



REPORT

LEGISLATIVE REFERENCE BUREAU

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7. Treasurer's Office, 2015

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7. Treasurer's Office

\$3,024,974

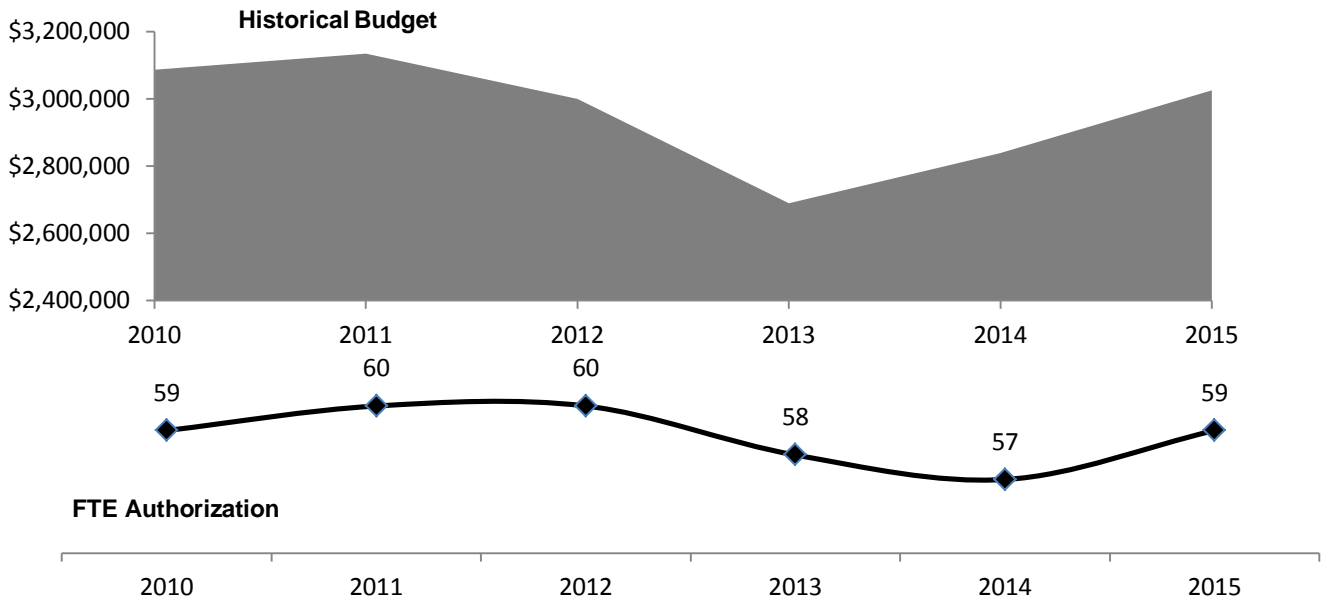
Proposed Department Budget

\$186,730

Nominal Change in Proposed Department Budget

6.58%

Percent Change in Proposed Department Budget



3.4%

Percent Change in FTE 2014 to 2015 Proposed

2

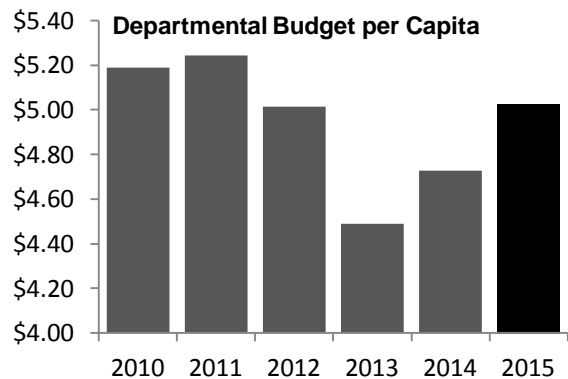
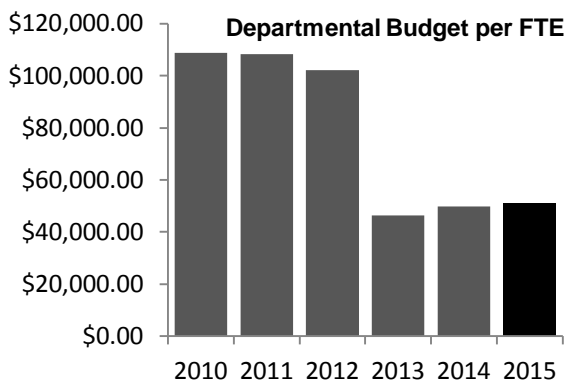
Nominal Change in FTE 2014 to 2015 Proposed

