



Department of Administration
Budget and Management Division

John O. Norquist
Mayor

Michael J. Soika
Director

Joseph J. Czarnecki
Budget and Management Director

October 10, 2003

Ref: 04BF, 3-D

Alderman Fredrick G. Gordon, Chairperson
Committee on Finance and Personnel

Subject: Information Requested at Finance Committee Review of the Tax Stabilization Fund for the
2004 Proposed Budget

Dear Alderman Gordon:

During the Finance Committee review of the 2004 proposed budget, the following question was directed to this office:

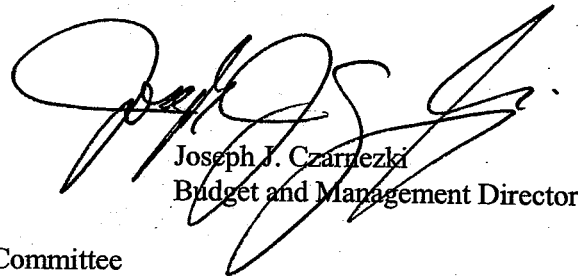
Provide a copy of the City Ordinance and State Statute governing the withdrawal from the TSF.

Provide the calculation showing that the 2004 TSF withdraw is at the maximum.

What would be the amount of TSF withdrawal if the estimated balance were brought to 5% of the general fund expenditures rather than the 5.6% that is proposed?

The attached memo contains our response.

Sincerely,



Joseph J. Czarnecki
Budget and Management Director

cc: Members, Finance and Personnel Committee
Jennifer Meyer, Mayor's Office
Marianne Walsh, Fiscal Review Manager

DY:dmr



**City of Milwaukee
Budget and Management
Intra-Office Memo**

To: Joseph J. Czarnecki

From: Dennis A. Yaccarino

Date: October 10, 2003

File Ref: 04BF, 3-D

Subject: Tax Stabilization Fund

It should be noted that a TSF withdraw of this amount would not be sustainable. We have already adjusted the future withdraws from the TSF in forecasts to reflect that the initial amount of withdraw proposed will likely need to be reduced to \$13 million or less for 2005. If you increase the amount of withdraw in 2004, you would increase the gap between revenues and expenditures by another \$3.1 million creating a total gap caused by the TSF of \$7.1 million.

If you have additional questions, please contact me.

DY:

TSFmemo.doc

The Finance and Personnel Committee had several requests for information and one question regarding the Tax Stabilization Fund (TSF). The Committee raised the following items:

- 1) Provide the ordinance and state statute governing the withdrawal from the TSF.
- 2) Provide the TSF calculation to show that the current withdraw is at the maximum amount allowed under City Ordinance.

I have attached a copy of the City Ordinance, State Statute and 2004 TSF calculation per the Finance and Personnel Committee request. The TSF calculation is based on the City Ordinance, which dictates the maximum withdraw.

- 3) What would be the amount of TSF withdrawal if the estimated balance were brought to 5% of the general fund expenditures rather than the 5.6% proposed?

If the withdrawal from the TSF were increased to represent a balance that is 5% of the general fund expenditure, the TSF withdraw would increase by \$3.1 million. This level of TSF withdraw would leave an estimated balance of \$26.7 million for 2005 purposes. The total TSF withdraw would be \$20.4 million.

2003 BUDGET
USE OF TAX STABILIZATION FUND

10-Oct-03
08:47 AM

Assessment Year

1. CURRENT TAX RATE (Enter)	\$10.15
2. CURRENT YEAR TOTAL COMMON COUNCIL CONTROLLED BUDGET (Enter)	\$1,093,858,143
3. ASSESSED VALUE (Enter)	\$20,477,090,026
4. LEVY WITHOUT TSF WITHDRAWAL (Enter)	\$214,873,664
5. TSF BALANCE AS OF APRIL 15th (Enter)	\$33,745,000

