2019 Budget Update

9/7/18

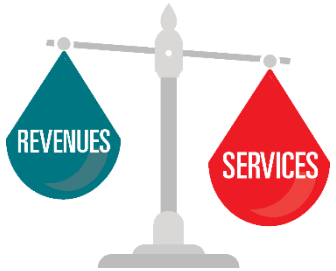
2019 Budget Preview - Agenda

- Initial and Revised Gap Assumptions
- Summary of Revised Assumptions
- Remaining Gap Closing Options
- Long Term Trends
- Need for State Intervention
- Balancing Act Input to Date

2019 Budget – Where We Started

- Initial projections estimated a $23.5 million operating gap
- Gap largely caused by need to increase compensation, fringe benefit costs, and inflationary cost growth
- Revenue growth stagnant and limited by State statutes, not sufficient to keep pace with operating growth

- 2018 capital cash financing was funded at $5.4 million below adopted 20% policy goal
  - $5.4M reflects gap compared to cash financing policy. 2019 cash finance project requests were approximately $25 million higher than 2018 budget



2019 Budget Gap Estimate	
Description	**Early Gap Estimate (May)**
Salaries	$ 6.8
Health Care	$ 5.0
Pension	$ 2.0
Debt Svc	$ 0.5
Operating Cost to Continue	$ 6.6
Restorations	$ 2.6
Liability Insurance	$ 0.6
Seasonal Employees	$ 1.3
Law Enforcement Grant Savings	
MRMC & Water Utility Sale Impact	
Total Expense	**$ 25.4**
Revenue Change - Lost Revenues	
Debt Service	$ 6.6
Parking Fees	$ 1.6
Fire Charge Uncollectible	
Revenue Changes - Increased Revenues	
Property Tax	$ (2.9)
Sales Tax	$ (1.8)
VRF Increase	$ (0.7)
Unclaimed Revenue	$ (1.3)
Other Changes	$ (3.5)
Total Revenue	$ (1.9)
Operating Gap Total	**$ 23.5**
Capital Financing below 20% Policy Goal	$ 5.4
Total Operating & Capital Gap	**$ 28.9**

2019 Updated Gap Estimate

- Estimated 2019 operating gap revised from $23.5 to $17.5 million
- Levy savings are caused by:
  - Fringe benefit estimates have been reduced by $6 million based on updated info from actuaries, Comptroller
  - Liability Insurance costs: Potential cost of $600,000 included in initial estimates is not anticipated for 2019
  - Funding need for conversion of parks & zoo seasonal employees to FTE is $800,000 below initial estimate
  - Law Enforcement Grant expiration savings of $500,000
  - New online sales tax collection adds $1.7 million to 2019 budget
- Savings partially offset by:
  - $800,000 tax levy increase anticipated in relation to sale of MRMC and Water Utility
  - $900,000 tax levy increase to realign Fire Charge revenue budget to actuals
  - $1 million increase in Debt Service tax levy due to reduction in federal funding

2019 Budget Gap Estimate		
Description	**Early Gap Estimate (May)**	**Revised Estimate (Sept)**
Salaries	$ 6.8	$ 6.8
Health Care	$ 5.0	$ 0.8
Pension	$ 2.0	$ 0.2
Debt Svc	$ 0.5	$ 1.5
Operating Cost to Continue	$ 6.6	$ 6.6
Restorations	$ 2.6	$ 2.6
Liability Insurance	$ 0.6	$ -
Seasonal Employees	$ 1.3	$ 0.5
Law Enforcement Grant Savings		$ (0.5)
MRMC & Water Utility Sale Impact		$ 0.8
Total Expense	**$ 25.4**	**$ 19.3**
Revenue Change - Lost Revenues		
Debt Service	$ 6.6	$ 6.6
Parking Fees	$ 1.6	$ 1.6
Fire Charge Uncollectible		$ 0.9
Revenue Changes - Increased Revenues		
Property Tax	$ (2.9)	$ (2.9)
Sales Tax	$ (1.8)	$ (3.1)
VRF Increase	$ (0.7)	$ (0.7)
Unclaimed Revenue	$ (1.3)	$ (1.3)
Other Changes	$ (3.5)	$ (2.9)
Total Revenue	$ (1.9)	$ (1.8)
Operating Gap Total	**$ 23.5**	**$ 17.5**
Capital Financing below 20% Policy Goal	$ 5.4	$ 5.4
Total Operating & Capital Gap	**$ 28.9**	**$ 22.9**