0

Vacant Positions

15%

% Eligible for Retirement within 10 years



0.19%

2014 year-to date short-term pooled cash return, which beat the Wisconsin Local Government Investment Pool benchmark return for the same period.

748

Number of *in rem* properties acquired in 2013.

3.3%

Increase in 2015 estimated total revenue to approximately \$3 million. The increase is primarily due to an increase in the Penalty and Interest Revenue estimate.

1,101

Number of *in rem* filings in 2013, the same number as projected for 2015.

-8.9%

The reduction in tax delinquent accounts after the Special Charges installment plan was initiated.

5,820

Number residents who dropped off tax payments at US Bank, up from 3,504 in 2013.

53%

Percent of delinquent accounts collected of the \$26.6 million referred to the Kohn Law Firm.

\$771,693

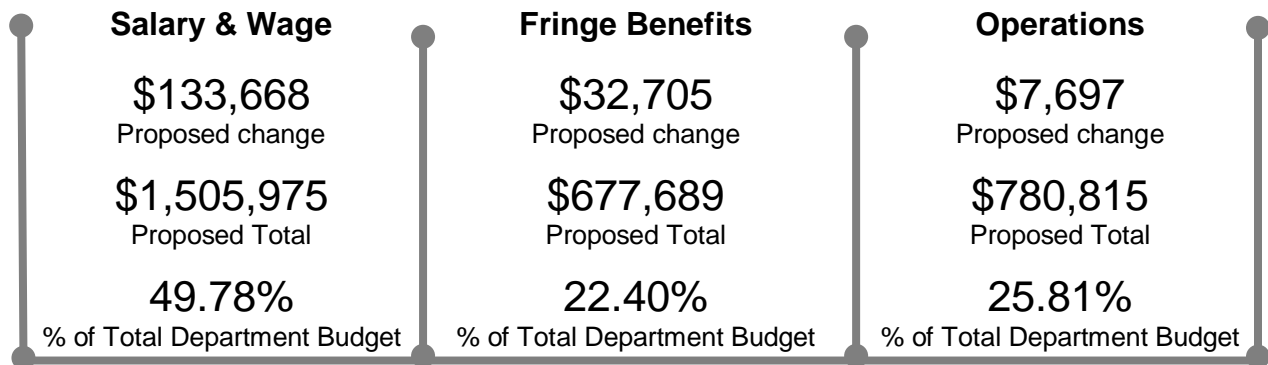
Amount of the City's pooled cash investment earnings in 2013.

68%

In-rem property acquisition rate in 2013.

\$1.2 million

Amount provided in ITMD's capital budget for the Treasurer's 2-year, \$2 million tax collection system replacement project.



I. INITIATIVES AND PROGRAMS.

1. "Pooled" Cash Investment Program.

In July, 2012, authority over the City's "pooled" cash investments was transferred back to the Treasurer from the Comptroller's Office.

"Pooled" cash refers to the City's idle cash reserves - cash received by the City but not yet needed to pay immediate expenses. The Treasurer maintains two pooled cash investment accounts: a short-term account managed by the Treasurer, and a long-term account managed under contract with BMO-Harris Bank. Table 7.1 summarizes average daily amounts invested in pooled cash accounts, 2013 earnings, annual returns and benchmark returns.

Table 7.1. 2013 Pooled Cash Investment Account Summary.

	Average Daily Balance	Annual Return	Benchmark Return	2013 General Fund Earnings
Short-term	\$197,730,250	0.2162%	0.0867%	\$299,638
Long-term	\$75,789,420	0.0515%	0.4200%	\$472,055
Total Earnings				\$771,693

Long-term earnings and returns are net of BMO-Harris' \$53,831 management fee. The Wisconsin Local Government Investment Pool is the benchmark used for short-term cash investments while the Bank of America Merrill 1-3 year Gov/Corp Index AA or Better is the benchmark use for long-term pooled cash investments.