WITHDRAWAL TO LIMIT RATE INCREASE TO 103%

6. CURRENT TAX RATE @ 103 % (#1 x 1.03)	\$10.45
7. MAXIMUM LEVY @ 103%	\$214,077,738
8. TSF WITHDRAWAL TO GET TO 103% RATE (motion)	\$795,926
9. REMAINING TSF BALANCE WITH RATE AT 103%	\$32,949,074

MAXIMUM ADDITIONAL WITHDRAWAL

10. MAXIMUM ADDITIONAL WITHDRAWAL (50% OF BALANCE)	\$16,474,537
11. TOTAL MAXIMUM WITHDRAWAL (line 8 + line 10)	\$17,270,463
12. MAXIMUM WITHDRAWAL AS % OF FUND BALANCE	51.18%
13. REMAINING TSF BALANCE WITH MAXIMUM WITHDRAWAL	\$16,474,537

MAXIMUM CEILING ON FUND

14. 5% OF TOTAL COMMON COUNCIL CONTROLLED BUDGET	\$54,692,907
15. MINIMUM TSF WITHDRAWAL TO REDUCE TSF TO < 5% OF PRIOR YEAR BUDGET	No Minimum Withdrawal

CURRENT STATUS

16. PROPOSED WITHDRAWAL (Enter)	\$17,250,000
17. PROPOSED WITHDRAWAL AS % OF FUND BALANCE	51.12%
18. REMAINING BALANCE (line 5 - line 16)	\$16,495,000
19. MAXIMUM ADDITIONAL WITHDRAWAL (line 11 - line 16)	\$20,463
20. WITHDRAWAL BY MOTION (Rate To 103% or Minimum)	\$795,926
21. WITHDRAWAL BY RES. (For 5% Max. Balance)	\$0
22. WITHDRAWAL BY RES. (Up To 50% Of Balance After 20. less 21.)	\$16,454,074

4. FUND TRANSFERS. a. Council Authorization. The specific level of subfund transfers for a particular fiscal year shall be authorized by common council resolution adopted in conjunction with the annual budgetary process. Each such resolution shall authorize and direct the comptroller to transfer an amount, up to the amount available in the subfund, to a miscellaneous revenue account. Expenditures of amounts transferred shall be authorized by a special purpose account and expended in accordance with the annual city budget.

b. Fund Carry-over. At the end of each fiscal year, the comptroller shall transfer all remaining and unexpended funds in the special purpose account to the subfund account for the following fiscal year.

5. PROPERTIES TO BE TESTED AND/OR REMEDIATED. At the beginning of each quarter, the common council shall approve, by resolution, the list of properties for which actions leading to environmental testing may be commenced during that quarter. The department of city development and the health department shall prepare such list and in doing so shall give consideration to the objectives enumerated in sub. 2. At the beginning of each quarter, the common council shall approve, by resolution, the list of properties which the department of city development and the health department recommend, based on acceptable testing results, be acquired through the foreclosure process, remediated and sold. A 3/4 vote of the common council shall be required for adoption of any resolution authorizing remediation of an environmentally contaminated property using funds from the environmental testing and remediation subfund.

6. CONDITION OF SALE. Notwithstanding the provisions of s. 304-49, whenever the city has performed environmental testing or remediation on a foreclosed property using funds from the environmental testing and remediation subfund, the city shall not sell such property to any non-governmental entity which is exempt from paying property taxes unless such entity agrees to make payments in lieu of taxes which are equal to the amount of taxes that would be paid if the property were taxable, subject to common council approval of the entity's agreement to make payments in lieu of taxes.

7. MONITORING. To monitor the cost recovery characteristics and overall effectiveness of the environmental testing and remediation subfund, the department of city

development shall prepare and present to the common council, at the beginning of the third quarter of each year, a report of the expenditures and revenues for each property which has been tested, acquired through the foreclosure process, remediated and/or sold during the preceding 4 quarters using funds from the environmental testing and remediation subfund.

