

County Executive Scott Walker's
Milwaukee County
Financial Reform
Strategies for Fiscal Sustainability



March 2009

Introduction

In 2006, County Executive Scott Walker embarked on his *Reality Tour* to warn the community about the financial challenges ahead for Milwaukee County. In response, the Greater Milwaukee Committee created a task force on Milwaukee County finances. Later, the state also created a similar task force.

Eventually, the County Board passed several of the reforms proposed by the County Executive and the two task forces. Other reforms failed to receive approval from a majority of the Supervisors.

Over the past year, the Public Policy Forum worked with Milwaukee County to update information about the concerns raised on the *Reality Tour*. Public Policy Forum researchers reviewed financial data provided by the county and outlined a series of long-term financial challenges.

Costs for Milwaukee County are increasing more rapidly than revenues. Increases in pension and benefit costs and the current economic downturn are the primary drivers pushing the gap between these costs and the normal costs to continue and available revenue to somewhere between \$60 million to \$70 million for 2010. By 2013, our annual pension contributions alone are expected to increase by approximately \$50 million, resulting in a projected contribution of \$97 million.

While these numbers are daunting, the fiscal challenges facing Milwaukee County are not without solutions. County Executive Walker believes that the County can achieve long-term fiscal sustainability and has repeatedly proposed reforms to improve the fiscal sustainability of the County. However, more must be done. To further improve the County's fiscal sustainability will require significant changes to: 1) the way that the County compensates employees; 2) the way the County delivers services; 3) the way the County uses its assets; and 4) the way the County manages its budget.

County Executive Scott Walker has a plan for financial reform. His vision is described in these Strategies for Fiscal Sustainability. The 2010 budget will be based on this proposal.

Employee Pay and Benefits Reform

Wages and benefits comprise 48% of the County budget. In particular, the cost of benefits is growing at an alarming rate. The County is currently pursuing legal action to recover the cost of prior benefit increases. From 2003 to 2007, the cost of benefits increased by \$73 million. If no action is taken, these costs will likely continue to grow at that rate (or higher) over the next five years. As a result, the County cannot achieve fiscal sustainability without reforming employee pay and benefits.

Milwaukee County must 1) modernize paid time off policies to reduce the cost of employee sick leave usage, 2) replace the automatic "step" system with performance based pay system and 3) end the practice of paying overtime to employees not covered under the Fair Labor Standards Act. In addition, consistent with most employers, county employees should begin paying a fixed percentage of employee health care costs so that County employees have a real stake in efforts to reduce health care expenditures.

Where flexibility is possible, another key change necessary to achieve fiscal sustainability is the reform of County pension benefits. While the benefits related to the 2000 pension benefits vote have been rolled back to the extent legally possible, additional pension benefit changes are necessary.

Although there may be legal and political obstacles, the County Executive is directing staff to recommend modifications to County pension benefits that provide County employees with a fair and affordable pension package yet allows the County to remain fiscally solvent - and protects local taxpayers. Particularly for new employees, items for consideration shall include extending the years of service and age needed to retire, reducing the size of the multiplier and moving from a defined benefit (traditional pension) to a defined contribution (401(k)) system.

Service Delivery Reform

To a great extent, the ability of the County to continue to provide current services will depend on the willingness of County employees to accept more sustainable pay and benefit packages. Concessions from County bargaining units may reduce the need to change the way the County delivers services. In the absence of adequate concessions, the County will be forced to rely on alternative approaches to reforming the way that services are delivered.

Privatization

The County must move to contract out functions such as fleet maintenance, housekeeping and security, highway operations, parks maintenance and golf course operations. Private sector companies or organizations, and in some cases other local government labor forces, can reduce the price of these functions through lower cost employee wage and benefit packages, economies of scale for major software or equipment purchases and the application of specialized knowledge and expertise.

Elimination of Non-Core Services

Most of the revenues collected by the County are used to fulfill legal mandates set by the State of Wisconsin or to provide services essential to the health and safety and Milwaukee County residents. After every effort is made to reduce the costs of the services the County provides, there may still not be adequate funding to continue to provide some of the non-mandatory services the County currently provides.

