

## **CITY TREASURER'S OFFICE 2007 PROPOSED BUDGET**

### **Executive Summary**

1. The 2007 Proposed Budget for the City Treasurer's Office is \$2,885,100, essentially unchanged from the 2006 Budget. (page 1)
2. The number of positions in the Treasurer's Office – 59 -- is also unchanged. However, the number of FTEs is decreasing by 2/3 of one position because the department will be eliminating an Accountant I position following retirement of the incumbent in the spring of 2007. (page 2)
3. The allocation for Operating Expenditures in the department's 2007 Proposed Budget is \$658,295 ~ 2.3% higher than the 2006 Budget. The largest increase in Operating Expenditures is in the Information Technology Services category. (page 3)
4. The 2007 Proposed Budget includes two special funds for the City Treasurer: \$12,860 for property tax collection forms and \$17,000 for information systems support. The latter will be used to replace 12 computer workstations. (page 3)
5. The Treasurer's Office has no capital projects in the 2007 Proposed Budget. (page 3)
6. As for the investment function of the City Treasurer's Office, the Comptroller's Office estimates the City's rate of return on investments will be 5.0% in 2007, up from 3.5% in the 2006 Budget. As a result, the estimated General Fund investment revenue will also increase, from \$5,250,000 (2006 Budget) to \$7,633,000 in 2007. (pages 3 and 4)
7. The 2007 Proposed Budget provides \$9,855,000 for the County Delinquent Tax Fund – about 10% more than in 2006. The budgeted amount is based on historical expenditure trends. (page 4)
8. The Treasurer's Office has completed or is in the process of implementing all 7 recommendations of the Comptroller's 2005 audit of the Treasurer's cashiering activities. (page 5)
9. Department revenues are projected to be \$7.9 million in 2007 – 37.8% higher than the \$5.7 million in the 2006 Budget. This increase can be attributed to rising investment earnings. (pages 5 and 6)

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## 2007 PROPOSED BUDGET - CITY TREASURER'S OFFICE

### Summary by Legislative Reference Bureau – Research & Analysis Section

Expense Category	2005 Actual	2006 Budget	% Change	2007 Proposed	% Change
Personnel Costs	\$2,305,415	\$2,221,878	-3.6%	\$2,196,945	-1.1%
Operating Expend.	\$590,900	\$643,520	8.9%	\$658,295	2.3%
Equipment Purch.	\$7,930	\$0	-100.0%	\$0	0%
Special Funds	\$18,359	\$20,335	10.8%	\$29,860	46.8%
<b>TOTAL</b>	<b>\$2,922,604</b>	<b>\$2,885,733</b>	<b>-1.3%</b>	<b>\$2,885,100</b>	<b>0.0%</b>
Capital	\$148,075	\$0	-100.0%	\$0	0.0%
Positions	60	59	-1	59	0

#### **Department Function**

The City Treasurer receives and accounts for all money paid to the City, makes disbursements vouchered for payment by the Comptroller, invests City funds that are not needed to meet current expenditures, collects current property taxes and delinquencies for all six taxing jurisdictions within the City of Milwaukee, settles property tax collections on a pro-rata basis and remits to each taxing jurisdiction its share of the monies collected.

#### **Departmental Mission**

The mission of the City Treasurer's office is to fulfill the duties and responsibilities of the independently-elected City Treasurer, who serves as chief investment and revenue collection officer of the City of Milwaukee, as set forth in Wisconsin State Statutes, the City of Milwaukee Charter and Code of Ordinances, and Common Council Resolutions.

#### **Historical Information**

1. The 2001 Budget implemented an Automated Clearing House (ACH) debit system for property tax installment payments. The ACH debit system allows taxpayers who qualify to pay their installments through an automatic monthly deduction from their checking or savings account.
2. In 2002, the Treasurer's Office awarded a banking services contract to Wells Fargo Bank. The contract term is from March 1, 2002 to February 28, 2007.
3. In 2002, the Treasurer's Office implemented a pilot program that uses the Kohn Law Firm for the collection of delinquent real estate taxes prior to the City's pursuit of *in rem* foreclosure action. The pilot program was so successful that the department subsequently eliminated its Delinquent Tax Collection Services Section and made use of the Kohn Law Firm and the one-foreclosure-file-per-year policy permanent components of its delinquent tax collection function.

