

COUNTY OF MILWAUKEE
Inter-Office Communication

Date: July 19, 2024

To: Marcelia Nicholson, Chair, Milwaukee County Board of Supervisors

From: Joe Lamers, Director, Office of Strategy, Budget and Performance

Subject: 2024 Year End Deficit Projection (SBP Report)

File Type: Informational Report

BACKGROUND

The most recently updated 2024 year-end fiscal projection for Milwaukee County, prepared by the Office of the Comptroller in July 2024, is estimating a deficit of approximately \$9 million. This report provides background on factors leading to the deficit, as well as options that are being explored to offset the deficit. As a follow up to this informational report, the Office of Strategy, Budget and Performance (SBP) is planning to submit an action report in the September reporting cycle with a proposed resolution to close the deficit.

The 2024 deficit projection is primarily driven by the following departmental areas:

- The Sheriff's Office is projecting a \$7.1 million deficit. Overtime spending is the primary factor contributing to this deficit.
- The Community Reintegration Center (CRC) projects a \$4.6 million deficit due to multiple factors, including the new contract that was awarded for food service provision across county corrections facilities (\$2.1M); a reduction in placements at the CRC from the State of Wisconsin Department of Corrections and a corresponding reduction in revenues (\$0.8M); and salary and overtime spending in the CRC is approximately \$1.6 million over budget. The CRC has attributed this salary spending to an increase in their daily population and a need to open additional dormitories.
- The Parks Department is currently projecting a \$0.9 million deficit for 2024. Recreational programming has returned to pre-pandemic levels resulting in increased seasonal spending and other costs. While the Parks Department collects revenues to offset costs of services, these revenues are not currently estimated to cover all the additional expenses.
- The fringe benefits budget has a \$2.2 million projected deficit primarily due to increased health care and drug costs, which are also influenced by an increase in utilization given that the number of on-board staff at the County has increased in the past year.
- Non-departmental revenues are projected to be in deficit by \$2.5 million in 2024. The State of Wisconsin baseball stadium district legislation passed in 2023 will result in a shared revenue reduction of \$2.5 million in 2024. While the legislation included revenue changes that can offset the impact of this reduction, it was passed after adoption of the 2024 budget and was therefore not previously accounted for. Revenue changes in the legislation include a 1% reduction in the State's sales tax administration fee, and the

option to utilize the 0.4% sales tax to pay for the normal costs of the County's Employee Retirement System.

- Surpluses across other functional areas, combined with the above-mentioned deficits, result in a net deficit of approximately \$9 million. Additional details are available in the Comptroller's monthly fiscal report, as well as within department deficit reports from the Office of the Sheriff and the CRC.

DEFICIT MITIGATION

The Office of Strategy, Budget and Performance (SBP) is currently reviewing options to close the 2024 deficit with the Office of the County Executive and departments. SBP is planning to submit a report and resolution in the September cycle with proposed actions to close the deficit. Options being reviewed include but are not limited to the items listed below.

Adjustment to One-time Funding Items in 2024 Budget

The 2024 budget included over \$10.5 million of one-time allocations in the operating budget. In addition, the 2024 budget included \$26.4 million of cash financing for capital projects, which significantly exceeded the county's 20% cash financing goal of approximately \$11M in 2024. The 2024 budget included these increased one-time investments with the understanding that the County would face structural deficit challenges again in 2025 and future years. Given the updated fiscal projection for 2024, these allocations are being re-reviewed for potential reductions or scaling back on spending to offset the projected deficit.

ARPA Reallocations

Milwaukee County received a \$183 million allocation of American Rescue Plan Act (APRA) State and Local Fiscal Recovery Funds. These funds have been fully allocated across 73 projects. ARPA deadlines are approaching as all funds must be fully obligated by the end of 2024 and fully expended by the end of 2026. SBP is currently reviewing the status of all projects and considering reallocation recommendations for the September cycle. There are some projects that have potential surpluses and there may be options to scale back spending on other projects. In these instances, it is anticipated that surplus ARPA funds will be proposed for reallocated to offset the County's 2024 deficit, rather than being redirected to new or increased project allocations.

Reallocation of 2023 year-end surplus

The County is preliminarily projecting a 2023 year-end surplus of approximately \$30 million. This is a preliminary estimate which is subject to change pending final year-end closeout results. A portion of this surplus may be proposed for reallocation to close the 2024 deficit, via a transfer from the Debt Service Reserve.

