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Introduction

Financial Trend Monitoring System
The Department of Administrative Services, Performance, Strategy & Budget (DAS-PSB) is pleased to present the 2012 Fiscal Trends Analysis. The Fiscal Trends Analysis is based on the Financial Trend Monitoring System (FTMS), which was developed by the International City/County Management Association (ICMA) as a method for monitoring the financial condition of local governments. This analysis was provided to policymakers until the late 1990s and was reintroduced by DAS-PSB after fiscal year 2010.

This system identifies factors that affect financial condition and sets the framework for their analysis. The indicators described in the ICMA publication, Evaluating Financial Condition, A Handbook for Local Government, are designed to give local governments a method of monitoring financial condition using data that is easily accessible. Using this model local governments can provide a report to policy makers, citizens, employees, bond rating agencies, and anyone else who may be interested in the their financial wellbeing. The FTMS is intended to be used, along with the five-year financial forecast (Municast) as a management tool that can help to shape long term policy priorities.

Financial Condition
Financial condition, as defined by the FTMS, is the ability of a locality to maintain existing service levels, withstand local and regional economic disruptions, and meet the demands of natural growth, decline and change. These conditions are examined by looking at four areas of a localities fiscal condition as follows:

1. Cash Solvency – the ability to pay the bills over the next 30 or 60 days.
2. Budgetary Solvency – the ability to cover expenditures with revenues and other resources over the normal budget period.
3. Long-Run Solvency – the ability to meet expenditures as they come due in the future.
4. Service Level Solvency – the ability to provide services at the level and quality that are required for the health, safety, and welfare of the community and that the citizens desire and expect.

Milwaukee County's Financial Trend Monitoring System
ICMA provides a list of over 40 indicators that can serve as a litmus test for the financial condition of a locality. These indicators are broken down into specific categories for further analysis. For 2012, 27 indicators are evaluated for the most recent five consecutive years available.

The five-year period for each indicator will be from FY 2008 to FY 2012, 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, and a detail box that displays the indicator's warning trend, trend health, and formula. Trend health for each indicator is described as positive, neutral, or negative.

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) for the Milwaukee-Racine area is used to project the real growth or decline of the indicators.

It is intended that indicators omitted from this report be included in future year reports where appropriate. For quick reference, the table below provides an overview of the trend conclusions:

Community Needs and Resources			
Indicator	**2011 Trend Health**	**2012 Trend Health**	**Change**
Population	Positive	Positive	
Personal Income per Capita	Negative	Negative	
Poverty Rate	Negative	Negative	
Equalized Valuation	Negative	Negative	
Top Five Taxpayers	Negative	Negative	
Unemployment Rate	Neutral	Positive	+

Revenue			
Indicator	**2011 Trend Health**	**2012 Trend Health**	**Change**
Revenues per Capita	Negative	Negative	
Programmatic Revenues (**New**)	Positive	Positive	
Intergovernmental Revenues	Positive	Positive	
General County Property Tax Levy	Negative	Negative	
Uncollected Property Taxes	Neutral	Positive	+
Sales Tax Per Capita	Neutral	Neutral	
State Shared Revenues	Neutral	Negative	-
User Fee Coverage (**New**)	Negative	Negative	

Expenditures			
Indicator	**2011 Trend Health**	**2012 Trend Health**	**Change**
Expenditures per Capita	Positive	Positive	
Expenditures by Function	Neutral	Neutral	
Employees per Capita	Positive	Positive	
Fringe Benefits	Negative	Negative	+

Operating Position			
Indicator	**2011 Trend Health**	**2012 Trend Health**	**Change**
Operating Deficit/Surplus	Neutral	Neutral	
Liquidity	Positive	Positive	

Debt Structure			
Indicator	**2011 Trend Health**	**2012 Trend Health**	**Change**
Current Liabilities	Negative	Negative	
Long-Term Debt	Negative	Neutral	+
Debt Service	Negative	Negative	
Overlapping Debt	Negative	Negative	

Unfunded Liabilities			
Indicator	**2011 Trend Health**	**2012 Trend Health**	**Change**
Pension Obligations	Negative	Negative	
Pension Assets	Negative	Negative	

Condition of Capital Plant			
Indicator	**2011 Trend Health**	**2012 Trend Health**	**Change**
Depreciation	Neutral	Neutral	

Of the 25 indicators that were used in the 2011 version of this report, five have changes in the "trend health" based on updated data. Of these, only one changes negatively and four change positively. This generally reflects the improving economy on the positive side.

Milwaukee County - Economic Environment Report, 2012

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 since then, the region has struggled to transition to attract economic growth based on high-tech, light manufacturing and service-oriented industries.

This transition was significantly impacted by the global economic downturn of 2008-09. Unemployment and poverty increased while sales tax collections, personal income, and equalized value declined significantly, as shown in the "Community Needs and Resources" category of indicators.

2012 Economic Environment

As in much of the country, the economy in many cases began to show improvement after "bottoming out" in 2010. Home sales continue to improve with 17.6% more units being solid in 2012 than in 2011. [1]The unemployment rate in the metro region declined from 7.8 percent in January of 2012 to 6.9 percent in December. The annualized unemployment rate for the year was 7.4 percent, compared to 8.0 percent for 2011, and the number of employed persons declined from 62,002 in January to 54,791 in December[2].

Financial Pressures

In Wisconsin, counties provide a wide variety of services, many of which (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). As this support has declined, the County has been forced to replace these funds property taxes and user fees, and reduce service levels when those alternative resources are not sufficient.

Economic Forecast

So far in 2013, the economy has performed reasonably well both nationally and in Wisconsin. Through August 2013 the unemployment rate , on average, remained flat at 6.9 in the Milwaukee-Waukesha-West Allis, WI Metropolitan Statistical Area to the 6.9 unemployment rate in December 2012.The number of employed individuals had decreased from 64,539 in December 2012 to 61,653,[3]. According to the Metropolitan Milwaukee Association of

[1] "2012 Year-End Statistics" Greater Milwaukee Association of Realtors, online at http://www.gmar.com/content.cfm?c_id=549&s_id=20
[2] Bureau of Labor Statistics, data for Milwaukee-Waukesha-West Allis MSA. Online at http://data.bls.gov/timeseries/LAUMT55333403?data_tool=XGtable
[3] Bureau of Labor Statistics, data for Milwaukee-Waukesha-West Allis MSA. Online at http://data.bls.gov/timeseries/LAUMT55333403?data_tool=XGtable

Commerce, 16 of its 23 economic indicators showed improvement in August 2013 over previous-year levels[4].

The 2013 budget was created when the economy was showing signs of a slow but steady recovery. Investment revenue is reduced due to continued low interest rates, revenues in the Office of the Register of Deeds is reduced to reflect the continued slump in the real estate market, and revenue from delinquent property taxes is increased by more than 20 percent. The County's budget forecasts in 2014 are mixed. Sales tax revenues are projected to remain relatively rise, but at a lower rate than in previous projections. The percentage of property taxes collected is also increasing.

The national economic outlook remains uncertain, but there are signs of stabilization. The Congressional Budget Officer reports that the debt ceiling is likely to be reached in early 2014[5]. Since the federal government has not been able to address its long-term fiscal imbalance in a way that has minimal effect on the economy, any economic growth is likely to be slow and steady. It may take several years for the County to see any substantial positive impacts due to the recovering economy.

[4] "Metro Milwaukee Economic Trends"; Economic Research Division, Metropolitan Milwaukee Association of Commerce. October 3, 2013. Online at http://www.mmac.org/external/wcpages/wcmedia/documents/Research/8-13%20MMAC%20trends%20report.pdf

[5] "Federal Debt and the Statutory Limit"; Congressional Budget Office, November 2013. Online at http://cbo.gov/sites/default/files/cbofiles/attachments/44877-FederalDebt_1.pdf

Community Needs and Resources

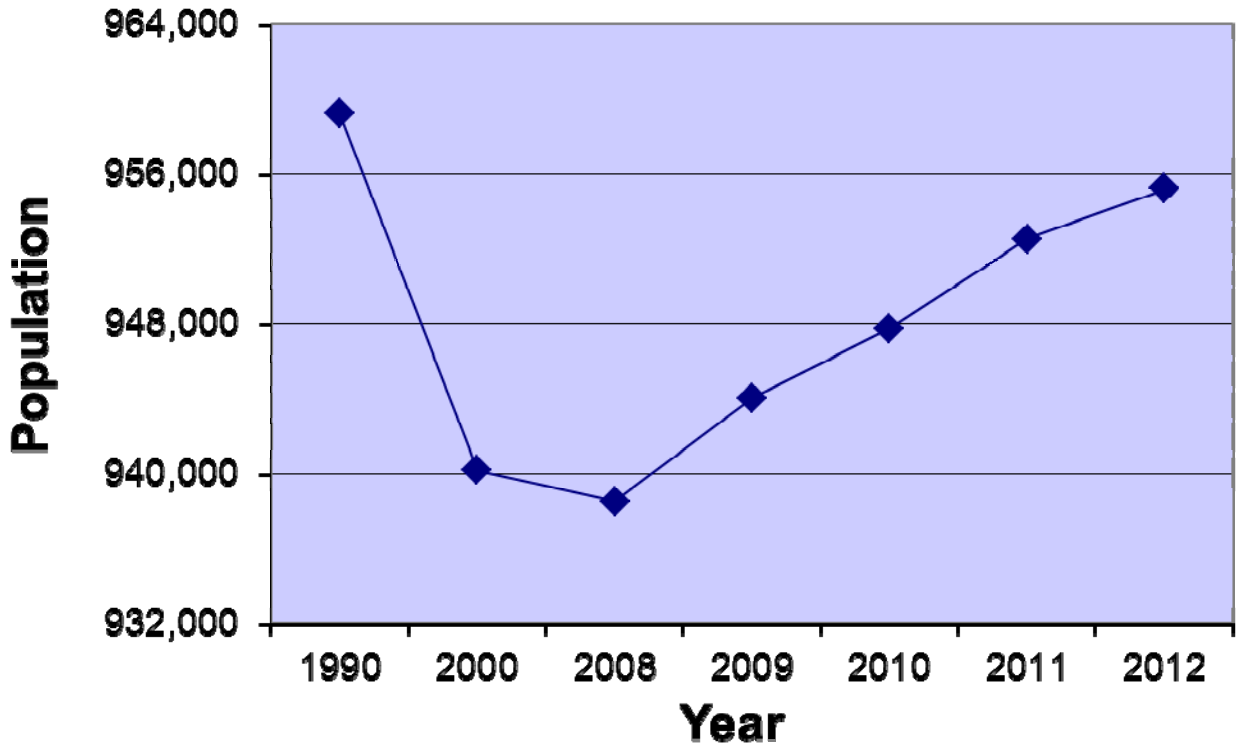
Community Needs and Resources encompass various economic and demographic characteristics including population, employment, personal income, property value, and business activity. Tax base determines a community's wealth and ability to generate revenue, while economic and demographic characteristics affect 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



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.

