MILWAUKEE COUNTY EXECUTIVE ELECTION BRIEF

Framing the key issues for voters and candidates

January 2011

Study authors:

Rob Henken, President
Vanessa Allen, Researcher

Public Policy Forum
moving the region forward

ABOUT THE PUBLIC POLICY FORUM

Milwaukee-based Public Policy Forum – which was established in 1913 as a local government watchdog – is a nonpartisan, nonprofit organization dedicated to enhancing the effectiveness of government and the development of southeastern Wisconsin through objective research of regional public policy issues.

PREFACE AND ACKNOWLEDGMENTS

This report was undertaken to provide the citizens of Milwaukee County with greater insight and understanding of the key fiscal and programmatic challenges facing Milwaukee County government as they prepare to elect a new county executive in April 2011. We hope the report also will be used by the candidates themselves as they continue to formulate policy positions and seek to explain to voters how they will grapple with the county's longstanding problems.

Report authors would like to thank Milwaukee County fiscal and departmental officials and staff for their assistance in providing information on the county's finances.

We also wish to thank the Richard and Ethel Herzfeld Foundation for providing grant funding that helped make this research possible.

TABLE OF CONTENTS

INTRODUCTION

With an estimated 950,000 residents, Milwaukee County is the largest county in the State of Wisconsin. Its $1.3 billion annual budget covers a broad array of programs and services that impact virtually every facet of the region's economic competitiveness and quality of life. Those include: a 250-bed mental health complex; a 15,000-acre parks system; a 2,000-specimen zoo; a 400-bus transit system; a 10,000-client care management organization for the elderly and disabled; a 3,000-inmate set of adult corrections facilities; a nine million passenger-per-year airport; and a judicial system that handles more than 150,000 cases annually.

On April 5, the citizens of Milwaukee County will elect a new county executive to preside over this massive apparatus of local government. The new leader's challenges would be daunting enough if they related only to the sheer size and responsibilities of Milwaukee County government. But, as has been well-documented by the Public Policy Forum and others in the past several years, the challenges extend far deeper.

During the past three years, the Forum has researched and written extensively on the county's vast structural deficit, which heading into the 2011 budget season was estimated to exceed $120 million within the next four years. In addition, we have researched and reported on three key areas of county services that are experiencing their own unique and severe fiscal and programmatic challenges: transit, mental health, and parks, recreation and culture.

In this 2011 election brief, we begin with an overview of Milwaukee County's budget and finances that provides a broad sense of the county's budgetary structure and its longstanding fiscal challenges. Then, we summarize and update our recent research on four primary areas of challenge for Milwaukee County that are critical to the government's sustainability and our region's quality of life. Following each summary, we pose for voters – and the candidates themselves – vital questions and policy considerations surrounding each topic that must be responsibly deliberated and addressed. By focusing the candidates' attention on these questions and considerations, it is our hope to elevate thoughtful and rigorous policy discussions to the forefront of the county executive's race.

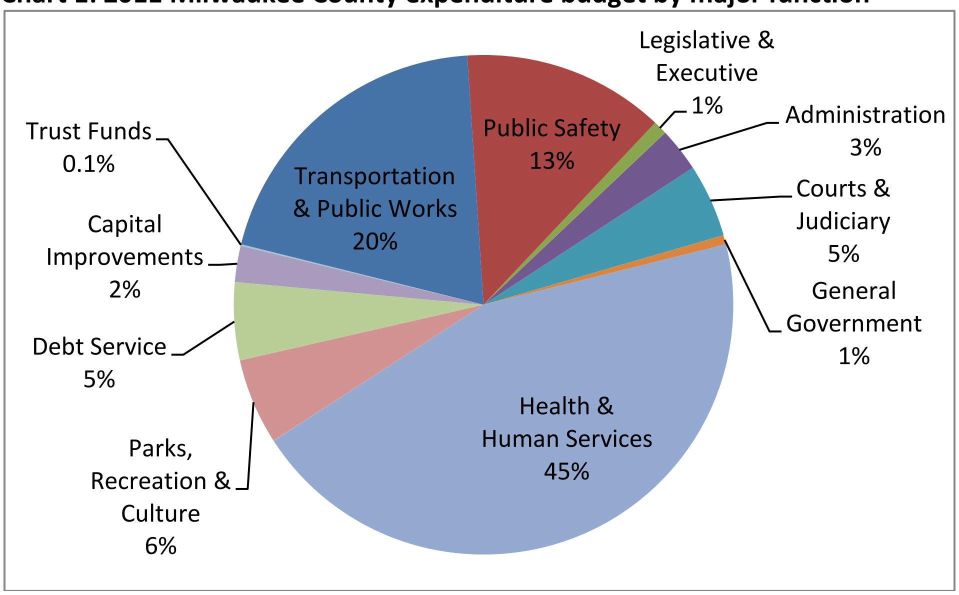
AN OVERVIEW OF MILWAUKEE COUNTY FINANCES

Operating Budget

Milwaukee County's total expenditure budget for 2011 is $1.3 billion. Of that amount, all but $32 million allocated for capital improvements is considered part of the county's operating budget. The county's general debt service payments of $68 million are included in the operating budget total.

Chart 1 breaks down the county's expenditure budget by major function. Three categories represent the bulk of the county's spending: health and human services at $603 million; transportation and public works at $270 million; and public safety at $176 million.

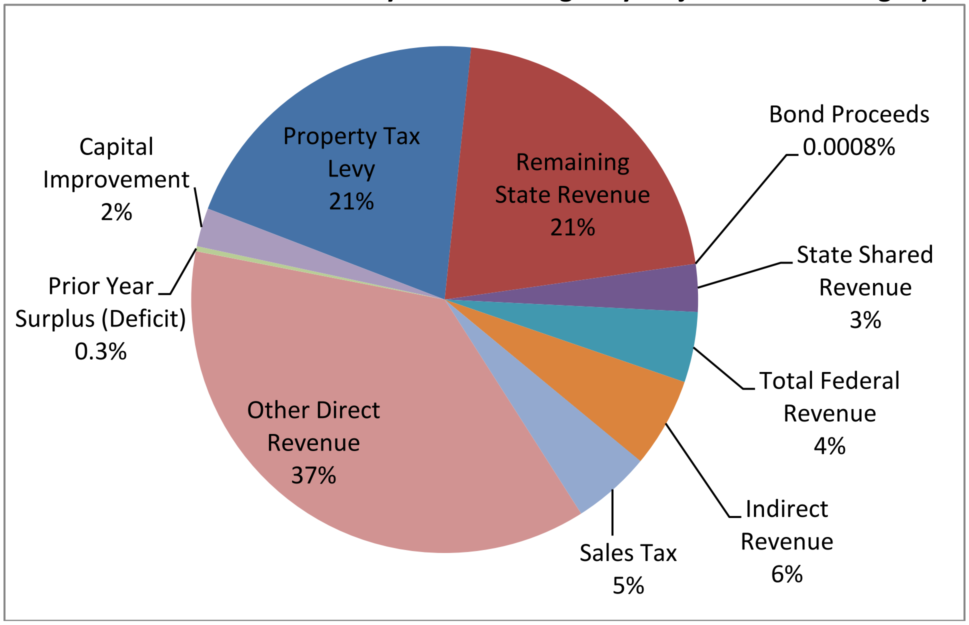
Chart 1: 2011 Milwaukee County expenditure budget by major function



Source: Milwaukee County 2011 Adopted Budget

The county's total budgeted revenue in 2011 also is $1.3 billion. As shown in **Chart 2**, more than a third of that is "other direct revenue" at $480 million. That revenue – which also could be classified as "program revenue" – consists largely of payments from users and reimbursement from the state and federal governments that is tied directly to the provision of certain services. Examples are Medicaid reimbursement to the county's Department of Family Care and Behavioral Health Division (BHD) for specific client services, bus fares, and zoo admission fees. The second largest source of revenue is "remaining state revenue" at $273 million. Most of this revenue consists of grants and other state aids that are for specific programmatic purposes, but that are not paid as direct reimbursement for services. Examples are local highway aids or state grants to support the circuit courts. Federal revenue, meanwhile, accounts for about $58 million of the county's revenue budget.

Chart 2: 2011 Milwaukee County revenue budget by major revenue category



Source: Milwaukee County 2011 Adopted Budget

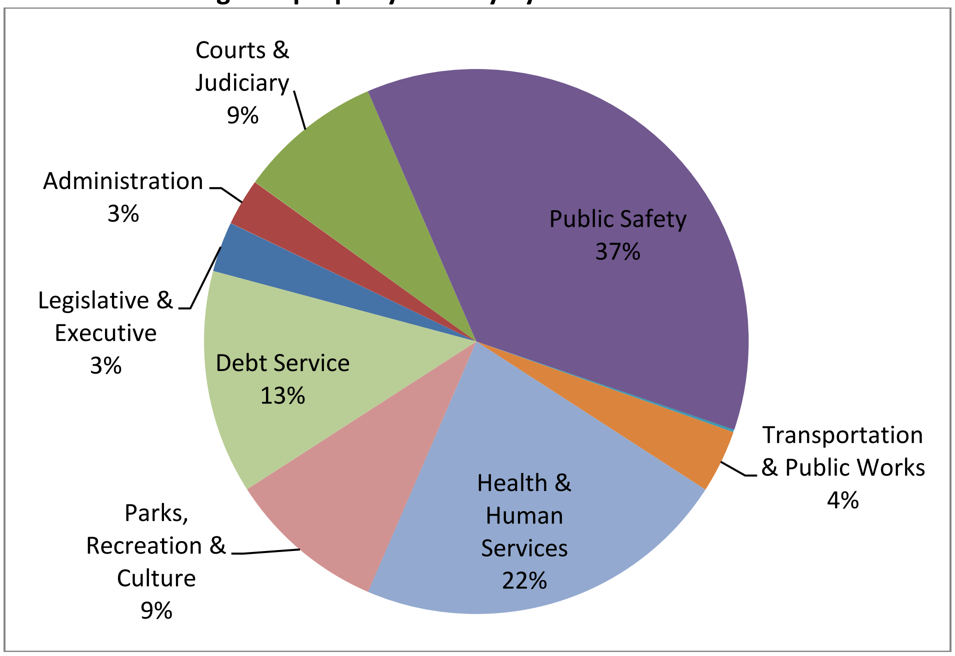
The significant influence of state and federal revenue sources in the county budget is understandable given that many of the county's programs and services are mandated by the state and/or federal government. Indeed, county governments in Wisconsin were created by the state primarily to deliver services at the local level on its behalf. The most prominent of these state-mandated services are in the areas of health and human services, courts, and public safety. Other, "discretionary" services – such as parks, the zoo, museums, and mass transit – have been added to the county's roster of responsibilities over time after approval by the state legislature.