304-29. Tax Stabilization Fund. 1. FUND CREATED. There is created a tax stabilization fund pursuant to the authority of s. 65.07-1-o, Wis. Stats., 1963, which shall constitute a separate fund to be used only for the purposes hereinafter set forth.

2. PURPOSES AND OBJECTIVES. a. To assist in stabilizing the common council controlled tax rate of the city of Milwaukee within reasonable limits from year to year.

b. To protect the city and its citizens from fluctuations in the city property tax rate under common council control which can result from erratic variations in nonproperty tax revenues.

c. To improve the city's ability to plan and provide for its financial needs.

d. To better enable the city to comply with statutory limitations.

3. FUNDING SOURCES.

a. Unappropriated General Surplus from Prior Year. The unappropriated general surplus as of December 31, 1964, shall be transferred to the tax stabilization fund by the comptroller as of the effective date of this section.

b. Revenue Surplus. By April 15 of each year, beginning with the year 1966, the difference between estimated nonproperty tax revenues and the corresponding actual receipts for the prior year shall be transferred to the tax stabilization fund by the comptroller except for the internal service funds.

c. Appropriation Balances. By April 15 of each year, beginning with the year 1966, the difference between total adjusted operating budget appropriations and total expenditures, commitments, and reserves for the prior year shall be transferred to the tax stabilization fund by the comptroller except for the internal service funds.

d. Other General Surplus. By April 15 of each year, beginning with the year 1995, any general surplus balance as of December 31 of the prior year remaining, after steps in pars. b and c have been completed, shall first be transferred by the comptroller to the permanent

improvement fund to meet the city's legal obligation to reimburse the federal asset forfeiture trust fund for interest earned on deposits received. Such transfer of funds shall cease if applicable federal requirements shall no longer be in force. The remainder shall be transferred to the tax stabilization fund by the comptroller except for the internal service funds.

e. **Tax Levy.** When authorized and included in the adopted budget in accordance with ch. 65, Wis. Stats., 1963, the proceeds from such levy shall not be used during the budget year for which such levy is made.

f. **Contributions Received for the Purpose of Tax Stabilization or Reduction.**

g. **Internal Service Funds; Retained Earnings.** Commencing with the operations of 1981, the retained earnings of the internal service funds funded by the revenue surpluses and appropriation balances shall not exceed 5% of the budget for that year for that internal service fund. Any excess over 5% of the retained earnings shall revert to the tax stabilization fund. The comptroller shall submit an estimate covering items under pars. b, d, f and g to the mayor by June 1 of each year. Such estimate shall show the amounts that are anticipated to be transferred to the tax stabilization fund by April 15 of the next year. The estimate of par. b shall recognize estimated revenue offset by corresponding appropriations as explained in sub. 4-e-2. The comptroller may revise such estimate up to and including November 10.

4. **FUND WITHDRAWALS.** The amount that can be withdrawn from the fund in any one year shall be controlled by the following factors:

a. **To Stabilize Tax Rate.** a-1. The tax stabilization fund may be used to prevent an increase of more than 3% in the common council controlled tax rate (based on assessed valuation). Such withdrawal for this specific purpose shall be deemed authorized only if it is included in the adopted budget and is anticipated to be available in the tax stabilization fund as of April 15 of the year covered by such adopted budget. Any part of the anticipated April 15 balance may be used for this purpose except for that portion of the balance reserved under sub. 3-e.

a-2. In the event of a change in total assessed valuation resulting from a city-wide revaluation or level of assessment change, the 3% factor shall apply to the tax rate resulting from the use of equalized valuation (as

determined by the state) rather than assessed valuation.

b. **Statutory Requirements.** The tax stabilization fund may be used to enable the city to comply with statutory requirements in ch. 65, Wis. Stats., 1963, notwithstanding the provisions of par. a. Such withdrawal for this specific purpose shall be deemed authorized only if it is included in the adopted budget and is anticipated to be available in the tax stabilization fund as of April 15 of the year covered by such adopted budget. Any part of the April 15 balance may be used for this purpose.

