Milwaukee County

Five-Year Financial Forecast

2020 – 2024

Office of the Comptroller

Scott B. Manske, Comptroller

September 2019

EXECUTIVE SUMMARY

The five-year forecast for Milwaukee County is a tool for helping policymakers and the public understand the future challenges and opportunities of the County budget. Mandated by § 59.255 (2)(h) Wis. Stats., the Comptroller produces this annual report based on reasonable assumptions about general economic conditions and projected changes in County revenues and expenditures. The goal of this forecast is to determine the extent of actions necessary to close the gap between revenues and expenditures, ensuring long term fiscal sustainability. The forecast assists policymakers in the County's financial decision-making process to demonstrate the long-range impact of courses of actions being considered by the County and to gauge the effect of past decisions.

Results of this year's forecast indicate an ongoing structural deficit with similar elements to five-year forecasts issued in prior years. The main findings of the report include:

- ***The projected structural deficit for the 2020 operating budget is approximately $16.0 million. When including the one-time implementation costs for correctional healthcare insourcing, the projected deficit grows to $20.5 million.*** Key assumptions contributing to the structural deficit in 2020 are funding for the ongoing cost-to-continue of current operations, an increased pension contribution due to a change in the assumed rate of return and the elimination of reserve contributions. Offsetting these increases are lower than anticipated expenditures for wages, healthcare, and forecasted increases in sales tax and property tax levy.

- ***The 2020 structural deficit of $16.0 million is reasonable based on the forecasted cost-to-continue and use of one-time revenues in 2019.*** The County's prior year five-year forecast predicted that the County would have a structural deficit of $10.5 million for the 2020 fiscal year if the 2019 structural deficit of $16.8 million was solved with long-term solutions. The forecast further projected that if no long-term solutions were implemented, the 2020 structural deficit could reach $33.9 million. Given the one-time revenues used in 2019, as well as other unanticipated changes, the 2020 structural deficit of $16.0 million is reasonable.

- ***On average, the annual structural deficit will consist of a cost-to-continue of $15.9 million due to a greater increase in expenditures than what is generated in additional revenue.*** Expenditures will grow on average 2.4 percent while revenues will grow on average 1.0 percent. ***The County can also expect an increase in the structural deficit each year in which one-time revenues or expenditure abatements were used in the prior year.*** In 2019, the County utilized such one-time revenues of approximately $3.3 million, which increased the 2020 structural deficit roughly by the same amount. A structural deficit of $16.0 million is less overwhelming than some previous years. If the County were to resolve this structural deficit with long-term solutions, it could expect a 2021 structural deficit of roughly $19.4 million, barring any unforeseen issues. Any use of one-time revenues or expenditure abatements in the 2020 budget will worsen the structural deficit in future years.

- Other issues remain unsettled such as future State biennial budgets, salary compression and limited wage growth in the County's workforce, loss of the Froedtert/Doyne lease payment, deferred maintenance, correctional healthcare, and building footprint changes including a secured residential care center for youth and new criminal courthouse. Any of these issues may compromise the County's fiscal outlook and should be monitored closely.

THE FRAMEWORK OF THE STRUCTURAL DEFICIT

The annual structural deficit consists of two elements:

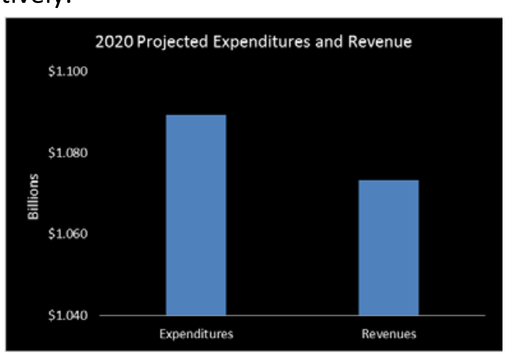
- Cost-to-continue increase
- One-time revenues and expenditure abatements utilized in the previous year

On average, the County can expect an average cost-to-continue of $15.9 million annually due to a greater increase in expenditures than what is generated in additional revenue. The forecasted, average cost-to-continue dropped for two consecutive years from $14.1 million for the 2017 – 2021 forecast to $13.6 million for the 2018 – 2022 forecast to $12.8 million for the 2019 – 2023 forecast, while it is now increasing to $15.9 million for the 2020 – 2024 forecast. On average, expenditures will grow 2.4 percent while revenues will grow 1.0 percent which generates the cost-to-continue amount. The amount is further adjusted by any changes to the assumptions used in previous forecasts as well as any unforeseen issues that arise during the fiscal year.