About a fourth of total revenue, $334 million, comes from locally-generated sales and property taxes. The property tax levy will provide $270 million in 2011, while sales tax collections will provide $64 million. Another major source of general, non-program revenue is state shared revenue, which is distributed on a formula basis to counties and municipalities to help offset the cost of mandated local services, and which totals $39 million in the county's 2011 budget.

During the past 15 years, many of the state and federal revenue sources that were established to support the county's mandated services have not kept up with increased costs (including pension and retiree health care obligations), necessitating increased use of the county's local revenue sources to make up the difference. Closing the state/federal aid gap for mandated services with local tax funds places considerable pressure on the county's discretionary services, which rely much more heavily on county taxpayers.

Chart 3 shows the distribution of the county's 2011 property tax levy among its various functions. [1] The extent to which the county's locally allocated resources now are consumed by the largely state-mandated functions of public safety, courts, and health and human services, as well as legally required debt service, is apparent.

Chart 3: 2011 budgeted property tax levy by function



Source: Milwaukee County 2011 Adopted Budget

This chart brings the county's past and future budget challenges into focus. Because it is difficult to reduce spending in the four areas cited above due to state law and/or the standards set forth by an independently elected judiciary and sheriff, annual budget cuts necessitated by the county's structural deficit typically must be borne largely by discretionary functions. That extreme budgetary pressure has created difficult questions regarding the future of those functions.

Debt Service/Capital Spending

The county holds approximately $820 million of direct long-term debt per its 2011 budget. That amount consists of about $440 million of general bonds and notes issued to finance capital improvements to county-owned land and buildings and major equipment purchases, and $380 million of pension obligation bonds (POBs) issued to finance a portion of the county's unfunded pension liability. As noted above, principal and interest payments to service this debt are included in the county's operating

[1] This chart totals property tax levy expenditures in each function of county government as shown in county departmental budgets. Departmental property tax levy totals do not account for various revenues that offset property tax expenditures, such as sales tax and shared revenue. This includes debt service, which technically is paid with sales tax revenue.

budget, which means these costs add to the pressure on locally-generated revenue sources. Debt service on general bonds and notes comprises about 4% of the county's expenditure budget and amounts to $68 million in 2011. POB debt service – which will cost about $33 million in 2011 – is rolled into the county's annual pension fund contribution, which is discussed in greater detail later in this report.

Closely related to debt service is capital spending. The county's capital improvements budget is funded through a mix of proceeds generated from the issuance of general obligation bonds and other debt, as well as state and federal revenue and other outside revenue sources. The total capital improvements budget is $41 million in 2011.

In 2003, when the county undertook a major debt restructuring initiative to seek relief from rising debt service payments, it also instituted a new debt management policy that imposed annual limits on general obligation bonding. That policy recognized that while the restructuring initiative would provide short-term relief, it would produce gradually increasing debt service obligations in the future. In an effort to help afford those higher future payments, county policymakers established caps on annual bonding for 2005 through 2008, and specified that annual increases over the $30 million cap for 2008 should not exceed 3%.

The county generally has adhered to those caps and has budgeted about $30 million per year in general obligation bonding for much of the past decade. An exception occurred in 2010, when the county decided to issue bonds for several years of capital projects to take advantage of unique borrowing opportunities offered by the federal government. At the time, it also made a commitment to refrain from issuing any new general obligation debt in 2011 or 2012. Despite that commitment, the 2011 budget does contain authorization to issue $5 million in new general obligation bonds.

The county's conservative debt management policies and rapid re-payment of outstanding bonds has earned repeated praise from ratings agencies and is seen as the strongest aspect of its financial portfolio. Those conservative policies may conflict with capital spending needs, however. For example, the county's five-year capital plan identifies non-airport infrastructure projects requiring $86 million in general obligation bonds in 2013. While projects that comprise the $86 million have only been requested by county departments and have not yet undergone scrutiny from budget staff or policymakers, it is safe to assume that most have been requested because they truly are needed.

This poses a policy dilemma for the county. It either can exceed its debt management policy and borrow to fund a significant number of the requested 2013 projects, thus increasing future debt service costs above the level originally deemed prudent (and thereby decreasing available operating funding); or it can adhere to its policy and defer needed infrastructure investment beyond 2013, thus possibly increasing future costs of repairs or replacements. Either way, addressing the county's infrastructure needs will require significant resources in future years, putting further pressure on its operating budget.

STRUCTURAL DEFICIT

Background

The Forum has researched and written extensively during the past three years on Milwaukee County's fiscal challenges. While acknowledging that achieving consensus on budgetary solutions will be extremely difficult in the highly politicized atmosphere of county government, our goal has been at least to encourage agreement on the fundamental causes and scope of the county's financial problems.

We started with a March 2009 report, *Crisis on the Horizon*, which employed a fiscal monitoring methodology developed by the International City-County Management Association (ICMA) to assess the county's financial condition.[2] The report included an exhaustive examination of actual expenditure and revenue trends from 2003 through 2007, while seeking to explain why the county had experienced several successive years of brutal budgetary challenges and how it had thus far avoided severe service cuts or new or enhanced revenue sources.

Our analysis found that on the surface, Milwaukee County was in reasonable fiscal shape, with solid debt and cash positions and a healthy fund balance. Deeper scrutiny, however, revealed "a more complex and alarming picture…that has grown worse with each successive year, and that may now be so severe that radical solutions are required." Among the findings that produced that conclusion were the following:

- Milwaukee County had seen little to no growth in locally-controlled revenue sources and state aids, which are needed to address its diverse expenditure needs. From 2003 to 2007, in inflation-adjusted dollars, each of the six major state aid programs declined between 9% and 22%, while the local property tax had decreased by 3% and the sales tax by 6%. The one area of revenue elasticity was program revenue tied to specific operations, such as Family Care and the airport. That source of revenue cannot be used to address general county needs.

- This lack of growth in flexible revenues had occurred "precisely at the time the county needed flexibility to address a dramatic increase in fringe benefit costs affecting all portions of its budget." Indeed, the county's fringe benefit expenditures (for both active employees and retirees) had increased $73 million between 2003 and 2007, an amount equal to nearly one-third of its tax levy.

- The county's response to its fringe benefit pressures had been to spread the cost increases across all departmental budgets based on their number of full-time employees. This lack of prioritization and strategic focus – characterized by policymakers' reluctance to eliminate certain programs or services in order to appropriately fund others – had diminished the fiscal condition of virtually all departments. Particularly hard hit were those departments that relied heavily on county employees (as opposed to those who contracted for services), and on property tax levy (as opposed to state reimbursement or fees).

[2] http://www.publicpolicyforum.org/pdfs/MilwaukeeCountyFiscalCondition.pdf

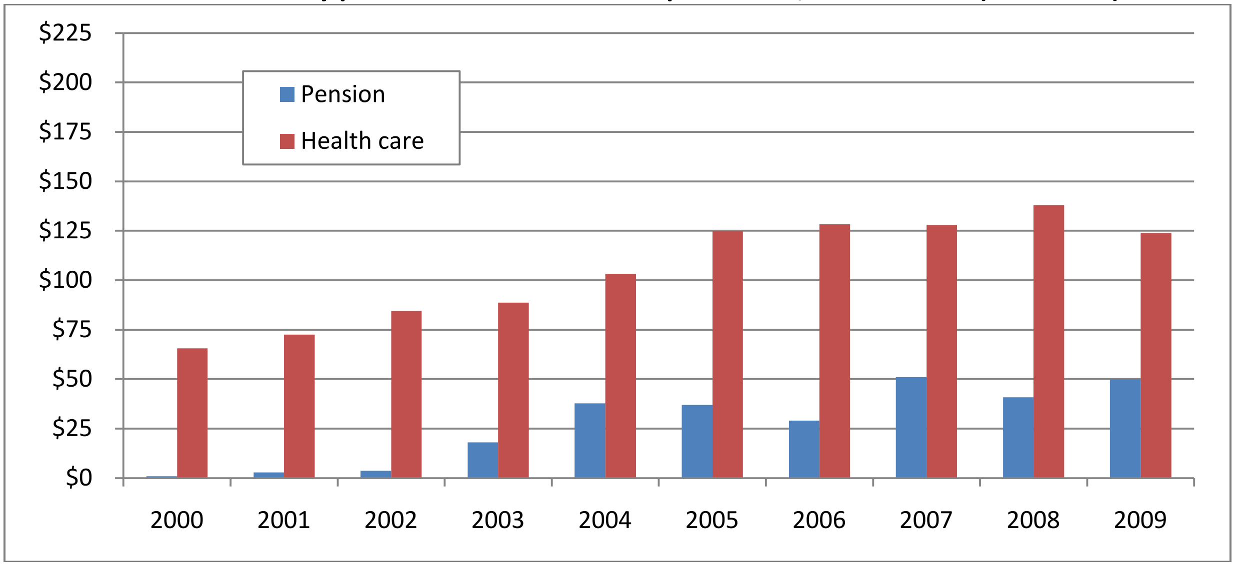
- While Milwaukee County's budget technically had been in balance in recent years, short-term measures had been utilized and structural problems had worsened. The county had depleted reserves and deferred bus purchases to postpone its transit funding crisis, built a significant backlog of needed maintenance and infrastructure repairs, reduced debt service payments in the short-term by restructuring debt (while increasing obligations in the long-term), and utilized one-time revenues and accounting maneuvers to fill holes in various budgets.

- Long-term solvency, as measured by commonly used indicators, was questionable at best. Unfunded retiree health and pension liabilities had topped $2 billion and were expanding, even with the issuance of POBs. The county's own most recent long-term projection – calculated before the onset of the recession and a precipitous decline in pension fund assets – showed a widening imbalance between revenues and expenditures reaching $87.9 million in 2013, despite years of annual budget cutting.

The report concluded that "while the county maintains cash solvency and a reasonable debt service level – indicators that insolvency is not imminent – it is clear that annual reductions have not achieved financial equilibrium." It suggested pursuit of a "solvency plan" that would consider all alternatives, including: implementing new or enhanced local revenue sources; eliminating, transferring or outsourcing programs and services; and selling or leasing assets to generate capital as a means of paying down liabilities or re-investing in other assets.

