



2019 Budget Gap



Overview

1. Gap is Caused by Increased Cost of Services
2. Gap is Caused by Revenue Caps
3. Projected Gap is \$23 Million, but could be as low as \$8.2 Million and as high as \$43 Million depending on whether strategy is to Divest, Temporarily Fix, or Sustain Operations

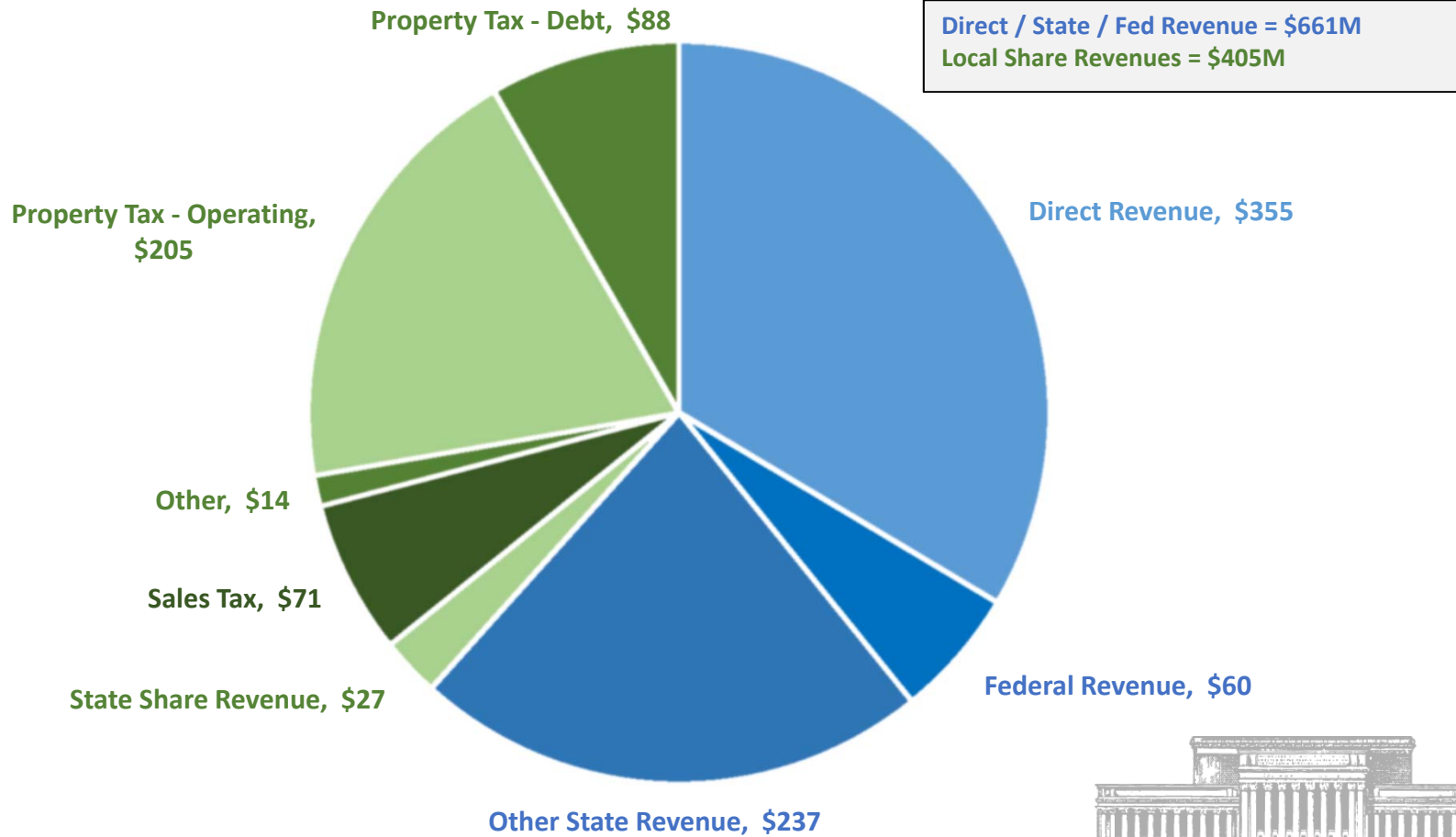




Components of County Budget

WHERE DOES THE MONEY THE COUNTY SPENDS COME FROM?

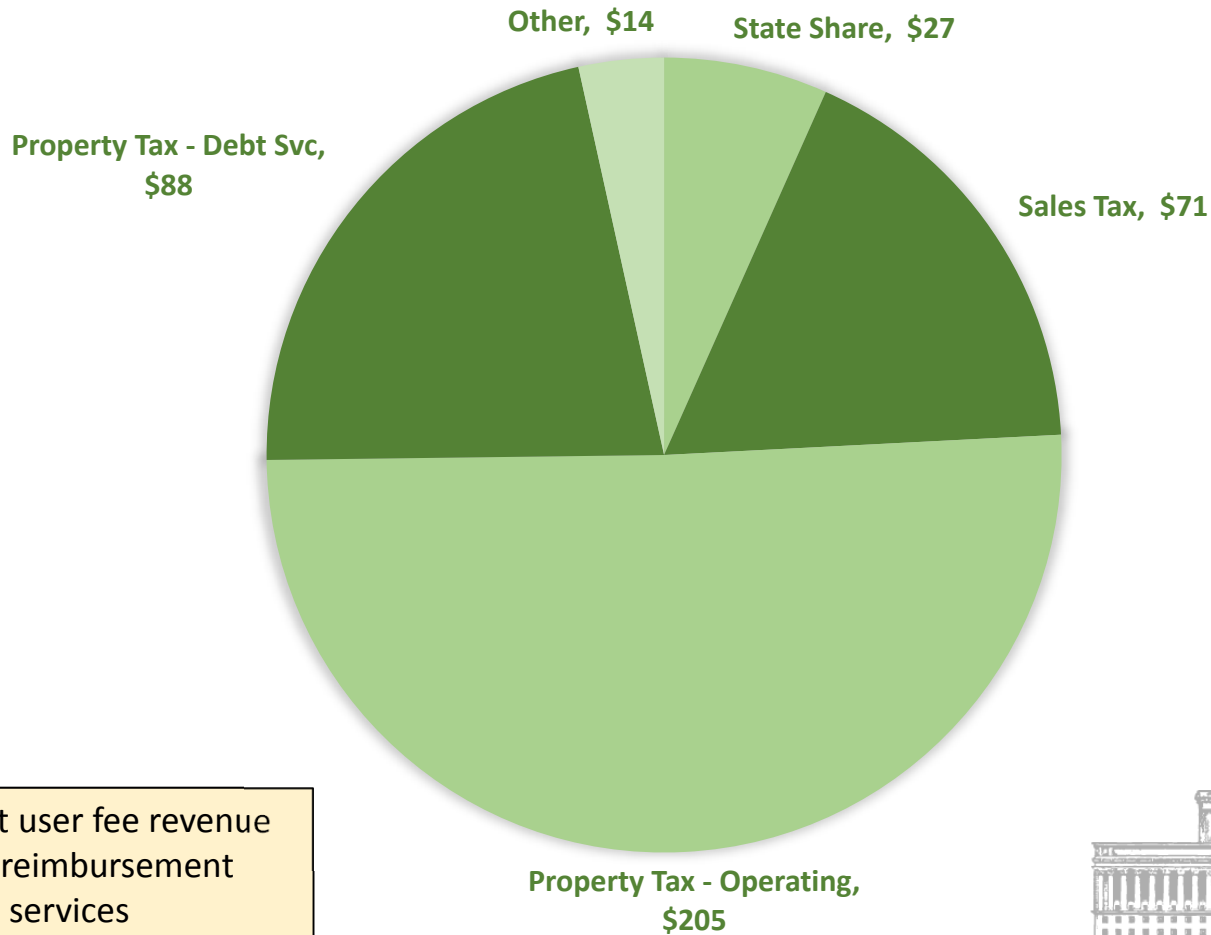
2018 OPERATING REVENUES = \$1.057 BILLION



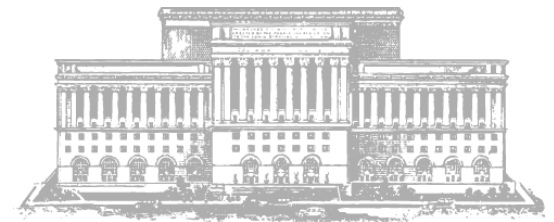


Components of County Budget

LOCAL SHARE REVENUES
2018 OPERATING BUDGET = \$406 MILLION



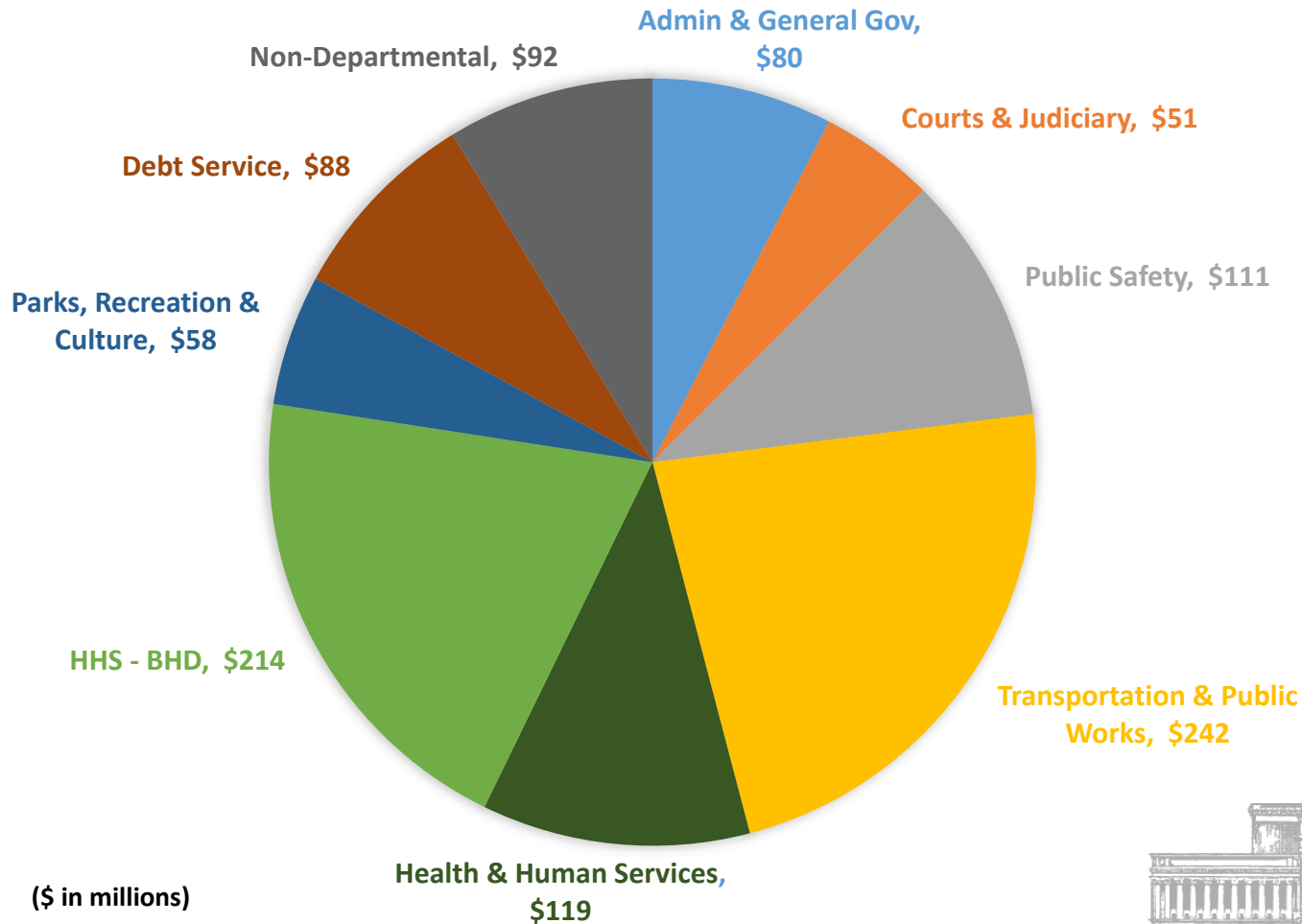
Excludes Direct user fee revenue and State/Fed reimbursement tied to specific services





