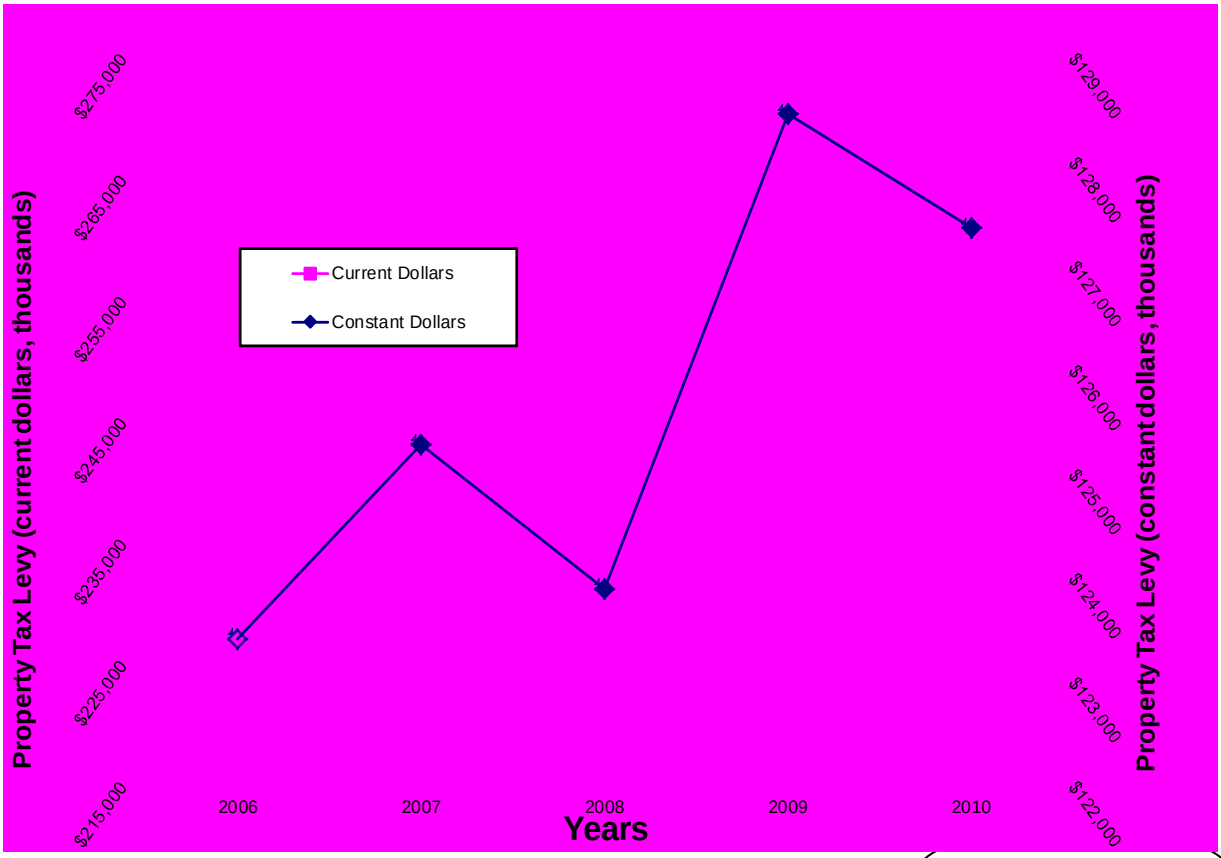
Description

Intergovernmental revenues are received from other governmental entities and normally have profound impacts on the County's budget. Local governments with budgets largely supported by intergovernmental revenues are vulnerable to revenue reductions over which they have no control and are left with the dilemma of cutting programs or funding them from general fund revenues. An overdependence on intergovernmental revenues can also have an adverse impact on financial condition due to restrictions or stipulations that the other governmental entity attaches to the revenue. Intergovernmental revenues are analyzed in order to monitor the County's vulnerability to reductions of such revenues.

Analysis

This trend is technically positive, however the decline is mainly related to continued reductions in state and federal assistance, not necessarily due to increases in other, more flexible revenue streams. This is an important distinction because of the nature of the County's reliance on state and federal aids to perform mandated services such as mental health. The negative rating for the Operating Revenues Per Capita indicator suggests services are being reduced as a result of shrinking intergovernmental revenues, since other forms of revenue are not making up the difference. The large reductions in State aids contained in the 2011-13 State Biennial Budget will also have a significant impact on this and other indicators in future years.

GENERAL COUNTY PROPERTY TAX LEVY



Description

Property tax is an important revenue source to consider when evaluating financial condition. Property tax revenue represents the County's largest discretionary revenue source and is used for general purposes. Therefore, it is important to consider whether tax levy is rising sufficiently to keep pace with base operating costs, in this case represented by the Consumer Price Index (CPI).

WARNING TREND: Decreasing or negative growth in property tax revenues (constant dollars)

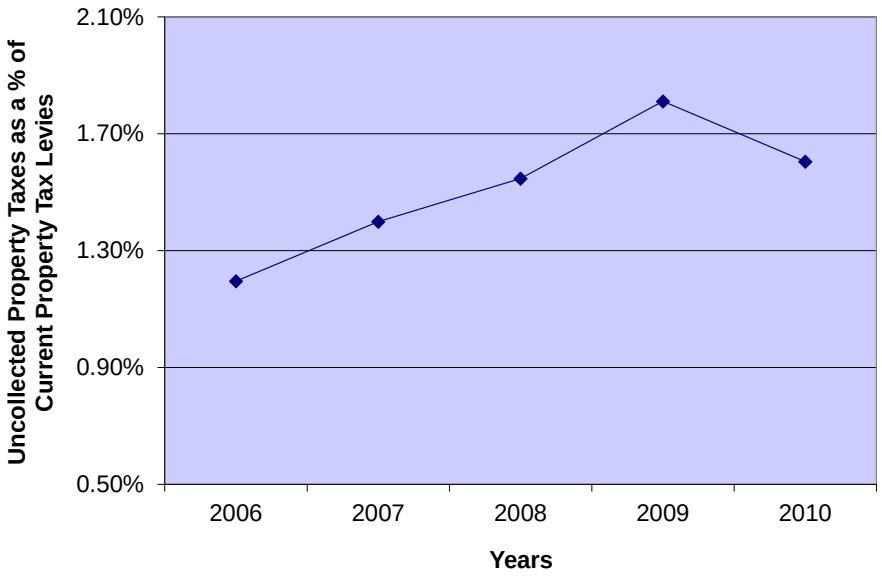
TREND HEALTH: Neutral

FORMULA: Property Tax Levy (constant dollars)

Analysis

The property tax levy in current dollars has been increasing at stable rate of 3.2 percent annually, slightly higher than the 2.5 percent annual increase in the CPI. When adjusted for inflation, property tax has risen by an average of 0.6 percent annually over the five-year period, barely enough to keep pace with rising costs of goods, services and labor.

UNCOLLECTED PROPERTY TAXES



Description

Municipalities initially collect all property taxes including County, sewerage district and school taxes. The County purchases all delinquent taxes from its municipalities, except the City of Milwaukee, and assumes the collection responsibility. A percentage of property taxes are not collected for potential reasons such as the inability of property owners to pay and/or inadequate collections methods of local governments. If this percentage increases over time, it may indicate overall decline in the community's ability to pay for local government services.

WARNING TREND:
Increasing amount of uncollected property taxes as a % of current property tax levies

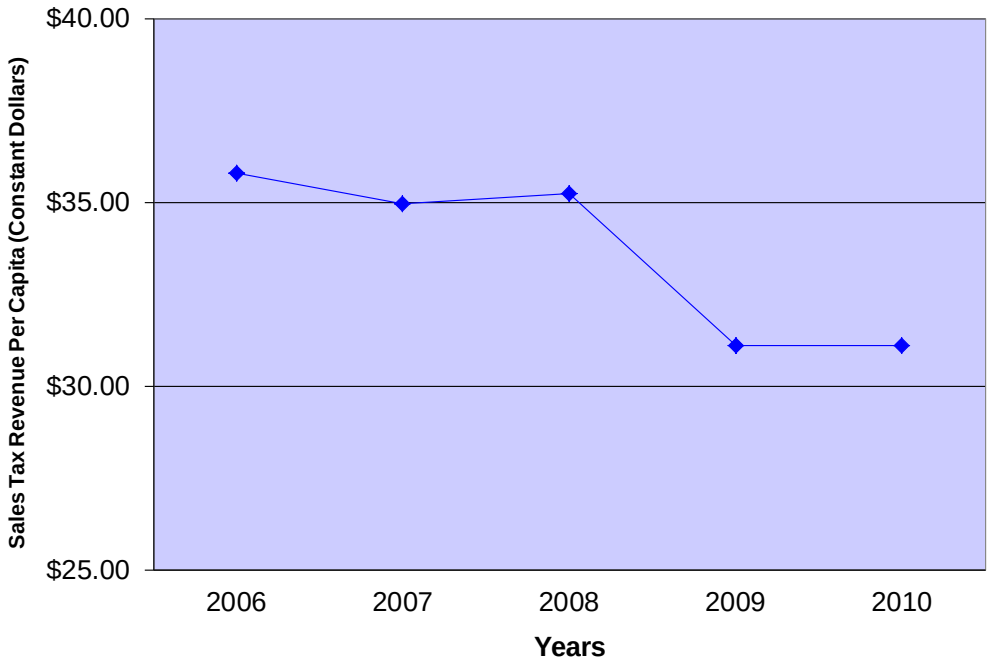
TREND HEALTH:
Neutral

FORMULA:
Uncollected property taxes / Current property tax levies

Analysis

After increasing for five consecutive years from 0.88 percent in 2004 to 1.81 percent in 2009, the percentage of uncollected property taxes turned over by municipalities declined in 2010 to 1.6 percent, resulting in a neutral rating. The decline could suggest that the number of property owners affected by the downturn has peaked, with most troubled owners having already fallen into delinquency on their property taxes. The County Treasurer also reports that banks are increasingly paying the property taxes on properties on which they have foreclosed.