In subsequent county budget briefs and reports, the Forum has sought to further define and explain the county's stubborn and growing "structural deficit." A structural deficit commonly is defined as a budget deficit that results from a fundamental imbalance in a government's receipts and expenditures. In the case of Milwaukee County, the key expenditure driver during the past decade – as noted above – has been fringe benefits for retirees and active employees. **Chart 4** shows the growth in actual expenditures on employee/retiree health care and the county's pension fund contribution during the past decade.

Chart 4: Milwaukee County pension and health care expenditures, 2000 to 2009 (in millions)

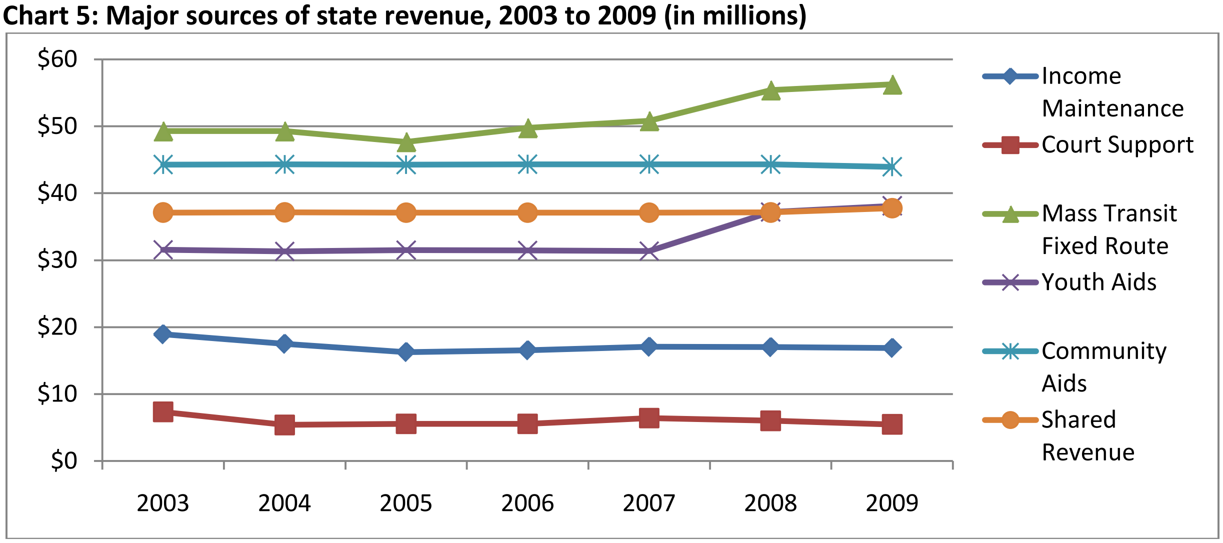


Source: Milwaukee County Department of Administrative Services

Other key factors contributing to the structural deficit on the expenditure side include: employee wages, which prior to the economic downturn typically increased by 2-4% per year; costs of commodities such as fuel, road salt, food and prescription drugs (for mental health patients and inmates at corrections facilities); and debt service on bonds issued to finance capital improvements.

On the revenue side, as discussed above, the county's major growth in recent years has been linked to reimbursements for programs like Family Care. Meanwhile, more flexible state and federal revenues (such as Shared Revenue and Community Aids), as well as local property and sales tax revenues, have declined in inflationary terms. **Chart 5** shows the flat nature of the county's major state funding streams from 2003 to 2009, while **Chart 6** compares the growth of local tax revenues with inflation.

Chart 5: Major sources of state revenue, 2003 to 2009 (in millions)



Source: Milwaukee County Department of Administrative Services, Department of Health and Human Services and Milwaukee County Transit System

Chart 6: Milwaukee County local tax revenues and inflation, 2003 to 2009 (Indexed to 100)

Source: Milwaukee County Department of Administrative Services

This tension between difficult-to-control major expenditure items and flat or declining revenue streams is the essence of a structural deficit. Simply put, when a government's revenue streams cannot keep pace with its expenditure needs, something has to give. That something can involve long-term strategies aimed at reducing annual increases in fixed costs so they will match the realities of the government's revenue picture; strategies aimed at boosting the government's revenue streams to better match expenditure needs; or a combination of the two.

At Milwaukee County, however, elected officials have failed to reach agreement for most of the past decade on an appropriate mix of expenditure and/or revenue adjustments to eliminate the structural deficit. Consequently, at the start of the county budget process every spring, the county has grappled with a substantial projected gap between the cost to continue current levels of programs and services in the following year and the revenues anticipated to meet those costs. That gap has hovered between $25 million and $90 million annually for the past several years, and it generally has been addressed through a variety of cuts and fee increases in individual departmental budgets – as well as use of various one-time sources of revenue and accounting maneuvers – that allow the county to survive for another year, but that fail to meaningfully address the overriding structural problem.

Certainly, there have been positive exceptions to this general picture. For example, the county has seen a significant reduction in its workforce in recent years – from a budgeted 7,395 full-time equivalent employees in 2001 to 5,457 in 2010 – that has made a permanent dent in annual wage and benefit increases and reduced long-term retirement costs. The county also has made substantial recent progress in controlling its employee and retiree health care costs, spending less in 2009 than it did in 2005 after alarming growth earlier in the decade. Nevertheless, as revenue growth has failed to keep up with growth in fixed costs year after year, the county's structural gap has grown. In fact, as the county headed into its 2011 budget deliberations, its five-year fiscal forecast estimated the gap would grow to $121 million by 2015.

The structural deficit today

Milwaukee County has initiated several important changes to its employee wage and benefits structure during the past two years in an effort to attack the major expenditure items driving its structural deficit. The most significant of those changes are summarized in **Table 1**.

Table 1: Employee wage and benefit changes, 2010-2011

ADJUSTMENT	YEAR
Eliminate step increases (i.e. automatic annual advances within a pay classification)	2010 & 2011
Decrease pension multiplier for future years from 2% to 1.6%	2010
Increase retirement age for new employees from 60 to 64	2010
Moderately increase health care premiums, deductibles, co-pays, out-of-pocket maximums	2010
4% employee pension contribution, partially offset by 2% wage increase	2011
Substantially increase health care deductibles, co-pays, out-of-pocket maximums, ER visits, partially offset by flexible spending account contributions for active employees	2011
Eliminate Medicare Part B reimbursement	2011

Source: Milwaukee County budget documents

If ultimately adopted for all county employees and retirees, those changes will have a significant impact on the county's immediate financial condition and its long-term structural deficit. While the savings were included in both the 2010 and 2011 budgets, however, many will not materialize for employees and retirees who are (or were) represented by an employee union unless adopted as part of collective bargaining. The county's largest collective bargaining unit – AFSCME District Council 48 – has been operating without a labor agreement since the beginning of 2010.

Consequently, according to a December 2010 report prepared by the county's fiscal and budget administrator, of the $4.5 million in levy savings budgeted in 2011 for the 4% employee pension contribution, only $1.1 million is immediately achievable; of the $759,000 budgeted for the step freeze, only $153,000 is immediately achievable; and of the $5.6 million budgeted for health care plan design changes, only $2.2 million is immediately achievable.[3]

Failure to achieve the wage and benefit modifications assumed in both the 2010 and 2011 budgets could produce severe fiscal and programmatic consequences in 2011, including the potential for 26 furlough days and nearly 100 lay-offs. Conversely, with regard to the long-term, success in enacting those measures would produce meaningful impacts on the county's five-year fiscal forecast.

[3] The bulk of the savings related to the health care plan design changes are generated from retirees. County administrators argue that those changes are not *subject to* collective bargaining, but will go into effect automatically once a new collective bargaining agreement is reached.

County fiscal officials currently are working to revise the five-year fiscal forecast to incorporate actual spending and revenue experience during the past year and impacts of the 2011 budget. Several scenarios will be modeled in the new forecast, including one in which the substantial wage and benefit changes included in the 2010 and 2011 budgets are adopted for all county employees and retirees, and one in which they are not.

The new modeling is anticipated to show that the size of the projected structural deficit for 2015 – estimated at more than $120 million at the onset of 2011 budget deliberations last summer – would be reduced substantially under a scenario in which the full range of wage and benefit concessions are implemented. The reduction would be produced not only by the considerable impacts of the wage and benefit changes, but also by several additional recent improvements to the county's long-term outlook, including strong pension fund investment returns, continued health care savings, and workforce reductions.

While encouraging, this substantial potential progress in reducing the structural deficit must be tempered by the following factors:

- The 2010 and 2011 wage and benefit concessions have *not* been collectively bargained with most county labor unions, and even some that already have been applied to non-represented workers and smaller unions still may be challenged in the courts.

- A scenario in which the 2010 and 2011 concessions not only are refused by most county unions, but are *reversed* for non-represented workers due to legal challenges, likely will show a significant *increase* in the size of the structural deficit.

- The five-year forecast models existing trends, but does not take into account growing expenditure needs caused by deferred infrastructure investments and other programmatic issues discussed later in this report.

- The five-year forecast does not take into account the potential for sizable reductions in the county's state revenue streams resulting from efforts in Madison to bridge the state's structural deficit.

- Addressing a structural deficit that has shrunk even to a fraction of that previously forecast still would produce tremendous challenges for county policymakers, who already have cut departmental budgets for several successive years and who may be reluctant to consider sharp property tax or fee increases in light of the slow pace of the economic recovery.

Critical policy questions and considerations for the next county executive

- Given the county's projected revenue growth, what is the appropriate short-term and long-term mix of wage cuts, benefits cuts, furlough days, and cuts in service to balance the budget?

- To what extent should budget cuts be determined by residents' demands for service as opposed to legal mandates for service?

- Are there additional areas of county government in which privatization of services should be pursued and, if so, what are those?

- Is it appropriate for the county to consider divesting some of its physical assets and, if so, which ones?

- Are there ways in which the county's structural deficit can be bridged through enhanced efficiency and innovation?

- Nearly half of the county's locally derived revenues are now spent on public safety and the courts. Do these largely mandated areas of county government need to be subjected to closer scrutiny in terms of possible budget cuts or fiscally-driven changes in corrections or criminal justice policies?

- To what extent should property tax increases, fee increases, and growth in earned revenues be part of an overall strategy to address the structural deficit?

- Should the county pursue a shift from a defined benefit to a defined contribution pension plan? Should it consider closing its existing pension plan and transferring existing and new employees to the state pension plan going forward? Should the county pursue additional types of substantive health care modifications?

