



COUNTY OF MILWAUKEE  
Office of the Comptroller  
**Scott B. Manske, Comptroller**

# Milwaukee County Receivables as funding for County's Arena Commitment

Milwaukee County's Receivables and its Collectability

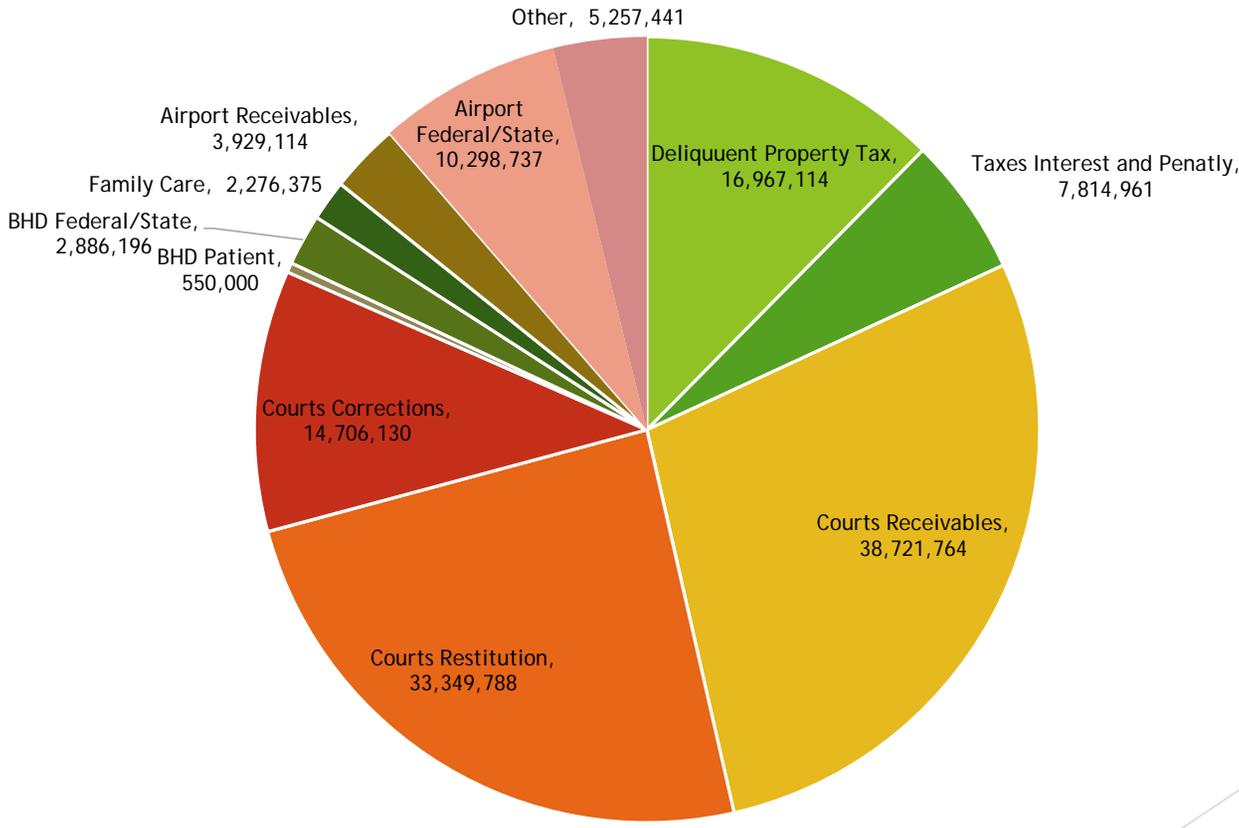
# Proposal For Collection of County Receivables to Pay for Debt Commitment of \$80 Million

- ▶ The Comptroller has not been provided with a detailed plan for the funding.
- ▶ It was reported that the County would be making a commitment of \$55 million toward the building of a new arena that would be borrowed on behalf of the County.
- ▶ Interest cost would be approximately \$25 million.
- ▶ Total cost including interest would be \$80.0 million.
- ▶ Payments would be \$4.0 million per year for a period of twenty years.
- ▶ Funds would be derived from the State taking over the cash collection of receivables from Milwaukee County.
- ▶ The State would take the first \$4.0 million of collections each year to meet County commitment.
- ▶ Statements have been made that an acceleration of the payment of County receivables and an increase in collections would meet the cash flow needs, plus not require any additional commitment of County resources.