SALES TAX PER CAPITA



Description

This indicator is provided in this analysis because it was included in the past version of the Milwaukee County Fiscal Trends; it is not included in the updated ICMA FTMS tool.

WARNING TREND:
Decreasing sales tax revenues per capita

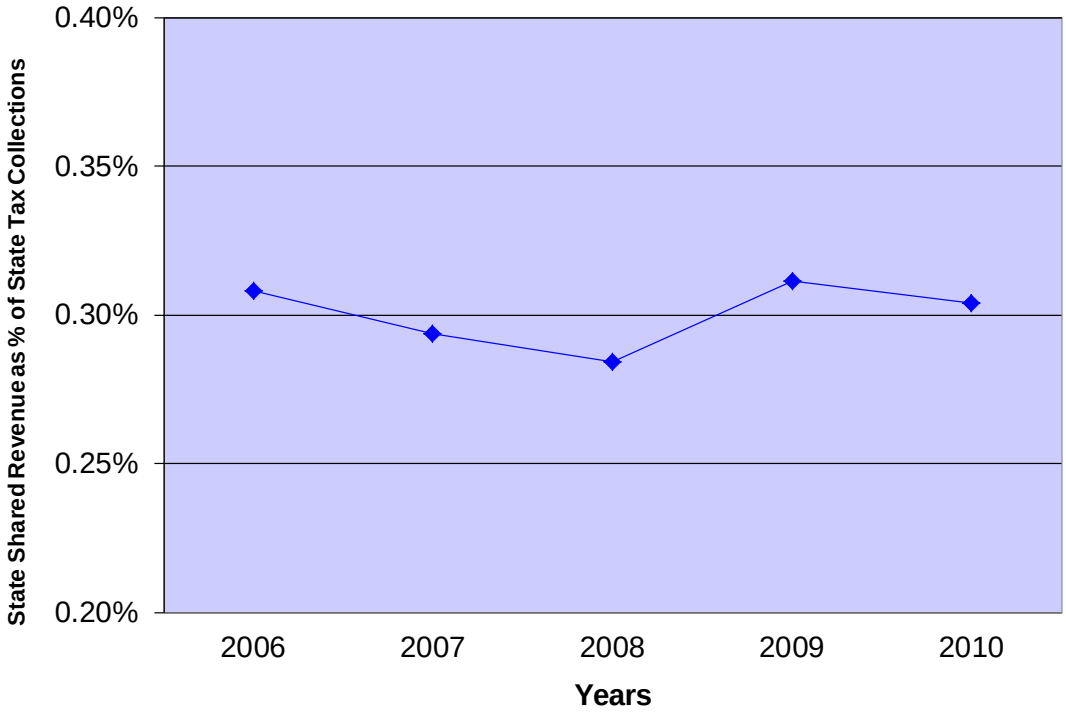
TREND HEALTH:
Negative

FORMULA:
Inflation-adjusted sales tax revenues/Population

Analysis

The trend for this indicator was relatively stable between 2004 and 2008, when the County received between $35 and $36 in sales tax revenues per person (adjusted for inflation). However, the global economic downturn in 2008 led to a significant reduction in revenues, as can be expected based on previous indicators such as unemployment rate, personal income and poverty. This trend is also reflected in the operating revenues per capita indicator and contributes to its negative trend. After declining significantly in 2009, sales tax collections appear to have held steady in 2010, suggesting the trend health for this indicator could improve in the short term if the economy continues to grow.

STATE SHARED REVENUE



Description

This indicator is provided in this analysis because it was included in the past version of the Milwaukee County Fiscal Trends; it is not included in the updated ICMA FTMS tool.

WARNING TREND: Decreasing State Shared Revenues as % of Total State Taxes (General Fund)

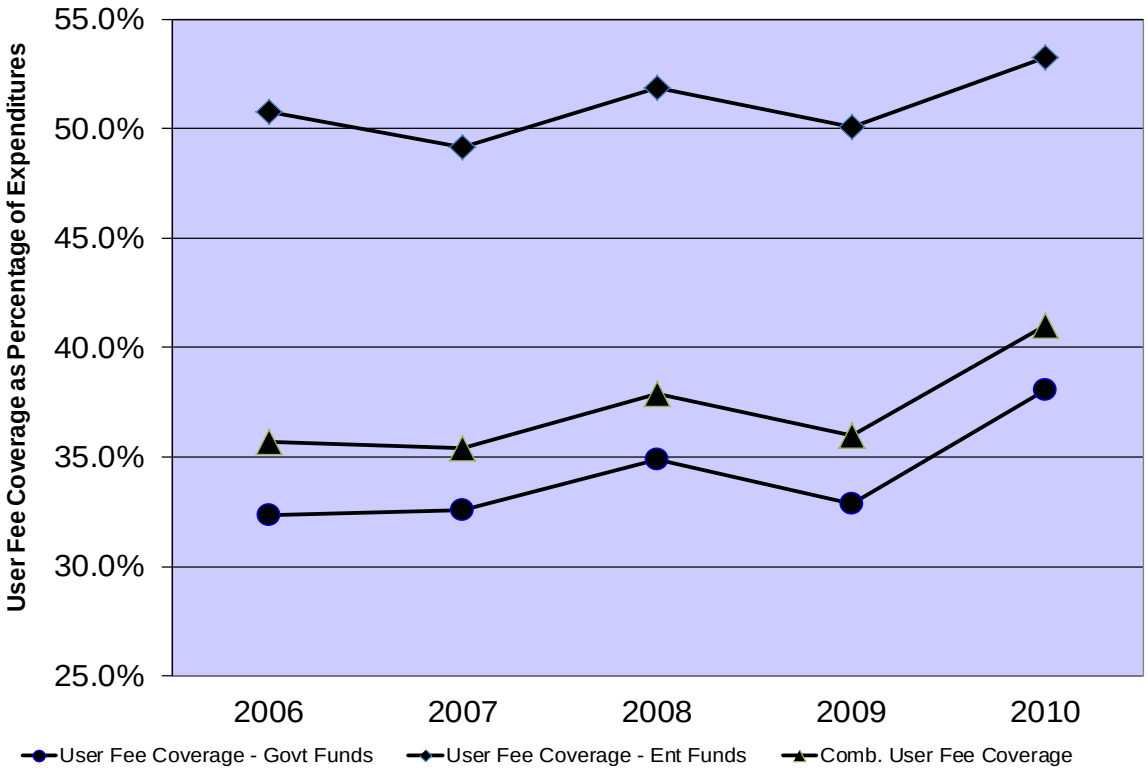
TREND HEALTH: Neutral

FORMULA: State Shared Revenues received/State General Fund Tax Collections

Analysis

The trend for this indicator was relatively stable during the five year period, averaging approximately 0.30 percent of total State general fund taxes. This stability is likely due to increases in the utility portion received by the County and reduced tax collections by the State due to the economic downturn. However, it should be noted that in the previous version of this analysis from the late 1990s, the County received Shared Revenue payments averaging 0.63 percent of total State general fund tax collections from 1993 through 1997, more than twice the average of the past five years (illustrated by the fact that State Shared revenue payments were $51.1 million in 1996 vs. $37 million in 2010). Further, due to the significant cuts in State Shared Revenue included in the State's 2011-2013 Biennial Budget, the health of this trend is likely to decline.

USER FEE COVERAGE



Description
This indicator is provided in this analysis because it was included in the past version of the Milwaukee County Fiscal Trends; it is not included in the updated ICMA FTMS tool.

WARNING TREND:
Increasing or decreasing share of User Fee Revenues as Percentage of Total Expenditures

TREND HEALTH:
Neutral

FORMULA:
User Fee Revenues/Total Expenditures

Analysis
The trend for this indicator was relatively stable during the five year period, with user fee revenue averaging approximately 37 percent of total expenditures. User fees are charged to users of County services, such as rental charges, fees for copies or forms, or copayments for medical services. A rising percentage can be of concern if the prices charged for services become unaffordable to taxpayers. For governmental funds, this trend is negative.