- Are significant changes to the county's governance structure – such as elimination of an elected county executive or modification to the size or full-time status of the county board – required to right the county's financial ship?

- Given the magnitude of the county's financial challenges, is it practical and appropriate to consider outright elimination of Milwaukee County government? Conversely, are there certain municipal functions that should be consolidated at the county level?

MASS TRANSIT

Background

In May 2008, the Forum published a comprehensive report on the fiscal problems facing the Milwaukee County Transit System (MCTS), entitled *Milwaukee County's Transit Crisis: How Did We Get Here and What Do We Do Now*.[4] The report described the factors that had caused a sizable structural hole to emerge in MCTS' budget, the short-term annual budget strategies county officials had used to fill that hole, and the consequences of failing to develop more permanent solutions. Key findings from the report included the following:

- MCTS had gradually increased the use of its annual allocation of federal capital funds – which are distributed on a formula basis and are intended mainly for new buses and equipment needs – to plug holes in its operating budget, thus avoiding deep service cuts.[5] In order to accommodate that strategy, however, MCTS also had to dramatically scale back its bus replacement schedule. The pressing need to replace at least 150 buses created a fiscal crisis, as barring an infusion of new federal funds, MCTS would need to begin using a sizable portion of its roughly $18 million per year in formula funds to update its fleet.

- In addition, since 2001, MCTS had spent down nearly $40 million of a $44 million reserve of federal capital funds that had been amassed during the 1990s. The inability to contribute $4 to $5 million annually in reserves would exacerbate MCTS' looming budget shortfall, which we estimated would exceed $20 million within three years.

- MCTS buses carried 10.3 million fewer riders in 2007 than they carried just seven years earlier, ranking it first among 13 peer transit systems in lost riders from 2000 to 2006. Only once in the last seven years did MCTS see an increase in ridership (a 1.9% increase between 2004 and 2005). This uptick in ridership corresponded with the only year that fixed-route bus service increased.

- The cost effectiveness of MCTS fixed route buses was best of all peer systems in 2006 based on data from the Wisconsin Department of Transportation and Federal Transit Administration, indicating that further cost savings due to efficiency improvements may be limited.

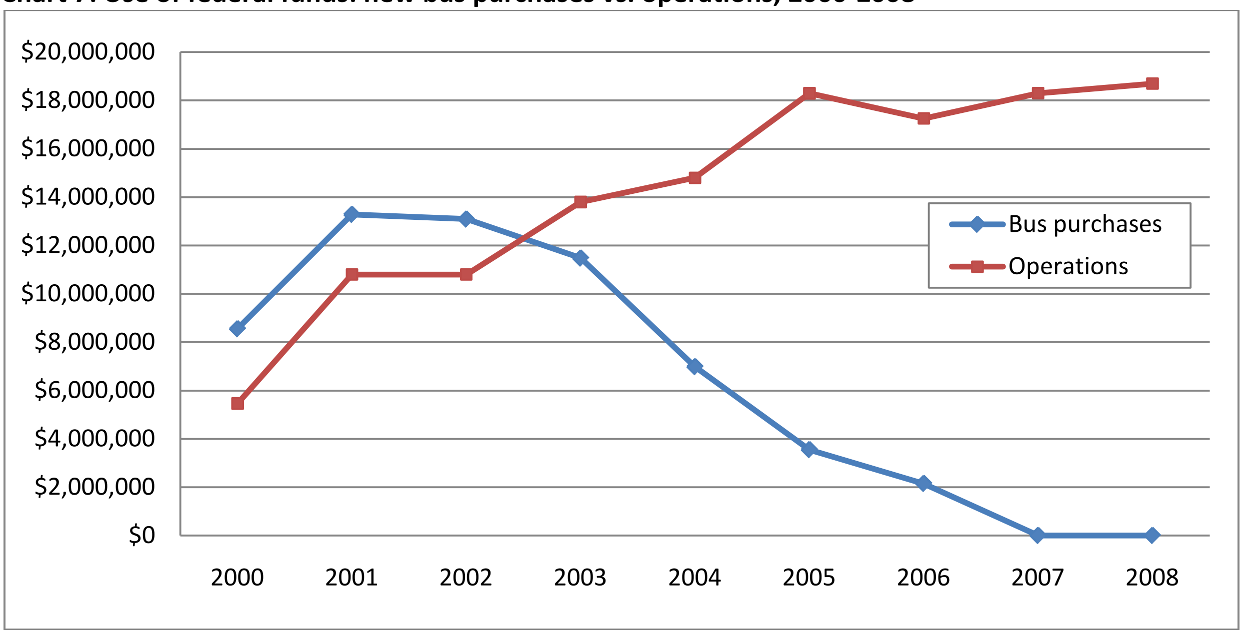
- Survey data collected by MCTS from its riders indicated that 43% of riders use the bus system to get to and from work, and that three-quarters are "captive," meaning other transportation choices are not always available to them. Consequently, a severe reduction in bus service may negatively impact Milwaukee's economic competitiveness by impeding the ability of potential workers to get to jobs throughout the region.

[4] http://www.publicpolicyforum.org/pdfs/MilwaukeeTransitCrisis.pdf

[5] Federal regulations allow capital dollars distributed on a formula basis to be used for "capitalized maintenance" costs that are funded in MCTS' operating budget.

Charts 7 and **8**, reproduced from the 2008 report, illustrate the defining elements of the fiscal problem. Beginning around 2000, the loss of federal operating assistance and reduced state support, combined with growing fixed costs related largely to fuel and employee health care, produced an annual structural gap in MCTS' budget. As shown in **Chart 7**, county officials opted to address the problem by reducing and eventually ceasing their replacement of buses, which allowed them to gradually shift the county's entire annual allocation of federal capital dollars into the system's operating budget to address the structural hole. That strategy – combined with the gradual depletion of reserves (as shown in **Chart 8**) – allowed the county to get by with only moderate annual decreases in service and increases in property tax levy during the 2000-2008 timeframe.[6]

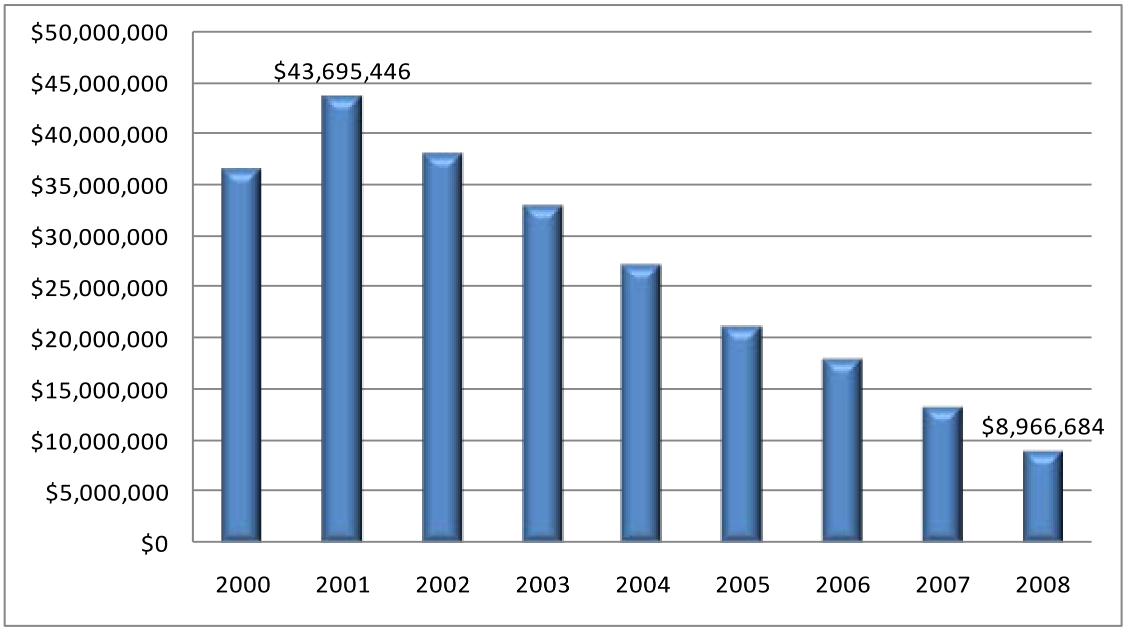
Chart 7: Use of federal funds: new bus purchases vs. operations, 2000-2008



Source: Milwaukee County Transit System

[6] Bus hours of service decreased about 16% from 2000 to 2008, while the county's property tax contribution to fixed route service increased by 20%. Also, MCTS' financial picture was helped by the negotiation of substantive reductions to employee and retiree health care benefits during this period.

Chart 8: Reserve funds available, 2000-2008



Source: Milwaukee County Transit System

The problem with this strategy was its temporary nature. Eventually, a transit system needs to replace its buses, which have a typical useful life of 12 to 14 years. Furthermore, continued use of reserves ultimately eliminates them. Consequently, we estimated that by 2010, when the county would need to begin spending about $11 million annually on bus replacements, and when its existing reserves would be fully depleted, MCTS would face a budget deficit of approximately $18 million. Using information prepared by the Southeastern Wisconsin Regional Planning Commission (SEWRPC), we further estimated that addressing the deficit only with service reductions would require about a 30% cut in service, which ultimately would eliminate freeway flyer and special event services and "limit service almost exclusively to a core set of routes within central city Milwaukee."

The 2008 report outlined three categories of policy options to address the impending fiscal crisis:

1. A "year-to-year" approach in which the county could attempt to plug the annual hole with service cuts, fare increases, and/or increased property tax allocations (either via an overall property tax increase or diversion of property tax dollars from other county functions).

2. A "triage" approach in which the county would enact a $10 vehicle registration fee (the only available new revenue source not requiring state approval) and use federal dollars available for a Bus Rapid Transit system to stave off additional service cuts or property tax increases for another two to four years, pending action by the governor and state legislature to authorize a permanent dedicated funding source.

3. A "long-term/state-enabled" approach that would rely on near-term adoption by the state of a dedicated finding source (most likely an increased sales tax) to plug the transit funding gap.

MCTS Fiscal Crisis Today

Subsequent to the report's release, considerable efforts were made to pursue the third option. Those actions included a November 2008 advisory referendum (spearheaded by the Milwaukee County Board) on a 1% sales tax in Milwaukee County for transit and other functions, which was approved by voters by a 52% to 48% margin; a recommendation by the Southeast Wisconsin Regional Transit Authority for a half-cent regional sales tax for transit, a variation of which was included in Governor Jim Doyle's proposed state budget in February 2009; and a vote by the Wisconsin Legislature in the summer of 2009 to authorize enactment of a half-cent sales tax increase for transit only in Milwaukee County. That provision was vetoed by Governor Doyle, however, and a subsequent effort by the governor to secure the half-cent sales tax under a different administrative framework was not enacted.