## Does this plan work? The Comptroller:

- ▶ Reviewed County receivables as of December 31, 2014.
- ▶ Determined Receivables that would be available for a collection program that would be run by the State.
- ▶ Examined Collectability of Applicable County Receivables
- ▶ Held discussions with the State Collection program and other Collection programs.
- ▶ Determined if cash flow would be adequate to meet Annual \$4.0 million payment.
- ▶ Calculated impact of accelerating payment of receivables.
- ▶ Calculated impact of increasing collection percentage of receivables.
- ▶ Calculated impact of increasing a activity for each receivable
- ▶ Determined if improvement in receivable collection would be adequate to meet \$80 million commitment without using alternative sources.

# Breakdown of County's Receivables



## County's Receivables not available for arena

Type	Amount
Courts Restitution	\$33,350,000
Courts Corrections	\$14,706,000
BHD Federal and State Reimbursement	\$2,886,000
Family Care	\$2,276,000
Airport Receivables	\$3,929,000
Airport State and Federal Reimbursement	<u>\$10,299,000</u>
Total Exemptions	\$67,446,000
Total Receivables before exemptions	<u>\$136,758,000</u>
Total Net Receivables for arena plan	\$69,312,000

# Receivables Studied for Collection

Outstanding Receivable	Collection %	Outstanding Balance
Courts Fees	48.8%	\$5,418,000
Courts Traffic Fines	86.5%	\$16,237,000
Courts Criminal Fees	81.3%	<u>\$17,067,000</u>
Total Courts		\$38,722,000
Delinquent Property Taxes	95.0%	\$16,967,000
Taxes Interest & Penalties	92.0%	<u>\$7,815,000</u>
Total Property Taxes		\$24,782,000

# Courts Receivables

- ▶ Receivables resulting from court awarded restitution is not available for the County to spend. (\$33.3 million)
- ▶ Court Corrections receivables are not available due to the payees being in State institutions. (\$14.7 million)
- ▶ Based on 2014 year end, approximately \$39 million in non-restitution courts receivables are outstanding.
- ▶ Courts receivables are burdened with fees and the majority of the fees are payable to the state not the county. Rule of thumb is that the split between the County and State is 70% State and 30% County.
- ▶ Will the state forgo its share of the fees for the first \$4 million in collection earmarked for the arena debt?

# Delinquent Property Taxes

- ▶ Taxes due on January 31. 18% annual interest begins to accrue on delinquencies from February 1.
- ▶ Unpaid property taxes from municipalities transfer to the County on September 1.
- ▶ Currently, the County collects 95% of the delinquencies within ten years.
- ▶ The 2015 Adopted Budget anticipates \$3.5 million to be received from the interest and penalties on delinquent property tax payments.
- ▶ Investment of any accelerated payments is unlikely to offset the loss of the interest penalty.
- ▶ What is the impact of the 90 day window that the State collections program uses?

# Age of the County's Receivables

- ▶ Some of the County receivables have been owed to the County for a long time. The table on the next slide details the age of the receivables in Delinquent Property taxes, Taxes interest and Penalties and Courts receivables.
- ▶ The table on the slide also shows the impact if a reasonable assumption of what amount of these receivables is uncollectible and should be written off.