The structural deficit then further increases each year by one-time revenues or expenditure abatements used in the prior year. Any one-time revenues, such as land sales or reserve contributions, and any expenditure abatements, such as one-time budgetary reductions, will increase the structural deficit by the same amount. In 2019, the County utilized such one-time revenues and expenditure abatements of approximately $3.3 million, which increased the 2020 structural deficit by roughly the same amount.

THE 2020 PROJECTED STRUCTURAL DEFICIT

The use of one-time revenues and expenditure abatements from 2019 coupled with the cost-to-continue results in a $16.0 million structural deficit for 2020. Expenditures and revenues are projected to be $1.09 billion and $1.07 billion, respectively.



In comparison, the prior financial forecast projected that the County would have a cost-to-continue of $10.5 million for the 2020 fiscal year if the 2019 structural deficit of $16.8 million was resolved with long-term solutions. The forecast further projected that if no long-term solutions were implemented, the 2020 structural deficit could reach $33.9 million.

The projected structural deficit in 2020 is largely comprised of the following changes from the 2019 Adopted Budget:

	Amount (millions)	
Expenditure Type		
Cost to Continue	$	9.0
Transit	$	5.7
Correctional Health (Wellpath Contracted Services)	$	5.0
Pension	$	4.5
Court-appointed Attorneys	$	1.6
Salaries & Overtime	$	1.5
Debt Service	$	0.6
Health & Other Benefits	$	(3.1)
Expenditure Change	$	24.8
Revenue Type		
One-time Revenue	$	3.3
Other Revenue	$	2.1
State Revenue	$	1.9
Interest on Delinquent Real Property Taxes	$	0.5
Federal Revenue	$	0.4
BHD Health Revenue	$	(6.7)
Property Taxes	$	(4.0)
Sales Tax	$	(3.6)
Miscellaneous Revenue	$	(2.6)
Revenue Change	$	(8.8)
Projected 2020 Operating Gap	**$**	**16.0**
One-time Correctional Health Care Insourcing Costs	$	4.5
Gap with Correctional Health Care Insourcing	**$**	**20.5**

Cost-to-continue items of significance include:

- **Cost to Continue.** This category includes utilities, professional services, commodities, supplies, gasoline, insurance, workers compensation, contingency, purchase of service particularly in health and human services, and other uses and is offset by Airport revenue and other health revenue. Overall this category is projected to increase by 3.1 percent in 2020.

- **Transit Expenditures.** Based on the department's requested budget for 2020, the forecast assumes a 5.1 percent increase for 2020 compared to 2019 budgeted expenditures. This is the amount that would be necessary in 2020 to maintain current operating levels. Future year expenditures are forecasted to grow at 2.5 percent.

- **Correctional Health (Wellpath Contracted Services).** Ongoing correctional health services were underfunded by nearly $5.0 million in the initial 2019 Adopted Budget. This amount accounts for the funding necessary for services in 2020 and beyond.

  Apart from the $5.0 million that was restored for **ongoing** correctional healthcare services as discussed above, if the County insources correctional health care, the **one-time insourcing implementation** would require $4.5 million in 2020 and additional amounts in subsequent years. This increases the gap from $16.0 million to $20.5 million in 2020.

- **Pension Expenditures**. For 2020, the County's contribution to the pension system increases due to the planned reduction in the assumed rate of return for the ERS Trust. Total forecasted pension-related expenses increase by $4.5 million in 2020.

- **Court-appointed Attorneys.** A court ruling increases the hourly rate of pay for court-appointed attorneys by 42.9 percent effective in 2020, which is projected to increase costs $1.6 million in 2020.

- **Salaries and Overtime**. For 2020, the forecast assumes that salary and overtime expenditures increase 0.6 percent from 2019 budgeted expenditures, which includes a 2.0 percent cost of living adjustment mid-2019 and projected pay equity and merit award increases. Historically, the County's salary surpluses are used to offset the County's overtime deficits which is the case for 2019. Any surplus after accounting for overtime deficits reduces the County's overall structural deficit in future years. Furthermore, salaries in general continue to grow year-over-year at a slower pace than has been expected which justifies the low overall increase of 0.6 percent forecasted in 2020.

- **Health and Other Benefits.** For 2019, the County is experiencing unanticipated savings in healthcare costs due to a favorable claims and a reduction in the Affordable Care Act (ACA) fees. These savings and a lower anticipated growth in healthcare costs for 2019 and 2020 generate savings that can be used to offset other increases in benefit costs in 2020, such as pharmaceutical costs. Based on current and historical trends, healthcare costs are now forecasted to increase at 3.9 percent over the forecast period, while pharmaceutical costs are expected to increase by 9.0 percent over the forecast period.