In the meantime, as efforts to secure a dedicated funding source were delayed and ultimately faltered, county officials turned to certain elements of the first option. Weekly passes were increased from $16 to $16.50 in 2009 and from $16.50 to $17.50 in 2010, while the adult daily cash fare was increased from $2 to $2.25 in 2010. In addition, three routes were scaled back in 2010, and operating hours on several routes are reduced in the 2011 budget.

The severe cuts in service about which the Forum and others warned in 2008 did not materialize, however, primarily because of the award of nearly $25 million in federal stimulus dollars to MCTS. **Table 2** – which shows revenue sources for MCTS' fixed route services since release of the 2008 report – indicates the county was able to maintain its use of approximately $18 million in federal formula dollars in its operating budget in 2009 and 2010, and about $17 million in 2011. At the same time, it was able to initiate the purchase of 125 buses with the use of stimulus funds, additional federal capital appropriations and county bond proceeds (these sources do not appear in **Table 2** because they are in the county's capital improvements budget).

Table 2: MCTS fixed route operating revenue (millions), 2008-2011

	2008 ACTUAL	2009 ACTUAL	2010 BUDGET	2011 BUDGET
Revenue				
Passenger Revenue	$45.3	$41.2	$45.2	$41.3
Other Transit Revenue	$3.0	$3.0	$5.1	$5.5
Total Operating Revenue	**$48.3**	**$44.2**	**$50.3**	**$46.8**
Public Funding				
Federal (Capitalized Maintenance)	$18.3	$18.3	$18.6	$16.7
State Operating Assistance	$55.4	$56.3	$56.5	$57.5
Local (Milwaukee County Tax Levy)	$10.3	$15.2	$11.7	$14.2
Other State and Federal	$0.9	$0.7	$0.7	$0.4
Total Public Funding	**$84.8**	**$90.6**	**$87.5**	**$88.8**
TOTAL REVENUE	**$133.1**	**$134.8**	**$137.8**	**$135.6**

Source: Milwaukee County Transit System

The effort to stave off severe fixed route service cuts also was aided by increased reimbursement from county social service programs that helped ease the rising cost of paratransit services for persons with disabilities. From 2008 through its 2011 budget, the county significantly increased its charges to the Family Care program and other disabilities services programs for rides taken by clients of those programs. While this produced negative budget implications for the social service programs, their ability to offset much of the added cost with Medicaid revenue lessened the impact and produced a net property tax levy savings for MCTS of several million dollars per year.

A glimpse into the future shows that the threat of catastrophic cuts in service now is delayed until at least 2015. **Table 3** – which forecasts MCTS' projected use of federal formula funds from 2012 to 2014 – indicates that MCTS can avoid diverting several millions of dollars per year of federal formula funds from its operating budget into capital accounts during that period. This continued good fortune is attributed not only to continued delivery of new buses resulting from use of stimulus funds, but also to the unexpected influx of additional one-time federal dollars from direct appropriations and from the SEWRPC allocation process.

Table 3: MCTS' projected use of federal formula funds, 2012-2014

	BUDGET		PROJECTED		
	2010	2011	2012	2013	2014
START OF YEAR FUNDS	**$5,162,800**	**$1,276,000**	**$559,000**	**-$88,000**	**-$1,535,000**
FUND ADDITIONS	**$19,167,200**	**$19,167,000**	**$19,167,000**	**$19,167,000**	**$19,167,000**
FUND USES (Operations)					
Fixed Route Operations	-$18,600,000	-$16,676,000	-$16,676,000	-$16,676,000	-$16,676,000
Transit Plus Operations	-$1,850,000	-$1,850,000	-$1,850,000	-$1,850,000	-$1,850,000
Non-bus Capital Improvements	-$920,000	-$65,000	$0	-$800,000	-$800,000
Other	-$1,684,000	-$1,293,000	-$1,288,000	-$1,288,000	-$1,288,000
TOTAL USES	**-$23,054,000**	**-$19,884,000**	**-$19,814,000**	**-$20,614,000**	**-$20,614,000**
END OF YEAR FUNDS	**$1,276,000**	**$559,000**	**-$88,000**	**-$1,535,000**	**-$2,982,000**

Source: Milwaukee County Transit System

It is clear, however, that these positive developments have not resolved the MCTS funding crisis, but only delayed it. While **Table 3** shows the avoidance of major funding issues, it also shows the gap between anticipated use of federal formula funds and expenditure needs will grow to nearly $3 million by 2014. Meanwhile, a $5 per ride increase in 2011 in the charge to Family Care generates $3.8 million to offset the reduced federal allocation and other cost pressures, but that strategy has about run its course, as MCTS cannot charge social services programs for more than the actual cost of each ride. Those factors – combined with the exhaustion of MCTS' ability to pay for bus replacements with stimulus funds and special federal appropriations – may make 2015 the year of reckoning that originally was forecast for 2010.

It is possible that as that date grows closer, the considerable discussion that has taken place in recent years regarding a new governance structure for mass transit services will be reinvigorated. As noted above, several of the dedicated funding source initiatives debated in Madison last year called for creation of a new transit authority to administer transit services in Milwaukee County and possibly other southeast Wisconsin communities. The Forum's January 2010 report – *Should it Stay or Should it Go*[7] – outlined some of the pros and cons associated with that proposal. Those are summarized below.

Key pros

- Creation of a regional transit authority or district in southeast Wisconsin – particularly one with its own dedicated funding source – would remove transit services from competition with other county functions for fiscal and other resources. It also would provide greater certainty about funding, which is essential for long-term planning.

- A special transit district created as a multi-county regional transit authority would be able to coordinate services across county boundaries and potentially reduce duplication of administrative and overhead functions.

- Implementing a dedicated non-property tax revenue source for transit on a regional basis could limit "tax island" impacts on Milwaukee County.

- A transit authority board likely would focus on enhancing transit operations and make decisions about specific transit routes in consideration of the system as a whole.

Key cons

- Federal audits repeatedly have shown MCTS to be one of the most cost effective and efficient transit systems in the country, calling into question the need for a new governance structure.

- Direct oversight of Milwaukee County's transit system by elected officials may result in greater accountability to taxpayers and the general public than would occur under an appointed board.

- Funding transit via a separate district could lead to a significant increase in taxing and spending on transit services, as transit would no longer need to compete with other services for county funds.

- Creation of a new transit authority would create another layer of government for taxpayers.

[7] http://www.publicpolicyforum.org/milwaukeecountyreport.php

Critical policy questions and considerations for the next county executive

- What is the most appropriate revenue source or mix of revenue sources for transit? Does transit need a dedicated revenue source, or should it continue to compete with other county services for its revenue allotment?

- Should the county seek to restore service levels to those that existed early in the previous decade? What about new services, such as Bus Rapid Transit?

- Conversely, should transit services be cut in light of MCTS' fiscal difficulties and, if so, what specific service reductions are needed?

- What is the appropriate balance between administrative efficiencies, wage/benefit reductions, service reductions, and revenue increases needed to achieve fiscal sustainability?

- Should Milwaukee County government continue to house and own the Milwaukee County Transit System, or should a new regional transit authority be created to administer transit services in the county?

MENTAL HEALTH

Background

Milwaukee County's Behavioral Health Division (BHD) provides a variety of inpatient, emergency and community-based care and treatment to children and adults with mental health and substance abuse disorders. For the past several years, those services have been among the most costly and problem-plagued services in county government.

The county's provision of behavioral health services stems from Section 51.42 of the Wisconsin Statutes, which specifies that the county board "has the primary responsibility for the wellbeing, treatment and care of the mentally ill, developmentally disabled, alcoholic and other drug dependent citizens residing within its county and for ensuring that those individuals in need of such emergency services found within its county receive immediate emergency services."

BHD is the second largest county department in terms of the size of its budget (about $180 million in 2011) and workforce (more than 800 FTEs). The most unique and expensive element of BHD's operations is its administration of a sprawling mental health complex that includes a 96-bed acute adult inpatient hospital treating more than 4,000 individuals annually; an emergency room – known as the Psychiatric Crisis Service (PCS) – that admits nearly 14,000 people annually; and two long-term care facilities that house about 140 individuals. BHD also administers mental health case management services (through a mix of county employees and contracted caseworkers) for more than 2,000 individuals per year and serves more than 4,500 persons in community-based substance abuse services.

Clinical/Programmatic Issues

In 2006, a yearlong series of articles in the Milwaukee Journal Sentinel revealed substandard housing for persons with mental illness and cited alleged problems in BHD's delivery of inpatient services. This series brought greater public attention to the quality of mental health services in metro Milwaukee and, to some, demonstrated that reductions in inpatient capacity initiated during the 1990s had not been accompanied by provision of sufficient community-based services and supports.

The middle part of the decade also featured highly publicized, episodic instances of long wait times for service at PCS, which required police officers to wait for hours in their cars while trying to drop off individuals facing mental health crises. A Behavioral Health Advisory Committee – including leaders from the county and private health systems – was formed to respond to this situation. BHD now transfers many of its insured, less acute patients to private hospitals, a solution that has been very effective in reducing backups and the county's inpatient census, but one that has further exacerbated BHD's financial challenges.

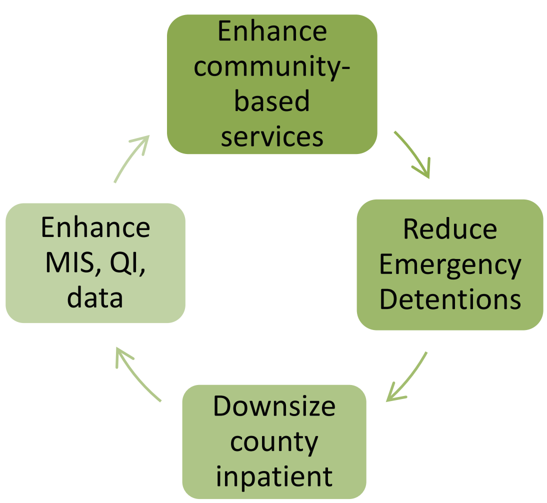
The past five years also have featured extensive debate over how to address the physical limitations and problems of the Milwaukee County Mental Health Complex, which has been cited for numerous code violations by federal and state inspectors, and which many have argued is outdated and over-sized. A proposal by the county executive and BHD administrators to move the complex from its present location at the Milwaukee County Grounds to a redesigned St. Michael's hospital on Milwaukee's north side was rejected by the county board in 2009. After nearly two years of inaction, county supervisors recently expressed their support, instead, for building a new facility at the County Grounds, and they have formed a study group to explore that initiative.

