

DRAFT

Milwaukee County Strategies for Fiscal Sustainability

Introduction

Milwaukee County is an economically health community. The County has a diverse economy, high levels of educational achievement and low rates of unemployment. Milwaukee is home to many innovative businesses and a hard-working and talented workforce.

Unfortunately, Milwaukee County government is not a fiscally healthy organization. Costs are increasing more rapidly than revenues creating a structural budget gap that grows each year. Increases in pension and benefit costs and the current economic downturn are the primary drivers pushing the County's projected budget gap to between \$60 million and \$70 million for 2010. Pension contributions alone are expected to increase by approximately \$50 million annually over the next five years.

While these numbers are daunting, the fiscal challenges facing Milwaukee County are not without solutions. Milwaukee County can achieve fiscal sustainability. However achieving fiscal sustainability will require significant changes to the way that the County compensates employees, the way the County delivers services, the way the County uses its assets and the way the County manages its budget.

Employee Pay and Benefits Reform

Wages and benefits comprise XX% of the County budget. The cost of benefits in particular are growing at an alarming rate. The cost of benefits increased by \$73 million from 2003 to 2007 and if no action is taken will likely continue to grow at that rate or higher over the next five years. As a result, the County will not be able to achieve fiscal sustainability without reforming employee pay and benefits.

Milwaukee County must modernize paid time off policies to reduce the cost of employee sick leave usage, replace the automatic "step" system with performance based pay system and end the practice of paying overtime to employees not covered under the Fair Labor Standards Act. In addition employees should begin paying a fixed percentage of employee health care costs so that County employees have a real stake in efforts to reduce health care expenditures.

Another key change necessary to achieve fiscal sustainability is the reform of County pension benefits. While the benefits related to the 2002 pension scandal have been rolled back to the extent legally possible, additional pension benefit changes are necessary. Unlike most public sector employers, Milwaukee County employees make no contribution toward their pension. This must change and employees must begin paying their fair share. In addition the existing pension plan is flawed in that all risk is born by County government and ultimately the taxpayer. Therefore I am directing staff to recommend modifications to County pension benefits, within legal restrictions, that provides County employees with a fair and affordable pension package.

Service Delivery Reform

Concessions from County bargaining units may reduce the need to change the way the County delivers services. To a great extent, the ability of the County to continue to provide some current services will depend on the willingness of County employee to accept more sustainable pay and benefit packages. In the absence of adequate concessions, the County will be forced to rely on several alternative approaches to reforming the way that services are delivered.

Privatization

The County must move to the privatize functions such as fleet maintenance, housekeeping and security and golf course operation. Private sector companies can reduce the cost of these

functions through lower cost employee wage and benefit packages, economies of scale for major software or equipment purchases and the application of specialized knowledge and expertise.

Elimination of Non-Core Services

Most of the revenues collected by the County are used to fulfill legal mandates set by the State of Wisconsin or to provide services essential to the health and safety of Milwaukee County residents. After every effort is made to reduce the costs of the services the County provides, there may still not be adequate funding to continue to provide some of the non-mandatory services the County currently provides. While the elimination of these services will not be popular, County government simply cannot commit to providing services beyond the ability and willingness of taxpayers to provide funding for those services. If a more cost-effective method of delivering service cannot be achieved it is time to identify and eliminate lower priority, non-mandated services.

Regional Cooperation

Milwaukee County must work with neighboring communities to better align the cost, improve the efficiency and increase the benefit of services. For example, Milwaukee County is responsible for maintaining the interstate highways within its boundaries; however, I-94 does not begin and end in Milwaukee County. A regional approach to plowing, patrolling and patching might be able to achieve significant economies of scale in service delivery. Similarly, institutions such as the Zoo, the Marcus Theater and the other cultural facilities that are located in Milwaukee County benefit the entire region. Improved coordination of these types of facilities can reduce their overall costs while enhancing their value to the entire region. The best means for providing and supporting some services may transcend geographic or political boundaries and the County should explore such opportunities with neighboring jurisdictions.

Use of County Assets

The County is fortunate to own hundreds of millions of dollars worth of real estate and facilities. The County can leverage the value of these assets to help close its long-term structural deficit. By developing and enforcing countywide space standards and consolidating county staff into the lowest value and lowest cost space available the County can free up real estate and facilities for sale or lease. The proceeds from these potential sales or leases should be used, not for one-time benefits, but to help close the County's structural deficit by using the proceeds to defease debt, fund unfunded pension liabilities or address deferred capital maintenance needs.

This strategy holds great potential for bringing fiscal stability to the County. Based on the long-term lease of Midway Airport by the City of Chicago, General Mitchell Airport appears to hold the potential to provide hundreds of millions of dollars in net proceeds that could make significant headway achieving fiscal stability.

Budget Process Reform

The County must also reform the budget process. Important steps towards a better budget process, including the development of a financial forecasting system and improvements to the County's capital planning process, are already underway. In addition the County should complete a comprehensive review of financial policies and practices focusing on the establishment of a rainy day fund, developing a sustainable policy for the use of one-time revenues and improving the grant approval process. The County must also modify the method for budgeting for legacy benefit costs to ensure that the true costs of policy decisions are transparent to citizens and elected officials. Finally, the County should implement a performance measurement system to ensure that County departments are providing the quality services that citizens and elected officials expect.