

**FISCAL REVIEW SECTION – LEGISLATIVE REFERENCE BUREAU**

**EXECUTIVE SUMMARY: 2005 Budget Summary – Comptroller's Office**

1. The 2005 Budget Proposed Budget includes the following personnel change:

-2 Accounting Interns

The elimination of these positions will not have a significant impact on the Comptroller's Office. (Pages 1 & 2)

2. The Comptroller's Operating Expenditures increase by \$737,655. The increase is related to an accounting change to comply with General Acceptable Accounting Principles (GAAP) by providing budget authority for underwriters' fees and debt insurance costs. These debt issuance costs are offset by an increase in estimated revenue and will not increase the tax levy. (Page 2)
3. The 2005 Proposed Budget continues the outside pilot audit program. Leaving two currently vacant Auditing Specialist positions unfilled in the 2005 Budget will offset the cost of the pilot program. (Page 3)
4. The Comptroller's Office has requested \$639,000 in CDBG funding which will support the salaries and fringe benefits of certain positions in the Office. The CDBG funded accounting and auditing services are performed by a staff of 11 full-time positions and one part-time intern. (Page 4)
5. The 2005 Proposed Budget provides funding for the 9 special purpose accounts that will be administered by the Comptroller. (Pages 4,5 & 6)
6. On September 9, 2004, the Public Debt Commission approved a \$4.0 million withdrawal from the PDAF. (Pages 7& 8)
7. Public Debt Commission indicates it expanded minority participation in negotiated offerings in 2003. (Page 8 )

**FISCAL REVIEW SECTION – LEGISLATIVE REFERENCE BUREAU**

**DEPARTMENTAL BUDGET SUMMARY: Comptroller's Office**

<b>Expense Category</b>	<b>2003 Actual</b>	<b>2004 Budget</b>	<b>% Change</b>	<b>2005 Proposed*</b>	<b>% Change</b>
Operating*	\$ 4,243,594	\$ 5,237,466	23%	\$ 6,140,809	17%
Capital	\$ -	\$ -	0%	\$ -	0%
Positions	66	70	6%	68	-3%

**Historical Information**

1. In 1994, the Public Debt Commission approved modifications to the City's Official Statements to emphasize the City's commitment to minority participation in competitive bond offering.
2. In 1997, the Public Debt Commission approved the current Public Debt Amortization Fund (PDAF) balance and withdrawal policy. The policy utilizes measurements of non-self-sustaining (tax levy) general obligation (GO) debt outstanding as the basis for determining PDAF size and withdrawal parameters.
3. In 2001, the Common Council approved the Department of Employee Relation's recommendations regarding the reallocation for compensation for the majority of the positions in the Comptroller's Office. The reallocation was done to address the high employee turnover and difficulty in attracting candidates to fill accounting positions the Comptroller's Office was experiencing because of the nation-wide demand for accounting professionals.
4. In 2003, the City began including the carrying costs (lost interest) in the amount recovered by the City from future property taxes generated from a Tax Incremental District (TID). Carrying costs are the interest earnings the City loses on the funds it initially provides.
5. The City implemented the Governmental Accounting Standards Board (GASB) Statement 34 in 2003 for its 2002 financial reporting. GASB 34 is intended to make financial statements more useful to its users.
6. The 2004 Budget consolidated the Public Debt Commission's budget with the Comptroller's Office budget.

**Personnel**

The 2005 Budget Proposed Budget includes the following personnel change:

-2 Accounting Interns

The two Accounting Interns positions were eliminated in the 2005 budget due to the Mayor's request to reduce the budget in 2005. The elimination of these positions will not have a significant impact on the Comptroller's Office.

## **Vacancies**

As of September 17, 2004, the Comptroller's Office had the following vacancies:

**Deputy Comptroller** - The Comptroller intends to fill this position.

**Information System Auditor Senior** - The F & P Committee authorized filling this position on September 16, 2004. The position will be filled as soon as possible.

**Two Auditing Specialists** - These two positions have been vacant since 1999 and are currently not funded in the salary account due to the program to hire outside auditors to assist the City's internal audit staff.

**Two Accounting Interns** - These positions are eliminated in the 2005 proposed budget.

## ***Operating Expenditures***

### **Professional Services**

The 2005 Proposed Budget includes \$1,557,850 for the Professional Services account for 2005. This is an \$842,850 increase in funding from the \$715,000 provided in the 2004 Budget. Most of the increase is related to an accounting change to comply with General Acceptable Accounting Principles (GAAP) by providing budget authority for underwriters' fees and debt insurance costs. In prior years, these costs were netted against bond premiums. These debt issuance costs are offset by an increase in estimated revenue and will not increase the tax levy. The remaining portion of the increase is related to anticipated increased debt issuance costs for the City's bond counsel, financial advisor and bond rating agencies.

