

COUNTY OF MILWAUKEE  
INTEROFFICE COMMUNICATION

DATE : 2/8/2019

TO : Supervisor Theodore Lipscomb Sr., Chair, County Board of Supervisors

FROM : Joe Lamers, Director, Office of Performance, Strategy, and Budget (PSB)

SUBJECT : 2020 Operating Budget Planning Updates

**Background/Discussion**

In the January cycle, PSB provided the County Board a report (File 19-26) on the estimated 2020 Operating budget gap of approximately \$26.5 million. The report also indicated that in March 2019, DAS-PSB will follow up on budget gap closing strategies, including levy targets and potential revenue options. This report provides additional information on these items.

The below chart, which was included in the January report, provides major factors leading to the projected budget gap. At this time there are no changes to the projected gap amount. PSB will continue to review these projections and provide updates if there are significant changes.

<b>Estimated 2020 Operating Budget Gap</b>	
<b>Description</b>	<b>Amount</b>
Compensation Increase	\$ 5.7
Health Care	\$ 2.8
Pension	\$ 6.6
Debt Service P&I	\$ 1.0
Other Operating Cost to Continue	\$ 10.7
Inmate Medical Cost Increase	\$ 5.0
Court Appointed Attorney Fees	\$ 1.5
<b>Total Expense Change</b>	<b>\$ 33.3</b>
<b>Revenue Change - Lost Revenues</b>	
Debt Service Reserve	\$ 3.3
Unclaimed Revenue	\$ 1.3
<b>Revenue Change - Increased Revenue</b>	
Property Tax	\$ (3.9)
Sales Tax	\$ (2.6)
GTA	\$ (0.5)
VRF	\$ (0.4)
Other/Reimbursement Revenue	\$ (4.1)
<b>Total Revenue Change</b>	<b>\$ (6.8)</b>
<b>Gap Total</b>	<b>\$ 26.5</b>

Three broad options for closing the budget gap were also presented in the January report as shown below. This report update provides additional detail regarding these budget options.

2020 Gap Closing Options	Divest	Temp Fix	Sustain
Dept's Self Fund Operating Cost-to-Continue	\$ 10.7	\$ 10.7	\$ -
Debt Service Reserve Withdrawal Equal to 2019	\$ 3.3	\$ 3.3	\$ -
Cash Capital or Other Reduction	\$ 2.5	\$ 2.5	\$ -
Department Levy Targets	\$ 10.0	\$ -	\$ -
New Revenues	\$ -	\$ 10.0	\$ 26.5
<b>Total</b>	<b>\$ 26.5</b>	<b>\$ 26.5</b>	<b>\$ 26.5</b>

### **Divest Option / Levy Targets**

If the Divest strategy is followed for the 2020 budget process, levy reduction targets totaling \$10 million will be distributed to departments. The amount is subject to change based on updates to the budget gap analysis, decisions around capital funding, the use of debt service reserves and other factors. A \$10 million reduction in levy targets would amount to an approximately 1.6% reduction to the total budget for departments.

The below chart provides preliminary draft tax levy targets by department, which add up to \$10.0 million. A similar methodology that was applied to 2019 levy targets was used. This methodology included across-the-board percentage reductions to most departments, although some revenue generating and high risk departments are exempted (as detailed in the chart).

For the 2020 draft levy targets, two changes are included from methodology that was used in 2019. The cost of providing inmate medical services is excluded from the House of Correction levy reduction calculation, and the Emergency Medical Service function in the Office of Emergency Management is also removed since any levy savings in that area would be offset by a reduction in the levy limit per state statute.

All departments will be expected to follow the levy target instructions in the requested budget process. If departments do not meet their levy target within their request, the County Executive's recommended budget will make adjustments accordingly to ensure that all departments participate in efforts to achieve a balanced budget.

2020 BUDGET PRELIMINARY DRAFT TAX LEVY REDUCTION TARGETS: 1.6% of TOTAL BUDGET						
County Executive Cabinet Departments			Elected Departments		Excluded Departments	
Agency	Reduction	Agency	Reduction	Agency	Reduction	
102	CEX - Vets	\$ (3,219)	200	Courts	\$ (431,517)	<i>Revenue Departments:</i>
103	CEX - Gov Affairs	\$ (3,689)	290	Courts Pre-Trial	\$ (82,856)	504 DOT-Airport
109	OAAA	\$ (12,046)	340	ROD	\$ (23,614)	580 DOT-Directors
112	PRB	\$ (4,414)	370	Comptroller	\$ (70,708)	530 DOT-Fleet
113	Corp Counsel	\$ (18,021)	450	DA	\$ (184,806)	510 DOT-Highway
114	Human Resources	\$ (84,594)	400	Sheriff	\$ (669,783)	507 DOT-Tran Svcs
115	DAS	\$ (595,293)				550 DAS-Utility
430	HOC	\$ (482,662)				243 Child Support
480	OEM	\$ (70,571)				
490	Medical Examiner	\$ (68,380)				<i>Elected Offices with Limited Staff:</i>
560	DOT-Transit	\$ (1,647,032)				110 CEX - General
630	DHHS-BHD	\$ (2,750,763)				100 County Board
800	DHHS	\$ (1,498,095)				309 Treasurer
790	Aging	\$ (325,588)				327 Clerk
900	Parks	\$ (592,515)				
950	Zoo	\$ (266,457)				<i>High Risk Areas:</i>
990	UW-Ext	\$ (7,381)				116 DAS-IMSD
	Culturals	\$ (105,996)				117 DAS-Risk
						301 Election Commission
<b>Total Cabinet Depts</b>		<b>\$ (8,536,716)</b>	<b>Total Elected Depts</b>		<b>\$ (1,463,284)</b>	<b>Excluded Depts</b>
						<b>\$ -</b>
<b>GRAND TOTAL</b>						<b>\$ (10,000,000)</b>

