



## REPORT

LEGISLATIVE REFERENCE BUREAU

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# 7. Treasurer's Office, 2014

**Proposed Plan and Executive Budget Review**

## 7. Treasurer's Office

### I. EXECUTIVE SUMMARY.

**Table 7.1. Statement of Changes in Operating Budget, 2013 to 2014.**

|                      |             |
|----------------------|-------------|
| 2012 Actual Spending | \$2,999,418 |
| 2013 Adopted Budget  | \$2,877,619 |
|                      |             |
| Changes              |             |
| Personnel Costs      |             |
| Salaries & Wages     | (\$1,655)   |
| Fringe Benefits      | (\$14,518)  |
| Total Changes        | (\$16,173)  |
| Operating Expenses   | (\$23,202)  |
| Equipment Purchases  | \$0         |
| Special Funds        | \$0         |
| Total Changes        | (\$23,202)  |
|                      |             |
| 2014 Proposed Budget | \$2,838,244 |

**1. Long-term vs. short-term investment of "idle" cash.** The City's new program for investing a portion of unneeded cash (currently \$75,000,000) generated approximately \$430,000 more in earnings for the City in 2012 than a short-term investment would have yielded, and could

mean an additional \$600,000 in annual earnings above short-term returns in the future.

**2. In rem foreclosures for unpaid taxes.** Over the last 5 years (2008-2012), the Treasurer has filed 4,632 *in rem* foreclosures and acquired 2,518 properties for an acquisition rate of 54.4%. In 2012, there were 1,152 filings, and 744 properties were acquired for an acquisitions rate of 64.6%.

**3. Special Charges eligible for City's installment payment plan.** Most Special Charges, not just water bill charges, will be eligible for the City's installment payment plan beginning in December, 2013. The change is expected to reduce the number of number of responsible taxpayers forced into "delinquency" on their taxes simply because they cannot afford the upfront payment of all Special Charges before they can qualify to pay their tax bill obligation in installments.

### II. INITIATIVES AND PROGRAMS.

#### 1. "Pooled" Cash Investment Program.

In July, 2012, authority over the City's "pooled" cash investments was transferred back to the Treasurer from the Comptroller's Office.

"Pooled" cash refers to the City's idle cash reserves - cash received by the City but not yet needed to pay immediate expenses. The Treasurer maintains two pooled cash investment accounts: a short-term account managed by the Treasurer, and a long-term account managed under contract with BMO-Harris Bank. Table 7.2 summarizes average daily amounts invested in pooled cash accounts, 2012 earnings, annual returns and benchmark returns.

**Table 7.2. Pooled Cash Investment Account Summary.**

| <b>Account</b> | <b>Average Daily Balance</b> | <b>2012 Earnings</b> | <b>Annual Return</b> | <b>Benchmark Return</b> |
|----------------|------------------------------|----------------------|----------------------|-------------------------|
| Short-term     | \$231,498,810                | \$353,393            | 0.2208%              | 0.1592%                 |
| Long-term      | \$55,263,300                 | \$400,659            | 1.0875%              | 1.0800%                 |
| Total          | \$286,762,110                | \$754,052            | 0.3878%              | 0.3366%                 |

Long-term earnings and returns are net of BMO-Harris' \$49,306 management fee. The Wisconsin Local Government Investment Pool is the benchmark used for short-term cash investments while the Bank of America Merrill 1-3 year Gov/Corp Index AA or Better is the benchmark use for long-term pooled cash investments.

Short-term pooled cash earnings in 2011, before the City initiated its long-term cash investment strategy, were \$303,000. Slightly greater short-term earnings in 2012 and the long-term of a portion of pooled cash (long-term investments generally produce a higher yield than short-term) have combined to increase pooled cash earnings \$454,052, or 150%, over 2011 earnings.

Annual returns in Table 7.2 are based on total short-term earnings of \$530,090 and total long-term earnings of \$600,988. The City is required by state law to segregate one-third of all earnings on cash investments for the Public Debt Amortization Fund. Total earnings of \$754,052 inured to the City's General Fund while \$377,026 inured to the Public Debt Amortization Fund for a total of \$1,131,078 in total short and long-term pooled cash earnings.