WARNING TREND:
Rapid Change in Population

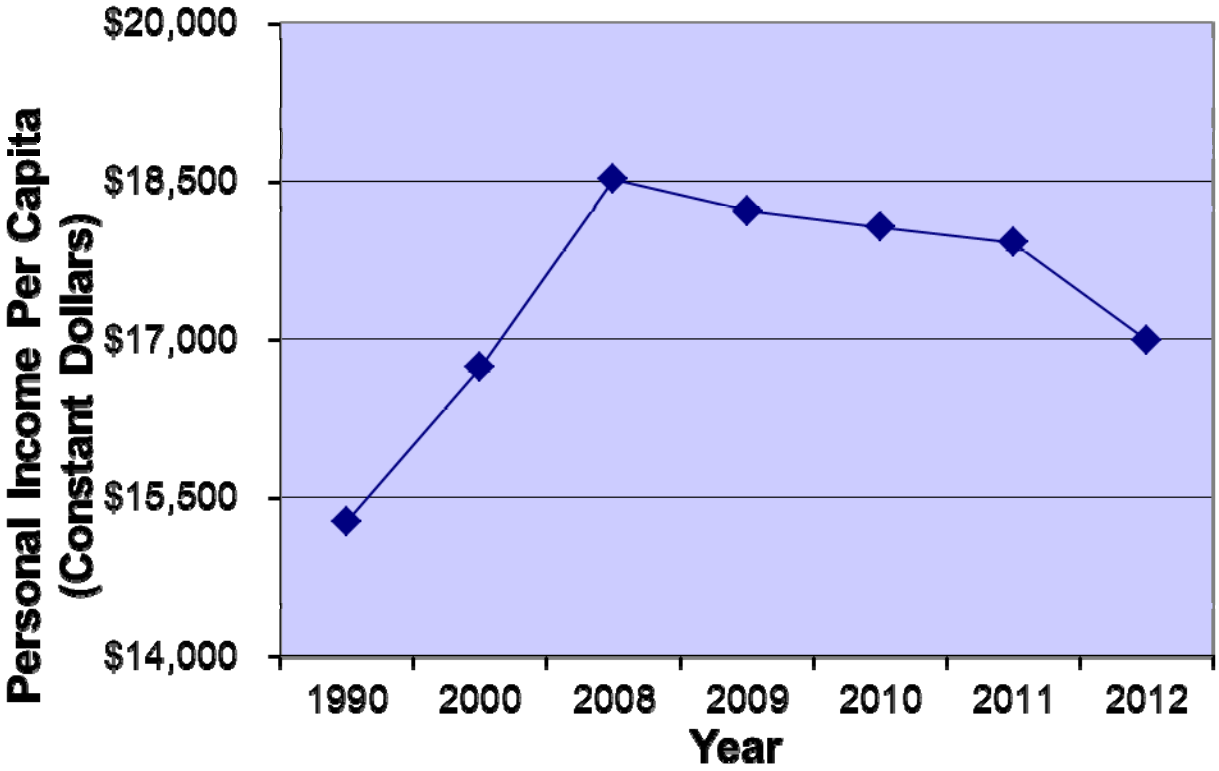
TREND HEALTH:
Positive

FORMULA:
Population

Analysis

The trend is considered positive because to the County's population remained stable over the 5-year period. Since the sharp population decline between 1990 and 2000, there have been minor increases and decreases in population. The 2012 population estimate of 955,205 by the Census Bureau is an increase of 15,041 or 1.6 percent from the 2000 count. Population 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 business tax 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.

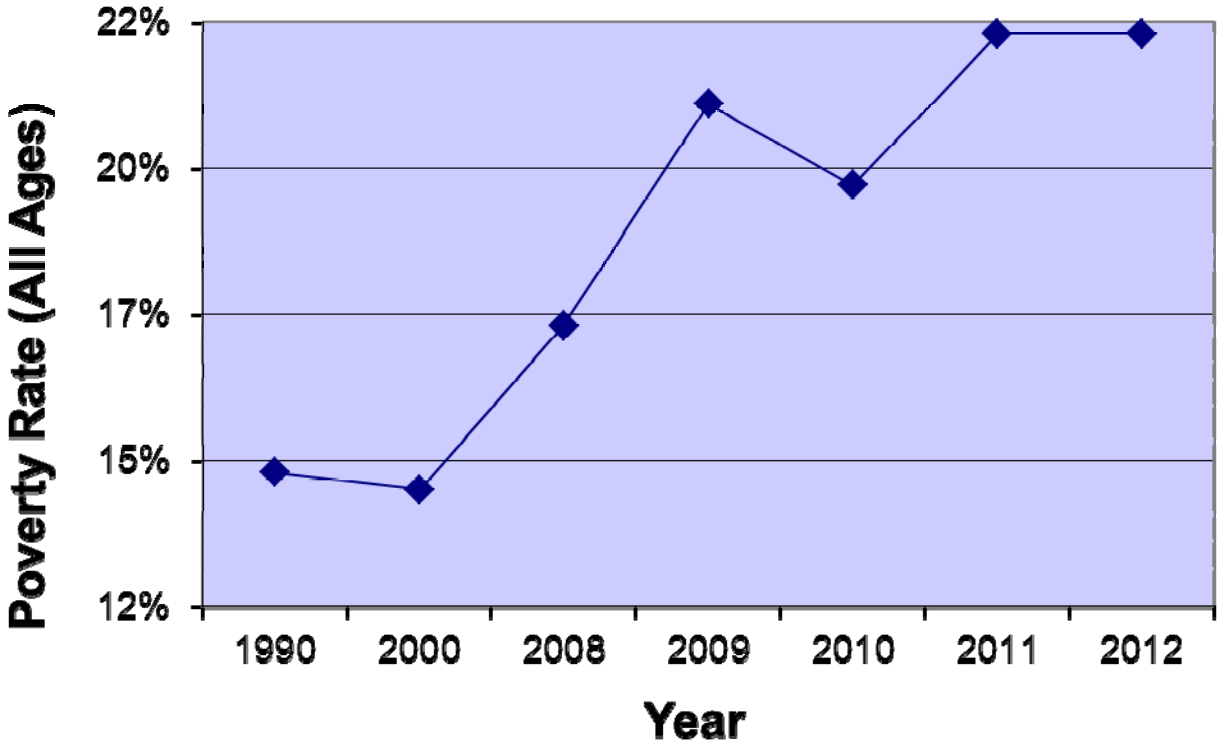
WARNING TREND:
Decline in the level, or growth rate, of personal income per capita (constant dollars)

TREND HEALTH:
Negative

FORMULA:
Personal income (constant dollars) / Population

Analysis
The trend is negative due to decline from 2008 to present, 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 $16,992, or 9.6 percent. This indicates that Milwaukee residents have less disposable income available to purchase goods and services. In comparison, inflation-adjusted personal income per capita increased by $1,782 or 10.7 percent between 2000 and 2007.

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 accredited to the fact that low-income individuals have relatively higher needs and a relative lack of personal wealth. The following data on poverty are from the Small Area Income and Poverty Estimates (SAIPE) of the U.S Census Bureau.

WARNING TREND:
Increasing poverty rate (all ages)

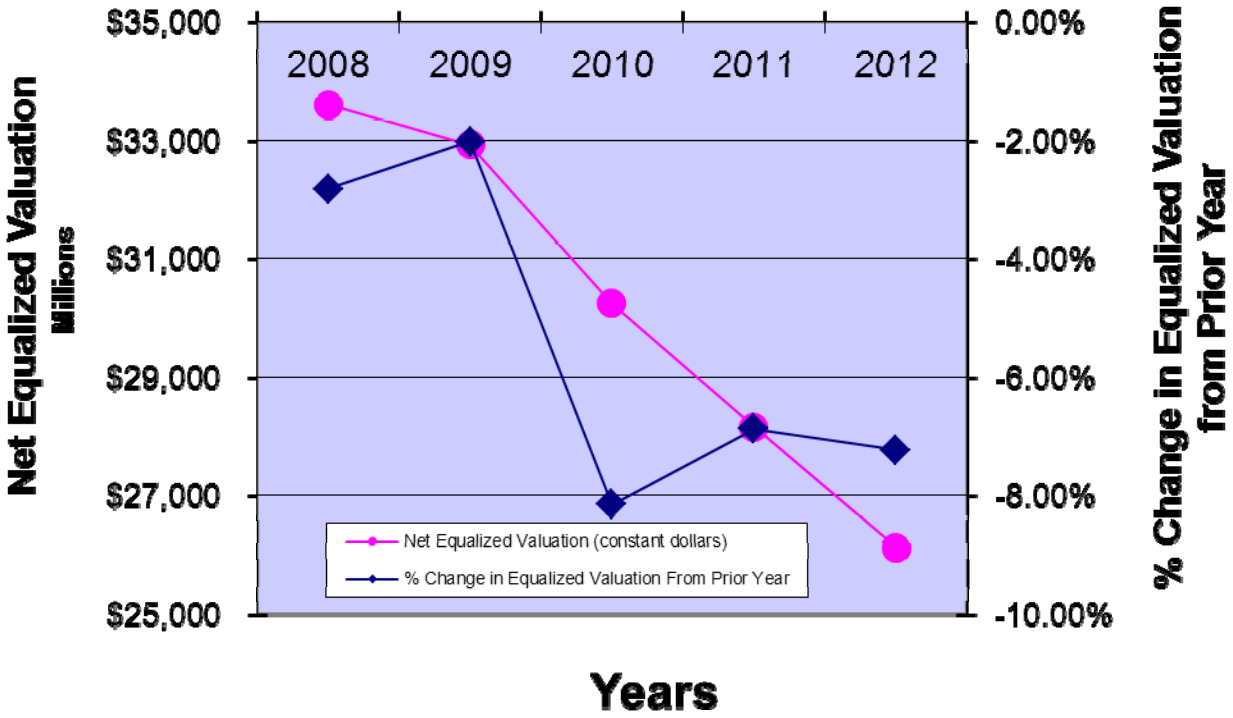
TREND HEALTH:
Negative

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 (though not equally). 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. 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. The extent to which the decline will ripple through the community's economy, affecting other revenues such as those from sales tax, is more difficult to determine. A decline in property value will be a symptom of other, underlying problems.

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

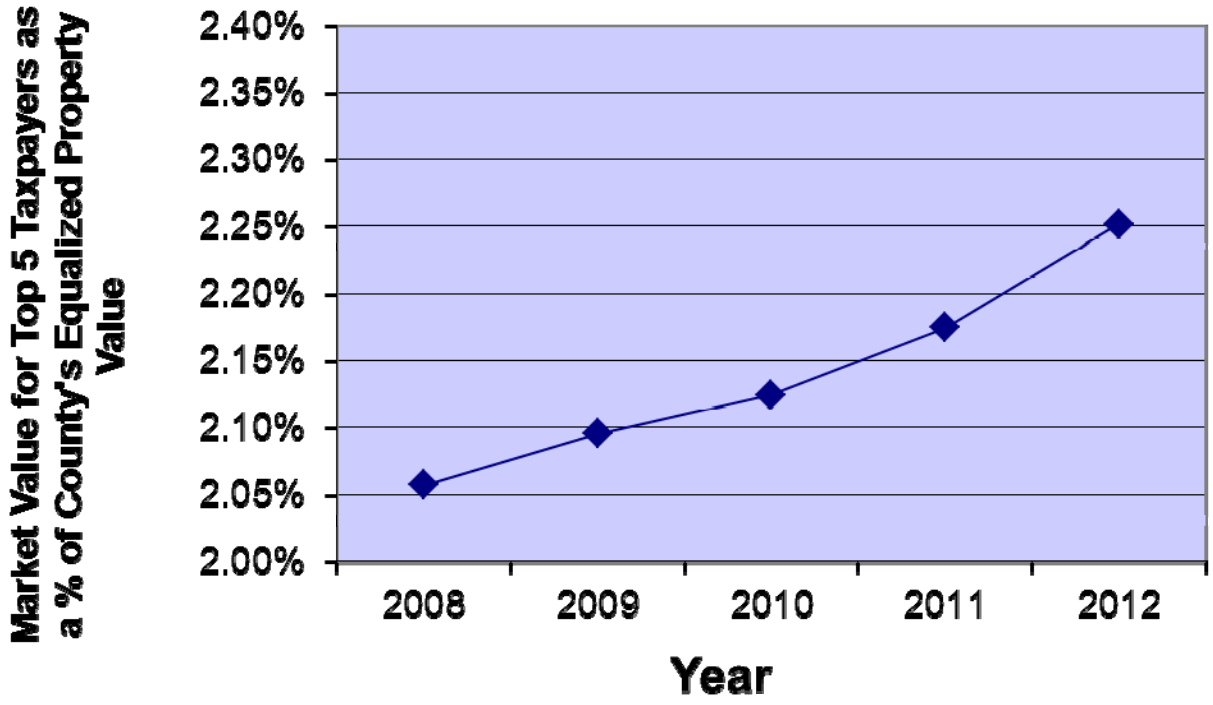
TREND HEALTH:
Negative

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

Analysis

The net equalized valuation of the County, in constant dollars, continues to decline in the aftermath of the global recession. Inflation-adjusted net equalized value dropped by $2 billion or 7.2 percent in 2012 from its 2011 value. This has a negative impact on the County's finances because individuals whose homes and real estate assets are declining in value will tend to reduce consumer spending and investment. Recent trends in the real estate market indicate this trend may soon reverse. However, since the rate of decrease equalized value has remained relatively stable since 2010 it may be several more years before this trends significantly improves.

TOP FIVE TAXPAYERS



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. The bond rating agencies use this indicator to determine the degree of concentration. The leading taxpayers are profiled and assessed for their direct and indirect effects on the local economy. If the County relies heavily on a few taxpayers for property taxes, it is vulnerable to any changes in these taxpayers' assessments. Generally, it is cause for concern if the top five taxpayers hold more than 5% of the County's equalized property value.