- **Other Revenue.** Other Revenue is generally projected to increase with inflation, but two items result in a net decrease of 4.6 percent in 2020 from the 2019 budget in this category. The first is due to unclaimed money that is budgeted only in odd years resulting in a decrease of $1.3 million in 2020 compared to 2019. This other reflects the change in reimbursement from the ERS Trust for RPS administrative expenses. While the County will no longer receive this revenue as reflected in this category, there will also be a reduction in expenses by the same amount, reflected in other expenditure categories.

- **State Revenue**. The 2019 budget assumed housing a greater number of inmates from the Department of Adult Institutions (DAI) than is occurring, resulting in a deficit in DAI and sanction revenue. The 2020 forecasts assumes $1.5 million less in DAI and sanctions revenue than the 2019 budget and then flat revenue from the State in subsequent years. This category also includes human services reimbursements from the state for mental health, AODA treatment, foster family mobile treatment, family intervention and support, support for children with disabilities and developmental delays, Title 19, energy assistance, and meals and services for seniors. Additionally, the 2020 forecast assumes that some 2019 budgeted reimbursements were too ambitious by $0.9 million and that revenue will be flat in subsequent years.

- **BHD Health Revenue.** For purposes of this forecast, it is assumed that the tax levy of BHD will be held flat and that any expenditure increases will be covered with additional BHD health revenue. This results in no impact to the County's bottom line for BHD expenditure increases.

- **Property Tax Levy**. The 2020 forecast assumes that the County will levy up to the net new construction which was 1.36 percent in 2019. This provides an additional $4.0 million in revenue.

- **Sales Tax Revenue.** Assuming that sales tax grows at a minimum of 2.2 percent, or annual CPI, while the portion of sales tax allocated to capital projects increases at 3.0 percent, results in a $3.6 million increase in revenue for operating budget uses in 2020 compared to the 2019 budget.

- **Miscellaneous Revenue.** This is a general catchall for all other revenue received by the County, such as court revenues, real estate revenues, rental revenues, admission revenue, concession revenue, Potawatomi revenue, and employee health contributions. Some of these revenues are forecasted to grow at a minimum of CPI, or 2.2 percent in 2020 and beyond, resulting in $2.6 million in additional revenue in 2020. Based on actuals in recent years, the County budgeted for more Zoo walk-in admissions revenue than can be achieved in 2019 and less vehicle registration fee, real estate transfer fees, and earnings on investments than are now expected to be achieved in 2019, so the 2020 projection is reset to achievable levels.

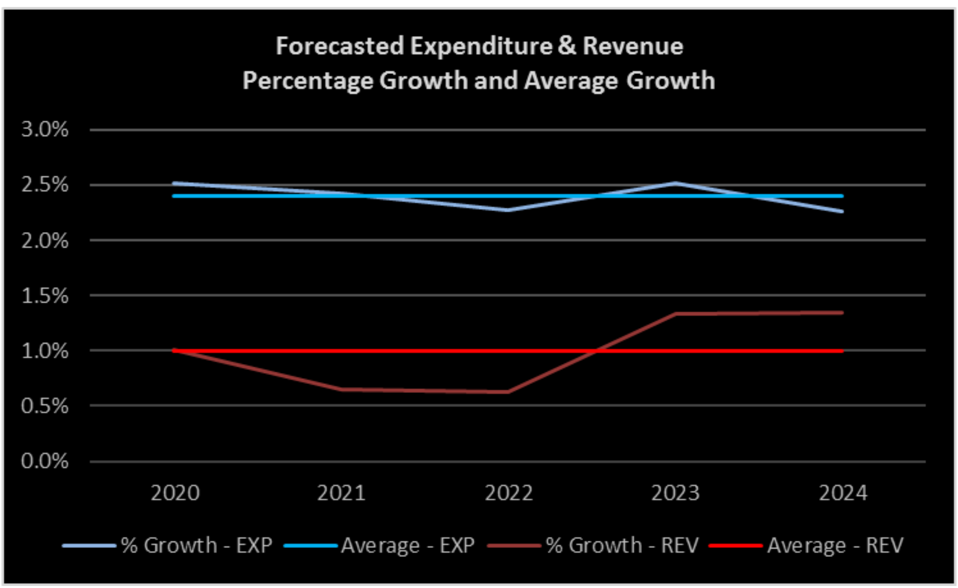
One-time revenue:

- **One-time Revenues**. In 2019, the Debt Service Reserve contributed $3.3 million in revenue to the 2019 Adopted Budget. The forecast assumes no Debt Service Reserve contributions in 2020. This expected decrease in one-time revenue contributes to the 2020 structural deficit.