The total amount now invested in the long-term, pooled cash is \$75,000,000. The average daily amount invested during 2012 (the account's year of inception, and the balance used for calculating return) was \$55,263,300 because the \$75,000,000 initial investment was metered into the account over 4-6 months beginning in mid-February.

As a point of comparison, by making the long-term pooled cash investment at BMO-Harris Bank, which yielded 1.0875% in 2012, rather than in short-term investments which yielded 0.2208%, the City gains roughly 87 additional basis points in yield. On a \$75,000,000 investment, those 87 additional basis points should generate approximately \$650,000 more than if the cash was invested in the City's lower-yielding, short-term pooled cash account. Of course two-thirds, or \$433,333, will inure to the General Fund while the remainder must be deposited in the Public Debt Amortization Fund.

Long-term investments of pooled cash reserves – which by definition may from time to time be needed to pay immediate expenses - are only possible because the City has established by ordinance that the City will use its borrowing capacity to temporary borrow funds to pay occasional short-term cash needs for operations. The idea is as long as the City's cost to borrow funds is less than its yield on long-term cash investments, the City is better off borrowing for purely short-term cash flow needs and maintaining its long-term cash investments.

To date, the Comptroller reports no funds have been borrowed by the City as a direct result of “locking up” \$75,000,000 of pooled cash in the City’s long-term investment. This suggests City operations allow the City to maintain a \$75,000,000 long-term cash reserve that virtually never needs to be drawn upon for current operating needs.

Through August 2013, the average daily balance of pooled short-term cash was \$197,239,760, and year-to-date earnings were \$301,491, for a 0.2296% return. The Wisconsin Local Government Investment Pool benchmark return for the same period was 0.10803%.

Through August, 2013, the \$75,476,200 balance in BMO-Harris’ long-term pooled cash account earned \$673,715 for an annualized yield of 1.3389% before management fees. Approximately \$449,000 inures to the City’s General Fund while the remaining \$224,000 inures to the Public Debt Amortization Fund.

## **2. *In rem* Foreclosures for Unpaid Taxes**

Over the last 5 years (2008-2012), the Treasurer has filed 4,632 *in rem* foreclosures and acquired 2,518 properties for an acquisition rate of 54.4%. In 2012, there were 1,152 filings, and 744 properties were acquired for an acquisitions rate of 64.6%.

Although foreclosure acquisitions are ultimately a significant problem for the overall fiscal health of the City, the immediate problem for the Treasurer is the burden of processing so many foreclosure filings. Each filing takes vast amounts of staff time. The department bundled filings for 2012 into 3 groups to smooth out the workload. In 2011, there were 4 filing groups, but the department switched to 3 to avoid impinging on tax collection season. The department began bundling *in rem* filings in 2010 and will make 3 bundled filings in 2013. Filings are done in batches because fees are per filing – not per parcel – so the City’s costs for an *in rem* filing on a single parcel is the same as for a filing on 500 parcels, or more.

The department projects 1,200 *in rem* filings and 750 property acquisitions in both 2013 and 2014.

In addition to *in rem* foreclosures, the City, through the Kohn Law Firm, files *in personam* claims for unpaid taxes directly against individual tax scofflaws. In 2012, roughly 5,700 *in personam* claims were pursued for \$20.4 million in unpaid taxes, and the City collected \$13.8 million or 67.6%.

## **3. Procedural Improvements.**

A total of 2,325 residents took advantage of the department’s new service which allows residents to drop off tax payments at 13 US Bank locations in December, 2012, and it is projected 4,000 will use the service in 2013. It is hoped the drop-off service will appeal to residents who are not seeking immediate refunds or receipts, and who generally pay “in person” at City Hall.

Beginning in December, 2013, most Special Charges will be eligible for the City’s installment payment plan. In the past, water bill charges were the only “special” that could be paid in installments, and the tax obligations of many responsible residents became delinquent because they could not afford what can be a substantial upfront payment for Special Charges. The department believes the change will speed payments and save on collection fees.

A simple change to dunning letters sent by the City Attorney – the inclusion of a tax payment coupon at the bottom of the letter – is expected to facilitate tax payments for both residents and the department.

