

**COUNTY OF MILWAUKEE**  
INTEROFFICE COMMUNICATION

DATE : June 6, 2003

TO : Supervisor Lee Holloway, Chairman, County Board of Supervisors

FROM : Terry D. Kocourek, Fiscal and Budget Administrator  
Jerry Heer, Director of Audits  
Rob Henken, Director of Research, County Board

SUBJECT : **June Update - 2003 Budget Status**

In May, a report was submitted that updated a report from the previous month on the 2003 fiscal status of Milwaukee County. The May report included several suggestions for possible actions to deal with a projected 2003 deficit. The Finance and Audit Committee referred the report back to staff for further recommendations regarding a course of action.

The following is a summary of projected shortfalls as reported in April.

**Summary of Projected Shortfalls - 2003**

	(In Millions)
DHHS	\$ 3.0
Sheriff	\$ 2.0
House of Correction	\$ 2.0
Deputy Sheriff's Labor Contract	\$ 1.0
Courts	\$ 1.0
Election Commission	\$ 0.05
State Budget	\$ 3.0
Health Care Costs	\$ 2.0
Land Sales	<u>\$ 2.0</u>
TOTAL	\$16.05
Less - Contingent Fund	<u>\$ 4.7</u>
Projected Shortfall	\$11.35

The May report contained various adjustments to the April projections, as reflected below.

**Adjusted - Summary of Projected Shortfalls - 2003**

	(In Millions)
DHHS	\$ 3.0
Sheriff	\$ 2.0
House of Correction	\$ 2.0
Deputy Sheriff's Labor Contract*	\$ 0.7
Courts*	\$ 0.5
Election Commission*	\$ 0.1
State Budget	\$ 3.0
Health Care Costs	\$ 2.0
Land Sales*	\$ 0.0
Investment Earnings*	\$ 1.0
URMS Pension Payment*	\$ 1.0
Register of Deeds – Excess Revenue*	<u>(\$ 0.5)</u>
TOTAL	\$14.8
Less - Contingent Fund	<u>\$ 4.7</u>
Projected Shortfall	\$ 10.1

\* - Items adjusted from April report

While monitoring of the above budget situations is ongoing, the only known change to these figures that should be made at this time is to increase the Election Commission projected deficit from \$100,000 to \$250,000 to reflect a fund transfer submitted by the Election Commission reflecting its current status. This would effectively increase the projected 2003 County deficit to \$10.25 million.

While no other adjustments are suggested at this time, the Department of Administrative Services is aware that the Department of Health and Human Services is making efforts to obtain W-2 agency revenue and the House of Correction is in discussion with the State about potential revenue possibilities. While these are not anticipated to be significant amounts, they would help to partially offset the projected deficits for these departments.

### **2003 Corrective Action Plan**

The report submitted in May indicated that the Department of Administrative Services was still working with departments that have identified deficits to further assess their fiscal situations and to determine if corrective actions are possible. That review is still ongoing. The report also stated that a review of the impact of a possible purchasing freeze was underway. Further, the report suggested several possible courses of action to deal with the projected 2003 shortfall.

The May report “presented for consideration” 1) continuation of the hiring review process that has been administratively in place since the beginning of the year and 2) the possibility of using surplus 2002 funds in excess of \$4 million for 2003 purposes.

Regarding the hiring review process, the Department of Administrative Services is continuing to review all requests to fill positions. This hiring review/freeze process is similar to that used in previous years except it is a more stringent review process and is being utilized with the intent to keep positions vacant, rather than simply delaying the filling of positions, and is intended to generate budget savings. It must be recognized that this process may impact the operation of those County departments seeking to fill positions.

It is recommended that the Finance and Audit Committee recommend to the County Board that it endorse the continued application of the hiring review process.

As indicated in last month’s report, the dollar amount of savings from applying the hiring review process is difficult to quantify, however, it is estimated that savings of \$1 million can be achieved.

It now appears that the County will achieve a 2002 surplus of \$4 million and that surplus funds, therefore, are not available to be applied to 2003 (unless it is desired to reduce the 2002 surplus below \$4 million).

