

**COUNTY OF MILWAUKEE**  
**Inter-Office Communication**

**Date:** October 24, 2003  
**To:** Milwaukee County Board of Supervisors  
**From:** Jerome J. Heer, Director of Audits  
Steve Cady, Fiscal and Budget Analyst, County Board Staff  
**Subject:** Fiscal Status Update (File No. 03-16) *(Revised)*

**Note:** *An initial version of this memo was released on October 22, 2003 and was an item of discussion at the October 23, 2003 meeting of the Committee on Finance and Audit. Subsequent to discussion of that item, the Milwaukee County Treasurer provided a report to the Committee that increased the Treasurer's estimated deficit for investment earnings by \$400,000. The Treasurer told the Committee that the revised estimate was based on projected investment earnings that had been completed using updated information received earlier that same day. The Committee then requested that the Department of Audit review the new information provided by the Treasurer and update the overall County fiscal status projection contained in Table 1 of this report.*

At its meeting on September 18, 2003, the Committee on Finance and Audit reviewed a report from the Fiscal and Budget Administrator regarding the County-wide fiscal status. Thereafter, the Committee requested that County Board staff and the Department of Audit report back on the numbers provided by the Department of Administrative Services by updating and quantifying the 2003 shortfall anticipated under the corrective action plan implemented by the County Executive to date.

### **Background**

The fiscal status report reviewed by the Committee in September highlighted earlier status reports that projected various budgetary deficits, as well as some offsetting surpluses, for certain departments and non-departmental accounts in April, June, July/August, and updated to include planned corrective actions as of the September 11, 2003 report date. The report identified a net deficit of \$12.09 million as of July/August. After application of available contingent funds and anticipated savings from various corrective action plans already implemented, and additional budget reductions identified in the report, a projected deficit of approximately \$375,000 remained. The report concluded by mentioning that if budgeted land sales were achieved, an additional \$2 million would be available to contribute to sick leave payouts and thus improve the County's 'bottom line' to a positive position. The report was careful to qualify the projections as estimates based on information available at the time, and subject to fluctuation.

### **Analysis**

Accurately portraying Milwaukee County's overall fiscal position at any given time can be challenging because of the diverse nature of the revenues and expenditures that make up the

\$1 billion-plus annual operating budget. Items such as health care costs, number of jail or House of Correction inmates, number of juvenile offenders, or number of golfers, just to name a few, can be anticipated based on experience, but not precisely predicted. Further, the expenses and revenues associated with these items do not necessarily flow in consistent, predictable patterns throughout the year. Consequently, budgets are annual plans that must be monitored regularly by management, with discretionary adjustments made throughout the year to 'manage within the budget' and prevent shortfalls. Contingency funds are set aside each year to add a cushion for unforeseen or uncontrollable variances.

Under state law, any operating deficit or surplus in a given year is generally recognized in the County's budget two years down the road. For instance, the 2004 proposed budget contains a surplus generated in 2002 of about \$4 million. Thus, a surplus of at least \$4 million must be generated in 2003 to prevent a 'hole' going into the 2005 budget year (i.e., the year in which the 2003 deficit/surplus will be recognized).

One aspect of the County's complicated financial picture that can tend to overstate negative budgetary news is the interweaving of some central costs and funding sources throughout departmental budgets. It is important to understand, for instance, that when the County is faced with a State budgetary shortfall of \$1.7 million, that shortfall must only be counted once (either collectively, or dispersed throughout several County departmental budgets, such as the Department of Health and Human Services, the Department of Public Works, etc.).

Another example of this 'ripple effect' is any anticipated shortfall in employee health care funding. In June of this year, a mid-year adjustment of approximately 2% in each department's employee fringe benefit account was made, in part, to 'charge for,' or disperse, an anticipated shortfall of approximately \$3.5 million in the health care account. To the extent this additional fringe benefit charge was included in departmental fiscal status reports, the health care account deficit is not a separate item requiring additional corrective action.

### **Update**

**Table 1** contains an updated list of departments and accounts with their current projected deficit/surplus status. In addition to updating the September 11, 2003 report reviewed by the Committee with information reported by the various departments, we have made several adjustments to previously reported figures to avoid the 'ripple effect' phenomenon described above.

However, it must be noted that we did not contact each of the smaller County departments to verify the manner in which they determined their current projected fiscal status. Without clear understanding of how to address the 'ripple effect' of items such as fringe benefit accounts, the 1% budget reduction corrective action plan instituted in June, and the more recent 20-hour mandatory unpaid time off for most non-represented employees, some departments have incorporated these items in their budget projections, while others have not. While we have attempted to adjust these figures based on our understanding of the manner in which the larger departments made their projections, the degree to which these items are 'clean numbers' at this time is questionable. Variations of this type will tend to diminish as the year comes to a close and final projections are clarified with actual experience.