Finally, moving the final dunning notice up from April to the previous November will give the City's collection agent a full 12 to make collections rather than the typical 6 months. The change is expected to increase collections and reduce collection costs.

### III. EXPENDITURES.

**Table 7.3. Changes in Expenditure Amounts by Account.**

| Expenditure Account    | 2012 Actual | 2013 Adopted Budget | % Change | 2014 Proposed Budget | % Change |
|------------------------|-------------|---------------------|----------|----------------------|----------|
| Salaries and Wages     | \$1,422,966 | \$1,373,962         | -3.44%   | \$1,372,307          | -0.12%   |
| Fringe Benefits        | \$720,037   | \$659,502           | -8.41%   | \$644,984            | -2.20%   |
| Operating Expend.      | \$814,812   | \$796,320           | -2.27%   | \$773,118            | -2.91%   |
| Equipment Purchases    | \$636       | \$0                 | -100%    | \$0                  | 0%       |
| Special Funds          | \$40,967    | \$47,835            | 16.76%   | \$47,835             | 0%       |
| Total Operating Budget | \$2,999,418 | \$2,877,619         | -4.06%   | \$2,838,244          | -1.37%   |

#### 1. Budget Summary.

The total 2014 Proposed Budget of \$2,838,244 is essentially unchanged from the 2013 Adopted Budget amount of \$2,877,619, down \$39,375, or -1.8%. Fully 96% of the change comes from a \$14,518 reduction in projected fringe benefits costs and a \$23,202, or 3%, reduction in projected operating expenditures described in this section under 3. Operating Expenditures.

#### 2. Personnel Costs.

The impact of the elimination of 2 positions and the addition of 2 others summarized in Table 7.4 is effectively netted out against small salary increases for 2 positions listed and a net reduction of \$2,854 in overtime, so base salary costs are basically unchanged – down \$1,655 or 0.12%.

Ninety percent of payroll cost reductions projected for 2014 come from a \$14,518, or 2.2% reduction in projected fringe benefit costs. Fringes are estimated as 47% of base salary costs for 2014 rather 48% used in 2013 to reflect a reduction in City's share of healthcare costs.

**Table 7.4. 2014 Salary & Benefit Changes.**

| <b>Position/Category</b>                | <b>Change</b>     |
|---|-------------------|
| Network Coordinator-Associate           | (\$56,835)        |
| Customer Service Rep. II (5 remain)     | (\$33,824)        |
| Positions Added                         |                   |
| Tax Enforcement Specialist              | \$43,909          |
| Program Assistant II                    | \$41,495          |
| Salary Changes                          |                   |
| Investments and Financial Service Spec. | \$2,950           |
| Temp. Customer Service Pool             | \$3,467           |
| Overtime                                | (\$2,854)         |
| Adjustments                             | \$37              |
| Fringe Benefits                         | (\$14,518)        |
| <b>Total Changes</b>                    | <b>(\$16,173)</b> |

**3. Operating Expenditures.**

Operating Expenditures proposed for 2014 are virtually unchanged from the 2013 Adopted Budget in total, down just \$23,202, or 2.91%, with offsetting changes in several expense items summarized in Table 7.5.

**Table 7.5. 2014 Changes in Operating Expenditures.**

| <b>Operating Expenditure Category</b> | <b>Change</b>     |
|---------------------------------------|-------------------|
| Professional Services                 | \$11,160          |
| Other Operating Services              | (\$24,340)        |
| General Office Expense                | (\$4,985)         |
| Other Operating Supplies              | (\$1,667)         |
| Reimburse Other Departments           | (\$6,705)         |
| Information Technology Services       | \$3,335           |
| <b>Total</b>                          | <b>(\$23,202)</b> |

Increased *in rem* foreclosure costs account for all but \$60 of the \$11,160 increase in Professional Services projected for 2014. Three-quarters of the \$24,340 decrease in Other Operating Services (\$18,500) projected for 2014 comes from reduced title search services, while the remaining quarter (\$5,840) is the result of general cost changes in many service areas.

Virtually all the combined \$11,690 cost reduction projected for 2014 in General Office Expenses and Reimbursements paid to Other Departments stems from reducing mailing costs.