Health Care Projection Update

- Health Care budget growth estimate reduced from $5.0 million to $0.8 million
- Expenditure volatility experienced in health care sector
- Actuarial growth estimates have ranged from 6% to 8% on medical costs
- More recent trends for Milwaukee County reflect approximately 3% growth in actual expenses
- As a result of lower than anticipated expense growth, budget surplus is expected in 2018. For 2019, expenses projected to be relatively flat compared to 2018 budget
- County Health Care Actuary attributes lower than expected growth rates to a combination of factors:
  - Wellness program savings
  - United Health Care provider changes
  - Affordable Care Act increased access to care impacting overall market costs
  - Reduction in catastrophic cases
  - Reduction in average age of employees
  - Pharmacy payments being reimbursed faster (cash flow improvement)
- Despite these experiences, actuary maintains approximately 7% medical growth factor for future years based on industry averages

Pension Update

- Updated 2019 pension projection reduced from $2.0 million to approximately $0.2 million based on actuarial valuation reports
- High investment rate of return of 15.6% achieved in 2017 results in lower payment to the pension fund for 2019
- Doyne/URMS pension payment projected to be $1.06 million in 2019 compared to 2018 budget of $531,000
  - Actual Doyne pension expenses are reduced from $2.3 million in 2017
- Despite flattening of costs in 2019, pension expenses are expected to grow in 2020 and beyond
  - Revised rate of return assumption from 7.75% at present to 7.5% in 2020 costs $4.5 million
  - Investment returns volatility: i.e. ERS data indicates 2018 investment return rate of 1% through June

Milwaukee County Law Enforcement Grant

- Expiration of Law Enforcement Grant payment to City of Milwaukee results in $500,000 savings
- Since 2013, grant distributed to the City of Milwaukee Police Department for handling of 9-1-1 cellular service calls within the borders of the City
  - Initial term was for three years from 2013 through 2015
  - One, two-year extension was authorized for 2016 - 2017
  - County elected to extend payment an additional year, past expiration, through Jan 1, 2018
- OEM Director has communicated to the City of Milwaukee that there will be $0 allocated for 2019
- Today, the City is staffed to manage and lead their 9-1-1 cellular calls
- Today, the County is staffed to manage and lead 9-1-1 cellular calls within its jurisdiction (i.e. highways, County parks)

Property Tax Summary

- Property tax growth from net new construction estimated at $2.9 million
- While revenue growth projections remain at $2.9 million, $1.6 million is shifted to a separate Personal Property Aid instituted by State in 2017 Act 59
  - $1.3 million for Property Tax
  - $1.6 million for Personal Property Aid
- State Personal Property Aid: Included in 2017 Act 59, municipal and county levy limits were reduced by the amount equal to an inaugural 2019 Personal Property Aid distribution to compensate local governments for an exemption to personal property tax of machinery, tools and patterns. The Wisconsin Department of Revenue estimates the payment to Milwaukee County at $1,616,781.
- In addition to net new construction, there is $646,000 of property tax carryforward available, under State Statute 66.0602 (3) (fm). The carryforward dates back to 2016 and is available in 2019 and/or 2020
- Recommended budget expected to include an amount for net new construction / personal property aid, but not for carryforward

Sales Tax Update

- Sales tax growth estimate has been revised from $1.8 million to $3.1 million
- Increase is due to new collection of online sales taxes in Wisconsin, as a result of South Dakota vs Wayfair decision.
- State has confirmed online collections will begin in October 2018
- $3.1 million growth estimate for 2019 includes:
  - $1.4 million base growth of approximately 2% on sales tax collections
  - $1.7 million increase for online sales tax collection. Estimate provided by State

Remaining Gap

- After accounting for the aforementioned changes, operating gap of $17.5 million remains for 2019
- Capital cash financing remains $5.4 million below 20% policy goal
- Additional levy savings options being considered to close the gap:

Additional Options	Amount
Requiring Dept's to Absorb Inflationary Cost Increases	$6.6
Department Levy Reduction Targets	$7.5
Adjustment to V&T Assumptions	$1.0
Debt Service Reserve Withdrawal	TBD
Additional Revenue	TBD