Components of County Budget

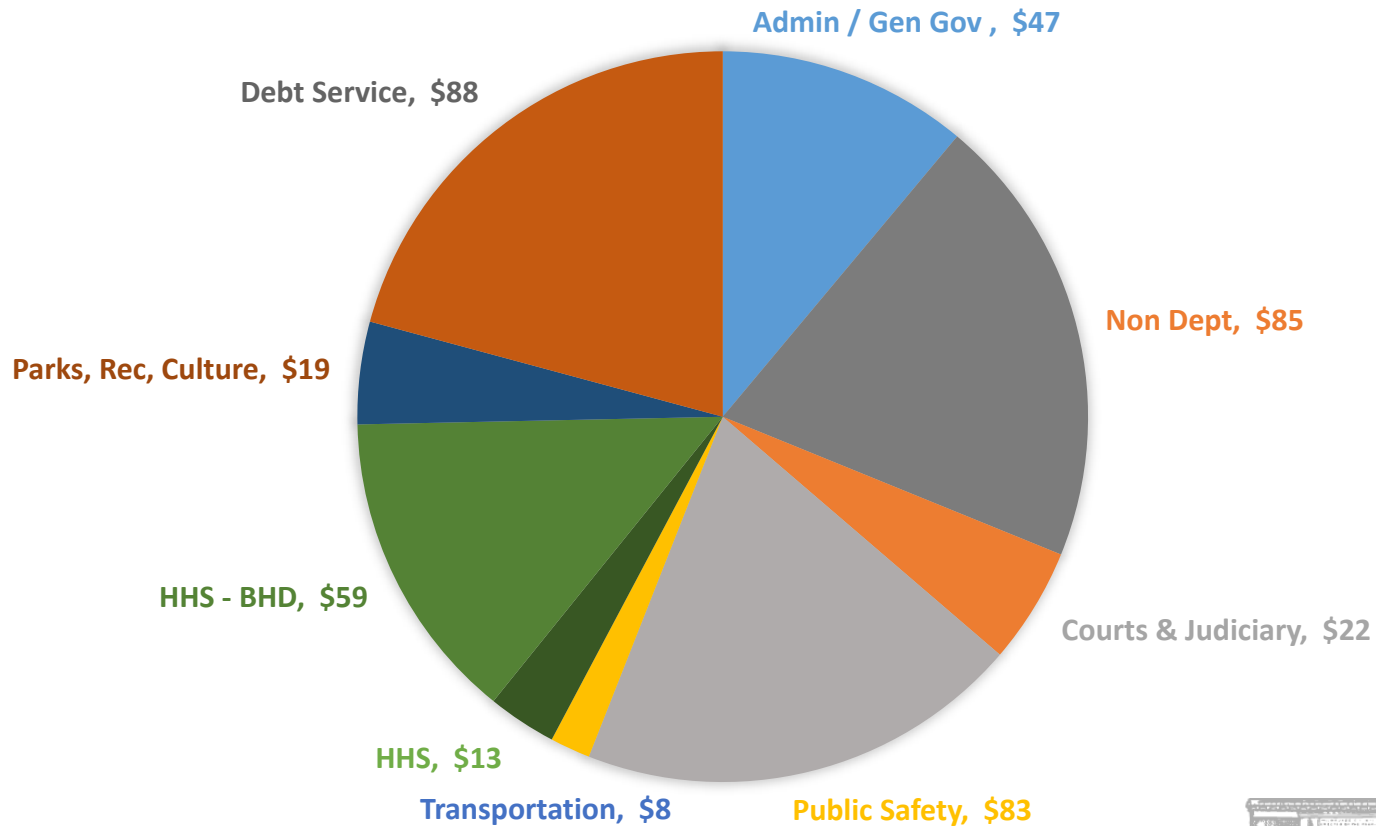
WHERE DO TAX DOLLARS AND SERVICE FEES GO?
2018 COUNTY OPERATING EXPENSES = \$1.057 BILLION





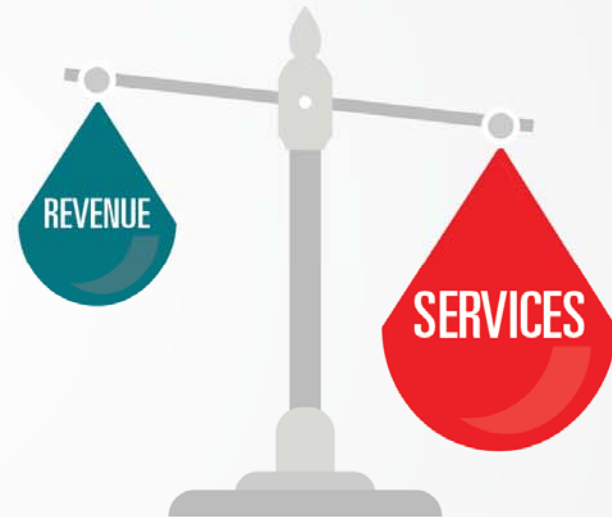
Components of County Budget

LOCAL SHARE ALLOCATION
2018 OPERATING BUDGET = \$405 MILLION





BUDGET IMBALANCE In Milwaukee County, expenses for mandated and needed services outweigh funds collected through revenues and tax levies.





1. Gap is caused by Increased Cost of Services

The County's Gap is driven by an Increased Cost of Services.

- a. Things just cost more (i.e. Inflation)
- b. Certain things cost a lot more (i.e. Pension, Healthcare)
- c. Gap would have been substantially more if it were not for Efficiency Reforms

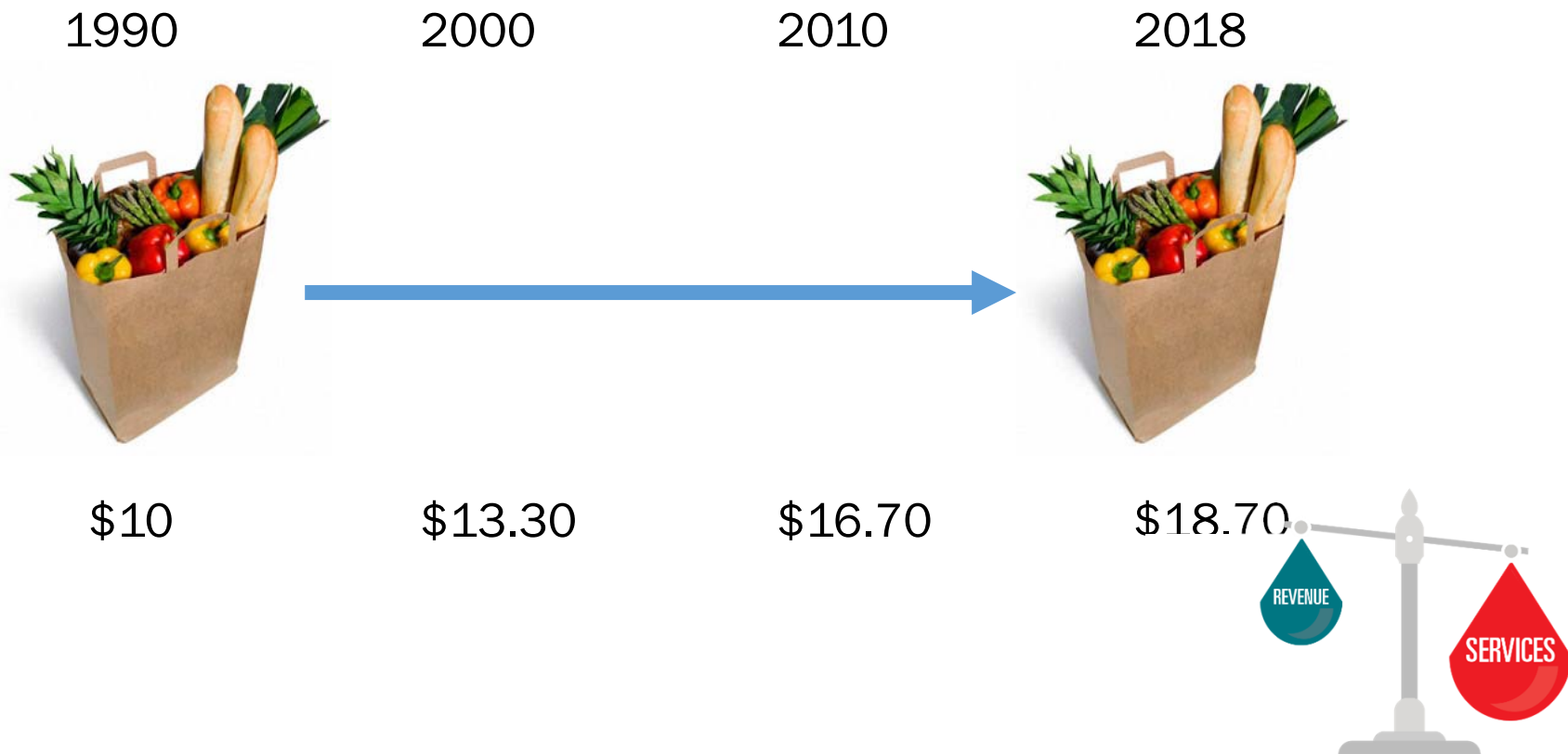




1. Gap is caused by Increased Cost of Services

a. Things just cost more (i.e. Inflation)

We all know what inflation is, but what do the numbers look like in Milwaukee?

