

COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION

DATE: April 5, 2011

TO: Supervisor Lee Holloway, Chairman, County Board

FROM: Roy de la Rosa, Director, Intergovernmental Relations
Cynthia Pahl, Interim Assistant Fiscal and Budget Administrator

SUBJECT: IMPACT OF THE STATE BUDGET

Issue

The 2011-13 Governor's Budget Recommendations (SB27/AB 40) includes significant reductions in state aid provided to Milwaukee County in both 2011 and 2012. However, Wisconsin Act 10, also known as the Budget Repair Bill, would provide the County the ability to modify non-base wage and benefits for employees represented by non-public safety unions once their existing contracts expire. The unique challenge facing Milwaukee County is that a large portion of these savings have already been budgeted in 2010 and 2011 leaving it limited ability to offset these reductions.

Background

State Budget

While the Department of Administrative Services, Intergovernmental Relations, County Board staff and departmental staff continue to analyze the impact of the state budget a *preliminary* analysis shows that reductions in state funding for 2011 will total \$2.7 million. Most of the reductions will take place in 2012 and are expected to exceed \$25.7 million. A list of these reductions is included in Attachment 1 and described in more detail in departmental reports. It is important to note several important considerations when considering these totals:

- This information is based on the best information to date. However, there continues to be unanswered questions and additional information being provided. Policy makers will be updated as staff receives additional information.
- The totals above assume that the County back-fills the state reductions with tax-levy. To the extent the County decides to eliminate the service, the fiscal impact will be reduced but there will be a reduction in service. This is particularly true at the Behavioral Health Division (BHD) where reductions are in revenues used to purchase services for BHD clients.
- The impact of the \$500 million in savings that are intended to result by making changes to Medical Assistance and related programs is not included in the above totals. As these changes are being implemented by the Department of Human Services (DHS) through expanded powers granted in Wisconsin Act 10, there is limited information on how these changes will impact the County. The Behavioral Health Division, Disabilities Division, Department of Aging and Department of Family Care all rely on Medical Assistance and could be impacted by these changes.
- The Department of Health Services will centralize administration of Income Maintenance and transfer the administration of these programs from counties to DHS. As part of this centralization, the Milwaukee County Enrollment Services Unit which was created in 2009 as part of Act 28 will be eliminated. Although there remain many questions, it is assumed that in 2012, the County's levy contribution of approximately \$3.0 million will be transferred to the state through a reduction in

Basic Community Aids. Not included in the estimates above are any fixed costs that are currently reimbursed by the state such as building space, legacy costs and other overhead. Once this program is taken over by the state, these costs will no longer be reimbursed and likely have to be spread across other County departments. At this time the total impact is unknown and depends on how the State implements this change.

There are important changes not included in the above totals because there is no immediate budgetary impact. They are nevertheless important:

- Property tax increases are limited to the rate of new construction growth. In 2010, the new construction rate was less than 1.0%. In addition, any decrease in debt service on general obligation debt issued prior to 2005 must result in a corresponding decrease in the property tax levy. Based on this formula, DAS-Fiscal estimates that the County's 2012 property tax increase would be limited to less than \$2.0 million. In addition, debt service is expected to decline beginning in 2014. This decline is the result of strict debt management policies adopted by the County and had been a key component in closing the County's structural deficit. However, under the current proposal, these decreases must be used to provide property tax relief.
- In order to reduce General Purpose Revenue by \$116 million, the State has capped Family Care enrollment from June 20, 2011 until June 30, 2013. This will have the effect of creating a waiting list for eligible seniors and preventing the County from eliminating the waiting list for individuals 18-59 years old with disabilities.
- The Ethan Allen correctional facility for juveniles in Waukesha County will be closed and juveniles will be transferred to the Lincoln Hills School in Irma, WI considerably increasing the distance Milwaukee County families must travel to visit and support incarcerated juveniles.
- Milwaukee County had contributed \$6.8 million annually to the State of Wisconsin as part of the General Assistance Medical Program (GAMP). The State had required this contribution continue when GAMP was transitioned to Badgercare. However, the Milwaukee County 2011 Adopted Budget did not include \$6.8 million in funding for the Badgercare program. This funding requirement would be eliminated for 2011 with the adoption of the financial provisions relating to the budget adjustment bill and also was not included in the Governor's 2011-2013 biennial budget. Had the Repair Bill and the State Budget not included this change, the County would have had an additional \$6.8 million deficit in BHD for 2011 and 2012.