**Table 1**  
**Projected 2003 Fiscal Status**  
**As of 10/21/03**

<u>Source</u>	<u>Current Deficit(-)/Surplus</u>
DHHS	\$266,000
Sheriff's Department	-\$2,016,000
Deputy Sheriff's Labor Contract	-\$800,000
House of Correction	-\$1,500,000
Courts	\$0
Election Commission	-\$426,000
State Budget	\$0
Health Care Costs	-\$3,000,000
Land Sales	\$0
Investment Earnings	-\$1,595,000
Treasurer-Delinquent Municipal Property Taxes/Investment Advisory Services	-\$330,000
URMS Pension Payment	-\$2,223,000
Register of Deeds	\$1,250,000
State Sales Tax	-\$227,000
State Shared Revenue	-\$850,000
Parks Department	-\$813,500
Zoo	-\$79,000
Potawatomi Revenue	-\$240,000
Froedtert Lease Payment	\$1,300,000
<b>Sub-Total</b>	<b>-\$11,283,500</b>
Less Contingent Fund	\$6,400,000
Note: Includes \$2 million earmarked for sick leave payouts	
Note: Does not show transfers out of Cont. Fund as to identify department deficits	
<b>Projected Shortfall</b>	<b>-\$4,883,500</b>
1% Budget Reduction and Hiring/Purchasing Freeze	\$4,500,000
Note: Adjustment to recognize 'ripple effect' in department figures	-\$1,000,000
Additional Identified Departmental Reductions	\$2,208,271
Mandatory 35-hr. Work Week for Non-Reps (20-hr. reduction)	\$363,280
Note: Adjustment to recognize partial 'ripple effect' (estimated) in departmental figures	-\$181,640
<b>Total After County-wide Corrective Action</b>	<b><u>\$1,006,411</u></b>

## Highlights

Many departments with which we spoke were adamant in their declarations that the figures presented for this update are preliminary third quarter projections and are not definitive fiscal positions based on full and complete information. These qualifications reinforce the concept, raised in the **Analysis** section of this report, that the County's precise fiscal position is difficult to ascertain at any given point in the midst of the fiscal year. With that general qualifier in mind, following are highlights from the latest budget projections provided by selected County departments.

*Department of Health and Human Services:* According to DHHS, a sharp reduction in the number of anticipated juvenile offenders incarcerated in state facilities was an important factor in reducing its earlier reported deficit projection.

*Sheriff's Department:* Savings primarily achieved through layoffs and position vacancies are attributed by the Sheriff's Department for improvement of about \$1 million from previous projections.

*Land Sales:* The Economic Development Division reports that \$2 million in sales will be attained before the closing of the County's 2003 fiscal year.

*Health Care Costs:* This projection is still tentative, but reflects a reduction of \$1.5 million from the September figure, primarily based on projections from the County's Controller, the Department of Audit's review of payment detail and the manner in which accruals for prior year claims are reflected in the County's financial system. Further, some of the anticipated shortfall has already been absorbed in some departments' individual projections.

*Parks Department:* The corrective action plan implemented by the Parks included holding positions vacant, savings from layoffs, reduced purchases of commodities and some deferred maintenance.

## Conclusion

This fiscal status update reflects several changes from the Fiscal and Budget Administrator's September 11 memo, underscoring the dynamic nature of the County's fiscal picture. Indeed, many of the figures included in **Table 1** changed during the course of the last week as this report was being prepared in draft form. It is important to understand that changing circumstances will affect

the 'bottom line,' both positively and negatively, between now and the closing of the County's 2003 books sometime during the Spring of 2004.

The slightly more favorable current projections are a culmination of several things, including some improved revenue streams, savings from a continued hiring freeze and some layoffs, targeted purchasing reductions and other factors. To keep things in proper perspective, it should be noted that a variance of \$1 million in the County's 'bottom line' represents less than one-tenth of one percent of the County's \$1.1 billion adopted budget for 2003.

As noted throughout this report, Milwaukee County's operating budget is large, complex and subject to significant variables that may or may not be controlled. These variables include caseloads, state and federal budgets, economic trends, crime trends, lawsuits, the rate of health care cost increases, and many other factors. Further, even after year-end, audit adjustments alone could be enough to alter the 'bottom line' by several million dollars.

This report is for informational purposes. We recommend the report be received and placed on file.

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Jerome J. Heer, Director of Audits

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Steve Cady, Fiscal and Budget Analyst  
County Board Staff

JJH/SC/cah

cc: Scott Walker, County Executive  
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