Short-term pooled cash earnings in 2011, before the City initiated its long-term cash investment strategy, were \$303,000. In 2013, the long-term portion of pooled cash investments and short-term investments combined to increase pooled cash earnings \$468,693 or 155%, over 2011 earnings.

Annual returns in Table 7.1 are based on total short-term earnings of \$449,457 and total long-term earnings of \$708,083. The City is required by state law to segregate one-third of all earnings on cash investments for the Public Debt Amortization Fund. Total earnings of \$771,693 inured to the City's General Fund while \$385,847 inured to the Public Debt Amortization Fund for a total of \$1,157,540 in total short and long-term pooled cash earnings.

Long-term investments of pooled cash reserves – which by definition may from time to time be needed to pay immediate expenses - are only possible because the City has established by ordinance that the City will use its borrowing capacity to temporarily borrow funds to pay occasional short-term cash needs for operations. The idea is that as long as the City's cost to borrow funds is less than its yield on long-term cash investments, the City is better off borrowing for purely short-term cash flow needs and maintaining its long-term cash investments.

The Comptroller's Office reports there was no borrowing in 2013/2014 specifically because of the \$75 million Enhanced Pooled Cash investments. However, pooled cash needs are taken into account when structuring the City Revenue Anticipation Notes (RANs) (\$125 million) and

the MPS RANs (\$195 million). In theory, the City RANs could be reduced by \$75 million if the enhanced pooled cash investments were available for daily needs. A City RAN borrowing at 0.15% for 9 months costs approximately \$65,000. That cost is offset by pooled cash earnings.

Through August 2014, the average daily balance of pooled short-term cash was \$247,192,144 and year-to-date earnings were \$310,989 for a 0.19% return. The Wisconsin Local Government Investment Pool benchmark return for the same period was 0.08626%.

Through August, 2014, the \$76,657,116 balance in BMO-Harris' long-term pooled cash account earned \$490,129 for an annualized yield of 1.0% before management fees. Approximately \$327,000 inures to the City's General Fund while the remaining \$163,000 inures to the Public Debt Amortization Fund.

2. *In rem* Foreclosures for Unpaid Taxes

Over the last 5 years (2009-2013), the Treasurer has filed 5,225 *in rem* foreclosures and acquired 3,082 properties for an acquisition rate of 59%. In 2013, there were 1,101 filings, and 748 properties were acquired for an acquisition rate of 68%.

Although foreclosure acquisitions are ultimately a significant problem for the overall fiscal health of the City, the immediate problem for the Treasurer is the burden of processing so many foreclosure filings. Each filing takes vast amounts of staff time. The department bundled filings for 2012 into 3 groups to smooth out the workload. In 2011, there were 4 filing groups, but the department switched to 3 to avoid impinging on the tax collection season. The department did 5 filings in 2014.

In 2015, the department projects 5 *in rem* filings against 1,100 tax delinquent parcels, with 750 property acquisitions.

In addition to pursuing *in rem* tax foreclosure actions, the City Treasurer refers delinquent tax accounts to the Kohn Law Firm for collection. In November 2013, 8,825 accounts totaling \$26.6 million were referred to the firm for collection. Of the \$26.6 million placed, the Kohn Law Firm has collected \$14.1 million, or 53% as of August 2014.

3. Procedural Improvements.

A total of 5,820 residents took advantage of the department's new service which allows residents to drop off tax payments at 13 US Bank locations in 2014, up from 3,504 in 2013. The drop-off service appeals to residents who are not seeking immediate refunds or receipts, and who generally pay "in person" at City Hall.

Beginning in December, 2013, most Special Charges became eligible for the City's installment payment plan. In the past, water bill charges were the only "special" that could be paid in installments, and the tax obligations of many responsible residents became delinquent because they could not afford what can be a substantial upfront payment for Special Charges. The Special Charges installment plan reduced the number of delinquent accounts by 1,762 (10.6%) from 16,665 (\$59.2 million) in 2012 to 14,903 in 2013 (\$54 million).