Alternatively, since enterprise fund operations generally cover their expenditures with non-tax levy revenue sources, a rising percentage could be considered a positive development; though again affordability of the service needs to be considered. For enterprise funds, this trend could be considered positive.

Expenditures

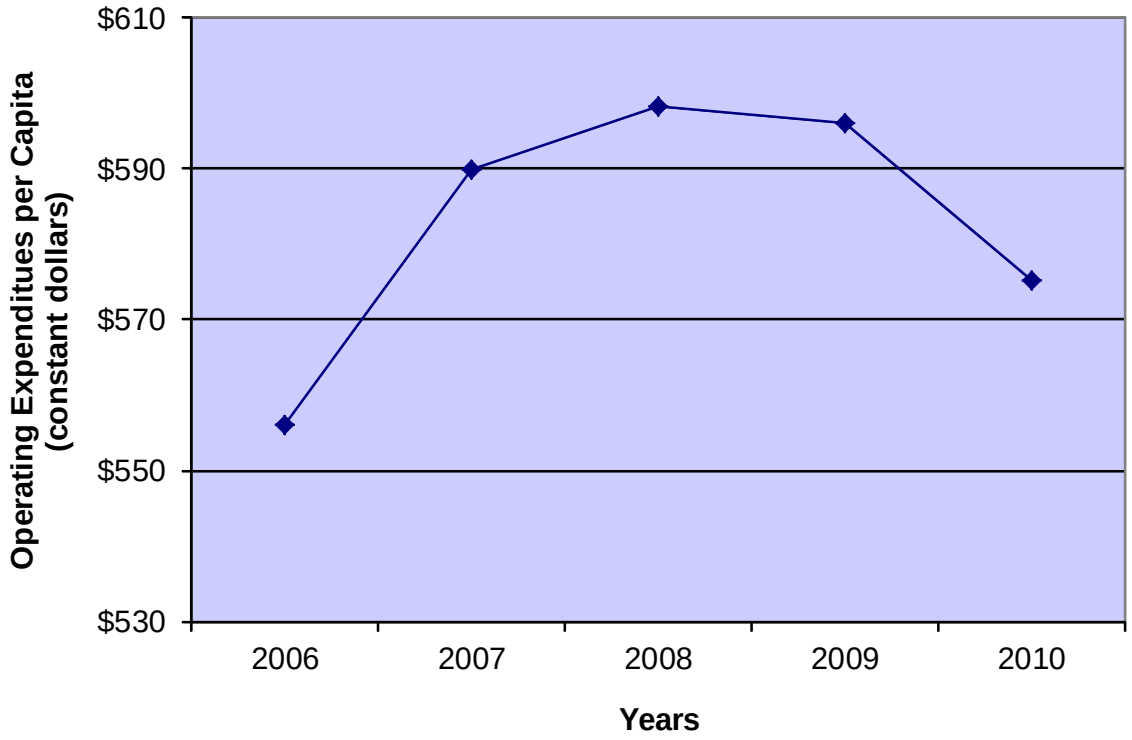
The first issue to consider is the expenditure growth rate to determine whether the County is operating within its revenues. Milwaukee County is required by State Statute to have a balanced budget. Nevertheless, the County could potentially balance its annual budget yet create a long-run imbalance in which expenditure outlays and commitments grow faster than revenues. Some of the more common ways in which this type of imbalance occurs are to use bond proceeds for operations, use reserves, and defer maintenance on streets, buildings, or other capital stock, or by deferring funding of future liabilities. In each of these cases, the annual budget remains balanced, but the long-run budget develops a deficit.

A second issue to consider is expenditure flexibility, which is a measure of the County's freedom to adjust its service levels to changing conditions, and considers the level of mandatory and fixed costs. Ideally, the County will have an expenditure growth rate that does not exceed its revenue growth rate, creating maximum flexibility to adjust spending. An increase in mandatory costs such as debt service, matching requirements, pension fund contribution, and state and Federal mandates will find the County less able to make adjustments.

The Expenditure indicators are as follows:

- Operating Expenditures per Capita
- Expenditures by Function
- Employees per Capita
- Fringe Benefits

OPERATING EXPENDITURES PER CAPITA



Description

Per capita expenditures reflect changes in expenditures relative to changes in population. Increasing per capita expenditures may indicate that the cost of providing services is outstripping the community's ability to pay, especially if spending is increasing faster than the County's tax base. If the increase in spending is greater than would be expected from inflation or the addition of new services, it can be an indicator of declining productivity. Any combination of the above variables would have the same overall effect. Operating expenditures for this indicator consist of two fund types: governmental and enterprise. This analysis is limited to governmental funds in accordance with generally accepted accounting principles (GAAP).

WARNING TREND:
Increasing operating expenditures per capita (constant dollars)

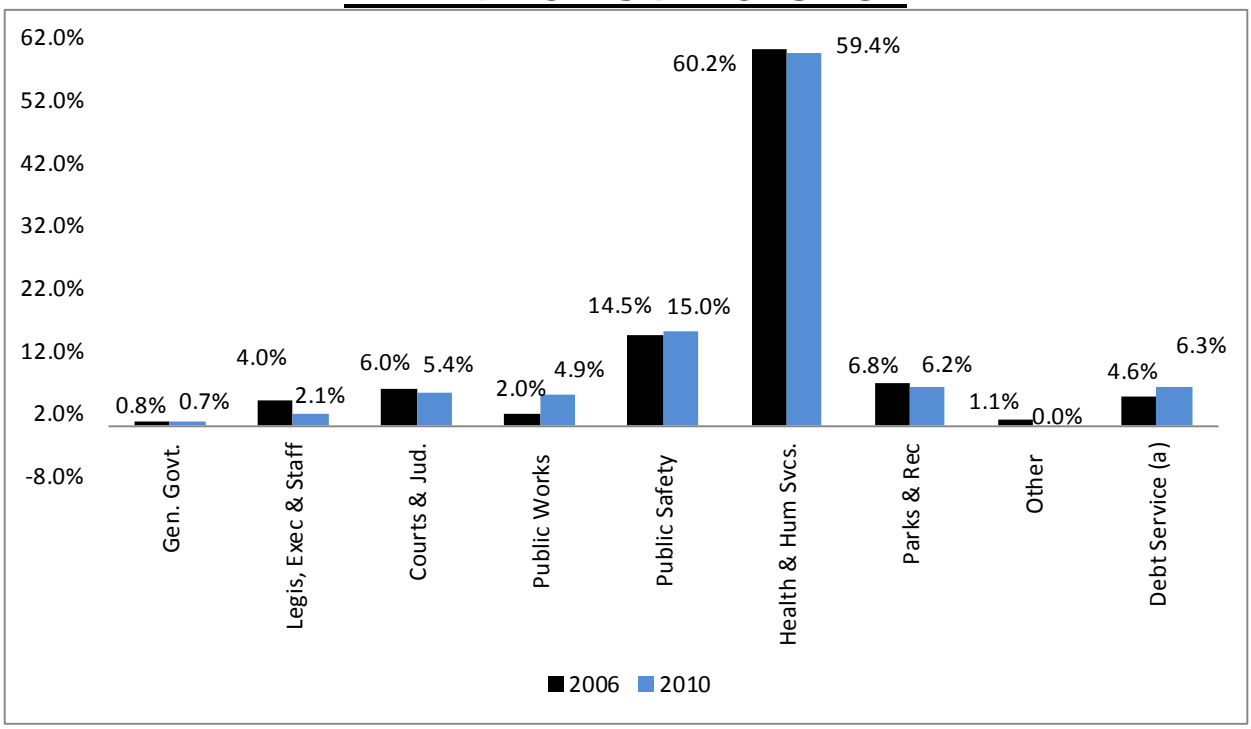
TREND HEALTH:
Neutral

FORMULA:
Operating expenditures (constant dollars) / Population

Analysis

After increasing steadily from 2005 to 2008, this trend has begun to reverse and has declined each of the past two years. The increase occurred without any significant changes in population or additional services, but was generally in line with the average annual CPI increases of 3 percent, according to the U.S. Bureau of Labor Statistics. It is highly likely the decrease over the past two years is directly related to decreasing revenues, since the County is required to pass a balanced budget and seeks to finish each fiscal year with a surplus. As a result, while technically positive, this could reflect a negative impact on service provision.

