

COUNTY OF MILWAUKEE
Inter-Office Communication

Date: November 22, 2011
To: Supervisor Johnny L. Thomas, Chairman, Committee on Finance and Audit
From: Jerome J. Heer, Director of Audits
Subject: Informational Report on the Impact of Employee Furloughs on Milwaukee County Operations in 2010

Throughout 2010, a number of questions were raised regarding the actual savings achieved from employee furloughs that year. This report summarizes net savings attributable to employee furloughs in 2010 and provides examples of operational impacts of the furloughs as reported by select departments surveyed by the Department of Audit.

Background

On September 22, 2009 the County Executive informed the County Board Chairman of a projected Countywide deficit of \$6.2 million. The County Board implemented a corrective action plan to reduce the deficit by \$3.1 million (File No. 09-398). Steps were taken to help reduce the deficit by imposing furloughs for both represented employees and non-represented employees. In order to preserve public safety and prevent an increase in overtime, deputy sheriffs, correctional officers, health care personnel in 24/7 operations, and employees at General Mitchell International Airport were exempted from the mandatory furlough program. Further, employees who participated in the Voluntary Time Off without pay program were credited toward the furlough for hours of unpaid leave taken in 2009, up to 32 hours.

During 2009 four furloughs were originally scheduled, with the final two days rescinded in anticipation of an improved financial 'bottom line' for the County.

The 2010 Adopted Budget mandated that all employees (excluding elected officials and commission members) take eight 'floating' furlough days in addition to four designated days for a total of 12 furlough days. Once again, various position classifications were exempted from the furloughs for public safety and other reasons. The County Board of Supervisors approved alternative furlough plans for the following County Constitutional Officers (File No. 10-87):

- County Clerk
- District Attorney
- Sheriff's Department
- County Treasurer
- Register of Deeds
- Clerk of Circuit Court

Wage and benefit concessions in the 2010 Adopted Budget were not agreed to by all represented employees. Consequently, on February 25, 2010 the County Executive ordered 10 additional furlough days for those represented employees whose bargaining units did not agree to the concessions (Executive Order #10-1). On August 31, 2010, the County Executive imposed four more furloughs on these same represented employees to reduce the amount of 'lost savings' from the wage and benefit concessions that were budgeted but not agreed to (Executive Order # 10-5). Therefore, a total of 26 furlough days were imposed on those represented staff that did not agree to wage and benefit concessions in 2010. Collective bargaining units that agreed to wage and benefit concessions in 2010 and thereby avoided imposition of the additional furlough days included:

TEAMCO (Technicians, Engineers, and Architects of Milwaukee County)

- IAMAW (International Association of Machinists and Aerospace Workers)
- Association of Milwaukee County Attorneys

Number of Employees Contributing to Furlough Savings

During 2010, there were 6,123 individuals employed by Milwaukee County for all or a portion of the year, including seasonal and part time employees. Of the 6,123 employees, 3,248 (53%) were exempted from furlough days. [Note: Seasonal workers' hours fluctuate due to weather conditions and other factors, and are therefore not guaranteed. As a result, seasonal workers were 'exempted' from furlough days. However, according to Parks management, seasonal hours were limited to no more than 72 hours per pay period to contain costs. The impact of that policy is difficult to quantify and is not included in the calculation of furlough savings.] The remaining 2,875 individuals employed by Milwaukee County during part or all of 2010 (47%) were subject to mandatory furloughs. An additional 341 employees not mandated to take furlough days in 2010 did so on a voluntary basis, resulting in a total of 3,216 Milwaukee County employees that took furlough time in 2010. **Table 1** shows a breakdown of the number of furlough days taken by County employees in 2010.

<u>Furlough Days Taken</u>	<u>Number of Employees</u>
20 or more	1,095
12 to <20	593
5 to <12	920
Less than 5	608
Total	3,216

Source: Ceridian time and attendance records and Milwaukee County Controller monitoring data.

Fiscal Impact

In aggregate, the plans for alternative savings submitted by the previously identified Constitutional Officers totaled \$2.8 million. A variety of measures were implemented to achieve the savings, including holding funded positions vacant, reducing planned purchases of supplies and equipment, reallocation of staff to achieve efficiencies, and other actions. While it is difficult to measure actual achievement of the various plans due to changing fiscal circumstances that must be managed during the course of a budget year, we note that in aggregate, these Constitutional Offices ended the 2010 with a budget surplus of \$2.6 million, primarily due to large surpluses in the budgets of the Office of the Sheriff, the County Treasurer and the District Attorney. Therefore, it appears that, in aggregate, the Constitutional Officers achieved budgetary savings more than sufficient to make up for the furlough days they chose not to impose on employees.