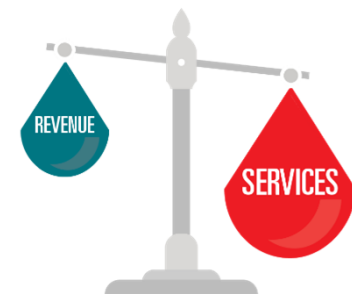
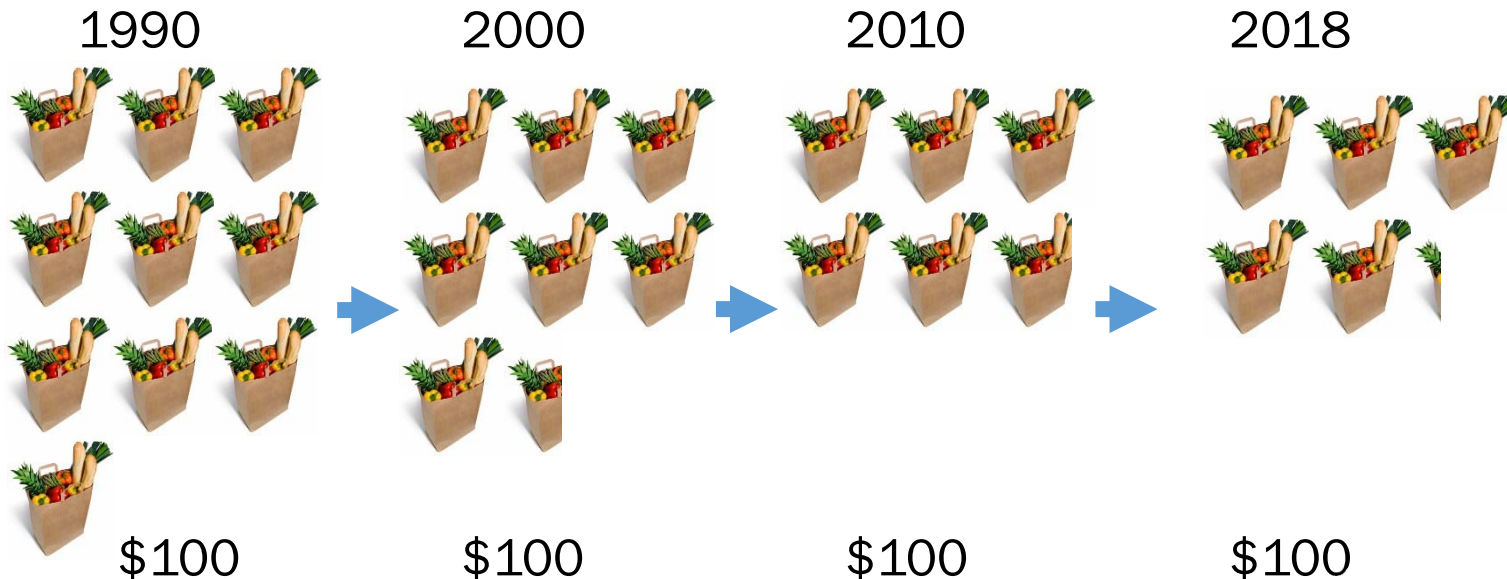




1. Gap is caused by Increased Cost of Services

a. Things just cost more (i.e. Inflation)

What happens if your budget stayed the same?





1. Gap is caused by Increased Cost of Services

a. Things just cost more (i.e. Inflation)

The same is true for Milwaukee County

1990

2000

2010

2018

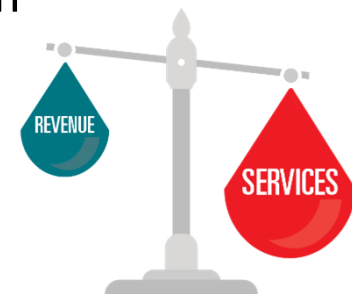


\$1.0
Billion

\$1.33
Billion

\$1.67
Billion

\$1.87
Billion





1. Gap is caused by Increased Cost of Services

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Here's what would happen if our budget stayed the same

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2000

2010

2018

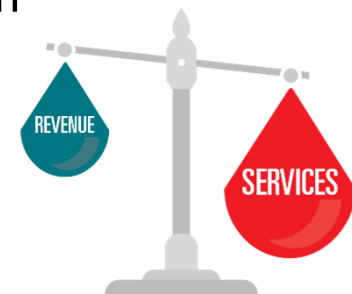


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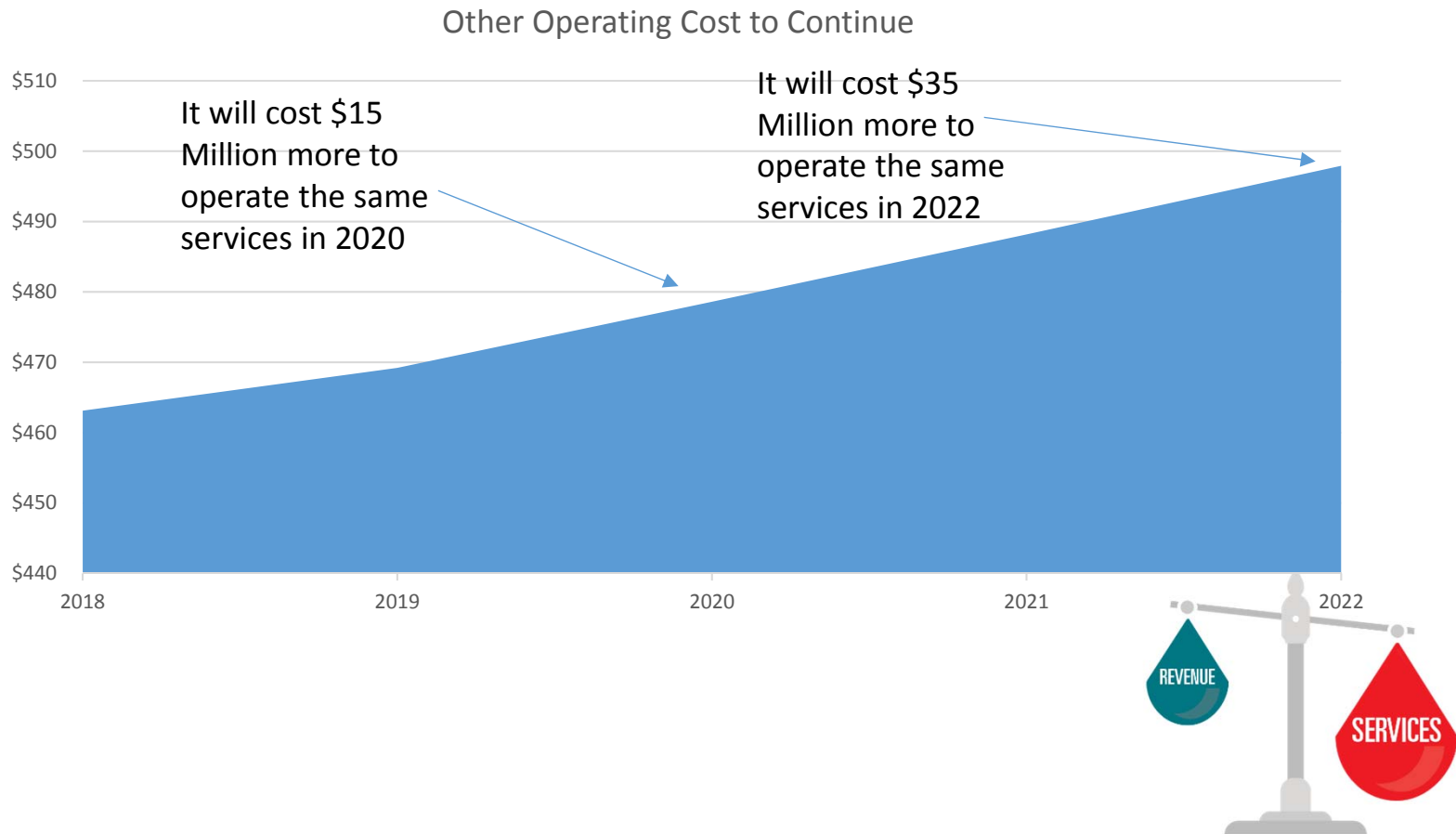




1. Gap is caused by Increased Cost of Services

a. Things just cost more (i.e. Inflation)

Here's what happens if we continue to grow at historical average (2.3%)





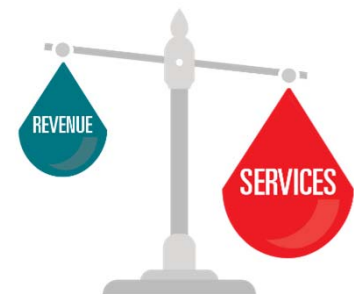
1. Gap is caused by Increased Cost of Services

b. Some things cost a lot more

Historical/Projected growth of Services: 2.3%

Historical/Projected growth of Healthcare: 7.5%

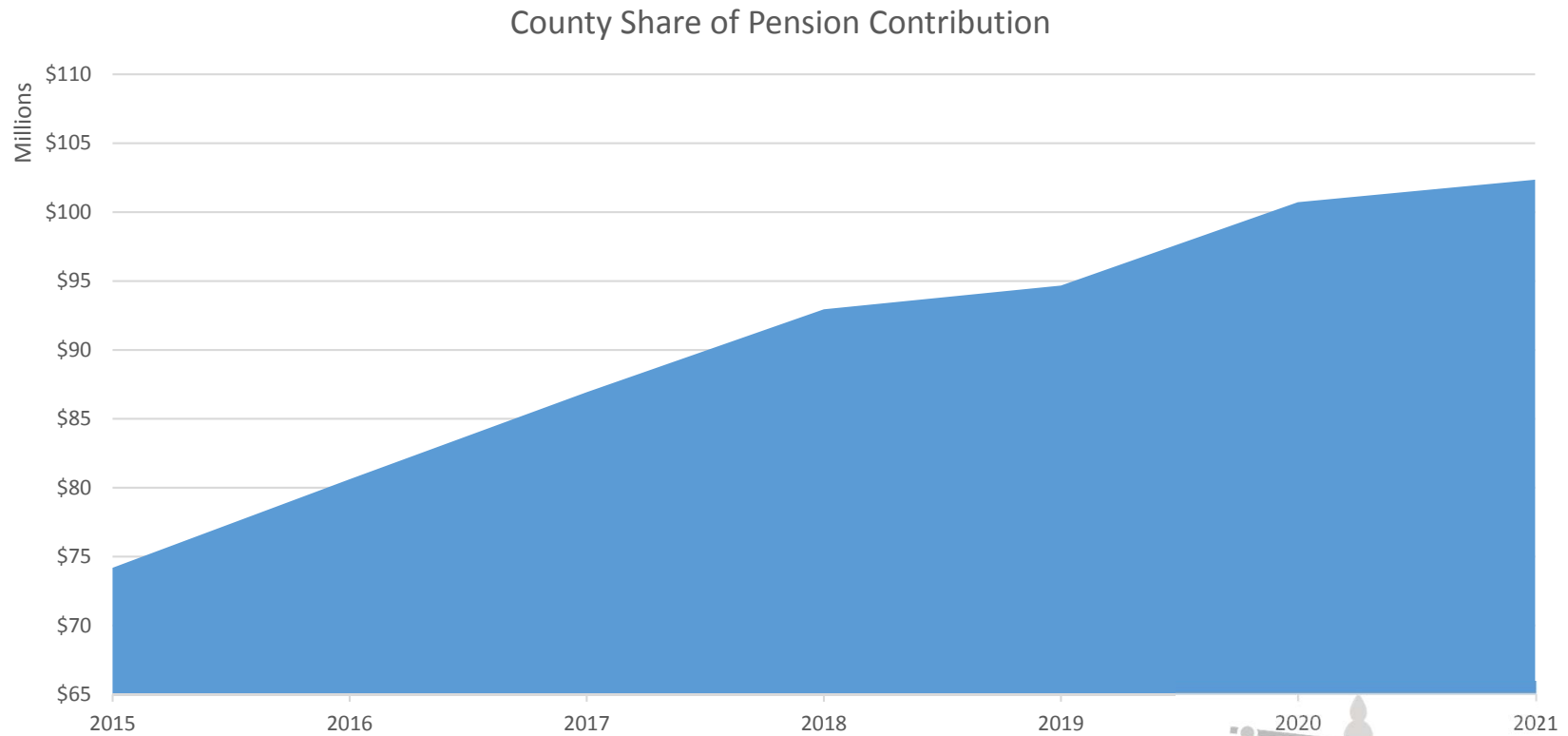
Historical/Projected growth of Pension: See Actual



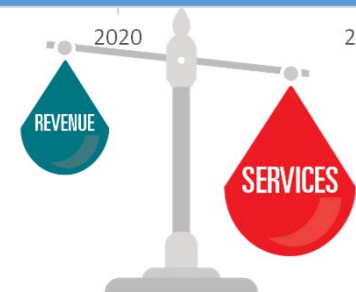


1. Gap is caused by Increased Cost of Services

Why is there a gap?