EXPENDITURES BY FUNCTION



Description

FORMULA:
Functional expenditures as a % of operating expenditures

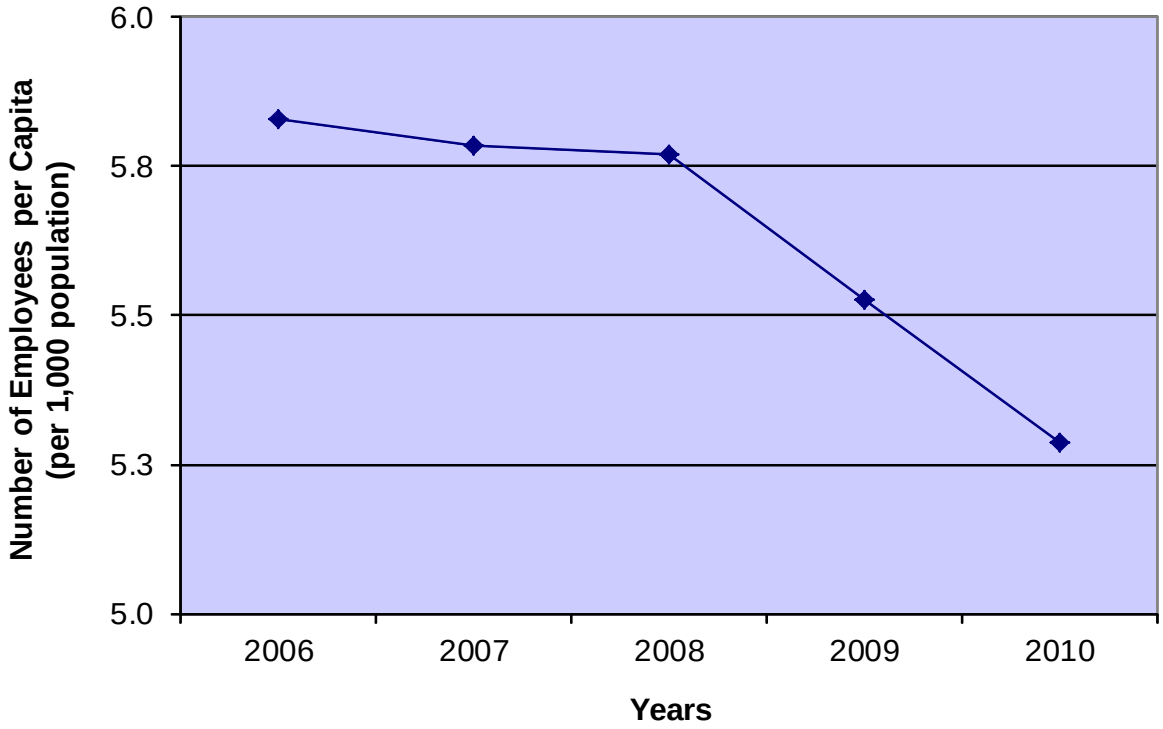
Expenditures by function show a detailed breakdown of the County's general governmental expenditures. Tracking this data can be useful in analyzing developing trends that may indicate need for further attention or resources. Shifting trends may reflect efforts to address goals and objectives, specific needs of the community, or may indicate an underlying problem that requires a shift in focus and/or resources.

Analysis

The five-year trend is relatively stable and there are several functional areas worth detailing. Expenditures for Health and Human Services declined by 4 percent between 2006 and 2010, which is notable considering the likely increased need for services due to the economic downturn. The increase in costs for public works and highways is mainly due to the restructuring of the fleet department from an internal service fund to a general fund, and to the implementation of a new fleet purchasing program. The reduction in funding for parks shows continued erosion of the County's ability to fund discretionary services.

(a) = Because Pension Obligation Bond debt service is included in the costs of the other functional areas as fringe benefits in 2010, the amount is removed from the 2010 Debt Service figure to avoid double counting.

EMPLOYEES PER CAPITA



Description
Personnel costs are the largest portion of the County's operating budget. Tracking changes in the number of employees per capita is a way to measure changes in expenditures. An increase in employees relative to population may indicate that expenditures are rising faster than revenues, the County is becoming more labor intensive, or that productivity is declining. A decline the ratio of employees to population suggests either productivity gains or service cuts.

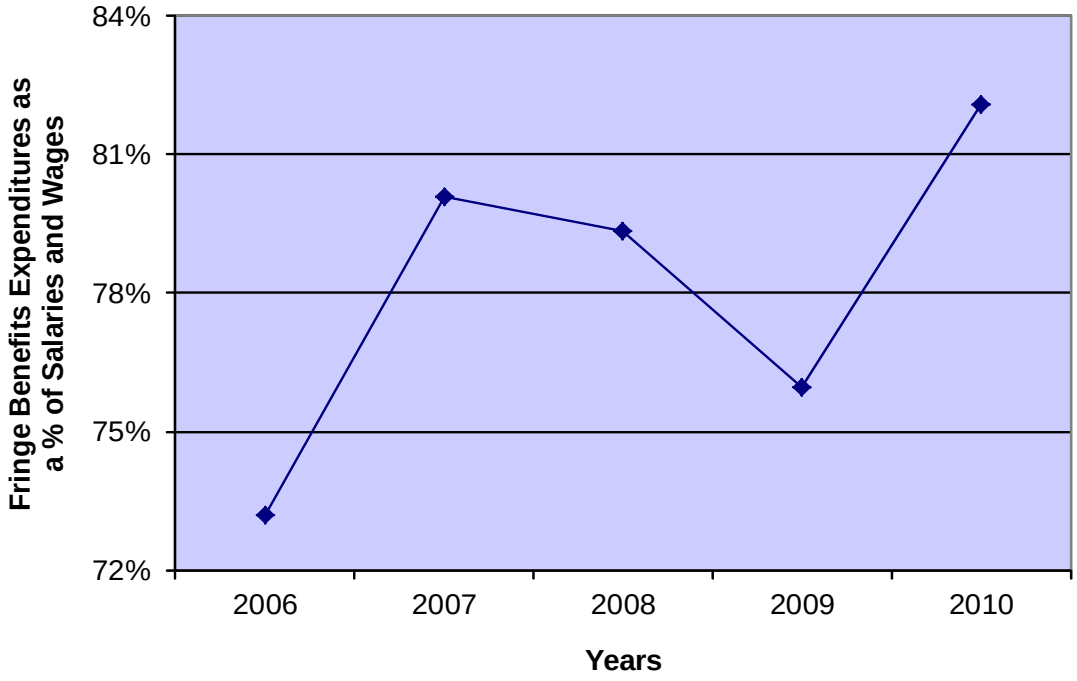
WARNING TREND:
Increasing number of County employees per capita

TREND HEALTH:
Positive

FORMULA:
Number of County employees / Population

Analysis
This trend is technically positive; however the decline in this ratio is almost certainly driven by the decline in per capita revenues (noted on page 16). In general, though partially attributable to the State takeover of Income Maintenance programs, this decline has led to a reduction in service, such as reduced park and County highway maintenance, and staffing at the Mental Health Complex. The number of County employees has steadily decreased over the past five years. Based on 2010 staffing levels, there is approximately one County employee for every 189 County residents; in 2004 there was one employee for every 169 residents. Due to the County's fiscal condition and rising costs, steps have been taken to reduce the number of budgeted employees and abolish vacant positions.

FRINGE BENEFITS



Description

Fringe benefits consist of health and life insurance, contributions to social security, unemployment insurance, workers' compensation, pension payments and other miscellaneous benefits. In particular, the County's pension costs have risen sharply, and the cost of providing health insurance has risen at dramatic rates for employers in recent years[10].

WARNING TREND:
Increasing direct fringe benefit expenditures as a % of salaries and wages

TREND HEALTH:
Negative

FORMULA:
Direct fringe benefit expenditures / Salaries and wages

Analysis

The trend is negative due to the County's high fringe benefit costs, mainly related to the health benefits granted to retirees who started employment before 1994, and to the granting of enhanced pension benefits in 2001 (Pension Obligation Bond debt service is included here as an annual fringe benefit cost in 2009 and 2010; and not in annual debt service in other indicators, such as the one on page 34). A high number of early-age retirements have led to high retiree medical costs. Reductions in the County's workforce have also contributed to an increase in the percentage. According to the Employee Benefit Research Institute, fringe benefits as a percentage of salaries and wages were 52 percent for state and local government employees nationwide in 2010[11], where Milwaukee County's was 82 percent.

[10] Young, Jeffrey "Health Benefit Costs Increase the Most in Six Years, Surpassing $15,000" *Bloomberg.com*, September 27, 2011

[11] Employee Benefits Research Institute, *Databook on Employee Benefits*, Table 3.8C (available online at: http://www.ebri.org/pdf/publications/books/databook/DB.Chapter%2003.pdf)

Operating Position

Operating position refers to the County's ability to balance its budget on a current basis, maintain reserves for emergencies, and maintain sufficient cash to pay its bills on a timely basis.

During a typical year, a local government will usually generate either an operating surplus, when revenues exceed expenditures, or an operating deficit, when expenditures exceed revenues. An operating surplus or deficit may be created intentionally as a result of a policy decision, or may be created unintentionally because of difficulties in precisely forecasting revenues and expenditures. As required by State Statutes, surpluses and deficits are rolled forward into the next budget adopted by the County.