A simple change to dunning letters sent by the City Attorney – the inclusion of a tax payment coupon at the bottom of the letter did facilitate easier tax payments for both residents and the department.

Finally, moving the final dunning notice up from April to the previous November will give the City's collection agent a full 12 months to make collections rather than the typical 6 months. The change reduced the number of accounts returned for *in rem* foreclosure.

II. EXPENDITURES.

Table 7.2. Changes in Expenditure Amounts by Account.

Expenditure Account	2013 Actual Expenditures	2014 Adopted Budget	Change	2015 Proposed Budget	Change
Salaries and Wages	\$1,356,166	\$1,372,307	1%	\$1,505,975	10%
Fringe Benefits	\$628,422	\$644,984	3%	\$677,689	5%
Operating Expenditures	\$667,231	\$773,118	16%	\$780,815	1%
Equipment Purchases	\$1,873	\$0	-100%	\$12,660	+100%
Special Funds	\$35,159	\$47,835	36%	\$47,835	0%
Total Operating Budget	\$2,688,851	\$2,838,244	6%	\$3,024,974	7%

1. Budget Summary.

The total 2015 Proposed Budget of \$3,024,974 is an \$186,730 (7%) increase from the 2014 Adopted Budget amount of \$2,838,244. Approximately 90% of the increase comes from a \$166,373 increase in personnel costs (salaries and fringe benefits).

2. Personnel Costs.

Personnel costs in the 2015 Proposed Budget are \$2,183,664, an increase of \$166,373 (8%), Salaries and wages increased by \$133,668 (10%) and fringe benefits increased by \$32,705 (5%). The majority of the increase can attributed to the addition of the Tax Collection and Enforcement Coordinator position (\$58,039) and restoration of funding for the Network Coordinator Associate position (\$57,688). The general City salary increase, the elimination of furlough days and an increase in temporary staff hours during the tax collection period also contribute to the increase in personnel costs.

3. Operating Expenditures.

Operating Expenditures proposed for 2015 increase slightly \$7,697 (1%) from the 2014 Adopted Budget. Table 7.3 shows a breakdown of the changes in various accounts. The 2015 changes primarily reflect 2013 actual expenditures with an adjustment for anticipated increases in costs.

Table 7.3. 2015 Changes in Operating Expenditures.

Operating Expenditure Category	Change
General Office Expense	\$3,950
Other Operating Supplies	\$8,057
Information Technology Services	\$4,775
Property Services	(\$2,150)
Other Operating Services	(\$6,700)
Reimburse Other Departments	(\$235)
Total	\$7,697

4. Equipment Purchases.

The 2015 Proposed Budget includes \$10,000 for the replacement of the Treasurer's Office Letter/Envelope Opener. The current Envelope/Letter Opener is aging and requires frequent replacement of its belts. By being able to open letters and envelopes and time stamp them simultaneously, the new Envelope/Letter Opener will be more efficient than the current one.

The 2015 Proposed Budget also includes \$2,660 for the purchase of 7 chairs in the Administration and Tax Enforcement Division.

5. Special Funds.

The Treasurer replaces computer hardware on a 4-year cycle, and funds these annual replacements through the Information Systems Support Special Fund. Replacements for 2015 are projected to be \$28,435, the same as the 2014 Adopted Budget. Actual expenditures for 2013 were \$23,382 or \$5,053 less than budgeted. This regular replacement cycle ensures the Treasurer's Office always has the computer processing capacity to run the software banks and the federal government require the department to use.

The Treasurer's 2015 proposed Special Funds account also includes \$19,400 for Property Tax Collection Forms, the same as the 2014 Budget. This funding provides for the purchase of 185,000 combined tax bill forms, 125,000 delinquent tax bill forms and 300,000 installment tax bill forms. Milwaukee County reimburses the Treasurer's Office for these expenditures.