THE FUTURE OF THE STRUCTURAL DEFICIT

When the model was first utilized after passage of the 2009 budget, expenditures were forecasted to grow by 6.1 percent annually while revenues would rise by only 3.7 percent annually. Expenditures are now forecasted to grow by an average of 2.4 percent annually, while revenues are forecasted to grow by an average of 1.0 percent annually.

Even with the fundamental changes the County has made to lessen the structural deficit, it continues to persist albeit at a much lower level than originally forecasted. Since expenditure growth is forecasted to outpace revenue growth on annual basis, the County will continue to have a structural deficit each year in the forecast period absent any policy changes.



As discussed above, the previous model predicted that the County would have a structural deficit of only $10.5 million for the 2020 fiscal year if the 2019 structural deficit of $16.8 million was solved with long-term solutions. Due to the various factors affecting the 2020 budget, the model is now forecasting a $16.0 million structural deficit for 2020. While this amount may seem intimidating, if the County resolves this structural deficit with long-term solutions, in each of the following years, barring any unforeseen issues, the County could expect much smaller annual structural deficits comprised mainly of the County's cost-to-continue. As shown below, the forecasted cost-to-continue ranges from $11.6 million to $19.4 million.

Year	Expenditure	Revenue	Structural Deficit	Cost-to-Continue*
2019	$ 1,062,498,687	$ 1,062,498,687	$ -	
2020	$ 1,089,205,092	$ 1,073,244,489	$ (15,960,603)	$ (15,960,603)
2021	$ 1,115,572,005	$ 1,080,257,486	$ (35,314,519)	$ (19,353,916)
2022	$ 1,140,861,427	$ 1,087,012,492	$ (53,848,935)	$ (18,534,416)
2023	$ 1,169,523,796	$ 1,101,511,628	$ (68,012,168)	$ (14,163,233)
2024	$ 1,195,945,855	$ 1,116,320,404	$ (79,625,452)	$ (11,613,284)
			Average Gap:	$ (15,925,090)
*Cost-to-continue assumes that the prior year gap was eliminated with long-term solutions.				
*For 2020, the increase in pension contribution is considered an outlier and removed from cost-to-continue.				
*For 2021, the loss of Doyne Hospital revenue is considered an outlier and removed from cost-to-continue.				

Proceeding with insourcing correctional healthcare would require one-time investments of $4.5 million in 2020 and $6.0 million in 2021, followed by increased costs of $2.6 million in 2022 and subsequent years. The effect of these additional expenditures is illustrated below.

Year	Expenditures with Correctional Healthcare One-time Implementation Costs	Revenue	Structural Deficit	Cost-to-Continue*
2019	$ 1,062,498,687	$ 1,062,498,687	$ -	
2020	$ 1,093,721,366	$ 1,073,244,489	$ (20,476,877)	$ (20,476,877)
2021	$ 1,121,603,578	$ 1,080,257,486	$ (41,346,092)	$ (20,869,215)
2022	$ 1,143,487,659	$ 1,087,012,492	$ (56,475,167)	$ (15,129,076)
2023	$ 1,172,150,028	$ 1,101,511,628	$ (70,638,400)	$ (14,163,233)
2024	$ 1,198,572,088	$ 1,116,320,404	$ (82,251,684)	$ (11,613,284)
			Average Gap:	$ (16,450,337)

IMPACT OF THE COUNTY'S COST-TO-CONTINUE

One element of the annually recurring structural deficit is the County's cost-to-continue, that is the disproportion between annual revenue growth and annual expenditure growth. The County has controlled major expenditures related to salaries and healthcare, which have driven down the County's cost-to-continue. Other expenditures have been controlled through various service model changes and through historically low inflationary periods. With respect to revenues, the County has been severely limited in its ability to raise meaningful revenues due mostly to state restrictions. Furthermore, aside from the five-year forecast presentation, the County has only recently begun meaningful discourse on a long-term sustainable strategy to match revenue and expenditure growth, while also minimizing the impact of the current year structural deficit. It is important to note that this is not unique to Milwaukee County. Municipalities across the nation struggle to provide the same level of services under ever increasing costs and slow growing revenues. The following chart shows that even if the County adds a new, continuing $16.8 million revenue source in 2020, the cost-to-continue remains a problem in future years. Furthermore, it shows that if the County adds a $16.8 million revenue source in 2020 and increases its revenues by 1.0 percent to 1.93 percent, the cost-to-continue still is a problem, albeit at a lower amount.