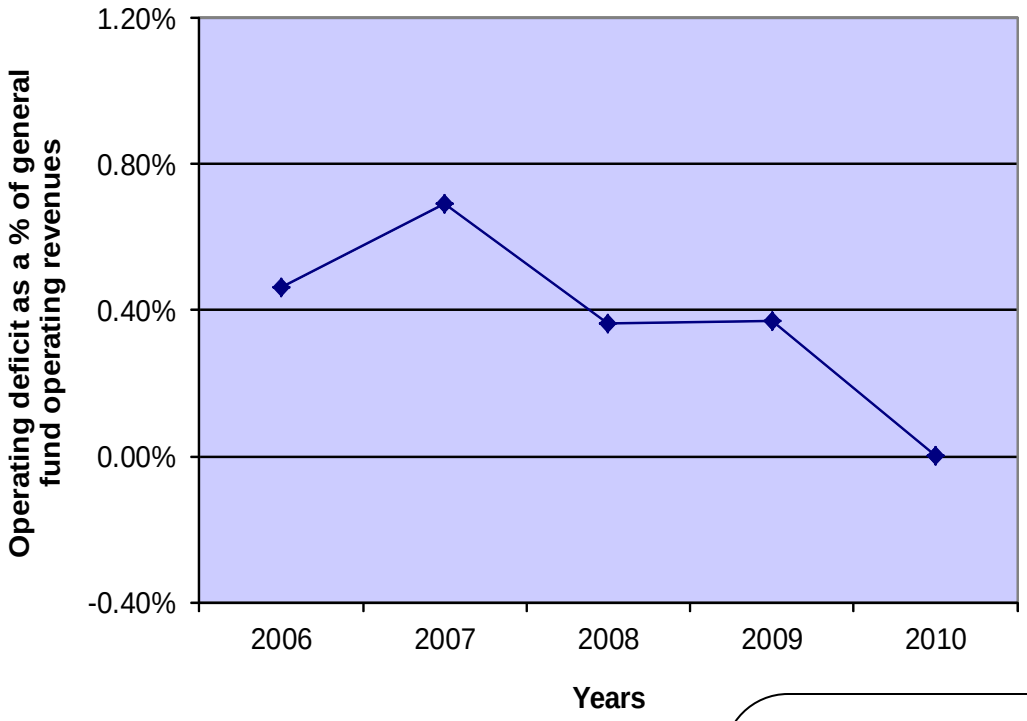
Many local governments develop reserves through the accumulation of operating surpluses and provide financial security in the event of loss of a revenue source, economic downturn, unanticipated expenditure demands due to natural disasters, insurance loss, unexpected large-scale capital expenditures or other non-recurring expenses, or uneven cash flow. Reserves may be budgeted in a contingency account or carried as a part of one or more fund balances. The County currently lacks the statutory authority to accumulate operating surpluses to create a significant fund balance.

Liquidity refers to the flow of cash in and out of the County treasury. The County receives many of its revenues in large installments at infrequent intervals during the year. Excess liquidity or cash reserves are a valuable cushion against an unexpected delay in receipt of revenues, an unexpected decline or loss of a revenue source, or an unanticipated need to make a large expenditure.

The Operating Position indicators are as follows:

- Operating Deficit or Surplus
- Liquidity

OPERATING DEFICIT OR SURPLUS



WARNING TREND:
Increase in general fund operating deficit or surplus as a % of general fund operating revenues

TREND HEALTH:
Negative

FORMULA:
Operating deficit or surplus / General fund operating revenues

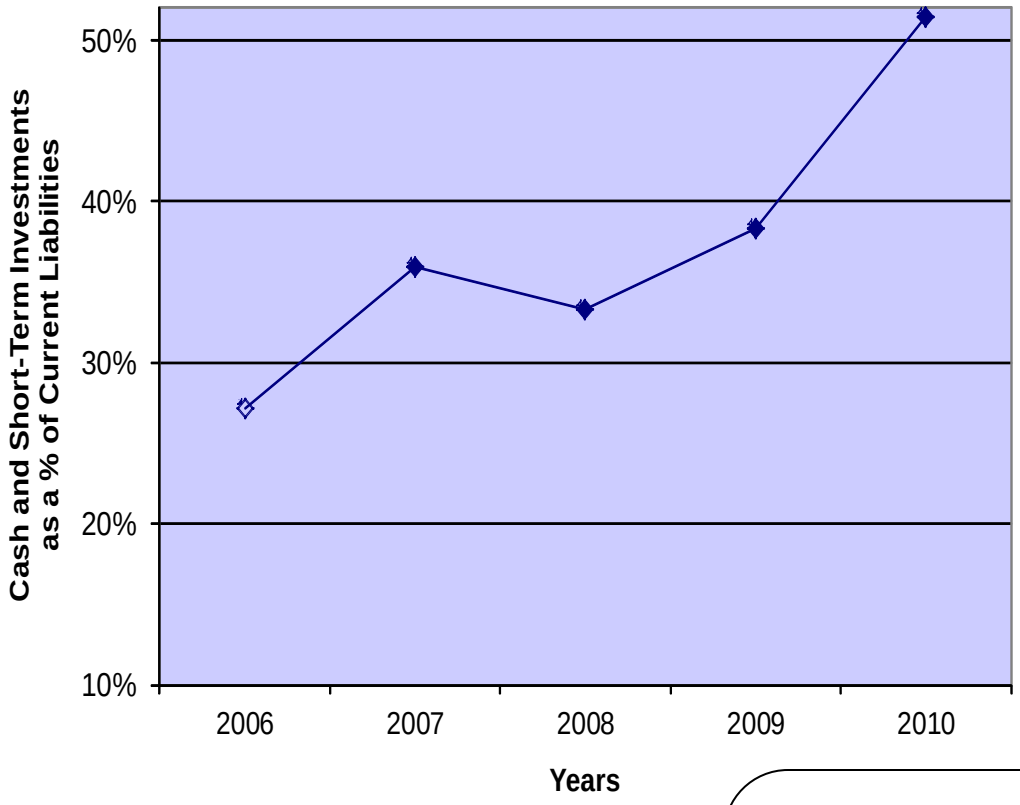
Description

An operating deficit or surplus occurs when current expenditures exceed current revenues or are lower than current revenues. An operating deficit in any one-year period may not be cause for concern, but frequent and increasing deficits can indicate that current revenues are not supporting current expenditures and that serious problems may lie ahead.

Analysis

After reaching a peak in 2007 with a surplus of $7.9 million (0.69 percent of operating revenues), the absolute and relative size of surpluses has declined in each year. In 2010 the County finished with a surplus of just $8,000 on an operating budget of $1.1 billion. Based on other trends, it is apparent that the County is left with fewer options to balance its budget every year. The County's inability to create an operating reserve exacerbates this problem.

LIQUIDITY



WARNING TREND:
Decreasing amount of cash and short-term investments as a % of current liabilities

TREND HEALTH:
Positive

FORMULA:
Cash and short-term investments / Current liabilities

Description

A measure of the County's short-run financial condition is its cash position, which includes cash on hand and in the bank, as well as other assets that can be easily converted to cash, such as short-term investments. This is also known as liquidity, which measures the County's ability to pay its short-term obligations. The immediate effect of insufficient liquidity is insolvency; the inability to pay bills, and indicates that the County has overextended itself in the long term.

Analysis

The trend is technically positive due to a large increase in short-term cash and investments reported in the 2010 CAFR. Cash and investments totaled $188 million in the 2009 CAFR, and $318 million in the 2010 CAFR, a 69 percent increase. However, most of this increased available cash likely reflects the two capital bond issuances that occurred in 2010 as a result of the accelerated capital program, and an advance payment of $79 million by the State for the Family Care program for services to be provided in 2012. This being the case, this indicator should be monitored closely in the future to determine the County's true short-term cash situation net of the one-time increase.

Debt Structure

Debt can be an effective tool to finance capital improvements and to even out short-term revenue flows, but its misuse can cause serious financial problems. Even a temporary inability to repay debt can result in loss of credit rating, increased borrowing costs, and loss of autonomy to State and other regulatory bodies.