One other item “presented for consideration” in the May report was to freeze specifically identified expenditures similar to the action that was taken in 2002. It is now recommended that the following list of items be frozen with the understanding that, later in the year, if it is found that the funds would not be needed to balance the budget, they could be released for use in 2003. The items recommended to be frozen are:

#### *Operating Budget*

- \* HIPAA - \$25,000 of \$50,000 budgeted (funds are budgeted in the DAS – Fiscal Affairs Division operating budget)
- \*\* Economic Development Reserve - \$70,000 of \$120,000 from 2002 balance
- Brownfields - \$150,000 of \$260,000 balance
- Sports Authority - \$70,000 of \$120,000 balance
- Golf Course Master Plan - \$50,000 (contingent on revenue being received)

- \* Note: The need for expending these funds is still being evaluated. It is possible that a modification to this recommended amount could be brought forward at a later date.
- \*\* Note: \$150,000 was budgeted for the Economic Development Reserve in 2003 but was predicated on land sale revenue. If sufficient land sale revenue were to become available, it is recommended that \$100,000 of the \$150,000 be considered for "freezing".

*Cash Appropriations in Capital Improvements Budget*

Parks Infrastructure - \$100,000 of \$368,423 budgeted

Zoo Infrastructure - \$100,000 of \$424,228 budgeted (\$60,000 of budgeted amount is eligible to be bond financed and could be replenished in 2004 if not released in 2003)

Action to freeze these funds would make \$565,000 available to offset 2003 shortfalls. Again, these funds would be released later in the year if the County's budget situation were to improve.

Combined, the above actions are projected to yield \$1,565,000 of budget savings. This is far short of bridging the projected shortfall of \$10.25 million. While the undersigned do not feel that the entire projected deficit needs to be offset at this time given the uncertainty of some of the projected deficits, it must be recognized that some action is necessary to help solidify the County's fiscal situation. Unfortunately, the County has adopted budget reductions in recent budgets as well as recent mid-year corrective actions. This leaves little room from which to make budget reductions that won't impact services, personnel and/or departmental operations.

One option that staff did discuss was the potential to implement employee "furloughs" or reduced work hours, i.e., a 35 hour work week. This option was being examined by the County Executive along with human resource/budget/legal staff. However, due to the need to further examine logistical problems and uncertainty among the undersigned as to whether this is an appropriate approach, this is not a recommended course of action at this time. If this option still proves to be viable (for 2004 if not for 2003), then it may be pursued by the County Executive at a later date.

**1% Budget Reduction**

One other action that is recommended at this time is to impose a 1% budget reduction on all County departments that have budgeted tax levy and/or where tax levy savings will result if a budget reduction is imposed. It is estimated that a 1% reduction, as proposed, would result in savings of \$3,050,991. (See Attachment)

In the case of departments that do not have any budgeted tax levy, a 1% reduction of budgeted salary appropriations is recommended. The list of reductions is attached. It should be noted that some departments are not recommended to be included in this 1% budget reduction initiative because reducing their budgets will not produce bottom line savings for the County. Departments included in this category are the Airport, DAS – Housing, DPW – Transportation Services and DPW – Architecture, Engineering and Environmental Services. It is also recommended that the Department of Child Support be asked to achieve one-third of its projected salary reduction to reflect the 66% revenue it would lose for any expenditure reduction it makes.

The Parks Department is not recommended to be included in the 1% reduction because it has already agreed to leave enough positions vacant that will result in \$600,000 of salary savings in 2003. (A 1% reduction of tax levy in the Parks Department would result in a \$219,407 reduction.)

It should also be noted that the Department of Health and Human Services reduction figure is \$451,733. A 1% tax levy reduction in DHHS is equal to \$226,812; however, the DHHS 2003 budget includes an appropriation of \$224,921 for unemployment compensation. This was budgeted in anticipation of layoffs that might have been necessary for DHHS to meet its 2003 budget, which layoffs have not occurred. Because DHHS has a significant deficit, it was thought that these funds should be identified at this time in addition to a 1% tax levy reduction.

It is also important to note that the 1% reduction would result in reductions to the Sheriff, House of Correction and Courts budgets. These budgets are currently projected to have deficits and, in the case of the Sheriff's Department and the Courts, efforts to restrict expenditure of funds have met with resistance in the past. Nevertheless, it was thought that these departments should be asked to take corrective actions to at least partially reduce their projected deficits.

While a 1% budget reduction may appear to be very modest, it needs to be understood that a budget reduction in June is much harder for departments to absorb. It should also be understood that a reduction, even one of only 1%, could result in program/service impacts and/or in departments having to take personnel actions, including possible layoffs.