	Current - No Changes			Add $16.8 M New Revenue			Add $16.8M New Revenue & Increase Growth by 1.0%		
	0.99%	2.39%		0.99%	2.39%		1.99%	2.30%	
	Revenue (Millions)	Expenditure (Millions)	Cost-to-Continue	Revenue (Millions)	Expenditure (Millions)	Cost-to-Continue	Revenue (Millions)	Expenditure (Millions)	Cost-to-Continue
	0.99%	**2.39%**		**0.99%**	**2.39%**		**1.99%**	**2.30%**	
2020	1,073	1,089	$ 16.0	1,090	1,089	-0.8	1,090	1,089	0.0
2021	1,084	1,115	$ 15.4	1,101	1,115	15.3	1,112	1,114	2.5
2022	1,095	1,142	$ 15.9	1,112	1,142	15.8	1,134	1,140	3.5
2023	1,106	1,169	$ 16.5	1,123	1,169	16.3	1,157	1,166	3.6
2024	1,117	1,197	$ 17.0	1,134	1,197	16.8	1,180	1,193	3.8
2025	1,128	1,226	$ 17.6	1,145	1,226	17.4	1,203	1,220	3.9
2026	1,139	1,255	$ 18.2	1,157	1,255	18.0	1,227	1,248	4.1
2027	1,150	1,285	$ 18.7	1,168	1,285	18.6	1,252	1,277	4.2
2028	1,162	1,316	$ 19.4	1,180	1,316	19.2	1,277	1,307	4.4
2029	1,173	1,348	$ 20.0	1,191	1,348	19.8	1,302	1,337	4.6

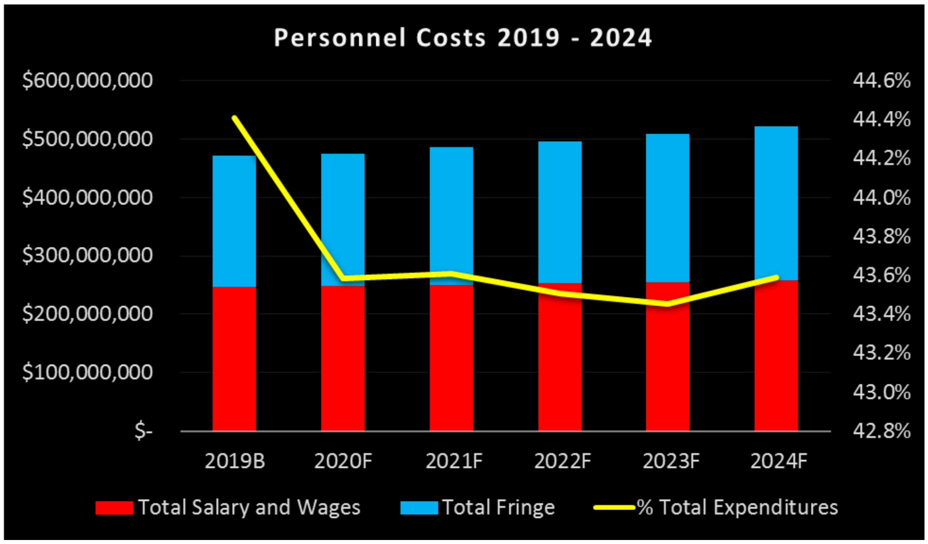
Expenditure Elements: Personnel costs comprise about 43.6 percent of the County's total expenditures in 2020, which is immaterially less than the previous model. The County's percentage of total expenditures for personnel-related expenditures is flat over the forecast period, suggesting that the County, through its changes in the last several years, has continued to meaningfully restrain expenditure growth in this area. However, given the proportion of County expenditures that are personnel costs, these costs will inherently always be a factor in the County's cost-to-continue if the County is to remain a competitive employer in the marketplace by providing a competitive wages and benefits package.

Main expenditure items of significance include:

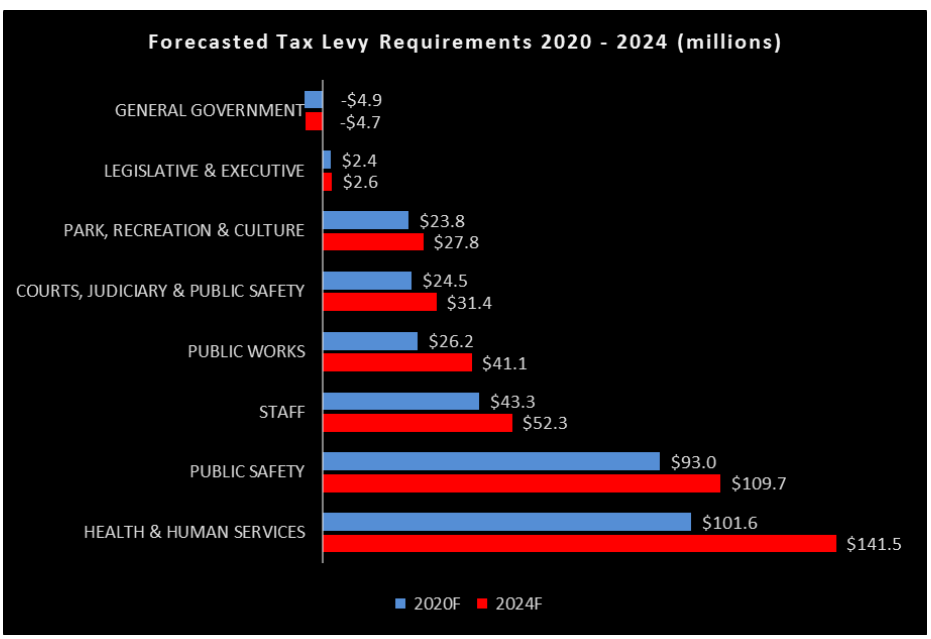
- Salaries and Wages, including overtime, are forecasted to grow by 3.7 percent over the five-year forecast period which is unchanged from the prior year forecast of 3.7 percent. For 2020, the expenditures for salaries and wages are expected to increase over 2019 budgeted amounts by approximately $1.5 million. For the later years, salaries are forecasted to grow at 0.9 percent annually.

- Fringe benefits, including pension and healthcare, will grow by 16.5 percent during the five-year forecast period. This is less than the five-year projections from 2015 through 2018 due to significant savings in healthcare being realized in 2019.

In the prior model, pension costs were forecasted to rise 7.4 percent over the five-year period. That trend has slowed and is now forecasted to rise 6.3 percent over the five-year period. In 2020, the County faces an increase due to the second change in the assumed rate of return from 7.75 percent to 7.50 percent. The rate of return was reduced to be consistent with financial projections and reflects a more reasonable rate of return for what can be expected. Any of the increases could be offset by investment returns that exceed 7.5 percent (or the assumed rate of return at the time) or other favorable changes in the actuarial estimate.



Generally, growth in expenditures continues to outpace the revenues that support County functions requiring greater tax levy contributions or cuts to program and services over time. The chart below shows the change in tax levy requirements for functional units over the five-year period.

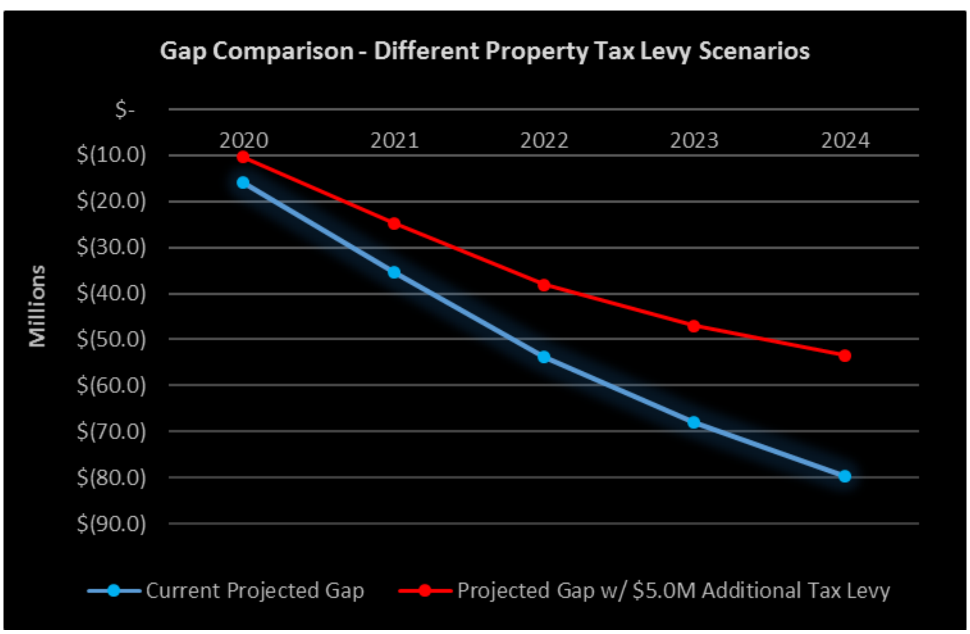


Inflationary Revenue Concerns: Over the forecast period, the County's revenue growth is projected to average 1.0 percent, which is similar to the previous model. Long-term, low growth rates are attributable to mostly flat revenue projections for State and Federal resources, as well as discretionary resources that are mostly forecasted to grow at the Consumer Price Index (CPI) over the forecast period.