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

TREND HEALTH:
Negative

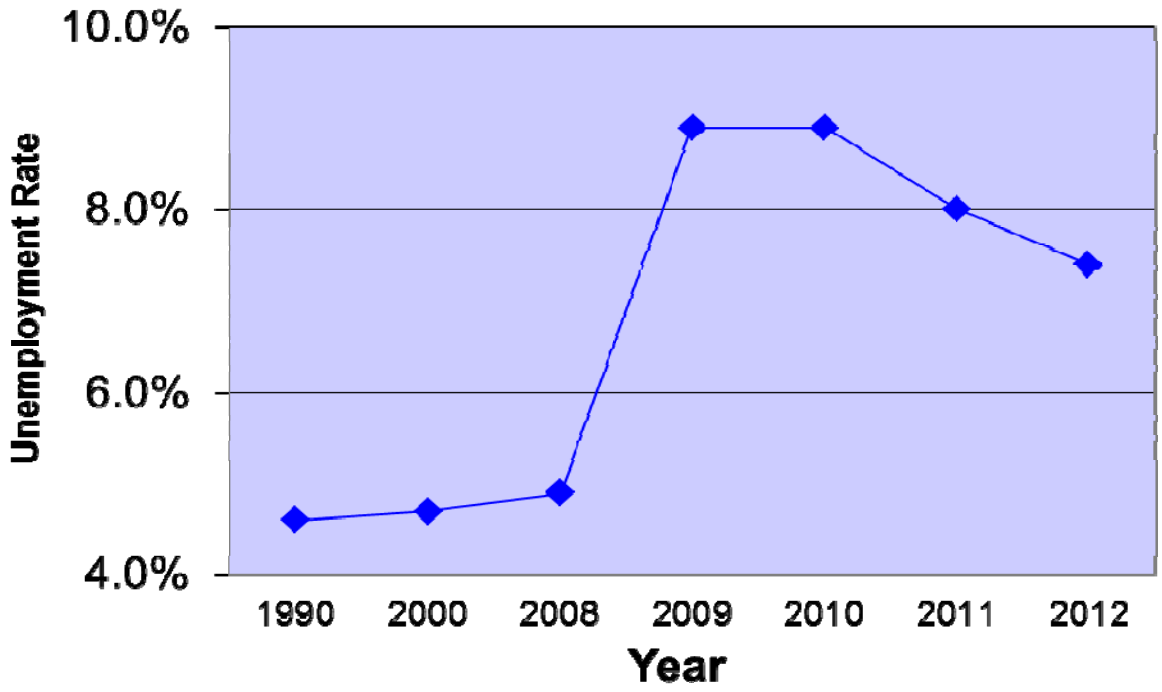
FORMULA:
Full market value for top 5 taxpayers / County's equalized property value

Analysis

The five-year trend is negative due to the increasing share of market value held by the top 5 taxpayers. The increasing rate suggests other residents' and businesses' real estate has declined much farther in value relative to these properties. As of December 31, 2012, the top 5 taxpayers include:

1. Bayshore Town Center, LLC
2. Northwestern Mutual Life Insurance Co.
3. US Bank Corporation
4. Mayfair Property Inc
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:
Positive

FORMULA:
Local unemployment rate

Analysis

The trend improves from the 2011 version from neutral to positive due to a continuing decline in the local unemployment rate from a high of 10.2 percent in 2009 to 7.4 percent in 2012.This shows that the local economy is improving and therefore revenues to the County in the form of sales taxes and program revenues should increase while the need for services provided by the County would decline.

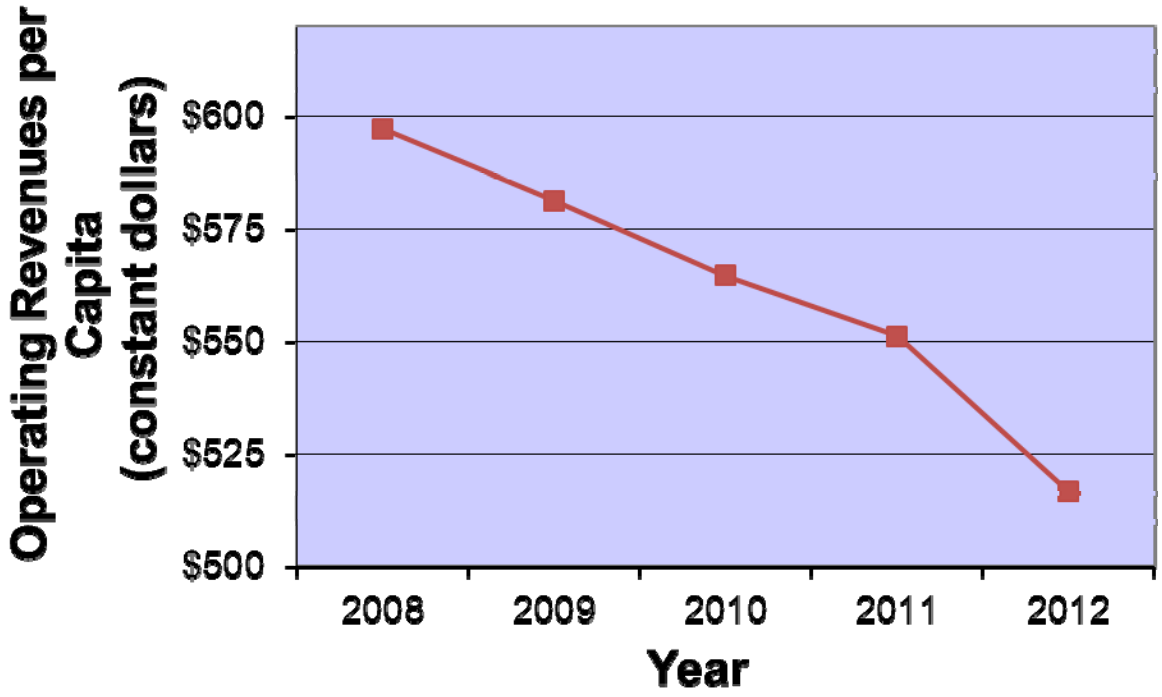
Revenue

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
- Programmatic Revenues (New)
- Intergovernmental Revenues
- General County Property Tax Levy
- Uncollected Property Taxes
- Sales Tax Per Capita
- State Shared Revenue
- User Fee Coverage (New)

OPERATING REVENUES PER CAPITA



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 at least 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.

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

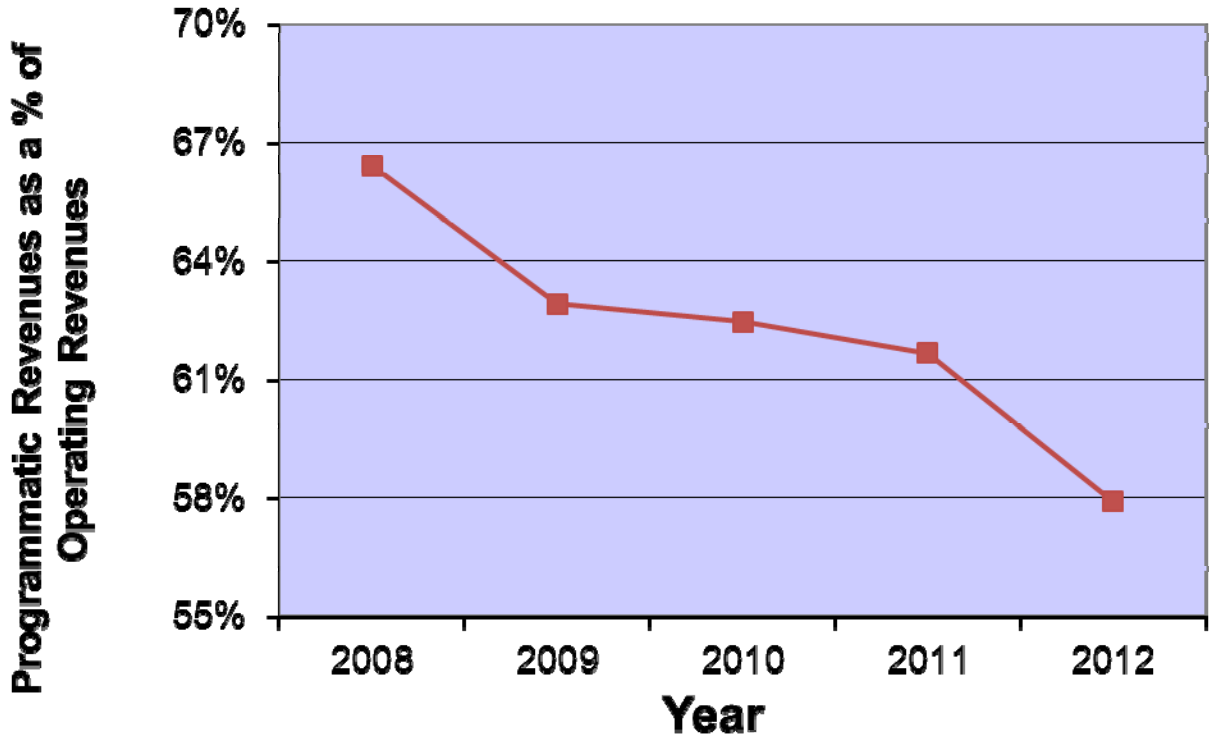
TREND HEALTH:
Negative

FORMULA:
General fund operating revenues

Analysis

The trend is negative as inflation-adjusted operating revenues per capita continue to decline. The decline is mainly related to a significant decrease in intergovernmental support decrease since 2007) and investment income due mainly to continued low interest rates. 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.

PROGRAMMATIC REVENUES



Description

Programmatic revenue is reported according to GASB 34 and is legally earmarked for specific use, as often required by State and/ or County law. Programmatic revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. As the percentage of programmatic revenue increases, the County loses its flexibility to respond to changing conditions and to citizens' needs and demands.

WARNING TREND:
Increasing amount of programmatic revenues as a % of total operating revenues

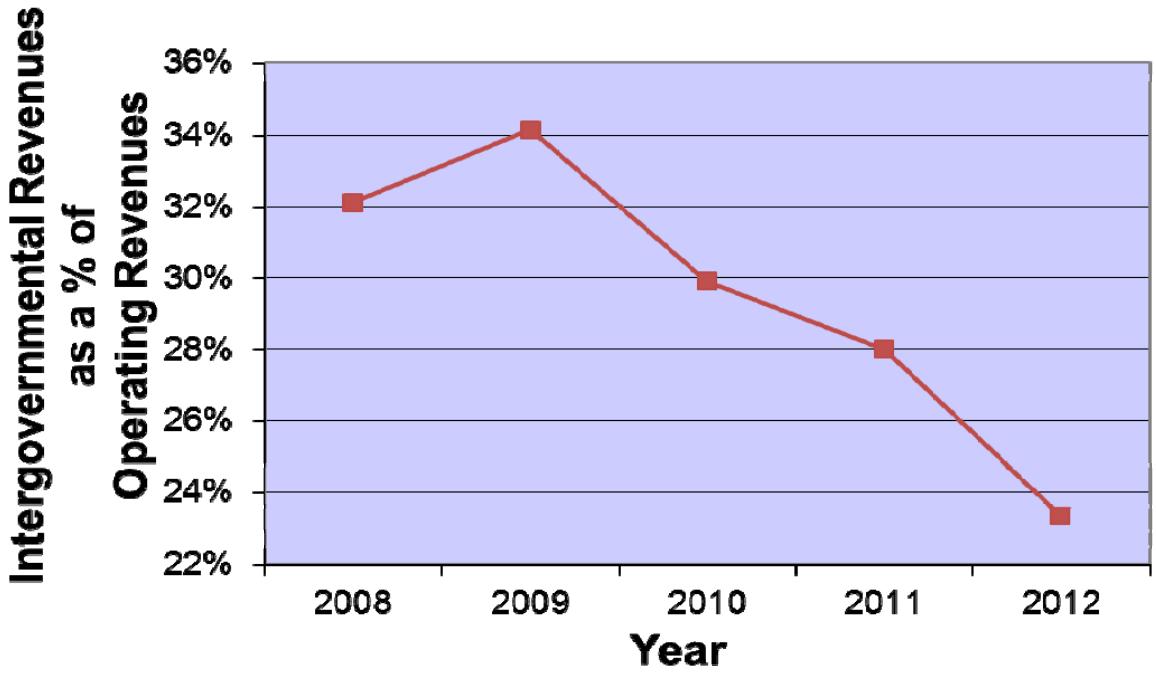
TREND HEALTH:
Positive

FORMULA:
Programmatic revenues / Total operating revenues

Analysis

This trend is technically positive due to the declining share of programmatic revenues, however this reduction is likely related to reduced state aid for specific programs, especially related to health and human services that support those most affected by the economic downturn. From a strictly fiscal perspective this may be positive in that mandated service levels or populations would be reduced, providing additional flexibility for non-programmatic revenues. However, it is highly likely that non-programmatic revenues are being used to supplant lost state and federal aid related to services for those affected by the downturn.