To implement the 1% budget reduction, it is recommended that the Department of Administrative Services be authorized to administratively encumber the identified reductions within departmental budgets. This would make these funds unavailable for expenditure. DAS should also be authorized to release funds if a department is able to identify an unbudgeted revenue offset that would provide the same amount of savings. It also should be understood that, while the reduction amounts are based on tax levy and/or salary amounts, the reductions will be applied to the bottom line of department budgets and that departments will be provided the flexibility to apply the reductions within any portion of their budgets as long as the same bottom line impact is achieved.

### **Other Alternatives**

The recommended actions stated above would generate 2003 savings of \$4,615,991, which would essentially address a little less than half of the projected budget shortfall. While no additional actions are recommended at this time, there are two other possible courses of action that could be considered if the overall fiscal outlook does not improve. One is for the County Board to reconsider its action to not authorize negotiations with Children's Hospital to purchase land at the County Grounds in lieu of a lease that was approved in 2002. Sale of this property would greatly assist in the achievement of the 2003 land sale budget of \$4 million that is contained in the Economic Development Division operating budget and/or the \$2 million that was budgeted in the contingent fund which was designated to be used to help offset departmental sick leave costs. Because the land sale budget has not yet been reached, departments incurring sick leave costs will have to absorb those costs within their operating budgets. Sale of the land to Children's Hospital could help to reach or exceed the land sale budget and could provide funding to offset sick leave costs within departments and/or simply be used to help balance the County's budget.

Another possible course of action is to utilize lapsed bond proceeds in the amount of \$1.5 million to help balance the 2003 budget. The County has lapsed bond proceeds of \$1.2 million for 2002, \$600,000 for 2001, \$320,500 for 2000, \$56,175 for 1999 and \$51,400 for 1999, for a total of \$2.5 million of lapsed bond proceeds. Normally, these funds would be placed in the Debt Service Reserve and would be utilized to pay interest expense on outstanding bonds. The 2003 Budget projected that the Debt Service Reserve would total approximately \$6.0 million at the end of 2003. It is currently projected that the Reserve will have a balance of \$5.8 million at the end of 2003. These figures did not anticipate any of the above lapsed bond proceed amounts going into the Reserve, i.e., these figures are beyond what was anticipated in the 2003 Budget.

It is possible to utilize the lapsed bond proceeds by placing them in the Debt Service Reserve and using them to help make 2003 interest payments that are due on outstanding bonds. Bond payments are scheduled to be made in August, September, October and December with total interest costs of \$5.7 million. However, because the County has budgeted bond proceeds to offset interest payments in the General Debt Service Fund Budget for 2003, only \$1.5 million of the lapsed bond proceeds are available to offset the remaining 2003 bond proceeds.

If the lapsed bond proceeds were used to make 2003 bond interest payments, this would free up sales tax revenue that could be applied to the County's bottom line to help offset projected deficits.

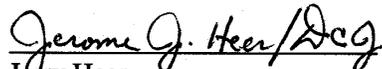
This course of action obviously relates to the policy question currently pending before the Finance and Audit Committee and the County Board to change the ordinance governing sales tax revenue. The ordinance would have to be changed in the manner required under the proposed bond restructuring to allow sales tax revenue to be used other than to pay for debt service or to cash finance capital projects. If such a change is made, this proposed action would be consistent with that.

These two courses of action are presented for consideration as possible means to balance the 2003 Budget in addition to the corrective actions recommended above or if these actions do not prove to be sufficient.

### Conclusion/Summary

At this time, it is recommended that 1) the hiring review/freeze process that has been in place continue; 2) specific expenditures in the amount of \$565,000 be frozen and 3) a 1% budget reduction initiative be implemented. Together, these actions are estimated to achieve \$4,615,991 of savings. These are not enough to offset the currently projected 2003 deficit of \$10.25 million. Two other possible courses of action, the sale of land to Children's Hospital and use of lapsed bond proceeds to pay 2003 interest payments on outstanding County bonds were also presented for consideration. Monitoring of the County's fiscal situation will continue and additional corrective actions may be brought forward if necessary. Given the current status of the County's fiscal situation, these are likely to include recommendations that will impact County employees and/or County programs or services.

  
Terry Kocourek  
Fiscal and Budget Administrator

  
Jerry Heer  
Director of Audits

  
Rob Henken  
Director of Research, County Board

### Attachment

pc: County Executive Scott Walker  
Supervisor Richard D. Nyklewicz, Jr, Chairman, Finance and Audit Committee  
Linda Seemeyer, Director Department of Administrative Services  
Steve Mokrohisky, Deputy Chief of Staff, County Executive's Office  
Terrence Cooley, Chief of Staff, County Board  
Department Heads