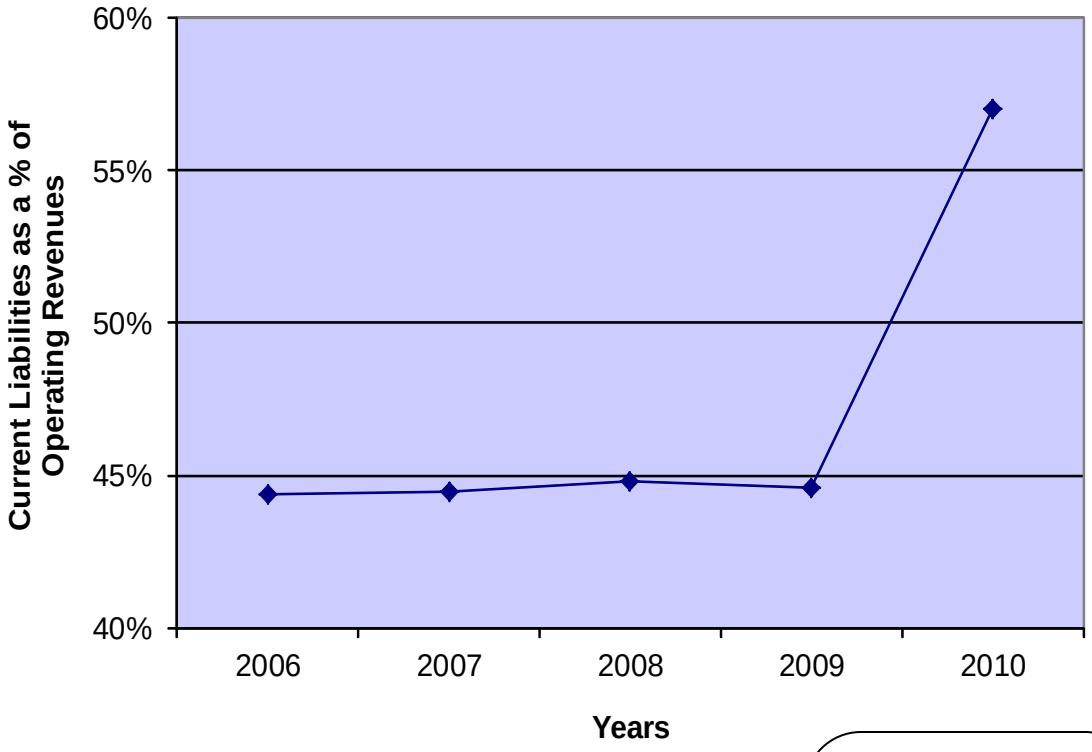
The most common forms of long-term debt are general obligation, special assessment, and revenue bonds. When the County issues debt for capital projects, it must ensure that aggregate outstanding debt does not exceed the community's ability to pay debt service as measured by the wealth of the community. Also to be considered are overlapping debt and other jurisdictions' debts against which the government has pledged its full faith and credit.

Under the most favorable circumstances, the County's debt should be proportionate in size and growth to the tax base; should not extend past the useful life of the facilities which it finances; should not be used to balance the operating budget; should not require repayment schedules that put excessive burdens on operating expenditures; and should not be so high as to jeopardize the County's credit rating.

The Debt Structure indicators are as follows:

- Current Liabilities
- Long-term Debt
- Debt Service
- Overlapping Debt

CURRENT LIABILITIES



WARNING TREND:
Increasing current liabilities at end of year as a % of operating revenues

TREND HEALTH:
Negative

FORMULA:
Current liabilities / Operating revenues

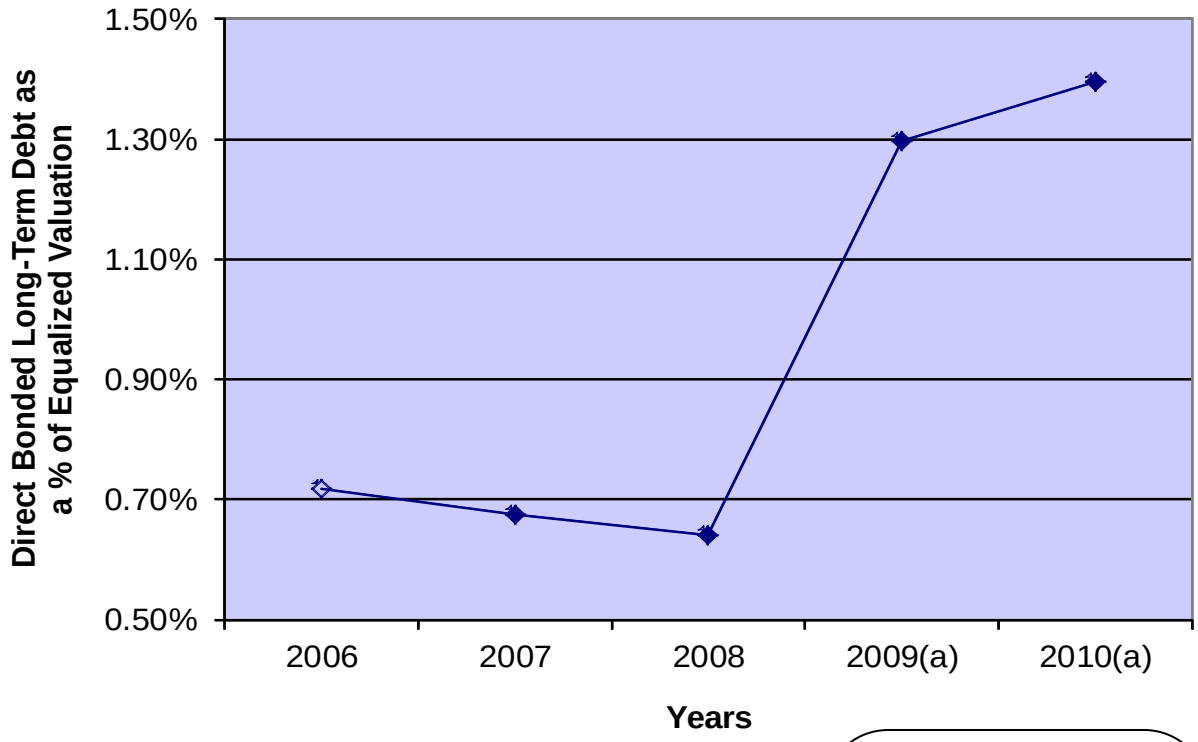
Description

Current liabilities are the sum of all liabilities due at the end of the fiscal year, including short-term debt; current portion of long-term debt, all accounts payable, accrued liabilities, and other current liabilities. Although short-term borrowing is an accepted way to deal with uneven cash flow, an increasing amount of short-term debt outstanding at the end of successive years can indicate liquidity problems, deficit spending, or both.

Analysis

This trend is technically negative due to a large increase in current liabilities from $490 million in 2009 to $618 million in 2010 (a 26 percent increase). The main factor in this increase is unearned revenues, which rose from $272.9 million to $366.2 million, due to the advance payment by the State for the Family Care program. However, there was also a sharp increase in accounts payable from 2009 ($46.6 million) to 2010 ($66 million), which will require continued monitoring to determine if it is a one-time event related to the accelerated capital financing.

LONG-TERM DEBT



WARNING TREND:
Increasing net direct bonded long-term debt as a % of equalized valuation

TREND HEALTH:
Negative

FORMULA:
Direct bonded long-term debt / Equalized valuation

Description

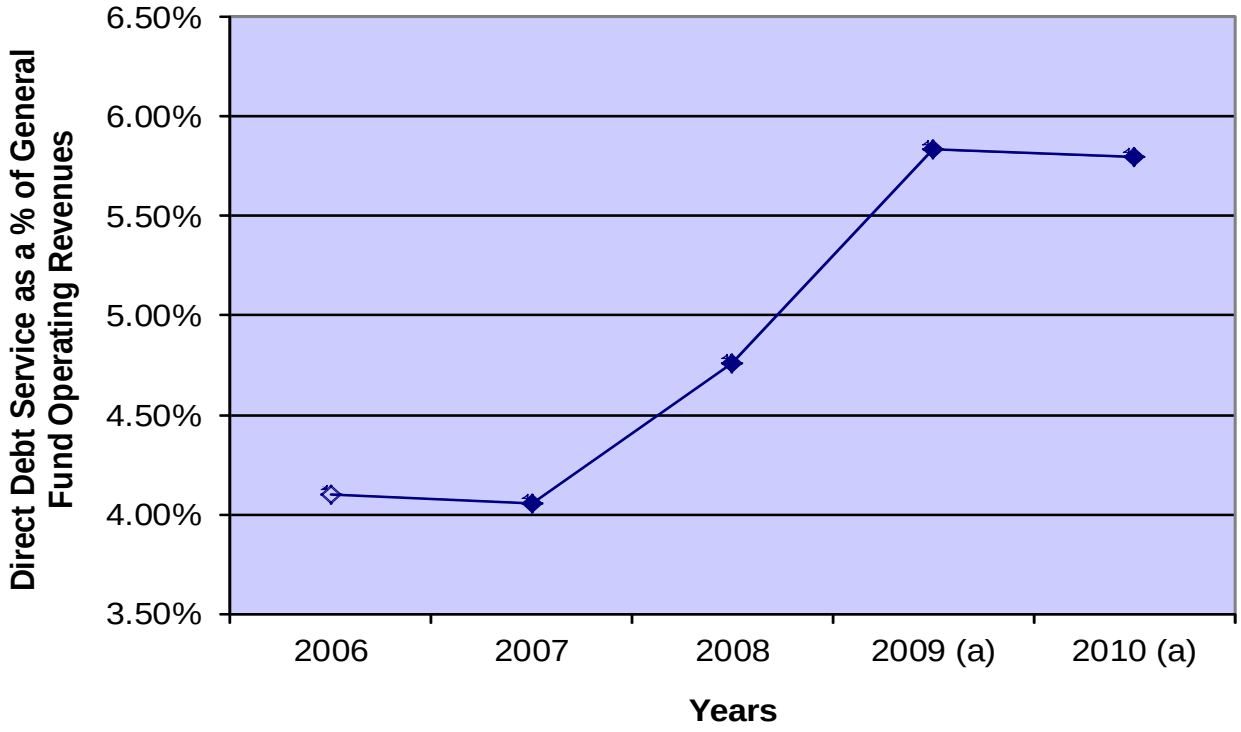
Net direct debt is bonded long-term debt minus self-supporting debt (e.g – enterprise debt). The equalized valuation is the most generally available measure of County wealth. Generally, long-term debt should not exceed the County's resources for paying debt service. An increase in net direct bonded long-term debt as a percentage of equalized valuation can mean that the County's ability to repay is diminishing.