Budget Repair Bill

The Governor utilized the Budget Repair Bill to provide local governments with increased flexibility as it relates to employee non-base wages and benefits in order to offset the reductions included in the Governor's budget. The County's 2011 Adopted Budget includes over \$19.4 million in non-base wage and benefit modifications. This does not include savings from concessions included in the 2010 budget that have already been achieved through negotiation or applied to non-represented staff. It is estimated that if the Budget Repair Bill becomes effective in 2011, \$16.3 million of this total will be saved on an annual basis (the difference being the amounts attributable to the Deputy Sheriffs and Firefighters unions which still must be negotiated).

In addition, the Budget Repair Bill mandated a 6% pension contribution. As the County had only budgeted a 4% contribution, there will be additional unbudgeted savings of \$3.7 million. While this is not adopted policy, the County could also choose to apply the 2011 Health Care Plan design changes to all employees

represented by non-public safety bargaining units. Currently this plan only applies to non-represented staff and retirees. This would result in an additional \$3.7 million.

As shown in Table 1, if the County could apply the budgeted and unbudgeted savings associated with the non-base wage and benefit changes included in the 2011 Budget and contained in the Budget Repair Bill, it could largely offset the reductions included in the Governor's budget. Under this scenario, the County would only face a \$2.1 million shortfall in 2012. In fact, had the Repair Bill allowed these changes be applied to employees represented by public safety bargaining units as well, it could have completely offset the reductions. However, since \$16.3 million of these savings were used to balance the 2010 and 2011 budgets, they are unavailable to offset the state reductions and the County will instead face an \$18.4 million reduction in 2012.

Table 1¹

	2012
Total Reductions in State Aid	\$ (25,711,878)
Non-base Wage and Benefit Reductions Achievable through	
Repair Bill	\$ 23,644,747
<i>subtotal</i>	<u>\$ (2,067,130)</u>
Non-base Wage and Benefit Reductions Achievable through	
Repair Bill but already included in County's Budget	<u>\$ 16,286,497</u>
TOTAL 2012 Surplus/(Deficit)	\$ (18,353,627)

While the County could choose to further reduce employee benefits to make up the difference, it is important to note the impact of the reductions so far on employee compensation. In 2010, non-represented staff contributed 16.3% of the total cost of their health insurance benefit when taking into account premium contributions, co-pays, co-insurance and deductibles. This represents 3.4% of salary.

Once the Budget Repair Bill becomes legally effective, non-represented staff will contribute 6% of salary towards the cost of their pension (this represents 71% of the 2010 normal pension cost). In effect, non-represented staff will then contribute a total of 9.4% of their salary on average towards their health and pension benefits. Once the Budget Repair Bill becomes legally effective, it is expected all County employees, except for those represented by public-safety bargaining units, will contribute similar amounts.

Recommendation

This is an informational report only.

- Cc: Marvin Pratt, County Executive
- Terry Cooley, Chief of Staff, County Board
- E. Marie Broussard, Deputy Chief of Staff, County Executive's Office
- Steve Cady, Fiscal Analyst, County Board
- Jerry Heer, County Auditor

¹ Budgeted non-base wage and benefit reductions include all 1972 concessions and healthcare plan design changes included in the 2011 Adopted Budget. Savings associated with the Deputy Sheriffs and Firefighters have been excluded from this calculation since these must still be collectively bargained. Unbudgeted non-base wage and benefit reductions include an additional 2% pension contribution so that the total contribution for county employees equals 6%. This total also assumes the 2011 Health care plan design changes are applied to all active employees except for Deputy Sheriffs and Firefighters. Currently they are only applied to retirees and non-represented staff.

