

COUNTY OF MILWAUKEE
Inter-Office Communication

Date: July 15, 2003

To: Milwaukee County Board of Supervisors
Scott Walker, County Executive

From: Terry D. Kocourek, Fiscal and Budget Administrator, Department of Administrative Services
Chuck McDowell, Director, DAS-Human Resources Division
Troy Hamblin, Director, DAS-Labor Relations Section
Rob Henken, Director of County Board Research
Jerome J. Heer, Director of Audits

Subject: Fiscal Notes for Proposed Changes to the Milwaukee County Employees' Retirement System (ERS) (File No. 02-503 (a)(g))

Background

In September 2002, the Wisconsin Legislative Audit Bureau (LAB) submitted "A Review of Milwaukee County Government" to the Joint Legislative Audit Committee, the Milwaukee County Executive and the Milwaukee County Board of Supervisors. The report included a recommendation that "Milwaukee County amend its current county ordinance regarding fiscal notes to assign the Milwaukee County Department of Administrative Services responsibility for drafting fiscal notes for proposed changes to the Milwaukee County Employees' Retirement System, and establish specific requirements for the contents of a fiscal note, including key assumptions, logic, calculations used in estimates, and one-time and ongoing costs".

The County Executive's 2003 Recommended Budget included a proposal that this recommendation be studied by DAS, Audit and County Board staff. However, during its 2003 Budget deliberations, the Committee on Finance and Audit deleted many policy initiatives, including this matter, from the Recommended Budget and referred those items to the appropriate policy committees.

On February 25, 2003 the Greater Milwaukee Committee's Select Committee on Milwaukee County Government submitted its review of County government to the County Executive and County Board. That report contained several recommendations related to fiscal analysis of proposed wage and benefit changes, which are summarized as follows:

- Staff should provide policy makers with analysis of wage and benefit packages that includes short-and-long-term impacts on both the operating budget and the Pension Fund, as well as department-by-department impacts.
- Determining the fiscal note for wages and benefits should include an assessment of costs at the initial point of development of the negotiating strategy for labor packages. The executive branch, legislative branch and their respective analytical and audit staff should conduct this analysis.
- The County Controller should be involved early in the process of developing the whole package for compensation, at the point of strategy development, to ensure that relevant accounting impacts are considered before negotiations begin.

- Fiscal notes for major wage and benefit legislation should receive additional independent verification.
- Organizational or contractual independence needs to be established for persons employed or engaged to conduct analysis of the entire package of compensation costs. Placing County Board and administrative analysts in the Civil Service System could strengthen independence of staff. Drawing on existing staff resources to create an independent fiscal bureau would enhance independence further.

At a joint meeting of the Finance and Audit and Personnel Committees on March 17, 2003, both the County Executive's proposal for a staff study of the LAB recommendation and the GMC recommendations were considered. The committees recommended that the staff study take place, and that it include consideration of both the LAB and GMC recommendations, with a report back to the County Board and County Executive in July 2003. That recommendation was adopted by the full County Board at its March 2003 meeting [Resolution (File No. 02-503(a)(g))]. The resolution specifically directed the Department of Administrative Services-Fiscal Affairs Division, working with the DAS-Division of Human Resources, DAS-Labor Relations Section, the Audit Department and County Board staff, to study the LAB recommendations to assign DAS responsibility for drafting fiscal notes for proposed changes to the Milwaukee County Employees' Retirement System (for items not requiring actuarial analysis). The resolution further directed that the group establish specific requirements for the contents of a fiscal note, including key assumptions, calculations used in estimates and one-time and ongoing costs. The resolution noted that staff should also consider relevant recommendations made by the GMC Select Committee.

Analysis

LAB acknowledged that resolutions were adopted in January and July of 2002 to strengthen fiscal notes of wage and benefits legislation. In January 2002, a new procedure was adopted (File No. 02-506) calling for fiscal review by DAS, Audit, County Board staff and the Finance and Audit Committee. In July 2002, an adopted resolution (File No. 02-324) called for more useful information in fiscal notes. While both resolutions improved the existing practice, they provided little guidance regarding the specific content for fiscal notes. For instance, including key assumptions, logic, and calculations could enhance content. Nor did the resolutions identify the need to show the full cost of wage and benefit changes (as opposed to the incremental cost for each year) as recommended by the Milwaukee County Department of Audit. Further, one point of contention in the last wage and benefit package was statements that there would be no fiscal effect associated with certain aspects of the proposal. This concern was not addressed in the resolutions. Finally, LAB noted that at least three departments (Administration, Human Resources and Labor Relations) were involved in fiscal analysis for the 2001--2004 wage and benefit proposals. Yet no one agency was charged with the responsibility for ensuring that the fiscal effects were accurate.