The County successfully grew its operational revenue base $12.2 million in 2017 and further in 2018 due to implementation of the vehicle registration fee. However, given overall changes in other revenue sources, the County's relative revenue growth rate has remained unchanged. Further hampering the County's ability to increase its growth rate is the loss of a significant source of revenue when the Froedtert Hospital payment for the Doyne Hospital sale phases out in 2021.

The continuous, low growth rate suggests that even when the County grows its revenue base in a given year due to new revenue sources, it has little prospect for increasing those new revenues over time. Without larger increases in Federal and State funding, it will be difficult for the County to ease the cost-to-continue burden without larger increases in Federal and State funding.

The County operates under tax levy caps imposed by State Statutes. Generally, the County can raise levy by an amount equal to net new construction and by an amount equal to the growth in debt service issued after July 1, 2005. Because these two factors change on annual basis, it is difficult to determine what the potential tax levy available will be in the future. However, for illustrative purposes, the chart below shows how the structural deficit would change if an additional $5.0 million were levied in each year of the forecast (assuming it were available under the levy cap). As the chart shows, the long-term structural deficit is even more favorable under these conditions. As opposed to a $79.6 million structural deficit in 2024 (assuming no long-term solutions are implemented over the five-year forecast period), the structural deficit is $53.4 million, a $26.3 million difference in the County's fiscal outlook.



IMPACT OF ONE-TIME REVENUES AND EXPENDITURE ABATEMENTS ON THE STRUCTURAL DEFICIT

Another element of the structural deficit is the use of one-time revenues and expenditure abatements in the prior year. In any given year where the County adopts a budget using one-time revenues or expenditure abatements to resolve the cost-to-continue gap, the following year's structural deficit will increase by the amount of one-time revenues and expenditure abatements. This deficit is then compounded over the forecast period, until it is resolved by means of a long-term solution.

The 2019 budget utilized approximately $3.3 million in one-time revenues and expenditure abatements to resolve the 2019 structural deficit. This $3.3 million in one-time revenues and expenditure abatements as well as other unknown impacts are then added to the 2020 cost-to-continue component to arrive at the County's true structural deficit of $16.0 million. Had the County implemented $3.3 million in funding solutions that were sustainable, the forecasted structural deficit of $16.0 million for 2020 would have been reduced to $12.7 million.

Therefore, while the County is projecting an average of $15.9 million in cost-to-continue annually for the County, any unsolved portion of the 2020 structural deficit will increase the 2021 structural deficit by the same amount.

OTHER ISSUES IMPACTING THE COUNTY'S FISCAL OUTLOOK

Other issues exist which may have an impact on the structural deficit and County finances in the future. The fiscal outlook presented in this report does not include any assumptions relating to these issues.

- **Correctional Healthcare:** Insourcing correctional healthcare as required by County Board policy will require one-time implementation costs estimated at $4.5 million in 2020 and $6.0 million in 2021. $2.6 million will then be required in 2022 and subsequent years. The County will need to fund these additional costs by increasing revenues or reducing other expenditures.

- **Freezing the Levy:** Generally, the forecast carries forward current policies in its assumptions. With respect to the property tax levy, the County has both frozen and increased tax levy in past years. This model assumes that property taxes will grow initially by 1.4 percent in 2020 and then by 1.3 percent each of the following years; the amount is limited mainly due to limits within Wisconsin State Statutes. Holding the property tax levy flat over the forecast period would increase the deficit over the next five years and would result in the County having to collect an additional $57.6 million in revenues from other sources or find non-service impacting expenditure reductions to continue to provide the same level of service over the forecast period. Similarly, not increasing the levy to the allowable amount under State law could result in worsened fiscal impacts in the future years as revenue growth is a factor in the County's annual cost-to-continue.

- **Future Biennial State Budgets:** The Governor signed Wisconsin's biennial budget for the 2019 – 2021 fiscal years after making 78 vetoes. Although there has been minimal County impact for the past few years, future budgets could affect the long-term fiscal health of the County. For purposes of this report, it is assumed that most local aids will remain flat, including youth aids. However, State shared revenue is set to decrease by $0.4 million starting in July 2021 due to the County accepting a $5.5 million maximum Grant Agreement for Volkswagen Mitigation Transit Capital Assistance. Also, General Transportation Aids available for the entire State are approved to increase 10.0 percent in 2020 which will have a positive impact on Milwaukee County. Other issues of concern are the closure of Lincoln Hills and the possible return of administration of Child Welfare to the County.

- **Vehicle Registration Fee:** In 2017, the County implemented a vehicle registration fee (VRF) of $30 per vehicle. The revenue may be used only for transportation-related operations and capital projects. There has been previous discourse that suggests that some State policymakers might advocate for terminating the County's vehicle registration fee or requiring a referendum to retain it which would likely lead to its dissolution. For instance, if the County had lost this revenue for 2019, it would have created a gap of approximately $16.8 million in the County's 2019 budget. A gap of that magnitude coupled with the County's cost-to-continue scenario would likely lead to severe programmatic cuts and operational impacts throughout the County.