INTERGOVERNMENTAL 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. The primary concern in analyzing intergovernmental revenues is to identify and monitor the County's vulnerability to reductions of such revenues, and to determine whether the County is controlling its use of the revenues or whether these revenues are controlling the County.

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

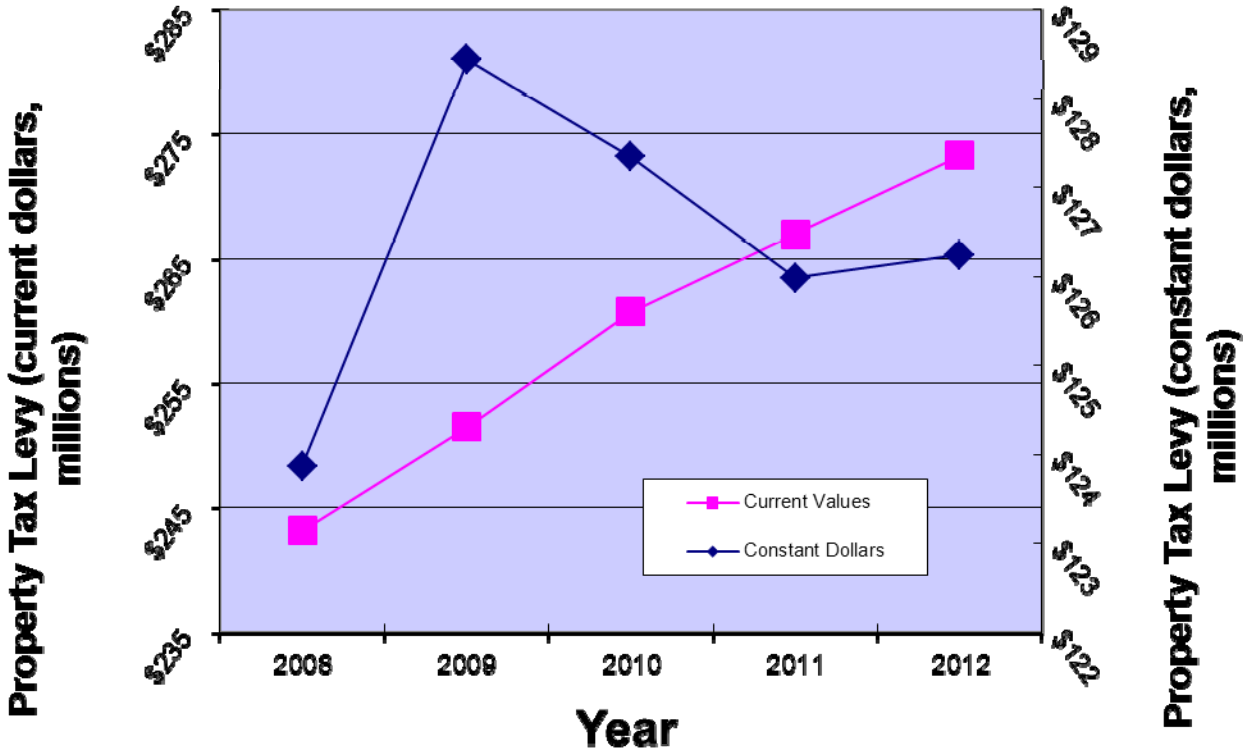
TREND HEALTH:
Positive

FORMULA:
Intergovernmental revenues / General fund operating revenues

Analysis

This trend is technically positive, however like the previous indicator 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. However, from a strictly fiscal standpoint this is a positive trend because other sources of revenue will generally provide more flexibility in terms of which services will be funded.

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. As such, it is important to consider whether tax levy is keeping pace with inflation, in this case compared to the rise in CPI.

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

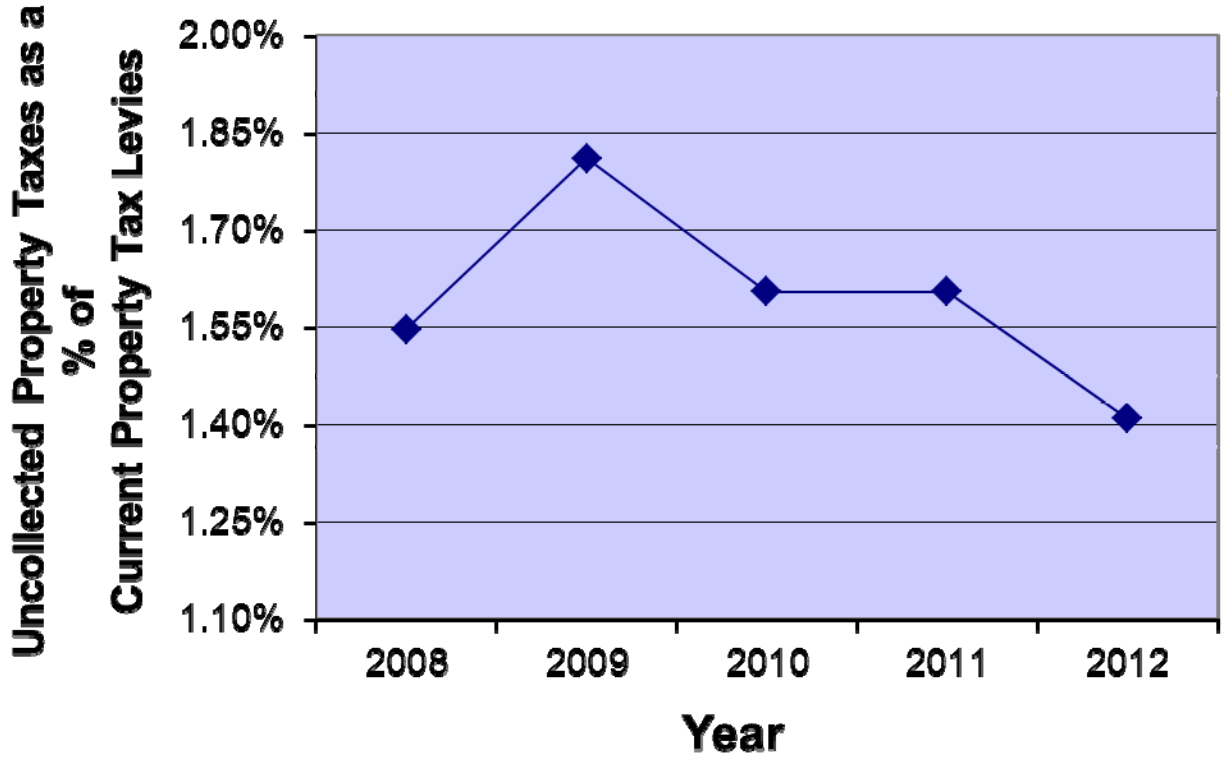
TREND HEALTH: Negative

FORMULA: Property Tax Levy (constant dollars)

Analysis

The property tax levy in current dollars has increased 11.0 percent since 2008, higher than the 8.9 percent increase in the CPI over the same time frame. When adjusted for inflation, property tax rose 1.9 percent from 2008 to 2012. This trend is negative due to the two-year trend of declining property tax revenue when adjusted for inflation. This trend may be revised to neutral in 2013 if the inflation adjusted property tax levy remains relatively flat.

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 and assumes the collection responsibility, except for within the City of Milwaukee, which collects all delinquent real estate taxes in the City. 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

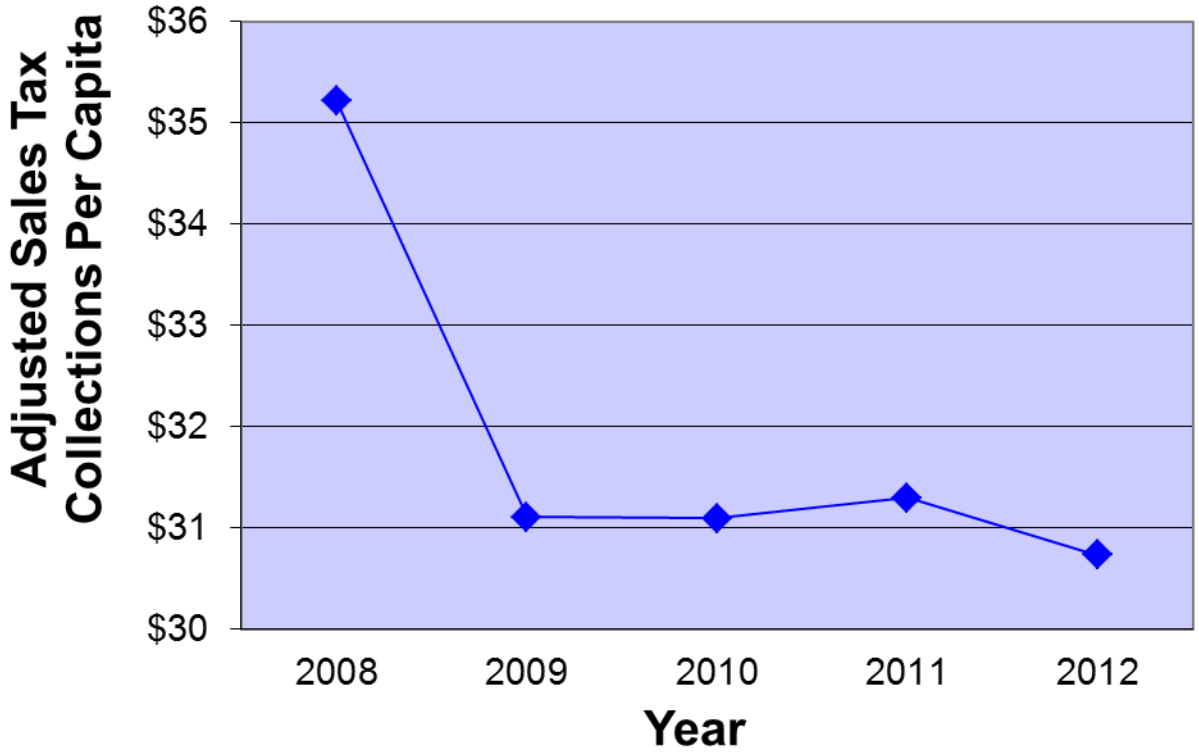
TREND HEALTH:
Positive

FORMULA:
Uncollected property taxes / Current property tax levies

Analysis

The rating for this indicator improves from neutral to positive, as the percentage of uncollected property taxes remained essentially decreased in 2012 to 1.4 percent, after peaking at 1.8 percent in 2009. This suggests the economy is stabilizing and the property owners are more likely to be able to pay their property taxes than at the height of the global recession. The County maintains a reserve to offset uncollected property taxes, so this trend is more reflective of the overall declining economy and the deteriorating housing market.

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.