Finally, in early 2010, the sexual assault of a patient at the Mental Health Complex led to an investigation by the federal Centers for Medicare and Medicaid Services and a threat to cut off federal reimbursement to BHD, which was lifted in April following improvements in county practices. The county executive and county board subsequently created a new Community Advisory Board to review patient safety and develop recommendations for improvements.

In October 2010, the Forum and Human Services Research Institute (HSRI) jointly released a report issuing a series of inter-connected recommendations aimed at redesigning the adult mental health care delivery system in Milwaukee County.[8] The report culminated a two-year project that originated when county mental health officials and leaders from the private health care and medical communities collectively determined that a system-wide overhaul was needed to improve the delivery of mental health services in the county.

The report contains 10 broad recommendations and dozens of sub-recommendations that collectively forge a new strategic direction for mental health services in Milwaukee County. Under the revised framework, the county would downsize its inpatient, long-term care and crisis facilities in order to shift more of its resources and expertise into the design and implementation of an enhanced network of community-based prevention, treatment and crisis services. This strategic direction is characterized in **Figure 1**.

Figure 1: HSRI/PPF recommended adult mental health strategic direction



[8] http://www.hsri.org/files/uploads/publications/Milwaukee_Mental_Health_System_Redesign_Final_Report.pdf

This schematic reinforces the inter-related nature of the report's key recommendations. Downsizing initiatives for county facilities can be safely accommodated only in conjunction with substantial investments in community-based outpatient, case management, peer support and long-term care services, as well as a reduction in the number of individuals accessing the mental health system via the emergency detention process. Meanwhile, enhanced information technology and quality assurance is necessary in all elements of the system to monitor success and react to challenges as they arise.

A particular challenge for the county is mustering up the resources necessary to invest in the enhanced community-based care and quality assurance improvements that must be implemented before institutional downsizing could occur, and before related cost savings could materialize. The report suggests that contracting additional inpatient beds to private health systems could partially address that challenge, as potential savings could be realized immediately and reinvested in the community, while also ultimately shrinking the total beds needed. Possible proceeds from selling surplus real estate produced by downsizing on the County Grounds also could address that challenge.

In recent weeks, the interim county executive has proposed a new framework for BHD operations that encompasses some of the key recommendations contained in the HSRI report. The framework envisions creation of a series of small 16-bed inpatient facilities that would be administered by private providers under contract with the county (but employing county personnel). Providers would be paid under a capitated per-patient rate determined by the county, ostensibly with the use of additional federal Medicaid dollars that would be available under the new framework, as well as existing funding streams.

Fiscal issues

As BHD's clinical and programmatic challenges have mounted during the past several years, so have its financial challenges, suggesting a possible correlation between the two. **Table 4** shows BHD's actual expenditure, revenue and FTE history from 2007 to 2009, as well as 2010 and 2011 budgeted amounts. This data shows that actual expenditure levels increased slightly from 2007 to 2009, while outside revenues declined somewhat, producing a need for increased county property tax levy allocations.

Table 4: BHD expenditures and revenues, 2007-2011

	2007	2008	2009	2010B	2011B
Personal Services w/out fringe	46,989,819	48,480,607	48,219,354	42,673,417	44,872,634
Employee fringe benefits	28,154,850	28,231,671	27,801,100	30,251,690	30,181,642
Services	9,843,915	10,084,964	9,661,202	15,030,281	17,817,247
Commodities	7,857,374	8,187,375	9,703,573	5,600,939	6,586,691
Other charges	71,835,699	73,111,172	77,179,643	72,728,596	75,087,830
Debt and depreciation	-	-	-	-	-
Capital outlay	127,715	82,792	63,672	179,700	820,000
Capital contra	-	-	-	-	-
County service charges	(31,329,741)	(34,523,950)	(32,732,183)	(36,999,317)	(38,867,265)
Abatements	38,239,417	41,409,987	38,185,131	42,298,955	44,399,399
Total Expenditures	**171,719,048**	**175,064,618**	**178,081,492**	**171,764,261**	**180,898,178**
Direct revenue	63,542,361	57,361,571	60,144,434	59,430,083	58,537,904
State and federal revenue	62,415,021	58,353,670	59,686,856	59,366,026	59,845,225
Indirect revenue	2,101,285	10,700,698	8,958,796	10,144,340	9,925,590
Total Revenues	**128,058,667**	**126,415,939**	**128,790,086**	**128,940,449**	**128,308,719**
Property Tax Levy	**43,660,381**	**48,648,679**	**49,291,406**	**42,823,812**	**52,589,459**
FTE positions	**877**	**891**	**851**	**811**	**817**

Source: Milwaukee County Behavioral Health Division

Efforts to maintain service levels have been hampered by the rising cost of pharmaceuticals (reflected in the commodities line) and increasing fringe benefits charges. The county has met that challenge, in part, by reducing BHD's workforce via outsourcing initiatives and general reductions in positions. Nevertheless, actions to balance BHD's budget on paper have not succeeded in practice, as the division experienced year- end deficits of $2.4 million in 2007, $3.8 million in 2008, and $3.2 million in 2009. The county has not yet closed its books on 2010, but budget officials currently project a year-end deficit of $2.6 million for that year.

Table 5 provides additional insight into BHD's budgetary trends by showing expenditures and revenues for community-based services versus inpatient services during the same time period. BHD's budget defines inpatient services as both traditional inpatient beds for children and adults and long-term care beds. For illustrative purposes, **Table 5** breaks out the four separate components of the division's inpatient services budget, including the Hilltop and Rehab Central long-term care facilities.

Table 5: Inpatient and community-based services expenditures and revenues, 2007-2011

		2007	2008	2009	2010B	2011B
Total community based services	**Expenditures**	**34,740,247**	**30,099,027**	**28,295,246**	**29,251,358**	**31,021,324**
	Revenue	**34,878,649**	**29,913,869**	**32,227,151**	**28,945,861**	**26,427,368**
	Property tax levy	**(138,402)**	**185,158**	**(3,931,905)**	**305,497**	**4,593,956**
Total inpatient services	**Expenditures**	**62,035,469**	**67,597,023**	**65,380,241**	**62,713,128**	**64,602,143**
	Revenue	**27,209,688**	**27,794,245**	**23,784,930**	**24,610,035**	**22,972,208**
	Property tax levy	**34,825,781**	**39,802,778**	**41,595,311**	**38,103,093**	**41,629,935**
Hilltop	Expenditures	14,209,991	15,818,687	15,200,977	14,215,467	14,253,348
	Revenue	6,009,601	6,517,489	6,233,401	5,680,981	5,727,500
	Property tax levy	8,200,390	9,301,198	8,967,576	8,534,486	8,525,848
Rehab Central	Expenditures	12,289,532	13,600,664	13,689,632	11,624,945	11,742,044
	Revenue	3,395,754	3,850,729	4,211,577	3,187,157	3,590,335
	Property tax levy	8,893,778	9,749,935	9,478,055	8,437,788	8,151,709
Acute adult inpatient	Expenditures	31,081,197	32,348,822	31,034,465	31,252,669	32,809,336
	Revenue	11,915,830	11,375,985	8,732,792	9,732,497	9,110,558
	Property tax levy	19,165,367	20,972,837	22,301,673	21,520,172	23,698,778
Child and adolescent inpatient	Expenditures	4,454,749	5,828,850	5,455,167	5,620,047	5,797,415
	Revenue	5,888,503	6,050,042	4,607,160	6,009,400	4,543,815
	Property tax levy	(1,433,754)	(221,192)	848,007	(389,353)	1,253,600

Source: Milwaukee County Behavioral Health Division

The data in **Table 5** indicates increased spending on inpatient services during the period (including a 30% increase in property tax levy expenditures since 2006), and decreased spending on community-based services. The growing cost pressure on inpatient operations is not surprising given that those services are provided exclusively by county personnel and are subject to the substantial fringe benefit cost increases experienced by the county, whereas many community-based services are provided under contract by private non-profit organizations. The county also suffered from a reduction in inpatient Medicaid reimbursement beginning in 2009.

While the county's need to devote additional resources to inpatient services and reduce expenditures on community-based services was necessary from a budgetary perspective, it runs counter to national norms and the recommendations contained in the HSRI report. Indeed, other communities have placed greater emphasis on community-based services as a means of providing treatment to consumers *before* they require costlier inpatient care. The pressure to continue this counterintuitive trend may intensify for the county, as potential cuts in the state's Community Aids program likely would hit community-based programs most severely.

Critical policy questions and considerations for the next county executive

- How sustainable and desirable are recent annual property tax levy increases of 5% for inpatient mental health services?

- Should the shift in strategic direction outlined in the HSRI report – including downsizing of the county's inpatient and long-term care units and enhancing community-based forms of care and treatment – be embraced and implemented by Milwaukee County?

- If inpatient and long-term care downsizing is embraced, what specific strategies should the county use to afford and implement the enhanced community-based services that presumably will be necessary to accommodate such action?

- Institutional downsizing – with a corresponding redirection of fiscal savings into community-based care – is a strategy that has been tried before in Milwaukee County, but many feel the community side was shortchanged. What should be done to prevent that from happening if such a strategy is pursued again?

- Should the private health systems be playing a larger role in providing inpatient and emergency mental health care in Milwaukee County? If so, what can the county do to incentivize them?

- Should the county be pursuing construction of a new mental health complex on the Milwaukee County Grounds? If so, how might it be financed and what would be the impact on the county's capital plan?

- What is the best way for Milwaukee County government to recruit top-flight administrators and medical personnel for its mental health operations?

