

**COUNTY OF
MILWAUKEE**
Inter-Office Communication

Date: June 10, 2022

To: Marcelia Nicholson, Chairwoman, Milwaukee County Board of Supervisors

From: Aaron Hertzberg, Director, Department of Administrative Services

Subject: Report from the Director, Department of Administrative Services, regarding an anticipated 2022 operating deficit due to lower revenues and utility cost increases.

File Type: Informational

POLICY

Ch. 56.02 of Milwaukee County's Code of General Ordinances requires county departments to submit a written report to the county executive, the committee on finance of the county board, the office of the comptroller and the department of administrative services whenever such person has reason to know or believe that a net deficit of at least one hundred thousand dollars (\$100,000.00) or an overtime deficit of at least one million dollars (\$1,000,000.00) will occur or is projected to occur for the division of county government under the supervision of that person.

BACKGROUND

For the April fiscal report to the Office of the Comptroller, the Department of Administrative Services (DAS) forecasted an annual deficit of (\$1,270,636.30) for 2022. This includes an anticipated revenue loss of (\$1,699,446.29), partially offset by savings in expenditures of \$428,809.99.

The deficit is primarily caused by the following issues in the DAS – Facilities Management Division:

Revenue variance ~(\$1.6M) deficit driven by

- a) Loss of budgeted 2022 State of WI rent for Coggs, assuming termination as of 9/30/2022 (\$862K)

The State DHS has informally notified DAS – Facilities Management Division of their intent to relocate to a new leased facility in Q4. While we have not received formal notice (30-day notice required by lease), we are aware of their new lease and planned relocation later this year. The potential revenue loss was unknown during the 2022 budget development. Going forward for 2023 and beyond, this revenue will be removed from the DAS budget.

- b) Lower than budgeted internal A&E Labor revenue (\$793K)

A&E labor revenue is for internal labor costs that are charged to adopted capital projects. This revenue is forecasted lower than budget due to higher than expected staff vacancies, and to a lesser extent, administrative costs related to re-organization of the department.

Expenditure variance ~\$318K surplus driven by

- a) Commodities (steam utility costs) forecast approximately (\$600K) over budget due to higher than expected usage and utility cost basis.

Utility costs, specifically steam, are 38% over budget this year due to significant price increases from WE Energies as well as additional usage for COVID mitigation. WE Energies unit rates for steam increased by about 30% in 2021, owing to a significant reduction of district steam customers, repair costs related to a 2020 steam tunnel flood, and fuel cost adjustments. At the same time, steam usage in the Courthouse Complex has increased about 15% as fresh outside air volumes have been maximized for COVID mitigation as per CDC recommendations. District steam is used to heat this outside air.

- b) Personnel (salaries costs) forecast approximately \$918K under budget for the Department of Administrative Services due to vacancies across all divisions within the department.

Corrective Action Plan:

DAS plans the following corrective actions:

- a) Seek to recover additional steam consumption costs due to COVID from ARPA COVID mitigation funds (\$200k this year, and \$200k for next year's budget).
- b) Seek a fund transfer between salaries (in surplus) and commodities (in deficit) to cover this year's forecasted steam cost overrun due to WE Energies price increases.
- c) Monitor revenue concern and collaborate with the Office of Strategy, Budget and Performance on options to resolve.

Next Steps:

DAS will continue to monitor the fiscal situation and will keep the board updated on efforts to reduce the projected deficit. In accordance with Ch. 56.02, DAS will submit a follow-up report in three months.

ALIGNMENT TO STRATEGIC PLAN

By reporting on the potential deficit within this area as early into the year as possible, the department is demonstrating a commitment to protecting the County's fiscal health and sustainability.

FISCAL EFFECT

This report is informational only.

TERMS

N/A

VIRTUAL MEETING INVITES

Aaron Hertzberg, DAS Director

Stuart Carron, Director of Facilities Management, DAS – Facilities Management

Timothy Christian, Director of Operations & Maintenance, DAS – Facilities Management

LaCricia McSwain, CBO Director, DAS – Central Business Office

PREPARED BY:

LaCricia McSwain, CBO Director, DAS – Central Business Office

APPROVED BY:

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Aaron Hertzberg, DAS Director

Aaron Hertzberg

ATTACHMENTS:

None

cc: County Executive David Crowley
Hon. Mary E. Triggiano, Chief Judge
Sup. Liz Sumner, Chairperson, Finance Committee
Sup. Sequanna Taylor, Co-Chairperson, Finance Committee
Scott Manske, Comptroller, Office of the Comptroller
Mary Jo Meyers, Chief of Staff, County Executive's Office
Kelly Bablitch, Chief of Staff, Milwaukee County Board of Supervisors
Joseph Lamers, Director, Office of Strategy, Budget and Performance
Steve Cady, Research & Policy Director, Office of the Comptroller
Vincent Masterson, Capital Budget Coordinator, Office of Strategy, Budget and Performance
Lottie Maxwell-Mitchell, Research & Policy Analyst, Office of the Comptroller