4. Due to national economic trends and federal interest rate policy, the rate of return on City investments managed by the Treasurer's Office has increased steadily in recent years, from 1.23% in 2003 to 3.05% in 2005 and an estimated 3.50% in 2006. General Fund revenues from investment have also increased, from less than \$2 million in 2003 to an estimated \$5,250,000 in 2006.
5. The 2005 Budget provided \$232,160 in capital improvement funding to upgrade the Treasurer's cashier system so that it can accommodate additional software upgrades and because technical support for the old software was becoming increasingly difficult to obtain. This money funded the purchase of new hardware and software, installation assistance and user training. The new web-based cashier system became operational in October, 2005.

## **2007 BUDGET HIGHLIGHTS AND ISSUES**

### **Personnel**

1. The 2007 Proposed Budget provides \$2,196,945 in funding for personnel costs, a decrease of \$24,933 (-1.1%) from the 2006 Adopted Budget.
2. The number of positions in the City Treasurer's Office is unchanged from 2006: 25 full-time, 4 part-time and 30 temporary/seasonal positions, for a total of 59. However, the number of FTEs is decreasing from 29.93 to 29.26.
3. The most significant personnel change for the Treasurer's Office in 2007 will occur in the spring of next year, when the Accountant I in the department's Financial Services Division retires. The department will keep this position vacant for the remainder of the year (hence the reduction in FTEs). The Accountant I's payroll administration duties (namely, the administration of court-ordered deductions from employee paychecks and the U.S. Savings Bond payroll deduction program) will be transferred to the payroll division of the City Comptroller's Office. The position's remaining duties will be absorbed by other staff in the Treasurer's Office.
4. Funding for Temporary Customer Service Representatives increases from \$62,587 in the 2006 Budget to \$79,030 in the 2007 Requested Budget – a 26.3% increase. This change is attributable to the fact that many staff members in the Treasurer's Office have considerable longevity and receive 5 or 6 weeks of vacation per year. Temporary help is needed to maintain service levels when these employees are permitted to take vacation (March through October).
5. The 2007 Proposed Budget also calls for the retitling of 2 supervisory positions to reflect the roles of these positions as division managers. The proposed changes are "Customer Services Supervisor" to "Customer Services Manager" and "Revenue Collection

Supervisor" to "Revenue Collection Manager". No salary-grade changes will accompany the title changes.

### **Operating Budget**

1. The 2007 Proposed Budget provides \$658,295 for Operating Expenditures, an increase of \$14,775 (2.3%) from the 2006 Budget.
2. On a percentage basis, the largest increase in Operating Expenditures is proposed for the Information Technology Services category (up 22.6% to \$31,395). This increase is necessitated by rising vendor software support service costs.

### **Special Funds**

1. Property Tax Collection Forms – The proposed amount for this fund (\$12,860) represents a 16.0% increase from the 2006 Budget figure. The increase stems from rising charges from the contractor that prints the forms.
2. Information Systems Support – The request for 2007 is \$17,000, 83.8% more than the 2006 funding level. The intended use of the 2006 funds was for the replacement of 7 workstations in the Financial Services Division. Due to unanticipated equipment breakdowns and Microsoft licensing requirements, these workstations were not replaced as planned. For 2007, the department intends to use this fund to replace 12 workstations in its Consumer Services Division. Replacement of the computers in the Financial Services Division will be postponed until 2008.

### **Capital Projects**

The City Treasurer has no capital project requests in the 2007 Proposed Budget.

### **Investment of City Funds**

The Office of the City Treasurer is responsible for the investment of all available "idle" City funds (funds not immediately needed to meet expenditures). Based on market conditions, the City Treasurer may invest idle funds in investment vehicles which provide the highest rate of return, while maintaining portfolio diversification, safety, and liquidity standards. Typical investment vehicles include US Treasury Securities, Certificates of Time Deposit, the State Local Government Investment Pool and Commercial Paper.

