

FISCAL REVIEW SECTION – LEGISLATIVE REFERENCE BUREAU

EXECUTIVE SUMMARY: 2006 Budget Summary – Comptroller's Office

1. To reduce costs to meet State imposed property tax levy freeze the 2006 Budget Proposed Budget includes the following personnel change:

-1 Administrative Assistant II
(Page 2)

2. The 2006 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)
3. The Comptroller's Office has requested \$656,000 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. (Pages 5)
4. The 2005 Proposed Budget provides funding for the 8 special purpose accounts that will be administered by the Comptroller. (Pages 5, 6 & 7)
5. On September 14, 2005, the Public Debt Commission approved a \$5.0 million withdrawal from the PDAF. (Pages 7 & 8)
6. The Public Debt Commission indicates it has been successful in including EBE Underwriting Firms in negotiated sales but has had limited success in expanding EBE participation in competitive sales. (Page 9)

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DEPARTMENTAL BUDGET SUMMARY: Comptroller's Office

Expense Category	2004 Actual	2005 Budget	% Change	2006 Proposed*	% Change
Operating*	\$ 4,984,094	\$ 6,140,809	23%	\$ 6,428,104	5%
Capital	\$ -	\$ -	0%	\$ -	0%
Positions	70	68	-3%	67	-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 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 employe 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 provides to those TIDs with expenditures exceeding revenues (typically new TIDs).
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 2006 Budget Proposed Budget includes the following personnel changes:

1. One Administrative Assistant II position is proposed to be eliminated to reduce costs in order to meet State tax levy limits. It is anticipated the position's incumbent will fill the vacant Office Assistant IV.
2. One Administrative Specialist position's title changed to an Accountant II. The change reflects a labor agreement that shifted some City management positions to represented positions.

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 Comptroller's Office is requesting these funds be transferred to the department's Professional Services account to hire information technology (IT) consultants for the department's IT auditing functions.

Three Auditing Specialists – An Auditing Specialists position became vacant in July of 2005. The Finance & Personnel Committee approved the *Request to Fill Position* on July 21, 2005. The 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.

Office Assistant IV - This position became vacant in August of 2005 due to a promotion. The position is 100% CDBG funded and is being held vacant pending approval of CDBG funding.

Management Accounting Specialist - Sr. - This position became vacant in July of 2005. A *Request to Fill Position* was approved by the Finance and Personnel Committee on September 21, 2005.

City Payroll Assistant - Sr. - This position became vacant in September of 2005 due to a retirement. A *Request to Fill Position* was approved by the Finance and Personnel Committee on September 21, 2005.

Operating Expenditures

Professional Services

The 2006 Proposed Budget includes \$1,490,203 for the Professional Services account. This is a \$67,647 decrease in funding from the \$1,557,850 provided in the 2005 Budget. The decrease is a result of reductions in the items on page 3:

Debt Issuance Expenses	\$ (30,250)
Payroll & Financial System	(17,000)
Temporary Help	(15,000)
Miscellaneous Services	<u>(5,397)</u>
Total	\$ (67,647)

Other Operating Services

\$108,030 is provided in the Comptroller's Office for Other Operating Services. This is an \$8,050 decrease in funding from the \$116,080 provided for this account in the 2005 Budget. The decrease is a result of reductions in the following items:

Accounting Training	\$ (4,900)
PeopleSoft Training	(2,750)
Miscellaneous	<u>(400)</u>
Total	\$ (8,050)

Auditing

The Comptroller's Office indicates the audit pilot program continues to be a success and is continued in the 2006 budget. As in the past, two auditing specialist positions will remain vacant to offset the cost of audit related consulting services. Five audits using outside consulting services in collaboration with the Comptroller's Office internal audit staff have been completed. 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 City's restaurant regulation activities that was issued in August 2002 incorporated audit services by the Wisconsin Department of Health and Family Services. The audit of the PeopleSoft payroll system upgrade in November 2002 utilized a consultant with experience in major system development projects. The audit of the Police Department's communication center and 3rd district capital project, issued in October 2003, utilized a construction management and consulting firm. In 2004, a consultant assisted in a security risk assessment of the City Computer Networks with the report issued in April 2005. The Comptroller's Office indicates technical consulting assistance was essential for the successful completion of these audits.

The Comptroller's Office intends to use a consultant in its planned audit of the City's Canal Street project. Also, as a result of the computer security risk assessment report, further audits of the City's computer networks that will utilize consultants for the technical IT audit work are planned.

In addition to the audit pilot program, the Audit Division will continue its regular audit activities. The 2006 audit work plan has not been finalized. The tentative 2006 audit plan is shown on page 4:

Potential Audits for 2006

- *Audit of Canal Street Capital Project*
- *Audit of External Connections to City Wide Area Network*
- *Audit of MPD Crime Data System*
- *Audit of MPD Burglar Alarm Response Policy*
- *Audit of 2005 Treasurer Cashiering*
- *Audit of BID Loans*

The table below shows the audits completed in 2005.