PARKS, RECREATION AND CULTURE

Background

In November 2008, the Forum published a comprehensive examination of the fiscal condition of cultural assets owned and/or funded by Milwaukee County: the Milwaukee Public Museum, Marcus Center for the Performing Arts, Milwaukee County War Memorial Center, Milwaukee County Historical Society, Charles Allis Museum, Villa Terrace Decorative Art Museum, Milwaukee County Cultural Artistic and Musical Programming Advisory Council (CAMPAC), Milwaukee County Zoo and Milwaukee County Parks.[9] The report was part of a larger project – an *Audit of Greater Milwaukee's Regional Cultural Assets* – sponsored by the Cultural Alliance of Greater Milwaukee. Key findings from the report included the following:

- Major maintenance and basic infrastructure repair needs were significant and growing at each of the county-owned assets, with the exception of the Milwaukee County Historical Society headquarters, which was in the final stages of a major renovation. Among the more significant maintenance/infrastructure needs assessment totals were $10 to $15 million for the Milwaukee Public Museum, $5.5 to $8.5 million for the Milwaukee County Zoo (plus a $130 million capital improvements wish list), and $276.6 million in the Milwaukee County Parks.

- Milwaukee County property tax levy contributions to the parks, recreation and culture function had diminished in congruence with the sharp increase in pension and employee health care costs that began in 2003 and escalated in the middle years of the decade. In 2008, the county budgeted $37.7 million in property tax levy for parks, recreation and culture – just $900,000 more in actual dollars than it provided in 2000 and $7.9 million less in inflation-adjusted dollars.

- Each of the institutions and county departments had faced potential annual deficits in their operating budgets. Responses had included increased private sector contributions, implementation of new operating efficiencies, initiation of new earned revenue strategies and cuts in advertising and maintenance budgets.

- Milwaukee County's new debt issuance policies adopted in 2003 reduced its capacity to fund capital improvements and infrastructure repairs for the parks, recreation and culture function. The $13.3 million in capital spending for parks, recreation and culture in 2008 was well below peak spending levels in 2001 and 2002 ($25.3 million and $19.9 million respectively).

- Attendance lagged at most of the institutions during the decade. Those entities suffering significant decreases were the Marcus Center, War Memorial, Charles Allis/Villa Terrace and parks department pools and golf courses. The zoo had seen an increase since 2000 but a decrease since 2003, while the Historical Society experienced a significant increase until its headquarters closed for

---

[9] http://www.publicpolicyforum.org/pdfs/Parks&Culture.final.pdf

reconstruction in 2008. Public Museum attendance plummeted from 2005-2007 before rebounding dramatically in 2008 due to the *Body Worlds* traveling exhibit.

We also observed that, in general, each of Milwaukee County's cultural institutions was able to secure new sources of revenue or enhance existing sources to offset diminished county support. In some respects, this supported the notion that each had the capacity to become less reliant on taxpayer funding and simply needed a push to do so. That finding was tempered, however, by the universal sense among each institution's leaders that any additional reductions in county operating support – at least in the short-term – would be extremely difficult to accommodate, as efforts to successfully boost earned revenue sources (such as admissions/user fees, concessions, etc.) and creatively reduce administrative expenditures largely had been exhausted.

Table 6 shows the county's actual property tax levy contributions to its various parks and cultural facilities and programs in 2009. This table shows the two entities run by county government – the parks department and the zoo – receive the bulk of the property tax levy allocated to this function. The other institutions, while county-owned, are run by private non-profit entities that employ non-county personnel (CAMPAC is not an institution, but a council that distributes county funds to local arts organizations).

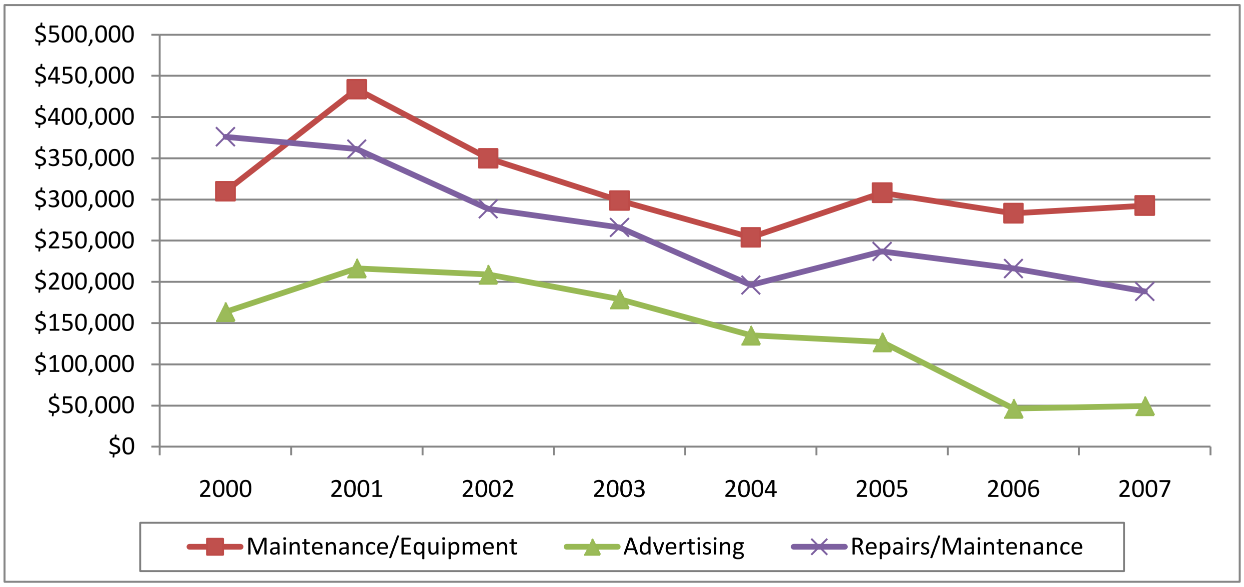
Table 6: 2009 property tax levy expenditures on parks and cultural institutions

	2009
Parks & Recreation	**$23,825,540**
Zoo	**$6,991,762**
Cultural Institutions	
Milwaukee Cnty Hist Society	$242,550
War Memorial	$1,504,594
Villa Terrace/Charles Allis	$243,656
Marcus Center	$1,280,000
CAMPAC	$376,598
Milwaukee Public Museum	$3,502,376
Total Support	**$7,149,774**
TOTAL PARKS, RECREATION & CULTURE	**$37,967,076**

Source: Milwaukee County budget documents

The November 2008 report noted that while each of the county-owned institutions faced financial challenges in its operating budget, those challenges were most acute in the two county departments, which were significantly impacted by the county's growing retiree fringe benefits costs, and which lacked the wherewithal to independently negotiate with their workforce to address those costs. A manifestation of those challenges was the need to cut back on items like maintenance and advertising, which are not major components of the budget, but which impact the ability of both the parks and zoo to attract patrons and maintain or enhance earned revenue. **Chart 9** – reproduced from the report – shows the downward trend in parks department advertising, repairs/maintenance and machinery/equipment from 2000 to 2007.

Chart 9: Milwaukee County Parks Department advertising, repairs/maintenance, and machinery/equipment expenses, 2000-2007

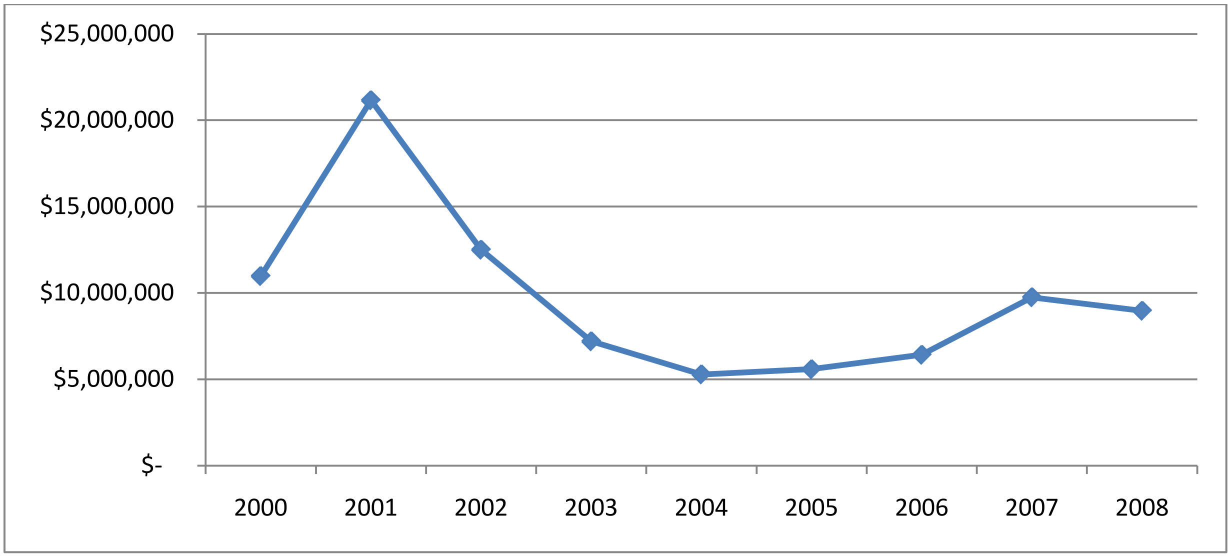


Source: Milwaukee County Parks Department

Capital improvements budgets also were found to be stretched at each of the institutions, though the parks appeared to be the most challenged entity. This was attributed both to the sheer size of the parks system, which includes numerous buildings, ball fields and amenities that required repair or improvement, and the comparably limited capacity of the parks to raise capital dollars from private sector partners.[10] **Chart 10** – also reproduced from the 2008 report – shows Milwaukee County's capital improvements budget for the parks from 2000 to 2008.

[10] While the parks department has been very successful in soliciting private donations to help pay for capital improvements at the Domes, Bradford Beach, and other facilities, its ability to generate such donations for general infrastructure improvements is limited by the reluctance of private donors to give directly to local government.

Chart 10: Milwaukee County Parks Department capital budget, 2000-2008



Source: Milwaukee County budget documents

Parks, Recreation and Culture Financial Challenges Today

Table 7 provides an updated picture of the parks and zoo budgets, showing overall expenditures, property tax levy, and FTEs from 2008 through the 2011 budget. FTEs may be a better indicator than property tax levy of the fiscal health of these departments, as additional property tax dollars were required to offset increasing fringe benefit allocations, which also are shown in the table. The allocations for each of the other county-funded cultural institutions have remained essentially the same since the middle of the last decade. Those institutions are not directly impacted by growing county fringe benefit costs because they do not employ county personnel.