III. PERSONNEL.**Table 7.4. Changes in Full-Time Equivalent (FTE) and Authorized Positions.**

Position Category	2013 Actual Spending	2014 Adopted Budget	Change	2015 Proposed Budget	Change
O&M FTE's	27.44	27.45	0.0%	29.68	+8%
Non-O&M FTE's	0.00	0.00	0.0%	0.30	+100%
Total Authorized Positions	58	57	-1.7%	59	3.5%

1. Personnel Changes.

The 2015 Proposed Budget includes the addition of the Tax Collection and Enforcement Coordinator position (\$58,039) and restoration of funding for the Network Coordinator Associate position (\$57,688).

The Tax Collection and Enforcement Coordinator position will address the increased workload the Treasurer's Office has experienced in regards to tax collection and enforcement, including collection law firm oversight and coordination, bankruptcy administration, in rem tax foreclosures and the vacation of foreclosure judgments.

Funding for the Network Coordinator Associate position is restored because the position is needed to provide assistance in the implementation of 2 computer system upgrades, the iNovah Cashier System upgrade and the replacement of the Tax Collection System.

2. Vacancies.

None.

IV. SPECIAL PURPOSE ACCOUNTS (SPA).

The Office of the Treasurer is not responsible for any Special Purpose Accounts.

V. REVENUES.

Table 7.5 shows the 2015 estimated revenue for the Treasurer's Office. The Treasurer's Office 2014 revenue estimates are primarily based on the actual revenue received in 2013. Estimated 2015 revenues are \$3,016,100, a 3% increase from the 2014 revenue estimate of \$2,919,300.

Based on the 2013 actuals the 2015 Penalty and Interest estimate is increased 15.2% to \$1,905,700. The increase in Penalty and Interest Revenue is offset by a 24.3% reduction in the 2014 General Fund Revenue estimate which is due to the low interest rates that continued to exist in 2013.

Table 7.5. Changes in Revenue by Category.

Revenue Account	2013 Actual	2014 Adopted Budget	% Change	2015 Proposed Budget	% Change
Licenses	\$84,100	\$84,400	0.4%	\$84,100	-0.4%
Service Charges	\$108,100	\$112,800	4.3%	\$117,900	4.5%
Interest & Penalty	\$1,905,700	\$1,654,400	-13.2%	\$1,905,700	15.2%
General Fund Investment Revenue	\$771,693	\$832,200	7.8%	\$630,100	-24.3%
Miscellaneous	\$321,700	\$235,500	-26.8%	\$278,300	18.2%
Total	\$3,191,293	\$2,919,300	-8.5%	\$3,016,100	3.3%

VI. CAPITAL PROJECTS.

The 2015 Proposed Budget includes no funding in the Treasurer's Office for capital projects. However, funding has been proposed (\$1.2 million) in the Department of Administration – ITMD Capital Budget to begin a 2-year, \$2 million, project that will replace the Treasurer's Tax Collection System.

The current tax collection system was designed in 1982 using the COBOL computing language. It is becoming increasingly difficult to recruit new personnel with the skillset required to support the system. In addition, support for Version 5 of the base operating system will end as of December 31, 2014. The hardware currently in use in the Treasurer's Office is not compatible with Version 6.

In June 2012, the Legislative Reference Bureau responded to a request from DOA-ITMD to perform a survey of tax collection software used by other U.S. cities and other cities in Wisconsin. The LRB surveyed 14 U.S. cities which were similar in population to Milwaukee and the 10 largest cities in Wisconsin. The results of the survey are available from the LRB.

VII. ISSUES TO CONSIDER.

1. Revisiting the state statute requiring the one-third of pooled cash investment earnings and delinquent tax interest to be deposited in the Public Debt Amortization Fund. The substantial increase in earnings from long-term investments is a "windfall" for the PDAF.
2. There may be an opportunity to combine the Tax Collection System with a system that will support City Assessor functions. The 2015 Proposed Budget includes \$1.2 million for the first year of a 2-year project to replace property assessment software. If 2 separate systems are purchased, the systems will have to be configured to work together.

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3. In addition to property tax debt, many property owners with delinquent property taxes have other types of debt such as credit card debt that can be potentially reduced through the use of credit counselors at non-profit organizations. Allowing the Treasurer's Office to refer tax delinquent property owners to debt counselors at non-profit organizations to receive advice on reducing their total debt may lead to a reduction in the number of properties that are foreclosed upon.

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