Analysis

The trend is technically negative due to the increase in long-term debt as a percentage of equalized value over the past two years. Declining equalized values have partially contributed to this problem. However, the data is skewed as a result of two one-time policy choices: the issuance of pension obligation bonds, and the accelerated capital program. Both of these policies resulted in significant one-time issuances of debt. This trend also does not take into account the refinancing of long-term debt in 2003 that will result in sharply lower debt service payments in the near future. In theory, these past choices should result in increased flexibility due to future decreases in debt service and pension payments. When these items are factored in, this trend should revert to a positive health, if equalized values stabilize and the County maintains its conservative approach to bonded debt.

(a) = Figures for 2009 and 2010 include total outstanding Pension Obligation Bond debt; unlike annual debt service indicators this data has not been restated because no double counting occurs.

DEBT SERVICE



Description
Debt service is defined as the amount of principal and interest that the County must pay each year associated with its outstanding debt. Increasing debt service reduces expenditure flexibility by adding to the County's obligations. Debt service can be a major part of the County's fixed costs and its increase may indicate excessive debt and fiscal strain.

WARNING TREND:
Increasing net direct debt service as a % of operating revenues

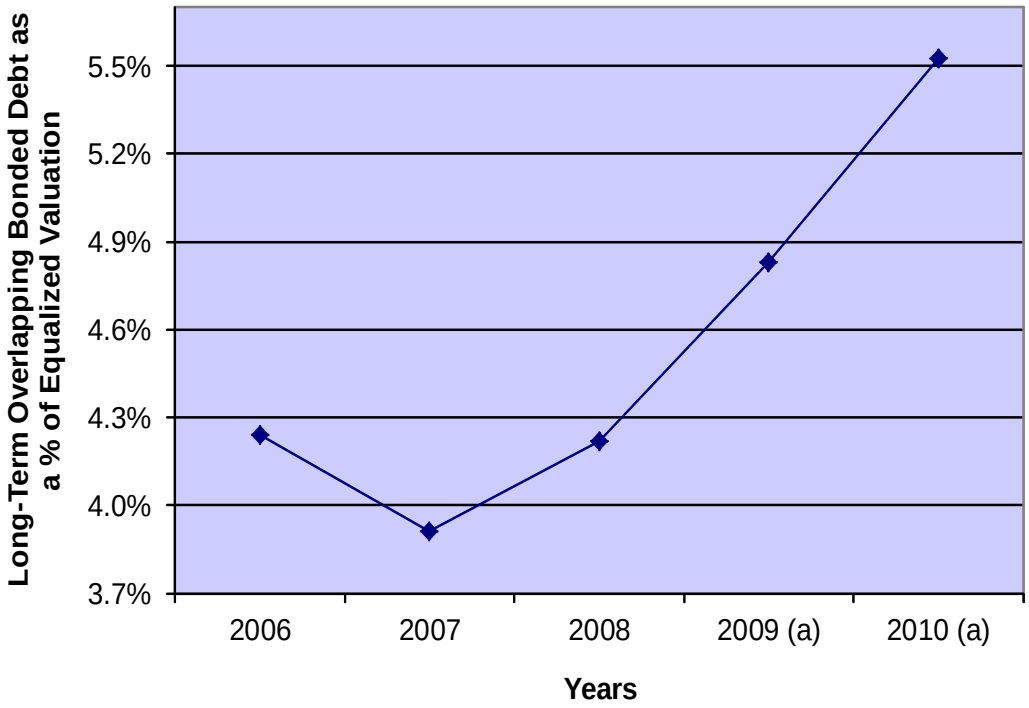
TREND HEALTH:
Negative

FORMULA:
Direct debt service / Operating Revenues

Analysis
The trend is technically negative because the ratio of debt service to operating revenues has steadily increased. However, as with the previous indicator, this should be viewed within the context of the decision to accelerate the capital program in 2009 and 2010 to take advantage of federal programs and low interest rates. This will result in lower debt service payments in the long term than would have been required under the normal capital program. Additionally, due to a refinancing of long-term debt in 2003, a large amount of long-term debt will be paid off in the near future, resulting in additional debt service relief.

(a) = Because Pension Obligation Bond debt service is also included in the Fringe Benefit indicator on page 27 in 2009 and 2010, the amount is removed from the 2009 and 2010 Debt Service figures in order to avoid double counting.

OVERLAPPING DEBT



WARNING TREND:
Increasing net direct bonded long-term debt as a % of equalized valuation

TREND HEALTH:
Negative

FORMULA:
Long-term overlapping bonded debt / Equalized valuation

Description

Overlapping net debt is the net direct debt of all local government jurisdictions that is issued against a tax base within Milwaukee County. Examples of other jurisdictions that overlap the County are the municipalities, Milwaukee Area Technical College, and the Metro Milwaukee Sewerage District. The level of overlapping debt is only that debt applicable to the property shared by the jurisdictions. The overlapping debt indicator measures the ability of the County's tax base to repay the debt obligations issued by all of its governmental and quasi-governmental jurisdictions.

Analysis

The trend is negative, due mainly to decreases in equalized value as a result of reduced equalized values caused by the weak economy and real estate market. The County has also significantly increased its outstanding debt in the short-term based on policies described previously (issuance of pension obligation bonds, accelerated capital program), which likely also contributes to this negative outlook but which should have positive implications in the long-term. Assuming equalized values stabilize in the near term, this trend should improve but deserves continued scrutiny to ensure the tax base is sufficient to service the outstanding debts.

(a) = Figures for 2009 and 2010 include total outstanding Pension Obligation Bond debt; unlike annual debt service indicators this data has not been restated because no double counting occurs.

Unfunded Liabilities

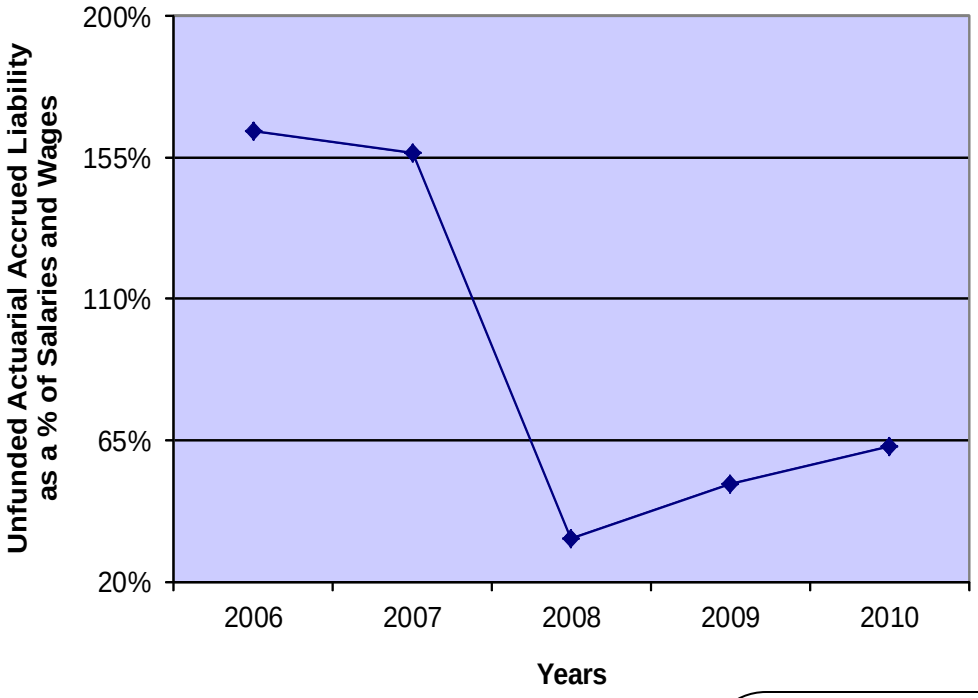
A contingent liability is an existing condition or situation whose ultimate disposition may not be known or does not have to be paid until a future year, and for which reserves have been set aside. A contingent liability is similar to debt in that it represents a legal commitment to pay in the future. Due to the potential magnitude, if these types of obligations grow substantially over time, they can have a significant impact on the County's financial condition.