c. **Compliance.** Notwithstanding the provisions of pars. b and c, the tax stabilization fund may be used to stabilize the common council controlled tax rate beyond the limits covered by pars. a and b but only when all of the following conditions are met:

c-1. No more than 50% of the balance anticipated to be available for withdrawal from the fund as of April 15 of the year covered by the adopted budget, uncommitted for the purposes under pars. a and b or reserved under sub. 3-e can be authorized for withdrawal for this purpose in next year's budget.

c-2. A resolution authorizing such withdrawal is adopted by at least a 3/4 vote of the members of the common council at the time of the vote.

c-3. Such withdrawal is authorized and included in the adopted budget.

d. **Budget Requirements.** d-1. The amount authorized for withdrawal from the tax stabilization fund shall be included in the city budget as an income item, in addition to revenues estimated for state aids and shared taxes, licenses, permits, fines, fees and penalties, departmental earnings, commercial earnings and miscellaneous revenues, and shall be used as an offset to the property tax levy.

d-2. It shall be shown in the budget in the following manner: "Withdrawal from the tax stabilization fund \$_____".

d-3. The amount included for this purpose may be changed by the common council under the provisions of this subsection, up to and including the final budget adoption date set by ch. 65, Wis. Stats., 1963.

e. **Not for Deficit Purposes.** e-1. The tax stabilization fund shall not be used for the purpose of offsetting any deficit that may occur between total estimated and total actual nonproperty tax revenue or between total appropriations and total expenditures. Such an

eventuality, if it develops shall be resolved by emergency borrowing if deemed necessary by the common council.

e-2. The only exception to this prohibition shall be that estimated revenues earmarked for a specific purpose and offset by a corresponding appropriation, such as the funding of grant and aid projects in accordance with common council File #66-1893-a, adopted November 29, 1966, shall be separately considered in context with actual revenue received, appropriations and actual expenditures for this specific purpose, and the net surplus or deficit can be transferred to the tax stabilization fund by the comptroller. Such earmarked revenues shall not be included in determining the deficit referred to in subd. 1.

f. For Temporary Inventory Reserves, Etc. The comptroller is authorized to make withdrawals from the tax stabilization fund to temporarily adjust inventory reserves in recognition of temporary increases in inventory levels in accordance with accepted accounting principles and prudent financial management practices. When such reserves exceed amounts reasonable and properly necessary, the excess shall be returned to the tax stabilization fund. The comptroller shall provide the common council with a separate report for adjustments made under this paragraph.

g. Authority. Withdrawal from the tax stabilization fund for any other purposes than the purposes outlined above shall not be authorized.

h. Surplus Estimates. Beginning with the budget prepared for the year 1966, no monetary amount shall be shown in the budget for the classification "surplus" in revenue estimates required by ch. 65.02(7), Wis. Stats., 1963.

5. MAXIMUM CEILING ON FUND. Any uncommitted balance in the fund as of June 1 of the current year that is in excess of 5% of the current year, total common council controlled budget shall be applied to tax reduction for the following year notwithstanding any other provisions of this section.

304-30. Delinquent Tax Fund. 1. FUND CREATED. There is created a fund authorized by s. 65.07(1)(i), Wis. Stats., to be known as the delinquent tax fund. Such fund shall be a reserve against uncollected delinquent real estate and personal property taxes. Neither the fund nor appropriations from the fund shall

increase expenditures authorized under s. 18-06, charter.

2. SOURCE OF REVENUE. The fund shall have the following sources of revenue:

a. Taxes levied for purpose of the fund.

b. Proceeds of general obligation promissory notes issued for delinquent taxes.

c. Delinquent real and personal property tax revenues collected after the last day of the year in which such taxes were levied. Such taxes are specifically appropriated to the fund and pledged to the payment of debt service on outstanding general obligation promissory notes issued for delinquent taxes.

d. Such other amounts as may be appropriated to the fund by the common council from time to time.