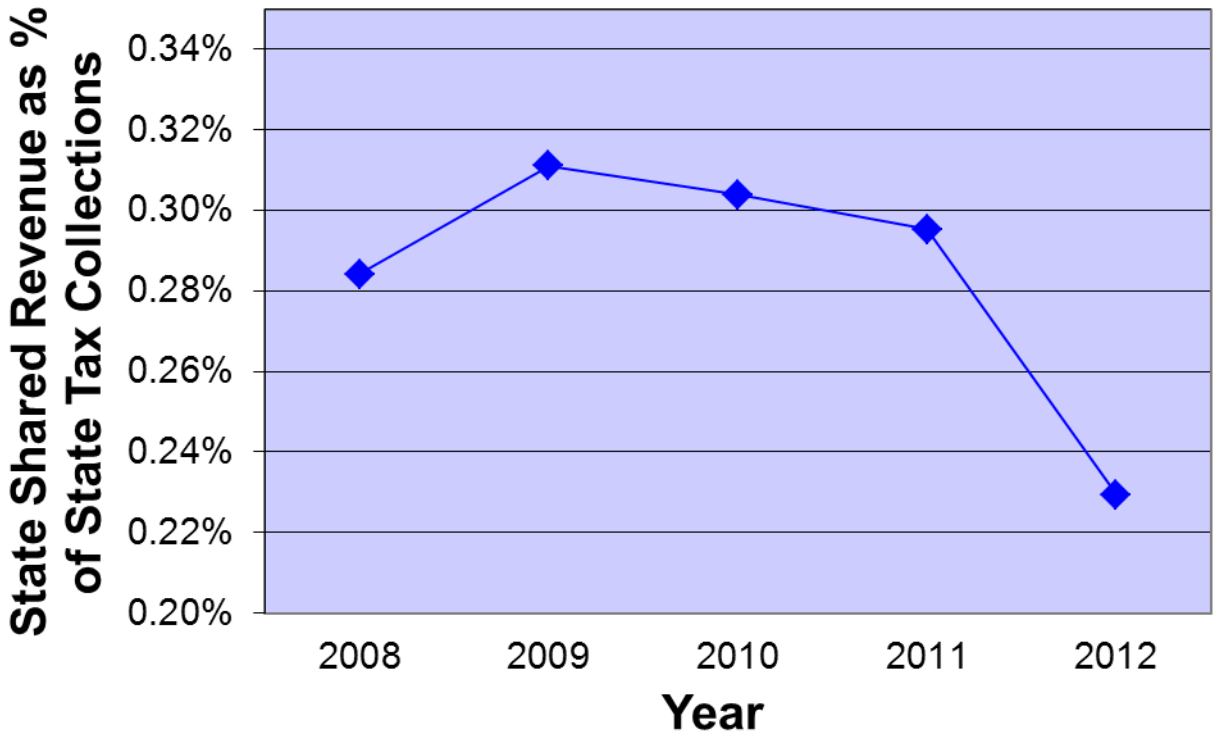
Analysis
This indicator is to neutral due to the stabilization that has taken place since 2009 at close to $31 per person. The ratio remains significantly below the average from 2004 and 2008, when the County received between $35 and $36 in sales tax revenues per person (adjusted for inflation).

WARNING TREND:
Decreasing sales tax revenues per capita

TREND HEALTH:
Neutral

FORMULA:
Inflation-adjusted sales tax revenues/Population

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)

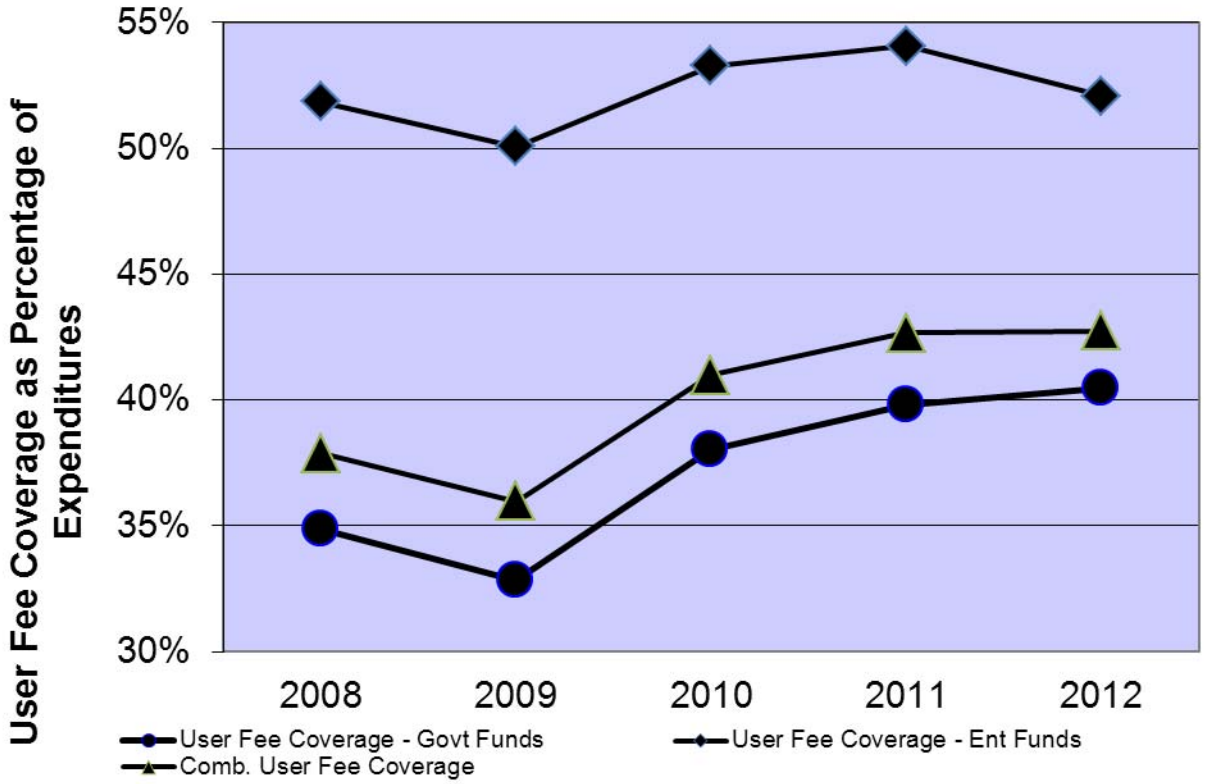
TREND HEALTH:
Negative

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

Analysis

The trend for this indicator was relatively stable during the five year period until 2012. However, due to the significant decrease in state shared revenue in 2012, this trend is revised to negative. 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 relatively flat State Shared Revenue included in the State's 2013-2015 Biennial Budget, the health of this trend is unlikely to improve in the near future.

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:
Negative

FORMULA:
User Fee Revenues/Total Expenditures

Analysis

The trend for this indicator is remains negative due to the rising share of user fee revenues to cover 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. This trend is also indicative of declining intergovernmental revenues that support mandates, which require the County to make the loss up with other sources of revenues, such as fees.

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.

Expenditures

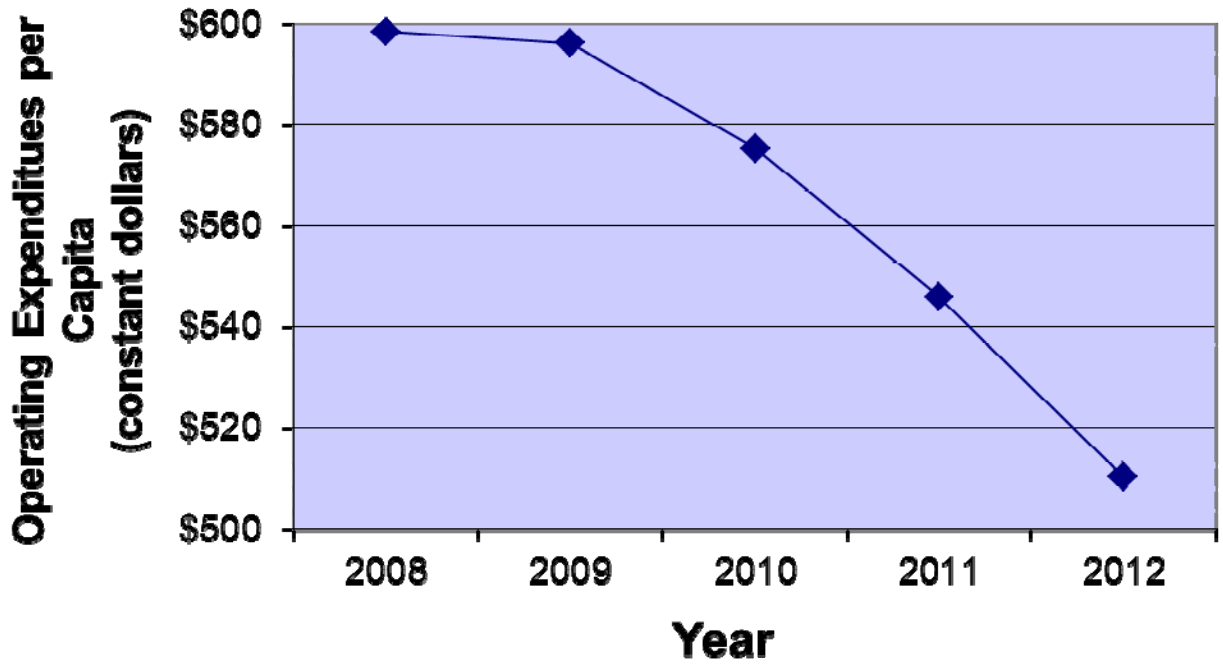
The first issue to consider is the expenditure growth rate to determine whether the County is operating within its revenues. Milwaukee County is required by State Statute to have a balanced budget. Nevertheless, the County could potentially balance its annual budget yet create a long-run imbalance in 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)

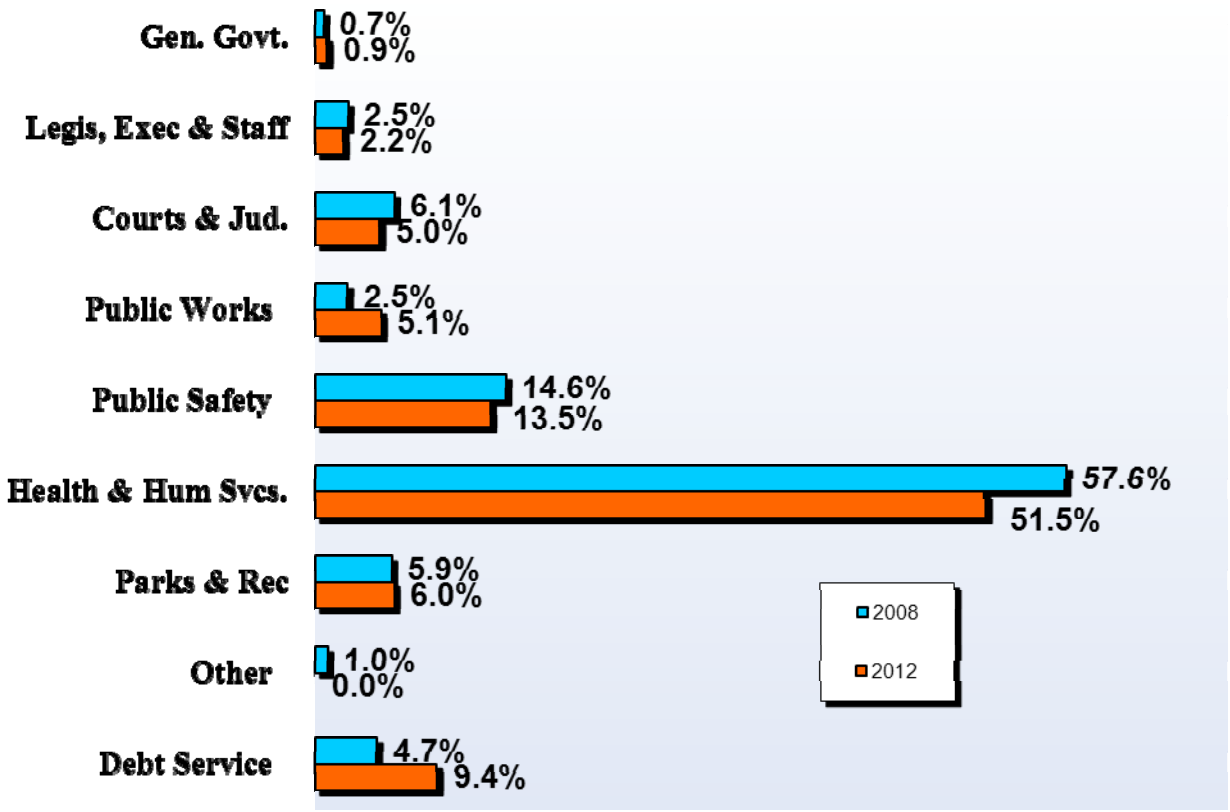
TREND HEALTH:
Positive

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 four years; therefore this trend remains positive. 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. As the County is required to pass a balanced budget, it this decrease is directly related to decreasing revenues. As a result, while technically positive, this could reflect a negative impact on service provision.