The Department of Administrative Services monitored employee furlough compliance throughout 2010. The County Controller provided a detailed spreadsheet on the scheduling and use of furloughs in 2010. Based on that detailed information and minor adjustments, we calculated net furlough savings of approximately \$5.2 million in 2010. As shown in **Table 2**, 66% of the net

savings were achieved from six organizational units: Parks, DHHS-Behavioral Health Division, Department of Health and Human Services, Zoo, Facilities Management and IMSD.

Table 2
Net County Savings from Furloughs in 2010
By Organization Unit

<u>Department/Organizational Unit</u>	<u>Total</u>	<u>Percent</u>	<u>Cumulative Percent</u>
Parks	\$ 867,932	16.7%	16.7%
DHHS – Behavioral Health Division	782,287	15.0%	31.7%
Department of Health and Human Services	535,199	10.3%	42.0%
Zoo	471,434	9.1%	51.1%
Facilities Management	421,978	8.1%	59.2%
IMSD	343,602	6.6%	65.8%
Arch, Eng, and Environmental Services	193,053	3.7%	69.5%
Department on Aging	192,546	3.7%	73.2%
Combined Court Related Operations	189,499	3.6%	76.8%
District Attorney	151,336	2.9%	79.8%
All Others Combined	<u>\$1,054,256</u>	20.3%	100.0%
	<u>\$5,203,122</u>	100.0%	

Source: Ceridian payroll system, Milwaukee County monitoring data, Advantage financial records.

The \$5.2 million in net savings to the County were the result of a substantially larger gross savings of wages paid to employees, offset by various costs associated with implementation of the furlough policy implementation. Details of the gross savings and various offsets are presented in **Table 3**, followed by a narrative explanation of the major items shown.

Table 3 Detail of Net Furlough Savings 2010		
Gross Wage Reductions	<u>Detail</u>	<u>Subtotals</u>
Gross Wage Reductions from Furloughs (hours x hourly rate)	\$8,072,909	
County Share of FICA avoided on Reduced Wages from Furloughs	\$617,578	
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Gross Wage & FICA Savings from Furloughs	\$8,690,486	\$8,690,486
Less Revenue Offsets		
Loss of Revenue (Reimbursements) due to Wage Reductions from Furloughs	\$(2,806,988)	
Net Wage & FICA Savings from Furloughs		\$5,883,498
Less Additional Costs & Adjustments due to Furlough Policy Implementation		
Estimate of Unemployment Cost Attributable to Furlough Days	\$(158,317)	
Estimated Overtime Cost Increases Attributable to Furloughs	\$(639,390)	
County Share of FICA Cost Paid on Increased Overtime Due to Furloughs	\$(48,913)	
Adjustment for Outside Revenue Reimbursement for Increased OT & FICA	\$166,244	
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	\$(680,375)	
Net Savings from 2010 Furlough Policy Implementation		<u>\$5,203,123</u>

Source: Ceridian payroll system, Milwaukee County Controller monitoring data, Advantage financial records.

Explanatory Notes for Table 3:

- **Gross Wage Reductions:**
 - Gross wage reductions of **\$8,072,909** were calculated by multiplying actual furlough hours logged by each employee in 2010 by their respective wage rates. Includes wage reductions for 2,875 employees subject to mandatory furloughs as well as 341 employees that took voluntary furlough time in 2010.
 - Since employees were not paid for furloughs, the County also did not have to pay the employer share of FICA (Social Security) taxes associated with wage payments. This resulted in additional savings of **\$617,578**.
- **Less Revenue Offsets:**
 - The County receives reimbursements from federal and state funding sources, the airlines servicing Mitchell International Airport, and other sources to offset labor costs associated with various County services. Therefore, gross wage and FICA savings from furloughs must be reduced by that portion of the costs that would have been borne by outside funding sources. For 2010, estimated revenue offsets of **(\$2,806,988)** are applied against the gross wage and FICA savings attributed to employee furloughs.
- **Less Additional Costs and Adjustments due to Furlough Policy Implementation:**
 - Milwaukee County can be liable for unemployment compensation when certain work hour thresholds are not met. An estimated unemployment compensation cost factor was developed and applied to all employees who took furloughs. This

results in an estimated added cost, or reduction in gross savings, of **(\$158,317)** attributable to furloughs.