**Attachment 1 –
Impacts of 2011-13 Governor's Budget Recommendations (SB27/AB 40) on Milwaukee County**

Department	Program	2011 impact	2012 Impact	Budget Impact	Description
BHD	Community Recovery Services				The Governor recommends expanding the scope of services under the Community Recovery Services waiver to permit counties to claim federal Medicaid reimbursement for additional types of community-based services provided to individuals with mental illness. Impact Unknown.
BHD	Mental Health and Alcohol and Substance Abuse				Block grant allocation restructured, which should benefit Milw Cnty but impact unknown
BHD	Mental Health and Alcohol and Substance Abuse	\$ (650,550)	\$ (1,301,099)	Yes	10% reduction in any GPR funded allocation (COP, IMD, TANF). 5% in 2011; 10% in 2012
Child Support	Base funding		\$ (3,664,779)	Yes	Ability to match federal child support incentive payments expired
Courts	Cost of Circuit Court				Statewide Auditor Position: The Governor's budget converts a 1.0 FTE GPR project auditor position in the Supreme Court to permanent status to assist counties with an accurate reporting of circuit court costs and ensure consistent reporting statewide.
Courts	TAD and AIM Grants		\$ (866,200)	Yes	TAD and AIM funds for Milwaukee County Eliminated. Funds used for jail screening which will hinder universal screening
Courts	Court Interpreter Funding				Court Interpreter Funding: The Governor's budget increases funding for reimbursement of court interpreter costs incurred by counties for court interpreter services with funding supported by revenues generated from the justice information fee: \$134,000 FY 12; \$232,700 FY 13.
Courts	Court Self-Help Centers				Court System Self-Help Centers: The Governor's budget authorizes a county board to direct its clerk of circuit courts to operate a self-help center to provide individuals with information on the court system, including guidance on court proceedings and where to find legal assistance and forms. The Governor's budget also authorizes a county to impose a fee for services provided by a self-help center.
Courts	Milwaukee County Clerks Funding	\$ (22,800)	\$ 10,000	Yes	The Governor recommends increasing reimbursements to Milwaukee County for clerks staffing the Felony Drug Crime Courts, Violent Crime Courts and Operation Ceasefire prosecutions. However, increase assumes 5.8% pension contribution and 12.8% healthcare. So funding actually decreases in 2011

Department	Program	2011 impact	2012 Impact	Budget Impact	Description
Courts	Circuit Court Support	\$ (153,518)	\$ (307,036)	Yes	Reduction statewide from 18,552,200 to 16,697,000
Courts	Guardian Ad Litem	\$ (38,818)	\$ (77,636)	Yes	Reduction statewide from 4,691,100 to 4,222,000
DA	Victim Witness Funding	(\$70,000)	\$ (138,000)	Yes	10% reduction
DA	Assistant DA retention				The Governor recommends providing funding from justice information fee revenues for compensation payments made to assistant district attorneys, as determined by a distribution plan agreed to by the department and the Office of State Employment Relations, to increase retention of experienced prosecutors. -\$1M provided
DHHS	Medical Assistance				\$500M in unspecified Medical Assistance reductions has the potential to impact BHD, DHHS and Family Care
DHHS	Income Maintenance				The Governor recommends transferring administration of income maintenance programs, including eligibility determination for Medicaid and FoodShare, from counties and tribes to the state. This consolidation will improve the accuracy and timeliness of eligibility determinations, while reducing total income maintenance costs by \$48 million per year and decreasing the number of overall staff in the program by an estimated 270 FTE positions.
DHHS	WIMCR				WIMCR: The Governor's budget reduces funding to reflect a change in the process for claiming federal Medicaid funding under the Wisconsin Medicaid Cost Reporting program: -\$1,685,200 FY 12; \$14,369,600 FY 13. Impact on County Unknown
DHHS	GAMP Payment		\$ 6,800,000	No	Appears to maintain Repair Bill language so that the County does NOT have to make a \$6.8M payment
DHHS	Basic Community Aids	\$ -	\$ (2,700,000)	No	Intercept for Income Maintenance
DHHS	Children's Long Term Support				State will utilize a third party administrator. impact on County unknown.
DHHS	Youth Aids	\$(1,790,064)	\$ (3,580,092)	Yes	\$19.6m reduction Statewide; Milw Cnty's share approx 36.1%