EXPENDITURES BY FUNCTION



Description

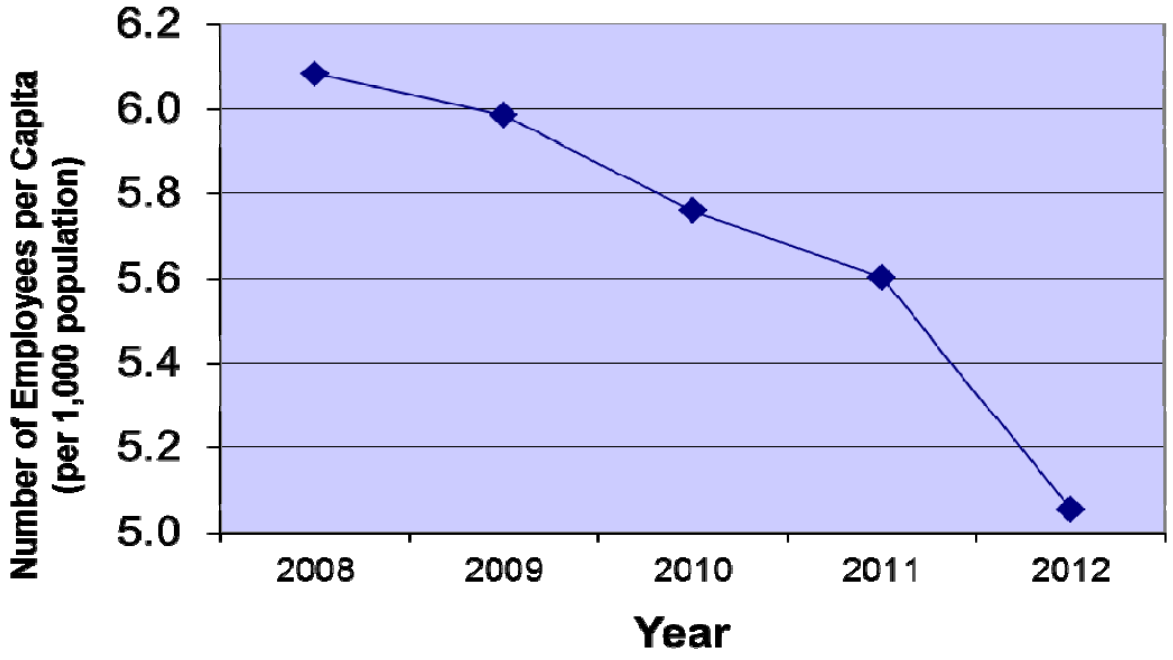
Expenditures by function show a detailed breakdown of the County's general governmental expenditures. Tracking this data can be useful in analyzing developing trends that may indicate need for further attention or resources. Shifting trends may reflect efforts to address goals and objectives, specific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

FORMULA:
Functional expenditures as a % of operating expenditures

Analysis

The five-year trend is relatively stable and there are several functional areas worth detailing. on Health and Human Services has declined over the past 5 years, while spending on debt service has increased sharply due to the issuance of Pension Obligation Bonds. Spending on Parks and Recreation has remained flat which illustrates the County's inability to invest in discretionary services. Spending on Public Safety is starting to decrease as the County has re-evaluates the role of its Public Safety function and focuses on mandated services.

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 to population may indicate that expenditures are rising faster than revenues, the County is becoming more labor intensive, or that productivity is declining. Tracking this measure may also be important during times of change or fiscal austerity. The number of full-time employees as used in this indicator is defined as the total number of County employees minus the number of seasonal workers. Employee totals include both active and inactive employees. For example, some inactive employees may be on leaves of absence without pay but have not yet terminated their employment.

WARNING TREND:
Increasing number of County employees per capita

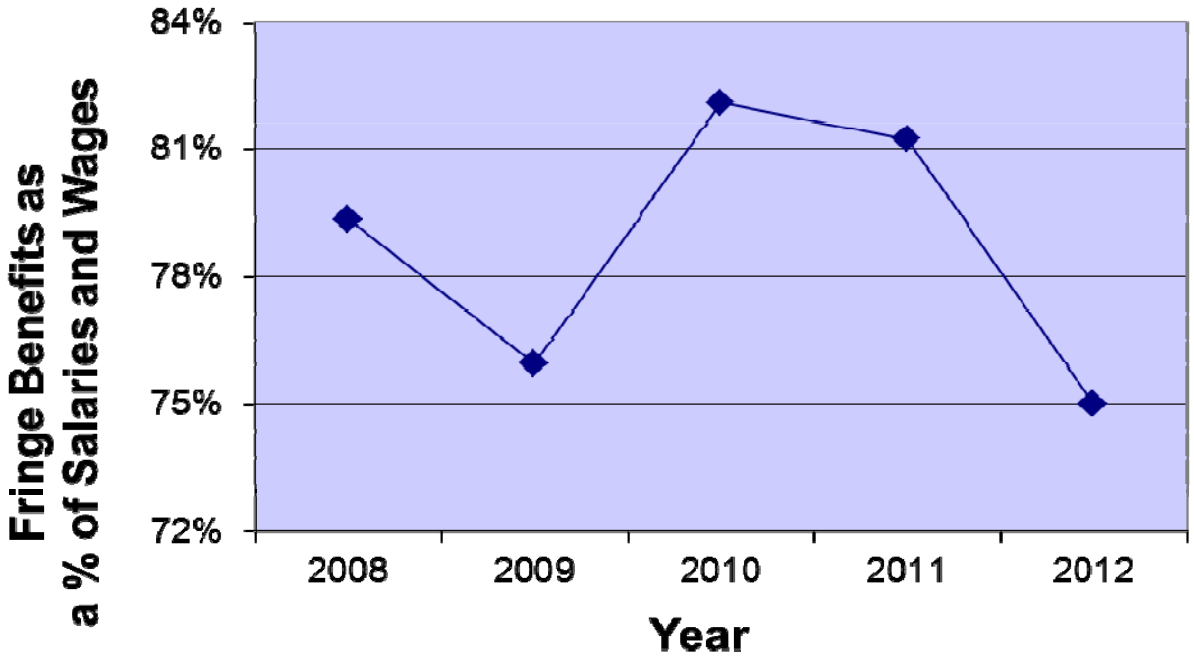
TREND HEALTH:
Positive

FORMULA:
Number of County employees / Population

Analysis

The number of County employees has steadily decreased over the past five years. Based on 2012 staffing levels, there is approximately one County employee for every 198 County residents; in 2008 there was one employee for every 164 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. Some of this trend is due to privatization initiatives, reduced need for corrections staff, and a shift of some duties to the State of Wisconsin; however the County also continues to reduce personnel costs by eliminating many vacant positions which reduces capacity for service delivery.

FRINGE BENEFITS



Description

Fringe benefits often comprise a significant portion of operating costs, often amounting to more than 30% of total labor compensation. Direct benefits consist of health and life insurance, contributions to social security, unemployment insurance, workers' compensation, pension payments and other miscellaneous benefits. Because the funding and recording of fringe benefits is a complex process, these costs can escalate unnoticed, straining the County's finances. In particular, the cost of providing health insurance has risen at dramatic rates for public and private employers in recent years.

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

TREND HEALTH:
Neutral

FORMULA:
Direct fringe benefit expenditures / Salaries and wages

Analysis

In 2012, this trend improves from negative to neutral. While the County still has high fringe benefit costs, related to the health benefits granted to retirees who started employment before 1994 and to the granting of enhanced pension benefits in 2001, the ratio has decreased for the past two years. The nationwide average for state and local government employees, according to the Employee Benefit Research Institute, was 52 percent in 2010.

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.

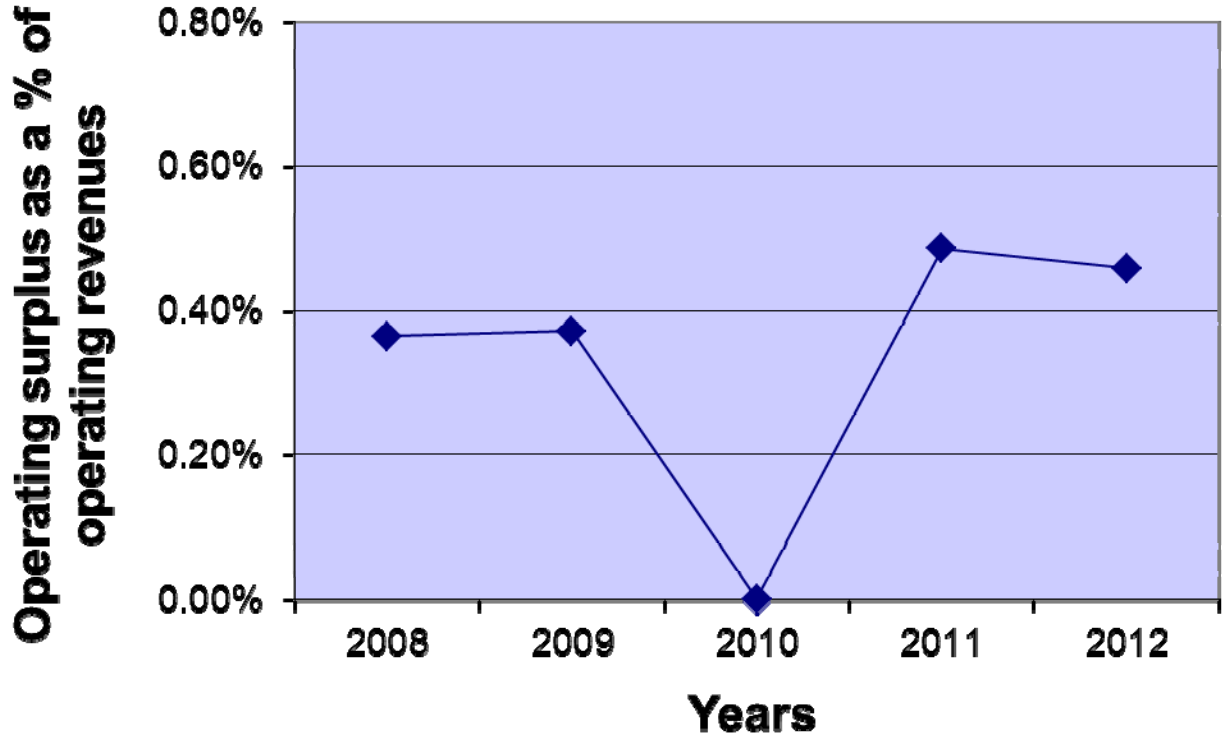
Many local governments develop reserves through the accumulation of operating surpluses and provide financial security in the event of loss of a revenue source, economic downturn, unanticipated expenditure demands due to natural disasters, insurance loss, unexpected large-scale capital expenditures or 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



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.

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

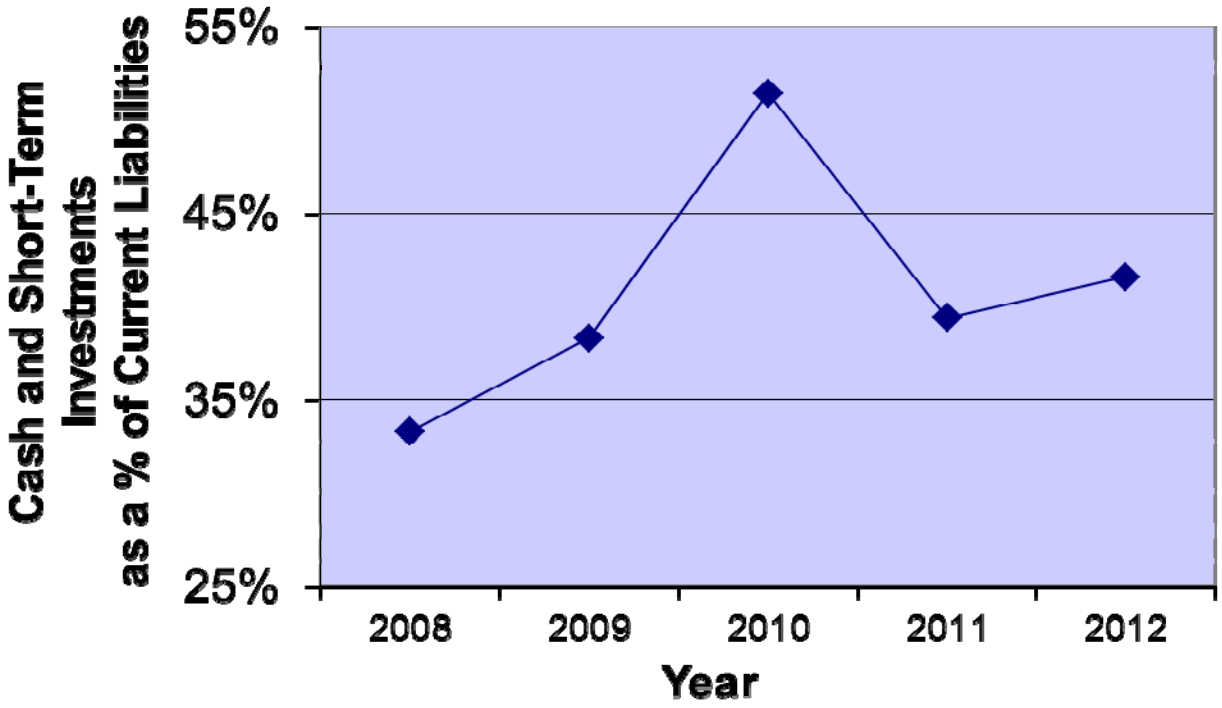
TREND HEALTH:
Neutral

FORMULA:
Operating deficit or surplus / General fund operating revenues

Analysis

This trend remains neutral in this version of the fiscal trends due to the large surpluses realized in 2011 and 2012. In both years, a portion of the original surplus was transferred to the debt service reserve, leaving about $5 million available for general use in the next budget year. This compares to a 2010 surplus of just $8,000. A surplus of $5.0 million (utilized in the chart above because it is the portion of the surplus made available for general purposes) represents 0.46 percent of total General County Operating Revenues, which is roughly in line with the four-year average over the years 2006 to 2009 (0.47 percent).

