

FISCAL REVIEW SECTION – LEGISLATIVE REFERENCE BUREAU

EXECUTIVE SUMMARY: 2007 Budget Summary – Comptroller's Office

1. One City Payroll Assistant II position is proposed to be eliminated. (Page 1)
2. The 2007 Proposed Budget includes \$698,600 for the Professional Services account. This is a \$791,603 decrease in funding from the \$1,490,203 provided in the 2006 Budget. The decrease is mainly due to the transfer of debt underwriting fees to the debt service fund (Page 2)
3. In 2006, Virchow Krause & Company was hired to assess the efficiency and effectiveness of Office of Comptroller in fulfilling statutory responsibilities related to general accounting, voucher processing, payroll, and accounts receivable. (Page 3)
4. The Comptroller's Office indicates the audit pilot program continues to be successful and will be funded in the 2007 budget. As in the previous years, two auditing specialist positions will remain vacant to offset the cost of audit related consulting services.(Page 4)
5. The Comptroller's Office has requested \$691,500 in CDBG funding which will support the salaries and fringe benefits of certain positions in the Office. The Comptroller's Office indicates the proposed CDBG funding for the Comptroller's Office will be only \$639,272 and it will require \$52,228 in reprogramming funds in 2007 to cover the budget shortfall. (Page 5)
6. The 2006 Proposed Budget provides funding for the 8 special purpose accounts that will be administered by the Comptroller. (Pages 5, 6 & 7)
7. On September 1, 2006, the Public Debt Commission approved a \$7.3 million withdrawal from the PDAF. (Pages 8 & 9)
8. The Public Debt Commission indicates it continues to be successful in including EBE Underwriting Firms in negotiated sales but has had limited success in expanding EBE participation in competitive sales. (Pages 9 & 10)

FISCAL REVIEW SECTION – LEGISLATIVE REFERENCE BUREAU

DEPARTMENTAL BUDGET SUMMARY: Comptroller's Office

Expense Category	2005 Actual	2006 Budget	% Change	2007 Proposed*	% Change
Operating*	\$ 5,568,607	\$ 6,428,104	15%	\$ 5,578,279	-13%
Capital	\$ -	\$ -	0%	\$ -	0%
Positions	68	67	-1%	66	-1%

* includes O & M and non O & M Funded postions

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 Relations' 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. 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.
5. The 2004 Budget consolidated the Public Debt Commission's budget with the Comptroller's Office budget.

Personnel

The 2007 Budget Proposed Budget includes the following personnel changes:

1. One City Payroll Assistant II is proposed to be eliminated. In 2006, Virchow Krause & Company conducted a study of the efficiency and effectiveness of Office of Comptroller and recommended an adjustment in the level of payroll staffing (See Page 3).

Vacancies

Information System Auditor Senior – This position became vacant in August of 2004. The Comptroller's Office has worked with DER, but has been unsuccessful to date at finding a qualified candidate at the current salary pay grade. The 2007 budget transfers funding equivalent to the Information System auditor's salary from the salaries account to the professional services account to hire information technology (IT) consultants to help perform the City's IT auditing functions.

3 Auditing Specialists – One position will be filled as soon as possible. The other two positions have been vacant since 1999 and funding has been used to hire outside auditors that assist the internal audit staff (See pages 3 & 4).

City Payroll Manager – This position is vacant due to a retirement effective in September of 2006 and the Comptroller's Office intends on filling this position as soon as possible.

City Payroll Assistant - This position is vacant and is proposed to be eliminated in the 2007 budget (See Pages 1).

Operating Expenditures

Professional Services

The 2007 Proposed Budget includes \$698,600 for the Professional Services account. This is a \$791,603 decrease in funding from the \$1,490,203 provided in the 2006 Budget. The decrease is a result of reductions in the items shown below:

Debt Underwriter's Fees	\$ (821,000)
Other Debt Issuance Expenses	(22,900)
Audit Services	60,000
Miscellaneous Services	<u>(7,703)</u>
Total	\$ (791,603)

The decrease in the professional services funding request from 2006 is mainly due to the transfer of debt underwriting fees to the debt service fund. The audit consulting services increase is due to the transfer from the salaries account for IT audits.