Pension Costs (Active & Inactive)
(in millions)

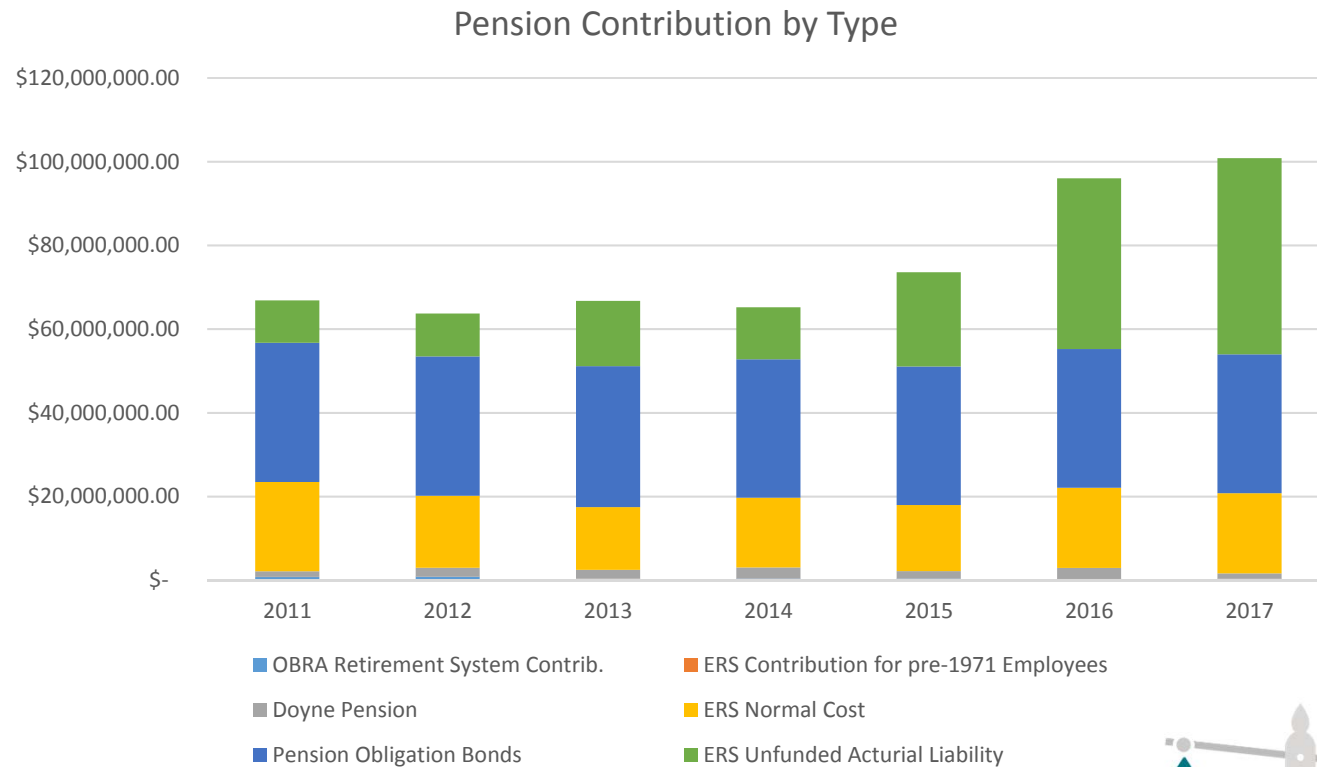


Graphic prepared by: Milwaukee County Department of Administrative Services (Jan. 2017).
Underlying data from: 2006 – 2017 data from Milwaukee County Department of Administrative Services – PSB Office. 2018 – 2021 projected increase from BuckConsultants, "Milwaukee County Employees' Retirement System, Investment Return Assumption Discussion." (June 15, 2016). Note, 2018-2021 projected numbers increased by \$31.1 Million to represent pension obligation payments, and reduced by approximately \$13 million annually to reflect employee contribution).



1. Gap is caused by Increased Cost of Services

Furthermore, gap is because of previous benefits offered to qualified retirees, not benefits to existing employees.



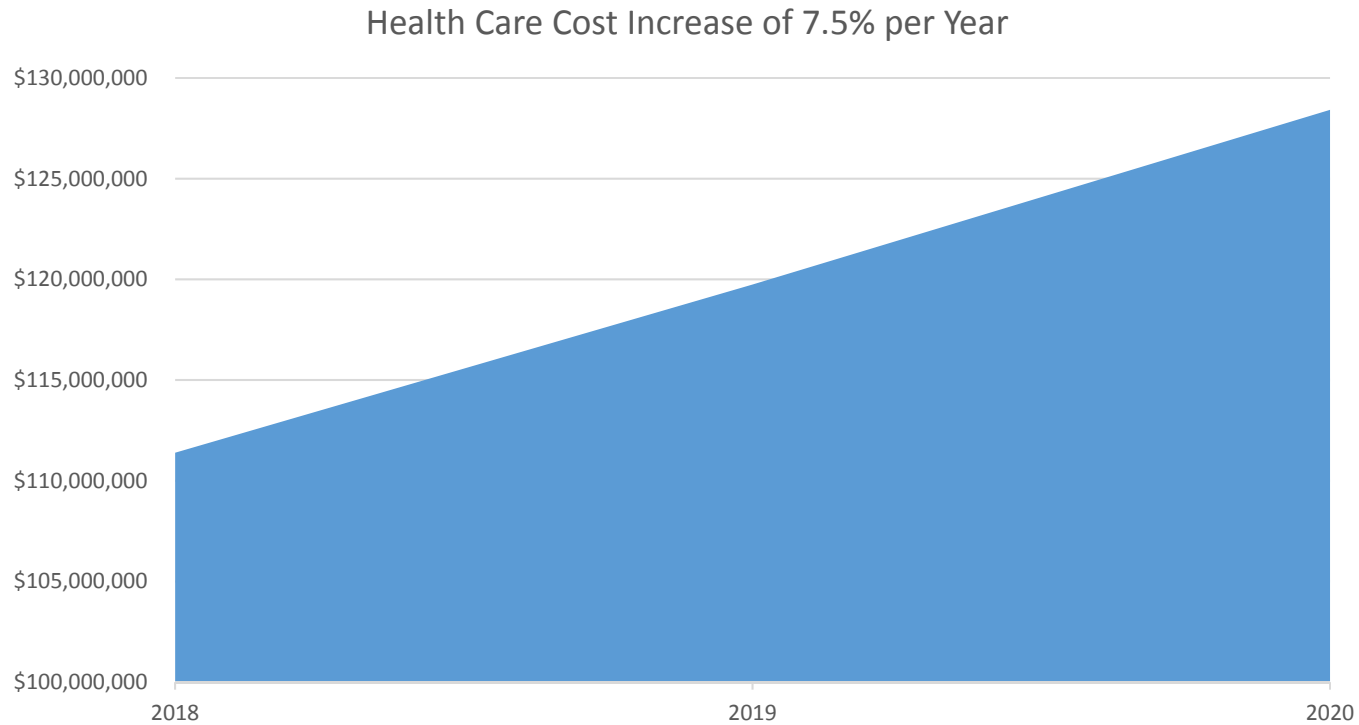
Graphic prepared by: Milwaukee County Department of Administrative Services (Jan. 2017).
Underlying data from: 2011 – 2017 Milwaukee County Budget





1. Gap is caused by Increased Cost of Services

Why is there a gap?





1. Gap is caused by Increased Cost of Services

Gap would be much higher if we didn't implement major reforms:

A. Reduction of Footprint by 1.6 Million sq. Feet	\$9.1 Million
B. Other Post Employee Benefits (OPEB) Restructure	\$40.4 Million
C. Worker's Comp Restructure	\$ 3 Million
	Sub Total \$52.5 Million
E. Deferring Maintenance since 2000	\$34.7 Million
F. Salary Freezes from 2010 - 2016	\$55.4 Million
G. Staff reduction of 1,457 since 2000 (<i>excluding DHHS</i>)	\$116.5 Million
	Sub Total \$206.6 Million
H. Employee Health & Pension Contribution	\$20.9 Million
I. VRF Revenue	\$16.7 Million
	Sub Total \$37.6 Million

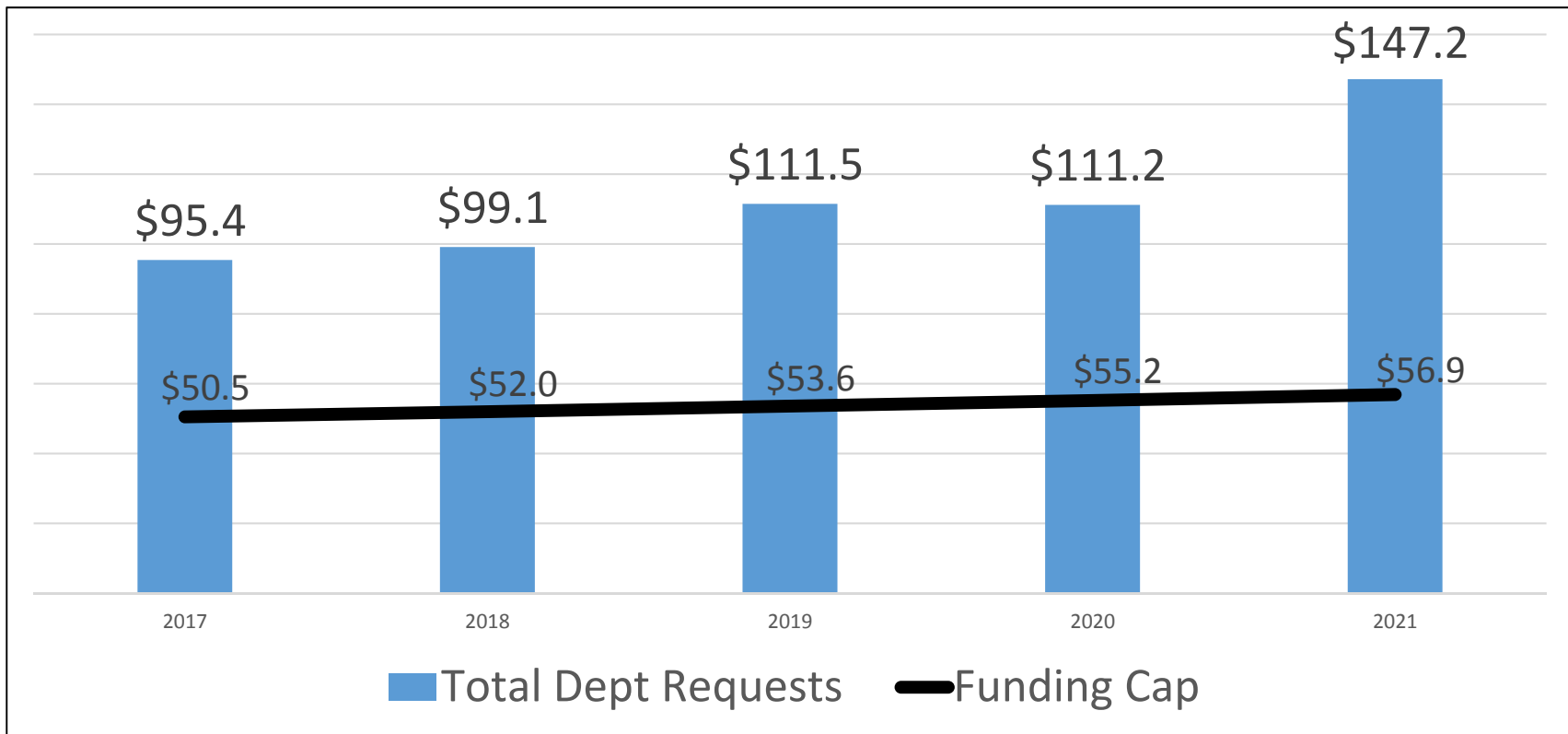
Total 2018 Annual Savings from previous reforms:
\$298 Million ... but there is still a gap





We've heard this Before ...