The contingent liabilities considered here are significant because they are not readily apparent in ordinary financial records, making it difficult to assess their respective impacts. Additionally, the contingent liabilities may accumulate gradually over time, making it difficult to notice them until the problem is severe.

The Unfunded Liabilities indicators are as follows:

- Pension Obligations
- Pension Assets

PENSION OBLIGATIONS



WARNING TREND:
Increasing pension obligations as a % of salaries and wages

TREND HEALTH:
Neutral

FORMULA:
Pension obligation / Salaries and wages

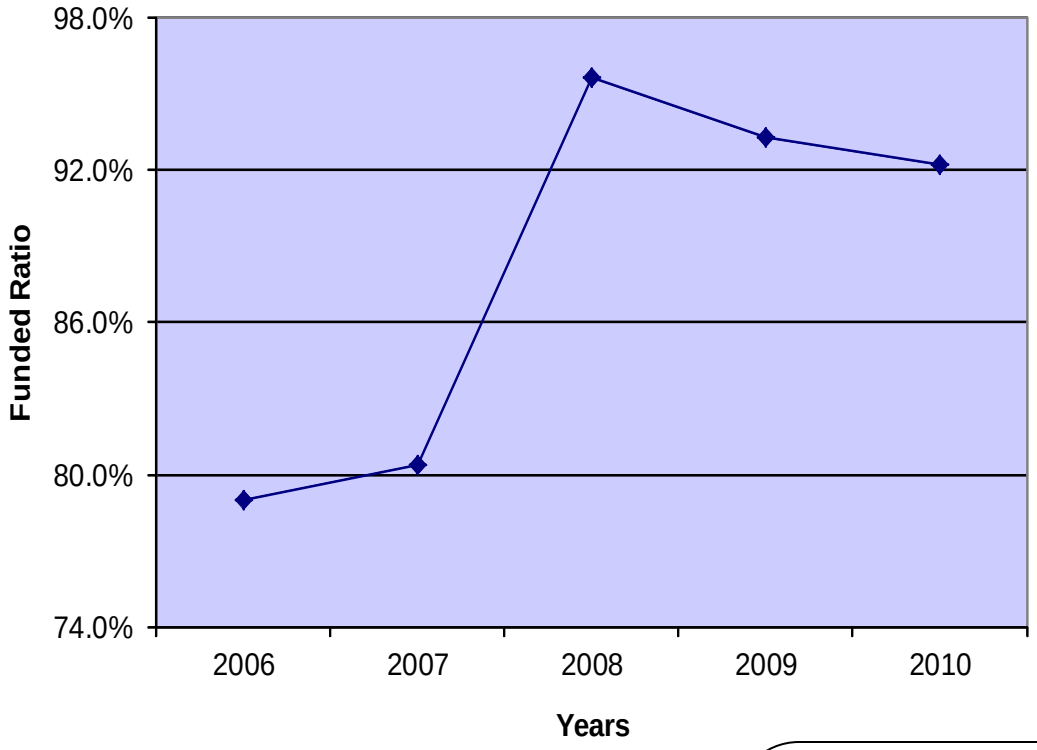
Description

The County's main pension plan (Employee Retirement System or ERS) represents a significant long-term expenditure obligation. The present value of the projected cost of pension benefits earned by employees is known as the "actuarial accrued liability." The difference between this amount and the actuarial value of the resources of the pension plan is known as the unfunded actuarial accrued liability (UAAL). As a rule, the actuarially determined annual required contribution (ARC) is the measure of pension cost accrued as expense by employers in their financial statements. If the County fails to fully fund the ARC in any given period, a net pension obligation is reported in the statement of net assets to reflect the under-funding.

Analysis

The trend is neutral in the long term. The large drop in the UAAL as a percentage of salaries in 2008 includes $397 million in assets from the sale of Pension Obligation Bonds (POBs) by the County in April 2009, and 20 percent of 2008 market losses, totaling $486 million, that are amortized over 5 years. Were the POB assets not included and the market losses not amortized, the UAAL trend line for this indicator would show a significantly more negative trend. The slight increase in the UAAL from 2008 to 2010 suggests this indicator deserves ongoing monitoring, as continued weakening would require additional resources from the County's general fund.

PENSION ASSETS



WARNING TREND:
Declining value of pension assets compared to liabilities.

TREND HEALTH:
Neutral

FORMULA:
Actuarial value of pension assets/ actuarial accrued liability

Description

Pension assets are held primarily as cash or investments. A decline in the ratio of plan assets to benefits can indicate serious problems in the management of the pension plan.

Analysis

Like the previous indicator, the 2008 data above include POB assets added to the plan in April 2009, and the five-year amortization of $486 million in market losses in CY 2008. The funded ratio declined significantly between 1999 (when the funded ratio was 130 percent) and 2007. As with the previous indicator, the positive movement was related to a one-time policy change (POBs); the decreasing ratio in 2009 and 2010 is mainly related to the five-year amortization of investment losses incurred in 2007 and 2008, which are partially offset by revenue from the Mercer lawsuit settlement, which is also amortized over five years. This indicator should be monitored closely due to the effect it could have on the County's operating budget.

Condition of Capital Plant

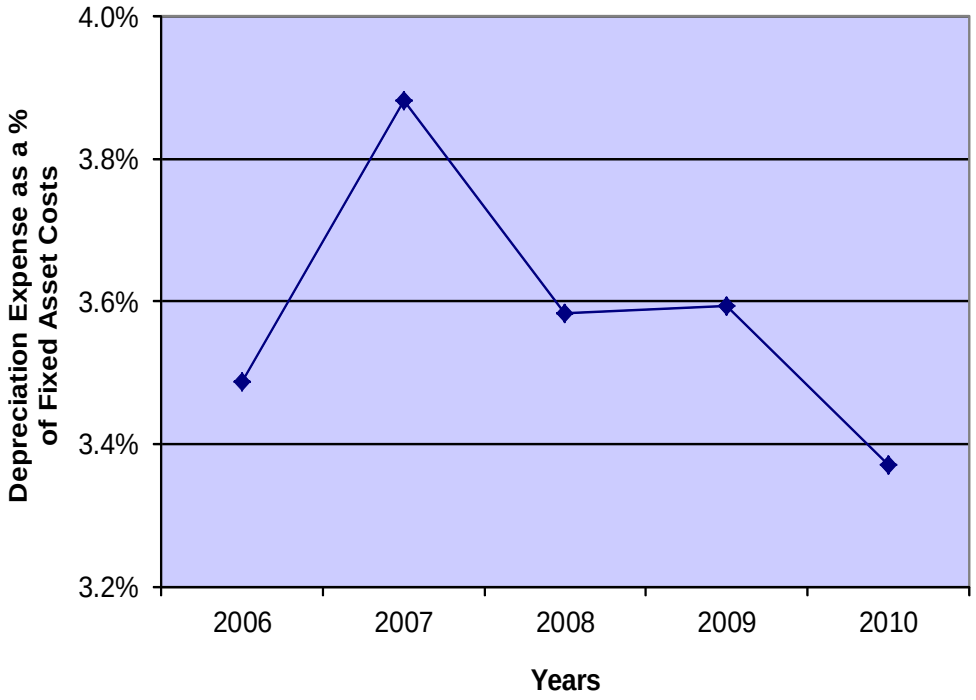
The bulk of the County's wealth is invested in its physical assets or capital plant – streets, buildings, utility network, and equipment. If these assets are not properly maintained or are allowed to become obsolete, the results are often a decrease in the usefulness of the assets, an increase in the cost of maintaining and replacing them, and a decrease in the attractiveness of the County as a place to live or do business.

Local governments often defer maintenance and replacement because it is a relatively painless way to temporarily reduce expenditures and ease current financial strain. Continued maintenance deferral, however, can create serious long-term problems that become exaggerated because of the large sums of money invested in capital facilities.

The Condition of Capital Plant indicators are as follows:

- Depreciation

DEPRECIATION



Description
Depreciation is the cost associated with the use of a fixed asset over its useful life. Depreciation should remain a relatively stable portion of asset cost assuming older assets, which are fully depreciated, are removed from service and replaced with newer assets. If depreciation costs start to decline as a portion of asset cost, the assets are probably being used beyond their useful lives, the estimated useful lives had been initially underestimated, or the scale of operations was reduced.

WARNING TREND:
Declining depreciation expense as a % of fixed asset costs

TREND HEALTH:
Negative

FORMULA:
Depreciation expense / Fixed asset costs

Analysis
The trend is negative. This suggests that older assets, for which depreciation is eliminated at the end of useful life, are not being replaced. As a result, it is highly likely that operating costs for utilities and repairs are higher than they would be had the assets been replaced, leaving fewer resources for other important program areas. This indicator deserves scrutiny as part of an overall strategic and operational plan relating to the future use of the County's fixed assets.