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 remains positive in 2011 despite the sharp drop in the ratio from 2010 to 2011. It should be noted that large increase in short-term cash and investments reported in 2010 likely reflected the two bond issuances that occurred in 2010 as a result of the accelerated capital program, creating an artificially high ratio in that year. Ignoring 2010 as an outlier, the percentage of cash and short-term investments as a share of liabilities was 41.6 percent in 2012, a slight increase over the 2009 level of 39.4 percent. This suggests the level of available liquid assets is improving steadily.

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.

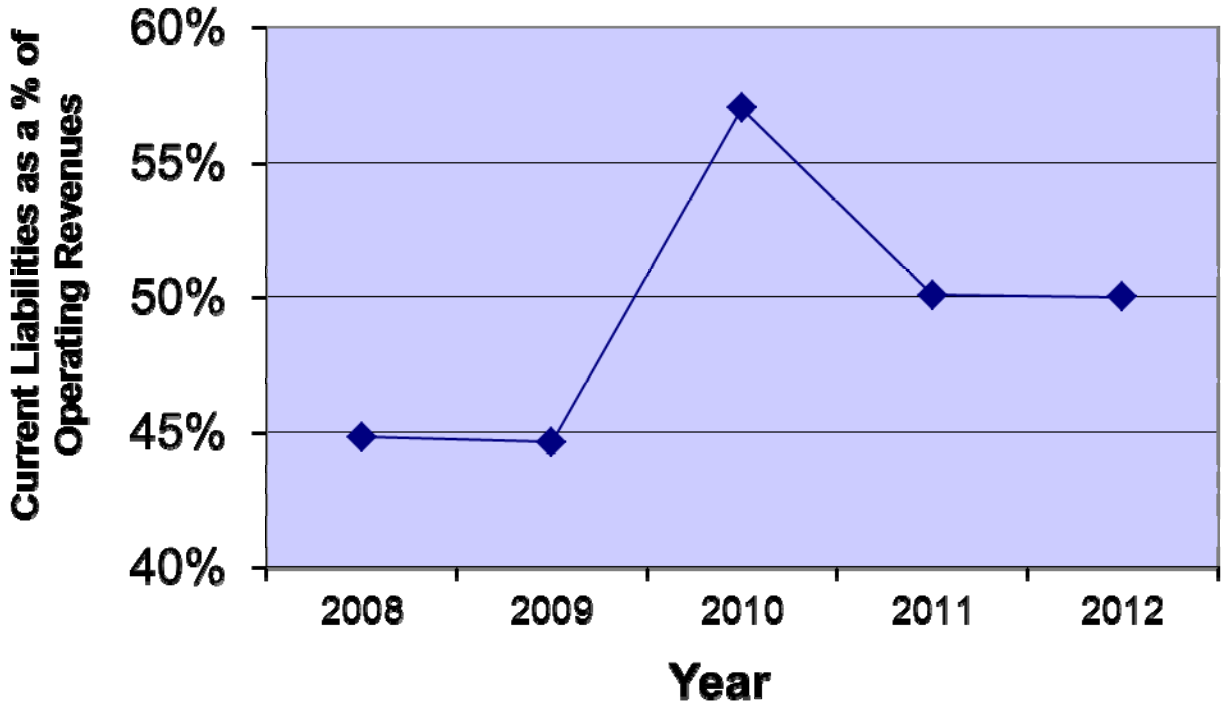
The most common forms of long-term debt are general obligation, special assessment, and revenue bonds. When the County issues debt for capital projects, it must ensure that aggregate outstanding debt does not exceed the community's ability to pay debt service as measured by the wealth of the community. 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



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.

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

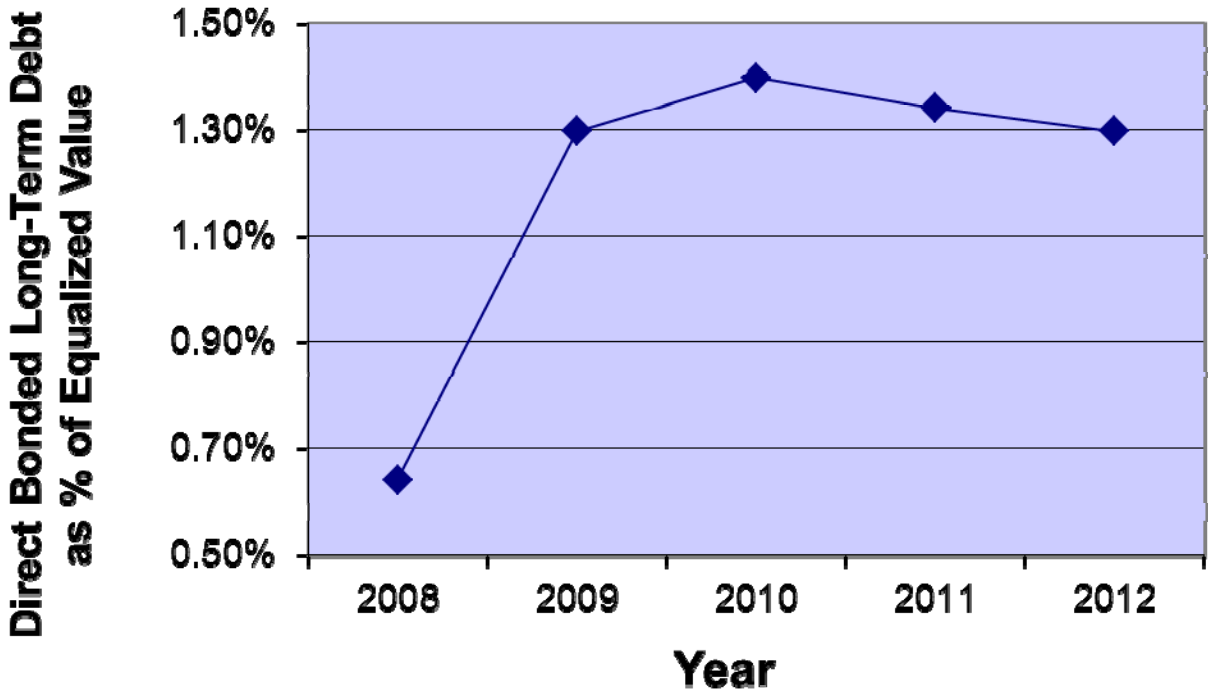
TREND HEALTH: Negative

FORMULA: Current liabilities / Operating revenues

Analysis

This trend is negative despite the large reduction from 2010 to 2011 and 2012 levels. The 2012 percentage (50 percent) remains significantly higher than the three-year average in 2007-2009 (44.6 percent). This trend may be revised to neutral in the next edition if the liability ratio remains near 50 percent.

LONG-TERM DEBT



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.

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

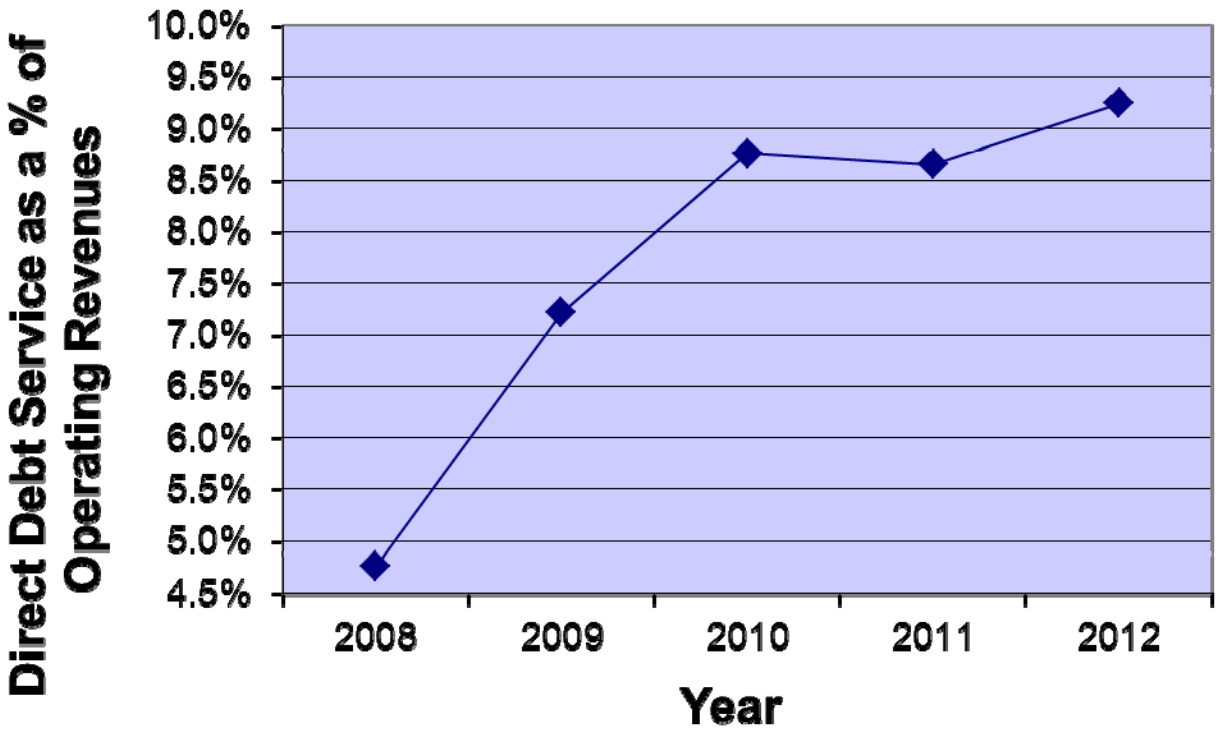
TREND HEALTH:
Neutral

FORMULA:
Direct bonded long-term debt / Equalized valuation

Analysis

The trend is revised to positive from neutral due to a reduction in debt that is larger than the decrease in equalized value. The indicator was negative in past years due to the significant increase in long-term debt as a percentage of equalized value during 2009 and 2010. 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. These past choices should result in increased flexibility due to future decreases in debt service and pension payments.

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.