This is certainly not a new concept, but we are at a tipping point. Strategies like deferring maintenance are no longer an option.





We've heard this Before ...

Strategies like deferring compensation are no longer an option.



Milwaukee County

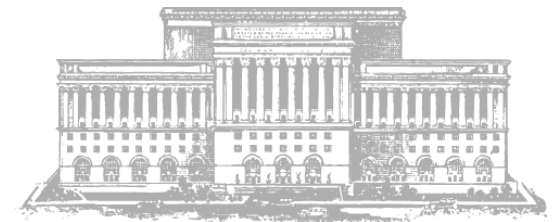
(Correction Officers, Parks Workers, Social Workers)



Waukesha County

(Correction Officers, Parks Workers, Social Workers)

20% ↓





A Note on Surpluses

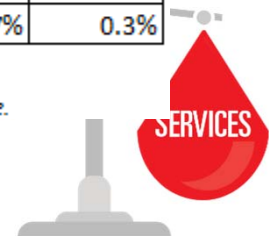
A note on surpluses. A surplus is an indication that the government is being effectively managed, but does not necessarily mean that the government is financially healthy. A surplus is just a snapshot in time to say did the organization meet its budget or not. It doesn't show long term budget trends. For example, the City of Detroit ran a surplus of \$53.8 Million in 2017, and \$63 Million in 2016. However, Detroit's overall budget has shrunk from \$3.6 Billion in 2010 to \$ 1.91 billion in 2017

For Milwaukee County year end operating surplus has been as narrow as 0.3% to 1.6% due to budget reductions and strategies such as increasing vacancy and turnover assumptions.

Operating Budget Surplus History (\$ 000's)

	Adopted Operating Budget	Year End Surplus	Surplus Budget Assumption*	Net Total Surplus	% Spent	% Surplus
2014	\$ 1,226,116	\$ 24,641	\$ 5,000	\$ 19,641	98.4%	1.6%
2015	\$ 1,247,627	\$ 25,518	\$ 5,000	\$ 20,518	98.4%	1.6%
2016	\$ 1,294,343	\$ 13,677	\$ 5,000	\$ 8,677	99.3%	0.7%
2017 Unaudited	\$ 1,159,399	\$ 8,000	\$ 5,000	\$ 3,000	99.7%	0.3%

* The adopted operating budget has historically included \$5M million of prior year surplus as a revenue source.





2. Gap is Caused by Revenue Caps

Local Revenue Limitations

- **Property Tax Levy**

**Statutory
Limit Reached**

- Operating property tax can be increased by an amount equal to net new construction (currently estimated at 1% growth or \$2.8 million for 2019)
- Property tax for debt service can be increased by growth in debt service

- **Sales Tax Levy**

**Statutory
Limit Reached**

- The County receives 0.5% of sales tax collections. Growth is limited to about \$1.8 million in a healthy economy

- **State Shared Revenue**

**Statutory
Limit Reached**

- State aid to localities declined in 2011 after the passing of Act 10 and has remained flat

- **Vehicle Registration Fee.** County allowed to go up to approximately \$62, but only at \$30.

- **Total revenues** increasing by less than 1% annually

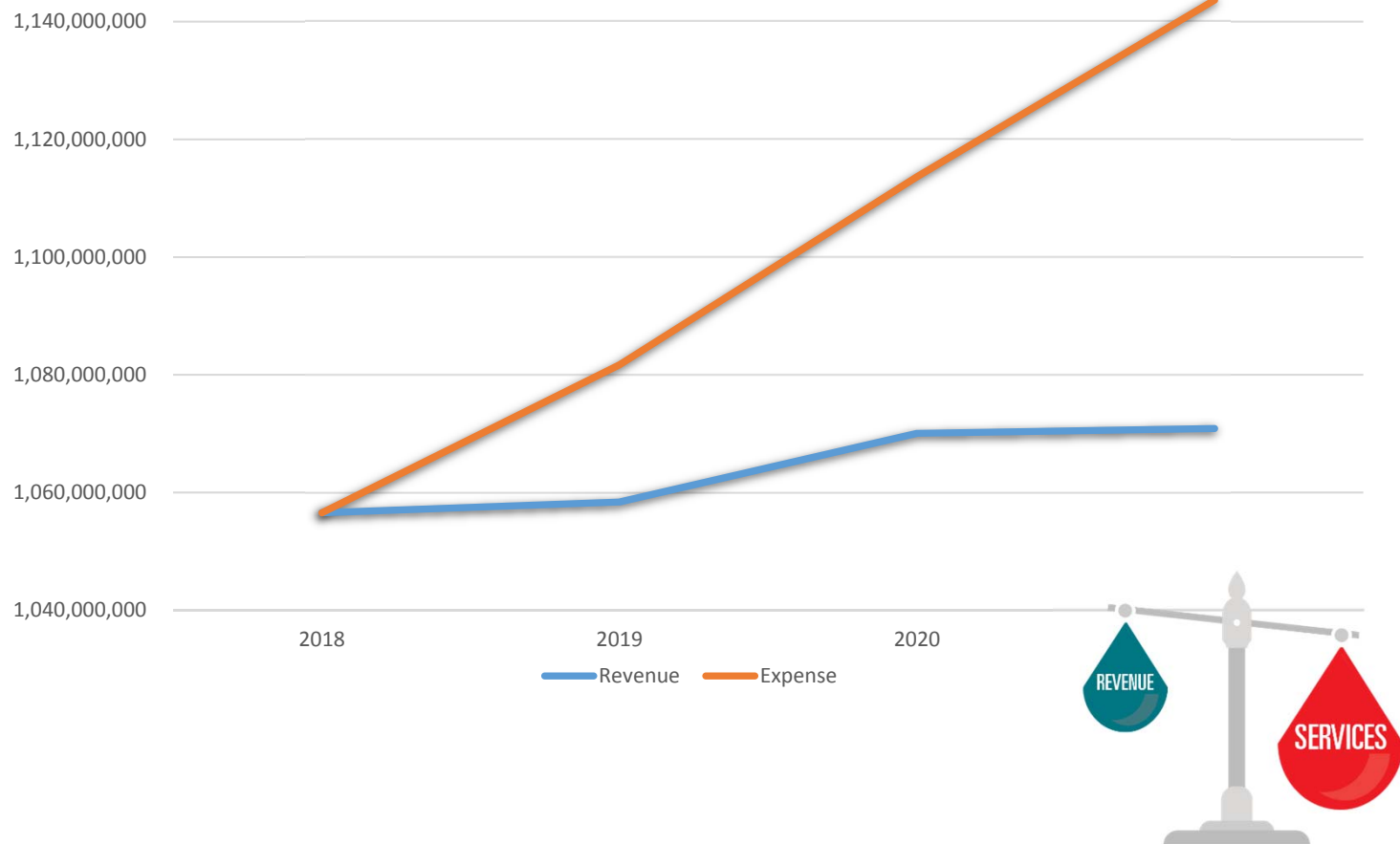




2. Gap is Caused by Revenue Caps

Without action, projected gap increases to \$43.6M in 2020 and \$72.8M in 2021

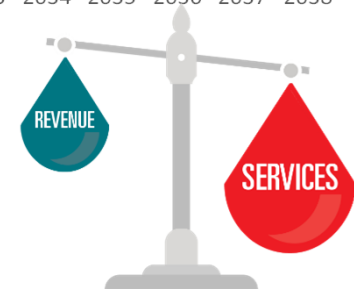
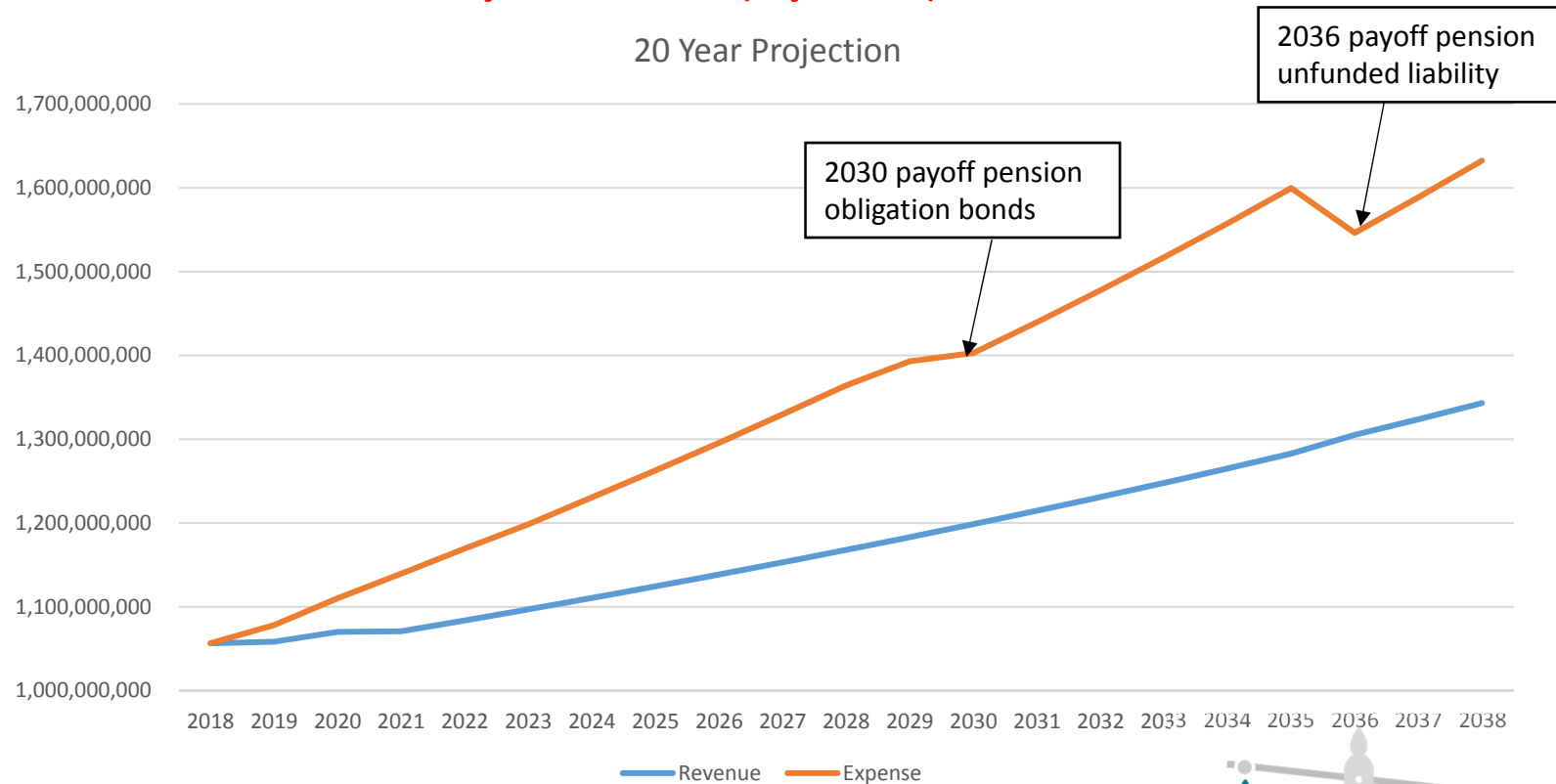
Three Year Outlook