- As part of the furlough implementation strategy, overtime was to be monitored so as not to negate savings from furlough. Nonetheless, more overtime was incurred in 2010 than in 2009 by those employees required to take furloughs. We estimate this added cost reduced gross furlough savings by an additional **(\$639,390)**. (In contrast, overtime incurred by those employees exempted from furloughs was lower in 2010 than in 2009.)
- FICA tax on the additional overtime reduced gross furlough savings by an additional **(\$48,913)**.
- A final adjustment is necessary to account for the outside revenue reimbursements the County obtained for the additional overtime and FICA costs incurred due to furloughs. This adjustment reduced the added costs, or contributed to overall furlough savings, by an estimated **\$166,244**.
- **Net Savings from 2010 Furlough Policy Implementation:**
 - Based on gross wages and FICA payments saved, adjusted for outside revenue offsets and added costs of policy implementation, we estimate net savings of **\$5,203,123** from Milwaukee County employee furloughs in 2010.

Legal Challenge to Implementation of 2010 Employee Furlough Policy

On May 20, 2011, the Wisconsin Employment Relations Commission ruled in favor of AFSCME District Council 48 (DC 48), which challenged the authority of the County to impose furloughs on its members. The arbiter's decision awarded back-pay with interest for unpaid furloughs that exceeded 45 hours in 2010. A preliminary estimate of the cost of that decision was approximately \$4 million including accumulated interest. Milwaukee County appealed the decision to the WERC but that body refused to re-hear the case. The County has appealed this administrative decision in civil court, which decision is pending.

During 2011, after passage of Wisconsin Act 10 (State Budget Repair Bill) by the Wisconsin State Legislature, and in the absence of a contract with DC 48, the County gained the ability to modify employee benefits, including the imposition of a 4.7% pension contribution from employee wages. Consequently, furlough days previously imposed on DC 48 employees were reduced from 26 to 13 days for 2011. This provision and other changes went into effective July 24, 2011.

Operational Impacts

The Department of Audit conducted a survey of selected County departments regarding the impact of implementing employee furloughs in 2010 to achieve budgetary savings. Following are highlights of the survey results.

- The Behavioral Health Division reported that fewer clients were able to be served in some grant- programs due to lost revenue from furloughs taken by grant funded positions.
- The Behavioral Health Division also reported increased overtime (\$445,000 according to Ceridian Time and Attendance records), primarily due to the combination of lost time from employee furloughs and increased demands from federal/state regulatory requirements for patient observation and safety improvements.

- Staff at the Zoo indicated that there have been some increases in the use of time and material contractors due to the decreased availability of skilled trade workers on furloughs.
- Similarly, staff at General Mitchell International Airport indicated they incurred an obligation to hire a contractor to do monthly inspection of noise monitors and data feed assessment/troubleshooting: total cost was approximately \$19,000 for 2010.
- According to the Personnel Review Board/Ethics Board response, the office emphasized the importance of cross-training and communication among the staff to carefully examine deadlines and rearrange priorities during the furloughs. The main goal for the department was to complete job assignments regardless of the business environment.

Conclusions

Based on our review of the fiscal and programmatic impact of mandatory furloughs implemented in 2010, we have drawn the following conclusions.

- Implementation of employee furloughs appear to have saved the County an estimated \$5.2 million in 2010, but the savings must be considered suspect until a final decision is reached on a legal challenge by DC 48 employees that potentially reduces savings by approximately \$4 million.
- Use of furloughs to obtain labor savings provides an alternative to employee layoffs, but is an inefficient way to achieve savings. For instance, netting increased overtime earnings, we estimate employees lost \$7.4 million in wages for the County to achieve net savings of \$5.3 million. [Note: Other funding sources realize the difference in savings.] Further, the County lost a net 322,707 hours of productivity from furloughed workers (furlough hours less increased overtime), or the equivalent of approximately 180 Full Time Equivalent positions, with no corresponding reduction in associated fringe benefit costs.
- Use of furloughs has unintended programmatic and other consequences. Departments reported service reductions, increased contracting costs and increased overtime as a result of the 2010 furlough policy. There is undoubtedly a negative impact on staff morale as well, particularly at higher levels of mandated furlough time.

This report is for informational purposes.



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JJH/cah

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