

County Executive Scott Walker's

Financial Reform

Strategies for Fiscal Sustainability

March 2009

Introduction

In 2006, County Executive Scott Walker embarked on his *Reality Tour* to warn the community about the financial challenges on the horizon. In response, the Greater Milwaukee Committee created a task force on Milwaukee County finances. Later, the state also created a task force.

Eventually, the County Board passed some of the reforms proposed by the County Executive and the two task forces. Other reforms failed to receive approval from a majority of the Supervisors.

Recently, the Public Policy Forum updated information about the concerns raised on the *Reality Tour*. Researchers reviewed information provided by the county and outlined a series of long-term financial challenges.

Costs for Milwaukee County are increasing more rapidly than revenues. Increases in pension and benefit costs and the current economic downturn are the primary drivers pushing the gap between these costs and the normal costs to continue to a range of \$60 million to \$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. County Executive Walker believes that the County can achieve fiscal sustainability. To do so 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.

County Executive Scott Walker has a plan for financial reform. His vision is described in the Strategies for Fiscal Sustainability. His proposal will be the basis for the 2010 budget.

Employee Pay and Benefits Reform

Wages and benefits comprise XX% of the County budget. In particular, the cost of benefits is growing at an alarming rate. From 2003 to 2007, the cost of benefits increased by \$73 million. If no action is taken, these costs will likely continue to grow at that rate or higher over the next five years. As a result, the County cannot achieve fiscal sustainability without reforming employee pay and benefits.

Milwaukee County must 1) modernize paid time off policies to reduce the cost of employee sick leave usage, 2) replace the automatic "step" system with performance based pay system and 3) 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 2000 pension benefits vote 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 should 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).

With this in mind, the County Executive is directing staff to recommend modifications to County pension benefits that provide County employees with a fair and affordable pension package yet allows the County to remain fiscally solvent and protects local taxpayers. Items for consideration shall include extending the years of service and age needed to retire, reducing the size of the multiplier and moving from a defined benefit (traditional pension) to a combined benefit (401(k) system).

Service Delivery Reform

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

Privatization

The County must move to the contract out functions such as fleet maintenance, housekeeping and security, highway operations, parks maintenance and golf course operations. Private sector companies or organizations can reduce the price 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.

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 – like the farm and fish hatchery or overmatches to state programs.

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 interstate highways and county-trunk within its boundaries; however, I-94 does not begin and end in Milwaukee County and county-trunk roads travel through many municipalities. A regional approach to plowing, patrolling and patching might be able to achieve significant economies of scale in service delivery. The County should bid out this work on a regional basis.

Similarly, institutions such as the Zoo 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.

Currently, the Zoological Society of Milwaukee has a membership of residents from throughout southeastern Wisconsin. The County should expand the relationship with the society and work to incorporate the regional support of the zoo into daily operations.

Similarly, the County owns the Marcus Center for the Performing Arts building and is one of the largest financial supporters. The Wisconsin Center District owns and operates the Milwaukee Theater. Since the two venues are already sharing services, the County should pursue an agreement for the WCD to operate the Marcus Center.

And the County owns the structures holding the exhibits for the Milwaukee Public Museum (MPM), the Villa Terrace Museum and the Charles Allis Museum. The County is also a major funding source for all three institutions. The boards of Villa Terrace and Charles Allis should contract with MPM for operations of these facilities.

Even the training of paramedics through the EMS system should be reviewed. Currently, County staff train paramedics who are employees of municipal fire departments across the county. The Milwaukee Area Technical College (MATC) also provides training within the county for paramedics. In the future, MATC staff should do training.

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 – or get out of existing leases throughout the county.

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 reduce debt, fund unfunded pension liabilities or address deferred capital maintenance needs. This strategy holds great potential for bringing fiscal stability to the County.

The County should also pursue a lease for the operations of its largest asset – General Mitchell International Airport. Based on winning bid last fall for the long-term lease of Midway Airport by the City of Chicago, Mitchell appears to hold the potential to provide hundreds of millions of dollars in net proceeds.

These proceeds from a long-term lease agreement could be used to buy down debt. The reduction in debt service payments can then be used to free up tax levy to be used as a stable funding source for the Milwaukee County Transit System.

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 the County's capital planning process are already underway.

The County should also complete a comprehensive review financial policies and practices focusing on 1) establishing of a rainy day fund, 2) developing a sustainable policy for the use of one-time revenues and 3) improving the grant approval process. In addition, the County must 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.

Conclusion

To prepare for the 2010 budget and to pave the way for fiscal sustainability for Milwaukee County in the years to come, County Executive Scott Walker is promoting these financial reforms:

- Employee Pay and Benefits
- Service Delivery
- Use of County Assets
- Overall Budget Process

Once enacted, these reforms will put the County on firm financial standing and provide a brighter future for generations to come.

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