2. Gap is Caused by Revenue Caps

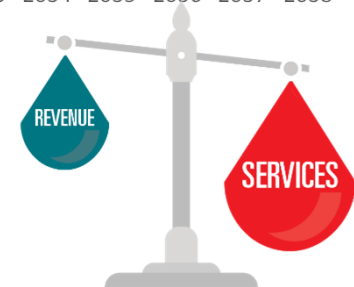
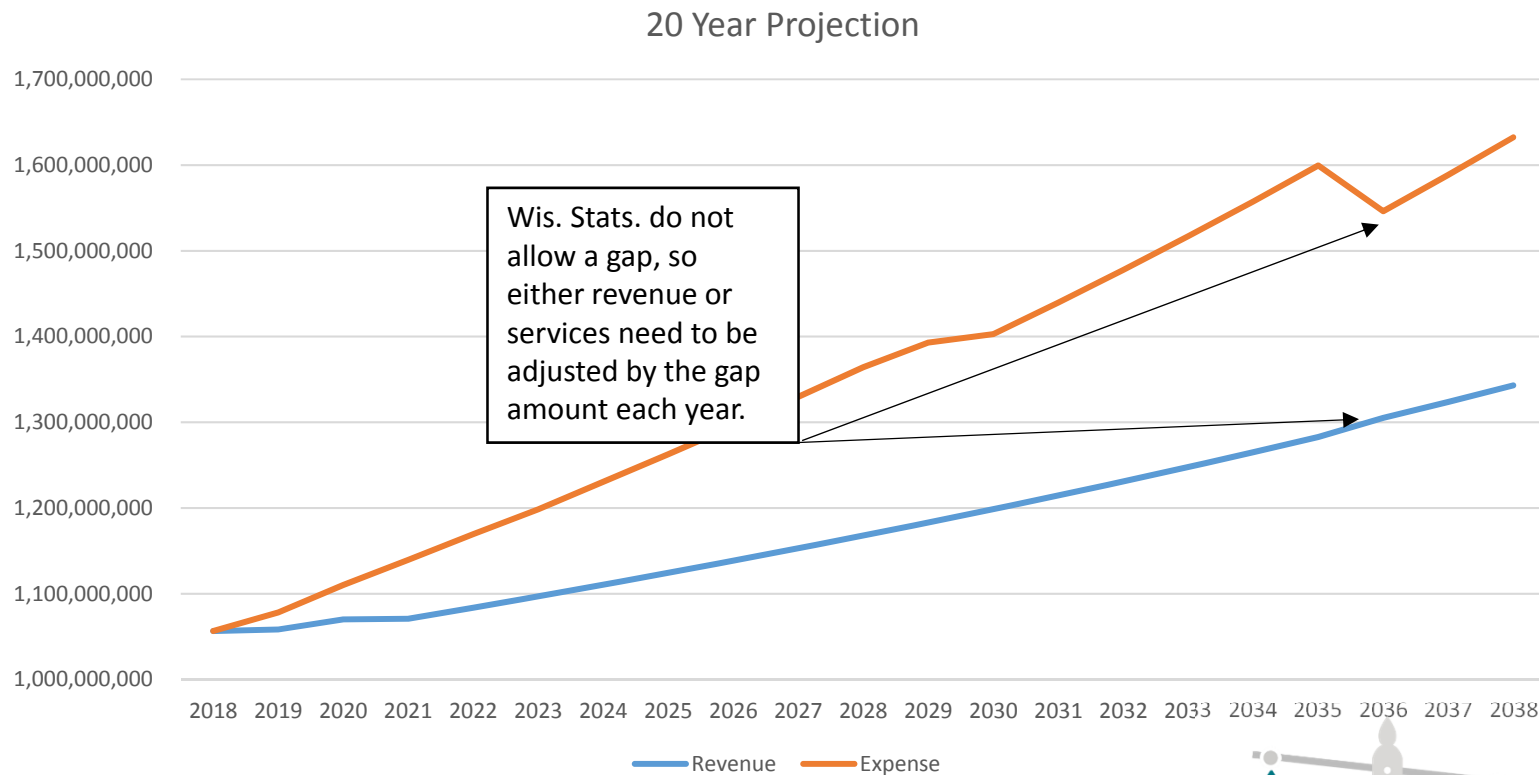
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Estimated \$300M deficit by 2038 after payoff of pension debt.





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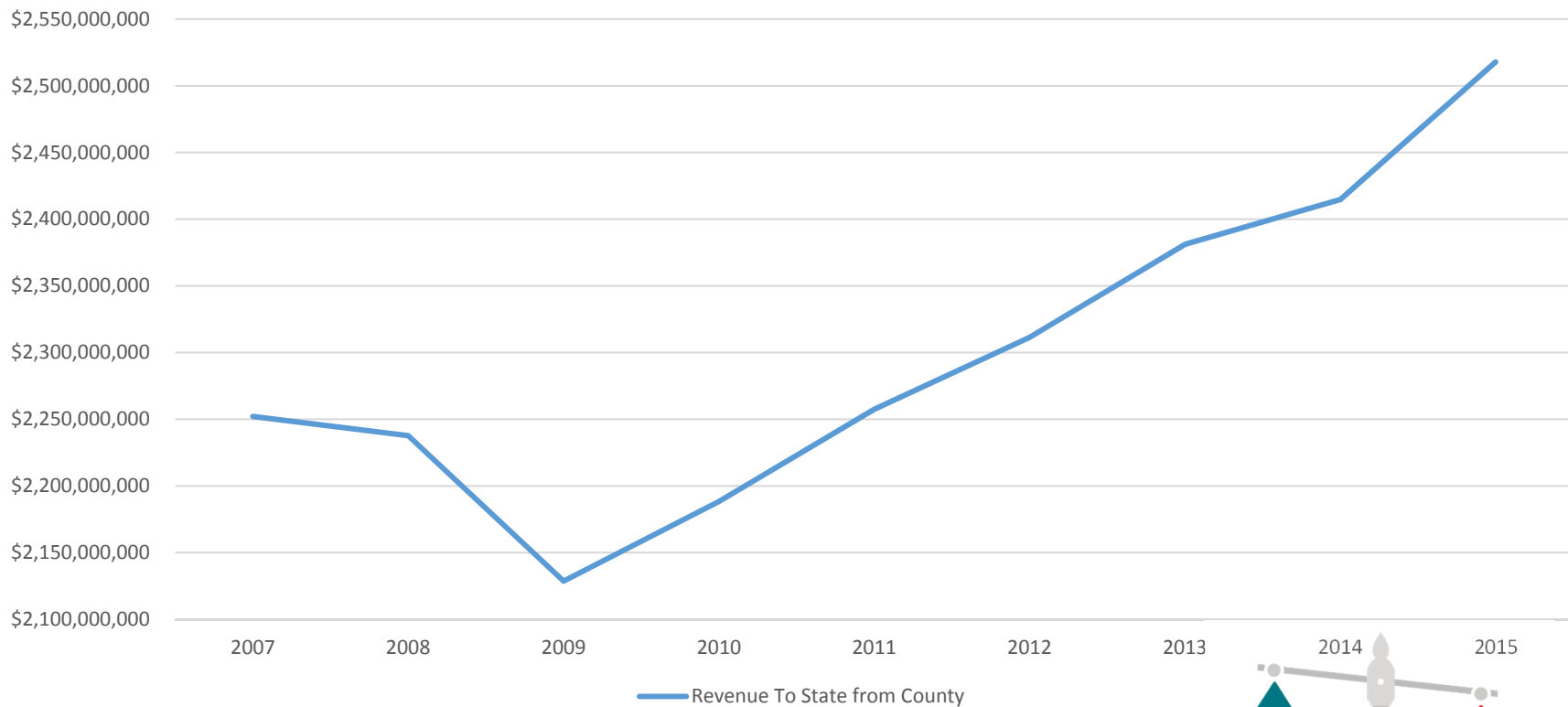




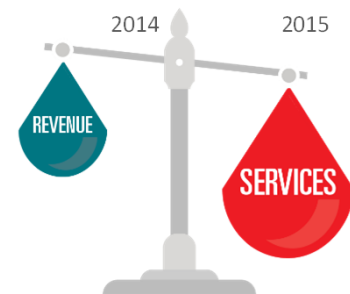
2. Gap is Caused by Revenue Caps

Gap is Caused by Revenue Caps, meanwhile, more money going to State.

Revenue Trends



Graphic prepared by: Milwaukee County Department of Administrative Services (Jan. 2017).
Underlying data from: Wisconsin Department of Revenue, "State Taxes & Aids By Municipality and County For Calendar Year 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, at <https://revenue.wi.gov/Pages/Report/s.aspx#share>





A note on statewide priorities

Shared revenue to localities has declined while State spending has been prioritized in other areas.

State of Wisconsin - Governmental Activity Spending 2008 vs 2017			
Category	2008	2017	% Change
Human Relations and Resources	\$ 9,078,665	\$ 13,396,577	48%
Education	\$ 6,477,194	\$ 7,237,495	12%
Transportation	\$ 1,911,514	\$ 2,135,538	12%
Tax Relief and Other General Expenses	\$ 1,135,551	\$ 1,428,610	26%
Shared Revenue	\$ 1,019,275	\$ 966,989	-5%
General Executive	\$ 536,527	\$ 675,331	26%
Environmental Resources	\$ 486,531	\$ 458,103	-6%
Interest on Debt	\$ 500,270	\$ 450,129	-10%
Commerce	\$ 293,362	\$ 248,879	-15%
Judicial	\$ 125,798	\$ 142,649	13%
Legislative	\$ 65,356	\$ 70,310	8%
Total Governmental Activities	\$ 21,630,043	\$ 27,210,610	26%

Source: 2017 State CAFR

Graphic prepared by: Milwaukee County Department of Administrative Services (Jan. 2017).
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3. Gap is different depending on Strategy

Projected Gap is \$23.3 Million, but gap is different whether the strategy is to Divest, Temporarily Fix, or Sustain Operations.

a. Divest \$8.2 Million

A Divest strategy would be to continue to (i) prohibit inflationary increases, (ii) use reserves, and (iii) require additional cuts.

b. Temporary Fix \$10.2 Million

A Temporary strategy would be to (i) prohibit inflationary increases, (ii) use reserves, but (iii) allow for revenue growth instead of additional cuts.

c. Sustainability \$43.3 Million

A sustainability strategy would be to (i) allow inflationary increases, (ii) build reserves, (iii) move towards more realistic Pension Assumptions and (iv) allow for revenue growth instead of additional cuts. This would require major revenue reforms.