Levy Reduction Targets

2019 BUDGET TAX LEVY REDUCTION TARGETS: 1.1% of TOTAL BUDGET							
County Executive Cabinet Departments			Elected Departments			Excluded Departments	
Agency		Reduction	Agency		Reduction	Agency	Reduction
102	CEX - Vets	$ (2,173)	200	Courts	$ (293,394)	*Revenue Departments:*	
103	CEX - Gov Affairs	$ (2,447)	290	Courts Pre-Trial	$ (54,384)	504 DOT-Airport	$ -
109	OAAA	$ (6,934)	340	ROD	$ (17,894)	580 DOT-Directors	$ -
112	PRB	$ (3,072)	370	Comptroller	$ (46,464)	530 DOT-Fleet	$ -
113	Corp Counsel	$ (11,475)	450	DA	$ (124,680)	510 DOT-Highway	$ -
114	Human Resources	$ (58,962)	400	Sheriff	$ (501,198)	550 DAS-Utility	$ -
115	DAS	$ (407,242)				243 Child Support	$ -
430	HOC	$ (495,421)					
480	OEM	$ (79,483)				*Elected Offices with Limited Staff:*	
490	Medical Examiner	$ (43,726)				110 CEX - General	$ -
560	DOT-Transit	$ (1,341,389)				100 County Board	$ -
630	DHHS-BHD	$ (2,121,974)				309 Treasurer	$ -
800	DHHS	$ (1,017,111)				327 Clerk	$ -
790	Aging	$ (184,405)					
900	Parks	$ (384,945)				*High Risk Areas:*	$ -
950	Zoo	$ (176,576)				116 DAS-IMSD	$ -
	Culturals	$ (105,901)				117 DAS-Risk	$ -
						301 Election Commission	$ -
Total Cabinet Depts		$ (6,443,235)	Total Elected Depts		$ (1,038,012)	Excluded Depts	$ -
GRAND TOTAL							$ (7,500,000)

Department Requests

- All cabinet level departments submitted requested budgets which comply with levy target instructions.
  - $6.4 million levy reduction target savings
  - $4.0 million estimated cost-to-continue savings by requiring departments to absorb inflationary cost increases
- Most elected departments did not participate in levy target savings during the requested budget phase
  - Requests from Courts, Sheriff, DA, Comptroller, and Clerk exceeded levy target memo instructions
  - Register of Deeds and Treasurer's Office both exceeded the levy target

Questions & Input?

Long Term Trends

- Comptroller 2019 – 2023 forecast projects a $16.8 million gap in 2019 will increase to $79.7 million by 2023
- Forecast draws similar conclusion as in past years
- Expenditures grow by average of 2.3% while revenues grow by 0.9%, resulting in a structural deficit

Year	Expenditure	Revenue	Structural Deficit	Cost-to-Continue*
2018	$ 1,056,556,396	$ 1,056,556,396	$ -	
2019	$ 1,076,871,733	$ 1,060,056,855	$ (16,814,878)	$ (16,814,878)
2020	$ 1,105,079,570	$ 1,071,217,035	$ (33,862,535)	$ (10,475,548)
2021	$ 1,130,542,394	$ 1,077,257,807	$ (53,284,587)	$ (10,366,194)
2022	$ 1,157,052,901	$ 1,089,885,022	$ (67,167,879)	$ (13,883,292)
2023	$ 1,183,483,449	$ 1,103,716,485	$ (79,766,964)	$ (12,599,085)
			Average Gap:	$ (12,827,799)

*Cost-to-continue assumes that the prior year gap was eliminated with long-term solutions.

*For 2020, the increase in pension contribution of $6.6 million is considered an outlier and removed from cost-to-continue.

*For 2021, the loss of $9.0 million in Doyne Hospital revenue is considered an outlier and removed from cost-to-continue.