As the following table shows, between 2001 and 2005, City investments earned an average annual rate of return of 2.36%. In the same time period, the five-year average for General Fund investment earnings was \$3,534,800. The adopted 2006 Budget includes an estimated rate of return of 3.50%, with General Fund earnings for the year totaling \$5,250,000. However, the City Treasurer reports

**GENERAL FUND INVESTMENT EARNINGS**

<b>Year</b>	<b>Average Amount Invested</b>	<b>Average Annual Rate of Return*</b>	<b>Interest on Temporary Investments**</b>
2001	\$189,841,000	4.26%	\$5,381,000
2002	\$254,425,000	1.73%	\$2,942,000
2003	\$237,631,000	1.23%	\$1,941,000
2004	\$253,100,000	1.51%	\$2,546,000
2005	\$239,329,000	3.05%	\$4,864,000
<b>5 Year Average</b>		<b>2.36%</b>	<b>\$3,534,800</b>

\*AVERAGE ANNUAL RATE OF RETURN IS BASED ON TOTAL INTEREST EARNED FROM TEMPORARY INVESTMENTS.

\*\*INVESTMENT REVENUE CREDITED TO THE GENERAL FUND.

that for the first 7 months of 2006, the annual rate of return on City investments was 4.58%, with estimated earnings for the first 7 months alone totaling over \$5,279,000. Thus, it appears that the slide in City investment revenues in recent years has come to an end, and that a stronger investment market and higher federal interest rates are producing healthy investment returns for the City.

The 2007 Proposed Budget assumes that \$229 million will be available for investment purposes, \$4 million more than the estimated average daily investment balance assumed in the 2006 Budget. The Comptroller's Office projects the City's rate of return on investments for 2007 to be 5.00%, a full 1.5 percentage points higher than the rate of return projected in the 2006 Budget. The increased rate is attributable to current market conditions, trends and forecasts, including recent hikes in federal interest rates.

For 2007, the Comptroller's Office projects total investment revenue of \$11,450,000 based on the average daily investment balance of \$229 million and 5.00% rate of return. Of this revenue, \$7,633,000 will be credited to the General Fund and \$3,817,000 to the Public Debt Amortization Fund. One third of all interest revenue is credited to the PDAF pursuant to s. 67.101, Wis. Stats.

**County Delinquent Tax Fund**

The 2007 Proposed Budget provides \$9,855,000 for this account, an \$855,000 increase from the amount included in the 2006 Budget. The Delinquent Tax Fund account enables the City to purchase County delinquent real estate and personal property taxes from Milwaukee County. The City does not acquire any properties with this fund, but rather purchases Milwaukee County's delinquent taxes receivable. A 1987 intergovernmental cooperation agreement enables the Treasurer to consolidate the enforcement of tax receivables, which eliminates the need for duplicate tax collections by the City and County. Based on historical trends, the Treasurer's Office is projecting the purchase of \$9,855,000 in County delinquent tax receivables in 2007.

### **Comptroller's Audit**

In September, 2005, the Comptroller's Office completed an "Audit of the City Treasurer's Internal Controls Over Cashiering Activities". Based on the findings of this audit, the Comptroller's Office made 7 recommendations relating to management of the Treasurer's cashiering system. Subsequently, the City Treasurer concurred with all 7 recommendations and committed to implementing them as soon as possible. The recommendations and current status of the implementation of each are as follows:

<b>RECOMMENDATIONS OF COMPTROLLER'S 2005 AUDIT OF CITY TREASURER'S INTERNAL CONTROLS OVER CASHIERING ACTIVITIES</b>	
<b>Recommendation</b>	<b>Implementation Status (August, 2006)</b>
1. The Treasurer's Office should document all controls currently used, especially those relating to cash handling.	Completed.
2. City Treasurer management staff should physically observe the cashiering operations on a random basis.	Occurring on an on-going basis.
3. Treasurer's Office management should be responsible for observing security videos of the cashiering operations.	Additional software licenses are being purchased so that 9 management staff members will be able to access the security video via PC.
4. Every cash drawer should be dual-counted no less frequently than once every 2 weeks, with logs of the counts being maintained.	Implemented.
5. The City Treasurer should establish limits for the amount of cash that may be kept in a cashier's cash drawer.	Limit set at \$7,500 per drawer except for 3 days during payroll weeks.
6. The Treasurer's Office should implement a procedure requiring that a vault sign-in/sign-out or transaction sheet be completed every time cashiering staff enters or leaves the vault.	The alternative control of "continuous security camera surveillance of the vault area" will be expanded to 9 management positions.
7. Vault security cameras should be positioned so that they provide clear views of all activity within the vault.	Completed.