### Temporary Fix Option

Under the temporary fix option, \$10 million of new revenues and or non/departamental cost savings need to be identified, in order to avoid further departmental budget reductions.

County taxing authority is granted by State Statute, and the County has limited options for generating new revenues. Property tax for operating purposes is limited to the percentage of growth in net new construction; this growth rate is already factored into the budget gap analysis. The County share of sales tax receipts is limited to 0.5%; growth in sales tax is also factored into the above budget gap analysis.

The County does have an option to increase the Vehicle Registration Fee (VRF) from the current rate of \$30 up to approximately \$60 to replace tax levy for all transportation services. The below table shows the additional amount of VRF could be generated with fee increases ranging from \$5 to \$30. A fee increase of approximately \$20 would be needed in order to generate \$10 million.

VRF Increase Scenarios		
Increase Amount	Annualized Increase	2020 Budget Estimate*
\$ 5	\$ 2,843,444.73	\$ 2,606,491
\$ 10	\$ 5,679,808.36	\$ 5,206,491
\$ 15	\$ 8,516,172.00	\$ 7,806,491
\$ 20	\$ 11,352,535.64	\$ 10,406,491
\$ 25	\$ 14,079,808.36	\$ 12,906,491
\$ 30	\$ 16,916,172.00	\$ 15,506,491

*\*VRF increases become effective three months after an ordinance change. If a VRF change were to be included in the budget that is adopted in November, it would not be collected for the full fiscal year in 2020. In order to be effective for the full year, the ordinance would need to be changed in September.*

### Transit Budget Detail

It is important to note that VRF revenue can only be used for Transit and Transportation related expenses, including operating and capital costs. The Transit department in particular is a significant tax levy cost center. Transit's 2019 operating budget includes \$9.4 million in tax levy funding. Transit's estimated cost-to-continue is \$3.2 million for 2020, representing approximately 2% growth in operating costs. In addition, Transit's 2019 operating budget included \$1.6 million of one-time revenues which are not expected to be available in 2020. Also, the preliminary tax levy reduction target chart shown above indicates that Transit may be faced with a \$1.647 million reduction target for 2020. When combining the cost-to-continue, one-time revenues, and a potential levy reduction target, the Transit operating budget is estimated to have a potential shortfall of \$6.4 million in 2020.

If a VRF increase were to be pursued, decisions would need to be made regarding how the funds are allocated, including whether the fee increase would support the Transit budget and/or other areas of operations, as well as the capital budget.

### Sustainability Option

The sustainability option would require \$26.5 million or more in additional revenues. Current State Statutes largely prevent the County from raising revenues of this magnitude.

The "Fair Deal for Milwaukee County Workgroup" was created to identify and propose options for enhancing the long-term fiscal stability of Milwaukee County, and to increase State funding of mandated services. This Workgroup has held meetings and recommended a platform for lobbying activity and legislative change. Changes at the State level will be needed to meet a sustainable budget.

For the 2020 budget process, DAS-PSB will operate under a status quo set of revenue assumptions unless new information is made available. This means that most State revenues are currently projected to remain flat in 2020.

### **RECOMMENDATION**

This report is for informational purposes only. No action is needed. However, as part of the budget process, feedback from the Finance and Audit Committee and the County Board will be taken into consideration in regards to budget planning items such as levy targets and new revenues. The administration looks forward to continuing work with the Board to develop a long term fiscal sustainability plan for the County.



Joseph Lamers, Director  
Office of Performance, Strategy and Budget  
Department of Administrative Services

Cc: Chris Abele, Milwaukee County Executive  
James "Luigi" Schmitt, Chair, Finance and Audit Committee  
Willie Johnson, Co-chair, Finance and Audit Committee  
Sheldon Wasserman, Finance Committee  
Supreme Moore Omokunde, County Supervisor  
Jason Haas, County Supervisor  
Sequanna Taylor, County Supervisor  
Eddie Cullen, County Supervisor  
Scott Manske, County Comptroller  
Steven Cady, Research and Policy Director, Office of the Comptroller  
Teig Whaley-Smith, DAS Director  
Raisa Koltun, Chief of Staff, Office of the County Executive  
Kelly Bablitch, Chief of Staff, County Board  
Dan Laurila, DAS-PSB Operating Budget Manager