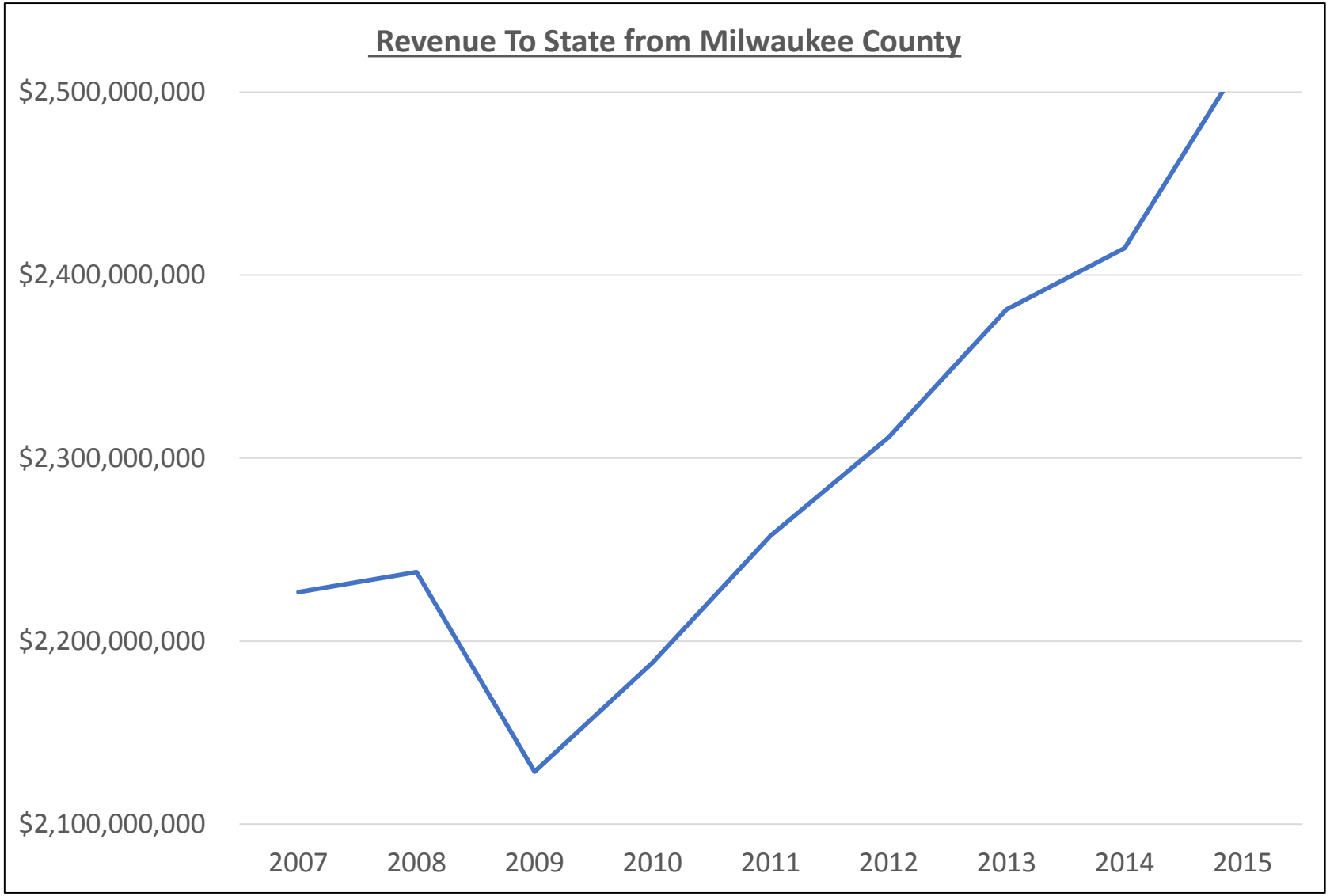
Long Term Trends

- **Pension Rate of Return:** Revising the pension rate of return assumption from 7.75% to 7.5% in 2020 is estimated to cost $4.5 million.
- **Doyne Revenue:** In 2021, the County will lose $9 million in revenue from the sale of the Doyne hospital
- **Debt Service Reserve:** The County's Debt Service Reserve (DSR) is currently funded at approximately $27 million. While DSR has been used to balance the budget in previous years, this is not a viable ongoing funding source, particularly as County surpluses have diminished
- **Diminished Surplus:** 2017 year end surplus was $4.8 million, which is below an on-going budget assumption of $5 million surplus. Surplus needs to exceed $5 million to add to the debt reserve.
- **Health Care and Pension:** Cost growth expected to continue in future
  - Flattening of budget in 2019 expected to be a one-time savings
  - Health Care expenses are volatile and actuaries continue to project 7% growth in future years based on industry experience
  - Pension expenses impacted by rate of return which is also volatile

