

**COUNTY OF MILWAUKEE**  
**Interoffice Memorandum**

DATE: June 12, 2009

TO: Supervisor Elizabeth Coggs, Chairwoman, Committee on Finance and Audit

FROM: Steve Cady, County Board Fiscal & Budget Analyst  
Jerome J. Heer, Director of Audits

SUBJECT: **REQUEST BY COMMITTEE ON FINANCE AND AUDIT TO REVIEW AND COMMENT ON THE PROJECTED 2009 FISCAL SHORTFALL AND THE COUNTY EXECUTIVE'S CORRECTIVE ACTION PLAN**

**REQUEST**

At its special meeting on June 9, 2009, the Committee on Finance and Audit referred the County Executive's proposed corrective action plan to mitigate a projected fiscal shortfall for 2009 to County Board and Department of Audit staff for review and comment. Specifically requested was additional information about the projected countywide deficit of \$14.9 million and the proposed implementation of a 35-hour workweek by the County Executive. This analysis is to include the potential impact on county revenues.

**BACKGROUND**

At its meeting on April 20, 2009, the Committee on Finance and Audit reviewed a report dated April 6, 2009, from the DAS Fiscal and Budget Administrator (FABA) that estimated the 2009 fiscal shortfall to be in a range of \$7 to \$14 million. This projection was updated in a report dated May 12, 2009, to reflect a projected shortfall of \$14.9 for 2009. The report was reviewed by the Committee on Finance and Audit at its meeting on May 14, 2009. The report outlined the County Executive's directive on April 6, 2009, to all cabinet departments, and request to all non-cabinet departments, that programmatic cuts totaling 3% of their tax levy for 2009 be submitted. No mention of the possibility of reduced hour workweeks was made to the Committee at that time. On May 14, 2009, the County Executive issued an Executive Order establishing a 35-hour workweek for all cabinet departments commencing June 28, 2009, and potentially lasting through the remainder of the year.

On June 9, 2009, the Committee on Finance and Audit held a special meeting to further review the 3% tax levy reduction plans and the programmatic impacts of the implementation of a reduced hour workweek. At that meeting, the Corporation Counsel provided a verbal opinion that, in general, the County Executive had the authority to take the necessary steps to mitigate a projected fiscal shortfall without the approval of the County Board of Supervisors. This includes program cuts, reduced hour workweeks and layoffs.

The FABAs provided the information contained in the column dated March 31, 2009, regarding the projected shortfall for 2009 as of that date. County Board and Department of Audit staff have provided an updated projection as of June 12, 2009.

| <b>Department Name</b>                    | <b><u>March 31, 2009</u></b> | <b><u>June 12, 2009</u></b> | <b><u>Change</u></b>       |
|---|------------------------------|-----------------------------|----------------------------|
| Combined Courts                           | \$(1,000,000)                | \$(500,000)                 | \$500,000                  |
| Register of Deeds                         | (1,424,033)                  | (1,424,033)                 | 0                          |
| Sheriff's Office                          | 132,750                      | 132,750                     | 0                          |
| House of Correction                       | 155,029                      | 1,355,029                   | 1,200,000                  |
| District Attorney                         | 111,078                      | 111,078                     | 0                          |
| Medical Examiner                          | (250,989)                    | (250,989)                   | 0                          |
| Transit/Paratransit System                | 612,954                      | 612,954                     | 0                          |
| Behavioral Health Division                | (2,721,529)                  | (3,721,529)                 | (1,000,000)                |
| Department on Aging – CMO                 | 5,832,020                    | 5,832,020                   | 0                          |
| Contribution to Aging CMO Reserves        | (5,832,020)                  | (5,832,020)                 | 0                          |
| Health & Human Services                   | (3,672,327)                  | (3,672,327)                 | 0                          |
| Other                                     | (903,541)                    | (903,541)                   | 0                          |
| <b>Departmental Total</b>                 | <b><u>\$(8,960,608)</u></b>  | <b><u>\$(8,260,608)</u></b> | <b><u>\$700,000</u></b>    |
| Land Sales                                | (6,030,117)                  | (1,030,117)                 | 5,000,000                  |
| Unallocated Contingency Fund              | 7,760,427                    | 7,760,427                   | 0                          |
| Investment Income                         | (2,100,000)                  | (2,900,000)                 | (800,000)                  |
| Sales Tax Revenue                         | (3,200,000)                  | (6,400,000)                 | (3,200,000)                |
| Lease Payment Froedtert Hospital          | (2,400,000)                  | (2,120,000)                 | 280,000                    |
| Employee Benefits                         | 0                            | 3,500,000                   | 3,500,000                  |
| 3% tax levy reduction plan                | 0                            | 4,400,000                   | 4,400,000                  |
| Donations from Allen Trust                | 0                            | 2,000,000                   | 2,000,000                  |
| Fleet Charges                             | 0                            | 1,900,000                   | 1,900,000                  |
| Facility crosscharges                     | 0                            | 500,000                     | 500,000                    |
| <b>Non-Departmental Total</b>             | <b><u>\$(5,969,690)</u></b>  | <b><u>\$7,610,310</u></b>   | <b><u>\$13,580,000</u></b> |
| <b>Projected County Surplus (Deficit)</b> | <b><u>\$(14,930,298)</u></b> | <b><u>\$(650,298)</u></b>   | <b><u>\$14,280,000</u></b> |