Table 7: Milwaukee County Parks Department and Zoo operating budget, 2008-2011

	2008	2009	2010B	2011B
PARKS				
Expenditures	43,282,840	41,526,592	42,251,570	42,869,922
Fringe benefits	*8,504,202*	*8,767,745*	*9,872,391*	*9,204,039*
Revenues	19,621,471	17,701,081	18,770,679	17,364,162
Property tax levy	**23,661,369**	**23,825,511**	**23,480,891**	**25,505,060**
FTEs	542.2	547.5	509.5	487.2
ZOO				
Expenditures	23,780,814	22,160,966	23,657,992	24,464,755
Fringe benefits	*4,354,993*	*4,258,188*	*4,780,970*	*4,879,851*
Revenues	17,359,725	15,169,204	19,871,768	19,683,056
Property tax levy	**6,421,089**	**6,991,762**	**3,786,224**	**4,781,699**
FTEs	246.3	251.8	256.1	257.5

Source: Milwaukee County budget documents

The data in **Table 7** suggests the parks department has seen slightly reduced overall expenditures since release of our 2008 report, while the zoo's expenditures grew slightly. The parks department lost more than 60 FTEs in the 2010 and 2011 budgets (the majority of which were parks maintenance workers), but executive branch officials have asserted that more efficient use of parks maintenance staff has averted reductions in productive work hours.

It is worth noting that major maintenance funding for the parks increased substantially in the 2011 budget (from $325,000 to $622,492) and two marketing positions were added in 2010. It also should be noted, however, that 2011 budgeted increases for these items – as well as overall staffing levels – would be jeopardized by the county's failure to adopt budgeted wage and benefit modifications for its represented workers. The zoo, meanwhile, saw a decline in property tax levy in 2010, with some of the lost revenue offset by increased admissions fees and increased support from the Zoological Society of Milwaukee County.

A key question going forward is whether the status quo is sufficient for the parks and zoo given the extent of longstanding maintenance and infrastructure needs and the imperative to continuously reinvest in facilities and attractions to draw visitors and maintain earned revenue. A report produced by the county's audit department in December 2009 suggested the parks system had reached a crossroads because of "unsustainable" infrastructure demands that had "outpaced available resources."[11] While auditors were unable to establish a reliable estimate of maintenance and capital needs for parks infrastructure, they stated "the figure is substantial and likely exceeds $200 million." The report suggested that in light of limited resources, the department may need to consider a variety of alternatives to fixing or replacing dilapidated infrastructure, including demolition of certain structures and "divestiture of some county parkland."

The zoo, meanwhile, continues to struggle with its own difficult questions regarding long-term sustainability, borne largely by its annual struggle to maintain property tax levy support in the face of fierce competition from other county services. Those questions prompted a directive in the 2010 budget for the zoo director to explore a public/private partnership for administration and management of the zoo. While the study has not yet been released, a synopsis provided to the county's Finance and Audit Committee in October 2010 reinforced the urgency of identifying stable and enhanced revenue sources, stating that "the current and projected public-sector support levels may seriously affect the zoo's animal collection, programs, public attractions and facilities."

On the capital side, the zoo faces significant challenges – as well as some potential opportunities – from the Zoo Interchange reconstruction project. Design changes contemplated by the Wisconsin

---

[11] Milwaukee County Department of Audit, "A Tale of Two Systems: Three Decades of Declining Resources Leave Milwaukee County Parks Reflecting the Best and Worst of Times," December 2009, http://county.milwaukee.gov/ImageLibrary/Groups/cntyAudit/report0916.pdf.

Department of Transportation will impact several zoo structures, including the Zoofari conference center, a major service garage and several storage facilities. The cost of tearing down and replacing those facilities is estimated to approach $70 million, most of which is expected to be covered by the state. Consequently, while the project could cause significant short-term disruption, it also holds potential to provide the zoo with several brand new facilities funded with state dollars.

In light of the substantial anticipated impact of the Zoo Interchange project – as well as the perceived magnitude of overall infrastructure needs – the county's 2011 capital improvements budget includes a $400,000 allocation (to be split equally between the county and Zoological Society) to prepare a new facilities master plan. A similar master planning effort in 1997 led to a $29 million capital improvement program (also split equally between the zoo and the Society) that produced several new and improved attractions. The upcoming master planning process similarly will focus not only on basic infrastructure needs, but also on the new and improved facilities many feel are needed to sustain attendance and improve the visitor experience. Consequently, the cost of a capital improvement program emanating from this process is likely to exceed the $29 million price tag of the previous program.

The other county-owned cultural institutions face challenges that generally are not as severe as the two county departments (with the possible exception of the War Memorial Center, which has considerable maintenance and infrastructure needs). Their ability to accommodate several successive years of flat county operating support generally has been facilitated by less-severe fixed cost pressures, and by a greater ability to generate private sector support for operations given that they are not part of a government entity.

Nonetheless, each of the institutions continues to face maintenance and infrastructure challenges that are similar to those raised in our 2008 report, and the ability of the county to continue to provide even level funding to the institutions has grown more precarious with each passing budget. In fact, the 2011 budget directs the general manager of the Villa Terrace/Charles Allis art museums to prepare a strategic plan outlining how the museums would function with minimal public support, while the head of the Marcus Center for the Performing Arts – anticipating the potential for future reductions in county funding – has reinvigorated planning for a new parking and retail structure that ultimately could generate sufficient revenues to wean his operation from county support.

While we were unable to secure an estimate of the precise amount of capital investment required in the county-owned cultural institutions, the county's latest five-year capital improvements plan identifies $9 million in bond-funded projects in 2013-14 (much of which would flow to the War Memorial Center). That amount is likely to grow as additional projects are identified between now and 2013.

A possible solution to the resource challenges facing the parks and cultural institutions is imposition of a new dedicated funding source. The 1% sales tax supported by voters in the November 2008 advisory referendum (described earlier in this report) was designed in part to aid the parks and cultural institutions. Legislative activity subsequent to the referendum suggested that about half the revenues generated by the tax – approximately $65 million – would have been distributed to the parks and cultural entities, though a specific formula for allocating funds to each department and institution has not been discussed publicly. The Wisconsin Legislature failed to act on legislation implementing the sales tax before adjourning last year.

Another potential solution discussed by legislators is creation of a new parks and culture district outside of county government to own and administer the parks and cultural institutions, perhaps with a new dedicated funding source. The Forum's January 2010 report – *Should it Stay or Should it Go* – outlined some of the pros and cons associated with that proposal. Those are summarized below.

Key pros

- Creation of a parks and culture district with its own dedicated funding source would remove the cultural institutions from competition with other county functions for annual operating assistance, and would end the necessary prioritization of mandated county functions over those institutions. It also could provide greater certainty about funding, which is essential for long-term planning for each of the institutions.

- The parks and zoo could possibly function more efficiently as part of an independent district freed from county internal services (e.g. fiscal, human resources and legal) and would be able to independently negotiate wages and benefits with their employees.

- On the capital side, an independent district would no longer be in competition for county support for physical improvements, which is likely to benefit attendance, earned revenue, and private fundraising.

Key cons

- Funding parks and cultural institutions via a separate district could lead to a significant increase in taxing and spending, as parks and culture would no longer need to compete with other services for county funds.

- The parks department recently was awarded the National Recreation and Park Association's Gold Medal Award in the Park and Recreation Management Program, calling into question the need for a new governance structure. Also, the non-county-operated cultural institutions fare well under administration of the War Memorial Corporation and/or separate boards of directors with little interference from county officials.

- Creation of a new parks and culture district would create another and perhaps less accountable layer of government (depending in part on whether members are elected or appointed).

Critical policy questions and considerations for the next county executive

- What is the best way to ensure the fiscal sustainability of county-owned parks and cultural institutions? Are new or enhanced sources of revenue required to avoid reductions in the number and types of publicly funded parks and cultural offerings?

- Do the parks and cultural institutions need a dedicated revenue source, or should they continue to compete with other county services for their revenue allotments?

- Should Milwaukee County government continue to own the parks and cultural institutions, or should a new parks and culture district be created to own, administer, and govern those entities?

- Does the county have the capacity – and would it be sound fiscal policy – to exceed its self-imposed capital bonding caps in order to appropriately and quickly address the infrastructure needs of its parks and cultural facilities?

- Should the county continue to own and/or operate the Milwaukee County Zoo, or should a public-private partnership (similar to that employed for the Milwaukee Public Museum) or other ownership/administrative option be considered?

- Should the county continue to own the buildings housing the Museum, Performing Arts Center, War Memorial and other cultural institutions, or should it contemplate selling or gifting those buildings to the non-profit organizations that manage them?

- Should the parks department pursue a strategic direction outlined in a draft 2035 plan that would convert some currently developed parks land to a natural state in order to lower maintenance costs?

- Should the parks department pursue a related strategic direction to forsake high-cost/low-revenue amenities, such as some pools and par three golf courses, and instead concentrate on a smaller number of revenue-generating centers, such as regional water parks and multiplex athletic fields?

- Should the county pursue more public-private partnerships to operate amenities within individual parks (such as Lake Park Bistro), and/or should it turn to the private sector to operate golf courses and pools?

CONCLUSION

Consideration of Milwaukee County's overall financial condition, as well as the specific challenges faced in critical programmatic areas, sheds light on three fundamental realities facing the next county executive:

- **Annual increases in pension and health care costs must be curbed**. As this report has shown, better aligning annual pension and health care cost increases with anticipated growth in revenue streams is a fiscal imperative for Milwaukee County. Because those cost increases are tied to large, uncontrollable forces, such as stock market returns and regional health care trends, greater cost-sharing with employees and retirees may be the only solution. How and whether to negotiate such cost-sharing remains a key policy dilemma for the county.

- **The county's strong debt management policies run counter to its capital needs**. County leaders have exhibited considerable fiscal discipline in adhering to self-imposed caps on annual capital bonding, but at a cost of building a sizable backlog of infrastructure needs. Significantly exceeding the caps to address the backlog would boost annual debt service costs, thus exacerbating pressures on departmental operating budgets. County leaders must consider whether they can reasonably afford to fix and maintain the county's huge array of land and buildings. If they cannot, then they need a strategic plan to dictate which assets should be liquidated and how the proceeds from land sales should be utilized.

- **External revenue sources are unlikely to grow**. Deficit problems in Madison and Washington suggest not only that state and federal aids will fail to increase with inflation, but that they may be drastically reduced. Meanwhile, any new local revenue sources the county may wish to contemplate require legislative approval from the state. Consequently, few options exist outside of sharp increases in property taxes or fees, or severe cuts in service, to keep pace even with inflationary expenditure pressures.

The hand dealt to the next county executive will not be a promising one. While it would be unrealistic for the county executive candidates to spell out their specific strategies for turning that hand into a winner, the candidates owe voters some concrete indications as to how they intend to play it.