Need for State Intervention

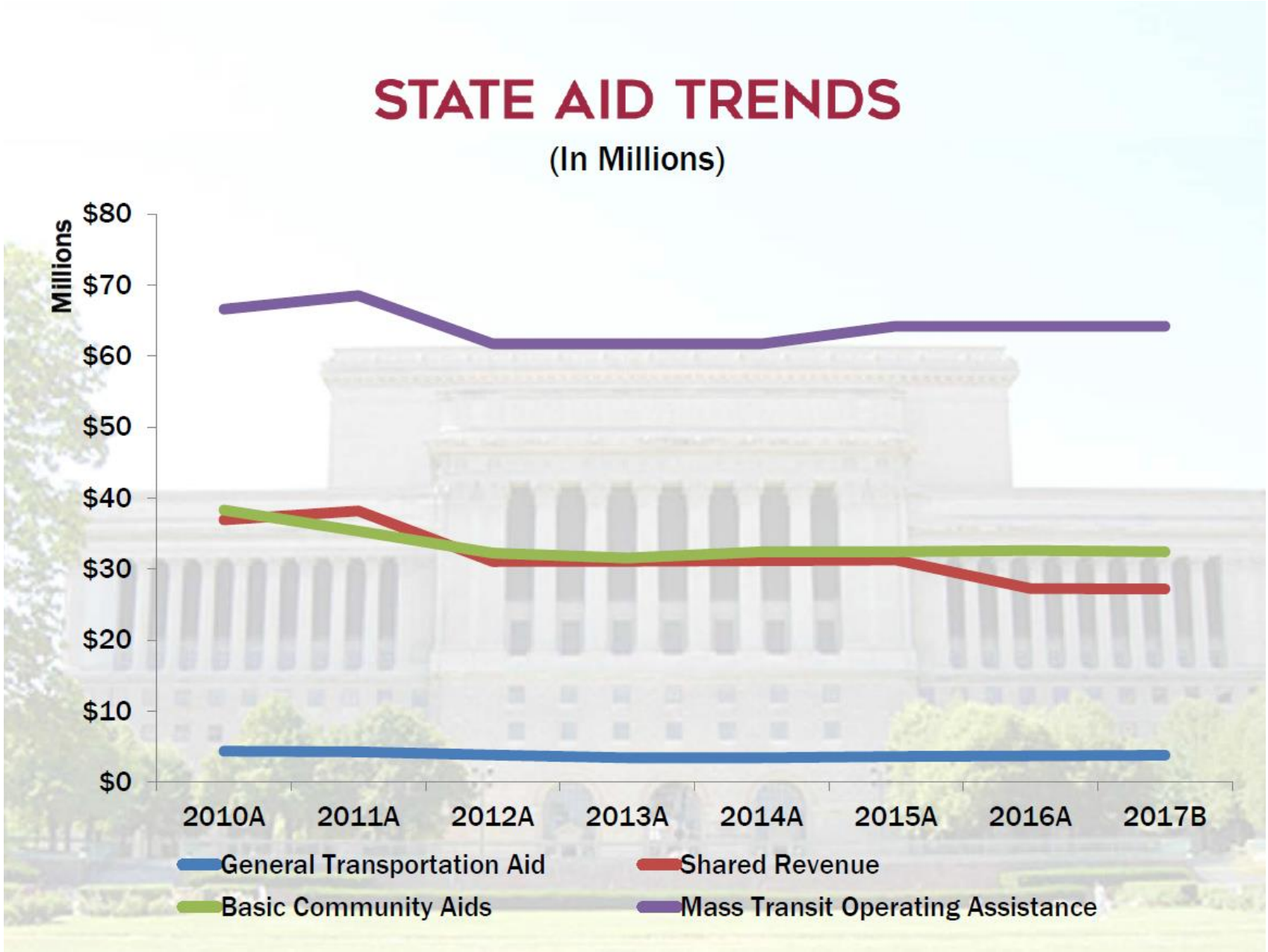
- Average revenue growth of less than 1% is not sustainable for the County
- Local revenue collections are limited by State caps
  - Property tax growth limited to net new construction
  - Sales tax limited to 0.5%
  - Vehicle Registration Fee is the only authorized revenue tool of significance which the County has not maxed out for operating budget support
    - Increasing VRF from $30 to $60 would add $17 million to be used for transportation purposes only
- State funding for State mandated services has remained flat for several years and in some instances has been reduced
  - State shared revenue
  - Mass Transit Operating Assistance
  - Basic Community Aids
- While money coming from the State to the County has been flat and reduced, funding sent from Milwaukee County to the State is increasing
  - $2.1 billion in 2009
  - $2.5 billion in 2015