### **General Office Expense**

\$35,650 is provided in the Comptroller's Office for the General Office Account. This is a \$14,300 decrease in funding from the \$50,000 provided for this account in the 2004 Budget. The reduction in supplies reflects the trend of the Comptroller's Office to reduce expenditures on general office supplies.

### **Information Technology Services**

The Proposed Budget includes \$10,000 for the Information Technology Services account for 2005. Over the past few years, the Comptroller's Office has significantly reduced the need for information technology service spending from 2001 when about \$912,100 was expended in this account.

## **Auditing**

The Comptroller's Office indicates the audit pilot program has been a success and intends to continue it in 2005. Two auditing specialist positions will be kept vacant to offset the cost of audit related consulting services. The Comptroller's Office has completed four audits and is in the process conducting a fifth audit using outside consulting services in collaboration with the Audit Division staff. The audit of the basic health plan administration, issued in June of 2001, was the first consultant-assisted audit. This audit used the expertise of an employee benefit consulting firm. The audit of the restaurant regulation, issued in August 2002, incorporated audit services by the Wisconsin Department of Health and Family Services. The audit of the Police Department's communication center and 3<sup>rd</sup> district capital project, issued in October 2003, utilized a construction management and consulting firm. The Comptroller's Audit Division is currently working on a security risk assessment of the city's computer networks, with the assistance from a consulting firm. The Comptroller's Office indicates the technical assistance provided was essential for successful completion of these audits.

In addition to the audit pilot program, the Audit Division will continue its regular audit activities. The 2005 audit work plan has not been finalized. The tentative audit plan includes the following:

*City Leases, (in process)*  
*2004 treasurer cashiering*  
*Residential Property Assessment, (in process)*  
*DPW Resident Preference & EBE Programs*  
*DPW Procurement*  
*Port Billings and Collection*  
*Fraud Hotline Support*  
*TID reviews of contracts, resolutions & payments*

The table on page 4 shows a list of the 2004 Audits and their status

<b>2004 Audit Status</b>	
<b>Audit Subject</b>	<b>Status</b>
FMLA Utilization	issued 3/9/04
2003 treasurer cashiering	issued 5/19/04
CBGA Program Monitoring – Implementation Status of 2001 Audit Recommendations	issued 5/28/04
Inventory of DPW Infrastructure Databases	issued 7/28/04
City Fleet Management	issued 9/03/04
Library Intergovernmental Agreements	in process
Fire Department Intergovernmental agreement	in process
City Contracts with Former Employees	in process
1000 Water Street Condominium Association	in process
Computer Network Security Risk Assessment	in process

In addition to the audits shown in the table above, the Audit Division annually audits the City's W-2s, Fair Labor Standard Act Non-discretionary Bonuses. The audit division also periodically audits Milwaukee County charges for prisoner care, provides TID support services, Cable Television support services and accounting support services (police trust account, mobile home billings, parking permit reconciliation). The Comptroller's Office Audit Division is also currently supporting the Fraud Hotline.

### ***Grant & Reimbursable Funding***

For 2005, the Comptroller's Office has requested \$639,000 in CDBG funding to support the salaries and fringe for CDBG accounting and auditing services that are performed by a staff of 11 full-time positions and one part-time intern. Activities performed exclusively by the CDBG funded staff of the Comptroller's Office include:

- Perform preliminary reviews for newly funded agencies and financial site reviews for existing funded agencies in accordance with the requirements of the Federal government's Office of Management and Budget (OMB).
- Determine the amount of issue, monitor and control operating cash advances to subrecipient agencies.
- Review, comment, and follow-up on OMB's mandated audits of subrecipient agencies.
- Prepare financial statements and the Single Audit Report.
- Determine, prepare and submit the listing of Federal Cash Transactions and the Quarterly Reconciliation of the City's lines of credit with the Federal Government.

The Comptroller's Office has also requested \$84,446 in HOME funds, which will be administered by the Department of Administration, as a reimbursable for the fiscal oversight the Office provides to the HOME program.

### ***Special Purpose Accounts***

Special purpose accounts are not included in departmental budgets, but expenditure authority over such accounts is typically extended to a department via Council resolution. The 2005 Proposed Budget provides funding for the 9 Special Purpose Accounts that will be administered by the Comptroller:

Annual Payment to DNR (\$7,100): The \$7,100 is the same amount as the 2004 Budget. This account represents a refund to the State Department of Natural Resources (DNR) of its payment-in-lieu-of-taxes to the City for the operation and maintenance of the Havenwoods property. The City has agreed to return each annual payment to the DNR for park operations and maintenance costs.