Other Operating Services

In the 2007 Proposed Budget, \$100,500 is provided in the Comptroller's Office for Other Operating Services. This is a \$7,530 decrease in funding from the \$108,030 provided for this account in the 2006 Budget. The decrease is a result of reductions in the items shown on page 3:

Equipment Maintenance	\$ (3,980)
Rating Agencies Visits	(3,250)
PeopleSoft Training	(800)
Advertising	<u>500</u>
Total	\$ (7,530)

Comptroller's Office Efficiency and Effectiveness Study

In 2006, Virchow Krause & Company was hired to assess the efficiency and effectiveness of Office of Comptroller in fulfilling statutory responsibilities related to general accounting, voucher processing, payroll, and accounts receivable. The focus of the study was on service delivery and business process improvement opportunities. This study did not include a review of internal audit, the financial advisory division, or public debt.

The Report concluded that there are many strengths in Office of Comptroller operations including a high level of compliance with statutory requirements, a stable financial management system and systems support, a presence of internal controls relative to core financial processes, and timely reconciliations. The report did point out the Comptroller's Office needs to have systems linked to performance metrics, develop an ongoing review and documentation of procedures, and improve communications and collaboration with city departments.

The Report recommendations include:

- Establish a culture of continuous improvement (CI) that requires staff at all levels to be involved in continually assessing the "way of doing things."
- Establishing key performance benchmarks focusing on trending performance over time.
- Reengineer processes to a risk-based approach focusing on "value-added" reviews to ensure that resources dedicated to each function are at an optimal level to ensure control, but do not exceed that necessary to fulfill responsibilities.
- Enhance relationship with departments by improving communication methods and strengthening user groups and training.

Virchow Krause & Company estimated implementing the report's recommendations would result in long-term potential annual savings of approximately \$184,000 by adjusting the level of payroll staffing, increasing time utilization of the receptionist position, eliminating contract for data entry of payroll time and adjustments, and the implementing an Accounts Payable aging process.

Auditing

The Comptroller's Office indicates the audit pilot program continues to be a successful and will be funded in the 2007 budget. The program provides the Comptroller's Office and its staff auditors with technical consulting assistance in areas where staff does not have sufficient subject matter expertise. This has allowed the office to successfully complete some audits that may not have been possible without this consulting assistance. As in the previous years, two auditing specialist positions will remain vacant to offset the cost of audit related consulting services.

In 2001 the Comptroller issued an audit of the claims administrator for the City's Basic Health Plan, utilizing an employee benefit consulting firm for the insurance and medical aspects. In 2002, the office issued an audit of the Health Department's regulation of City restaurants, with technical assistance from the Wisconsin Department of Health and Family Services, the official regulatory agency for Wisconsin restaurants. Also in 2002, a consultant experienced in major computer system development projects assisted on an audit of a major City payroll system upgrade. In 2003, the office issued an audit of the MPD 3rd District Capital Project, utilizing assistance from a national consulting engineering firm. In 2005, the Comptroller issued the Security Risk Assessment of City Computer Networks, with technical consultant assistance. During 2006, outside consultants are assisting on an audit of the City Canal Street Capital project and audits of MPD overtime and the MPD crime data system. Technical consulting assistance is essential for the successful completion of these audits, which were requested by aldermen. The Comptroller's Office expects the Canal Street audit to be issued in 2006 and the MPD audits in 2007. In addition, during 2007, the Comptroller's Office plans to execute various IT security audits, some with consulting assistance. There will likely be other consultant-assisted audits in 2007 which have yet to be finalized.

The table below shows the audits completed in 2006.