Department	Program	2011 impact	2012 Impact	Budget Impact	Description
DHHS	Closure of Juvenile Corrections Facilities				The Governor recommends reducing expenditure and position authority to reflect closure of Ethan Allen School and Southern Oaks Girls School due to a significantly decreased population. The population decreased from 587 in FY08 to 466 in FY10. The projected average daily population in FY13 is 340. Juvenile boys will be located at Lincoln Hills School, and girls at Copper Lake School, both in Irma.
DHHS	JCI Rates	\$ 15,000	\$ 30,000	Yes	Gov JCI 7/1/11 = \$284.00 (fifty cents below DHHS 2011 ADOP) Gov JCI 7/1/12 = \$290.00 (\$1.00 below DHHS 2011 ADOP)
DTPW	Highways Capital Funding				The Governor recommends: accelerating work on the Zoo Interchange and continue work on the I-94 North-South Corridor.
DTPW	General Transportation Aids		\$ (641,851)	Yes	The Governor recommends adjusting expenditure authority for general transportation aids to reflect: LFB Paper issued 3/15 shows 15% reduction or \$641,851 for Milwaukee County.
DTPW	Transit Operating Aids		\$ (6,858,300)	Yes	The Governor recommends adjusting expenditure authority for transit operating aids to reflect: (a) the 3 percent calendar year 2011 increase authorized in 2009 Wisconsin Act 28; (b) a 10 percent reduction in calendar year 2012; and (c) no increase in calendar year 2013. The Governor also recommends changing the funding source for transit operating aids from the transportation fund to the general fund beginning in FY13. The Governor further recommends directing the department to include in its 2013-15 budget request changes to the tiered transit operating system distribution percentages in response to any changes in federal aid due to population changes from the 2010 census. In addition,
DTPW	Regional Transportation Agency				the Governor recommends requiring a binding referendum in any regional transit authority district before imposition of any tax or fee.
DTPW	Transit Capital Assistance				eliminating \$100 million in general obligation bonding authority for transit assistance in Southeastern Wisconsin. This bonding authority was only available to the SE WI RTA.
DTPW	Highway Maintenance				Maintenance: The Governor's budget provides a 2 percent increase in each year for state highway maintenance.
Family Care	Nursing home rates				Nursing Home Rate Statute Technical Change: The Governor's budget provides the department the option of using the most recent federal Resource Utilization Group methodology for determining Medicaid reimbursement to nursing homes. Impact on

Department	Program	2011 impact	2012 Impact	Budget Impact	Description
					Milwaukee County unknown
Family Care	Cap on enrollment				FAMILY CARE ENROLLMENT capped on June 20, 2011, or the effective date of this subsection, whichever is later. This subsection does not apply after June 30, 2013. Same for PACE and Partnership.
Family Care	Adult Family Home Certification				Eliminate the requirement that DHS regulate one- and two-bed adult family homes and the requirement that DHS certify one- and two-bed adult family homes in order for these homes to provide services to a person who is a recipient of Family Care, a community-based long-term care MA waiver program, or supplemental security
Family Care	Program Review				Review of Family Care statewide including results of audit conducted by Legislative Audit Bureau
Non Dept	Library Maintenance of Effort				Library MOE: The Governor's budget eliminates the library maintenance of effort funding requirement.
Parks	Repair of Dams				Dams: The Governor's budget provides \$4 million for dam repair, reconstruction and removal projects, and would ensure greater program flexibility by removing the deadline for grant requests.
Revenue	State Shared Revenue		\$ (8,316,885)	Yes	Aids to Counties reduced by \$36.5M on a per capita basis, limited to 0.15mills or 50 percent, whichever is less
Revenue	Property tax caps				* Extending municipal and county levy limits by two years * Levy increase limit by the greater of 0 percent or the increase in equalized value due to net new construction. * Not allowing carry forward of unused levy capacity. * Negative debt service adjustment for debt issued prior to July 1, 2005, if debt service would be lower in the current year than in the prior year
Sheriff	Expressway patrol				Funding held flat. Small increase (20K) budgeted in MC 2011 budget
Budget impact		\$(2,710,750)	\$ (25,711,878)		