In addition, following completion of the audit, the City Treasurer acquired lockers for tellers to use for their personal belongings, so that such items are no longer kept at teller workstations.

### **Departmental Revenues**

The 2007 Proposed Budget projects that the Treasurer's Office will receive \$7,924,175 in total revenue, an increase of \$2,175,575 (37.8%) from the \$5,748,600 projected for 2006 in this year's budget. As the following table shows, all of this revenue growth will occur in the category of General Fund Investment Earnings, which is projected to account for 96.3% of the City Treasurer's total 2007 revenues. Revenues in all other categories are projected to decline in 2007. The large decrease in the "Charges for Services" category is attributable to a projected \$200,000 drop in revenues from the 10% delinquent-payment penalty for the Local Sewerage Charge. The projected revenue decline for "Licenses and Permits" (i.e., dog and cat licenses) is simply an adjustment to bring revenue estimates in line with 2005 actual revenue figures.

<b>TREASURER'S OFFICE REVENUES</b>					
<b>Sources</b>	<b>2005 Actual</b>	<b>2006 Budget</b>	<b>% Change</b>	<b>2007 Proposed</b>	<b>% Change</b>
Charges for Services	\$138,506	\$351,200	153.6%	\$156,075	-55.6%
Licenses and Permits	\$126,065	\$135,400	7.4%	\$126,100	-6.9%
Taxes and Payment in Lieu of Taxes	\$8,678	\$12,000	38.3%	\$9,000	-25.0%
General Fund Investment Earnings	\$4,864,117	\$5,250,000	7.9%	\$7,633,000	45.4%
<b>TOTAL</b>	<b>\$5,137,366</b>	<b>\$5,748,600</b>	<b>11.9%</b>	<b>\$7,924,175</b>	<b>37.8%</b>

### **Collection of Delinquent Taxes**

In addition to collecting property taxes due in the current year, the Treasurer's Office also administers the City's delinquent tax collection program. Through the current and delinquent tax collection process, the Treasurer's Office ultimately collects 99% of all property taxes due the City (net tax levy) and over 90% of the delinquent property taxes owed to the City. The following table summarizes the department's delinquent tax collection efforts for the past five tax years.

<b>SUMMARY OF TREASURER'S TAX COLLECTION EFFORTS, 2001-2005, AS OF 9/6/06</b>				
				<b>Pct. of Year's Total</b>
<b>Year</b>	<b>Total Delinq.</b>	<b>Pct. Redeemed</b>	<b>Still Outstanding</b>	<b>Tax Levy Still Outstanding</b>
2001	\$35,243,332	93.55%	\$680,097	0.17%
2002	\$37,310,523	94.82%	\$934,183	0.22%
2003	\$39,380,624	93.53%	\$1,594,110	0.36%
2004	\$40,299,794	86.06%	\$5,083,490	1.08%
2005	\$42,433,245	48.73%	\$21,751,705	4.38%

As this table indicates, by the time 3 years have passed since the close of a tax collection cycle, well over 90% of that year's delinquent property taxes have been collected and the amount of delinquent property taxes outstanding is less than 1% of that year's total tax levy. This table also shows that the majority of outstanding delinquent taxes are from the most recent levy year. In fact, the Treasurer reports that as of September 6, 2006, the total value of City tax delinquencies was \$31,979,657. The \$21,751,70 owed from 2005 accounts for 68% of this total, while the \$30,043,585 owed from the last five years combined accounts for 94% of all delinquent property taxes.

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