Audits Completed in 2006	
<i>Subject</i>	<i>Date Issued</i>
Audit of 2005 W-2s	1/17/06
Audit of DPW Resident Preference and EBE Programs	2/16/06
Audit of DPW Procurement	4/6/06
Audit Treasurer Cash Storage	5/31/06
Audit of NIDC Loan Portfolio	6/19/06

The following audits are currently being conducted or are planned for 2006:

- Audit Comparison of Employee and Vendor Files
- Audit of Canal Street Capital Project
- Audit of BID Loans
- Audit of MPD Overtime
- Audit of MPD Crime Data System

- Audit of Water Cash Controls
- Audit of Tow Lot Cash Controls

In addition to the audits shown 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 also is currently supporting the Fraud Hotline.

CDBG Funding

For 2007, the Comptroller's Office has requested \$691,500 in CDBG funding to support the salaries and fringes for CDBG accounting and auditing services that are performed by a staff of 11 full-time positions and one part-time intern. The Comptroller's Office indicates the proposed CDBG funding for the Comptroller's Office will be only \$639,272 and it will need \$52,228 in CDBG reprogramming funds in 2007 to cover the budget shortfall.

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 \$92,000 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. The Comptroller's Office indicates the proposed HOME funding for the Comptroller's Office will be only \$89,000 office and may result in a budget shortfall of \$3,000.

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 2007 Proposed Budget provides funding for the 8 Special Purpose Accounts that will be administered by the Comptroller:

Annual Payment to DNR (\$7,100): The \$7,100 is the same amount as provided in the 2005 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 (\$22,000): This is the same amount provided in the 2006 Budget. This account funds the reimbursement of private citizens who serve on City boards and commissions for expenses related to their service. In 2000, the reimbursement was increased from \$15 to \$20 per meeting. 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 (\$180,000): 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.

Based on its annual analysis of recent data for this account, the Comptroller's Office requested \$200,000 to fund this SPA for 2007. The Proposed Budget reduced the request to \$180,000. The Comptroller's Office indicates that based on its analysis \$180,000 does not adequately fund this account and that level of funding could necessitate a request for a transfer from the 2007 Common Council Contingent Fund.

Contribution Fund-General (\$1,700,000): The \$1,700,000 is the same amount funding that was provided in 2006. The amount reflects the contributions that City departments, particularly the Library and Police Department, are expected to receive in 2007. 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 (\$117,000): This is a \$2,000 increase from \$115,000 that was provided in the 2006 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 (\$7,500): This is a \$2,500 reduction from the amount that was provided in the 2006 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 12 mortgages with an outstanding value of approximately \$119,000. 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 2007 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.

Reserve for 27th Payroll (\$1,500,000): This account is 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 2005. 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 2016. The Comptroller's Office had requested \$1.7 million to fund this SPA for 2007.

Departmental Revenues

The 2007 estimated revenue for the Comptroller's Office is \$545,000, a \$635,000 decrease from the 2006 estimate. The decrease is related to shifting budget authority for underwriters' fees and debt insurance costs to the debt service fund.

Category	2005 Actual	2006 Budget	% Change	2007 Proposed	% Change
Charges for Services	\$587,526	\$1,180,000	100.8%	\$545,000	-53.8%

Public Debt Commission Items

Bond Rating

The 2007 Comptroller's Office Proposed Budget provides staff, bond counsel, financial advisory and research support to the Public Debt Commission (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 AA+, and from Moody's Aa2.

Public Debt Amortization Fund Withdrawal

As of December 31, 2005, the unsegregated Public Debt Amortization Fund (PDAF) totaled \$46.5 million. This was an approximately \$1.5 million increase from the comparable 2004 year-end balance.

On September 1, 2006, the Public Debt Commission approved a \$7.3 million withdrawal from the PDAF. The withdrawal is used to offset the tax levy impact of 2007 debt service. The withdrawal is implemented by the purchase and immediate cancellation of notes, the proceeds of which are deposited to the Debt Service Fund, reducing the 2007 tax levy debt service by the amount of notes canceled.