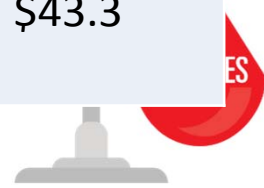


3. Gap is different depending on Strategy

Three broad options for closing the gap are being presented to the County Board for consideration and direction:

1) Divest, 2) Temporary Fix, 3) Sustainability

	Divest	Temp Fix	Sustain
Use of Reserves	X	X	
Prohibit Inflationary Increases	X	X	
Additional Cuts	X		
Reduce Pension Assumed Rate			X
Build Reserves			X
Additional Revenue		X	X
Cuts Necessary	\$8.2		
Additional Revenue Needed		\$10.2	\$43.3





Projected 2019 Budget Gap

Estimated 2019 Budget Gap (\$ in Millions)	
Description	Amount
Expenditure Items	
Salaries	\$ 3.8
Health Care	\$ 8.4
Pension	\$ 4.0
Debt Service Principle and Interest	\$ 0.5
Operating Cost to Continue Increases	\$ 6.6
Restore 2018 Operating Reductions	\$ 1.9
Total Expense Change	\$ 25.2
Revenue Change - Lost Revenues	
Debt Service Reserve	\$ 6.6
Parks Parking Fees	\$ 1.6
Revenue Changes - Increased Revenue	
Property Tax	\$ (2.9)
Sales Tax	\$ (1.8)
VRF	\$ (0.7)
Unclaimed Revenue	\$ (1.3)
State Shared Revenue	\$ -
Other Revenue Changes	\$ (3.5)
Total Revenue Change	\$ (1.9)
Gap Total	\$ 23.3





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Total Revenue Change	\$ (1.9)
Gap Total	\$ 23.3

- Salary Increase of \$3.8M includes \$2.3M annualized cost of 2018 increase plus \$1.5M for similar compensation increases in 2019 budget
 - 1% at mid-year + \$400k equity adjustments funded in 4th quarter





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- Health Care: \$8.4 million
 - Estimated 7.5% cost increase based on recent experience and actuary data
 - Assume continued cost share of 92% County, 8% Employee





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- Cost-to-continue increase of \$6.6 million for inflation on utilities, commodities, contracts
 - Estimated growth of approx 2%
 - Departments asked to absorb these costs to fill the gap

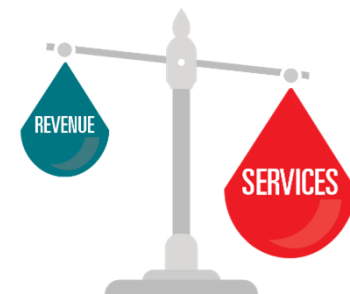




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- ← 2018 budget reductions not approved by the board for implementation
 - \$882k Transit bus route reductions
 - \$855k Senior Centers
 - \$200k Homeless Shelters





Projected 2019 Budget Gap

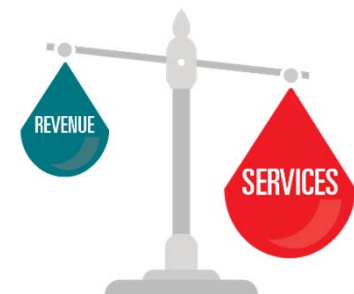
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- Debt Svc Reserve (DSR)
 - \$6.6 million used to balance 2018 budget
 - DSR intended for emergencies and not a permanent funding stream
 - Current reserve well below GFOA recommended minimum

Debt Service Detail	\$ in Millions
Current County Balance (March 2018)	\$ 29.2
County Policy Minimum Balance	\$ 10.0
GFOA Reserve Policy Levels	
GFOA Recommended Minimum Reserve (2 months operating costs)	\$ 104.9
Two months of Property and Sales Tax Only	\$ 49.7

GFOA policy amounts exclude Enterprise Funds and BHD





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- Parks parking fee revenue of \$1.6 million not approved by board for implementation





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Gap Total	\$ 23.3



Revenue Increases

- Property Tax estimated to grow at net new construction or \$2.9M
- Sales tax estimated growth of 2.5% or \$1.8M
- VRF budget increase of \$0.7M based on registrations
- Unclaimed funds are budgeted every other year \$1.3M
- Other revenues of \$3.5M for inflationary increases in fee and reimbursement revenue





Gap Closing Options: 1) Divest

Estimated 2019 Budget Gap (\$ in Millions)		
Description	Amount	Divest
Expenditure Items		
Salaries	\$ 3.8	\$ 2.3
Health Care	\$ 8.4	\$ 8.4
Pension	\$ 4.0	\$ 4.0
Debt Service Principle and Interest	\$ 0.5	\$ 0.5
Operating Cost to Continue Increases	\$ 6.6	\$ -
Restore 2018 Operating Reductions	\$ 1.9	\$ 1.9
Innovation Fund	\$ -	\$ -
Total Expense Change	\$25.2	\$ 17.1
Revenue Change - Lost Revenues		
Debt Service Reserve	\$ 6.6	\$ (0.4)
Parks Parking Fees	\$ 1.6	\$ 1.6
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State Shared Revenue	\$ -	\$ -
Other Revenue Changes	\$ (3.5)	\$ (3.5)
Total Revenue Change	\$ (1.9)	\$ (8.9)
Gap Total	\$23.3	\$ 8.2
Tax Levy Reduction Targets		\$ (8.2)
New Revenues and/or Non Dept Savings		\$ -
Remaining Gap	\$23.3	\$ -

- No new salary increase in 2019. \$2.3M is limited to annual cost of 2018 increase
- Departments absorb estimated cost-to-continue increase of \$6.6M
- Withdrawal of \$7M from DSR is a (\$0.4M) increase over 2018 budget
- Gap balance of \$8.2M closed through department levy targets



Gap Closing Options: 2) Temporary Fix

Estimated 2019 Budget Gap (\$ in Millions)		
Description	Amount	Temporary Fix
Expenditure Items		
Salaries	\$ 3.8	\$ 3.8
Health Care	\$ 8.4	\$ 8.4
Pension	\$ 4.0	\$ 4.0
Debt Service Principle and Interest	\$ 0.5	\$ 0.5
Operating Cost to Continue Increases	\$ 6.6	\$ -
Restore 2018 Operating Reductions	\$ 1.9	\$ 1.9
Innovation Fund	\$ -	\$ 0.5
Total Expense Change	\$25.2	\$ 19.1
Revenue Change - Lost Revenues		
Debt Service Reserve	\$ 6.6	\$ (0.4)
Parks Parking Fees	\$ 1.6	\$ 1.6
Revenue Changes - Increased Revenue		
Property Tax	\$ (2.9)	\$ (2.9)
Sales Tax	\$ (1.8)	\$ (1.8)
VRF	\$ (0.7)	\$ (0.7)
Unclaimed Revenue	\$ (1.3)	\$ (1.3)
State Shared Revenue	\$ -	\$ -
Other Revenue Changes	\$ (3.5)	\$ (3.5)
Total Revenue Change	\$ (1.9)	\$ (8.9)
Gap Total	\$23.3	\$ 10.2
Tax Levy Reduction Targets		
New Revenues and/or Non Dept Savings		\$ (10.2)
Remaining Gap	\$23.3	\$ (0.0)



- Salary increases allowed



- Departments absorb estimated cost-to-continue increase of \$6.6M



- Withdrawal of \$7M from DSR is a (\$0.4M) increase over 2018 budget



- Gap balance of \$10.2M funded with new revenues and/or non-dept savings



Gap Closing Options: 3) Sustainability

Estimated 2019 Budget Gap (\$ in Millions)		
Description	Amount	Sustain
Expenditure Items		
Salaries	\$ 3.8	\$ 3.8
Health Care	\$ 8.4	\$ 8.4
Pension	\$ 4.0	\$ 17.5
Debt Service Principle and Interest	\$ 0.5	\$ 0.5
Operating Cost to Continue Increases	\$ 6.6	\$ 6.6
Restore 2018 Operating Reductions	\$ 1.9	\$ 1.9
Return Capital Financing to 20% Cash Goal		\$ 5.5
Innovation Fund		\$ 1.0
Total Expense Change	\$ 25.2	\$ 45.2
Revenue Change - Lost Revenues		
Debt Service Reserve	\$ 6.6	\$ 6.6
Parks Parking Fees	\$ 1.6	\$ 1.6
Revenue Changes - Increased Revenue		
Property Tax	\$ (2.9)	\$ (2.9)
Sales Tax	\$ (1.8)	\$ (1.8)
VRF	\$ (0.7)	\$ (0.7)
Unclaimed Revenue	\$ (1.3)	\$ (1.3)
State Shared Revenue	\$ -	\$ -
Other Revenue Changes	\$ (3.5)	\$ (3.5)
Total Revenue Change	\$ (1.9)	\$ (1.9)
Gap Total	\$ 23.3	\$ 43.3
Tax Levy Reduction Targets		
New Revenues and/or Non Dept Savings		\$ (43.3)
Remaining Gap	\$ 23.3	\$ (0.0)

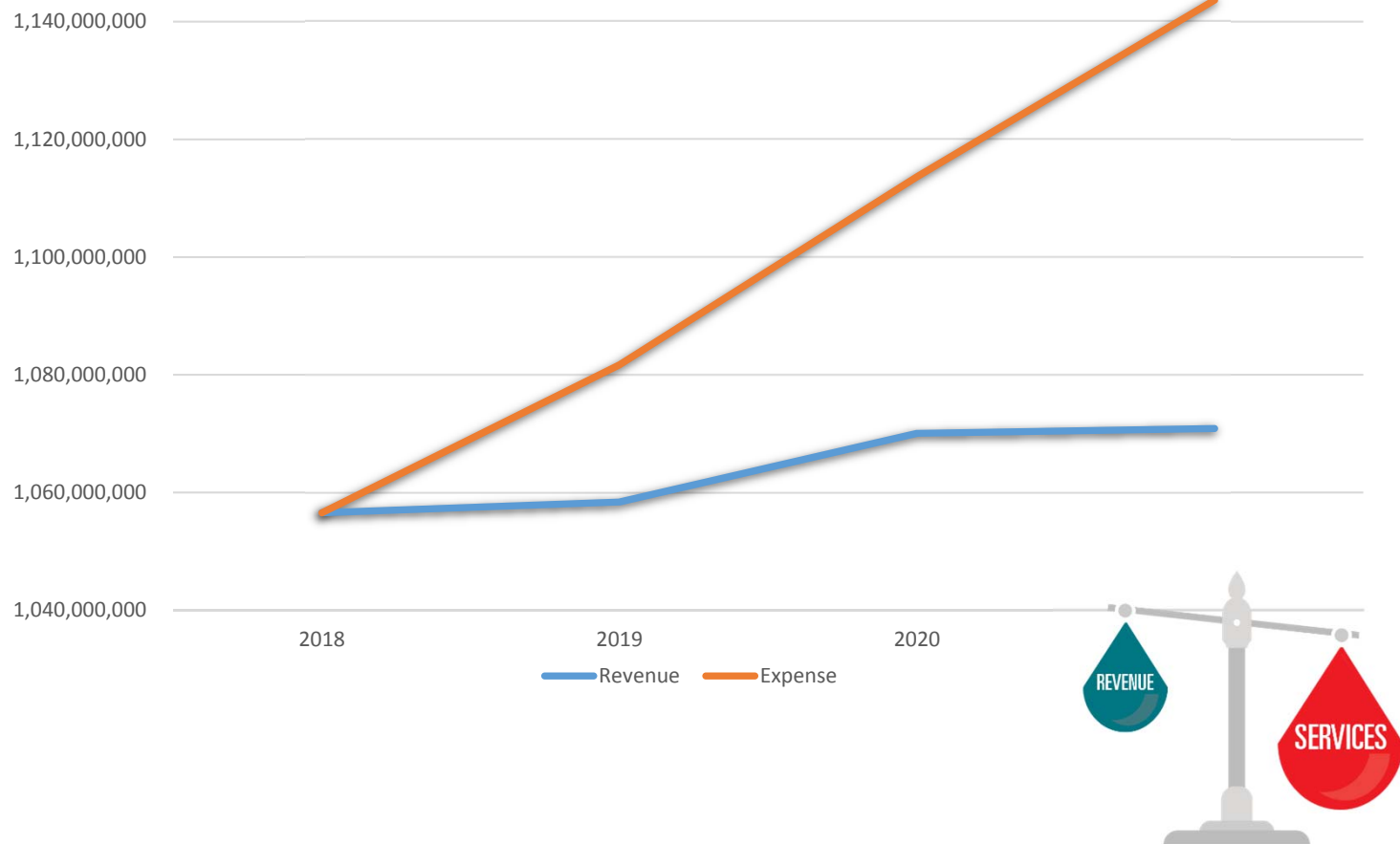
- Funding pension at actuary recommendation cost \$13.5M
- Restoring Capital Fund to 20% policy level costs \$5.5M
- Gap balance of \$43.3M funded with new revenues and/or non-dept savings