3. APPROPRIATIONS. Fund revenues are appropriated on an annual basis in the following order of priority:

a. To the general fund to reimburse for uncollected delinquent real and personal property taxes as of the close of business on the last day of the year.

b. To the debt service fund to provide for annual debt service on general obligation promissory notes issued for delinquent taxes.

4. ADMINISTRATION. The city comptroller is authorized and directed to make fund transfers in accordance with appropriations made by this section. It is the instruction of the common council that the fund cash balance be closed out annually. The city comptroller is authorized and directed to prescribe accounting for the fund.

304-31. Board of Review; Fee For Certain Assessment Valuation Objections. Ten dollars is determined to be the fee payable to the city of Milwaukee in all instances where the provisions of s. 70.47 (16)(b), Wis. Stats., as amended, are applicable to objections filed to assessment valuations on real property for ad valorem tax purposes.

304-33. Payment of Taxes to County. The city of Milwaukee does in accordance with s. 70.67(2), Wis. Stats. 1961, obligate itself to pay in case the city treasurer fails so to do all taxes of any kind required to be paid by such treasurer to the county treasurer.

304-35. Fees for Duplicate Tax Bills. The city treasurer is authorized to issue duplicate tax bills upon payment of the fee required in

65.07 Power of council to levy taxes. (1) The common council shall have power to levy annually a tax upon all the taxable property in the city for the following purposes:

(a) A sufficient general city fund to pay the expenses of city departments, boards and commissions which are subject to the control of the common council. The rate of taxation for the purposes enumerated in this paragraph shall be established only by affirmative vote of at least two-thirds of all members elected to the common council.

(b) A fund to pay the city's contribution to the fire fighters' and police officers' pension fund and for any similar fund which may be created by law.

(c) A sufficient permanent improvement fund for any purpose authorized by s. 66.51 (1), 67.04 or 67.12 for which money may be borrowed or bonds issued, and for the initial furniture, fixtures, machinery and equipment required in such new facilities permitted thereunder.

(d) A sufficient sewerage fund to maintain and operate any sewerage disposal plant.

(e) A school operations fund, as constituted and for the purposes specified in s. 119.46.

(f) A school construction fund, as constituted and for the purposes specified in s. 119.48, not exceeding 0.6 mills on each dollar of the assessed valuation of all taxable property in the city.

(g) A school extension fund, as constituted and for the purposes specified in s. 119.47.

(i) A delinquent tax fund.

(j) A sufficient fund to pay the interest and principal on the funded debt falling due within the year.

(k) A public improvement reserve fund.

(L) A sufficient common council contingent fund.

(m) A debt service fund for school building purposes as provided in s. 120.10 (10).

(o) A tax stabilization fund.

(p) Notwithstanding the provisions of s. 65.06 (14) and (15), the common council may by resolution authorize the carrying over of unexpended funds which have been appropriated to a department for additional periods not to exceed 3 years from the year in which they were appropriated.

(q) An operating fund which may be carried over by the common council from year to year for the purpose of accumulating sums necessary to purchase buildings, machinery, equipment, and appurtenances thereto required for municipal purposes.

(r) 1. A tax equalization fund under the control of the common council. A levy for the purposes of this fund may be made against all taxable property in the city whenever as the result of any consolidation of a municipality, as defined in s. 345.05, with the city there is included within the city any area subject to taxes levied by any municipality except a county or metropolitan sewerage district at a rate different than that which is applicable for the same purposes in the city other than the consolidated portion thereof. To create such fund the common council may levy a tax in the consolidated area equivalent to the proceeds of a city tax for the same purpose if levied in such area and in addition may levy in such city, including the consolidated area, a tax calculated to produce a sum sufficient to meet the requirements of such other municipality properly certified to such city so as to result in taxation at a uniform rate for such purposes in the city including the consolidated area. Appropriations may be made from such fund to pay certifications of school districts lying wholly or partially in the area consolidated.

