



**COUNTY OF MILWAUKEE
INTEROFFICE COMMUNICATION**

Office of the Comptroller
Scott B. Manske, Comptroller

DATE : May 15, 2019
TO : Supervisor Theodore Lipscomb, Sr., Chairman, County Board of Supervisors
FROM : Scott B. Manske, Comptroller/Chair of ERP Executive Steering Committee
SUBJECT : Project WO60201 Enterprise Resource Planning (“ERP”) Financing Realignment

REQUEST

Project WO60201 Enterprise Resource Planning is financed by general obligation bonds/notes and cash (sales tax/property tax levy). Costs that are allowed to be financed by general obligation bonds/notes are limited. Based on the actual activity that has been and is anticipated to be performed on the project, the Office of the Comptroller and the Executive Steering Committee are requesting changes in the cash financing and bond financing amounts for the project. The attached resolution would transfer \$1.5 million in cash from the debt service reserve to replace \$1.5 million of general obligation bonds/notes that are budgeted in Project WO60201 Enterprise Resource Planning.

BACKGROUND

The ERP project is business management software consisting of a set of integrated applications to consolidate common business operations. The software will replace the current functions that are supported by the County’s legacy systems. These functions include: general ledger, budgeting, accounts receivable, accounts payable, purchasing, fixed asset management, cash receipting, inventory management, grant accounting, human resources, payroll, time and attendance, contract and document management, project accounting, treasury management, financial reporting, and debt administration.

In December 2017, the County Board approved a request (CB File 17-736) from the Executive Steering Committee on the Enterprise Platform Modernization Project. The request was for authorization to enter into contracts with Infor, Inc.; MHC Software, Inc.; Emphasys Software; and N. Harris Computer Corporation for the implementation and licensing of certain software and hardware to replace Milwaukee County’s current legacy Financial and Human Resource Systems. The contracts included in the request required funding of \$7,934,319 in Year 1 and \$972,433 in Year 2.

The 2017-2019 budgets included appropriations of \$20,700,876. Financing was provided from \$12,139,784 in general obligation bonds and \$8,561,092 of cash (sales tax/tax levy). The amount of cash estimated for the project was based on project budgets developed by the Department of Administrative Services – Information Management Services Division and an analysis performed by the Office of the Comptroller based on accounting standards in GASB Statement 51 Accounting and Financial Reporting for Intangible Assets (“GASB 51”). GASB 51 indicates which costs are eligible to be capitalized and which are expensed. According to GASB 51 a governmental entity can capitalize internally generated software. Software that is commercially available that is purchase or licensed by the government and modified using more than minimal incremental effort before being put into operation is considered internally generated. A majority of the software for the ERP project is considered to be internally generated since it requires more than minimal incremental effort.

Wisconsin State Statutes do not allow the County to issue bonds to finance expenses that are not capitalized. Examples of expenditures that will be capitalized as part of the project include purchase and implementation of capitalized software as defined by GASB 51. Examples of expenditures that are expensed include change management, communication, training and software maintenance.

The adopted cash amounts were reduced as a result of limited resources available in each of the annual budgets. The annual budgets stated that if additional cash financing was required, based on a project assessment of the actual costs, an appropriation transfer would be submitted to transfer cash from the Debt Service Reserve. The current estimated balance of the debt service reserve as of May 2019 is \$20.5 million.¹

The table below shows the estimated cash and bond needs for the project compared to the amounts that have been budgeted. This recent analysis shows that an estimated \$1,500,000 of additional cash is needed for the project and that \$1,500,000 of budgeted bond and note proceeds can be reduced. Potentially the County could save approximately \$200,000 in interest expenses by decreasing the bond issue by \$1,500,000.

Table 1: Project WO60201 ERP appropriations by budget year and financing source

Year	Expenditure Appropriation	Bonds	Sales Tax/Tax Levy
Previous Appropriations	\$1,030,000		\$1,030,000
2017	\$8,034,125	\$6,139,784	\$1,894,341
2018	\$5,781,106	\$3,000,000	\$2,781,106
2019	\$6,885,645	\$3,000,000	\$3,885,645
Total Budget as Adopted	\$21,730,876	\$12,139,784	\$9,591,092
Total Projected Financing Requirements		\$10,639,784	\$11,091,092
Surplus (Deficit) by Financing Source		\$1,500,000	(\$1,500,000)

¹ CB Resolution File 19-457 was submitted to the County Board for the May Cycle. The Resolution seeks approval to deposit funds from the 2018 year-end surplus to the Debt Service Reserve. The May 2019 projection of \$20.5 million does not include these surplus funds.

Project Status/Evaluation

Currently, the County is preparing for System Integration Testing (“SIT”) of phase one of the project, which includes data conversion. The “go live” for phase 1 has been delayed, which means that legacy systems, external staffing and Infor resources will be required longer than anticipated and result in additional costs. In order to determine the additional funds that are needed, an evaluation will be performed so that an updated projection can be provided. If the evaluation determines that additional funds are required, a request will be made to the County Executive and the County Board.

RECOMMENDATION

The Office of the Comptroller and the Executive Steering Committee of the ERP project request that the Finance and Audit Committee approve and recommend approval by the full County Board of the attached resolution. The resolution authorizes the realignment of the financing to reflect the actual scope of the project. The resolution requests the transfer of \$1.5 million in cash from the debt service reserve to replace \$1.5 million of general obligation bonds/notes that are budgeted in Project WO60201 Enterprise Resource Planning.

The Office of the Comptroller will work with the project management team to complete a financial evaluation of the project. If the evaluation determines that additional funds are required, a request will be made to the County Executive and the County Board.



Scott B. Manske
Comptroller/ESC Chairman

Cc: Chris Abele, County Executive

Luigi Schmitt, Chairman, Committee on Finance and Audit

Supervisor Willie Johnson, Jr., Vice-Chairman, Committee on Finance and Audit

Raisa Koltun, Chief of Staff, County Executive’s Office

Kelly Bablitch, Chief of Staff, County Board

Joe Lamers, Director, Office of Performance, Strategy and Budget

Genaro Baez, Director, Human Resources

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