The current PDAF balance and withdrawal policy, adopted in 1997, primarily 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 since 2000, the minimum target balance in the PDAF has grown from \$58.7 million to \$64.8 million due to amount of tax levy debt outstanding increasing from \$391.1 million at end of 2000 to \$432 million at end of 2005.

Based on \$432 million of non-self sustaining GO debt outstanding, as of December 31, 2005, the 2006 minimum and maximum recommended limits for the PDAF balance are \$64.8 million and \$86.4 million, respectively. With a PDAF withdrawal of \$7.3 million in 2006 for 2007 debt service the 2006 projected PDAF year-end balance is projected to increase to \$47.21 million. The projected 2006 PDAF end of year balance of \$47.2 million is \$17.6 million below the \$64.8 million minimum balance recommended by the current PDAF reserve policy.

The withdrawal of \$7.3 million reduces the 2007 equalized debt service tax rate from \$2.71 to \$ 2.45. Assuming a \$7 million transfer in 2007 from the Sewer Maintenance fund to the Debt Service Fund, the equalized debt service tax rate of \$2.38. The table on page 9 shows the PDAF fund balance and withdrawal for the last 10 years.

PUBLIC DEBT AMORTIZATION FUND (PDAF)

HISTORICAL PREPAYMENTS (WITHDRAWALS)

(\$ in millions)

YEAR (Dec.31)	AMORTIZATION FUND UNSEGREGATED FUND BALANCE (1)	PDAF PREPAYMENT (In Following Year)
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	\$45.0	\$ 4.0
2005	\$46.5	\$ 5.0
2006	\$47.2	\$ 7.3

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

EBE Underwriting Participation

As in prior years, the staff of the PDC has encouraged EBE firms to bid, and for lead firms to include EBE firms. However, the City Attorney has opined that in competitive sales, the City is limited to selecting the lowest cost bid without regard to EBE participation. PDC staff has met and spoken with minority firms, and have made it clear that participation in competitive transactions will be used as a significant selection criteria when selecting firms for the few negotiated transactions the City performs. Over the past few years, the PDC has instituted changes to further encourage minority participation, but has only achieved limited success.

In the underwriting business, all firms would prefer to spend their time and use their capital in engagements with: 1) High probability of execution; 2) High compensation; and 3) Low underwriting risk. That means minority firms direct their resources towards negotiated sales, not competitive sales. Only the large firms have sufficient capacity to allocate resources, on a meaningful and consistent basis, to competitive sale transactions with low probability of execution, low compensation, and high underwriting risk. All of the City's regular issuance of debt is by competitive sale, a State Law requirement for General Obligation Bonds.

Recent EBE Underwriting Participation

In 2005, the Public Debt Commission had two long-term competitive sales:

- \$47,325,000 Series 2005 N1/B2. The winning bidder was Piper Jaffray, a non-minority firm, and did not report a minority firm in the

underwriting syndicate. In total, 5 qualified bids were received, one of which reported including a minority firm in the underwriting syndicate.

- \$39,000,000 Series 2005 N9/B10. The winning bidder was Banc of America, a non-minority firm, and did not report a minority firm in the underwriting syndicate. In total, 11 qualified bids were received, none of which reported including a minority firm in the underwriting syndicate.

In 2005, the Public Debt Commission had two long-term negotiated sales:

- \$45,240,000 Refunding Series 2005 A5. Citigroup was selected as the lead manager with Loop Capital Markets, and Siebert Brandford Shank as minority underwriting firms.
- \$25,000,000 Variable Rate Series 2005 V8. Banc of America was selected as the sole manager. Due to the nature of variable rate bond issues, it was determined that it would not be beneficial to the City, nor fulfill the intent of EBE participation, to include an EBE firm.

As of September 30, 2006, the Public Debt Commission had one long-term competitive sale in 2006:

- \$108,850,000 Series 2006 N1/B2. The winning bidder was Merrill Lynch, a non-minority firm, and did not report a minority firm in the underwriting syndicate. In total, the Public Debt Commission received 12 qualified bids, none of which reported including a minority firm in the underwriting syndicate.

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