As noted above, the GMC Select Committee also addressed fiscal notes as part of its review of the Milwaukee County pension process. In addition to the concerns expressed by LAB, the Select Committee report noted the need for early involvement by the Controller. The Controller's early involvement was seen as beneficial in assessing the accounting impact of negotiation strategies, additional independent verification of major wage and benefit legislation and a greater assurance of independence for County staff involved in analysis of compensation items. With regard to this last point, the Select Committee suggested Civil Service status for such staff and/or the consideration of an independent fiscal bureau.

Fiscal Note Content

In April 2003, the County Board adopted an enhanced approach to the development of fiscal notes for proposed legislation [File No. 02-503 (a)(l)]. This approach includes a new fiscal note form and guidelines, which clarify the need for presentation of long-term impacts as well as underlying assumptions used in the analysis of impacts. With regard to wage and benefit changes, it is essential that the fiscal note include a presentation of all key assumptions and estimates (including actuarial assumptions) used in the analysis. The note should include documentation of calculations used to determine the impact of the proposal. In addition, it is critical that the analysis present ongoing costs in addition to one-time impacts. Further, a disclosure of the 'full cost' of the proposed revisions should be incorporated in the fiscal note.

Responsibility for Preparation and Review of Fiscal Notes

The workgroup's review of the appropriate assignment of fiscal note responsibilities also incorporated a discussion of the timing and process used to provide policy makers with information. We have determined that the best approach to dealing with the concerns of the Select Committee and the Audit Bureau is to charge DAS with the development of fiscal notes prior to, rather than after, the preparation of tentative labor agreements. Under this approach, fiscal information would be available as part of the development of the County's labor negotiation strategy, rather than after a proposed agreement has been negotiated.

Specifically, the DAS Fiscal and Budget Administrator and the Controller should review the fiscal impacts of proposed components of the agreement developed by Human Resources and Labor Relations, and should prepare a fiscal note accordingly. After development of the analysis by these executive branch employees, County Board Research and Audit staff should then review the fiscal note before negotiations begin and before a tentative agreement is formally drafted. The initial costing of the strategy should involve estimates of the impact of negotiating various elements of the compensation package. Recognizing the fluid nature of collective bargaining, the negotiating team should have the flexibility to approach the bargaining process with solid estimates of the cost of the components of the strategy. Using this approach, the County Executive and Personnel Committee would be in a position to move forward with a strategy based on sound fiscal information. All other changes adopted in January 2002, including Finance and Audit Committee review of agreements, would remain in effect.

Independence (External and Internal)

External independence in preparing fiscal analysis of proposed changes to the Employees' Retirement System can be achieved through effective management of the consulting actuary contract. In addition, the Pension Study Commission provides independent review of pension benefit impacts.

In regard to County staff that will be charged with preparing and reviewing fiscal notes, it has been noted that placing these employees in the classified service or creating an independent fiscal bureau could strengthen their independence. Because this matter has impact beyond the issue of wage and benefit fiscal analysis, we believe that it should be the subject of further study. It is important to note that the involvement of Audit staff in reviewing fiscal notes does provide for at least one member of the review team to be protected from potential undue influence by nature of Civil Service protection.

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Conclusions and Recommendations

While there have been a number of enhancements in the process of developing wage and benefit fiscal notes, the GMC Select Committee and the Legislative Audit Bureau have identified other opportunities for improvement. Adoption of the attached revision to County Ordinances will codify these improvements by further clarifying the content of wage and benefit fiscal notes as well as the process and responsibilities of executive and legislative staff for ensuring that timely and accurate fiscal information is provided to policy makers. If there is an interest in changing the classification or organization of staff assigned to conduct fiscal analyses, we recommend further study of the matter.

Terry D. Kocourek
Fiscal and Budget Administrator, Department of Administrative Services

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Director, DAS-Human Resources Division

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Director of Audits

TDK/CM/TH/RH/JJH/cah

Attachment