Potential Adjustments to Shortfall

Staff met with Department of Administrative Services staff and independently updated several of the factors shown above to gain an updated projection of surpluses as of June 12, 2009, or more than 70 days after the initial projections of March 31, 2009. It should be strongly cautioned that all projections are a snapshot in time; numbers are fluid and will undoubtedly fluctuate as the year progresses. Still, as actual results are received, a greater confidence in the projections is expected. The significant items that staff has identified include:

|   |                            |
|---|----------------------------|
| <b>Department/Item</b>                          | <b>Change from 3/31/09</b> |
| <b><i>Combined Court Related Operations</i></b> | <b><i>\$500,000</i></b>    |

Combined Court Administration has indicated that in lieu of a 35-hour workweek for its employees, other cost saving measures will be pursued that are expected to achieve a \$500,000 budgetary savings.

|                                   |                             |
|-----------------------------------|-----------------------------|
| <b><i>House of Correction</i></b> | <b><i>\$1.2 million</i></b> |
|-----------------------------------|-----------------------------|

The Sheriff is requesting authorization for a significant reorganization of staff at the House of Correction. The anticipated savings from this reorganization is approximately \$200,000 per month, or \$1.2 million for the remainder of the year. For the purposes of this projection, it is anticipated the requested reorganization is approved to meet fiscal shortfalls.

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|--|-----------------------------|
| <b><i>Behavioral Health Division</i></b> | <b><i>(\$1 million)</i></b> |
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Based on the fiscal condition of the Behavioral Health Division, and the continued use of unbudgeted overtime to deliver services, staff believes that the fiscal condition may deteriorate by an additional \$1 million by the end of the year.

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|--------------------------|---------------------------|
| <b><i>Land Sales</i></b> | <b><i>\$5 million</i></b> |
|--------------------------|---------------------------|

The most significant land sale that may be realized for 2009 is the sale of County Ground property to UW-Milwaukee for a new School of Engineering. Based on the date of legislative approval of the sale, and expected signing of the agreement, it is possible that the closing (first) payment of \$5 million could be realized for 2009. However, the agreement provides up to nine months for the purchaser to complete due diligence and obtain the necessary approvals from other entities before a final commitment is made. Based on accounting rules, if the closing occurs before March 1, 2010, the sale proceeds may be booked to the 2009 budget.

For the purposes of this projection, it is anticipated that the closing may occur in time so that the full proceeds of the first payment can be applied to the 2009 land sale budget. To be clear, the agreement is expected to be signed in the next week or so and a full nine month timeframe would put the closing in the middle of March 2010, too late to be booked for the 2009 budget. Based on conversations with key principals, it is expected that a clearer picture of when the actual closing may occur will be available by late summer 2009.

**Department/Item** **Change from 3/31/09**

***Investment Income*** ***(\$800,000)***

Based on conversations with the Treasurer and Department of Administrative Services, it is expected that further weakening of earnings on investments will occur based on the historically low interest rates. Additional study of this issue is in progress and a better projection may be available within the next couple of weeks.

***Sales Tax Revenue*** ***(\$3.2 million)***

Based on the first three months of sales tax collection data that has been reported by the State Department of Revenue, Milwaukee County sales tax collections are down by approximately 10%. The March 31, 2009, projection was based on a 5% shortfall. While staff agrees that these numbers are likely to improve over the coming months, a conservative estimate is made at this time.

***Froedtert Hospital Lease Payment*** ***\$280,000***

Based on a range of estimates provided by Froedtert staff, the March 31, 2009 projection of a \$2.4 million deficit is expected to improve by approximately \$280,000. This reflects the midpoint of the range, and the actual amount is subject to the hospital's fiscal year closing June 30, 2009, and subsequent closing audit.