- **Debt Service and Infrastructure Needs:** The County's debt service has declined from a high of $885 million in 2010, which was due to the issuance of pension obligation bonds and the Build America Bond program, to $565 million in 2018. Assuming the County adheres to its self-imposed bonding cap, the projected outstanding debt is anticipated to decrease to $478 million by 2024. This amount does not include the new criminal courthouse. Although the debt service has been declining, the County also faces significant infrastructure needs that outpace the County's current level of cash and debt financing for its capital assets. The County's Capital Improvements Committee has received requested five-year capital improvement plans from departments for 2020-2024 that total approximately $780 million of County non-airport funding, which includes $201 million for a new criminal courthouse. Without increases of funding for capital projects along with greater diligence by the County in the timely completion of capital projects or decreases in the size of the County's asset portfolio, the County will encounter growing future liabilities.

- **Salary Compression and Limited Wage Growth:** The County's total salary dollars spent since 2015 has remained stagnant, suggesting that the County has not provided significant salary increases for employees beyond cost of living adjustments of 1.0 percent in recent years and 2.0 percent in mid-2019. Furthermore, departments have previously indicated that they are struggling with salary compression as new employees are brought on at comparable salary levels to tenured employees that have been employed for several years. Policymakers and administrators have begun to address this through pay equity and merit award increases, but additional resources may be necessary to fully address concerns.

- **Future Changes to the Behavioral Health Division:** The Behavioral Health Division, under direction of the Mental Health Board, has contracted for a private company to provide inpatient psychiatry, anticipated to begin in 2021. This could dramatically change how the division operates, as well as the County-related programs that support the division. The County charges the division approximately $32.0 million for legacy health and pension and County-related services. About $22.0 million of the $32.0 million is directly related to legacy health and pension charged to the division for costs related to former employees. Depending on the changes implemented, the County may need to develop additional revenues or find expenditure reductions elsewhere to absorb some or all these costs if necessary in the future.

- **Froedtert / Doyne Lease Payment:** In 2020, the County will receive its last full payment for its lease with Froedtert. The County anticipates receiving a partial payment in 2021, and no additional revenue after that. This will result in a revenue reduction of approximately $9.0 million that the County will need to absorb through new or enhanced revenue streams or expenditure reductions.

ABOUT THE MODEL

The five-year financial forecast for Milwaukee County provides a projection of the financial results for future budget years using the current budget year as a base, adjusted for known factors specific to Milwaukee County. The forecast uses the 2019 budget as the basis for the 2020-2024 projection. The 2019 budget expenditure base is then adjusted for inflation in most cases. For certain expenditures or revenues including wages, benefits and certain programs, inflationary increases are based on recent increases specific to Milwaukee County. The 2019 base is further adjusted for one-time events particular to 2019, or programs/ revenues/ expenditures which end in a future year.

This exercise provides a first look at the 2020 budget challenge for Milwaukee County, before any adjustments are proposed by the County Executive to prepare the recommended budget. The forecast provides a projection of the 2020 financial "gap" that the County would face if it were to budget a cost-to-continue budget.

CONCLUSION

A general conclusion reached this year, as in past years, is annual average inflationary cost increases associated with Milwaukee County, will not be offset by projected revenue increases. In other words, annual revenue increases for Milwaukee County cannot pay for projected cost increases specific to Milwaukee County. The County must then cut expenditures, increase revenues or a combination of both.

With the prospect of future year cost to continue averaging $15.9 million, the projected 2020 structural deficit of $16.0 million, albeit overwhelming, could be solved over multiple years by incrementally reducing its reliance on one-time budget fixes. This is only possible today because the County has accumulated a sizable reserve. Furthermore, if a new revenue source is implemented in 2020, depending on the resulting revenue, future year structural deficits can be mitigated by setting aside a portion of the revenues received rather than solving the current year gap only. This essentially buys the County additional time to make larger structural changes that can reduce expenditures, such as reducing infrastructure or programming.

Ultimately, the County will need to address the cost-to-continue issue, which has gotten little attention in past budgets. The continued disparity between the rate at which expenditures grow and the rate at which revenues grow will continue to generate annual budgetary issues for the County.

The County should make deliberate efforts to examine its service delivery models, one-time revenues, maintenance requirements and debt service requirements on a continual basis to find efficiencies and lower costs. A strong partnership and commitment by the County Board and County Executive to find mutually agreeable resolutions to the long-term structural deficit is key to the County's future fiscal success