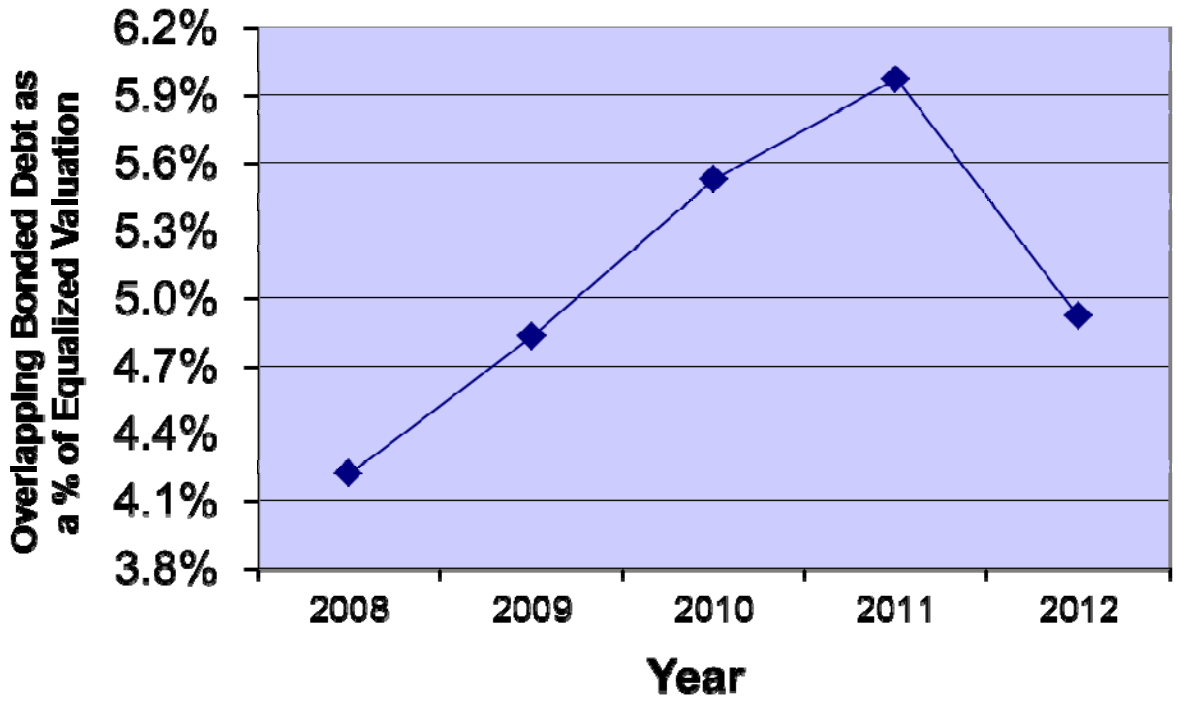
WARNING TREND: Increasing net direct debt service as a % of operating revenues

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 recent policy choices that resulted in large one-time debt issuances. For instance, the issuance of pension obligation bonds in 2008 resulted in significant increases in debt service that are offset by reduced and more stable contributions from the general fund to the pension fund. Additionally, the County accelerated its capital program in 2009 and 2010 to take advantage of federal programs and low interest rates, which resulted in short-term increases in debt service that will end up lower than normal over the long term.

OVERLAPPING DEBT



De

scription

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.

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

Analysis

The trend remains negative, due mainly to reduced equalized values caused by the weak economy and real estate market. Even though there was a sharp decline in 2012 (4.9 percent), this figure is significantly higher than the average from 2006 to 2010 (4.5 percent). The County has also significantly increased its outstanding debt in the short-term based on policies described in the previous two indicators (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. If equalized values stabilize in the near term and the County continues to adhere to the self-imposed bonding cap, this trend should improve in future versions of this report.

Unfunded Liabilities

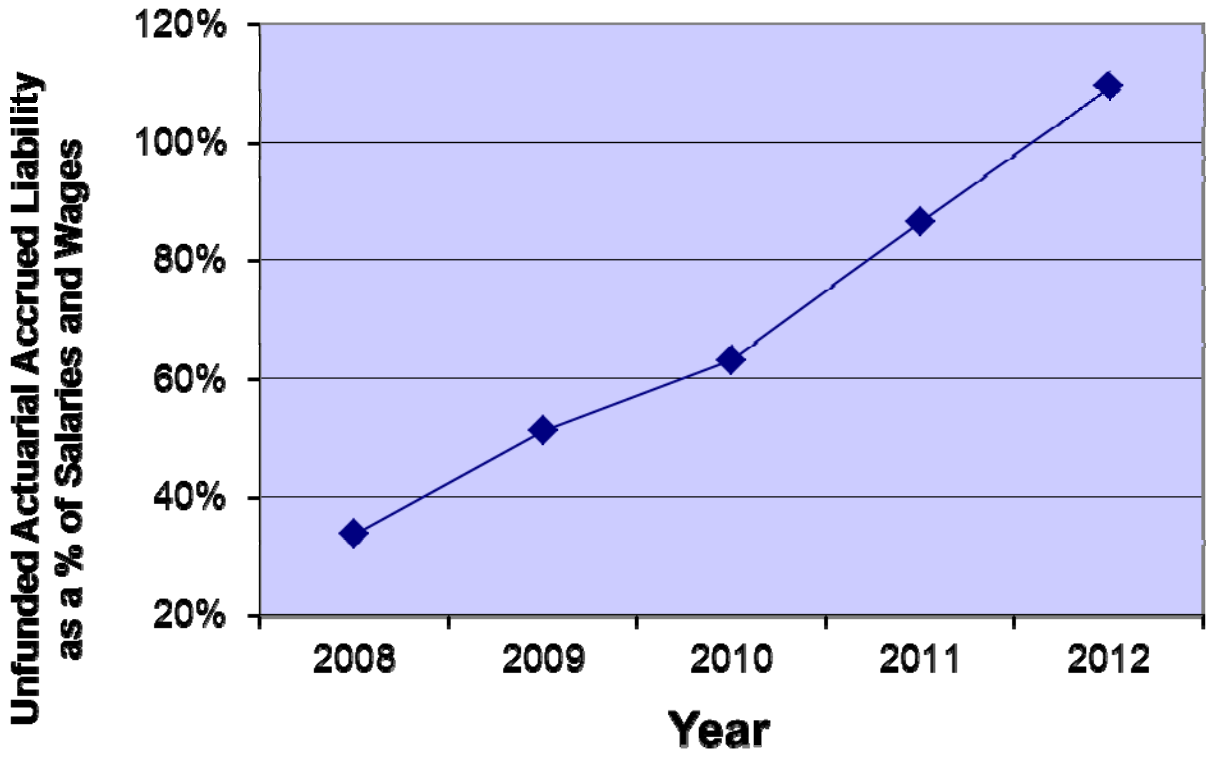
A contingent liability is an existing condition or situation whose ultimate disposition may not be known or does not have to be paid until a future year, and for which reserves have been set aside. A contingent liability is similar to debt in that it represents a legal commitment to pay in the future. 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



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.

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

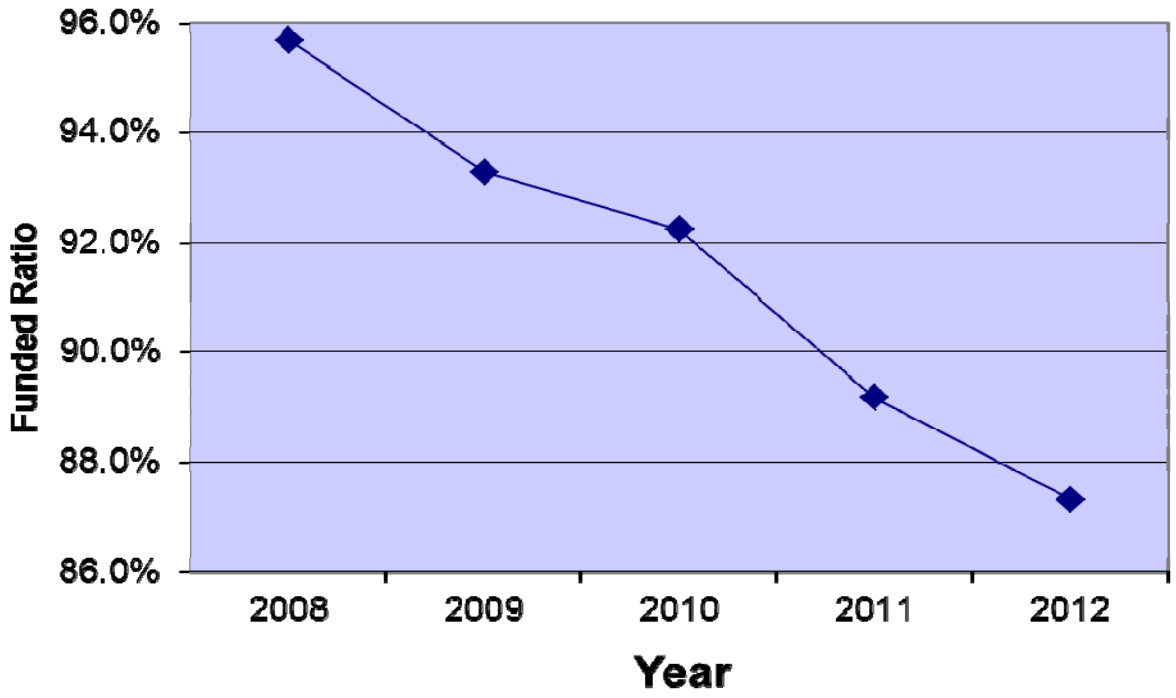
TREND HEALTH:
Negative

FORMULA:
Pension obligation / Salaries and wages

Analysis

This indicator remains negative due to the continued increase in the UAAL from 2008 to 2012. Part of the reason for the increased ratio is the decline in the number of positions budgeted in the County, which has dropped from 5,708 in 2008 to 4,827 in 2012. However, the UAAL has increased over the same time frame from $89 million to $257 million, an increase of 189 percent.

PENSION ASSETS



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.

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

TREND HEALTH: Negative

FORMULA: Actuarial value of pension assets/ actuarial accrued liability

Analysis

Like the previous indicator, this trend remains negative due to the continued decrease since 2008. When the POBs were issued and deposited into the Pension Fund, the funded ratio was 95.7 percent for 2008, compared to 80.4 percent in 2007. This ratio has declined each subsequent year, dropping to 93.3 percent in 2009, 92.2 percent in 2010, 89.2 percent in 2011, and 87.3 percent in 2012. According to the 2012 Annual Report for the Pension Fund, benefit expenses increased from $144.2 million in 2008 to $178.6 million in 2012, while investment income to the fund fell from $320 million in 2009, to $186 million in 2012. As a result, the actuarial value of assets has declined from $1.97 billion at the end of 2008 to $1.77 billion at the end of 2012.

Condition of Capital Plant

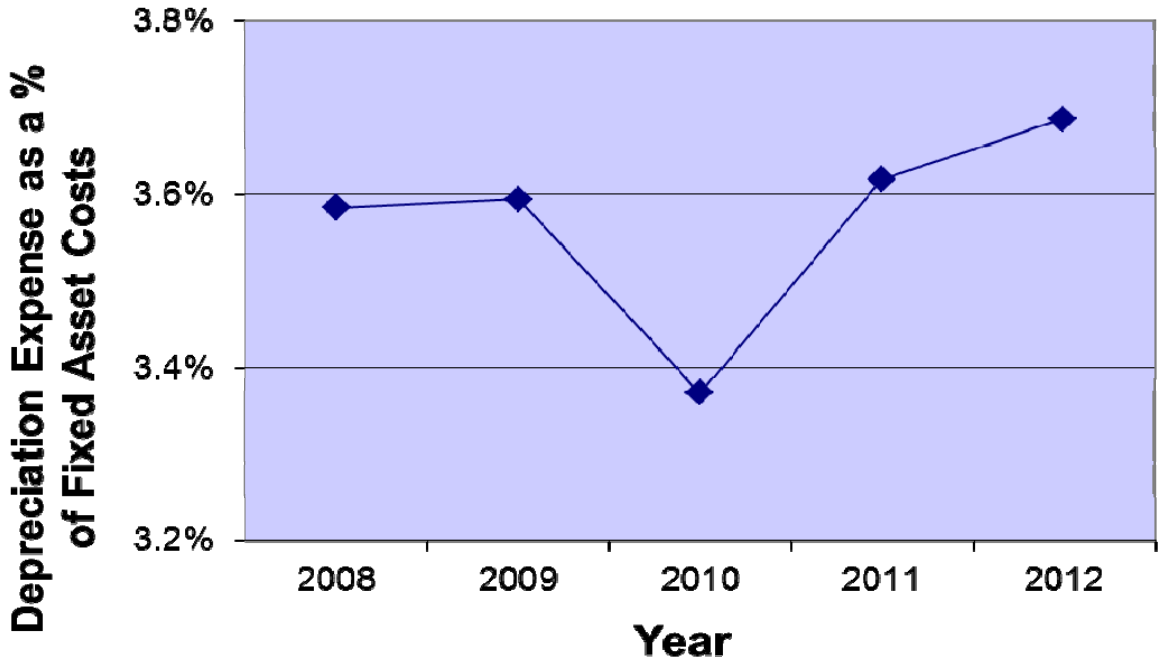
The bulk of the County's wealth is invested in its physical assets or capital plant – streets, buildings, utility network, and equipment. If these assets are properly maintained or are allowed to become obsolete, the results are often a decrease in the usefulness of the assets, an increase in the cost 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:
Neutral

FORMULA:
Depreciation expense / Fixed asset costs

Analysis

The trend remains neutral due to the ratio's increases in 2011 and 2012. The average over the four-year period from 2006 to 2009 was 3.64 percent. After dropping to a low of 3.37 percent in 2010, the ratio has rebounded to 3.62 percent in 2011 and 3.69 percent in 2012. These figures are much closer to the historical norm. This indicator deserves scrutiny as part of an overall strategic and operational plan relating to the future use of the County's fixed assets.