Parks Department Deficit

Regarding the \$0.9 million deficit in the Parks Department, unless the above-mentioned funding sources can be allocated to increasing the Parks budget, there will be a need to close recreational amenities earlier in the year and reduce seasonal or other spending accordingly.

Health Care / Prescription Drug Spending

The Benefits Division is pursuing options with the county health care broker to reduce prescription drug costs, including an increase in the utilization of generic drugs where applicable, and an increase in the amount of prescription drugs which are eligible for rebates. These and other changes have the potential to offset a projected health care budget deficit.

Department Projections

Departments are being asked to take an especially close review of their spending projections for the September fiscal report to identify savings and to begin reporting out on any anticipated surpluses.

Overtime Spending Reductions

Overtime spending in the Office of the Sheriff and the Community Reintegration Center (CRC) is the largest factor contributing to the 2024 deficit. Both departments have experienced increases in hiring and on-board staffing in 2024. The 2024 and prior year budgets included compensation increases for Correction Officers, Deputy Sheriffs, and other staff with the intent of increasing recruitment and retention and reducing overtime spending. Correction Officer pay increased by over 13% and to a minimum of \$30 per hour in the 2024 budget. These changes have had a noticeable impact on staffing levels as the number of on-board staff in the Office of the Sheriff have increased by approximately 53 or 9.3% in the past year (July 2023 to July 2024), and on-board staff in the CRC have increased by 71 or 23% in the past year.

While hiring levels have increased across these departments, a corresponding reduction in overtime spending has not yet occurred. Overtime spending and hours in the Office of the Sheriff are on pace to increase in 2024. Overtime spending in the CRC is on pace to increase while hours are on pace to decrease by approximately 5%.

The departments attribute this to factors such as the time it takes to train new employees, increases in the daily population census at the CRC, and other factors. As staffing level increases are sustained, it is anticipated that overtime spending reductions should occur.

The following chart shows a history of staffing levels and overtime utilization across the Sheriff's Office and the CRC. Below the chart are relevant notes regarding the data.

| Office of the Sheriff Position/Overtime History | | | | | | |
|---|-----------------|-------------|--------------|------------------------|-----------------------|----------------|
| Year | Filled Deputies | Filled CO's | Filled Other | Total Filled Positions | Total Actual Overtime | Total OT Hours |
| 2018 | 259 | 253 | 151 | 663 | \$ 7,767,409 | 243,468 |
| 2019 | 262 | 196 | 147 | 605 | \$ 9,836,761 | 304,267 |
| 2020 | 259 | 210 | 154 | 623 | \$ 7,797,954 | NA |
| 2021 | 244 | 195 | 151 | 590 | \$ 8,016,217 | 205,995 |
| 2022 | 258 | 128 | 137 | 523 | \$ 10,479,612 | 246,824 |
| 2023 | 255 | 144 | 165 | 564 | \$ 13,664,436 | 271,544 |
| 2024 Prorated | 237 | 197 | 183 | 617 | \$ 13,636,733 | 286,942 |

| CRC Position/Overtime History | | | | | |
|-------------------------------|-------------|--------------|------------------------|-----------------------|----------------|
| Year | Filled CO's | Filled Other | Total Filled Positions | Total Actual Overtime | Total OT Hours |
| 2018 | 253 | 151 | 404 | \$ 4,241,550 | 143,308 |
| 2019 | 196 | 147 | 343 | \$ 3,624,112 | 118,899 |
| 2020 | 210 | 154 | 364 | \$ 2,388,504 | NA |
| 2021 | 195 | 151 | 346 | \$ 2,682,320 | 78,495 |
| 2022 | 128 | 137 | 265 | \$ 4,092,875 | 106,081 |
| 2023 | 144 | 165 | 309 | \$ 4,008,085 | 109,603 |
| 2024 Prorated | 197 | 183 | 380 | \$ 4,493,459 | 103,660 |

Notes on Position & OT Data

- Positions reflect filled positions as of pay period closest to July 1 for each year
- 2024 is prorated based on 14 pay period average multiplied by 26
- Data is from finance/payroll systems

RECOMMENDATION:

The report is informational only and there is no fiscal impact. An action item and report is planned to be presented in the next cycle with proposed actions to close the 2024 deficit.

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