

Attachment A: Ten Largest Revenue and Expenditure Account Types and Assumptions

For each account type, the 2011 budgeted amount is presented along with a brief description, the assumption and justification for the assumption. The description of the 10 account types includes a mathematical factor to show the strength of the assumptions being used in the projections. The mathematical factor is shown as “R2” or “regression squared”. A strong correlation was proven if R2 was at least 0.75. The greater the R2 factor, the greater the probability that the assumptions could predict the future financial forecast of the account type.

Revenues

The ten largest revenue accounts are provided below and total \$1.0 billion. This represents 79% of total revenues budgeted in 2011.

Property Taxes – \$ 272,497,874

- Includes all property tax accounts including the delinquent property tax collections budgeted in the Treasurer’s office
- The assumption for growth has been reduced from 3.3% to a 3.1% annual increase
- Annual increase based on strong correlation seen for this account type. Annual increase based on the correlation to actuals from 2005-2009. Mathematical R2 value based on this assumption was 0.96.

CMO Revenue – \$ 263,564,973

- All revenue associated with the Department of Aging Care Management Organization (Fund 2)
- Forecasted to be 100% of expenditures
- Annual increase is completely dependent on growth in expenditures. As an independent fund, which includes reserves for deficits, revenues must equal expenditures. CMO Expenditures are used to forecast this account type and the revenues will track at 100% of expenditures.

Other State Reimbursements – \$ 92,085,758

- The majority of funding in this account type is made up of Other State Grants and Reimbursements (account 2299). \$72.1 million is related to Transit, \$4.8M to the District Attorney and \$4.8M to the Sheriff. It also includes Expressway Patrol and Law Enforcement Training (\$1.3M)
- 0% annual increase
- Annual increase reduced from 1.6% to 0% based on recent history and qualitative assumption about the State budget going forward. When assumptions are reviewed after the introduction of the Governor’s 2011-2013 Biennial Budget, this assumption will likely change.

Airport Revenue – \$ 81,698,002

- All operating revenue associated with airport
- 100% of expenditures per the Master Lease Agreement that went into effect in 2011, and Federal Law prohibiting the diversion of airport revenues to other purposes.
- Annual increase is completely dependent on growth in expenditures. As an enterprise fund, airport revenue must always equal expenditures so the revenue forecast will be based on expenditure projections.

Sales Tax – \$64,426,365

- All revenue related to the County's 0.5% sales tax
- \$1.6 million decrease in 2012 to reflect continued weak economy with and 2.2% annual increase thereafter
- Beginning with the 2011 Adopted Budget model, subsequent years are based on State of Wisconsin Department of Revenue forecasts for personal income, which track strongly to actual sales tax collections.

BHD Health Revenue – \$ 55,992,064

- All revenue related to the provision of behavioral health medical services. The largest accounts include:
 - \$72.9M in account 3713, Patient Revenue from services performed at the hospital facility
 - \$19.8M in account 3714, Patient Revenue from services performed in the residential care facility
 - \$18.8M in account 3722, Title XIX Capitated Revenue (Medicare)
 - \$(60.4) in account 3767 for the write-off of uncollected revenue
- This assumption is changing from a .3% annual increase to no growth due to recent changes in patient reimbursement rates at the State level, in addition to assumed pressure on the State budget.
- As with other account types strongly related to the State budget, this assumption will be revisited after the introduction of the Governor's Biennial Budget.

Other Revenue - \$48,641,169

- This account type includes a wide variety of revenues that do not fit into other account types, many of which are highly volatile from one year to the next. The largest accounts include:
 - \$12.4 million in Medicaid reimbursements for rides provided by Paratransit.
 - \$5.9 million reflecting a contribution from the Reserve for County Bonds in the Debt Service budget.
 - \$3.9 million in cash fares for rides on Paratransit, which are directly remitted to service providers.
 - \$3.2 million reflecting a payment from the Airport for capitalized operating items.
 - \$2.4 million in payments from inmates for Huber and electronic monitoring.
- Due to the volatile and unpredictable nature of these revenues, the assumption is for zero growth.

Other Human Services State Reimbursements – \$ 46,828,555

- Includes all human services state reimbursements that are not directly linked to expenditures. The largest accounts include:
 - \$10.7M, BHD, Special State Grants – MA
 - \$6.5M, BHD, IMD Relocations
 - \$4.0, DHHS, Resource Center
 - \$2.8M, BHD, ATR Grant Voucher
 - \$5.1, Aging (Fund 1), Other State Grants and Reimbursements
- As with other state revenues noted above, this assumption has been changed from increasing at the rate of CPI to zero growth due to State budget pressure.

State Shared Revenue –\$ 39,207,108

- State Shared revenue received from the state
- 2011 increase of \$1,334,907 is based on an indication from the State that the utility payment will increase due to the completion of a new WE Energies power plant in Oak Creek.
- As with all other State revenues, the assumption is no growth in future years, to be revisited upon release of the Biennial Budget.

Basic Community Aids (Basic County Allocation) –\$ 35,349,666

- Basic Community Aids revenue received from the state in BHD and DHHS (account 2221)
- As with other State revenues, the assumption is no growth in future years, to be revisited upon release of the Biennial Budget.

Expenses

The ten largest expenditure accounts are provided below and total \$1.2 billion. This represents 94% of total expenditures budgeted in 2011.

CMO Purchase of Services –\$ 245,711,264

- Represents accounts 8126 and 8127 for the purchase of services for the Care Management Organization's clients.
- 12% annual increase based on average increases from 2007-2009
- No strong assumption factor could be determined given the fluctuating year-to-year actuals. Due to the one-time expansion in 2009 and limited historical data, analysis is limited. We are currently reviewing this forecast assumption with the department, as it appears to be too high. However, as revenues in the model are directly linked to expenditures, this assumption has no countywide levy impact.