#### 4. Equipment Purchases.

See Special Funds section below.

#### 5. Special Funds.

The Treasurer replaces computer hardware on a 4-year cycle, and funds these annual replacements through the Information System Support Special Fund. Replacements for 2014 are projected to be \$28,435, the same as the 2013 Adopted Budget. Actual expenditures for 2012 were \$21,993 or \$1,047 less than budgeted. This regular replacement cycle ensures the Treasurer's Office always has the computer processing capacity to run the software banks and the federal government require the department to use.

### IV. PERSONNEL.

**Table 7.6. Changes in Full-Time Equivalent (FTE) and Authorized Positions.**

| Position Category          | 2012 Actual | 2013 Adopted Budget | Change | 2014 Proposed Budget | Change |
|----------------------------|-------------|---------------------|--------|----------------------|--------|
| O&M FTEs                   | 27.83       | 27.44               | 0.39   | 27.45                | 0      |
| Non-O&M FTEs               | 0.00        | 0.00                | 0      | 0                    | 0      |
| Total Authorized Positions | 27.83       | 27.44               | 0.39   | 27.45                | 0      |

#### 1. Personnel Changes.

Although projected FTE's are unchanged for 2014, there are position changes for 2014. A Network Coordinator-Associate in the Tax Enforcement Division was eliminated as unneeded and Customer Service Rep. II positions are reduced from 6 authorized in 2013 to 5 proposed for 2014.

An additional Tax Enforcement Specialist and an additional Program Assistant II (each position proposed to have 2 incumbents) were added to the Tax Enforcement Division to better handle the increased tax foreclosure workload.

One unfunded Auxiliary Executive Administrative Assistant position (not included in the FTE count) was also eliminated.

#### 2. Vacancies.

None.

### V. SPECIAL PURPOSE ACCOUNTS (SPA).

None.

## VI. REVENUES.

Proposed 2014 Revenues are down substantially, \$320,211 or 11.3%, in large measure because 2014 projections for Interest and Penalty earned on tax bills have been pegged to 2012 actual earnings. Earnings from Interest and Penalty has been generally declining since 2008, but such earnings declined steeply in 2012, down 28% or \$654,507 from 2011 to 2012. The impact on the City of the real estate crisis which began in late 2008 is doubled. First, the City loses interest and penalty earnings on financially-distressed properties, and then the City loses the tax base entirely when it is forced to acquire the property and adds it to the City's real estate inventory.

The revenue bright spot is increased earnings on idle cash—known as pooled cash—or cash received by the City but not yet needed to pay current expenses discussed in Section II, Initiatives and Programs.

**Table 7.7. Changes in Revenue by Category.**

| Revenue Account    | 2012 Actual | 2013 Adopted Budget | % Change | 2014 Proposed Budget | % Change |
|--------------------|-------------|---------------------|----------|----------------------|----------|
| Licenses           | \$84,400    | \$105,500           | 25.0%    | \$84,400             | -20.0%   |
| Service Charges    | \$112,800   | \$112,600           | -0.2%    | \$112,800            | 0.2%     |
| Interest & Penalty | \$1,654,400 | \$2,200,000         | 33.0%    | \$1,654,400          | -24.8%   |
| Pooled Cash        | \$810,600   | \$670,000           | -17.3%   | \$832,189            | 24.2%    |
| Miscellaneous      | \$230,100   | \$195,700           | -15.0%   | \$229,800            | 17.4%    |
| Total              | \$2,892,300 | \$3,283,800         | 13.5%    | \$2,913,589          | -11.3%   |

## VII. CAPITAL PROJECTS.

None.

## VIII. ISSUES TO CONSIDER.

1. Possible increases in the \$75,000,000 in pooled cash invested in long-term investments. The City has not had to borrow any funds to facilitate cash flow so likely has not yet identified the "maximum" amount of pooled cash available for long-term investment.

2. Revisiting the State statute requiring the one-third of pooled cash investment earnings to be deposited in the Public Debt Amortization Fund. The substantial increase in earnings from long-term investments is a "windfall" for the PDAF.

3. Ways of making in rem filings more efficient and less labor intensive.



Prepared by: Aaron Cadle, Legislative Research Analyst—Lead  
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