# Age of County Receivables

Type	Collection %	Age less than 5 years	Age 5 to 10 years	Age 10 years and older	Write-off	Net Receivable
Court Fees	48.8%	\$3,628,400	\$1,293,000	\$497,000	(\$4,459,000)	\$959,400
Courts Traffic Fines	86.5%	\$6,440,500	\$6,071,000	\$3,725,000	(\$13,491,000)	\$2,745,500
Courts Criminal Fines	81.3%	\$7,360,000	\$4,837,000	\$4,870,000	(\$14,213,000)	\$2,854,000
Delinquent Prop Tax	95.0%	\$15,141,000	\$1,521,000	\$305,000	(\$3,079,000)	\$13,888,000
Taxes Interest & Pen.	92.0%	<u>\$5,465,000</u>	<u>\$1,439,000</u>	<u>\$911,000</u>	<u>(\$838,000)</u>	<u>\$6,977,000</u>
Total Receivables		\$38,034,900	\$15,161,000	\$10,308,000	(\$37,899,000)	\$27,423,900

## Remaining Receivables Outstanding after Write-off adjustment

Type	Collection %	Outstanding Balance	Annual Activity	Collections
Court Fees	48.8%	\$959,400	\$1,500,000	(\$677,000)
Courts Traffic Fines	86.5%	\$2,745,500	\$6,220,000	(\$6,136,000)
Courts Criminal Fines	81.3%	\$2,854,000	\$5,751,000	(\$3,747,000)
Delinquent Prop Tax	95.0%	\$13,888,000	\$9,659,000	(\$11,660,000)
<u>Taxes Interest &amp; Penalty</u>	<u>92.0%</u>	<u>\$6,977,000</u>	<u>\$4,259,000</u>	<u>(\$3,668,000)</u>
Total		\$27,423,900	\$27,389,000	(\$25,888,000)

# State of Wisconsin's debt collection program

- ▶ Relatively new and expanding program. Created as a pilot project in the 2007-2009 biennial budget.
- ▶ 7.0 seven full-time employees with 11.0 additional positions requested in the state budget.
- ▶ 70 municipalities, 25 state agencies and all UW campuses currently participating.
- ▶ Program reports the balance of debts outstanding since the end of 2013-14 through February of 2015 has been between \$48 and \$49 million. Collection rate of 28%. Due to the relative newness of the program, its collection rate shouldn't be compared to the County's.
- ▶ Under the state collection program, DOR charges a fee equal to the greater of \$35 or 15% of the debts certified to be collected. The fee is charged to the debtor in addition to the debt amounts collected.
- ▶ State Program has ability to use additional tools not available to the County.

# Annual Cash Flow - Cash Flow is Adequate to Meet Annual Commitment

An analysis was conducted utilizing 2014 receivable activity in Courts and Delinquent Property Taxes to determine that there are enough influx of funds to the County during each year to provide cash of \$4 million in order to make the arena payment. Generally, the payment would be made from the first two months of cash flow as noted below.

Type of Activity	1-2 months	3-6 months	6-12 months	Total
New Activity	\$2,770,000	\$6,348,000	\$17,905,000	\$27,023,000
Collections	(\$4,797,000)	(\$8,767,000)	(\$12,197,000)	(\$25,761,000)

# Impact of State/County Fee Split

Based upon the history of receivables for the County, it is anticipated that the portion of the \$4 million annual payment that will be derived from Courts fees is \$1,775,000 and from Delinquent Property Taxes is \$2,225,000.

The table below shows the impact of the split with the State of Court fees and how important obtaining an answer on the distribution is to the County. If the State agrees to forgo its proportionate share until the \$4 million has been raised for the arena, it would provide an offset of approximately \$1,242,000 of the annual payment.

Entity	Proportional Share	Amount
County	30%	\$533,000
State	<u>70%</u>	<u>\$1,242,000</u>
Total	100%	\$1,775,000

# Issues - Speed of Collections

- ▶ Will participation in the state collection program accelerate the receipt of past due receivables in the initial years of program?
- ▶ Will this make more money available to fund the Arena?
- ▶ Would the acceleration of delinquent property tax collections decrease the amount of interest revenue available annually?
- ▶ The next table analyses the impact of an accelerated collection from seven years to four years.