Boards and Commissions Reimbursement Expense (\$24,000): This is a \$4,000 increase from the amount provided in the 2004 Budget. The increase is based on actual experience for the year 2003. In that year \$23,180 was needed which exceeded the budgeted amount by \$4,180 and necessitated a contingent fund transfer of \$4,180. This account funds the reimbursement of private citizens who serve on City boards and commissions for expenses related to their service. The reimbursement was increased from \$15 to \$20 per meeting in 2000. Members of the Board of Assessment receive \$60 per meeting and members of the Administrative Review Board receive \$180 per meeting. Members of other City boards and commissions are paid through departmental administrative funds.

Care of Prisoners Fund (\$230,000): This is a \$30,000 increase from \$200,000 provided for this account in the 2004 Budget. The increase is based on projections that are based on the most recent activity. This account funds the costs of reimbursing the County for transportation and housing costs of persons convicted of City violations and sentenced to the House of Corrections. For several years there has been a dispute between the City and Milwaukee County over the method of determining the appropriate per diem rate to be charged for boarding prisoners at the House of Corrections. Absent an agreement with the County as to the appropriate method for resolving the dispute, the City Attorney has recommended the City's current practice of only allowing charges specified in a 1964 Court decision related to this issue.

Contribution Fund-General (\$1,500,000): The \$1,500,000 is a \$550,000 increase in funding from 2004. The increase reflects the increase in contributions that City departments, particularly the Library and Police Department, are expected to receive in 2004. This account provides expenditure authority for any contribution received during the year. Expenditures are made in accordance with Section 304-24 of the Milwaukee Code of Ordinances. This account has a revenue offset, and therefore, does not have a tax levy impact.

Firemen's Relief Fund (\$115,000): This is a \$25,000 increase from the funding for the 2004 Budget. The increase reflects historical expenditures. On July 27, 2004 the Common Council approved a transfer from the Contingent Fund of \$21,919.26 to cover a shortfall in the 2004 Budget. This account helps defray the costs of the Fire Department Relief Association, established under Section 20-18 of the City Charter. The Association provides assistance to injured or fatally injured firefighters and their families. Funding is set per Charter, and represents 1/8 of the State Aids for Fire Insurance Premiums ("Fire Dues").

Low Interest Mortgage Program (\$10,000): This is a \$10,000 decrease from the \$20,000 provided for this account in the 2004 Budget. The Low Interest Mortgage Program Enterprise Fund was closed at year-end 1996 and all-outstanding mortgages transferred to the General Fund. No new loans have been made since 1985 and the General Obligation debt used to finance the mortgages has been retired. There are approximately 23 mortgages with an outstanding value of approximately \$306,482. This account will provide expenditure authority for servicing fees, insurance and foreclosure costs associated with those mortgages.

This special purpose account will require annual appropriations until the remaining mortgages are paid. The Department estimates 2004 revenue of \$30,000 from mortgage interest, which should decline as mortgages are repaid.

MMSD-Sewer User Charge Pass Through Less Cost Recovery from Sewer User Charge (net of \$1): This account provides authority to administer the billing of MMSD sewer user charges by the City. The account is revenue offset.

Pabst Theater Debt Service (\$213,000) This is a new SPA for 2005. Under the Captain Frederick Pabst Theater Renovation Lease and Cooperation Agreement with RACM, the City is obligated to provide a budget appropriation for debt service and debt administration costs on RACM revenue bonds issued for the renovation of the Pabst Theater. The City's Pabst Theater Board completed \$9 million in renovations in 2002. A fundraising campaign raised \$9 million, with \$233,683 in pledges still outstanding. RACM provided \$2.2 million of working capital with revenue bonds that mature in 2007. The City is obligated to fund debt service and debt administration costs under the cooperation agreement with RACM, which mandates a City budget appropriation. All of the required debt service, except for \$213,000 due in 2005 has been defeased in a bond redemption fund at U.S. Bank.

The outstanding fundraising pledges will be used before City appropriations for debt service and debt administration costs, to the extent collected. The project's fundraiser anticipates at least \$213,000 will be collected from the remaining \$233,683 in outstanding pledges. Therefore, estimated revenue of \$213,000 is budgeted to offset this appropriation.

Reserve for 27th Payroll (\$1,800,000): This is a \$100,000 reduction in funding from the funding provided in 2004. The reduction is based on projected salaries. Funds in this account are used for the accrual of extra days' salary costs beyond the annual standard of 26 pay periods. City employees are paid bi-weekly with the salary and wages recorded for full pay periods only. A 27th pay period occurs once every 11 years, most recently in 1994. The accruals are made in accordance with Generally Accepted Accounting Principles. Funding this SPA annually avoids a huge tax levy impact every 11 years when funds are required for the 27th pay period. The next year where 27 payrolls occur is 2005.