Salaries and Wages –\$ 240,251,165

- All salaries and wage expenditures. This does not include any benefit, social security or overtime expenditures.
- In the current version of the model, 2011 and future years are based on certain assumptions related to collective bargaining agreements yet to be finalized. Thereafter assumes an annual 2% salary increase and 1% annual step increase.
- There was a weak correlation (74%) between actual or projected expenditures and number of budgeted FTEs between 2000 and 2010. However, given the position reductions since 2002, utilizing this assumption would require an implicit policy decision of continued FTE decreases. The data also includes two years (2009 and 2010) where there was no cost-of-living adjustment (COLA) and one year with no budgeted step increase (2010). As the model is meant to present the current operations forecasted into the future, it is more accurate for forecasting purposes to rely on the proposed, current and historical labor agreements and forecast off the previous budget year. Any reduction in FTE's or continued elimination of COLAs or step increases should be reflected as a "what-if" scenario as opposed to be included in the base model.

Transit Expenditures – \$173,674,772

- Represents all expenditures incurred by the Milwaukee County Transit System, not including passenger and other revenue abatements.
- Previous versions of the model included transit operating expenditures and revenue abatements in one account type. Analysis shows strong correlations between expenses and revenues with years; however the two are growing at significantly different rates. For improved accuracy, the new model places revenue abatements into its own account type.
- Based on actuals from 1999-2010, a 3% increase is projected in future years.
- Annual increase based on strong correlation seen for this account type. Annual increase was determined utilizing the actuals from 1999 - 2008. The actual expenditures for prior years showed a strong correlation to this expenditure type, as seen by an R2 value of 0.98.

Healthcare –\$ 136,762,457

- Represents all expenditures related to healthcare (revenues are budgeted under a separate account type so that this number represents the gross healthcare spend, while the budgeted amount is a net number that also includes life insurance)
- 9% annual increase based on feedback from the Employee Benefits Division and analysis of health care premium increases in Southeast Wisconsin.
- No strong assumption factor could be determined given the fluctuating year-to-year actuals. Due to significant changes in the management of healthcare benefits at the County, historical actuals were deemed an unreliable predictor of future costs. Instead, the assumption is based on healthcare inflation trends throughout southeast Wisconsin.
- This assumption includes provisions related to collective bargaining agreements yet to be finalized.

County Service Charges – \$112,399,127

- Represents all interdepartmental cross charge expenditures. The budget abatement in the 1930 non-departmental account is included in order to correctly align actuals and budget figures. Abatements are grouped in a separate account type unless the abatement is specifically linked to an expenditure. In that case, the abatement is placed in the relevant account type. For example, the abatement related to the pension obligation bonds which is budgeted so that this expense is not double-counted in the debt service and fringe benefit accounts, is placed in the debt service budget so it increases at the same rate. The true cost of the pension is then reflected in the pension account type.
- County service charges are forecasted to increase at the same rate as salaries and wages.
- No strong assumption factor could be determined. Crosscharges/abatements are largely staff time being charged to other departments so they should change in sync with compensation. However the data is not conclusive and changes in prior years is complicated because of budgeting methodology changes.

Other Purchase of Services – \$ 107,936,237

- All non CMO purchase of services (8100 account series). Typically these accounts are used for the purchase of health and human needs services from external agencies. The largest accounts include:
 - \$37.2M, Wraparound clients services, BHD (8139)
 - \$18.5M, Purchase of Services, DCSD (8123)
 - \$15.8M, Purchase of services, BHD (8164)
 - \$6.9, Purchase of services, ESD (8123)
- No strong assumption factor could be determined given the fluctuating year-to year actuals. CPI is used to forecast this account as no correlation could be established and there were wide fluctuations year-to-year.

Debt – \$ 88,558,095

- Represents all airport and general obligation debt.
- General obligation debt is based on the current debt schedule and is forecasted to grow based on the self-imposed bonding cap. Airport debt is based only on the airport's current debt schedule. DAS Fiscal is currently working with the airport to develop a long-term bonding projection which will then be incorporated into the model. As airport revenues are dependent on airport expenses, this does not distort the model.
- Subsequent years increase/decrease based on known adjustment. The County has a good track record of adhering to debt schedules and maintaining a self-imposed bonding cap so that these figures can be accurately forecasted.

Pension – \$ 58,441,948

- Represents all expenditures related to pension including pension obligation bond debt payments.
- The actuarial projections related to the pension obligation bond issuance were utilized.
- Subsequent years increase/decrease based on known adjustment. Due to the pension obligation bond issuance, pension costs are predictable for the 30-year life of the bonds. An adjustment has been

made in year 5 to account for the refunding anticipated as part of the issuance. These numbers will be adjusted with each new actuarial valuation.

Other Services – \$ 50,885,120

- All service accounts in the 6000 series except for professional services and utilities.
- Wide variety of expenses and volatile nature means no strong assumption factor could be determined given the fluctuating year-to-year actuals. Due to the wide variety of types of services provided in these accounts and wide fluctuations, the consumer price index was utilized.

Professional Services - \$43,628,368

- Represents professional and technical services (especially information technology) in the 6100 series.
- Largest expenses include:
 - \$10M in BHD for a variety of services, including medical services, dietary services and medical records & billing services.
 - \$6.5M in the Office of the Sheriff for a variety of services, mainly including inmate food service and transportation.
 - \$5.9M in the Airport for operation of the Parking structure.
 - \$2.2M in the Information Management Services Division for information technology services.