# Acceleration of Payments from 7 to 4 years

	Court Fees	Traffic Fees	Criminal Fees	Prop Tax	Total Impact
Current Collection Year 7					
Current %	48.85%	86.50%	81.34%	95.00%	
Proposed Collection Year 4					
Proposed % (Unchanged)	48.85%	86.50%	81.34%	95.00%	
<b>Impact 1.0% increase</b>					
Total Amount Collected	\$757,000	\$895,000	\$1,049,000	(\$2,846,000)	(\$145,000)
County Share Only	\$227,000	\$269,000	\$315,000	(\$2,846,000)	(\$2,035,000)
<b>Impact 5.0% increase</b>					
Total Amount Collected	\$1,569,000	\$1,710,000	\$2,000,000	\$1,324,000	\$6,603,000
County Share Only	\$471,000	\$513,000	\$600,000	\$1,324,000	\$2,908,000

# Issue-Collection Rate

- ▶ Will participation in the state collection program result in additional funds for the county?

# Increase Collection Percentage

	Court Fees	Traffic Fees	Criminal Fees	Prop Tax	Total Impact
Current Collection Year 7					
Current %	48.85%	86.50%	81.34%	95.00%	
Proposed Collection Year 7 (Unchanged)					
Proposed %	53.73%	95.15%	89.47%	99.75%	
<b>Impact 1.0% increase</b>					
Total Amount Collected	\$1,471,000	\$11,503,000	\$9,991,000	\$16,221,000	\$ 39,186,000
County Share Only	\$441,000	\$3,451,000	\$2,997,000	\$16,221,000	\$ 23,110,000
<b>Impact 5.0% increase</b>					
Total Amount Collected	\$2,116,000	\$17,093,000	\$14,846,000	\$24,085,000	\$ 58,140,000
County Share Only	\$635,000	\$5,128,000	\$4,454,000	\$24,085,000	\$ 34,302,000

# Combining Acceleration and Improvement in Collection Rate

- ▶ What will be the impact of combining both be towards meeting the \$80.0 million commitment?

## Both Accelerate Payment & Increase Collectability

	Court Fees	Traffic Fees	Criminal Fees	Prop Tax	Total Impact
Current Collection Year 7					
Current %	48.85%	86.50%	81.34%	95.00%	
Proposed Collection Year 4					
Proposed %	53.73%	95.15%	89.47%	99.75%	
<b>Impact 1.0% increase</b>					
Total Amount Collected	\$2,304,000	\$12,487,000	\$11,145,000	\$13,460,000	\$39,396,000
County Share Only	\$691,000	\$3,746,000	\$3,344,000	\$13,460,000	\$21,241,000
<b>Impact 5.0% increase</b>					
Total Amount Collected	\$3,841,000	\$18,973,000	\$17,046,000	\$24,963,000	\$64,823,000
County Share Only	\$1,152,000	\$5,692,000	\$5,114,000	\$24,963,000	\$36,921,000

## Other Issues

- ▶ Can we expect a consistent amount of new delinquent receivable activity to be available to sustain revenue levels for the Arena project and the County?
- ▶ Could the approximately \$80,000 paid annually for collection services be reduced or eliminated?
- ▶ Will the State split on courts receivables be part of the negotiation?

# How to make the deal better for Milwaukee County

- ▶ Milwaukee County should continue to collect its delinquent property taxes to retain the interest revenue.
- ▶ Create a new reserve for any excess collections raised to be used in future years should the receivables collection fall short.
- ▶ Increase the recommended minimum amount in the County's Debt Service Reserve from the current recommendation of \$10.0 million to \$18.0 million to provide for additional security of the payments for the Milwaukee County taxpayers.
- ▶ If Policy continues, the State should include Restitution Receivables in collection effort, so as to increase likelihood of collections for recipients. Dollar amount would not count towards \$4.0 million annual commitment.

# Conclusions

- ▶ Is the County able to make a \$4 million annual payment out of existing cash flows from receivables ?

YES

- ▶ Will transferring eligible receivables to the State of Wisconsin result in additional collections for Milwaukee County?

UNKNOWN

- ▶ Will the County be able to generate an additional \$80 million over 20 years for payments on arena debt based on changes to the collection of its receivables?

UNLIKELY

# Note about assumptions

- ▶ Terms of the proposed collection agreement with the state have not been finalized.
- ▶ Assume Arena financing consumes the first \$4 million collected annually.