Need for State Intervention



Source: Chart created by Milwaukee County Department of Administrative Services, from data in Wisconsin Department of Revenue, "State Taxes & Aids By Municipality and County For Calendar Year 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015,

Need for State Intervention



Need for State Intervention

Summary Of Taxing Authority in Wisconsin							
	State	County	City	Exposition District	Premier Resort	School District	MMSD
Income Tax	71.02(1)						
Sales Tax	77.52(1), (2)	77.7					
Property Tax - Operations		59.07(5), 61.46	59.07(5), 61.46			119.46	66.91(6)
Property Tax - Debt		Const. Art XI 3(3)				119.46	66.91(6)
VRF		341.35(1)	341.35(1)				
Hotel Tax			66.75(1)	66.75(1)			
Food & Beverage				77.98			
Car Rental				77.99			
Premier Resort					66.1113(1) (d)		
Franchise on Cable			66.082(3)(c)				
Trust & Estate	71.02, 72.02						
Partnership Tax	71.19						
Corporate Tax	71.23						
S- Corp	71.32						
Utility	76.13						
Urban Transit	71.37						
Insurance	71.43(1)						
Franchise	71.23(2)						
Cropland	77.06(5)						
Recycling	77.93						
Liquor	139.03						
Tobacco	139.76(1)						
Bingo	563.8						

Balancing Act - Feedback

- 600 Balancing Act completions to date (almost 3X last year's total)
- To balance the budget, the average submission includes $10.9 million of added revenues and $12.7 million of expense reductions

Revenue			
Category Name	Avg Decrease Amount	Avg Increase Amount	Avg Percent Change
Vehicle Registration Fee	$ 1,042,857.00	$ 7,255,102.00	46.70%
Property Tax	$ 147,564.00	$ 2,581,964.00	0.79%
Reserves - Debt Service	$ -	$ 1,001,667.00	0.00%
GO Pass	$ -	$ 73,500.00	0.00%

Mandated Services			
Subcategory Name	Avg Decrease Amount	Avg Increase Amount	Avg Percent Change
Health & Human Services	$ 3,132,305	$ 390,670	-0.87%
Administration	$ 938,380	$ 4,084	-1.29%
Public Safety	$ 803,438	$ 914,156	-0.15%
Courts & Judiciary	$ 424,297	$ 92,379	-0.70%
Transportation (Highways)	$ 183,158	$ 214,052	-0.19%
General Government	$ 49,339	$ 3,743	-0.58%
Legislative & Executive	$ 25,319	$ 7,176	-1.01%

Non- Mandated Services			
Subcategory Name	Avg Decrease Amount	Avg Increase Amount	Avg Percent Change
Transportation - Fixed Route	$ 3,206,022	$ 322,289	-2.74%
Parks	$ 1,565,186	$ 371,428	-4.04%
Cultural Contributions	$ 440,341	$ 12,069	-5.85%
Transportation - Paratransit	$ 368,708	$ -	-2.16%
Parks - Aquatics	$ 342,114	$ -	-18.01%
Human Resources	$ 247,972	$ 14,500	-33.01%
Health & Human Services	$ 220,470	$ -	-24.50%
Department on Aging - Sr. Center Programs	$ 194,444	$ 12,219	-14.64%
Administration	$ 173,357	$ 23,023	-51.82%
Parks Maintenance	$ 164,973	$ 244,241	1.02%
Office on African American Affairs	$ 141,468	$ 5,458	-22.62%
UW Extension	$ 79,974	$ 4,164	-15.03%

Questions & Input?