2. This paragraph shall apply to any tax levy in a consolidated area on January 1, 1958, and thereafter.

(s) A liability reserve fund for the purpose of paying liability claims against the city or premiums on insurance to pay such claims. The governing body may allow amounts appropriated to the fund to accumulate from year to year. The annual taxes levied

for this purpose may not exceed the level necessary to collect the amount recommended by an actuary, in accordance with generally accepted actuarial principles, that will be sufficient to pay any insurance premiums and the uninsured portion of claims that are anticipated to be made based on occurrences during the year in which the tax is collected. Payment of claims and premiums may either be made directly from the reserve account or appropriations may be made from the reserve account to an operating account for such payments. No other transfers may be made from the fund except in accordance with the procedure specified in s. 65.06 (6) (a) and unless:

1. If the fund is to be dissolved, an actuary has determined that all claims that are to be paid from the fund have been paid or a sufficient reserve has been created from the fund to pay such claims; or

2. If the fund is to be continued and the types of claims or the amount of coverage of claims by the fund is to be reduced, an actuary has determined, under generally accepted actuarial principles, that the balance in the fund exceeds the amount necessary to pay claims and premiums and the amount transferred is not more than the excess amount.

(2) The common council may allow funds established under sub. (1) (c), (i), (k), (o), (r) and (s) to accumulate from year to year.

History: 1971 c. 152 s. 38; 1971 c. 154; 1973 c. 90, 333; 1975 c. 39, 80, 200, 224; 1977 c. 113 ss. 4, 6; 1977 c. 203 s. 101; 1977 c. 418 ss. 402 to 407, 929 (42); 1979 c. 34; 1981 c. 20, 61, 93; 1983 a. 27; 1983 a. 207 ss. 93 (8), 95; 1985 a. 225 ss. 28, 100; 1987 a. 27, 377; 1993 a. 437; 1995 a. 27.

65.10 City officers to pay receipts monthly. Each city officer shall keep an itemized and accurate account of all moneys received by the officer in the officer's official capacity for fees, commissions and otherwise, and shall at the end of each month, during that officer's term of office, pay into the city treasury all such money in that officer's hands and file a duly verified copy of that officer's account with the city comptroller, together with a receipt of the city treasurer showing that such money has been paid into the city treasury. Until such account and receipt are so filed, it shall not be lawful for the common council or city officer, to order, draw, countersign or deliver any warrant for the payment of the salary or allowance of any such delinquent officer.

History: 1991 a. 316.

65.20 Executive budget procedures in cities of the 1st class. (1) **ALTERNATIVE.** As an alternative to any other budget procedure under this chapter, the common council of any city of the 1st class may, by adoption of a charter ordinance, permanently transfer the duties and responsibilities of the board of estimates relating to the preparation of the proposed budget under ss. 65.02 to 65.06 to the mayor of such city. Any charter ordinance adopted under this section shall provide that:

(a) The functions of the board of estimates relating to the preparation of the city budget are permanently transferred to the mayor who shall prepare the proposed budget and present it to the common council. The budget presented by the mayor shall be called the "executive budget" and its contents shall comply with the requirements of ss. 65.02 to 65.04 in all respects.

(am) Any budget department existing on October 25, 1977 shall be transferred to the office of the mayor. The director and employees of the department shall retain their civil service status.

(b) Each department shall submit to the mayor not later than the 2nd Tuesday in May of each year on forms approved by the budget director an estimate in detail of the department's needs for the ensuing fiscal year, including a statement of any permanent improvements to be made and an estimate of expenditures therefor, and including such information supplied in such form as the mayor requests.

(c) Any department whose funds are not subject to the control of the common council may include in its estimate such sum as it deems reasonably necessary for a contingent fund for emergency purposes or other purposes which may arise during the year