## Departmental Revenues

The increase in the revenue estimate for the Comptroller's Office of \$1,180,000 for 2004 is primarily related to an accounting change to comply with General Acceptable Accounting Principles (GAAP) by providing budget authority for underwriters' fees and debt insurance costs (See Page 2, Professional Services).

Category	2003 Actual	2004 Budget	% Change	2005 Proposed	% Change
Charges for Services	\$368,450	\$403,000	9.4%	\$1,180,000	192.8%

## ***Public Debt Commission Items***

### **Bond Rating**

The 2005 Comptroller's Office Proposed Budget provides staff, bond counsel, financial advisory and research support to the PDC so that it can execute its responsibilities and support the City's bond rating. The City's most recent general obligation bond rating from Standard & Poor's is AA, from Fitch is AA+, and from Moody's is Aa2.

### **Public Debt Amortization Fund Withdrawal**

As of December 31, 2003, the unsegregated Public Debt Amortization Fund (PDAF) totaled \$44.16 million. This was an approximately \$440,000 decrease from the comparable 2002 year-end balance.

On September 9, 2004, the Public Debt Commission approved a \$4.0 million withdrawal from the PDAF. The withdrawal is used to offset the tax levy impact of 2005 debt service. By the purchase and immediate cancellation of refunding bonds, the 2005 debt service tax levy is reduced by the amount of bonds refunded.

The current PDAF balance and withdrawal policy, adopted in 1997, utilizes measurements of non-self-sustaining (tax levy supported) general obligation (GO) debt outstanding as the basis for determining PDAF size and withdrawal parameters. The policy recommends limits on the annual PDAF withdrawal in a similar manner to those associated with the Tax Stabilization Fund withdrawal policy. The policy recommends that the unsegregated balance be maintained between a 15 percent minimum and a 20 percent maximum of such non-self supporting debt with a "target level" at the mid point between these ranges. The 15% and 20% limits are recalculated annually, and may affect the target balance. This positions the PDAF balance to respond to changes in outstanding debt levels, i.e., the PDAF target balance increases as non-self supporting outstanding debt levels grows. In fact, this is what has occurred over the past five years. Since 1997 the target balance in the PDAF has grown from \$47.6 million to \$73.9 million due to a 55.3% increase in the amount of tax levy debt outstanding.

Based on \$424.3 million of non-self sustaining GO debt outstanding, as of December 31, 2003, the 2003 minimum and maximum recommended limits for the PDAF balance are \$63.6 million and \$84.9 million, respectively. With a PDAF withdrawal of \$4 million in 2004 for 2005 debt service the 2004 projected PDAF year-end balance is projected to increase to \$44.6 million. The projected 2004 PDAF end of year balance of \$44.6 million is \$18.8 million below the \$63.4 million minimum balance recommended by the current PDAF reserve policy.



The withdrawal of \$4.0 million reduces the 2005 equalized debt service tax rate from \$2.85 to \$2.67 (7%). The table on page 9 shows the PDAF fund balance and withdrawal for the last 10 years.

<b>PUBLIC DEBT AMORTIZATION FUND (PDAF)</b> <b>HISTORICAL PREPAYMENTS (WITHDRAWALS)</b> (\$ in millions)		
YEAR (Dec.31)	AMORTIZATION FUND UNSEGREGATED FUND BALANCE (1)	PDAF PREPAYMENT (In Following Year)
1994	\$57.1	\$ 8.2
1995	\$56.9	\$11.2
1996	\$53.8	\$13.2
1997	\$53.1	\$11.0
1998	\$52.7	\$11.0
1999	\$45.1	\$11.5
2000	\$43.4	\$11.0
2001	\$43.7	\$ 7.0
2002	\$44.6	\$ 5.0
2003	\$44.1	\$ 4.0
2004	\$44.6 (estimated)	\$ 4.0

(1) Following the PDAF draw down for the subsequent year's budget

### Minority Underwriting Participation

The Public Debt Commission indicates it expanded minority participation in negotiated offerings in 2003. In 2002 and 2003, there was one negotiated bond issue each year with 20% EBE participation. In 2003, for Bond and Note issues, 26 bids were received, 9 of which included EBE firms (35%). In 2002, 19 bids were received, 2 of which included EBE firms.

The improvement between 2002 and 2003 can be attributed to the following:

- Implementation of a new policy where bidders have been informed that the selection criteria for future negotiated sales will be the inclusion of EBE firms on competitive bidding.
- Better reporting by the firms.

In 2004, 9 bids have been received with 2 including EBE firms (22%). There have been no negotiated bond issues in 2004. Beginning this year, bids on Revenue Anticipation Notes (RANs) have been excluded from the analysis because:

- The profit is very small on RAN issues, and does not attract syndicate bidding.
- EBE firms do not find it profitable to bid on RANs.

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