Audits Completed in 2005	
<i>Subject</i>	<i>Date Issued</i>
Review of BID #8 Grants,	1/5/05
Audit of Library Intergovernmental Agreements	1/28/05
Audit of Residential Property Assessments	2/1/05
Audit of Fire Department Intergovernmental Agreements	3/16/05
Audit of City Leases	3/31/05
Computer Network Security Risk Assessment	4/20/05
Review of 100 Water Street Condominium Association Charges	6/23/05
Review of FMIS Pension Interface	6/29/05
Audit of City Contracts with Former Employees	7/15/05
Review of Proposed Ambulance Dispatch Fee	8/5/05
Audit of TID 48	8/17/05

The following audits are currently being conducted or are planned for 2005:

- Audit of 2004 Treasurer Cashiering
- Audit of Port Billings and Collections
- Audit of FMIS Security
- Audit of Municipal Court Cashiering
- Audit of DPW Resident Preference and EBE Programs
- Audit of DPW Procurement
- Audit Fraud Hotline Support

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.

Grant & Reimbursable Funding

For 2006, the Comptroller's Office has requested \$656,000 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. 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 \$89,000 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.

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 2006 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 a \$2,000 reduction from the amount provided in the 2005 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 (\$200,000): 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 \$230,000 to fund this SPA for 2006. The Proposed Budget reduced the request to \$200,000. The Comptroller's Office indicates that based on its analysis \$200,000 does not adequately fund this account and could necessitate a request for a transfer from the 2006 Common Council Contingent Fund.

Contribution Fund-General (\$1,700,000): The \$1,700,000 is a \$200,000 increase in funding from 2005. The increase reflects the increase in contributions that City departments, particularly the Library and Police Department, are expected to receive in 2006. 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 the same amount that was provided in the 2005 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): The \$10,000 is the same amount that was provided in the 2005 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 19 mortgages with an outstanding value of approximately \$227,308. 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 2006 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.

Departmental Revenues

The 2006 estimated revenue for the Comptroller's Office is \$1,180,000. The majority of the Comptroller's revenue is related to providing budget authority for underwriters' fees and debt insurance costs, with a small portion related to charges to the Water Works.

Category	2004 Actual	2005 Budget	% Change	2006 Proposed	% Change
Charges for Services	\$380,422	\$1,180,000	210.2%	\$1,180,000	0.0%

Public Debt Commission Items

Bond Rating

The 2006 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 is AA+, and from Moody's is Aa2.

Public Debt Amortization Fund Withdrawal

As of December 31, 2004, the unsegregated Public Debt Amortization Fund (PDAF) totaled \$45.04 million. This was an approximately \$877,000 increase from the comparable 2003 year-end balance.

On September 14, 2005, the Public Debt Commission approved a \$5.0 million withdrawal from the PDAF. The withdrawal is used to offset the tax levy impact of 2006 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 2006 debt service tax levy is reduced by the amount of notes canceled.

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 2000, the minimum target balance in the PDAF has grown from \$58.9 million to \$66.24 million due to a 12.5% increase in the amount of tax levy debt outstanding.

Based on \$441.6 million of non-self sustaining GO debt outstanding, as of December 31, 2004, the 2005 minimum and maximum recommended limits for the PDAF balance are \$66.24 million and \$88.32 million, respectively. With a PDAF withdrawal of \$5 million in 2005 for 2006 debt service the 2005 projected PDAF year-end balance is projected to increase to \$45.6 million. The projected 2005 PDAF end of year balance of \$45.6 million is \$18.6 million below the \$64.24 million minimum balance recommended by the current PDAF reserve policy.

The withdrawal of \$5.0 million reduces the 2006 equalized debt service tax rate from \$2.79 to \$2.58 (7.5%). A subsequent decision by the Budget Office to transfer \$1,625,000 in lease revenues from the General Fund to the Debt Service Fund results in an equalized debt service tax rate of \$2.50. The table below shows the PDAF fund balance and withdrawal for the last 10 years.

PUBLIC DEBT AMORTIZATION FUND (PDAF) HISTORICAL PREPAYMENTS (WITHDRAWALS) <i>(\$ in millions)</i>		
YEAR (Dec.31)	AMORTIZATION FUND UNSEGREGATED FUND BALANACE (1)	PDAF PREPAYMENT (In Following Year)
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	\$45.0	\$ 4.0
2005	\$46.5 (estimated)	\$ 5.0

(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 2004, the PDC had one long-term competitive sale: \$90,435,000 Series 2004 B1/N2. The winning bidder was Banc of America, a non-minority firm, and bid alone. In total, the PDC received 9 bids, 2 of which the bidder reported including minority firms in the underwriting syndicate.

In 2005, the PDC has had one long-term competitive sale: \$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, the PDC received 5 qualified bids, one of which reported including a minority firm in the underwriting syndicate.

In 2005, the PDC also have had one negotiated refunding for \$45,240,000. Citigroup was selected as the lead manager with Loop Capital Markets, and Siebert Brandford Shank as minority underwriting firms.

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