Long Term Outlook

Without action, projected gap increases to \$43.6M in 2020 and \$72.8M in 2021

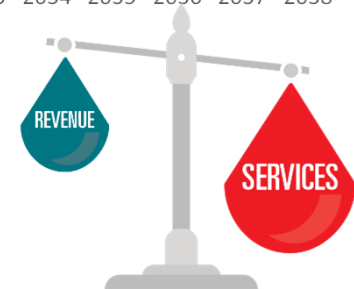
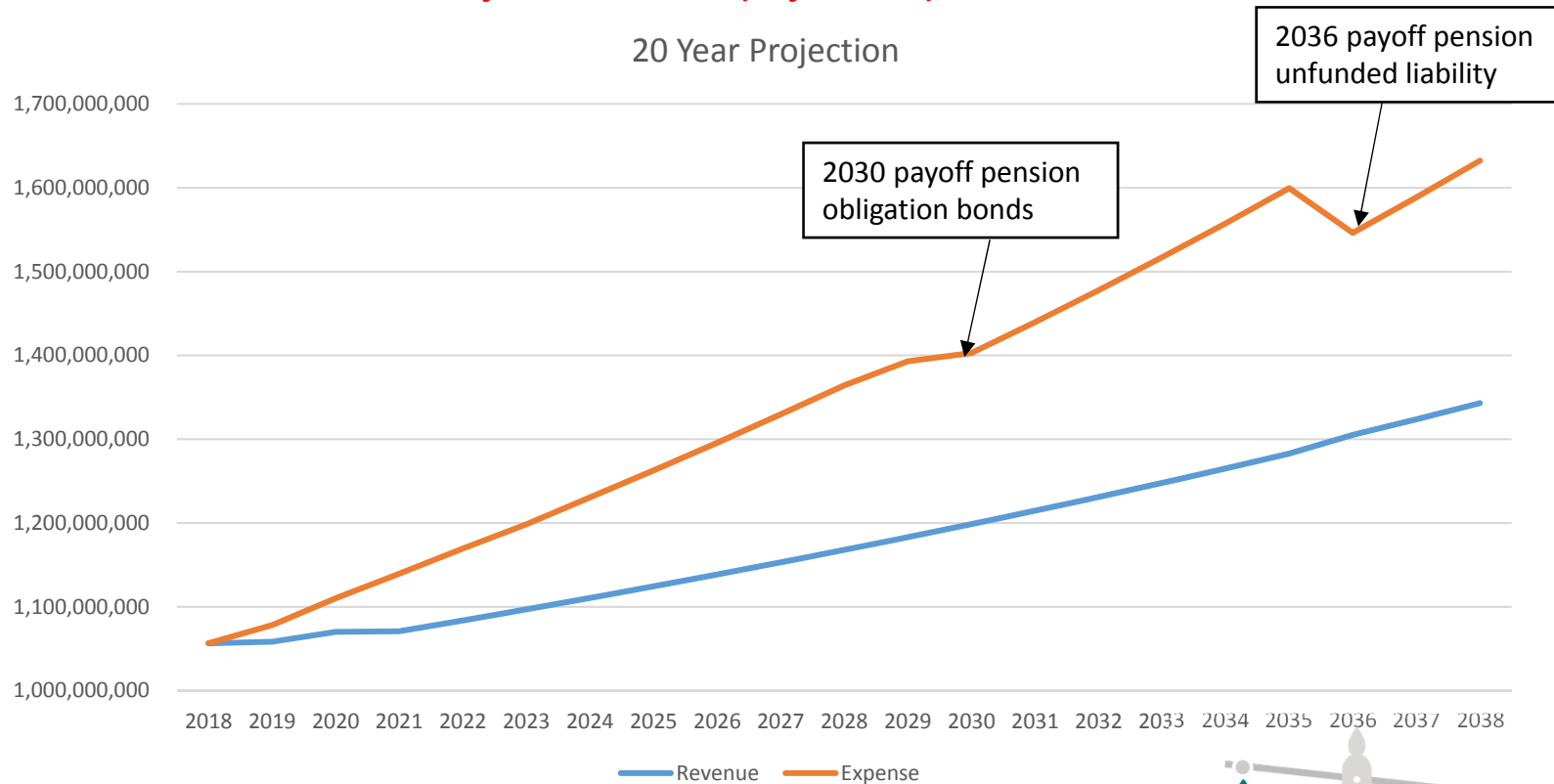
Three Year Outlook





Long Term Outlook

Gap grows by average of nearly \$20M per year due to structural imbalance.
Estimated \$300M deficit by 2038 after payoff of pension debt.





How does this impact Tax Levy Targets

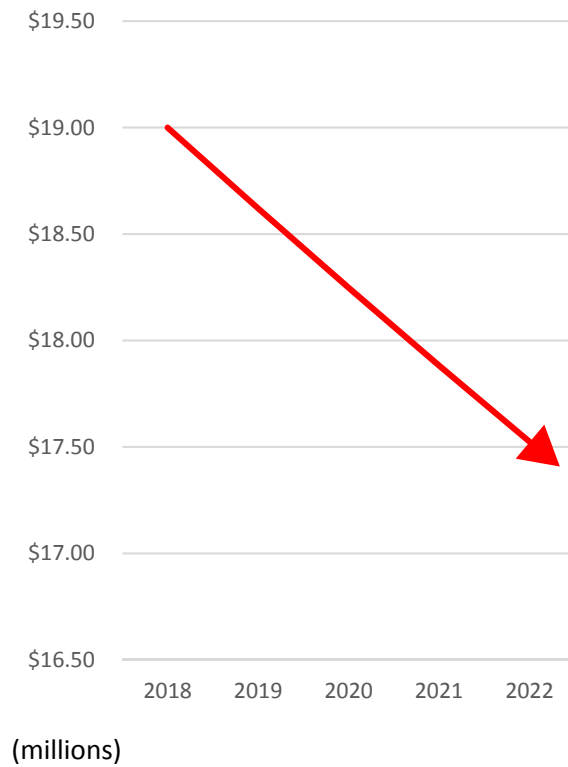
- Last three years during request phase we asked departments to not include inflationary increases.
- At the Adopted level, in addition to prohibiting inflationary increases there were additional added cuts.
- This resulted in a Divest strategy that is not sustainable



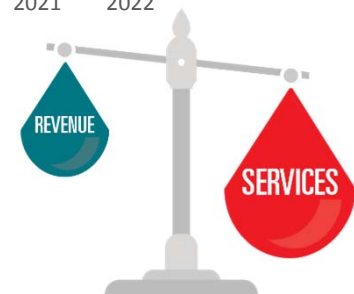
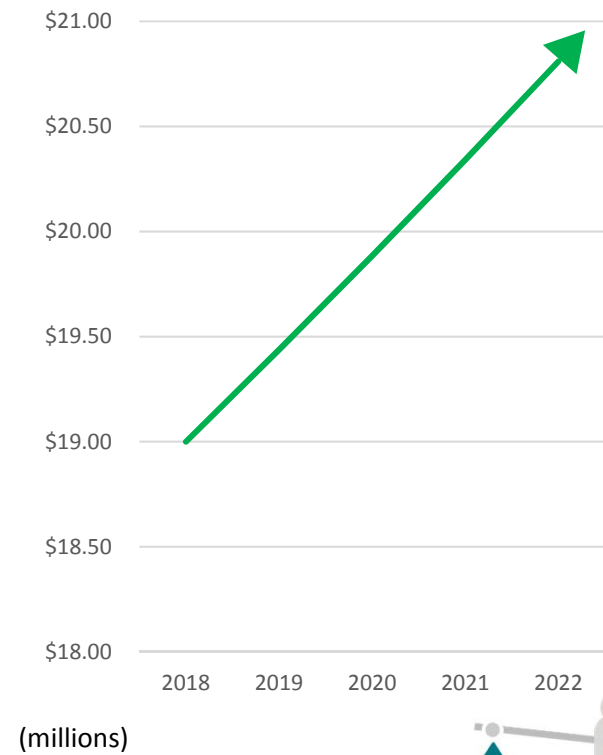


What story do we want to tell in 2 -4 years?

Parks Divesting



Parks Sustaining





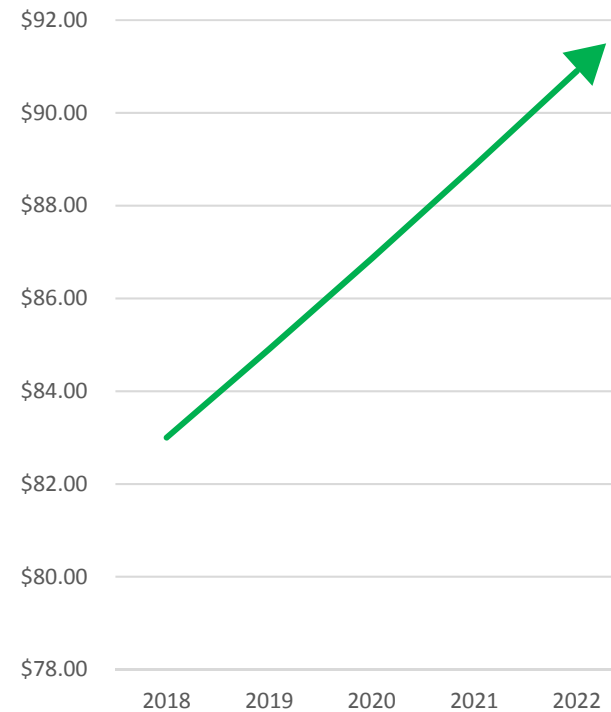
What story do we want to tell in 2 -4 years?

Public Safety Divesting

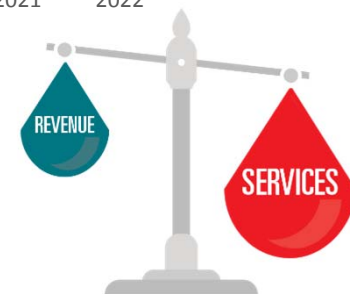


(millions)

Public Safety Sustaining



(millions)





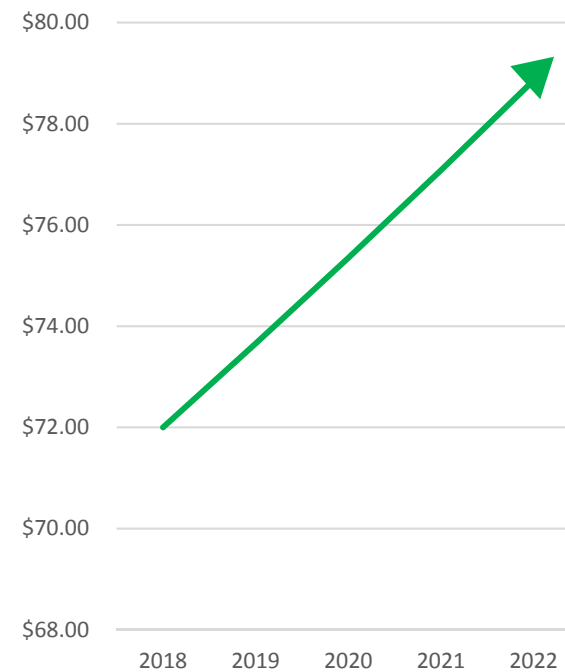
What story do we want to tell in 2 -4 years?

Human Services Divesting



(millions)

Human Services Sustaining



(millions)





General feedback on Global Strategy

- Divest
- Temporary Fix
- Sustain