***Employee Fringe Benefits*** ***\$3.5 million***

At this time, Employee Fringe Benefits appear to be indicating a surplus of \$3 to \$4 million based on estimates by DAS staff. It should be cautioned, however, that this projection could change dramatically based on the speed in which invoices are paid by the insurer and the overall utilization of health care services. Indeed, if it appears that many employees may be at-risk of job loss in 2010, health care utilization may spike later this year as employees seek services prior to the potential loss of health care insurance.

***3% Tax Levy Reduction Plan*** ***\$4.4 million***

The 3% tax levy reduction plan directed by the County Executive provides a budgetary savings of \$4.4 million that was not included in the March 31, 2009, fiscal projection.

***Allen Estate Bequest*** ***\$2 million***

Based on recent and pending County Board actions, it is expected that the initial bequest from the Frank and Maxine Allen Estate will provide \$1.125 million for the 2009 budget. In addition, it is estimated that additional funds from the final settlement of the estate will be forwarded later this year to bring the total donation to approximately \$2 million.

**Department/Item** **Change from 3/31/09**

***DTPW Fleet and Facility Charges*** ***\$2.4 million***

Based on estimates provided by staff, the Department of Transportation and Public Works is projecting a Fleet crosscharge savings of approximately \$1.9 million and facility savings of \$500,000. These savings are based on service usage that is less than the budgeted amount for 2009.

***2009 Labor Costs*** ***No Change***

The 2009 labor costs have yet to be determined since labor agreements have not yet been reached. Staff will discuss this matter further in closed session.

**June 12, 2009, Projection Summary**

Based on the most recent projection, it appears that the \$14.9 projected deficit on March 31, 2009, could be reduced to approximately \$650,000 based on updated projections. It should be clearly understood, however, that this estimate includes \$5 million in land sale revenue that may not be realized in 2009. This revenue is dependent on the progress made by UW-Milwaukee Innovation Park, LLC to complete its work and schedule a closing prior to the end of the nine-month period that has been granted in the purchase agreement.

**35-Hour Workweek**

In light of the revised projections as of June 12, 2009, the County Executive should reconsider the timing and or amount of the reduced hour workweek. Consideration should be given to tax levy reductions that could be achieved without a reduction in the workweek. Indeed, general departmental surpluses may be achieved at the end of the year from departments that are currently projecting a break-even budget. This is more likely to occur if the purchasing and hiring freezes and other cost-saving measures are continued for the remainder of the year. For the purposes of this report, no estimate was made as to the amount or probability that these surpluses will occur. In any case, the departmental surpluses are likely to be less than prior years based on previous budget actions. The 3% tax levy reductions that have already been implemented for 2009 will also lower year-end surpluses.

The Committee on Finance and Audit expressed concern regarding the proposal to implement the 35-hour workweek on revenue producing departments. These departments included Corporation Counsel, Child Support Enforcement, DTPW-Airport, DTPW-Highway Maintenance, Aging and Health and Human Services. For these departments, total workweek reductions of \$3,084,340 would yield only \$1,097,850 in tax levy savings. That would result in a significant loss of services to the public, including the elderly, airport travelers, motorists, and residents that rely on child support enforcement and health

and human services. In recognition of the significant loss in revenues, the County Executive should reconsider the Executive Order to apply the reduced workweek to departments that have considerable revenue offsets since the loss in services outweighs the fiscal savings.

Further, we are unable to quantify the impact, if any, to other departments, such as the Parks and Zoo that rely considerably on outside revenues to meet their budgets. The imposition of the reduced workweek may again impede their ability to achieve their revenue targets, especially since a majority of their revenue is anticipated during the summer months.

Another approach may be to consider another round of tax levy reductions in lieu of the reduced hour workweek. DAS is currently canvassing departments to determine the number of funded but vacant positions countywide. This exercise is complicated due to the need to ensure that the position is not already being used to meet the net salary budget or is offset with outside revenue. DAS is expected to soon issue reports on funded but vacant positions and County retirees working on contract.

In a communication dated June 12, 2009, the County Executive states that he will delay the implementation of any layoffs until a decision is made as to whether the reduced workweek is allowable under current bargaining agreements. Given the updated fiscal projections, this appears to be a prudent course of action.

**RECOMMENDATION**

This is an informational report. No action is necessary.

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Steve Cady  
County Board Fiscal and Budget Analyst

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Jerome J. Heer  
Director of Audits

Attachments: 3% Levy Reduction Implementation Report (DAS)  
35-Hour Workweek Implementation Report (DAS)

cc: Supervisor, Lee Holloway, Chairman, Milwaukee County Board of Supervisors  
County Board Supervisors  
County Executive Scott Walker  
Cynthia Archer, Director, DAS  
Steven Kreklow, Fiscal and Budget Administrator, DAS  
Scott Manske, Controller, DAS