County government simply cannot commit to providing services beyond the ability and willingness of taxpayers to provide funding for those services. If a more cost-effective method of delivering service cannot be achieved it is time to identify and eliminate lower priority, non-mandated services – like the farm and fish hatchery or overmatches to state programs.

Regional Cooperation

Milwaukee County must work with neighboring communities to better align the cost, improve the efficiency and increase the benefit of services. For example, Milwaukee County is responsible for maintaining interstate highways and county-trunk roads within its boundaries; however, I-94 does

not begin and end in Milwaukee County and county-trunk roads travel through many municipalities.

A regional approach to plowing, patrolling and roadway maintenance would provide significant economies of scale in service delivery. The County should contract out this work on a regional basis and allow other local governments and private businesses to bid on it.

Similarly, institutions such as the Zoo and the other cultural facilities that are located in Milwaukee County benefit the entire region. Improved coordination of these types of facilities can reduce their overall costs while enhancing their value to the entire region. The best means for providing and supporting services transcends geographic or political boundaries.

The Zoological Society of Milwaukee has a membership of residents from throughout southeastern Wisconsin. The County should expand the relationship with the society and work to incorporate the regional support of the zoo into daily operations.

Similarly, the County owns the Marcus Center for the Performing Arts building and is one of the largest financial supporters. The Wisconsin Center District (WCD) owns and operates the Milwaukee Theater. Since the two venues are already sharing services, the County should pursue an agreement for the WCD to operate the Marcus Center.

And the County owns the structures holding the exhibits for the Milwaukee Public Museum (MPM), the Villa Terrace Museum and the Charles Allis Museum. The County is also a major funding source for all three institutions. The boards of Villa Terrace and Charles Allis should contract with MPM for operations of these facilities.

Even the training of paramedics through the EMS system should be reviewed. Currently, County staff provide training for paramedics who are employees of municipal fire departments across the county. The Milwaukee Area Technical College (MATC) also provides training within the county for paramedic services. In the future, MATC staff could do training.

Use of County Assets

The County is fortunate to own hundreds of millions of dollars worth of real estate and facilities. The County can leverage the value of these assets to help close its long-term structural deficit. By developing and enforcing countywide space standards and consolidating county staff into the lowest value and lowest cost space available, the County can free up real estate and facilities for sale or lease – or get out of existing leases throughout the county.

Proceeds from these potential sales or leases should be used, not for one-time benefits, but to help close the County's structural deficit by using the proceeds to reduce debt, fund unfunded pension liabilities or address deferred capital maintenance needs. This strategy holds great potential for bringing fiscal stability to the County.

The County should also pursue a lease for the operations of its largest asset – General Mitchell International Airport. Based on winning bid last fall for the long-term lease of Midway Airport by the City of Chicago, Mitchell appears to hold the potential to provide hundreds of millions of dollars in net proceeds.

These proceeds could be used to pay down debt. The reduction in debt service payments can then be used to free up tax levy to be used as a stable funding source for the Milwaukee County Transit System.

Budget Process Reform

The County must also reform the budget process. Important steps towards a better budget process, including the development of a financial forecasting system and improvements to the County's capital planning process are already underway.

The County should also complete a comprehensive review of financial policies and practices focusing on 1) establishing a rainy day fund, 2) developing a sustainable policy for the use of one-time revenues and 3) improving the grant approval process. In addition, the County must modify the method for budgeting for legacy benefit costs to ensure that the true costs of policy decisions are transparent to citizens and elected officials. Finally, the County should implement a performance measurement system to ensure that County departments are providing the quality services that citizens and elected officials expect.

Conclusion

To prepare for the 2010 budget and to pave the way for fiscal sustainability for Milwaukee County in the years to come, County Executive Scott Walker will continue to advance reforms such as those noted above. The 2010 Executive Budget will focus on reforming:

- Employee Pay and Benefits
- Service Delivery
- Use of County Assets
- Overall Budget Process

Once enacted, these reforms will put the County on firm financial standing and provide a brighter future for generations to come.